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OFFERING MEMORANDUM

U.S.$ 300,000,000

LANDESBANK RHEINLAND-PFALZ

LANDESBANK RHEINLAND-PFALZ — GIROZENTRALE —

(established under Public Law of the State of Rheinland-Pfalz, a State of the Federal Republic of Germany)

STEP-UP GLOBAL SUBORDINATED BONDS DUE 2028

Interest payable February 23 and August 23

The Step-Up Global Subordinated Bonds due 2028 (the "Global Bonds"), in the aggregate principal amount of U.S.$300,000,000, will be issued by Landesbank Rheinland-Pfalz —Girozentrale— (the "Landesbank"). The Global Bonds will bear interest from and including February 23, 1998 until and including February 22, 2000 at the rate of 5% per annum and from and including February 23, 2000 at the rate of 6⅞% per annum, payable semi-annually in arrears on February 23 and August 23 of each year commencing on August 23, 1998. Payments with respect to the Global Bonds are to be made by the Landesbank in the legal tender of the United States of America (the "U.S. dollar") and without deduction of German withholding taxes, unless otherwise required by law. See "Terms and Conditions of the Global Bonds — Payments". Initially, the Global Bonds will represent senior obligations of the Landesbank. The Landesbank may, at its option, at any time, convert the Global Bonds into subordinated obligations of the Landesbank. The Landesbank currently expects that such conversion will take place within six months after the date of issue of the Global Bonds. Upon such conversion the Global Bonds will represent direct, unconditional, unsecured and subordinated obligations of the Landesbank. The Global Bonds will rank pari passu and without any preference among themselves and pari passu with all other unsecured subordinated obligations of the Landesbank. The Global Bonds may be redeemed in whole, but not in part, by the Landesbank at any time at par plus accrued interest in the event of certain changes involving taxation in respect of the Global Bonds. See "Terms and Conditions of the Global Bonds — Taxes".

The Global Bonds will be governed by German law and will be represented by two permanent global certificates in registered form. The Global Bonds may be transferred in book-entry form only. The permanent global certificates will not be exchangeable for definitive securities. The Depository Trust Company ("DTC"), through its custodian, Deutsche Bank AG, New York Branch, will hold the permanent global certificate in registered form representing the Global Bonds sold in the United States in reliance on Rule 144A. Deutsche Bank Aktiengesellschaft, Frankfurt am Main ("Deutsche Bank AG"), as common depositary, will hold for the account of the operator of Euroclear System ("Euroclear") and Cedel Bank, société anonyme ("Cedel") the permanent global certificate in registered form representing the Global Bonds sold in offshore transactions outside the United States in reliance on Regulation S under the Securities Act. The Global Bonds are offered, subject to prior sale, when, as and if accepted by the Underwriter and subject to approval of certain legal matters by Shearman & Sterling, counsel for the Underwriter. It is expected that delivery of the Global Bonds will be made on or about February 23, 1998 through the book-entry facilities of DTC against payment therefor in immediately available funds.

Application has been made to list the Global Bonds on the Luxembourg Stock Exchange.

THE GLOBAL BONDS 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 PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT. THE UNDERWRITERS HAVE AGREED THAT THE GLOBAL BONDS MAY NOT BE OFFERED OR SOLD EXCEPT (I) IN ACCORDANCE WITH REGULATION S UNDER THE SECURITIES ACT OR (II) TO QUALIFIED INSTITUTIONAL BUYERS (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT ("RULE 144A")) IN ACCORDANCE WITH RULE 144A. FOR A DESCRIPTION OF CERTAIN RESTRICTIONS ON RESALE OR TRANSFER, SEE "TRANSFER RESTRICTIONS."

PRICE 100.353

MORGAN STANLEY DEAN WITTER

February 20, 1998

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The Landesbank confirms that to the best of its knowledge the information contained in this Offering Circular is true and accurate in all material respects and that there are no other facts the omission of which would, in the context of the offering of the Global Bonds, make any statement in this Offering Circular misleading in any material respect.

No person is authorized to give any information or to make any representation other than those contained in this Offering Circular and, if given or made, such information or representation must not be relied upon as having been authorized. This Offering Circular does not constitute an offer to sell or the solicitation of an offer to buy any securities other than the securities to which it relates or an offer to sell or the solicitation of any offer to buy such securities by any person in any circumstances in which such offer or solicitation is unlawful. Neither the delivery of this Offering Circular nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Landesbank or the Landesbank and its consolidated subsidiaries taken as whole since the date hereof or that the information contained herein is correct as of any time subsequent to the date hereof.

This document is not an invitation to subscribe or purchase any securities of the Landesbank in any jurisdiction in which such invitation is not authorized or to any person to whom it is unlawful to make such invitation. The distribution of this document and the offering or sale of the Global Bonds in certain jurisdictions is restricted by law. Persons into whose possession this document may come are required by the Underwriter and the Landesbank to inform themselves about and to observe any such restrictions. This document may not be used for or in connection with any offer to, or solicitation by, anyone in any jurisdiction or in any circumstances where such offer or solicitation is not authorized or is unlawful.

The Global Bonds have not been registered with, recommended by or approved by the U.S. Securities and Exchange Commission or any other federal or state securities commission or regulatory authority of or in the United States, nor has any such authority reviewed or passed upon the accuracy or adequacy of this Offering Circular. Any representation to the contrary is a criminal offense under the laws of the United States.

Each purchaser of Global Bonds offered hereby in reliance on Rule 144A under the Securities Act will be deemed to have made certain acknowledgments, representations and agreements as set forth under "Transfer Restrictions". This Offering Circular is personal to each offeree and is being provided for informational use solely in connection with the consideration of the purchase of the Global Bonds. Accordingly, its use for any other purpose is not authorized and it may not be copied or reproduced in whole or in part, nor may it be distributed or any of its contents be disclosed to anyone other than such offeree and those persons, if any, retained by such offeree to advise such offeree with respect thereto.

The Landesbank has not authorized any offer of Global Bonds to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995 (the "Regulations"). See "Underwriting".

Notice to New Hampshire Residents

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTE WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE OF NEW HAMPSHIRE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

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CERTAIN PERSONS PARTICIPATING IN THIS OFFERING MAY ENGAGE IN TRANSACTIONS THAT STABILIZE, MAINTAIN, OR OTHERWISE AFFECT THE PRICE OF THE GLOBAL BONDS. SPECIFICALLY, THE UNDERWRITER MAY OVERALLOT IN CONNECTION WITH THE OFFERING, AND MAY BID FOR, AND PURCHASE, THE GLOBAL BONDS IN THE OPEN MARKET. FOR A DESCRIPTION OF THESE ACTIVITIES, SEE "UNDERWRITING."

PRESENTATION OF INFORMATION

References in this Offering Circular, except in the Financial Statements and the Notes thereto, to the "Landesbank" are references to Landesbank Rheinland-Pfalz —Girozentrale— and references to the "Group" are references to Landesbank Rheinland-Pfalz —Girozentrale— and its consolidated subsidiaries. The Landesbank's consolidated subsidiaries are its wholly-owned subsidiaries Landesbank Rheinland-Pfalz International S.A., Luxembourg, Meridian Vermögensverwaltungsgesellschaft mbH, Mainz and LB Rheinland-Pfalz Finance B.V., Amsterdam as well as Westdeutsche ImmobilienBank, in which the Landesbank owns a 25% interest. Westdeutsche ImmobilienBank is consolidated on a proportional basis.

In this Offering Circular, references to "DM" are to Deutsche Mark, references to "$" and "U.S. dollars" are to United States dollars. The Landesbank and the Group publish their financial statements in Deutsche Mark.

SUMMARY

The following summary is qualified in its entirety by the more detailed information and financial statements and notes thereto appearing elsewhere in this Offering Circular.

LANDESBANK RHEINLAND-PFALZ —GIROZENTRALE—

Landesbank Rheinland-Pfalz —Girozentrale— (the "Landesbank") is an institution established under public law (*rechtsfähige Anstalt des öffentlichen Rechts*) and has its headquarters in Mainz, located in Rheinland-Pfalz, a state of the Federal Republic of Germany ("Rheinland-Pfalz").

The Landesbank is jointly owned and controlled by the Savings Bank and Clearing Association of Rheinland-Pfalz (*Sparkassen- und Giroverband Rheinland-Pfalz*), which has contributed 50% of the Landesbank's subscribed capital, Westdeutsche Landesbank Girozentrale ("WestLB"), which has contributed 37.5% of the Landesbank's subscribed capital, and Südwestdeutsche Landesbank Girozentrale ("SüdwestLB"), which has contributed 12.5% of the Landesbank's subscribed capital. See "Establishing Entities".

The Group had total assets of DM 82.0 billion, as at December 31, 1996. The total assets of the Landesbank represented approximately 91.8% of the total assets of the Group, as at December 31, 1996.

As a German universal bank, the Group provides a comprehensive range of commercial and investment banking services to domestic and international customers, including other banks, German federal, state and municipal governments and their public authorities, corporations owned by municipalities, other companies and individuals. The Landesbank is the banker to the State of Rheinland-Pfalz. As part of its public duties, the Landesbank finances public and private development projects, administers public funds for state or federal subsidized credit programs and performs certain treasury functions for the State of Rheinland-Pfalz. The Group accepts deposits, makes loans and extends guaranties. As central institution for the savings banks in Rheinland-Pfalz, the Landesbank acts as a central clearing institution and provides liquidity management services to the savings banks. The Landesbank also underwrites and deals in debt and equity securities and acts as paying agent with respect to debt securities of the State of Rheinland-Pfalz.

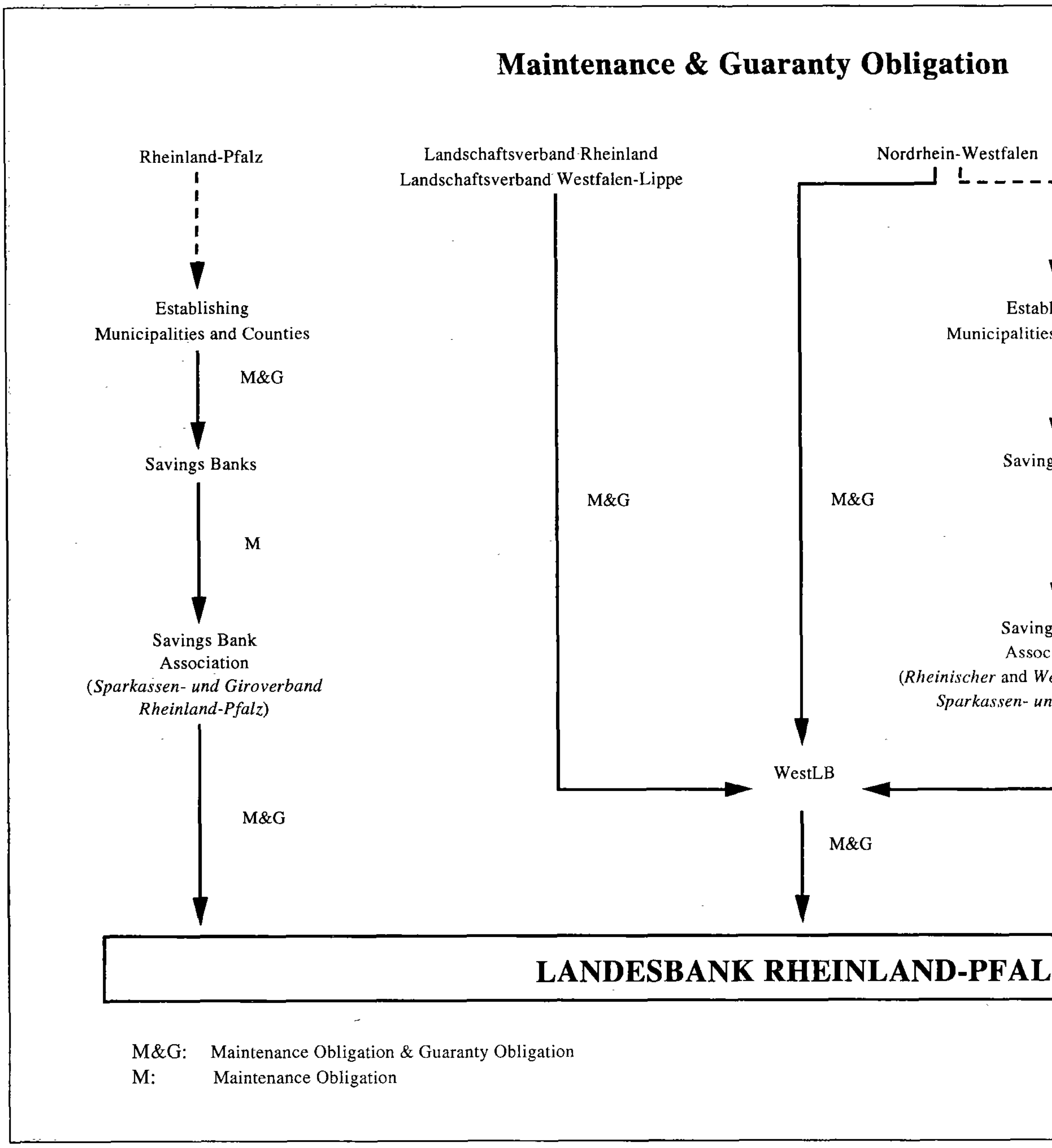
LIABILITY FOR THE OBLIGATIONS OF THE LANDESBANK

The Landesbank's solvency and obligations, including the obligations under the Global Bonds, are, by virtue of the Guaranty Obligation (*Gewährträgerhaftung*) and the Maintenance Obligation (*Anstaltslast*), fully backed jointly and severally by the credit and financial standing of (i) the Savings Bank and Clearing Association of Rheinland-Pfalz, the savings banks in Rheinland-Pfalz, and the municipalities and counties of Rheinland-Pfalz that have established such savings banks, (ii) WestLB, the State of Nordrhein-Westfalen, the Regional Authority of Rheinland, the Regional Authority of Westfalen-Lippe, the Savings Bank and Clearing Association of Rheinland, the Savings Bank and Clearing Association of Westfalen-Lippe, the savings banks in Nordrhein-Westfalen, and the municipalities and counties of Nordrhein-Westfalen that have established such savings banks and (iii) SüdwestLB, the Savings Banks and Clearing Association of Württemberg, the Savings Banks and Clearing Association of Baden, the savings banks in Baden-Württemberg and the municipalities and counties of Baden-Württemberg that have established such savings banks. Also, the States of Rheinland-Pfalz and Baden-Württemberg are each subject to a constitutional duty to provide financial support to the municipalities and counties of their state. The Landesbank is not subject to bankruptcy proceedings. See "Liability for the Obligations of the Landesbank".

The Maintenance Obligations and the Guaranty Obligations of a state and of the municipalities and counties of a state that have established savings banks constitute a claim on public funds that, as legally established obligations, would be payable without the need for any appropriation or other action by a legislative assembly. Under German law, the Guaranty Obligation and the economic effect of the Maintenance Obligation for outstanding obligations, including the Global Bonds, cannot be abrogated with retroactive effect by any event or legislative action occurring after the incurrence of such obligations.

No claim under the Guaranty Obligation in favor of the creditors of a German Landesbank has ever been made because the existence of the Maintenance Obligation prevents the occurrence of any situation in which a creditor of a Landesbank could have a claim under the Guaranty Obligation.

The following chart gives a graphic overview of the manner in which the public law entities are directly or indirectly liable to the Landesbank under the Maintenance Obligation and to creditors of the Landesbank under the Guaranty Obligation.


Maintenance & Guaranty Obligation
Rheinland-Pfalz
Establishing
Municipalities and Counties
M&G
Savings Banks
M
Savings Bank
Association
(Sparkassen- und Giroverband
Rheinland-Pfalz)
M&G
Landschaftsverband Rheinland
Landschaftsverband Westfalen-Lippe
M&G
Nordrhein-Westfalen
M&G
WestLB
M&G
LANDESBANK
M&G: Maintenance Obligation & Guaranty Obligation
M: Maintenance Obligation

THE OFFERING

Issuer	Landesbank Rheinland-Pfalz —Girozentrale—
Lead Manager	Morgan Stanley & Co. Incorporated
Registrar and Fiscal and Paying Agent	Deutsche Bank Aktiengesellschaft, Frankfurt am Main
U.S. Paying Agent	Deutsche Bank AG, New York Branch
Securities being Offered	Step-Up Global Subordinated Bonds due February 23, 2028, in the aggregate principal amount of U.S.$300,000,000
Offering Price	100.353% of the principal amount thereof from February 23, 1998.
Rate of Interest	The Global Bonds will bear interest from and including February 23, 1998 until and including February 22, 2000, at the rate of 5% per annum and from and including February 23, 2000 at the rate of 6⅞% per annum.
Interest Payment Dates	Payable semi-annually in arrears on February 23 and August 23 of each year commencing on August 23, 1998.
Maturity Date	The Global Bonds mature on February 23, 2028.
Ranking	Initially, the Global Bonds will represent senior obligations of the Landesbank. The Landesbank may, at its option, at any time, convert the Global Bonds into subordinated obligations of the Landesbank. The Landesbank currently expects that such conversion will take place within six months after the date of issue of the Global Bonds. Upon such conversion the Global Bonds will represent direct, unconditional, unsecured and subordinated obligations of the Landesbank. The Global Bonds will rank *pari passu* and without any preference among themselves and *pari passu* with all other unsecured subordinated obligations of the Landesbank.
Use of Proceeds	The net proceeds from the sale of the Global Bonds will be used for general banking purposes.
Redemption for Tax Reasons	The Global Bonds may be redeemed by the Landesbank in whole, but not in part, at any time at par plus accrued interest in the event of certain changes involving taxation in respect of the Global Bonds. See "Terms and Conditions of the Global Bonds — Taxes".
Substitution	The Landesbank may, without the consent of the Global Bond holders, at any time substitute any wholly-owned subsidiary of the Landesbank as the principal debtor in respect of all rights and obligations arising under or in connection with the Global Bonds, subject to certain conditions. See "Terms and Conditions of the Global Bonds — Substitution".
U.S. Selling Restrictions	The Global Bonds have not been and will not be registered under 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 pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. The Underwriter has agreed that the Global Bonds may not be offered or sold except (i) in accordance with Regulation S under the Securities Act or (ii) to qualified institutional buyers (as defined in Rule 144A under the Securities Act) in accordance with Rule 144A. For a description of these and other selling and transfer restrictions, see "Transfer Restrictions" and "Underwriting."

Settlement	It is expected that the permanent global certificates representing the Global Bonds will be delivered on or about February 23, 1998 to the DTC Custodian and the Euroclear and Cedel common depositary, respectively, against payment therefor in U.S. dollars in immediately available funds.
Listing	Application has been made to list the Global Bonds on the Luxembourg Stock Exchange.
Governing Law	The Global Bonds will be governed by the laws of Germany.
Ratings	Upon issue, the Global Bonds are expected to be rated Aa1 by Moody's Investors Service, Inc., AA+ by Standard & Poor's Rating Services, Aaa by Japan Credit Agency and AAA by IBCA.

CAPITALIZATION

The following table shows the long-term debt and capitalization of the Group at November 30, 1997:

Long-Term Debt and Capitalization of the Group (unaudited)

	At November 30, 1997
	(in millions of DM)
Long-term debt(1)	
Liabilities to banks	5,413.0
Liabilities to customers	6,218.4
Bonds and notes(2)	25,912.5
Total long-term debt	37,543.9
Capitalization	
Subordinated liabilities	688.0
Profit participation capital(3)	612.0
Provisions for general banking risks(4)	100.0
Equity capital	
Subscribed capital	520.0
Reserves from retained earnings	
Reserves required by the Landesbank's Ordinance(5)	106.5
Other reserves(6)	622.4
Third parties' interests in the equity capital	0.4
Total equity capital	1,249.3
Total capitalization(7)	2,649.3
Long-term debt and total capitalization	40,193.2

(1) Long-term debt consists of liabilities with an original maturity and non-prepayment period of four years or longer. See "Summary of Material Differences between Generally Accepted German and United States Accounting Principles".

(2) This item consists of certificated liabilities with an original maturity and non-prepayment period of four years or longer. See "Summary of Material Differences between Generally Accepted German and United States Accounting Principles".

(3) Capital paid in consideration of profit participation rights (*Genußscheine*) meeting certain requirements set forth in the German Banking Act, including the requirement that it be subordinated to all other creditors and participate in the bank's losses. See "Glossary of Certain Terms".

(4) Provisions for general banking risks were for the first time shown in the balance sheet for the year ended December 31, 1996. Such provisions were made in accordance with section 340g of the German Commercial Code (*Handelsgesetzbuch*). In previous years provisions were made in accordance with section 340f of the German Commercial Code. See "Summary of Material Differences between Generally Accepted German and United States Accounting Principles".

(5) Pursuant to Section 21 of the Landesbank's Ordinance, at least 10% of the Landesbank's net profit for each year must be allocated to this reserve.

(6) This item comprises all additional reserves from retained earnings which are not required by the Landesbank's Ordinance.

(7) The Bank's capital for bank-regulatory purposes (Liable Capital) includes subscribed capital and reserves from retained earnings as well as profit participation capital and subordinated liabilities, if such profit participation capital and subordinated liabilities meet certain requirements of the German Banking Act, and qualify as Liable Capital under the formulas prescribed by the German Banking Act. See "Regulation and Supervision of the Landesbank".

In December 1997 the Landesbank issued profit participation rights in the amount of DM 200 million and received capital contribution by silent partners in the amount of DM 250 million.

Except as disclosed herein, since November 30, 1997 there has been no material change to the capitalization of the Group.

USE OF PROCEEDS

The net proceeds from the sale of the Global Bonds in the amount of approximately US$ 298,434,000 will be used for general banking purposes.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Introduction

The following discussion and analysis is based on the 1996 to 1994 Consolidated Financial Statements and on the Unaudited Interim Consolidated Financial Statements for the first six months of 1997 and 1996. These financial statements have been prepared in accordance with German GAAP which differ in certain respects from the generally accepted accounting principles of other countries, such as the United States. For a discussion of the material differences between German GAAP and U.S. GAAP see "Summary of Material Differences between Generally Accepted German and United States Accounting Principles" and "Regulation and Supervision of the Landesbank — Audits and Financial Statements".

Overview

The slight recovery of the German economy in 1996 — mainly due to a significant growth of exports and a low inflation rate — allowed Deutsche Bundesbank to reduce the discount rate from 3.0% to a new historic low of 2.5%, the Lombard rate from 5.0% to 4.5% and the securities repo rate from 3.75% to 3.0%. In January 1996, the interest rates in the German capital markets again reached historic lows last reached in early 1994. Uncertainty about the Deutsche Bundesbank's future interest rate policy and rising long-term interest rates in the United States led to a rise of interest rates in Germany in spring 1996. In summer 1996 interest rates decreased again. In December 1996, bonds were yielding slightly below January levels. The yield curve, which had become rather steep, flattened slightly during the fourth quarter.

The Group's business in 1996 was influenced by the foregoing directions of interest rates. As a result, the net income from trading activities stabilized at the high level of 1995. The continuously steep yield curve also had a positive impact on the net interest and dividend income.

The German equity markets benefited from improved earnings forecasts for most of the major German stock corporations and from the reduction in interest rates.

In line with the positive performance of the equity markets, the Group increased its equity business. A significant event in 1996 was the Landesbank's participation as an underwriter in the Deutsche Telekom privatization.

In 1996, the Group increased its international activities by refinancing its business through the international placement of bonds and the internationalization of its assets portfolio. The DM 1 billion Global Bond offering launched in September 1996 was the first Global Bond offering by a German Landesbank. However, as in previous years, the Group's main activities took place in its home market, Germany. Accordingly, its results of operations were not materially impacted by currency fluctuations.

Results of Operations for 1996 compared to 1995 and 1995 compared to 1994

1996 compared to 1995. The Group's net income in 1996 increased by 6.9% to DM 121.3 million from DM 113.5 million in 1995. The operating results in 1996 increased by 21.1% to DM 279.2 million from DM 230.6 million in 1995. The net interest and dividend income in 1996 was DM 614.7 million compared to an amount of DM 536.3 million in 1995. The net risk provisions increased by 75.8% in 1996 compared to 1995.

1995 compared to 1994. The Group's net income for 1995 was DM 113.5 million, which represents a 28.2% increase over 1994 (when it was DM 88.5 million). The operating results increased by 22.3% to DM 230.6 million from DM 188.6 million in 1994, mainly as a result of a positive swing in net income from trading activities of approximately DM 80 million. The net risk provisions in 1995 were 39.5% lower than in 1994.

The following table shows the principal items contained in the Group's income statement for 1996, 1995 and 1994:

	Year ended December 31,		
	1996	1995	1994
	(in millions of DM)		
Net interest and dividend income	614.7	536.3	594.7
Net commission income	80.5	71.8	58.2
Net income from trading activities	56.4	52.8	(28.9)
General administrative expenses	412.9	372.2	314.9
Other operating expenses/income	41.4	(0.7)	(25.7)
Operating result before net risk provisions	380.1	288.0	283.4
Net risk provisions	100.9	57.4	94.8
Operating result	279.2	230.6	188.6
Taxes on income and revenues	157.9	117.1	100.1
Net income for the year	121.3	113.5	88.5

Net Interest and Dividend Income

1996 compared to 1995. The Group's net interest and dividend income, which includes income from (i) shares and other non interest-bearing securities, (ii) equity investments in non-affiliated and in affiliated companies, (iii) equity investments in associated companies and (iv) profit pooling, profit transfer and partial profit transfer agreements, increased by 14.6% to DM 614.7 million in 1996 from DM 536.3 million in 1995. Such increase was mainly due to (i) increased business activities, (ii) the first full business year of Westdeutsche ImmobilienBank ("WIB"), in which the Landesbank holds a 25% interest (see "Description of the Bank — Business of the Bank — Real Estate Financing"), and (iii) increased dividend income from equity investments.

In 1996, the Group's overall net interest margin was 0.90% compared to 0.86% in 1995. The net interest margin is calculated by dividing annual net interest and dividend income by average annual total assets (excluding trust loans).

1995 compared to 1994. The Group's net interest and dividend income declined by 9.8% to DM 536.3 million in 1995 from DM 594.7 million in 1994. This decrease was mainly due to the following factors. In contrast to 1995, in 1994 the Group received exceptional dividend income from equity investments in the amount of DM 48.0 million (included in the total dividend income of DM 63.7 million) due to the application of the so-called "pay-out-and-take-back" accounting method, which resulted in a reduced tax rate on retained earnings of the company that pays the dividend. In addition, pressure on interest margins for long-term fixed-rate lending caused the interest margin for new business to decrease in 1995.

The following table provides further details on the components of the Group's net interest and dividend income for 1996, 1995 and 1994:

	Year ended December 31,		
	1996	1995	1994
	(in millions of DM)		
Interest and other fees from			
lending and money market transactions	2,813.2	2,945.5	2,991.1
interest-bearing securities and book-entry securities	838.7	784.3	770.9
	3,651.9	3,729.8	3,762.0
Dividend income from			
shares and other non-interest bearing securities	1.4	1.8	2.4
equity investments in non-affiliated companies (other than associated companies)	18.9	8.8	22.9
equity investments in affiliated companies	1.2	1.0	0.3
equity investments in associated companies	1.4	3.8	38.1
	22.9	15.4	63.7
Income from profit pooling, profit transfer and partial profit transfer agreements	6.4	5.2	5.6
Total interest and dividend income	3,681.2	3,750.4	3,831.3
Interest and fees paid	3,066.5	3,214.1	3,236.6
Net interest and dividend income	614.7	536.3	594.7

Net Commission Income

1996 compared to 1995. The Group's net commission income in 1996 increased by 12.1% to DM 80.5 million from DM 71.8 million in 1995. Net commissions from the Group's trust loan business amounted to DM 28.4 million and accounted for 35.3% of the Group's net commission income in 1996. See "Description of the Group — Business of the Group — Trust Loans". As a result of increased activities, net commissions from securities business increased by 33.5% from DM 18.8 million in 1995 to DM 25.1 million in 1996. The net commission income from the building and loan association (LBS) business in 1996 decreased to negative DM 3.3 million from positive DM 5.2 million in 1995. Such development was due to expenses incurred in connection with the expansion of the building and loan association (LBS) business. In contrast to commissions received, such expenses have not been deferred.

1995 compared to 1994. The Group's net commission income increased by 23.4% to DM 71.8 million in 1995 from DM 58.2 million in 1994. The main source of the Group's net commission income is income from the Group's trust loan business, which amounted to DM 24.3 million and accounted for 33.8% of the Group's net commission income in 1995. Net commissions from securities business increased by 1.1% from DM 18.6 million in 1994 to DM 18.8 million in 1995. Net commission income from the building and loan association (LBS) business in 1995 increased significantly to DM 5.2 million from negative DM 0.6 million in 1994. Such increase was due to a change of the accounting method relating to commissions received by LBS. Starting in 1993, the commissions from the building and loan association business have been deferred for the period during which the customers deposit and accumulate their savings with LBS. See "Description of the Group — Business of the Group — LBS". A substantial portion of the Group's net commission income in the amount of DM 5.0 million (7.0%) derived from WIB. WIB was consolidated on a pro-rata basis after its establishment on January 1, 1995.

The following table sets out the principal sources of the Group's net commission income for 1996, 1995 and 1994:

	Year ended December 31,		
	1996	1995	1994
	(in millions of DM)		
Trust loan business	28.4	24.3	21.0
Securities business	25.1	18.8	18.6
Loan business	12.2	8.0	5.1
International business	8.1	7.5	7.2
Building and loan association business (LBS)	(3.3)	5.2	(0.6)
Payment transactions	3.7	4.7	4.6
Others	8.0	5.3	4.3
	82.2	73.8	60.2
Consolidation	1.7	2.0	2.0
Net commission income	80.5	71.8	58.2

Net Income from Trading Activities

1996 compared to 1995. The result from trading activities (which consists exclusively of own account trading) in 1996 was DM 56.4 million compared with DM 52.8 million in 1995. While the net income from securities trading decreased by 14% from DM 44.3 million in 1995 to DM 38.1 million in 1996 and the net income from foreign exchange activities decreased by 21.2% to DM 7.8 million, the net income from other trading transactions improved from negative DM 1.4 million to positive DM 10.5 million. This positive result in net income from other trading transactions was mainly attributable to profits from trading positions in the Luxembourg branch of the Group.

1995 compared to 1994. In 1995, the Group achieved a net income from trading activities of DM 52.8 million which was an increase of DM 81.7 million compared to the result of negative DM 28.9 million in 1994. The negative amount in 1994 resulted from write-downs of the interest-bearing securities in the Group's portfolio in compliance with the lower of cost or market principle, which had become necessary due to increased interest rates.

The following table shows the individual components of the Group's net income from trading activities for 1996, 1995 and 1994:

	Year ended December 31,		
	1996	1995	1994
	(in millions of DM)		
Securities	38.1	44.3	(30.9)
Foreign exchange	7.8	9.9	5.4
Other trading transactions	10.5	(1.4)	(3.4)
Net income from trading income activities	56.4	52.8	(28.9)

Operating Expenses

1996 compared to 1995. In 1996, the Group's total administrative expenses increased by 10.9% to DM 412.9 million from DM 372.2 million in 1995. The main reasons for such increase were the expanding business of WIB and the Group's investments in new technologies as well as in its employees. The average number of employees increased by 17 to 1,920. The expenses for salaries and wages increased by 6.5% from DM 156.7 million in 1995 to DM 166.9 million in 1996.

The other administrative expenses amounted to DM 136.7 million in 1996, which represented an increase of 23.7% compared to DM 110.5 million in 1995. Excluding WIB, the increase would have been 9.5%.

1995 compared to 1994. In 1995, the Group's personnel expenses increased by 12.1% to DM 228.3 million from DM 203.7 million in 1994. Such increase included DM 11.1 million due to the first time pro-rata consolidation of WIB in 1995. The Group's expenses for salaries and wages amounted to DM 156.7 million in 1995, which represented an increase of 6.5% compared to DM 147.2 million in 1994. The average number of employees within the Group was 1,863 in 1994 and 1,903 in 1995.

Other administrative expenses increased by 26.1% from DM 87.6 million in 1994 to DM 110.5 million in 1995. Such increase was mainly due to the first time pro-rata consolidation of WIB in 1995. Without WIB the increase would have been 5.8%.

The increase in depreciation on fixed assets by DM 9.8 million (41.5%) from DM 23.6 million in 1994 to DM 33.4 million in 1995 was due to the accelerated depreciation of the new LBS administration building in Mainz, which was completed in June, 1995.

The table below sets out the components of the Group's operating expenses for 1996, 1995 and 1994:

	Year ended December 31,		
	1996	1995	1994
	(in millions of DM)		
Personnel expenses			
wages and salaries	166.9	156.7	147.2
compulsory social security contributions and expenses for pensions and other employee benefits	70.0	71.6	56.5
	236.9	228.3	203.7
Other administrative expenses	136.7	110.5	87.6
Depreciation and value adjustments on tangible and intangible fixed assets	39.3	33.4	23.6
Total administrative expenses	412.9	372.2	314.9

Net Risk Provisions

Components. The amount of net risk provisions is the sum of (i) loan loss provisions (for individual risks, country risks and general risks) less reversals of previously taken loan loss provisions, (ii) the amount of write-downs less gains realized in the Group's liquidity portfolio, (iii) general provisions (less reversals of provisions previously made) for risks inherent in the banking business pursuant to Section 340f and 340g of the German Commercial Code (*Handelsgesetzbuch*) and (iv) the allocation of amounts to "special item including a reserve element" (*Sonderposten mit Rücklagenanteil*) (less income from the reversal of allocations to "special item including a reserve element"). Under German accounting standards, banks are not required to indicate the extent to which these components have contributed to the level of the net risk provisions. The provisions for possible credit risks in the profit and loss account for any year therefore may differ from the amount of net risk provisions taken in such year.

1996 compared to 1995. In 1996, the net risk provisions increased by 75.8% from DM 57.4 million to DM 100.9 million. This was due to an increase of loan loss provisions resulting from the structural adjustment process which adversely affected the small and medium sized manufacturing industries in Germany. In addition, redemption gains from the securities portfolio of the liquidity reserve declined in comparison to the previous year. See "Financial Condition — Securities Portfolio — Overview".

1995 compared to 1994. The net risk provisions position decreased by 39.5% from DM 94.8 million in 1994 to DM 57.4 million in 1995. The Group continued to follow its policy of conservative valuation instituted during previous years. Loan loss provisions were increased while provisions for country risks declined since provisioning for such risks in previous years already covered approximately 90% of the amount of the Group's country risk exposure. Higher provisions in 1995 and 1994 were offset by redemption gains from the securities portfolio of the liquidity reserve, resulting in a lower overall figure in 1995 compared to 1994.

Taxes

1996 compared to 1995. In 1996, the Group's tax expenses substantially increased. The increase of 34.8% from DM 117.1 million in 1995 to DM 157.9 million in 1996 was mainly due to an extraordinary payment of taxes from previous business years. The Group's "tax-ratio" (tax expense as a percentage of the operating result) in 1996 increased to 56.6% from 50.8% in 1995.

1995 compared to 1994. The Group's tax expenses for 1995 increased by 17.0% to DM 117.1 million from DM 100.1 million in 1994 due to the increased operating result. The Group's "tax ratio" declined to 50.8% in 1995 from 53.1% in 1994.

Results of Operations for the first nine months of 1997 compared to the first nine months of 1996 (Unaudited)

During the first nine months of 1997, the Group's operating result decreased by 2.8% to DM 205.7 million, compared to DM 211.7 million for the first nine months of 1996. Such decrease was a result of the Group's reduced net interest and dividend income and increased general administrative expenses and increased net risk provisions.

The following table shows the major items contained in the Group's unaudited income statement for the nine-month periods ended September 30, 1997 and September 30, 1996:

	Nine months ended September 30,(1)		
	1997	Change	1996
	(in millions of DM except for percentages)		
Net interest and dividend income	453.1	(3.2)%	468.2
Net commission income	74.1	27.5 %	58.1
Net income from trading activities	57.5	83.7 %	31.3
General administrative expenses	327.4	12.7 %	290.4
Other operating expenses/income	14.6	403.4 %	2.9
Operating result before net risk provisions	271.9	0.7 %	270.1
Net risk provisions	66.2	13.4 %	58.4
Operating result	205.7	(2.8)%	211.7
Taxes on income and revenues	114.0	6.4 %	107.1
Net income for the period	91.7	(12.3)%	104.6

(1) Unaudited.

Net Interest and Dividend Income

Net interest and dividend income slightly decreased by 3.2% to DM 453.1 million during the first nine months of 1997 compared to DM 468.2 million during the first nine months of 1996. Due to the maturity of high yielding assets in 1996, the net interest and dividend income for the first nine months of 1997 was slightly below the record level reached during the first nine months of 1996.

Net Commission Income

During the first nine months of 1997, the Group's net commission income increased by 27.5% to DM 74.1 million compared to DM 58.1 million during the first nine months of 1996. This increase was due to the expansion of business activities, in particular of the securities business.

Net Income from Trading Activities

Net income from trading activities increased by 83.7% to DM 57.5 million in the first nine months of 1997 compared to DM 31.3 million in the first nine months of 1996. While net income from securities trading increased by 99.5% from DM 21.1 million to DM 42.1 million, net income from foreign exchange trading increased by 148.7% from DM 3.9 million to DM 9.7 million.

The following table shows the individual components of the net income from trading activities for these periods:

	Nine months ended September 30,(1)		
	1997	Change	1996
	(in millions of DM except for percentages)		
Securities	42.1	99.5%	21.1
Foreign exchange	9.7	148.7%	3.9
Other trading transactions	5.7	(9.5)%	6.3
Net income from trading activities	57.5	83.7%	31.3

(1) Unaudited.

Operating Expenses

Operating expenses increased by 12.7% to DM 327.4 million for the first nine months of 1997 compared to DM 290.4 million for the first nine months of 1996. This increase was among other things due to the construction of a new trading floor at the Group's headquarters, which resulted in an increase in other administrative expenses.

The table below sets out the components of the Group's operating expenses for the first nine months of 1997 and the first nine months of 1996:

	Nine months ended September 30,(1)		
	1997	Change	1996
	(in millions of DM except for percentages)		
Personnel costs			
wages and salaries	131.3	5.0%	125.0
compulsory social security contributions and expenses for pensions and other employee benefits	56.4	8.3%	52.1
	187.7	6.0%	177.1
Other administrative expenses	106.9	26.4%	84.6
Depreciation and value adjustments on tangible and intangible fixed assets	32.8	14.3%	28.7
Total administrative expenses	327.4	12.7%	290.4

(1) Unaudited.

Net Risk Provisions

The Group's net risk provisions increased by 13.4% from DM 58.4 million in the first nine months of 1996 to DM 66.2 million in the first nine months of 1997. The increase was mainly due to an increase of loan loss provisions, while redemption gains from the liquidity portfolio remained nearly unchanged.

Financial Condition

1996 compared to 1995. The Group's total assets at December 31, 1996 amounted to DM 82,029.7 million, an increase of DM 10,946.0 million (15.4%) compared to December 31, 1995 (DM 71,083.7 million). Such increase reflected the growth of 18.7% of claims on customers to DM 32,429.5 million (1995: DM 27,312.5 million), and an increase of DM 4,837.1 million (21.2%) in claims on banks to DM 27,676.0

million (1995: DM 22,838.9 million), as the Group intensified its interbank activities. **Securities** (consisting of bonds and other interest-bearing securities and shares and other non interest-bearing securities) increased by 2.6% to DM 15,392.2 million (1995: DM 14,995.7 million).

1995 compared to 1994. In 1995, the Group's total assets increased from DM 63,215.6 million by 12.4% to DM 71,083.7. Such increase was due to the growth of claims on customers (9.6%), the increase in claims on banks (7.4%) and the growth in the Group's securities portfolio by 32.9% to DM 14,995.7 million at December 31, 1995 from DM 11,280.5 million in 1994. A large portion of such increase was due to purchases of securities replacing loans. Such securities are issued by issuers which the Group considers to be of high credit standing and are purchased by the Group applying the same approval criteria as used in the Group's lending business. The securities are considered permanent investments and are not included in the trading portfolio of the Group.

September 30, 1997 compared to December 31, 1996. The Group's total assets at September 30, 1997 equalled DM 87,493.9 million compared to DM 82,029.7 million at December 31, 1996, an increase of 6.7%. Such increase was mainly attributable to an increase of DM 2,409.1 million (8.7%) of claims on banks to DM 30,085.1 million, and an increase of DM 2,253.7 million (14.6%) of securities to DM 17,645.9 million. The increase in claims on banks was mainly due to the Group's further intensified interbank activities. Claims on customers increased slightly to DM 33,575.5 million.

Liabilities to banks decreased by 1.3% from DM 32,878.1 million at December 31, 1996 to DM 32,458.9 million at September 30, 1997.

Liabilities to customers decreased by 4.6% from DM 13,235.6 million at December 31, 1996 to DM 12,624.7 million, at September 30, 1997 due to a seasonal reduction of short-term deposits.

Certificated liabilities of the Group increased by 17.8% from DM 27,073.1 million at December 31, 1996 to DM 31,904.9 million at September 30, 1997. In order to meet its increased refinancing requirements the Group increasingly issued notes and bonds which were placed with domestic and international institutional and retail investors.

The Group's capitalization (consisting of equity capital, profit participation capital, subordinated liabilities and provisions for general banking risks) increased from DM 2,467.2 million at December 31, 1996 to DM 2,649.0 million at September 30, 1997 mainly due to the issuance of new profit participation rights in the amount of DM 272 million. On the other hand the capitalization was reduced by DM 31.2 million dividend payment and a decrease of subordinated liabilities.

The following table sets out the Group's assets and liabilities at September 30, 1997 and at December 31, 1996, 1995 and 1994:

	At September 30, 1997(1)	At December 31, 1996	1995	1994
		(in millions of DM)		
Assets				
Claims on banks	30,085.1	27,676.0	22,838.9	21,273.0
Claims on customers	33,575.7	32,429.5	27,312.5	24,914.2
Securities(2)	17,645.9	15,392.2	14,995.7	11,280.5
Equity investments(3)	194.1	256.1	264.9	278.4
Trust assets	4,876.9	4,827.3	4,685.9	4,621.5
Other assets	1,116.2	1,448.6	985.8	848.0
Liabilities				
Liabilities to banks	32,458.9	32,878.1	27,376.5	22,780.9
Liabilities to customers	12,624.7	13,235.6	14,752.6	12,462.9
Certificated liabilities	31,904.9	27,073.1	20,576.2	20,296.0
Trust liabilities	4,876.9	4,827.3	4,685.9	4,621.5
Capitalization(4)	2,649.0	2,467.2	2,318.8	1,968.9
Other liabilities	2,979.5	1,548.4	1,373.7	1,085.4
Balance sheet total	87,493.9	82,029.7	71,083.7	63,215.6
Contingent liabilities	2,449.2	2,462.9	1,537.2	1,496.2
Business volume	89,943.1	84,492.6	72,620.9	64,711.8

(1) Unaudited.

(2) Consists of bonds and other interest-bearing securities and shares and other non interest-bearing securities.

(3) Consists of equity investments in non-affiliated and affiliated companies.

(4) Consists of equity capital, profit participation capital, subordinated liabilities and provisions for general banking risks.

As at December 31, 1996 DM 11,677.9 million of the Group's assets and DM 14,017.7 million of the Group's liabilities were denominated in currencies other than Deutsche Mark, compared to DM 9,596.1 million of the Group's assets and DM 10,327.0 million of the Group's liabilities as at December 31, 1995 and DM 7,516.1 million of the Group's assets and DM 6,985.2 million of the Group's liabilities as at December 31, 1994. The Group's foreign currency assets and liabilities are predominantly denominated in U.S. dollars. The Group endeavours to match its foreign-currency assets with liabilities denominated in the same currency either through matched refinancing or appropriate hedging.

Loans

1996 compared to 1995. Between December 31, 1995 and December 31, 1996, the Group's total lending volume increased by 19.8% to DM 60,105.5 million from DM 50,151.4 million. Such increase was attributable to a growth of interbank activities with respect to loans with maturities between three months and two years and to a rise of long-term claims on customers. While claims on banks with maturities between three-months and two-years increased by 32.4% from DM 9,860.6 million at December 31, 1995 to DM 13,054.7 million at December 31, 1996, long-term claims on customers increased by 16.5% to DM 25,612.7 million compared to DM 21,984.7 million in 1995.

Total claims on banks increased by 21.2% from DM 22,838.9 million to DM 27,676.0 million in 1996. Such increase included an increase of 14.8% of loans to savings banks in Rheinland-Pfalz from DM 5,005.7 million in 1995 to DM 5,744.2 million in 1996. Such loans primarily served refinancing purposes of the savings banks.

Total claims on customers increased by 18.7% from DM 27,312.5 million in 1995 to DM 32,429.5 million in 1996. Such increase was mainly a result of a growth of loans to the public sector which increased by DM 2,495.7 million. Due to a stabilization of interest rates at a low level the demand by customers for long-term loans increased significantly. As a result, long-term claims on customers rose by DM 3,628.0 million.

1995 compared to 1994. The Group's total lending increased by 8.6% from DM 46,187.2 million in 1994 to DM 50,151.4 million in 1995, reflecting primarily the intensified interbank activities and an increase in loans to customers. Claims on banks increased by 7.4% from DM 21,273.0 million in 1994 to DM 22,838.9 million in 1995.

Claims on customers increased by 9.6% from DM 24.914.2 million in 1994 to DM 27,312.5 million in 1995. All market segments contributed to this growth, particularly loans to the public sector which increased by DM 1,506.7 million.

September 30, 1997 compared to December 31, 1996. The Group's total lending increased by 5.9% to DM 63,660.8 million from December 31, 1996 to September 30, 1997. Claims on banks increased more significantly by 8.7% to DM 30,085.1 million compared to DM 27,676.0 million at December 31, 1996. Such increase resulted from an expansion of interbank activities. Claims on customers slightly increased by 3.5% to DM 33,575.7.

The following table sets out the principal components of the Group's lending portfolio at September 30, 1997 and at December 31, 1996, 1995 and 1994:

	At September 30, 1997(1)	At December 31, 1996	1995	1994
		(in millions of DM)		
Claims on banks				
payable on demand		960.6	1,116.9	1,013.1
other claims				
less than three months(2)		3,060.8	2,395.1	1,575.0
not less than three months but less than four years(2)		13,054.7	9,860.6	9,523.3
not less than four years(2)		10,599.9	9,466.3	9,161.6
total other claims		26,715.4	21,722.0	20,259.9
Total claims on banks	30,085.1	27,676.0	22,838.9	21,273.0
Claims on customers				
less than four years(2)		6,816.8	5,327.8	4,445.6
four years or more(2)		25,612.7	21,984.7	20,468.6
Total claims on customers	33,575.7	32,429.5	27,312.5	24,914.2
Total lending	63,660.8	60,105.5	50,151.4	46,187.2

(1) Unaudited.

(2) Refers to original maturity and/or non-prepayment period.

Securities Portfolio

Overview. Since January 1, 1993, German accounting rules have required separation of securities held for liquidity purposes ("liquidity portfolio") from securities held for trading purposes ("trading portfolio"). German banks have flexibility in designating securities as part of the liquidity portfolio or the trading portfolio at the time of purchase. The designation of a security as part of the liquidity portfolio requires that the Group has formed, and documented, an intention of holding the security until maturity. A modification of such intention, resulting in the sale of the security or transfer of the security from the liquidity portfolio to the trading portfolio, is possible only in special circumstances and must be properly documented. Securities held in the Group's liquidity or trading portfolio are valued at the lower of cost or market price except for asset swapped securities in the liquidity portfolio. The Group does not adjust the book value of any securities held in its liquidity or trading portfolio to reflect any increases in market price. While gains and losses on the liquidity portfolio are reported under net risk provisions, gains and losses on the trading portfolio are reported as trading income. The item "total securities portfolio" includes securities held in both the Group's liquidity portfolio and the Group's trading portfolio.

The following table sets out the Group's securities portfolio at September 30, 1997 and at December 31, 1996, 1995 and 1994:

	At September 30, 1997(1)	At December 31, 1996	1995	1994
		(in millions of DM)		
Bonds and other interest-bearing securities......	17,179.4	14,882.5	14,826.0	11,202.1
Shares and other non interest-bearing securities	466.5	509.7	169.7	78.4
Total securities portfolio	17,645.9	15,392.2	14,995.7	11,280.5

(1) Unaudited.

Bonds and Other Interest-Bearing Securities. The Group's portfolio of bonds, notes and other interest-bearing securities increased by 0.4% from DM 14,826.0 million at December 31, 1995 to DM 14,882.5 million at December 31, 1996. From December 31, 1994 to December 31, 1995 the Group's portfolio of bonds, notes and other interest-bearing securities increased by 32.4% from DM 11,202.1 million to DM 14,826.0 million. The Group's portfolio of bonds, notes and other interest-bearing securities increased by 15.4% to DM 17,179.4 million at September 30, 1997 compared to DM 14,882.5 at December 31, 1996. A large portion of such increase was due to purchases of securities replacing loans. These are securities issued by issuers which the Group considers to be of high credit standing and purchased by the Group applying the same approval criteria as used in the Group's lending business. These securities are considered permanent investments and are not included in the trading portfolio of the Group. The portfolio is largely dominated by DM issues with original maturities of less than five years; slightly more than 25% of the Group's holdings at December 31, 1996 were securities with floating interest rates.

The following table sets out a maturity analysis of bonds and other interest-bearing securities at September 30, 1997 and at December 31, 1996, 1995 and 1994:

	At September 30, 1997(1)	At December 31, 1996	1995	1994
		(in millions of DM)		
Money market instruments		34.8	27.3	
Bonds and debentures				
of public institutions				
less than four years(2)		170.3	399.8	82.7
four years or more(2)		5,297.8	5,825.5	4,186.5
of other issuers				
less than four years(2)		1,711.4	1,772.5	735.2
four years or more(2)		7,164.4	6,165.1	5,676.3
Bonds issued by the Bank		503.8	635.8	521.4
Total Bonds	17,179.4	14,882.5	14,826.0	11,202.1

(1) Unaudited.

(2) Refers to original maturity and/or non-prepayment period.

Shares and Other Non Interest-Bearing Securities. The Group's holdings of shares and other non-interest bearing securities, including profit-sharing certificates and investment fund units, increased by 200.4% from DM 169.7 million at December 31, 1995 to DM 509.7 million at December 31, 1996 due to an increase of securities lending transactions. The Group's holdings of shares and other non-interest bearing securities increased by 116.5% from DM 78.4 million at December 31, 1994 to DM 169.7 million at December 31, 1995. From December 31, 1996 to September 30, 1997 the Group's holdings of shares and other non-interest bearing securities decreased by 8.5% to DM 466.5 million.

Liabilities

The following table sets out an overview of the Group's liabilities to banks, liabilities to customers and certificated liabilities at September 30, 1997 and at December 31, 1996, 1995 and 1994:

	At September 30, 1997(1)	At December 31, 1996	1995	1994
		(in millions of DM)		
Liabilities to banks				
payable on demand		2,362.0	2,256.1	2,632.4
with original maturity and/or non-prepayment period				
less than three months		15,121.9	14,842.1	11,428.8
not less than three months but less than four years		10,866.5	7,367.9	6,175.7
not less than four years		4,527.7	2,910.4	2,544.0
total agreed maturity or period of notice		30,516.1	25,120.4	20,148.5
total liabilities to banks	32,458.9	32,878.1	27,376.5	22,780.9
Liabilities to customers				
savings deposits of LBS		2,741.1	2,639.3	2,584.7
other savings deposits		34.9	30.3	29.0
other liabilities				
payable on demand		1,814.1	1,801.1	1,757.7
with agreed maturity and/or non-prepayment period				
less than three months		1,605.8	1,998.7	1,913.1
less than four years		797.4	940.5	747.7
four years or more		6,242.3	7,342.7	5,430.7
total other liabilities		10,459.6	12,083.0	9,849.2
total liabilities to customers	12,624.7	13,235.6	14,752.6	12,462.9
Certificated liabilities				
with original maturity and/or non-prepayment period				
less than four years		5,834.8	5,162.2	5,183.2
four years or more		21,238.3	15,414.0	15,112.8
total certificated liabilities	31,904.9	27,073.1	20,576.2	20,296.0
Total liabilities	76,988.5	73,186.8	62,705.3	55,539.8

(1) Unaudited.

Liabilities to Banks and to Customers

1996 compared to 1995. The Group's liabilities to banks increased by 20.1% from DM 27,376.5 million at December 31, 1995 to DM 32,878.1 million at December 31, 1996. Such increase reflected primarily the expansion of the Group's interbank activities with a focus on short- and medium-term liabilities with a maturity of less than four years which increased by 15.9% from DM 24,466.1 million at December 31, 1995 to DM 28,350.4 million at December 31, 1996. Liabilities to customers decreased by 10.3% to DM 13,235.6 million at December 31, 1996 from DM 14,752.6 million at December 31, 1995. Such decrease was mainly due to the first time consolidation of LB Rheinland-Pfalz Finance B.V.. As a result, the outstanding bond issuances of LB Rheinland-Pfalz Finance B.V. which were on-lent to the Landesbank were transferred from liabilities to customers to certificated liabilities.

1995 compared to 1994. Liabilities to banks increased by 20.2% from DM 22,780.9 million at December 31, 1994 to DM 27,376.5 million at December 31, 1995 due to the expansion of the Group's interbank activities. Also the deposits of non-bank customers served as an important refinancing source in 1995. Expanded business activities abroad contributed substantially to a significant increase in the volume of customer deposits by DM 2,289.7 million to DM 14,752.6 million. DM 1,479 million represent proceeds from the issuance of bonds by the Landesbank's financing subsidiary Landesbank Rheinland-Pfalz Finance B.V., Amsterdam, which were lent on to the Landesbank.

September 30, 1997 compared to December 31, 1996. In the first nine months of 1997 the Group reduced its interbank activities by 1.3% to DM 32,458.9 million due to a flattening of the yield curve between June and September.

Certificated Liabilities

1996 compared to 1995. The Group increased its certificated liabilities by 31.6% from DM 20,576.2 million at December 31, 1995 to DM 27,073.1 million at December 31, 1996. Due to its strategy to diversify funding sources, the Group continued to tap international capital markets. In addition, the volume of domestic bond issuances was increased. The growth was also due to the first time consolidation of the bond issuances of LB Rheinland-Pfalz Finance B.V. in a nominal amount of DM 2,200 million which were transferred from liabilities to customers to certificated liabilities.

In 1996, Deutsche Mark bond issues accounted for 40% of the total volume of securities issued by the Group and the U.S. dollar became the second most important currency in the Group's international refinancing, accounting for 29%.

1995 compared to 1994. The Group's certificated liabilities increased by 1.4% from December 31, 1994 to DM 20,576.2 million at December 31, 1995. This amount did not include the issue of additional bonds in the principal amount of DM 1,400.0 million through the Group's unconsolidated Dutch refinancing vehicle, LB Rheinland-Pfalz Finance B.V., the proceeds of which were lent on to the Group. This amount is included in balance sheet item "Liabilities to customers — other liabilities".

September 30, 1997 compared to December 31, 1996. In the first nine months of 1997 the Group increased its certificated liabilities by 17.8% to DM 31,904.5 million. Such increase was mainly due to several domestic and international bond issues by the Landesbank in the first nine months of 1997.

Capitalization and Liable Capital

The Group increased its capitalization by 6.4% from DM 2,318.8 million at December 31, 1995 to DM 2,467.2 million at December 31, 1996. This increase was due to the increase in the Group's earnings which permitted it to allocate a substantial amount of earnings to its reserves.

The following table sets out a breakdown of the various components of the Group's capitalization at December 31, 1996, 1995 and 1994:

	At December 31,		
	1996	1995	1994
	(in millions of DM)		
Subscribed capital	520.0	520.0	520.0
Reserves from retained earnings			
reserves required by the Landesbank's Ordinance	106.5	96.5	87.0
other reserves	622.4	545.9	493.5
Third parties' interests in the equity capital	0.7	0.2	
Profit	118.8	114.0	91.9
Total equity capital	1,368.4	1,276.6	1,192.4
Subordinated liabilities	658.5	701.9	436.2
Profit participation capital	340.3	340.3	340.3
Provisions for general banking risks(1)	100.0	—	—
Total capitalization	2,467.2	2,318.8	1,968.9

(1) Provisions for general banking risks were for the first time shown in the balance sheet for the year ended December 31, 1996. Such provisions were made in accordance with section 340g of the German Commercial Code (*Handelsgesetzbuch*). In previous years provisions were made in accordance with section 340f of the German Commercial Code. See "Summary of Material Differences between Generally Accepted German and United States Accounting Principles".

The Group's regulatory Liable Capital differs in certain respects from the Group's published capitalization due to differences between the commercial accounting and the Group's regulatory requirements.

The Group's core capital ratio, defined as the relation between the subscribed capital and reserves from retained earnings, on the one hand, and the weighted risk assets, on the other hand, — which declined to 4.1% in the course of 1996 — improved again during the first nine months of 1997 to 4.3% through allocation of net income to reserves from retained earnings. The total capital ratio decreased from 8.7% at December 31, 1996 to 8.6% at September 30, 1997. See "Regulation and Supervision of the Landesbank — Regulation by the German Banking Supervisory Authority".

The following table sets out the development of the Group's capital adequacy ratios at September 30, 1997 and at December 31, 1996, 1995 and 1994, based on the German banking regulations (Principle I) and the guidelines of the Basle Committee on Banking Supervision at the Group for International Settlements (Cooke or BIS ratio). The ratios at September 30, 1997 are unaudited.

	At September 30,	At December 31,		
	1997	1996	1995	1994
	(in percentages)			
Principle I				
Core capital ratio	4.3	4.5(1)	4.7	4.9
Total capital ratio	8.6	8.7(1)	9.2	9.6
BIS				
Core capital ratio	4.1	4.2(1)	4.4	4.4
Total capital ratio	8.3	8.4(1)	8.8	8.9

(1) Including provisions for general banking risks made for the first time in 1996.

Contingent Liabilities and other Commitments

At December 31, 1996, the Group had contingent liabilities in the amount of DM 2,462.9 million and other commitments of DM 3,488.8 million, compared to DM 1,537.2 million and DM 3,541.0 million, respectively, at December 31, 1995. While contingent liabilities increased by 60.2% in 1996, other commitments slightly decreased. The increase of contingent liabilities is mainly attributable to an increased number of guarantees granted to private customers and companies.

The following table sets out a breakdown of contingent liabilities and other commitments of the Bank at December 31, 1996, 1995 and 1994:

	At December 31,		
	1996	1995	1994
	(DM in millions)		
Contingent liabilities			
contingent liabilities on rediscounted bills of exchange	151.8	172.4	189.2
liabilities from guarantees and indemnity agreements	2,311.1	1,364.8	1,307.0
	2,462.9	1,537.2	1,496.2
Other contingent liabilities			
irrevocable credit commitments	3,488.8	3,541.0	2,368.5
Total	5,951.7	5,078.2	3,864.7

DESCRIPTION OF THE GROUP

General

Introduction

The Landesbank is an institution established under public law (*rechtsfähige Anstalt des öffentlichen Rechts*). The Landesbank is the legal successor of Landesbank und Girozentrale Kaiserlautern which assets were transferred to the Landesbank in 1958. In addition, the Landesbank assumed the branch offices of the Rheinische Girozentrale und Provinzialbank, Düsseldorf, in Koblenz and of the Hessische Landesbank — Girozentrale — Frankfurt/Main, in Mainz. The Landesbank has its headquarters in Mainz, located in Rheinland-Pfalz, a state of the Federal Republic of Germany ("Rheinland-Pfalz"). The Landesbank operates two branches in Rheinland-Pfalz, one in each of Kaiserslautern and Koblenz, and a branch in Luxembourg. As at December 31, 1996, the total assets of the Landesbank represented approximately 91.8% of the total assets of the Group.

The Landesbank is jointly owned and controlled by the Savings Bank and Clearing Association of Rheinland-Pfalz (*Sparkassen- und Giroverband Rheinland-Pfalz*), which has contributed 50% of the Landesbank's subscribed capital, Westdeutsche Landesbank Girozentrale ("WestLB"), which has contributed 37.5% of the Landesbank's subscribed capital, and Südwestdeutsche Landesbank Girozentrale ("SüdwestLB"), which has contributed 12.5% of the Landesbank's subscribed capital. See "Establishing Entities".

As a German universal bank, the Group provides a comprehensive range of commercial and investment banking services to domestic and international customers, including other banks, German federal, state and municipal governments and their public authorities, corporations owned by municipalities, other companies and individuals. The Landesbank is the banker to the State of Rheinland-Pfalz. As part of its public duties, the Landesbank finances public and private development projects, administers public funds for state or federal subsidized credit programs and performs certain treasury functions for the State of Rheinland-Pfalz. The Group accepts deposits, makes loans and extends guaranties. As central institution for the savings banks of Rheinland-Pfalz, the Landesbank acts as a central clearing institution and provides liquidity management services to the savings banks. The Landesbank also underwrites and deals in debt and equity securities and acts as paying agent with respect to debt securities of the State of Rheinland-Pfalz.

Liability for the Obligations of the Landesbank

The Savings Bank and Clearing Association of Rheinland-Pfalz, WestLB and SüdwestLB are jointly and severally responsible for all obligations of the Landesbank. Pursuant to the Guaranty Obligation (*Gewährträgerhaftung*) set forth in Section 26(2) and (3) of the Rheinland-Pfalz Savings Bank Act (*Sparkassengesetz Rheinland-Pfalz*), the Savings Bank and Clearing Association of Rheinland-Pfalz, WestLB and

SüdwestLB (collectively referred to herein as the "Guarantors") are jointly and severally liable without restriction to the creditors of the Landesbank for all liabilities of the Landesbank incurred since July 4, 1994, provided, however, that creditors may assert claims against the Guarantors only if and to the extent that such claims have not been satisfied out of the Landesbank's assets.

In addition to being liable under the Guaranty Obligation, the Guarantors are responsible to the Landesbank for enabling the Landesbank to perform its obligations. This Maintenance Obligation (*Anstaltslast*) requires the Guarantors to keep the Landesbank in a position to perform its functions and to enable it, in the event of financial difficulties, to perform its obligations, when due. The Maintenance Obligation does not constitute a guaranty of the Landesbank's obligations by the Guarantors and does not give creditors of the Landesbank a direct claim against the Guarantors. The Landesbank is not subject to bankruptcy proceedings. See "Liability for the Obligations of the Landesbank" for a detailed description of the liability of the Guarantors under the Guaranty Obligation and Maintenance Obligation.

Supervision of the Bank

The rules governing the Landesbank's legal structure, purposes, internal governance and various other issues, including its supervision by the State of Rheinland-Pfalz, are set forth in the Rheinland-Pfalz Savings Bank Act and in the Ordinance (*Satzung*) of the Landesbank promulgated in accordance with the Rheinland-Pfalz Savings Bank Act (the "Ordinance"). In addition, the Landesbank is subject to the German Banking Act (*Gesetz über das Kreditwesen*) and to the supervision of the German Banking Supervisory Authority (*Bundesaufsichtsamt für das Kreditwesen*) and the German Central Bank (*Deutsche Bundesbank*, "Deutsche Bundesbank"). See "Regulation and Supervision of the Landesbank" for a detailed description of the supervision of the Landesbank.

Business of the Group

As a universal bank, the Group offers its domestic and international customers financial products and services as described below.

Customers

The Group provides its products and services primarily on a wholesale basis to banking institutions (including the savings banks in Rheinland-Pfalz), German federal, state and municipal governments and their public authorities, corporations owned by municipalities, other companies and individuals. Since one of the important business purposes of the Group is to complement the business of the Rheinland-Pfalz savings banks and the Rheinland-Pfalz savings banks provide broad coverage of retail banking services, the Group's retail customer base is small.

Commercial Banking

The Group's commercial banking business principally consists of lending to and taking deposits from the savings banks in Rheinland-Pfalz and other banks, German federal, state and municipal governments, their public authorities and entities owned by municipalities as well as large and medium sized corporations and individuals. The Group also provides mortgage loans and is active in the leasing-refinancing business by granting loans to leasing corporations all over Germany and abroad.

Central Bank to the Savings Banks in Rheinland-Pfalz

The Landesbank is the central banking institution for the 36 savings banks in Rheinland-Pfalz. The Group supports the business activities of the savings banks by providing them with the comprehensive range of services offered by an internationally-oriented commercial bank. Through cooperation in the lending, securities, international and building and loan association businesses, the Group effectively complements the range of services offered by the regional savings banks.

The Group offers investment opportunities for the surplus liquidity of the savings banks in Rheinland-Pfalz by offering them investments ranging from short-term maturities of the money market to long-term investments. At December 31, 1996, the total volume of the savings banks' deposits with the Group amounted to DM 5.6 billion. In cooperation with the savings banks, the Group participates in syndicated loans which are mainly granted to small and medium-sized businesses.

The Group provides investment research services in support of the securities activities of the savings banks in Rheinland-Pfalz and offers them investment management services. The Group also provides a wide range of stock exchange related services to the savings banks including securities brokerage on a fee basis. In cases where the Landesbank acts as broker for a savings bank, the savings bank can transmit its securities orders by means of an online system maintained by the Landesbank directly to the relevant German stock exchange. All savings banks in Rheinland-Pfalz use the Landesbank's central order settlement, safe-keeping and "Skontro" program for the administration of their securities and the handling of their securities portfolios. At the end of 1996, the Landesbank provided on behalf of the savings banks safekeeping services for securities of the savings banks' customers, maintaining 160,000 custody accounts. The aggregate value of the savings banks' own and customer portfolios rose from DM 26.2 billion at December 31, 1995 to DM 28.1 billion at December 31, 1996.

The Landesbank also functions as a central clearing institution for money transfers. It provides a wide range of foreign commercial business and trade financing services to the savings banks. Approximately 80% of the savings banks' money transfers to and from foreign countries make use of the Landesbank's automated decentralized OASIS payment processing system, which in 1996 processed more than 146,000 transactions for the savings banks. To meet the needs of the savings banks, the Landesbank maintains a world-wide network of correspondent banks. Furthermore, the Group provides services to the savings banks in connection with foreign currency and precious metal dealing and acts as intermediary in contacting international business partners.

Equity Investments in Non-Affiliated and Affiliated Companies

At the end of 1996, the Landesbank had equity investments in 47 non-affiliated and affiliated companies (as compared with 48 in 1995). The portfolio consists of equity investments in 11 credit institutions, 22 near-banking enterprises and 14 companies active in the real estate sector.

The book value of the Landesbank's portfolio of equity investments in non-affiliated and affiliated companies amounted to DM 512.5 million on December 31, 1996 (as compared with DM 460.8 million in 1995). The increase in the volume of equity investments is mainly attributed to a capital increase of WIB.

The Landesbank's most significant equity investment in an affiliated company in Germany is a 26.7% interest in Deutsche Anlagen-Leasing GmbH ("DAL"), Mainz. DAL is one of Germany's leading real estate leasing companies concluding an aggregate contract amount of DM 1.5 billion in new transactions in 1996.

Loan Portfolio

Loans of the Group outstanding at December 31, 1996 totalled DM 60.1 billion, an increase of DM 9.9 billion or 19.7% from DM 50.2 billion at December 31, 1995. The loan portfolio consisted of loans to non-bank customers (54.0%), loans to banks other than savings banks in Rheinland-Pfalz (36.4%) and loans to savings banks in Rheinland-Pfalz (9.6%). Lending to German federal, state and municipal governments and their public authorities remained the predominant sector of the Group's lending to non-bank customers, followed by loans to service industries.

A breakdown of the Landesbank's outstanding loans by customer category at September 30 of each of the years indicated is set forth in the following table:

Breakdown of Outstanding Loans by Customer Category(1)

	At September 30,					
	1997		1996		1995	
	DM	%	DM	%	DM	%
	(in billions of DM, except percentages)					
Loans to non-bank customers						
German federal, state and municipal governments and their public authorities	14.6	21.3	10.5	21.6	10.6	23.8
Loans to non-bank private sector customers(2)						
Service industries	9.2	13.5	6.2	12.8	6.0	13.5
Individuals and non-profit organizations	1.1	1.6	1.6	3.3	1.0	2.2
Trade and industry	3.1	4.5	2.2	4.5	2.3	5.2
Insurance	1.5	2.2	1.5	3.1	1.4	3.1
Transportation and communications	0.5	0.7	0.3	0.6	0.4	0.9
Other business sectors	10.5	15.3	2.5	5.1	2.2	4.9
Total loans to non-bank customers	40.5	59.1	24.8	51.0	23.9	53.6
Loans to banks						
Savings banks in Rheinland-Pfalz	6.1	8.9	5.2	11.9	5.0	11.2
Other banks	21.9	32.0	18.6	37.1	15.7	35.2
Total loans to banks	28.0	40.9	23.8	49.0	20.7	46.4
Total loans outstanding	68.5	100.0	48.6	100.0	44.6	100.0

(1) The figures relate only to the Landesbank not to the Group.

(2) Loans to private sector customers include loans to corporations owned by municipalities.

Maturity of Loan Portfolio. Approximately 60% of the Group's loan portfolio has an original maturity of more than four years. Such long-term loans are funded mainly through bonds issued by the Group. As a public law institution, the Landesbank has the power to issue bonds linked to pools of mortgages or of loans to or guarantied by German federal, state and municipal governments and their public authorities thereby enabling the Landesbank to fund its long-term loans with matching maturities. See "Source of Funds".

Outstanding loans of the Group to customers broken down by original maturity and percentage of total lending volume at December 31 of each of the years indicated are set forth in the following table:

Maturity Distribution of Loan Portfolio

	At December 31,					
	1996		1995		1994	
	DM	%	DM	%	DM	%
	(in millions of DM, except percentages)					
Loans to banks						
Long-term loans(1)	10,599.9	38.3	9,466.3	41.4	9,161.5	43.1
Short-term loans(2)	17,076.1	61.7	13,372.6	58.6	12,111.5	56.9
	27,676.0	100.0	22,838.9	100.0	21,273.0	100.0
Loans to non-bank customers						
Long-term loans(1)	25,612.7	79.0	21,984.7	80.5	20,468.6	82.2
Short-term loans(2)	6,816.8	21.0	5,327.8	19.5	4,445.6	17.8
	32,429.5	100.0	27,312.5	100.0	24,914.2	100.0
Total loans outstanding..................	60,105.5		50,151.4		46,187.2	

(1) Loans (other than trust loans) with an original maturity and non-prepayment period of four years or longer. See "Summary of Material Differences between Generally Accepted German and United States Accounting Principles".

(2) Loans (other than trust loans) payable on demand or with an original maturity or non-prepayment period of less than four years. See "Summary of Material Differences between Generally Accepted German and United States Accounting Principles".

Real Estate Financing. The Group's real estate loans are primarily made to developers, German federal, state and municipal governments and their public authorities, and individuals. A major part of the real estate loans are made to German borrowers outside Rheinland-Pfalz. The Group's real estate loans are generally secured by first priority mortgages and do not exceed 60% of the market value of the real estate underlying such mortgages when executed. At December 31, 1996, the Bank's outstanding real estate loans secured by first priority mortgages amounted to DM 6.2 billion or 10.3% of the Group's loan portfolio compared to DM 5.6 billion or 11.2% at December 31, 1995.

On January 1, 1995, Westdeutsche ImmobilienBank ("WIB"), an institution under public law, was established pursuant to Section 26a of the Rheinland-Pfalz Savings Bank Act. WIB is owned and controlled by (i) the Landesbank, which has contributed 25% of WIB's subscribed capital, (ii) WestLB, which has contributed 50% of WIB's subscribed capital, and (iii) SüdwestLB, which has contributed 25% of WIB's subscribed capital. The Landesbank, WestLB and SüdwestLB are jointly and severally responsible for the obligations and solvency of WIB pursuant to the Guaranty Obligation and the Maintenance Obligation as set forth in Section 26a(2) and (3) of the Rheinland-Pfalz Savings Bank Act. See "Liability for the Obligations of the Bank — Guaranty Obligation — Maintenance Obligation" for a general description of those two principles.

WIB started its business in the third quarter of 1995. The business of WIB is to offer real estate financing outside the primary markets of the three owners, i.e. outside of Rheinland-Pfalz, Nordrhein-Westfalen and Baden-Württemberg. In addition, WIB provides financing services to inter-regional real estate investors. WIB's ordinary capital was increased by DM 250 million to DM 750 million during 1996. In 1996 WIB was able to attract new business in the amount of DM 4.5 billion. WIB is the core institution in the ImmobilienBank Group ("Immo Group") and holds 90% of Westdeutsche ImmobilienHolding GmbH, which in turn is the holding company for all real estate services and investment funds in the Immo Group and of WestInvest Westdeutsche Grundstücks- Investment GmbH, which administers the open-end property fund known as WestInvest 1. The remaining 10% is held by Landesbank Schleswig-Holstein.

The Immo Group has 16 domestic locations, plus a branch office in London and a representative office in Amsterdam, and, at December 31, 1996 employed 663 employees active in all fields of the real estate business.

At the end of its second year of business, the Group posted a business volume of DM 8.8 billion and almost reached break-even.

The Group's own range of products and services is complemented by those offered by specialized companies in which it owns interests, and which are primarily active in Rheinland-Pfalz. Kommunalbau Rheinland-Pfalz GmbH, Mainz, which is jointly owned by the Landesbank (75%) and the Savings Bank and Clearing Association of Rheinland-Pfalz (25%), is engaged in the planning and implementation of construction projects for the municipalities and other public-sector entities in Rheinland-Pfalz. Hausbau Rheinland-Pfalz AG, Ludwigshafen, in which the Landesbank holds an 83.6% interest, is engaged in the construction and sale of residential and commercial property. In addition, this company offers property development and management services.

Lending to the Public Sector. On the basis of its traditionally close business relationships to the public sector, an important part of the Group's business consists of covering the funding requirements of the public sector and of financing public investments and projects. The Group extends credit on market terms to German federal, state and municipal governments and to their public authorities for general and for specific infrastructural purposes. As of December 31, 1996, the Group had outstanding loans totalling DM 15.1 billion to such governments and public authorities representing 25.1% of the entire loan portfolio which is an increase of DM 2.4 billion (18.9%) compared to 1995 (DM 12.7 billion).

Being the largest credit institution in Rheinland-Pfalz, the Group is particularly committed to this region. Loans made to the State of Rheinland-Pfalz, its municipalities and their public authorities, including the savings banks made up slightly more than 50% of the Group's public sector loans.

In cooperation with the savings banks in Rheinland-Pfalz, the Landesbank operates a department that advises primarily the State of Rheinland-Pfalz, its municipalities and their public authorities with regard to the financing of public projects combining traditional public sector lending with project financing concepts.

Trust Loans. In certain areas of financing, such as loans to residential housing, urban development and residential housing refurbishment promotion programs, the Group extends credit through its State Trust Agency division (*Landestreuhandstelle*), on a fiduciary basis by making loans to a borrower in its own name on behalf of and at the sole risk of entities established under public law by the Federal Republic of Germany or of the State of Rheinland-Pfalz, using funds supplied entirely by such entities or the state, and on terms specified under such programs ("trust loans"). The Group earns a fee for taking on responsibilities as trustee in such transactions without carrying any credit risk.

LBS. Through its Building and Loan Association division (*Landesbausparkasse Rheinland-Pfalz,* "LBS"), the Group conducts the business of a building and loan association. The concept underlying a building and loan association is to facilitate the early commencement of home-related construction projects of potential home-builders by funding such projects from the combined savings of other potential home-builders. LBS enters into contracts with customers pursuant to which the customers agree to deposit and accumulate savings with LBS over a predetermined period of time, generally until the savings reach an agreed upon amount that exceeds a minimum set by LBS, and LBS agrees to grant loans to customers. After the expiration of the predetermined period and after certain additional conditions are met, the customer may withdraw the contract amount consisting of his savings and such loan for the purpose of construction, refurbishment or purchase of housing. In certain circumstances, LBS may provide refinancing to a customer prior to the end of the predetermined period of time or before reaching the predetermined contract amount. LBS may also arrange bridge financings and other building loans.

At December 31, 1996, LBS had a total of 588,183 contracts with an aggregate contract amount of DM 20.3 billion and an average contract amount of DM 34,450. In 1996, LBS concluded 75,084 new contracts with an aggregate contract amount of over DM 2.7 billion (includes contracts which have been entered into but on which no deposits have yet been made). The average contract amount of the new contracts was DM 36,544. As of December 31, 1996, LBS had DM 2,753.5 million in building savings deposits and DM 2,832.7 million in outstanding housing loans, of which DM 2,187.8 million were secured by mortgages.

During 1996, customers received DM 1,118 million of withdrawals. 8.7% of the Group's loans to non-bank customers were extended by LBS.

LBS is subject to the laws and regulations pertaining to building and loan associations. It is required to maintain separate accounts and financial statements, although its results are included in the financial statements of the Landesbank.

Corporate Finance. The Group's lending activities to the German private corporate sector cover a broad range of financial products such as short-, medium- and long-term loans, structured finance, back-up lines, syndicated loans, electronic banking and cash management products including derivatives. In addition, certain corporate advisory functions are provided to complement the lending activities. The Group focuses on well established large and medium sized corporations on a global basis from its head office in Mainz as well as its two branches in Rheinland-Pfalz.

International Activities. The Group's international credit business focuses primarily on trade financing for the German customers of the Group and lending to foreign affiliates of such customers. In addition, the Group grants loans to foreign customers as a member of lending syndicates or by acquiring participations in loans to foreign borrowers. Increasingly, the Group's international credit business consists of the purchase of bonds rather than the extension of traditional loans. The Group's international activities concentrate on transactions with customers of high credit standing.

The Landesbank is represented in Luxembourg by its subsidiary Landesbank Rheinland-Pfalz International S.A., and its own branch. Landesbank Rheinland-Pfalz International S.A. carries out all kinds of banking and financing business within the Grand Duchy of Luxembourg and internationally. The Landesbank's Luxembourg branch provides institutional German and international customers with short- and long-term loans and conducts money market transactions. The Group holds a 10% interest in Westdeutsche Landesbank (Schweiz) AG, which offers high net worth individuals a full range of financial products and services in Switzerland. The Landesbank has undertaken to take all necessary steps to enable Landesbank Rheinland-Pfalz International S.A. and Westdeutsche Landesbank (Schweiz) AG to perform their obligations. This undertaking does not apply to political risk.

In addition, the Group is able to make use of the international network of branches and subsidiaries of WestLB and SüdwestLB.

Loan Portfolio Risks and Reserves. Apart from other criteria, the calculation of the interest rate margin for each loan is based upon an evaluation of the risks inherent in such loan. In its risk evaluation, the Group considers, among other things, any security given, the term of the loan, the credit-worthiness of the borrower, the industry of the borrower and any country risk.

The Landesbank has several credit departments each of which is responsible for a certain group of customers. Each credit department is responsible for the evaluation of credit applications, the borrowers' creditworthiness and the value of security, and for the credit approvals as well as for the ongoing monitoring of credit risk and the assessment of the credit quality of outstanding loans. The credit departments perform these functions in accordance with standards established by the German Banking Act and the Landesbank's Ordinance and by guidelines and procedural and organizational rules promulgated by the Supervisory Board, the Credit Committee (*Kreditausschuß*), the Managing Board, the Landesbank's unit for overall credit matters ("Credit Office") or by the credit departments themselves.

The type of customer, the nature and amount of the credit and the type and value of a security determine who has the authority to approve a credit; approval may be given by a single loan officer, a member of the Managing Board, or the whole Managing Board. Credits of a certain size require the approval of the Credit Committee.

All credit exposures of the Landesbank are subject to a periodic reporting system. Depending on various factors, the recipients of the reports may be single members of the Managing Board, the whole Managing Board or the Credit Committee, and the reports may be given at various intervals.

The Landesbank has established an internal rating system for the evaluation of corporate customers, which classifies customers into eight rating groups according to creditworthiness. In order to evaluate its country risk exposure, the Landesbank uses a country rating system based on an analysis of economic data and political risk. In addition, the Managing Board has established various limits for the Landesbank's foreign exposures as well as exposures guidelines for specific countries.

The credit risk management of the various credit departments of the Landesbank is monitored by the Credit Office and by the Landesbank's internal auditors and compliance with rules and regulations relating to the extension of credit are also audited by the independent public auditors of the Landesbank.

The Group's net exposure on loans to "risk countries" and borrowers in risk countries amounted to DM 328 million as of December 31, 1996. Loans to risk countries include all loans to countries and borrowers in such countries for which the Group has made provisions. The Group's average reserves on such loans were 87.2% of the Group's net exposure on such loans. As of December 31, 1996, the Group identified 15 countries to which it has extended loans as risk countries, counting the different countries of the former Soviet Union as one country. The figures do not include securities issued by risk countries or issuers in such countries and short-term trade financing facilities.

The following table shows the aggregate amount of all cross-border loans (loans to foreign countries or to borrowers in foreign countries) of the Landesbank, organized by countries at September 30, 1997 and 1996:

Cross-Border Loans of the Landesbank(1)

	At September 30,	
	1997	**1996**
	(in millions of DM)	
Industrialized countries		
European Union countries	11,291	10,978
Other	6,879	3,679
Total industrialized countries	18,170	14,657
Opec member countries	231	276
Developing countries		
Central America	174	87
South America	541	323
Asia	306	137
Others	68	69
Total developing countries	1,320	892
Former eastern bloc countries	540	507
International organizations	202	185
Other	91	65
Total cross-border loans	20,323	16,306

(1) Does not include cross-border loans covered by an export guarantee of the German federal government or secured by other domestic means.

Investment Banking

Securities Activities. The Group is an active participant in the international capital markets, trading in debt and equity securities and underwriting bond and equity issues. In 1996, the Group acted as a bond underwriter, either as a manager or a syndicate member, or as member of selling groups, in the placement of 23 issues of German issuers and of 30 issues of foreign issuers in industry, banking and the public sector. As an underwriter, the Group purchases securities with the intention to resell as well as for its own portfolio.

In its function as banker to the State of Rheinland-Pfalz, the Group places treasury notes (*Landesschatzanweisungen*) and promissory notes (*Schuldscheine*) on behalf of the State of Rheinland-Pfalz.

Securities Portfolio. The Group owns corporate bonds and securities issued by public institutions as well as shares. The Group values its entire securities portfolio (except equity investments (*Beteiligungen*) and asset swapped securities) in accordance with the strict minimum value principle, that is, at the lower of historic cost (the original purchase price) or market value. See "Summary of Material Differences Between Generally Accepted German and United States Accounting Principles" and "Glossary of Certain Terms". The Group has a policy of funding interest-bearing securities held in its portfolio other than for trading purposes on a matched basis.

The following table shows the aggregate book value of securities held by the Group at December 31 of each of the years indicated:

Securities Portfolio

	At December 31,		
	1996	1995	1994
	(in millions of DM)		
Bonds and other interest-bearing securities held	14,882.5	14,826.0	11,202.1
Public institution issuers	5,972.0	6,883.4	4,790.6
Other issuers	8,910.5	7,942.6	6,411.5
Shares and other non interest-bearing securities held	509.7	169.7	78.4
Total securities held(1)	15,392.2	14,995.7	11,280.5
Equity investments in non-affiliated companies(2)	227.5	233.4	229.9

(1) Does not include equity investments (*Beteiligungen*) in non-affiliated and in affiliated companies. See "Glossary of Certain Terms".

(2) Includes equity investments in associated companies. See "Glossary of Certain Terms".

At December 31, 1996, the Group's securities portfolio accounted for 18.8% of total assets compared to 21.1% at December 31, 1995. At December 31, 1996, 96.7% of the Group's securities portfolio consisted of debt securities, compared to 98.9% at December 31, 1995. Of the debt securities held in the Group's securities portfolio at December 31, 1996, 40.1% were issued by public sector issuers, compared to 46.4% at December 31, 1995.

Venture Capital. Through its wholly-owned but not consolidated venture capital and innovation financing subsidiary Kapitalbeteiligungs- und Innovationsfinanzierungsgesellschaft Rheinland-Pfalz mbH, Mainz, the Group services the needs of small and medium-sized businesses in Rheinland-Pfalz which are profitable and have good business prospects but are not able to raise funds through the issuance of securities. This subsidiary provides its customers with equity capital for investments for limited time periods. The Group also holds a 21.74% interest in Mittelständische Beteiligungs- und Wagnisfinanzierungsgesellschaft Rheinland-Pfalz mbH, Mainz, which furthers the state's policy of supporting the local economy by making equity investments in small and medium sized companies.

Trading Activities. The Group actively engages in securities trading for its customers and for its own account. Trading for the customers of the Group is conducted on a fee basis. In 1996 the sales of own and other issuers' bonds stabilized at a level of approximately DM 48 billion.

Market Risks in Trading. Trading activities have gained significance for the Group's earnings. Simultaneously with the expansion of its trading activities, the Group has continued to improve its risk-control systems.

The Group responds to the volatility of markets by setting strict risk limits in trading activities. In limiting open trading positions the Group uses different risk weightings for the various instruments.

A major component of the Landesbank's risk management is the imposition of risk limits as a control mechanism. The limits are based on the Landesbank's ability to bear risk by its own means. Only a fraction of the Landesbank's risk bearing ability has been allocated to cover potential risks and is used as the basis for the determination of risk limits (the "Potential Risk Cover Amount"). In accordance with its overall risk philosophy, the Landesbank tests the Potential Risk Cover Amount against various risk scenarios (standard, stress and worst-case scenario) on a graduated basis. The risk bearing ability of the Landesbank and the risk limits are adjusted on a continuous basis.

Limits for the various market price risks have been allocated to all trading segments, independent of the type of financing instrument utilized (spot or derivative products).

Following international standards, the Landesbank uniformly applies the "Value at Risk" (VaR) method to measure risk in all categories of risk. The VaR method calculates the potential decreases in value of specific trading positions on the basis of the assumed probability of the occurrence of certain events. This approach enables the Landesbank to consolidate the market risks for all categories of risk and all trading segments to an overall risk position of the Landesbank. The VaR figures for the various market risk categories of the trading activities of the Landesbank are calculated in accordance with the quantitative standards of the Basle Committee on Banking Supervision at the Bank for International Settlements. These standards assume changes in market prices in the course of a period of 250 days, a significance level of 99% (meaning that there is a 99% improbability of losses exceeding that amount) as well as a holding period of 10 days. In calculating the VaR figures, the Landesbank has taken into consideration correlations determined in the past within the individual market risk categories.

The Managing Board of the Landesbank is responsible for determining the Potential Risk Cover Amount, to allocate the risk capital to the various trading segments and to determine risk limits. The Risk Management Committee, under the chairmanship of the member of the Managing Board responsible for Treasury and Trading, manages the utilization of the risk limits on a Landesbank-wide basis and the Landesbank's internal auditors supervise the adherence to the established risk limits and develop systems and organizational guidelines for risk management and early warning systems.

Derivatives Business

The Group uses derivative instruments, such as swaps, futures, forward transactions and options, as part of its asset and liability management, in connection with its customer business and in conjunction with its trading activities. Most of these transactions are executed for hedging purposes. Derivative transactions of the Group for the years 1995 and 1996 are listed in the Notes to the Financial Statements. The credit risk equivalent has been calculated pursuant to the so-called Principle I under the German Banking Act. See "Regulation and Supervision of the Landesbank — Regulation by the German Banking Supervisory Authority". The Notes also contain tables showing maturity breakdown, counterparty breakdown and breakdown by types of transactions for the years 1995 and 1996.

Debt Record of the Group

The Group has always paid promptly when due the full amount of the principal of and interest on its indebtedness.

Source of Funds

The Group maintains diverse sources of funding in an effort to ensure that sufficient liquidity is available to meet its commitments to customers, loan demand and repayments of deposits and, generally, to satisfy its own cash flow requirements. The Group's principal funding source consists of proceeds from the issuance of notes and bonds. Other sources of funding are customer deposits, borrowings from other banks, bankers' acceptances, drafts, and a variety of other funding arrangements and instruments. In addition, the Group raises funds in the capital markets through its financing subsidiary in the Netherlands, LB Rheinland-Pfalz Finance B.V., Amsterdam.

Through its funding and investment policy the Group seeks to achieve the most favourable terms possible with respect to funds raised in the capital markets. The Group also seeks to minimize interest rate, exchange rate and currency risks by matching asset and liability maturities and currencies and by using various hedging instruments.

The traditional funding source of the Group is the domestic market. The Group's domestic capital markets funding instruments are collateralized issues by the Group in the form of mortgage-backed bonds (*Hypotheken-Pfandbriefe*) and public-debt backed bonds (*Öffentliche Pfandbriefe* or *Kommunalschuldverschreibungen*), and unsecured bearer bonds (*Inhaberschuldverschreibungen*) and debt certificate borrowings (*Schuldscheindarlehen*) as non-collateralized issues. These issues are non-syndicated issues. The sales force of the Group places the securities directly with investors, which are traditionally insurance companies, pension and investment funds, savings banks, other banks and retail customers. In 1996, domestic new issues with a maturity of more than one year amounted to slightly more than DM 4.8 billion compared to some DM 4.2 billion in 1995. In addition, for money market transactions the Landesbank issued short-term notes (due within one year) in the total nominal amount of DM 2,400 million.

Mortgage-backed bonds are generally long-term bonds (with an original maturity of four years or longer), the principal and interest of which are at all times secured by a pool of specified mortgage loans listed in a register maintained by the Landesbank. The pool is continuously replenished since the Landesbank is required to keep the mortgage-backed bonds fully secured. Mortgage-backed bonds may be issued in registered or bearer form. Public-debt backed bonds are generally long-term bonds (with an original maturity of four years or longer), the principal and interest of which are at all times secured by a pool of specified public sector loans listed in a register maintained by the Landesbank. Public sector loans for this purpose are loans that are made by the Landesbank to the German federal government and German states, to municipalities, counties, special purpose associations of municipalities and counties, and other entities and associations established under German public law (*Anstalten* and *Körperschaften*) and to member states of the European Union and their territorial subdivisions meeting certain requirements, and loans guaranteed by such entities. The pool is continuously replenished as required to keep the public debt-backed bonds fully secured. Public debt-backed bonds may be issued in registered or bearer form.

Of all outstanding bonds of the Group at the end of 1996, bonds in an amount of approximately DM 14.8 billion were issued internationally. In 1996, new issues in the international markets amounted to approximately DM 5.2 billion, which represented more than half of the Group's total funding in the capital markets with a maturity of more than one year. New international issues in the first half of 1997 achieved a volume of approximately DM 3.8 billion. The main currency of issues in the international markets in the period from November 1993 to June 1997 was the U.S. dollar, representing approximately 32% of all international issues during such time period, followed by DM and Japanese Yen issues which accounted for approximately 25% and 23%, respectively, of international issues.

In order to facilitate issuances in the Euro market, the Group established its Euro Medium Term Note-Program on June 16, 1994 with an initial principal amount of U.S. dollars 1.5 billion. Due to frequent issuance under the program, the aggregate principal amount of the program was doubled to U.S. dollars 3.0 billion in February 1995, increased to U.S. dollars 6.0 billion in April 1996 and further increased to U.S. dollars 10.0 billion in August 1997. As the first German Landesbank Girozentrale, the Landesbank launched in September 1994 a Dragon Bond issue in Hong Kong, in March 1995 a Samurai Bond issue in Tokyo and in October 1996 a DM Global Bond.

The following table presents sources of funds of the Group at December 31 of each of the years indicated:

Outstanding Borrowings

	At December 31,					
	1996		1995		1994	
	DM	%	DM	%	DM	%
	(in millions of DM, except percentages)					
Types of borrowings						
Liabilities to savings banks	5,580.4	7.6	4,256.5	6.8	4,345.6	7.8
Liabilities to other banks	27,297.7	37.3	23,120.0	36.9	18,435.3	33.2
Liabilities to customers(1)	13,235.6	18.1	14,752.6	23.5	12,462.9	22.4
Bonds and notes issued(2)	26,871.1	36.7	20,364.2	32.5	20,071.7	36.2
Mortgage-backed bonds	1,724.6		1,914.7		2,215.9	
Public debt-backed bonds	12,290.1		10,867.9		10,293.1	
Own acceptances and promissory notes outstanding	202.0	0.3	212.0	0.3	224.3	0.4
Total borrowings	73,186.8	100.0	62,705.3	100.0	55,539.8	100.0
Original maturities or non-prepayment periods of borrowings(3)						
up to 4 years	41,178,5		37,038.2		32,452.2	
4 years or more	32,008.3		25,667.1		23,087.6	

(1) This item contains in 1995, DM 1,479 million and in 1994, DM 89 million, respectively, liabilities to the indirectly wholly-owned but not consolidated financing subsidiary, Landesbank Rheinland-Pfalz Finance B.V., Amsterdam. These liabilities represent lent on proceeds of bonds issued by Landesbank Rheinland-Pfalz Finance B.V.

(2) Certificated liabilities.

(3) For a more detailed description of maturities see "Notes to the Financial Statements".

Management and Employees

Pursuant to the Rheinland-Pfalz Savings Banks Act and the Landesbank's Ordinance, the Landesbank has three governing bodies, the Managing Board (*Vorstand*), the Supervisory Board (*Verwaltungsrat*) and the Meeting of the Guarantors (*Gewährträgerversammlung*). In addition, the Landesbank has an Executive Committee (*Präsidialausschuß*), an Audit Committee (*Prüfungsausschuß*), a Credit Committee (*Kreditausschuß*) and an Advisory Board (*Beirat*).

Managing Board

The Managing Board is responsible for the management of the Landesbank and the representation of the Landesbank with respect to third parties. At the beginning of each fiscal year of the Landesbank, the Managing Board reports on its planned business policy and forecasts of business development to the Supervisory Board. In addition, the Managing Board reports on a quarterly basis to the Supervisory Board on the business and the position of the Landesbank in general and in particular on its profitability and liquidity. The Managing Board reports to the Chairman and to the Deputy Chairman of the Supervisory Board on other important matters and must respond to inquiries by the Supervisory Board.

The members of the Managing Board are appointed by the Meeting of the Guarantors for five-years terms which can be renewed.

The members of the current Managing Board are:

Klaus G. Adam (Chairman)
Hermann-Josef Bungarten
Werner Fuchs
Dr. Friedhelm Plogmann
Paul K. Schminke

Supervisory Board

The Supervisory Board consists of eight representatives appointed by the Savings Bank and Clearing Association of Rheinland-Pfalz, eight representatives appointed by WestLB and SüdwestLB, two representatives appointed by the State of Rheinland-Pfalz and nine employees of the Landesbank. The employees attend in an advisory capacity only. The Supervisory Board supervises the Managing Board. In particular the Supervisory Board establishes guidelines for the business of the Landesbank, subject to the power of the Meeting of the Guarantors to determine the business policy; establishes the personnel policy and audit procedures; approves certain investments (*Beteiligungen*), and the purchase and sale of real estate; proposes the auditors for the Landesbank; examines the annual financial statements prepared by the Managing Board and the Managing Board's proposal relating to the disposition of the annual profits; and reports in writing to the Meeting of the Guarantors on the results of its examination and on the result of the audit of the annual financial statements. The Supervisory Board meets as often as is required by the business of the Landesbank.

The current Supervisory Board consists of the following members:

Chairman	
Dr. h.c. Friedel Neuber	Chairman of the Board of Managing Directors of WestLB, Düsseldorf/Münster
Deputy Chairmen	
Karl-Adolf Orth	President of the Savings Bank and Clearing Association of Rheinland-Pfalz, Mainz
Heinrich Haasis, MdL	President of the Savings Bank and Clearing Association of Württemberg, Stuttgart
Gernot Mittler	Minister of Finance of Rheinland-Pfalz, Mainz
Members	
Dr. Peter Barth	Managing Partner of Lohmann GmbH & Co. KG, Neuwied
Jürgen Creutzmann	Dipl.-Kaufmann, Dudenhofen
Hans-Jörg Duppré	County Executive, Pirmasens
Helmut Fahlbusch	Chairman of the Board of Managing Directors of Schott Glaswerke, Mainz
Alfred Reifenberg	Chairman of the Board of Managing Directors of the Stadtsparkasse Duisburg, Duisburg
Berthold Bandner	Chairman of the Board of Managing Directors of the Stadtsparkasse Kaiserslautern, Kaiserslautern
Dr. Winfried Hirschberger	County Executive, Kusel
Max Dietrich Kley	Member of the Board of Managing Directors of BASF Aktiengesellschaft, Ludwigshafen
Dieter Mühlenhoff	Chairman of the Board of Managing Directors of the Sparkasse Trier, Trier
Dr. Wolf-Albrecht Prautzsch	Deputy Chairman of the Board of Managing Directors of WestLB, Düsseldorf/Münster
Michael W. Schmidt	Chairman of the Board of Managing Directors of the Sparkasse Worms, Worms
Werner Schmidt	Chairman of the Board of Managing Directors of SüdwestLB, Stuttgart/Mannheim
Dr. Wolfgang Schulte	Mayor, Ludwigshafen
Dr. Christof Wolff	Mayor, Landau

Employee Representatives
Edwin Becker
Werner Hauck
Günter Keuper
Bernd Kunze
Sigrid Müller-Gessinger
Heiner Reckel
Beate Rüdiger
Wilfried Stephan
Juliane Zimmer

Deputy Members

Dr. Ingolf Deubel	Secretary of State, Ministry of Finance of Rheinland-Pfalz, Mainz
Dr. Dieter Falke	Member of the Board of Managing Directors of WestLB, Düsseldorf/Münster
Dr. Karl Heidenreich	Deputy Chairman of the Board of Managing Directors of SüdwestLB, Stuttgart/Mannheim
Dr. Rudolf Holdijk	Member of the Board of Managing Directors of WestLB, Düsseldorf/Münster
Georg Kalbfuß	County Executive, Bad Dürkheim
Jakob Kaster	Member of the Board of Managing Directors of the Sparkasse Südliche Weinstraße, Landau
Siegfried Klaus	Chairman of the Board of Managing Directors of the Kreissparkasse Altenkirchen, Altenkirchen
Richard Patzke	City Counsel of Mainz, Mainz
Hermann Paul	Managing Director of the Savings Bank and Clearing Association of Rheinland-Pfalz, Mainz
Dr. Henning Osthnes-Albrecht	Member of the Board of Managing Directors of WestLB, Düsseldorf/Münster
Lothar Schatto	Chairman of the Board of Managing Directors of the Sparkasse Donnersberg, Rockenhausen
Heinz Scherer	President of the Chamber of Craftsmen, Kaiserslautern
Werner Schineller	Mayor, Speyer
Josef Schmidt	President of the Savings Bank and Clearing Association of Baden, Mannheim
Rolf Wegeler	Member of the Board of Managing Directors of Deinhard AG, Koblenz
Peter Paul Weinert	County Executive, Montabaur
Jens Beutel	Mayor, Mainz

Meeting of the Guarantors

The Meeting of the Guarantors is the assembly of the owners of the Landesbank, namely the Savings Bank and Clearing Association of Rheinland-Pfalz, WestLB and SüdwestLB. The Meeting of the Guarantors consists of five representatives appointed by the Savings Bank and Clearing Association of Rheinland-Pfalz, five representatives appointed by WestLB and SüdwestLB and two representatives appointed by the State of Rheinland-Pfalz. It determines the business policy and risk policy of the Landesbank; appoints and removes in cooperation with the Supervisory Board the members of the Managing Board; enters into employment agreements with such members; decides on changes in the capital of the Landesbank and the raising of capital funds such as profit participation certificates, subordinated debt, and silent participations; appoints the auditors, approves the annual financial statements and the disposition of the annual profits; and approves amendments to the Ordinance of the Landesbank. The appointees of each owner must cast identical votes unless all owners waive this requirement for one or more members of the Meeting of the Guarantors. The chairmanship of the Meeting of the Guarantors rotates on a two-year basis between the President of the Savings Bank and Clearing Association of Rheinland-Pfalz and a representative of the other owners of the Landesbank.

The current members of the Meeting of the Guarantors are:

Chairman

Karl-Adolf Orth	President of the Savings Bank and Clearing Association of Rheinland-Pfalz, Mainz

Deputy Chairman

Dr. h.c. Friedel Neuber	Chairman of the Board of Managing Directors of WestLB, Düsseldorf

Members

Peter Caesar	Minister of State, Ministry of Justice of Rheinland-Pfalz, Mainz
Hans-Jörg Duppré	County Executive, Pirmasens
Günther Einert	Retired Minister of State, Iserlohn
Winfried Gassen	Chairman of the Board of Managing Directors of the Kreissparkasse Bernkastel Wittlich, Bernkastel Kues
Günter Haas	Chairman of the Board of Managing Directors of the Stadtsparkasse Frankenthal, Frankenthal
Heinrich Haasis, MdL	President of the Savings Bank and Clearing Association of Württemberg, Stuttgart
Gernot Mittler	Minister of State, Ministry of Finance of Rheinland-Pfalz, Mainz
Dr. Wolf-Albrecht Prautzsch	Deputy Chairman of the Board of Managing Directors of WestLB, Düsseldorf/Münster
Werner Schmidt	Chairman of the Board of Managing Directors of SüdwestLB, Stuttgart
Helmut Schröer	Mayor, Trier

Advisory Board

The Chairman of the Supervisory Board may, acting in agreement with his deputies and the Managing Board, establish advisory boards and appoint their members. Such boards offer the Landesbank expert advice on economic and business questions. An advisory board consists of up to 25 members.

The Landesbank presently has one Advisory Board which consists of 25 members.

Dr. Michael Dietzsch	Managing Director of Bitburger Brauerei Th. Simon GmbH, Bitburg
Johannes Endler	Dipl. Volkswirt, Member of the Board of Managing Directors of Flughafen Frankfurt Main AG, Frankfurt/Main
Dr. Joachim Gerhard	Partner of Wilh. Werhahn, Neuss
Dr. jur. Peter Hanser-Strecker	Chairman of the Board of Managing Directors of Schott Musik International, Mainz
Otmar Hornbach	Chairman of the Board of Managing Directors of Hornbach Baumarkt AG, Bornheim
Dr. Heribert Johann	Chairman of the Board of Managing Directors of Boehringer Ingelheim GmbH, Ingelheim
Sven A. Kado	Dipl. Kaufmann, Member of the Board of Managing Directors of Dyckerhoff AG, Wiesbaden

Heinz-Peter Klenz	Dipl. Betriebswirt, Member of the Board of Managing Directors Krupp-Hoesch Stahl AG, Dortmund
Prof. Dr. Reinhold Kreile	Tax Lawyer, München
Dr. Dietmar Kuhnt	Chairman of the Board of Managing Directors of RWE AG, Essen
Gerhard Luther	Chairman of the Board of Managing Directors of Bayerische Versorgungskammer, München
Dr. Bernd Michaels	Chairman of the Board of Managing Directors of Provinzial Versicherungsanstalten der Rheinprovinz, Düsseldorf
Nobert Obry	Speaker of the Board of Managing Directors of G.M. Pfaff AG, Kaiserslautern
Dr. Joachim F. Panek	Director of Controlling of Hoesch-Krupp, Friedrich Krupp AG, Essen
Prof. Dr. Rolf Peffekoven	Director Institute for Finance Johannes Gutenberg-Universität
Ulrich Putsch	Dipl. Ingenieur, Partner of Keiper KG, Rockenhausen
Dr. Ernst F. Schröder	Partner of Dr. August Oetker, Bielefeld
Dr. Harald J. Schröder	Deputy Chairman of the Board of Managing Directors of Merck KGaA, Darmstadt
Dr. Eberhard Schwarz	Managing Director of Zschimmer & Schwarz GmbH & Co Chemische Fabriken, Lahnstein
Reinhart Siewert	Member of the Board of Managing Directors of Koenig & Bauer Albert AG, Würzburg
Rudi Sölch	Dipl. Volkswirt, Director Zweites Deutsches Fernsehen, Mainz
Siegbert Strecker	Dipl. Volkswirt, Member of the Board of Managing Directors of Ruhrgas Energie-Beteiligungs AG, Essen
Herbert Verse	Dipl. rer-pol., Chairman of the Board of Managing Directors of Eckes AG, Nieder-Olm
Peter Voß	Intendant Südwestfunk Baden-Baden
Karl-Jürgen Wilbert	Assessor, Managing Director of Chamber of Craftsmen Koblenz, Koblenz

Employees

At December 31, 1996, the Landesbank employed 1,713 employees and the Group's consolidated subsidiaries employed approximately 245 additional employees.

REGULATION AND SUPERVISION OF THE LANDESBANK

Introduction to the German Banking System

The German banking system consists of a variety of public and private banks of two general types: universal banks and specialized banks. Most banks are universal banks (also known as full-service or multi-purpose banks) which not only carry out deposit and lending business but also investment banking, underwriting and securities trading for their own account and for their customers. The Landesbank is a universal bank. Specialized banks, such as mortgage banks, concentrate on certain types of credit business or have special functions. Following German reunification in 1990, the west German banking system was extended to eastern Germany.

Universal banks can be divided into three broad types: public sector savings banks (*Sparkassen*) and their central institutions (*Landesbanken-Girozentralen*), like the Landesbank, private sector commercial banks (*private Geschäftsbanken*), and co-operative banks (*Genossenschaftsbanken*) and their central institutions.

At the end of October, 1997, there were 598 public sector savings banks in Germany and their 13 central institutions with a total business volume (balance sheet total plus endorsement liabilities on bills of exchange) of DM 3,278.9 billion. In addition, there were 324 private sector commercial banks and 2,436 cooperative banks and their four central institutions, 34 mortgage banks and 18 credit institutions with special purposes.

Regulation of the Landesbank

In Germany, the Landesbank is subject to comprehensive supervision and regulation on a consolidated basis, comparable in many respects to the supervision of United States commercial banks. Organized under the Savings Bank Act of Rheinland-Pfalz, the Landesbank is authorized to carry on its banking business under, and subject to the requirements of, the German Banking Act (*Gesetz über das Kreditwesen*) and is supervised and regulated by the German Banking Supervisory Authority (*Bundesaufsichtsamt für das Kreditwesen*), an independent federal regulatory authority (under the supervision of the Federal Minister of Finance) and by the Deutsche Bundesbank. The German Banking Act contains the principal rules for bank supervision, including the requirements for a banking license, and regulates the Landesbank's business activities and capital adequacy. On January 1, 1995, a new German Supervisory Authority for Securities Trading (*Bundesaufsichtsamt für den Wertpapierhandel*) was established by the Securities Trading Act (*Gesetz über den Wertpapierhandel*) which supervises the securities trading in Germany. Pursuant to the Savings Bank Act of Rheinland-Pfalz, the Landesbank is also subject to supervision by the Ministry of Economic Affairs, Transport, Agriculture and Viniculture of Rheinland-Pfalz (*Ministerium für Wirtschaft, Verkehr, Landwirtschaft und Weinbau,* the "State Ministry"), which ascertains that the activities of the Landesbank comply with applicable law and the Landesbank's Ordinance. These powers of supervision do not include the right to exercise influence over business decisions by the Managing Board or the Supervisory Board of the Landesbank. The Sixth Amendment to the German Banking Act, most provisions of which became effective on January 1, 1998, transformed into German law the EU Council Directive of 15 March 1993 on the capital adequacy of investment firms and credit institutions, the EU Council Directive of 10 May 1993 on investment services in the securities field and the EU Council Directive of 29 June 1995 known as the prudential supervision directive.

Regulation by the German Banking Supervisory Authority

The German Banking Supervisory Authority supervises and regulates all banking activities of banks incorporated or established in Germany, such as the Landesbank, carrying out the purposes and the provisions of the German Banking Act. Its main purpose is to protect the safety and soundness of the German banking system. The principal provisions of the German Banking Act and the regulations promulgated thereunder, to the extent they apply to the Landesbank, are as follows:

1. *Capital Adequacy Requirements (so-called Principle I)*. (a) Under the German capital adequacy rules, each bank must maintain a ratio (the "Solvency Ratio") of Liable Capital (as defined below) to risk-weighted assets and certain off-balance sheet items of at least 8%.

Pursuant to the German Banking Act, for a banking institution such as the Landesbank, "Liable Capital" (the numerator of the Solvency Ratio), consists principally of (i) paid-in subscribed capital, (ii) capital reserves, (iii) retained earnings reserves which are disclosed in the bank's annual balance sheet, (iv) net profits which are shown in audited interim financial statements and which will not be used for distribution or the payment of taxes, (v) the fund for general banking risks in accordance with Section 340g of the German Commercial Code (*Handelsgesetzbuch*) (an item which a bank may create from its after-tax retained earnings on the liability side of its balance sheet in its reasonable commercial judgment in light of the special risks inherent in the banking business), (vi) capital paid in by silent partners which meets certain conditions set forth in the German Banking Act, including subordination to all other creditors and participation in the bank's losses, (vii) reserves for general banking risks (pursuant to Section 340f of the German Commercial Code, a bank may record on its balance sheet certain receivables and securities, which are neither investment securities nor part of the trading portfolio, at a lower value than that permitted for industrial and other non-banking corporations if the use of a lower value is advisable in its reasonable commercial judgment to safeguard against the special risks inherent in the banking business), provided such reserves may not exceed 4% of the book value of such receivables and securities, (viii) capital paid in consideration of profit participation rights (*Genußscheine*) which meets certain conditions set forth in the German Banking Act, including subordination to all creditors and participation in the bank's losses, (ix) long-term subordinated debt (with a term of at least five years) meeting certain conditions set forth in the German Banking Act, (x) certain revaluation reserves, and (xi) reserves pursuant to Section 6b of the German Income Tax Act (*Einkommensteuergesetz*) (such reserves are shown in the balance sheet under "special item including a reserve element" and are counted in the amount of 45%, to the extent that they were created from the proceeds for the sale of real estate, property rights equivalent to real estate, and buildings). The German Banking Act requires that balance sheet losses and certain intangible assets (including goodwill), certain investments in banks or financial institutions and certain other items must be deducted in computing Liable Capital.

Revaluation reserves which may be counted as Liable Capital are (x) an amount of up to 45% of the difference between the book value and the lending value of real estate and buildings, (y) an amount of up to 35% of the difference between the book value and the market value of securities listed on an exchange or traded in another organized market, and (z) an amount of up to 35% of the difference between the book value and the published redemption price of shares issued by certain securities or real estate funds, provided that in computing the revaluation reserves under (x), (y) and (z) any reserves for general banking risks created with respect to such real estate, buildings and securities must be added back to the respective book value of such assets. Such undisclosed revaluation reserves can be included in Liable Capital only if the Core Capital (as defined below) of the bank amounts to at least 4.4% of the risk-weighted assets plus certain off-balance sheet items and only up to an amount equal to 1.4% of such risk-weighted assets and off-balance sheet items.

Core Capital is the portion of Liable Capital referred to in items (i) through (vi) above, less balance sheet losses, certain intangible assets (which include good will) and certain other items, and in the case of the Landesbank, consists of (i) paid-in subscribed capital, and (ii) retained earnings reserves, less losses and certain intangible assets; and Supplementary Capital is the portion of Liable Capital referred to in item (vii) through (xi), less certain deductions. The German Banking Act provides that the aggregate amount of Supplementary Capital must not exceed the Core Capital. In addition, the sum of long-term subordinated debt must not exceed 50% of the Core Capital. Core Capital reflects the same concept as Tier I Capital, and Supplementary Capital reflects a similar concept as Tier II Capital, as such terms are used in the United States capital adequacy rules.

To compute risk-weighted assets and certain off-balance sheet items (the sum of which is the denominator of the Solvency Ratio), the assets of a bank are assigned to five broad categories of relative credit risk depending on the debtor (0%, 20% and 100%) or on the type of instrument (10% and 50%) and the balance sheet value of each asset is multiplied by the percentage weight applicable to its risk category to arrive at the risk-weighted value. Loans by building and loan associations, such as LBS, to savers are separately computed and generally (i.e. in the case of so-called *Bauspar* loans and loans for pre-financing or bridge financing for *Bauspar* contracts which are secured by mortgages at a 60% level) need only be counted with a risk-weighting of 70%. With respect to off-balance sheet items, such as financial guaranties, letters of credit, swaps and other financial derivatives, first their value (in the case of guaranties and letter of credit, their amount, and in the case of swaps and other derivatives (unless such items are allocated to the Trading Book discussed below), the value computed on a market basis) is adjusted according to their risk classification depending on the type of instrument (20%, 50% and 100%), or, in the case of derivatives, on the counter party (20% and 50%), then they are assigned, in the same manner as on-balance sheet assets, to the credit risk categories depending on the type of counterparty or the debtor and multiplied by the applicable percentage weight.

(b) The Sixth Amendment to the German Banking Act introduced the requirement that market risks and counterparty risks associated with securities transactions, transactions in derivative products and foreign exchange transactions of banks must be covered by adequate capital. In order to achieve this result, the German Banking Act introduced two concepts: Regulatory Capital (*Eigenmittel*) and the distinction between transactions allocated to the Trading Book (*Handelsbuch*) and transactions allocated to the Investment Book (*Anlagebuch*).

Regulatory Capital of a bank consists of Liable Capital plus Tier III Capital. Tier III Capital consists of (i) short-term subordinated debt (with a term of at least two years but less than five years) meeting certain conditions set forth in the German Banking Act and (ii) the net profits which would be realized if all positions in the Trading Book were balanced and all anticipated expenses and distributions on capital and all losses that are expected to be incurred in the Investment Book in case of a liquidation of the bank were deducted. The sum of Tier III Capital plus the portion of Supplementary Capital that is not required to cover risk positions in the Investment Book must not exceed 250% of the portion of Core Capital that is not required to cover risk positions in the Investment Book.

The following transactions which involve a market risk for the bank are allocated to the bank's Trading Book: securities, money market instruments, derivatives and marketable obligations and participations that the bank carries for its own account for the purpose of resale or which the bank purchases for trading purposes for its own account; instruments held and transactions entered into for the purpose of hedging the market risk of the Trading Book and related refinancing transactions; receivables for fees, interests and dividends connected with positions in the Trading Book; and securities lending, loans or similar transactions related to positions in the Trading Book. A bank must establish guidelines for the inclusion of transactions in the Trading Book which must be submitted to the German Banking Supervisory Authority and the Bundesbank.

The Investment Book of a bank consists of all transactions that are not contained in the Trading Book as set forth above.

The sum of the risk-weighted values of market risk positions (foreign exchange positions, commodity positions and positions allocated to the Trading Book) and, under certain circumstances, separately computed option positions may not exceed the difference between Regulatory Capital and an amount equal to 8% of the risk-weighted assets and certain risk-weighted off-balance sheet items. This limitation must be computed daily as of the close of business. The risk-weighted values of market risk positions and option positions must be computed in accordance with rules set forth in Principle I or, in the case of market risk positions, in accordance with the bank's own risk computation models which have been approved by the German Banking Supervisory Authority. The positions allocated to the Trading Book are risk-weighted according to market risk (interest rate and equity security price related) and according to counterparty risk. This part of Principle I requires that the risk-weighted values of market risk positions are at the end of every day covered by Liable Capital or Tier III Capital. It is a basic concept of Principle I that Regulatory Capital that has been used to cover a risk is not available to cover other risks under Principle I.

Not only a bank and its banking subsidiaries, taken separately, but also a banking group (*Institutsgruppe*), taken together, must meet the capital adequacy rules. A banking group exists if a bank, a financial services institution, a financial institution or a bank service enterprise is a subsidiary of a parent bank (subsidiary being defined in terms of voting majority or controlling influence of the parent bank). An otherwise existing banking group also includes a bank (i) in which a member of the banking group owns at least 20% of the shares, (ii) which is jointly managed by such banking group member and other enterprises that are not banking group members, and (iii) for the obligations of which the banking group member is liable in proportion to its capital investment in such bank. The subordinated enterprises of a banking group may have their registered office in Germany or outside of Germany. The banking group of the Landesbank consists of the wholly-owned Landesbank Rheinland-Pfalz International S.A., Luxembourg, the indirectly wholly-owned Landesbank Rheinland-Pfalz Finance B.V., Amsterdam, and the 25%-owned Westdeutsche ImmobilienBank (being owned and jointly managed by WestLB, SüdwestLB and the Landesbank) as subordinated enterprises.

Germany adopted the above capital adequacy rules by incorporating into the German Banking Act the EU Council Directive of 17 April 1989 on the own funds of credit institutions (the term "own funds" being substantially equivalent to Liable Capital), the EU Council Directive of 15 March 1993 on the capital adequacy of investment firms and credit institutions and the EU Council Directive of 6 April 1992 on the supervision of credit institutions on a consolidated basis, and by a regulation of the German Banking Supervisory Authority last amended on October 29, 1997, carrying out the EU Council Directive of 18 December 1989 on a solvency ratio for credit institutions and the above-mentioned directive on capital adequacy. The two EU Council Directives of 1989 in turn reflect the risk-based capital guidelines of the Committee on Banking Supervision at the Bank for International Settlements in Basle.

At December 31, 1996, the Landesbank, its banking group and Westdeutsche ImmobilienBank (the German member of its group) met, and each currently meets, the risk-based capital adequacy rules of the German Banking Act and of the Basle Committee.

2. *Principles II and III.* Each bank must invest its funds in a manner designed to provide adequate liquidity at all times. The aggregate amount of long-term loans (loans having an original term of four years or more) and certain other assets of an illiquid nature may not exceed the aggregate amount of a bank's capital and reserves, long-term liabilities (liabilities having an original term of four years or more) and specified percentages of certain other liabilities (the so-called "Principle II"). The aggregate amount of a bank's short- and medium-term loans and investments may not exceed the aggregate amount of its short- and medium-term liabilities and specified percentages of certain other liabilities (the so-called "Principle III").

3. *Principle I a.* Under the so-called Principle I a which will remain effective until October 1, 1998, the following applies: As of the close of each business day, (i) the difference between a bank's assets and liabilities (as specified) denominated in foreign currencies or precious metals may not exceed 21% of a bank's Liable Capital, (ii) certain specified risks arising from interest rate futures and interest rate options may not exceed 14% of a bank's Liable Capital and (iii) risks determined by the sum of the difference between delivery claims and delivery obligations arising under forward and option contracts involving price risks other than interest rate risks (provided that these contracts do not hedge the price risk posed by a portfolio of instruments of the same type) may not exceed 7% of a bank's Liable Capital.

4. *Limitation on Large Credits.* The new concepts of the German Banking Act, Regulatory Capital and the distinction between Trading Book and Investment Book, are also relevant for the limitations on large credits.

(a) The German Banking Act as it applies to the Landesbank distinguishes between Investment Book lending limits, combined Investment Book/Trading Book lending limits and Trading Book Lending limits.

(i) A large Investment Book credit of a bank is the sum of credits extended to any one borrower or connected group of borrowers that are allocated to the Investment Book and that, in the aggregate, are equal to or exceed 10% of the bank's Liable Capital. No single large Investment Book credit may exceed 25% (40% until December 31, 2001) of the bank's Liable Capital (20% (30% until December 3, 2001) in the case of a bank's unconsolidated affiliate) and the sum of a bank's disbursed large Investment Book credits may not exceed eight times the bank's Liable Capital.

(ii) A large combined Investment Book/Trading Book credit of a bank is the sum of credits extended to any one borrower or connected group of borrowers that are allocated to the Investment Book or to the Trading Book and that, in the aggregate, are equal to or exceed 10% of the bank's Regulatory Capital. No single large combined Investment Book/Trading Book credit may exceed 25% (40% until

December 31, 2001) of the bank's Regulatory Capital (20% (30% until December 3, 2001) in the case of a bank's unconsolidated affiliate) and the sum of a bank's disbursed large combined Investment Book/Trading Book credits may not exceed eight times the bank's Regulatory Capital.

(iii) In case a single large combined Investment Book/Trading Book credit exceeds the 25% (or 20%) (40% and 30% respectively, until December 31, 2001) of the bank's Regulatory Capital ceiling, the sum of credits extended to any one borrower or connected group of borrowers that is allocated to the Trading Book must not exceed five times of that portion of the bank's Regulatory Capital that is not required to cover risk positions in the Investment Book.

(iv) There is an additional over-all lending limit to the effect that the sum of all portions of single large combined Investment Book/Trading Book credits that exceed the 25% (or 20%) (40% and 30%, respectively, until December 31, 2001) of the bank's Regulatory Capital ceiling for more than 10 days must not exceed six times of that portion of the bank's Regulatory Capital that is not required to cover risk positions in the Investment Book.

A bank must report its large credits to the Deutsche Bundesbank. With the approval of the German Banking Supervisory Authority, a bank may exceed the eight times Liable Capital or Regulatory Capital and the 25% (or 20%) (40% and 30%, respectively, until December 31, 2001) of Liable Capital or Regulatory Capital ceilings referred to in paragraphs (i) and (ii) above, if the amount exceeding these ceilings is covered by Liable Capital and Regulatory Capital, respectively. The bank may exceed the Regulatory Capital ceilings with the approval of the German Banking Supervisory Authority only if the excess results from large Trading Book credits (and not from large Investment Book credits). The amounts of Liable Capital used to cover such excess amount must be disregarded when computing the adequacy of Liable Capital under the capital adequacy rules discussed under paragraph 1 above. If the 25% (or 20%) (40% and 30%, respectively, until December 31, 2001) ceiling and the eight times Liable Capital ceiling or Regulatory Capital ceiling are exceeded, the larger of both excess amounts must be covered by Liable Capital and Regulatory Capital, respectively. A bank must notify the German Banking Supervisory Authority and the Deutsche Bundesbank without delay if it exceeds these ceilings. If a bank exceeds the five times Regulatory Capital ceiling referred to in paragraph (iii) above or the six times the Regulatory Capital ceiling referred to in paragraph (iv) above, it must report this fact to the German Banking Supervisory Authority and the Deutsche Bundesbank and must cover such excess amounts with Regulatory Capital.

The term "credit" is defined to include all items on the asset side of the balance sheet and derivative transactions and related guarantees and off-balance sheet positions. The term also includes equity investments. The term "borrower" includes certain affiliates of the borrower. The limitations on large credits are applied on a risk-adjusted basis in a manner similar to the application of the risk-weighted capital adequacy rules discussed under paragraph 1 above.

The provisions of the German Banking Act limiting large credits by a bank apply also to the aggregate credits extended by members of a banking group. In order to determine whether members of a banking group in the aggregate have extended a large credit, the credits by the members of the group to one borrower are consolidated and are measured against the consolidated Liable Capital and Regulatory Capital of the banking group. Banking group for purposes of the large credit limitation is defined in the same manner as for purposes of computing the Liable Capital of banking groups. Consolidation of credits to one borrower or connected group of borrowers is only required if the credit of at least one member of the banking group to such borrower is equal to or exceeds 5% of such member's Liable Capital.

The provisions on limitations on large credits were enacted in 1996 by the Sixth Amendment to the German Banking Act and supersede prior rules that were substantially identical with the rules set forth in paragraph 4(a)(i). Banks must comply with the new limitations on large credits for the first time on October 1, 1998.

5. *Limitations on Significant Investments.* The total nominal value (as opposed to the book value or price paid) of Significant Investments (defined below) by a deposit-taking bank in an enterprise (other than a bank, financial services institution, financial institution, insurance company or a company providing supporting

services to the bank) may not exceed 15% of the Liable Capital of such bank, and the aggregate nominal value of all Significant Investments may not exceed 60% of such bank's Liable Capital. With the approval of the German Banking Supervisory Authority, a bank may exceed the 15% and 60% limitations on investments if it covers the Significant Investments in excess of these limits by Liable Capital. If both limitations are exceeded, the larger of both excess amounts must be covered by Liable Capital. "Significant Investment" is defined in the German Banking Act as an investment (i) directly or indirectly in at least 10% of the capital or the voting rights of an enterprise or (ii) that affords the possibility of exercising a significant influence over the management of the enterprise in which the investment has been made. All of the shares of an enterprise which the bank owns indirectly through one or more subsidiaries are fully attributed to the bank. The limitations on investments also apply to a bank and all companies that form a banking group with such bank, on a consolidated basis.

6. *Policies on Trading Activities.* On October 23, 1995, the German Banking Supervisory Authority issued a release concerning certain minimum requirements that German banks need to observe with respect to transactions relating to money market activities, securities, foreign exchange, precious metals and derivatives. The release stresses the responsibility of senior management for the proper organization and monitoring of trading and sales activities, requires that banks adopt written policies regarding such activities, imposes specific requirements with respect to activities in new products and deals with the qualifications and remuneration of trading and sales staff, record retention, risk controlling and management and the internal organization of trading, sales, settlement and accounting.

7. *Reporting Requirements.* Each bank must file with the German Banking Supervisory Authority and with the Deutsche Bundesbank, among other documents:

(i) immediate notice of certain organizational changes, the extension or increase of large credits, the extension of certain credits to companies in which the bank owns more than 25% (or, under certain circumstances, 10%) of the capital, the acquisition or disposition of more than 10% of the equity of another company or certain changes in the amount of such equity investment and the commencement and termination of certain non-banking activities; and

(ii) on an annual basis, audited unconsolidated and consolidated financial statements.

Three other reports, among others, are required to be filed with the Deutsche Bundesbank (which sends copies of all such reports to the German Banking Supervisory Authority):

(i) on a monthly basis, balance sheet and statistical information;

(ii) on a monthly basis, compliance statements with regard to the capital adequacy rules and the requirements on liquidity, and statements on foreign lending if loans to borrowers who are not residents of countries which are members of the OECD or of countries which have entered into certain credit agreements with the International Monetary Fund exceed DM 50,000,000 in the aggregate; and

(iii) on a quarterly basis, statements listing the borrowers to whom the bank has outstanding loans of DM 3,000,000 or more and certain information about the amount and the type of the loan, including syndicated loans exceeding this DM amount even if the reporting bank's share does not reach DM 3,000,000.

If several banks report to the Deutsche Bundesbank loans of DM 3,000,000 or more to the same borrower, the Deutsche Bundesbank must inform the reporting banks of the total reported indebtedness and of the type of such indebtedness of such borrower and of the number of reporting lending banks.

8. *Enforcement Powers.* In order to secure compliance with the German Banking Act and the regulations issued thereunder, the German Banking Supervisory Authority and the Deutsche Bundesbank may require information and documents from a bank and the German Banking Supervisory Authority may conduct investigations of a bank without having to give any particular reason. Investigations may also be conducted at a foreign subsidiary that is part of a banking group, if this is necessary to verify the accuracy of data required for consolidation, large credit limitations and reports relating thereto, but only to the extent permitted under the law of the domicile of such subsidiary. In addition, the German Banking Supervisory Authority may attend

meetings of a bank's supervisory board and of the bank's shareholders (and may require such meetings to be convened). In practical terms, because the German Banking Supervisory Authority and the Deutsche Bundesbank have access to the books and records of the Landesbank in Germany, they are able to monitor the world-wide activities of the Group.

To ensure that German banks fully comply with all applicable legislation and reporting requirements, the German Banking Supervisory Authority requires that they maintain an effective internal auditing department adequate in size and quality as well as procedures for monitoring and controlling their own activities. A bank must also establish a written plan of organization which must set forth the responsibilities of its employees and operating procedures, and the internal auditing department must examine compliance with this plan and these responsibilities and procedures.

In the event that the German Banking Supervisory Authority discovers irregularities, it has a wide range of enforcement powers. The German Banking Supervisory Authority can challenge the qualifications of a bank's management. If the Liable Capital of a bank is not adequate, or if the liquidity requirements are not met and if the bank has failed to remedy the deficiency within a period determined by the German Banking Supervisory Authority, the German Banking Supervisory Authority may prohibit or restrict the distribution of profits or the extension of credit. These prohibitions also apply to the parent bank of a banking group if the Liable Capital of the bank members of the group does not meet the legal requirements. If the liquidity requirements are not met, the German Banking Supervisory Authority may also prohibit further investments in illiquid assets.

If a bank is in danger of defaulting on its obligations to creditors, the German Banking Supervisory Authority may take emergency measures to avert default. In this connection, it may, inter alia: (i) issue instructions relating to the management of the bank, (ii) prohibit or restrict the acceptance of deposits and the extension of credit, (iii) prohibit or restrict management of the bank from carrying on their functions, and (iv) appoint supervisors. If these measures are inadequate, the German Banking Supervisory Authority may revoke the bank's license and, if appropriate, order that the bank be closed. To avoid the insolvency of a bank, the German Banking Supervisory Authority has the authority to prohibit payments and disposals of assets, to suspend customer services, and to prohibit the acceptance of payments other than in payment of debt owed to the bank. In addition, violations of the German Banking Act may result in criminal and administrative penalties.

Powers of the Deutsche Bundesbank Affecting the Landesbank's Conduct of Business

In addition to the German Banking Supervisory Authority, the Landesbank is also subject to certain powers and the policies of the Deutsche Bundesbank. The tasks of the Deutsche Bundesbank include the regulation of the currency and credit supply, the maintenance of the integrity of the Deutsche Mark and the preservation of adequate supplies of foreign currencies for the settlement of domestic and foreign payments. The German Banking Supervisory Authority carries out its supervisory role in close cooperation with the Deutsche Bundesbank as required by the German Banking Act. While the authority to issue administrative acts (*Verwaltungsakte*) that are binding on banks is vested solely with the German Banking Supervisory Authority, the Authority must consult with the Deutsche Bundesbank before it issues general regulations (*Verordnungen*) and must obtain the consent of the Deutsche Bundesbank if the regulations affect the Deutsche Bundesbank as, for example, in the case of regulations affecting capital adequacy and liquidity requirements. The Deutsche Bundesbank is responsible for organizing the collection and analysis of the periodic and other reports from the banks. The task of analyzing these reports of a bank is performed by the regional office (*Landeszentralbank*) of the Deutsche Bundesbank responsible for the state in which such bank has its head office.

In pursuing its monetary policy, the Deutsche Bundesbank determines the discount rate for rediscounting bills of exchange and establishes volume ceilings for rediscounts by each bank. Moreover, the Deutsche Bundesbank determines for all banks certain minimum reserve requirements that must be deposited with the Deutsche Bundesbank. Such minimum reserves must equal a percentage of certain deposits, borrowed funds and other liabilities, in certain cases, with an original maturity of less than four years, and, in other cases, with an original maturity of less than two years. Liabilities to banks that are themselves subject to minimum reserve requirements, and all liabilities with an original maturity of four years or more, are exempt. Since August 1, 1995, the reserve ratios for both sight and time liabilities are 2%, whereas the reserve ratios for savings deposits are 1.5%. These reserve ratios apply to residents and non-residents alike.

Regulation by the German Supervisory Authority for Securities Trading

The Securities Trading Act, which became effective on January 1, 1995, consists of five principal parts: the creation of a new federal agency, the German Supervisory Authority for Securities Trading; insider trading legislation; requirements for public disclosure of important corporate events of, and changes in participations in, exchange-listed corporations; rules of conduct for banks and securities firms; and provisions on criminal sanctions and administrative fines.

To enable the German Supervisory Authority for Securities Trading to carry out its supervisory functions, the German banks and the other institutions that are members of a German stock exchange are subject to comprehensive reporting requirements with respect to all transactions in securities and derivatives that are listed or traded on an exchange or other organized market in Germany or another member country of the European Union. The reporting obligation applies to transactions for a bank's own account as well as for the account of its customers.

The Securities Trading Act also introduced so-called "Rules of Conduct" for banks and securities firms. These Rules of Conduct apply to all investment services firms, *i.e.*, firms engaged in the purchase and sale of securities or derivatives for others or the intermediation of transactions in securities or derivatives. In practice, the Rules of Conduct therefore apply principally to the German banks. The German Supervisory Authority for Securities Trading has broad powers to investigate investment services firms with a view to monitoring compliance with the Rules of Conduct. A breach of the Rules of Conduct can result in administrative fines of up to DM 3 million. The Securities Trading Act provides for an annual examination by the German Supervisory Authority for Securities Trading of a bank's compliance with the obligations under the Securities Trading Act. Such examination is conducted together with, and by the same independent public auditors designated by the German Banking Supervisory Authority for, a banks's examination under the German Depository Act. See "Audits and Financial Statements".

Supervision Under the State Law of Rheinland-Pfalz

Pursuant to the Savings Bank Act of Rheinland-Pfalz, the Landesbank is subject to supervision by the Rheinland-Pfalz State Ministry. The State Ministry is entitled to request information, undertake audits, send representatives to the Supervisory Board meetings, request that such meetings be called and rescind unlawful resolutions and other actions of the Supervisory Board or the Managing Board. Furthermore, the State Ministry may order the Landesbank to perform legally required actions and, if the Landesbank does not comply with such demand or order, the State Ministry may itself take such action.

Audits and Financial Statements

The Landesbank's unconsolidated and consolidated financial statements are prepared in accordance with the German Banking Act, the German Commercial Code (*Handelsgesetzbuch*) and, since the beginning of 1993, the Regulation on Accounting by Credit Institutions of February 10, 1992 (*Verordnung über die Rechnungslegung der Kreditinstitute*). The Regulation which mandates a uniform format for the presentation of financial statements for all banks reflects the EU Council Directive of 8 December 1986 on annual accounts and consolidated accounts of banks and other financial institutions and the German implementing law, the Bank Accounting Directive Act of 1990 (*Bankenbilanzrichtlinien-Gesetz*). The accounting principles set forth in the above statutes are referred to herein as German generally accepted accounting principles ("German GAAP"). See "Summary of Material Differences between Generally Accepted German and United States Accounting Principles".

Under German law, the Landesbank itself and its consolidated group must both be audited annually by an independent public auditor (*Wirtschaftsprüfer*) appointed annually by the Guarantors of the Landesbank.

The German Banking Supervisory Authority must be informed of and may reject such appointment. The independent public auditors are required to prepare annually a very detailed and comprehensive long-form audit report (*Prüfungsbericht*) which is submitted to the Supervisory Board and the Meeting of the Guarantors of the Landesbank, the German Banking Supervisory Authority and the Deutsche Bundesbank. The contents of the report are prescribed in a regulation issued by the German Banking Supervisory Authority. In particular, the auditors must confirm that the bank has complied with: (i) the regulatory reporting requirements; (ii) the large credit limitations; (iii) the limitations on extension of credit to related companies; (iv) the Principles (described above) in relation to capital adequacy and liquidity requirements; and (v) regulations concerning the prudent granting of credit. The audit report must also discuss in detail certain large or important loans, confirm compliance with certain provisions of the German Banking Act, match assets and liabilities bearing interest at fixed rates according to maturity and assets and liabilities bearing interest at floating rates according to interest periods, and explain the effect of a change in interest rates on the unmatched portion of such assets and liabilities, respectively.

In addition, each year an independent public auditor designated by the German Banking Supervisory Authority must conduct an examination of any bank, such as the Landesbank, that acts as depositary for customers' securities under the German Depositary Act (*Depotgesetz*). The examination is made in accordance with the Depositary Act and certifies that the securities are kept in safekeeping for such customers.

Deposit Protection

Although Germany does not have a mandatory deposit insurance system, the German banking system provides for certain voluntary means of protecting creditors and depositors. Private sector commercial banks, credit institutions organized under public law and credit cooperative institutions each have their own system of deposit protection. The savings banks in Germany have formed a deposit protection system, adopted in 1969 and amended in 1975, which is organized as a mutual system consisting of 12 regional funds for mutual financial assistance on a regional basis (*Sparkassenstützungsfonds*). In addition, all Landesbanken have formed a separate fund (*Sicherungsreserve*) for the mutual financial assistance of all Landesbanken in Germany. The *Sparkassenstützungsfonds* and *Sicherungsreserve* are interrelated so that if any one fund has exhausted its resources, the other funds will be used to make up for any deficiency. This deposit protection system for the savings banks and Landesbanken exists in addition to the Maintenance Obligation and the Guaranty Obligation (see "Liability for the Obligations of the Landesbank") and enables these institutions to rely on self-help rather than on the financial support of their respective maintenance or guaranty obligors. Customers do not have a direct claim against the *Sparkassenstützungsfonds* or the *Sicherungsreserve*. Any payment out of those funds is voluntary and based on the discretion of their managing bodies. The *Sicherungsreserve* is financed by annual contributions of each member institution in an amount equal to 0.1% of all the deposits of non-bank customers with such member institution. The *Sicherungsreserve* is eventually scheduled to contain cash equal to 0.5% of the member institutions' aggregate amount of non-bank deposits. Member institutions may be required to add a further 0.5% of that aggregate amount to provide additional coverage as needed. Deposits made with branches of Landesbanken established outside of Germany are not excluded from insurance coverage. The term "deposit" for the purposes of the *Sicherungsreserve* does not include registered debt securities and customer deposits with the Group's Building and Loan Association division (LBS).

The obligations of the Landesbank under the Global Bonds are not covered by the funds referred to above.

In addition, depositors and other creditors of German banks are afforded the protection offered by the *Liquiditäts-Konsortialbank GmbH* ("LIKO"), a bank formed by the German federal government in 1974 in order to provide funding for any German bank which experiences liquidity problems. The shares in LIKO are owned by the Deutsche Bundesbank (30%) and all German banks and banking associations. The shareholders have contributed capital to LIKO in the amount of DM 372.0 million. The Landesbank's participation is DM 5.1 million (1.4%). Furthermore, each shareholder is obligated to contribute additional capital to LIKO as the need arises. The Landesbank's maximum share of such possible additional contribution is

DM 25.7 million. As a member of the German Savings Bank and Giro Association (*Deutscher Sparkassen und Giroverband*, "DSGV"), which itself is a shareholder in LIKO, the Landesbank is jointly and severally liable with the other members of DSGV for DSGV's maximum possible additional capital contribution of DM 371.6 million.

Regulation of the Savings Banks and Westdeutsche ImmobilienBank

The same regulatory scheme applicable to the Landesbank also applies to the savings banks and to Westdeutsche ImmobilienBank, WestLB and SüdwestLB.

ESTABLISHING ENTITIES

The Landesbank is directly controlled by (i) the Savings Bank and Clearing Association of Rheinland Pfalz (*Sparkassen- und Giroverband Rheinland-Pfalz*), which has contributed 50% of the Landesbank's subscribed capital, (ii) Westdeutsche Landesbank Girozentrale ("WestLB"), which has contributed 37.5% of the Landesbank's subscribed capital, and (iii) Südwestdeutsche Landesbank Girozentrale ("SüdwestLB"), which has contributed 12.5% of the Landesbank's subscribed capital. The Landesbank was established in 1958 by the State of Rheinland-Pfalz and the Savings Bank and Clearing Association, but effective January 1, 1993 the state transferred its interests in the capital of the Landesbank to WestLB and SüdwestLB as authorized by Section 26(3) of the Rheinland-Pfalz Savings Bank Act. WestLB and SüdwestLB can transfer their interest in the capital of the Landesbank only to another public law entity and with the consent of the State of Rheinland-Pfalz.

WestLB

WestLB is a public law institution (*rechtsfähige Anstalt des öffentlichen Rechts*) established pursuant to a statute of Nordrhein-Westfalen, a state of the Federal Republic of Germany. WestLB is directly controlled by (i) the State of Nordrhein-Westfalen, which has contributed 43.2% of WestLB's subscribed capital, (ii) the Regional Authority of Rheinland (*Landschaftsverband Rheinland*) and the Regional Authority of Westfalen-Lippe (*Landschaftsverband Westfalen-Lippe*) (collectively, the "Regional Authorities"), each of which has contributed 11.7% of WestLB's subscribed capital and (iii) the Savings Bank and Clearing Association of Rheinland (*Rheinischer Sparkassen- und Giroverband*) and the Savings Bank and Clearing Association of Westfalen-Lippe (*Westfälisch-Lippischer Sparkassen- und Giroverband*), each of which has contributed 16.7% of WestLB's subscribed capital.

WestLB serves as the state bank to the State of Nordrhein-Westfalen, and as the central and clearing bank for the savings banks located in Nordrhein-Westfalen. As a German universal bank, WestLB provides commercial and investment banking services regionally, nationally and internationally to businesses, banking institutions, governments and their public authorities and individuals. As measured by assets, WestLB is the largest of the 12 German Landesbanken and the third largest bank in Germany. At December 31, 1995, WestLB had total consolidated assets of approximately DM 429 billion.

SüdwestLB

SüdwestLB is a public law institution (*rechtsfähige Anstalt des öffentlichen Rechts*) established pursuant to a statute of Baden-Württemberg, a state of the Federal Republic of Germany. SüdwestLB is directly controlled by (i) the Savings Bank and Clearing Association of Württemberg (*Württembergischer Sparkassen- und Giroverband*), the members of which have contributed 70% of SüdwestLB's subscribed capital and (ii) the Savings Bank and Clearing Association of Baden (*Badischer Sparkassen- und Giroverband*), the members of which have contributed 30% of SüdwestLB's subscribed capital. The proportionate contribution to SüdwestLB by each savings bank in Baden-Württemberg is determined in accordance with the ordinance of SüdwestLB and the ordinances of the savings bank associations. Savings banks may not transfer their interests in SüdwestLB except to other savings banks.

SüdwestLB serves as the central and clearing bank for the savings banks located in Baden-Württemberg. As a German universal bank, SüdwestLB provides commercial and investment banking services regionally, nationally and internationally to businesses, other banking institutions, governments and their public authorities and individuals. As measured by assets, SüdwestLB is the third largest of the German Landesbanken and the twelfth largest bank in Germany. At December 31, 1995, SüdwestLB had total consolidated assets of approximately DM 168 billion.

In January 1998, the Savings and Clearing Associations of Baden and Württemberg, the State of Baden-Württemberg and the City of Stuttgart have agreed in principle upon the merger of Südwestdeutsche Landesbank, Landeskreditbank Baden-Württemberg and Landesgirokasse Stuttgart as of January 1, 1999 to establish as a public law institution, Landesbank Baden-Württemberg. The new institution is intended to function as universal bank, central savings bank, state development agency and savings bank in Stuttgart as well as a national and international commercial bank. Based on the audited 1996 financial statements of the respective banks to be merged, the new Landesbank will have total assets of approximately DM 380 billion, and based on the unaudited 1997 financial statements it will have total assets of approximately DM 430 billion, a total equity of about DM 14 billion and over 9,000 employees. The merger is subject to the approval of the competent committees and bodies, in particular the state parliament (*Landtag*), the association meetings of the two savings bank associations and of the city council of the City of Stuttgart. The precise terms of the merger have yet to be settled and are currently under discussion. The proposed merger, if completed, will not adversely affect the governmental support of SüdwestLB by virtue of the Guarantee Obligation (*Gewährträgerhaftung*) and the Maintenance Obligation (*Anstaltslast*) (see "Liability For The Obligations Of The Landesbank").

The Savings Banks and their Associations

All savings banks in Rheinland-Pfalz, Nordrhein-Westfalen and Baden-Württemberg are public law institutions (*rechtsfähige Anstalten des öffentlichen Rechts*) organized and maintained by city counties (*kreisfreie Städte* in Rheinland-Pfalz and Nordrhein-Westfalen, *Stadtkreise* in Baden-Württemberg), rural counties (*Landkreise* in Rheinland-Pfalz and Baden-Württemberg and *Kreise* in Nordrhein-Westfalen), municipalities (*Gemeinden*) or municipal special purpose associations (*Zweckverbände*). Such counties, municipalities and municipal special purpose associations are referred to in this Offering Circular as "municipalities and counties". The organization, purpose and legal structure of the savings banks is governed by the savings bank acts of the state in which they are located and the savings banks are subject to regulation and supervision of the German Banking Supervisory Authority in the same way as all other German financial institutions. See "Regulation and Supervision of the Landesbank". In addition, the establishment, dissolution and merger of a savings bank requires the approval of the appropriate authorities of the state in which it is located, and each savings bank is subject to supervision by such state authorities. According to the respective savings bank acts, the principal purpose of the savings banks is to serve the public interest by providing financial services to the local community and to promote savings. The savings banks are required to operate primarily in their establishing district and to serve the local economy. They provide credit, deposit and investment services to small firms and individuals.

All such savings banks are automatically, by virtue of the respective state savings bank act, members of the savings bank association for their territory. The savings bank associations are public law associations (*Körperschaften des öffentlichen Rechts*) which, pursuant to their respective ordinances and in accordance with the respective savings bank acts, must be established, maintained and supported by the savings banks (*gesetzliche Bestandsgarantie*, statutory maintenance guaranty) and which carry out certain public functions. The savings bank associations are supervised by the appropriate state authorities. Their purposes are, among others, to promote the common interests of the savings banks, to render advice to the savings banks and the state supervisory authorities, to examine the savings banks, to train the employees of the savings banks and to administer the support fund (*Sparkassenstützungsfond*) for the savings banks. See "Regulation and Supervision of the Landesbank — Deposit Protection". Amendments to the ordinances of the savings bank associations require approval of the appropriate state authorities. Since by virtue of the savings bank acts all savings banks are required to be members of the savings bank association for their territory, the law does not permit a dissolution of a savings bank association while any savings bank is in existence in the territory covered by such association.

There were 36 savings banks in Rheinland-Pfalz with 1,184 offices and with combined total assets of DM 74.8 billion as of December 31, 1996. The savings banks in Rheinland-Pfalz accounted for approximately 5% of all deposits held by savings banks in Germany, and within Rheinland-Pfalz, the savings banks accounted for approximately 50% of the market for individual deposits as of December 31, 1996.

There were 143 savings banks in Nordrhein-Westfalen with 3,196 offices and with combined total assets of DM 369.7 billion as of December 31, 1996. The savings banks in Nordrhein-Westfalen accounted for approximately one third of all deposits held by savings banks in Germany, and within Nordrhein-Westfalen, the savings banks accounted for approximately 50% of the market for individual deposits as of December 31, 1996.

There were 83 savings banks in Baden-Württemberg with 3,574 offices and with combined total assets of DM 268.5 billion as of December 31, 1996. Within Baden-Württemberg, the savings banks accounted for approximately 40% of the market for individual deposits as of December 31, 1996.

The Regional Authorities of Nordrhein-Westfalen

The State of Nordrhein-Westfalen is divided into two regions, Rheinland and Westfalen-Lippe. All the municipalities and counties in each region belong to the Regional Authority of such region. The Regional Authorities are responsible for certain welfare and social-related services in the State of Nordrhein Westfalen, such as the distribution of welfare payments directly to recipients, support of the member municipalities and counties in their welfare payment distributions, similar services relating to health care benefits, and ownership and operation of certain hospitals. The Regional Authorities also assume responsibility for the construction and maintenance of certain infrastructure projects.

Municipalities and Counties

For a discussion of the municipalities and counties of Rheinland-Pfalz and Baden-Württemberg, see "The Municipalities and Counties".

LIABILITY FOR THE OBLIGATIONS OF THE LANDESBANK

The Landesbank's solvency and obligations, including the obligations under the Global Bonds, are fully backed jointly and severally by the credit and financial standing of (i) the Savings Bank and Clearing Association of Rheinland-Pfalz, the savings banks in Rheinland-Pfalz, and the municipalities and counties of Rheinland-Pfalz that have established such savings banks, (ii) WestLB, the State of Nordrhein-Westfalen, the Regional Authorities, the Savings Bank and Clearing Association of Rheinland, the Savings Bank and Clearing Association of Westfalen-Lippe, the savings banks in Nordrhein-Westfalen, and the municipalities and counties of Nordrhein-Westfalen that have established such savings banks and (iii) SüdwestLB, the Savings Banks and Clearing Association of Württemberg, the Savings Banks and Clearing Association of Baden, the savings banks in Baden-Württemberg, and the municipalities and counties of Baden-Württemberg that have established such savings banks. Also, as described below, the States of Rheinland-Pfalz and Baden-Württemberg are each subject to a constitutional duty to provide financial support to the municipalities and counties of their state.

Two fundamental principles of German administrative law are relevant in this regard, namely *Anstaltslast* (the "Maintenance Obligation") and *Gewährträgerhaftung* (the "Guaranty Obligation").

Guaranty Obligation

The principle of Guaranty Obligation (*Gewährträgerhaftung*) is always based on an express provision in a statute. It means that the establishing and sponsoring entity (the "statutory guarantor") of a public law institution, in particular a public law credit institution such as the Landesbank, WestLB, SüdwestLB or a savings bank, is without any restriction directly liable to the creditors of the public law institution for all liabilities of such institution, provided, however, that the creditors may assert their claims against the statutory guarantor only if and to the extent that such claims have not been satisfied out of the institution's assets. The insufficiency of assets of the institution to satisfy the claims of creditors must be established by litigation or otherwise. In litigation against the statutory guarantor, a creditor could prove the insufficiency of the assets of an institution, such as the Landesbank, WestLB, SüdwestLB or a savings bank, by, among other ways, unsuccessfully attempting to enforce a judgment against such institution. The Guaranty Obligation is unlimited in amount, not subject to any defenses other than those arising out of the relation between the creditor and the institution, and covers any and all obligations of the institution arising out of the conduct of its business. See chart on Maintenance and Guaranty Obligation.

Maintenance Obligation

The principle of Maintenance Obligation (*Anstaltslast*) is occasionally codified in statutes, but often applies as an uncodified rule of law. It means, in general terms, that the public entity which has established and sponsored a public law institution (*Anstalt des öffentlichen Rechts*), in particular a public law credit institution such as the Landesbank, WestLB, SüdwestLB or a savings bank, is required under law to maintain the economic viability of such institution and to keep it in a position to perform its functions and to enable it, through the allocation of liquid funds or by other appropriate means, to perform its obligations when due. The Maintenance Obligation constitutes (i) an obligation to ensure the solvency of the institution, inasmuch as the principle encompasses an obligation of the establishing and sponsoring entity to compensate any shortfall by which the liabilities of the institution exceed its assets and (ii) an obligation to ensure the liquidity of the institution, inasmuch as the principle includes the obligation of the establishing and sponsoring entity to provide any liquidity to the institution necessary to meet its obligations as they come due.

The Maintenance Obligation is an obligation of the establishing and sponsoring entity to the public law institution itself, and not to third party creditors of the institution. In case there are more than one establishing and sponsoring entities, they are subject to the Maintenance Obligation jointly and severally.

A public entity, such as a savings bank, which has constituted a public law association (*Körperschaften des öffentlichen Rechts*), such as a savings bank association, is also required under law to maintain the economic viability of such association, to keep it in a position to perform its functions and to enable it to perform its obligations as they come due. This maintenance obligation of the constituting body to the association is equivalent in nature to the principle of *Anstaltslast*. See chart on Maintenance and Guaranty Obligation.

Effect of Guaranty Obligation and Maintenance Obligation

The Maintenance Obligations and the Guaranty Obligations of a state and of the municipalities and counties of a state that have established savings banks constitute a claim on public funds that, as legally established obligations, would be payable without the need for any appropriation or other action by a legislative assembly. Under German law, the Guaranty Obligation and the economic effect of the Maintenance Obligation for outstanding obligations, including the Global Bonds, cannot be abrogated with retroactive effect by any event or legislative action occurring after the incurrence of such obligations.

No claim under the Guaranty Obligation in favor of the creditors of a German Landesbank has ever been made because the existence of the Maintenance Obligation prevents the occurrence of any situation in which a creditor of a Landesbank could have a claim under the Guaranty Obligation.

The following chart gives a graphic overview of the manner in which the public law entities are directly or indirectly liable to the Landesbank under the Maintenance Obligation and to creditors of the Landesbank under the Guaranty Obligation.

Responsibility of the Savings Bank and Clearing Association of Rheinland-Pfalz, WestLB and SüdwestLB for the Landesbank

The Savings Bank and Clearing Association of Rheinland-Pfalz, being a public law entity having established and sponsored the Landesbank, is responsible to the Landesbank under the Maintenance Obligation. This responsibility is explicitly provided for by Section 26(2) of the Rheinland-Pfalz Savings Bank Act. Similarly, the Savings Bank and Clearing Association of Rheinland-Pfalz is the statutory guarantor of the Landesbank under the Guaranty Obligation pursuant to Section 26 (2) of the Rheinland-Pfalz Savings Bank Act.

In addition to the Savings Bank and Clearing Association of Rheinland-Pfalz, since July 4, 1994, WestLB and SüdwestLB are responsible to the Landesbank under the Maintenance Obligation and are guarantors under the Guaranty Obligation pursuant to Section 26(3) of the Rheinland-Pfalz Savings Bank Act and the agreement with the State of Rheinland-Pfalz pursuant to which they acquired the state's interest in the capital of the Landesbank. The Savings Bank and Clearing Association, WestLB and SüdwestLB are jointly and severally liable under the Guaranty Obligation and the Maintenance Obligation. The State of Rheinland-Pfalz is still directly liable under the Guaranty Obligation to the creditors of the Landesbank for all liabilities incurred before July 4, 1994.

Responsibility for the Savings Bank and Clearing Association of Rheinland-Pfalz

Responsibility of the Rheinland-Pfalz Savings Banks for their Association

The obligations of the Savings Bank and Clearing Association of Rheinland-Pfalz under its Maintenance Obligation and Guaranty Obligation in respect of the Landesbank are in turn fully backed by the savings banks in Rheinland-Pfalz. Pursuant to Sections 5(2) and 7 of the Ordinance of the Savings Bank and Clearing Association of Rheinland-Pfalz, the savings banks in Rheinland-Pfalz are required to provide to the Savings Bank and Clearing Association the funds necessary for it to meet its Maintenance Obligation and Guaranty Obligation in respect of the Landesbank, in a proportion based on a formula relating to the liabilities of the savings banks and determined from time to time by the Savings Bank and Clearing Association. Such obligation of the savings banks is equivalent in nature to the principle of the Maintenance Obligation. If a savings bank does not meet its obligation as so established, the other savings banks are obligated to bear the shortfall on a proportionate basis.

Responsibility of the Rheinland-Pfalz Municipalities and Counties for their Savings Banks

The obligations described above of each savings bank to the Savings Bank and Clearing Association are in turn fully backed pursuant to Section 3 of the Rheinland-Pfalz Savings Bank Act by the Maintenance Obligation and the Guaranty Obligation of the municipality and county that has established and sponsored such savings bank.

In sum, the solvency and liquidity of the Landesbank and the obligations of the Landesbank to its creditors are supported by the Savings Bank and Clearing Association of Rheinland-Pfalz, all savings banks in Rheinland-Pfalz, and all municipalities and counties in Rheinland-Pfalz that have established and sponsored such savings banks. Consequently, the credit of the Landesbank is, as a matter of law, fully backed by the credit of all such municipalities and counties in Rheinland-Pfalz.

The Constitutional Duty of Rheinland-Pfalz to the Rheinland-Pfalz Municipalities and Counties

Article 28 of the German Constitution and Article 49(1) and (2) of the constitution of Rheinland-Pfalz grant municipalities and counties the right of self-government, which includes the power to establish savings banks. Furthermore, Article 49(5) of the state constitution provides that the state must ensure that its municipalities and counties are able to perform their functions. Each municipality and county has an enforceable constitutional right that Rheinland-Pfalz exercise proper judgment in carrying out its duty under Article 49(5).

Rheinland-Pfalz's obligations under Article 49(5) are carried out mainly through the provisions of the revenue equalization system within Rheinland-Pfalz. Moreover, the state statute on revenue equalization specifically provides for a fund for financial assistance to any municipality or county within the state in the event that its revenue resources are not sufficient to meet its minimum mandatory expenditures. Municipal special purpose associations benefit from Article 49(5) by virtue of the fact that they are established and supported by municipalities or counties. See "The Municipalities and Counties — Revenue Equalization".

Responsibility for SüdwestLB

Responsibility of the Savings Bank Associations for SüdwestLB

The two savings bank associations of Baden-Württemberg, being the public law entities having established and sponsored SüdwestLB, are jointly and severally responsible to SüdwestLB under the Maintenance Obligation. This responsibility of the savings bank associations is explicitly provided for by Section 42(3) of the Baden-Württemberg Savings Bank Act. Similarly, the savings bank associations are the joint and several statutory guarantors of SüdwestLB under the Guaranty Obligation pursuant to Section 42(1) of the Baden-Württemberg Savings Bank Act and Section 2 of the Ordinance of SüdwestLB.

Responsibility of the Baden-Württemberg Savings Banks for their Savings Bank Associations

The obligations of the two savings bank associations of Baden-Württemberg under their Maintenance Obligations and Guaranty Obligations in respect of SüdwestLB are in turn fully backed by the savings banks in Baden-Württemberg. Pursuant to Section 6(2) of the Ordinance of the Savings Bank and Clearing Association of Baden and Section 4(2) of the Ordinance of the Savings Bank and Clearing Association of Württemberg, and in accordance with the provisions of the Baden-Württemberg Savings Bank Act, the savings banks in Baden-Württemberg are required to provide to their respective savings bank association the funds necessary for it to meet its Maintenance Obligations and Guaranty Obligation in respect of SüdwestLB, in a proportion based on a formula relating to the liabilities of the savings banks and determined from time to time by the respective savings bank association. Such obligation of the savings banks is equivalent in nature to the principle of the Maintenance Obligation. If a savings bank does not meet its obligation as so established, the other savings banks are obligated to bear the shortfall on a proportionate basis.

Responsibility of the Baden-Württemberg Municipalities and Counties for their Savings Banks

The obligations described above of each savings bank to its respective savings bank association are in turn fully backed pursuant to Section 8 of the Baden-Württemberg Savings Bank Act by the Maintenance Obligation and the Guaranty Obligation of the municipality or county that has established and sponsored such savings bank.

In sum, the solvency and liquidity of SüdwestLB and the obligations of SüdwestLB to its creditors, including the Maintenance Obligation in favor of the Landesbank and the Guaranty Obligation in favor of creditors of the Landesbank, are supported by the savings bank associations in Baden-Württemberg, all savings banks in Baden-Württemberg, and all municipalities and counties that have established and sponsored such savings banks.

The Constitutional Duty of Baden-Württemberg to the Baden-Württemberg Municipalities and Counties

Article 28 of the German Constitution and Article 71 of the constitution of Baden-Württemberg grant municipalities and counties the right of self-government, which includes the power to establish savings banks. Furthermore, Article 73(1) of the state constitution provides that the state must ensure that its municipalities and counties are able to perform their functions. Each municipality and county has an enforceable right in law that Baden-Württemberg exercises proper judgment in carrying out its duty under Article 73(1).

Article 73(3) of the state constitution provides that municipalities and counties share in the tax revenues of the state. Baden-Württemberg's obligations under Article 73(3) are carried out mainly through the provisions of the revenue equalization system within Baden-Württemberg. Moreover, the state statute on revenue equalization specifically provides for a fund for financial assistance to any municipality or county within the state in the event that, among other things, a budget deficit cannot be met, even though reasonable use of the municipality's or county's revenue resources has been made and proper financial administration has been employed. Municipal special purpose associations benefit from Article 73(3) by virtue of the fact that they are established and supported by municipalities or counties. See "The Municipalities and Counties — Revenue Equalization".

Responsibility for WestLB

The State of Nordrhein-Westfalen, and the two savings bank associations and the Regional Authorities of Nordrhein-Westfalen (see "Establishing Entities — The Regional Authorities of Nordrhein-Westfalen"), having established and sponsored WestLB, are jointly and severally responsible to WestLB under the Maintenance Obligation. This responsibility is explicitly provided for by Section 39(3) of the Nordrhein-Westfalen Savings Bank Act. Similarly, the State of Nordrhein-Westfalen, the savings bank associations and the Regional Authorities are joint and several guarantors of WestLB under the Guaranty Obligation pursuant to Section 39(3) of the Nordrhein-Westfalen Savings Bank Act and Section 5 of the Ordinance of WestLB.

Responsibility of the Savings Banks in Nordrhein-Westfalen for their Savings Bank Associations

The obligations of the two savings bank associations of Nordrhein-Westfalen under their Maintenance Obligations and Guaranty Obligations in respect of WestLB are in turn fully backed by the savings banks in Nordrhein-Westfalen. Pursuant to Section 23 of the Ordinance of the Savings Bank and Clearing Association of Rheinland and Section 24 of the Ordinance of the Savings Bank and Clearing Association of Westfalen-Lippe and in accordance with the provisions of the Nordrhein-Westfalen Savings Bank Act, the savings banks in Nordrhein-Westfalen are required to provide to their respective savings bank association the funds necessary for it to meet its Maintenance Obligation and Guaranty Obligations in respect of WestLB, in a proportion based on a formula relating to the liabilities of the savings bank and determined from time to time by the respective savings bank association. Such obligation of the savings banks is equivalent in nature to the principle of the Maintenance Obligation. If a savings bank does not meet its obligation as so established, the other savings banks are obligated to bear the shortfall on a proportionate basis.

Responsibility of the Municipalities and Counties of Nordrhein-Westfalen for their Savings Banks

The obligations described above of each savings bank to its respective savings bank association are in turn fully backed pursuant to Section 6 of the Nordrhein-Westfalen Savings Bank Act by the Maintenance Obligation and the Guaranty Obligation of the municipality or county that has established and sponsored such savings bank.

In sum, the solvency and liquidity of WestLB and the obligations of WestLB to its creditors, including the Maintenance Obligation in favor of the Landesbank and the Guaranty Obligation in favor of the creditors of the Landesbank, are supported by the savings bank associations in Nordrhein-Westfalen, all savings banks in Nordrhein-Westfalen, all municipalities and counties in Nordrhein-Westfalen that have established and sponsored maintaining such savings banks and the two Regional Authorities in Nordrhein-Westfalen, in addition to the joint and several support by the State of Nordrhein-Westfalen itself.

Summary

A creditor of the Landesbank, such as a holder of Global Notes, directly benefits from the Guaranty Obligation of the Savings Bank and Clearing Association of Rheinland-Pfalz, WestLB and SüdwestLB and indirectly benefits from the Maintenance Obligation of such entities in favor of the Landesbank and the Maintenance Obligation of other entities which directly or indirectly benefit the Savings Bank and Clearing Association, WestLB or SüdwestLB.

Revenue Equalization

In order to provide the municipalities and counties with sufficient funds to carry out their public functions, Rheinland-Pfalz and Baden-Württemberg have established fiscal-equalization funds (*Finanzausgleichsmassen*) pursuant to the Finance Equalization Act of Rheinland-Pfalz and the Finance Equalization Act of Baden-Württemberg, respectively.

In Rheinland-Pfalz, the state provides the fiscal-equalization fund with 20.25% of the state portion of personal income tax, corporate income tax, turnover tax, automobile tax, property tax and allocations from revenue equalization on the federal level. In Baden-Württemberg, the state provides the fiscal-equalization fund with 23% of the state portion of income tax, corporate income tax, turnover tax and trade tax after deduction of DM 840 million. Furthermore, the Finance Equalization Acts require all the municipalities and counties to contribute a percentage of their tax revenue (*Finanzausgleichsumlage*) into the fiscal-equalization funds. The fiscal-equalization fund in Rheinland-Pfalz was funded with DM 2,680 million in 1993, DM 2,621 million in 1994, DM 2,834 million in 1995 and DM 2,799 million in 1996 and the fiscal-equalization fund in Baden-Württemberg was funded with DM 3,605 million in 1994, DM 3,721 million in 1995 and DM 3,597 in 1996.

The revenue collected in such fiscal-equalization funds is distributed by the states of Rheinland-Pfalz and Baden-Württemberg to their municipalities and counties.

The following tables set forth revenues of the municipalities and counties in Rheinland-Pfalz and Baden-Württemberg for each of the years indicated:

Revenues of the Municipalities and Counties in Rheinland-Pfalz

	Year ended December 31,		
	1996	**1995**	**1994**
	(in millions of DM)		
Operating revenue			
Real estate taxes	870	828	835
Business taxes	1,698	1,466	1,590
Municipalities' share of income tax	2,053	2.078	2,167
Other taxes(1)	78	75	73
Fees	1,770	1,782	1,788
Other operating revenue	6,873	6,632	6,121
Intergovernmental payments(2)	(2,885)	(2,914)	(2,738)
Total operating revenue (net)	10,456	9,947	9,835
Capital investment revenue			
Assignments and assessments(3)	1,215	1,151	1,180
Sales of assets	492	518	488
Other investment revenue	36	31	29
Intergovernmental payments(2)	(89)	(96)	(136)
Total capital investment revenue	1,653	1,605	1,561
Total revenues (net)	12,109	11,551	11,396
Special financing operations(4)	839	918	1,020

(1) Includes entertainment, dog, secondary residence, hunting and fishing and residency taxes.

(2) Payments between municipalities and counties in Rheinland-Pfalz, subtracted to eliminate double counting.

(3) Includes redistributions from the fiscal-equalization fund, financial subsidies and other payments from programs administered by the state and federal governments.

(4) Includes, principally borrowings from the capital market and withdrawal of reserves.

Source: Statistisches Landesamt Rheinland-Pfalz, Statistische Berichte. LII2-vj 4/96, LII2-vj 4/95.

Revenues of the Municipalities and Counties in Baden-Württemberg

	Year ended December 31, 1996	1995	1994
	(in millions of DM)		
Operating revenue			
Real estate taxes	2,003	1,870	1,699
Business taxes	5,331	4,684	5,496
Municipalities' share of income tax	6,154	6,459	6,554
Other taxes(1)	178	176	166
Fees	4,262	4,605	4,902
Other operating revenue	21,149	20,495	19,843
Intergovernmental payments(2)	(5,907)	(5,796)	(5,307)
Total operating revenue (net)	33,170	32,493	33,353
Capital investment revenue			
Allocation of funds from the State	1,511	1,261	1,349
Borrowing from municipal authorities	231	21	19
Other investment revenue	3,471	3,569	3,809
Intergovernmental payments(2)	(93)	(65)	(76)
Total capital investment revenue	5,121	4,786	5,101
Total revenues (net)	38,291	37,279	38,453
Special financing operations(3)	50	1,299	71

(1) Includes entertainment, dog, secondary residence, hunting and fishing and residency taxes.

(2) Payments between municipalities and counties in Baden-Württemberg, subtracted to eliminate double counting.

(3) Includes principally borrowings from the capital market and withdrawal of reserves.

Source: Statistisches Landesamt Baden-Württemberg, Statistische Berichte, LII2-j/96, LII2-j/95, LII2-j/94.

Expenditures; Financial Planning

In accordance with Section 95 of the Municipality Act of Rheinland-Pfalz (*Rheinland-Pfälzische Gemeindeordnung*), Section 57 of the County Act of Rheinland-Pfalz (*Landkreisordnung Rheinland-Pfalz*), Section 79 of the Municipality Act of Baden-Württemberg (*Baden-Württembergische Gemeindeordnung*) and Section 48 of the County Act of Baden-Württemberg (*Landkreisordnung Baden-Württemberg*), respectively, the municipalities and counties are required to enact a budget ordinance for each fiscal year. The ordinance must contain a budget plan which states the anticipated revenues and expenditures necessary to carry out the public functions of the municipalities and counties. The municipalities and counties must base their budgets on five-year financial plans which state anticipated expenditures and specify which revenues will finance such expenditures. The basis for the financial plans is an investment program which has to be submitted to the municipal government together with each budget ordinance. Until the end of the fiscal year the budget ordinance can be changed by a supplemental ordinance. The municipalities and counties are obligated to enact a supplemental ordinance if it appears that (i) a substantial budget deficiency will occur which cannot be avoided by other measures, (ii) in relation to the total budget, substantial non-budgeted expenditures for existing budget items must be made or (iii) the municipality or county intends to undertake investments which have not been budgeted. Expenditures which exceed the budget plan (set forth in the ordinance and any supplemental ordinance) can only be made if (i) there is an urgent requirement and there is sufficient revenue to cover such expenditures or (ii) such expenditures are unavoidable and will not result in a substantial deficiency.

The following tables set forth the expenditures for the municipalities and counties in Rheinland-Pfalz and Baden-Württemberg for each of the years indicated:

Expenditures of the Municipalities and Counties in Rheinland-Pfalz

	Year ended December 31,		
	1996	1995	1994
	(in millions of DM)		
Operating expenditures			
Personnel expenditures	3,336	3,239	3,133
Expenditures on materials	1,980	1,942	1,976
Assignments and assessments(1)	6,944	6,950	6,650
Interest expenditures	585	592	593
Intergovernmental payments(2)	(2,885)	(2,914)	(2,738)
Total operating expenditures (net)	9,960	9,808	9,615
Capital investment expenditures			
Investments in buildings	1,737	1,818	1,850
Investment in capital assets	495	456	472
Assignments and assessments for investments(1)	220	274	331
Other investment expenditures	53	80	107
Intergovernmental payments(2)	(89)	(96)	(136)
Total capital investment expenditures	2,415	2,532	2,623
Total expenditures (net)	12,375	12,341	12,238
Special financing operations	1,115	1,037	823
Debt retirements in capital market	420	401	397
Allocations of reserves	224	293	289

(1) Includes payments to municipal special purpose associations and to municipal enterprises.

(2) Payments between municipalities and counties in Rheinland-Pfalz, subtracted to eliminate double counting.

Source: Statistisches Landesamt Rheinland-Pfalz, Statistische Berichte, LII2-vj 4/96, LII2-vj 4/95.

Expenditures of the Municipalities and Counties in Baden-Württemberg

	Year ended December 31,		
	1996	1995	1994
	(in millions of DM)		
Operating expenditures			
Personnel expenditures	9,833	9,796	9,591
Expenditures on materials	6,755	7,045	7,061
Other operating expenditures	18,576	18,260	17,390
Interest expenditures	1,100	1,139	1,194
Intergovernmental payments(1)	(5,907)	(5,796)	(5,307)
Total operating expenditures (net)	30,356	30,444	29,930
Capital investment expenditures			
Investments in buildings	5,145	5,154	5,513
Investment in capital assets	1,607	1,664	1,672
Repayment of debt to municipal authorities	91	92	190
Other investment expenditures	1,235	1,289	1,297
Intergovernmental payments(1)	(93)	(65)	(76)
Total capital investment expenditures	7,985	8,134	8,595
Total expenditures (net)	38,342	38,578	38,524
Special financing operations			
Debt retirements in capital market	1,965	1,639	1,658

(1) Payments between municipalities and counties in Baden-Württemberg, subtracted to eliminate double counting.

Source: Statistisches Landesamt Baden-Württemberg, Statistische Berichte, LII2-j/96, LII2-j/95, LII2-j/94.

Borrowing

In accordance with Section 94(3) of the Municipality Act of Rheinland-Pfalz, Section 58(4) of the County Act of Rheinland-Pfalz, Section 78 of the Municipality Act of Baden-Württemberg and Section 48 of the County Act of Baden-Württemberg, respectively, a municipality or county may not borrow any money unless other means of financing are either unavailable or economically inappropriate. A municipality or county may borrow only under its capital budget and only for investment purposes, to promote investments or for the purpose of refinancing existing debt. The total amount of borrowings of a municipality or county as proposed in a budget must be approved by the state authority supervising the legality of the activities of the municipality or county (*Rechtsaufsichtsbehörde*). A municipality or county may not borrow on a secured basis, except with the approval of such supervising authority. With such approval, a municipality or county may borrow from public institutions or administrative bodies and from German or non-German financial institutions, and it may also raise funds from the issuance of public debt. Companies owned by a municipality or county may also borrow from the same sources.

The Rheinland-Pfalz Act Implementing the Code of Civil Procedure, the Act on Judicial Sales of Real Property and Sequestration and the Bankruptcy Code (*Landesgesetz zur Ausführung der Zivilprozeßordnung, des Gesetzes über die Zwangsversteigerung und die Zwangsverwaltung und der Konkursordnung*) and the Baden-Württemberg Act Implementing the Judiciary Act (*Gesetz zur Ausführung des Gerichtsverfassungsgesetzes*), respectively, provide that the municipalities and counties in Rheinland-Pfalz and Baden-Württemberg cannot be subject to bankruptcy proceedings. The Federal Constitutional Court has upheld the law exempting municipalities and counties from the purview of bankruptcy proceedings.

The following tables set forth the total liabilities of the municipalities and counties in Rheinland-Pfalz and Baden-Württemberg, respectively, other than debt supported by the municipalities and counties under their Maintenance Obligations (*Anstaltslast*) and their Guaranty Obligations (*Gewährträgerhaftung*), for each of the years indicated:

Total Liabilities of the Municipalities and Counties in Rheinland-Pfalz

	Year ended December 31,		
	1996	1995	1994
	(in millions of DM, except per inhabitant)		
Liabilities			
Public debt			
Debts to financial institutions(1)	7,786	7,762	7,597
Debts to public institutions(2)	85	101	90
Debts to foreign institutions	—	—	—
Total liabilities from credit market funds	7,872	7,863	7,687
Total liabilities from credit market funds in DM per inhabitant	1,976	1,985	1,952
Liabilities to public administrations(3)	130	134	136
Total funded liabilities	8,002	7,997	7,823
Total funded liabilities in DM per inhabitant	2,009	2,019	1,987
Liabilities of own companies(4)	6,262	6,105	5,709
Total liabilities	14,264	14,101	13,532
Total liabilities in DM per inhabitant	3,581	3,560	3,436
Guaranties(5)	1,801	1,592	1,424

(1) Includes liabilities to savings banks, clearing banks/regional banks, other credit institutions, building and loan associations, insurance companies and other financial institutions.

(2) Includes liabilities to Federal Railways (*Bundesbahn*), Federal Postal Administration (*Bundespost*), Federal Institution for Labor (*Bundesanstalt für Arbeit*), public supplemental pension institutions (*öffentliche Zusatzversorgungseinrichtungen*) and social insurance institutions (*Sozialversicherungen*).

(3) Includes liabilities to the German federal government and the Burdens Equalization Fund (*Lastenausgleichsfond*), the European Recovery Program (*i.e.*, Marshall Plan), special funds, states, municipalities and counties and special purpose associations.

(4) Includes liabilities of companies owned by municipalities and counties for borrowed funds and for funds received from public administrations.

(5) In addition to the contingent liabilities arising from the guarantied debt shown in the table above, the municipalities and counties are liable under their Maintenance Obligations (*Anstaltslast*) and their Guaranty Obligations (*Gewährträgerhaftung*) with respect to liabilities of certain entities established under public law by municipalities and counties. See "Liability for the Obligations of the Landesbank — Responsibility for the Savings Bank Association of Rheinland-Pfalz — Responsibility of the Rheinland-Pfalz Municipalities and Counties for their Savings Banks".

Source: Statistisches Landesamt Rheinland-Pfalz, Statistische Berichte, LIII1-j/96, LIII1-j/95 p. 1, 2, 4, LIII1-j/94 p. 1, 2, 4.

Total Liabilities of the Municipalities and Counties in Baden-Württemberg

	Year ended December 31,		
	1996	1995	1994
	(in millions of DM, except per inhabitant)		
Liabilities			
Public debt	—	—	—
Debts to financial institutions(1)	15,152	15,393	15,316
Debts to public institutions(2)	808	822	805
Debts to foreign institutions	120	109	79
Total liabilities from credit market funds	16,080	16,323	16,200
Total liabilities from credit market funds in DM per inhabitant	1,555	1,585	1,581
Liabilities to public administrations(3)	1,034	858	944
Total funded liabilities	17,114	17,181	17,144
Total funded liabilities in DM per inhabitant	1,654	1,669	1,673
Liabilities of own companies(4)	6,724	5,443	4,734
Total liabilities	23,838	22,624	21,877
Total liabilities in DM per inhabitant	2,304	2,197	2,135
Guaranties(5)	6,049	6,738	5,515

(1) Includes liabilities to savings banks, clearing banks/regional banks, other credit institutions, building and loan associations, insurance companies and other financial institutions.

(2) Includes liabilities to Federal Railways (*Bundesbahn*), Federal Postal Administration (*Bundespost*), Federal Institution for Labor (*Bundesanstalt für Arbeit*), public supplemental pension institutions (*öffentliche Zusatzversorgungseinrichtungen*) and social insurance institutions (*Sozialversicherungen*).

(3) Includes liabilities to the German federal government and the Burdens Equalization Fund (*Lastenausgleichsfond*), the European Recovery Program (*i.e.*, Marshall Plan), special funds, states, municipalities and counties and special purpose associations.

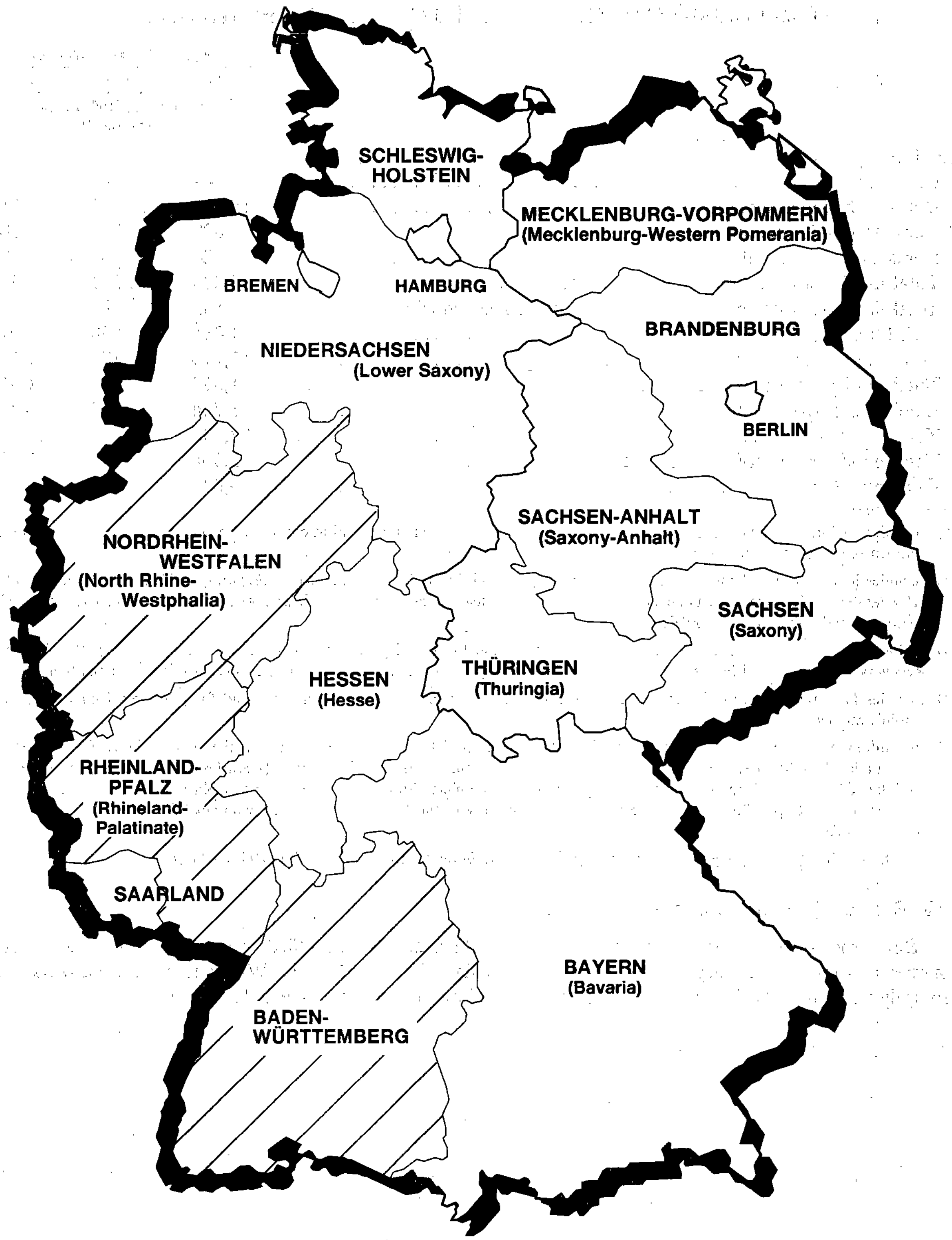
(4) Includes liabilities to companies owned by municipalities and counties for borrowed funds and for funds received from public administrations.

(5) In addition to the contingent liabilities arising from the guaranteed debt shown in the table above, the municipalities and counties are liable under their Maintenance Obligations (*Anstaltslast*) and their Guaranty Obligations (*Gewährträgerhaftung*) with respect to liabilities of certain entities established under public law by municipalities and counties. See "Liability for the Obligations of the Landesbank — Responsibility for SüdwestLB — Responsibility of the Baden-Württemberg Municipalities and Counties for their Savings Banks".

Source: Statistisches Landesamt Baden Württemberg, Statistische Berichte, LIII1-j/96, LIII1-j/95, LIII1-j/94.

Debt Record of the Municipalities and Counties

Since the formation of the states of Rheinland-Pfalz and Baden-Württemberg the municipalities and counties and the special purpose associations in Rheinland-Pfalz and Baden-Württemberg have always paid promptly when due the full amount of the principal of and interest on their indebtedness.



Rheinland-Pfalz, Baden-Württemberg and Nordrhein-Westfalen and the other states of Germany.

THE STATES OF RHEINLAND-PFALZ, NORDRHEIN-WESTFALEN AND BADEN-WÜRTTEMBERG

The States of the Federal Republic of Germany

Rheinland-Pfalz (*Rhineland-Palatinate*), Nordrhein-Westfalen (*North Rhine-Westphalia*) and Baden-Württemberg are three of the 16 states (*Länder*) of the Federal Republic of Germany. Germany was founded on May 24, 1949 when its Constitution, codified in the *Grundgesetz* (the "German Constitution"), took effect. Prior to unification with the former German Democratic Republic (the "GDR" or "East Germany") on October 3, 1990, Germany consisted of 11 states, including Rheinland-Pfalz, Nordrhein-Westfalen and Baden-Württemberg. The other such states were Bayern (*Bavaria*), Berlin, Bremen, Hamburg, Hessen (*Hesse*), Niedersachsen (*Lower Saxony*), the Saarland and Schleswig-Holstein. Upon ratification of the German Unification Treaty (*Einigungsvertrag*), the GDR ceased to exist. In its territory, five new states, Brandenburg, Mecklenburg-Vorpommern (*Mecklenburg-Western Pomerania*), Sachsen (*Saxony*), Sachsen-Anhalt (*Saxony-Anhalt*) and Thüringen (*Thuringia*), were formed and became part of the Federal Republic of Germany. Information with respect to a unified Germany is not yet generally available. References to "western Germany" are references to the territory of the Federal Republic of Germany as it existed prior to German unification in October 1990.

Although the most important areas of legislation today have been delegated by the German Constitution to the German federal government, the legislative, administrative and judicial jurisdiction of the German states, including Rheinland-Pfalz, Nordrhein-Westfalen and Baden-Württemberg, is still considerable. For instance, the educational system, cultural matters and police responsibilities are subject to state legislation. State administrations execute not only state laws but, subject to supervision by federal authorities, also most of the federal laws in Germany. In Germany, the lower courts are state courts, whereas the highest courts of appeal are federal courts.

Rheinland-Pfalz, Nordrhein-Westfalen and Baden-Württemberg, like the other states of Germany, have an elected parliament and an administration headed by a Prime Minister (*Ministerpräsident*) who is elected by the parliament.

Because foreign relations are reserved to the German federal government under Article 32 of the German Constitution, the states do not maintain foreign relations with other countries.

The following table sets forth key data regarding Rheinland-Pfalz, Nordrhein-Westfalen and Baden-Württemberg:

State	Area (in square kilometers)	Area as percentage of Germany's total area	Population in thousands	Population as percentage of Germany's total population	Population (inhabitants per square kilometer)
Rheinland-Pfalz	19,847	5.6	3,978	4.9	200
Nordrhein-Westfalen	34,078	9.5	17,893	21.9	525
Baden-Württemberg	35,753	10.0	10,319	12.6	289

Source: Hessisches Statistisches Landesamt, Hessen unter den Ländern der Bundesrepublik, 1997

Rheinland-Pfalz is the eight-largest state of Germany by population and the ninth-largest by area; Nordrhein-Westfalen is the largest state by population and the fourth-largest by area; Baden-Württemberg is the third-largest state by population and by area.

The parliaments of Rheinland-Pfalz, Nordrhein-Westfalen and Baden-Württemberg currently consist of the following numbers of representatives of five political parties:

State	Next election to be held	Christian Democratic Party (CDU)	Social Democratic Party (SPD)	Free Democratic Party (FDP)	Greens (Bündnis 90/ Die Grünen)	Republicans (Republikaner)
Rheinland-Pfalz	2001	41	43	10	7	—
Nordrhein-Westfalen	2000	89	108	—	24	—
Baden-Württemberg	2000	69	39	14	19	14

Source: Landtag Baden-Württemberg, OECKL, Taschenbuch des öffentlichen Lebens, 1995/96

In Rheinland-Pfalz, the SPD and the FDP and in Nordrhein-Westfalen, the SPD and the Greens, currently form coalition governments. In Baden-Württemberg, the CDU entered into a coalition with the FDP to form the current government.

Economy

General

Rheinland-Pfalz. Rheinland-Pfalz is one of the smaller states in Germany. The major part of Rheinland-Pfalz's economy is based on the activities of small and medium-sized commercial enterprises; however, several well-known companies such as BASF, C.H. Boehringer Sohn, Joh.A. Benckiser GmbH, Schott Glaswerke, Peter Eckes AG, and numerous subsidiaries of foreign companies, such as John Deere, Michelin or Corning Glass, are also located in Rheinland-Pfalz.

Nordrhein-Westfalen. Nordrhein-Westfalen is the most heavily industrialized state in Germany and is one of Europe's largest industrial centers. Several well-known companies, such as Bayer AG, Bertelsmann AG, Henkel KGaA, Fried. Krupp AG, Krupp-Hoesch and Thyssen AG, and the German subsidiaries of Ford Motor Company, General Motors (Opel) and Minnesota Mining and Manufacturing Inc., are located in Nordrhein-Westfalen. Nordrhein-Westfalen's economy has historically been based upon coal and steel production. Recently, however, following major contractions and restructurings of those industries, Nordrhein-Westfalen's industrial base has substantially diversified.

Baden-Württemberg. Baden-Württemberg, one of the most heavily industrialized states in Germany, has one of the strongest economies of all the German states. In terms of gross domestic product and employment, one-half of Baden-Württemberg's economy is based on the activities of small and medium-sized commercial enterprises, many of which are involved in manufacturing and focused on technology, and one-half on large industry. Several well-known companies, such as Daimler-Benz, Porsche, Bosch, IBM Germany, Asea Brown Boveri Germany and Hewlett-Packard Germany, are located in Baden-Württemberg.

As states of Germany, the economies of Rheinland-Pfalz, Nordrhein-Westfalen and Baden-Württemberg must be considered in the context of the economy of Germany. Germany's economic system has developed since 1945 into what has come to be called the social market economy (*soziale Marktwirtschaft*), to be understood as a socially responsible market economy, combining the free initiative of the individual with progressive social principles. The German Constitution, which guaranties freedom of private enterprise and private property, stipulates that these basic rights be exercised for the public good. The state has mainly an administrative function in the market economy, setting the general framework of conditions within which market processes take place. In Germany there is almost no state intervention in setting prices and wages.

Gross domestic product

The German economy is one of the largest in the world. Its gross domestic product (*Bruttoinlandsprodukt*, the "GDP") more than doubled in real terms from 1980 to 1996. The growth in GDP is mainly attributable to a significant increase in productivity. Preliminary statistics for 1996 indicate that commerce and transportation accounted for 13.3% of GDP, services for 36.2% and manufacturing for 32.3% of the GDP. In terms of its economic structure, Germany has a small agricultural base. Agriculture, forestry and fishing accounted for 1.0% of the GDP in 1996.

The proportions of exports and imports of goods and services to the GDP since 1991 have developed as follows:

Contribution of Exports and Imports of Goods and Services to GDP in Germany
(in %)

	1996*	1995*	1994*	1993*	1992
At 1991 prices:					
Exports/GDP	27.0	26.1	25.1	23.9	24.8
Imports/GDP	26.9	26.6	25.5	24.3	25.5

*Preliminary results
Source: Deutsche Bundesbank, Monthly Report, July 1997, table IX.1

The following table shows the GDP of Germany for each of the years indicated:

The GDP of Germany
(in billions of DM)

	1996*	1995*	1994*	1993*	1992
At then current prices	3,541.0	3,457.4	3,320.4	3,158.1	3,075.6
At constant 1991 prices	3,064.6	3,023.4	2,966.2	2,883.6	2,916.4

*Preliminary results
Source: Deutsche Bundesbank, Monthly Report, July 1997, table IX.1.

In the 1980s, balancing of fiscal budgets became a prime political objective and, since 1983, real growth rates have been between 1.4% and 4.7%. Due to the integration of East Germany the trend reversed in 1992. The GDP at constant 1991 prices increased in 1996 by 1.4%.

connection with the machinery industry was 21.7%, 15.3% with the automotive industry and 17.0% with the electrical engineering industry. Of somewhat less significance is the chemical industry, employing 4.7% of the employees in industry, and the textile and clothing industries, employing an additional 4.3% of the employees in industry. Together with the metalworking industries, these six branches employ approximately three-quarters of the people employed in industrial enterprises in Baden-Württemberg. The component of small and medium-sized enterprises in the economy of Baden-Württemberg is significant. The percentage of persons employed in industrial enterprises with less than 500 employees is higher in Baden-Württemberg than in Germany as a whole. In recent years, approximately 50% of the employees employed in Baden-Württemberg and 50% of the GDP of Baden-Württemberg related to the small and medium-sized category.

The following table shows the contribution of the sectors of the economy to the gross value added to the GDP of Rheinland-Pfalz, Nordrhein-Westfalen and Baden-Württemberg during each of the years indicated:

Gross Value Added
(in %)

	1996	1995	1994	1993	1992
Rheinland-Pfalz					
Attributable to:					
Manufacturing	35.4	38.2	39.6	40.4	41.3
Commerce and transportation	14.1	13.8	14.2	13.4	13.6
Service and other activities (including public sector)	48.9	46.3	44.6	44.6	43.5
Agriculture and forestry	1.5	1.6	1.6	1.5	1.6
Nordrhein-Westfalen					
Attributable to:					
Manufacturing	34.9	36.6	36.8	37.8	39.4
Commerce and transportation	15.3	15.1	15.6	14.6	15.0
Service and other activities (including public sector)	49.1	47.6	47.0	46.7	44.8
Agriculture and forestry	0.7	0.7	0.7	0.8	0.9
Baden-Württemberg					
Attributable to:					
Manufacturing	40.0	40.8	42.0	43.0	44.9
Commerce and transportation	11.3	11.5	11.8	11.6	11.8
Service and other activities (including public sector)	47.6	46.7	45.2	44.4	42.1
Agriculture and forestry	1.1	1.0	1.1	1.0	1.2

Source: Statistisches Bundesamt, Statistisches Jahrbuch for the years 1996, 1995, 1994, 1993, respectively.
Hessisches Statistisches Landesamt, Hessen unter den Ländern der Bundesrepublik, 1997.

Tourism

Rheinland-Pfalz. Rheinland-Pfalz is one of the most significant states for spas in Germany. With 17.3 million overnight stays spent by visitors in 1996, Rheinland-Pfalz ranked third in western Germany after Schleswig-Holstein and Bayern when comparing the number of visitors to the number of inhabitants.

Baden-Württemberg. Baden-Württemberg has numerous bathing resorts and is also a significant state for spas in Germany. The city of Heidelberg, home of the oldest university in Germany, as well as other well known places, such as the Black Forest and Lake Constance, attract many German and foreign tourists. In 1996, 282,000 guest beds (out of a total 2,311,000 guest beds in Germany) were available for visitors in Baden-Württemberg. With 37.8 million overnight stays spent by visitors in 1996, Baden-Württemberg lodged nearly 13% of Germany's 300.0 million overnight guests. Baden-Württemberg ranked third, after Bayern and Nordrhein-Westfalen, as the states with the largest amount of tourist traffic in Germany.

The following table shows the extent of tourism in Rheinland-Pfalz and Baden-Württemberg for each of the years indicated:

Tourism

	1996	1995	1994	1993	1992
Rheinland-Pfalz					
Guest beds	151,000	148,000	149,000	146,000	149,000
Overnight stays (in millions)	17,282	17,587	16,863	17,096	18,179
Baden-Württemberg					
Guest beds	282,000	282,000	275,000	269,000	283,000
Overnight stays (in millions)	37,806	38,931	38,295	39,071	40,233

Source: Statistisches Bundesamt, Statistisches Jahrbuch for the years 1996, 1995, 1994, 1993, respectively.
Statistisches Bundesamt, Wirtschaft und Statistik, June 1997.

Prices

Prices in Germany generally have been stable. From 1982 to 1986, the price index for the cost of living in western Germany dropped continuously from 5.2% to 0.1%, with prices remaining stable in the years following. However, due to the conditions brought about by the reunification of Germany, price levels thereafter began to increase. In 1991 and 1992, price levels rose at a rate of 3.5% and 4.0%, respectively. In 1996, prices increased by 1.4%. The German federal parliament has given the Deutsche Bundesbank a free hand to maintain price stability. Unlike central banks in many other countries, the Deutsche Bundesbank is independent of and does not take instructions from the treasury department of the federal government.

The following table shows the development of prices in Germany during each of the years indicated:

Cost-of Living Index for All Households

	Total		Change from previous year in %			
Period	1991 = 100	Change from previous year in %	Food	Other durable and non-durable consumer goods	Services and repairs	Rents including garage rents
1993	109.8	4.5	0.7	2.7	5.6	10.2
1994	112.8	2.7	1.3	1.6	3.5	5.2
1995	114.8	1.8	0.9	0.7	2.5	4.0
1996	116.5	1.5	1.0	0.6	1.9	3.4
1997 Jan.	117.6	1.8	1.5	1.2	2.2	2.8
Feb.	118.1	1.7	1.0	1.0	2.4	2.7
Mar.	117.9	1.5	0.1	0.8	2.3	2.8
Apr.	117.9	1.4	0.4	0.5	2.0	2.9
May	118.4	1.6	1.4	0.7	2.2	2.8
June	118.6	1.7	1.4	0.9	2.2	2.8

Source: Deutsche Bundesbank, Monthly Report, August 1997, table IX.7.

Employment

Unemployment rates reached high levels during the 1980s and 1990s, exceeding 10% in 1994, 1995 and 1996, compared to unemployment rates in the 1970s of between 0.9% and 4.7%. These high unemployment rates were due to a variety of factors, including competition from inexpensive foreign products, computerization of factories and offices, the reunification of Germany and the effects of a world economic recession.

Nordrhein-Westfalen's Foreign Trade

	1996	1995	1994	1993	1992
	(in millions of DM)				
Total exports:	165,455	161,437	152,872	134,978	155,253
Ultimate destinations of exports					
Industrialized Western countries	127,364	126,068	121,872	109,706	128,646
U.S.A.	11,569	11,018	11,685	9,690	9,755
EU countries	96,590	96,289	78,272	71,054	90,700
— France	15,521	16,332	15,364	14,325	16,818
— Great Britain	12,022	12,435	11,734	10,766	12,565
— Italy	11,907	11,582	10,534	9,929	12,387
Switzerland	7,160	7,788	7,237	NA	6,663
Developing countries	22,834	21,839	20,589	18,092	18,542
Total imports:	173,029	172,406	159,453	140,748	179,817
Industrialized Western countries	136,995	137,782	132,091	119,923	150,972
EU countries	101,544	101,424	85,756	75,339	107,931
Developing countries	17,653	17,267	17,079	16,389	17,967

Source: Statistisches Landesamt Nordrhein-Westfalen, Statistische Berichte, GIII 1-m, 12/96, 12/95, 12/94, 12/93, 12/92.

Baden-Württemberg's Foreign Trade

	1996	1995	1994	1993	1992
	(in millions of DM)				
Total exports:	131,386	125,983	118,042	105,643	112,629
Ultimate destinations of exports					
Industrialized Western countries	102,223	99,193	82,612	82,665	92,131
U.S.A.	14,224	12,358	12,302	11,141	10,004
EU countries	64,463	64,613	49,037	42,379	52,543
— France	13,946	14,485	13,692	11,912	14,502
— Great Britain	9,351	9,040	7,616	6,520	7,072
— Italy	8,976	9,673	9,441	7,749	11,052
Switzerland	12,284	9,804	10,050	9,042	9,075
Developing countries	18,251	18,071	17,265	15,358	15,301
Total imports:	90,149	90,043	82,679	72,578	85,762
Industrialized Western countries	72,763	73,632	67,725	58,595	72,808
EU countries	47,224	48,787	39,128	31,511	43,429
Developing countries	9,914	10,072	9,829	9,953	9,400

Source: Statistisches Landesamt Baden-Württemberg, Statistische Berichte, GIII 1-m, 12/96, 12/95, 12/94, 12/93, 12/92.

Public Finance

State Budgets

Rheinland-Pfalz, Nordrhein-Westfalen and Baden-Württemberg have their own state budgets separate from the budget of Germany. In Rheinland-Pfalz and Baden-Württemberg, every other year the state budget for the next two consecutive years is drafted by the respective Minister of Finance, whereas in Nordrhein-Westfalen the state budget is drafted only for the following year by the Nordrhein-Westfalen Minister of Finance. The state budget is adopted as a statute by act of the respective state parliament. The fiscal year for the state budget is the calendar year. Prior to the beginning of each fiscal year, the respective Minister of Finance prepares a draft medium-term financial plan for presentation to the parliament based on planing figures collected from the various state ministries. The medium-term plan sets forth for the next five years the projected expenditures that the respective state government believes will be necessary, how funds to meet those expenditures are expected to be obtained, and how the projected budgetary development will fit into the projected development of the economy as a whole. The medium-term financial plan assists the parliament in adopting the budget.

Generally, expenditures by Rheinland-Pfalz, Nordrhein-Westfalen and Baden-Württemberg are permitted only if they are explicitly provided for in the budget. If the factual basis for the budget calculation changes significantly during the fiscal year, the Ministry of Finance must draft a supplemental budget which also must be adopted by the state parliament.

The appropriations in the budget are administered by the various state ministries. This administration is under the supervision of the General Accounting Offices (*Rechnungshöfe*) of Rheinland-Pfalz, Nordrhein-Westfalen and Baden-Württemberg, respectively, agencies organized under public law. The General Accounting Offices are strictly separated from the state administration and are responsible only to the state parliament.

The following table contains a summary of Rheinland-Pfalz's, Nordrhein-Westfalen's and Baden-Württemberg's revenues and expenditures for each of the years indicated:

Revenues and Expenditures*

	1996	1995	1994	1993	1992
	(in billions of DM)				
Rheinland-Pfalz					
Revenues	21.5	20.2	19.5	19.2	18.4
Taxes	13.1	12.8	12.0	12.0	11.7
Other	8.4	7.4	7.5	7.1	6.8
Expenditures	21.5	20.2	19.5	19.2	18.5
Nordrhein-Westfalen					
Revenues	85.8	83.1	79.4	78.0	74.7
Taxes	66.4	65.3	61.0	61.3	61.3
Other	19.5	17.8	18.4	16.7	13.4
Expenditures	85.8	83.1	79.4	77.9	74.7
Baden-Württemberg					
Revenues	54.3	53.2	49.6	49.9	48.6
Taxes	38.7	38.1	35.8	37.2	36.3
Other	15.6	15.2	13.8	12.7	12.3
Expenditures	54.4	53.3	49.6	50.0	48.7

*Differences between Revenues and Expenditures may be due to rounding.

Source: Bundesministerium der Finanzen.

Taxation

The system of apportionment of the tax revenues in Germany and its states is governed by Articles 106 and 107 of the German Constitution. Article 106 allocates customs duties, capital transfer tax and other specified special taxes to the federal government and property tax, estate tax and other specified transaction taxes to the states. Article 106 further provides that revenue arising from personal income tax, corporate income tax and value added tax shall belong jointly to Germany and the individual states (*Gemeinschaftssteuern*). The revenue of municipalities consists principally of portions of personal income tax, non-personal taxes (*Realsteuern*) and certain local taxes on consumption and expenditures (*örtliche Verbrauchs- und Aufwandsteuern*), funds received from their state pursuant to the respective state finance equalization system and the imposition of fees for the provision of municipal services. See "The Municipalities and Counties — Revenues".

Accordingly, the tax revenues of the states include taxes that are due solely to the states and the states' share of the joint federal and state taxes.

The following table shows the projected tax receipts of Rheinland-Pfalz, Nordrhein-Westfalen and Baden-Württemberg for each of the years indicated:

Projected Tax Receipts
(in billions of DM)

	2000	1999	1998	1997
Rheinland-Pfalz	15.0	14.4	13.9	13.4
Nordrhein-Westfalen	80.7	76.2	72.2	69.4
Baden-Württemberg	46.2	44.2	42.2	40.5

Source: Ministerium der Finanzen Rheinland-Pfalz, Finanzplan des Landes Rheinland-Pfalz für die Jahre 1996 bis 2000.
Ministerium der Finanzen Baden-Württemberg, Finanzplan des Landes Baden-Württemberg für die Jahre 1996 bis 2000.
Ministerium der Finanzen Nordrhein-Westfalen, Finanzplan des Landes Nordrhein-Westfalen für die Jahre 1996 bis 2000.

Revenue Equalization on the Federal Level

While the German federal government and the individual German state governments have separate budgets and different sources of revenue enabling them to perform their respective functions and duties, a well-balanced system of revenue equalization *(Finanzausgleich)* ensures that each state, irrespective of its own revenues, has sufficient funds to satisfy its financial obligations. This system of revenue equalization is twofold: "horizontal" and "vertical".

So-called "horizontal" revenue equalization *(Länderfinanzausgleich)*, as provided for in Article 107 of the German Constitution, is intended to effect an appropriate financial equalization among financially weaker and stronger states. The German Constitution obliges the federal government to provide by an act of parliament that states whose revenues are on the average greater than those of other states are obligated to transfer part of their revenues to the financially weaker states. Horizontal revenue equalization has the effect that the financial condition of an individual state, and thus its credit standing, shall not, to any material extent, fall below that of the other states. The five new states did not participate in horizontal revenue equalization until December 31, 1994.

The following table shows the allocations to Rheinland-Pfalz, Nordrhein-Westfalen and Baden-Württemberg and their obligations under the horizontal revenue equalization for each of the years indicated:

Horizontal Revenue Equalization

	1996*	1995	1994	1993	1992	1991
		(in millions of DM, except for percentages)				
Payments made by Rheinland-Pfalz	—	—	—	—	—	—
Payments allocated to Rheinland-Pfalz	235	229	657	778	661	589
Payment made by Nordrhein-Westfalen	3,135	3,449	—	—	3	8
Payments allocated to Nordrhein-Westfalen	—	—	156	31	—	—
Payments made by Baden-Württemberg	2,525	2,803	410	1,013	1,507	2,507
Payments allocated to Baden-Württemberg	—	—	—	—	—	—
Total amount of payments by and payments allocated to all states	12,254	11,195	3,091	3,247	3,422	3,993
Rheinland-Pfalz's share of total (in percent)	1.9	2.0	20.2	24.0	19.3	14.8
Nordrhein-Westfalen's share of total (in percent)	25.6	30.8	4.8	1.0	0.1	0.2
Baden-Württemberg's share of total (in percent)	20.6	25.0	12.6	31.2	44.0	62.8

* Preliminary results

Source: Bundesministerium der Finanzen

So-called "vertical" revenue equalization, as set forth in Articles 106 and 107 of the German Constitution, consists of the allocation of and adjustments in the distribution of tax revenues between the federal government and the states. In addition, it provides for special support payments from the federal government to individual states in order to enable such states to meet financial burdens imposed by the federal government or to support financially weaker states.

The federal government and the individual states share in the revenues from personal income tax, corporate income tax and value added tax. Whereas the revenues from personal and corporate income tax are shared equally by the federal government and the individual states, the revenues from the value added tax are apportioned from time to time subject to the financial needs of the federal government and the several states.

In addition, in the event of an extreme budget emergency of any state, the federal government as well as the other states are required pursuant to the principle of federal solidarity to cooperate in order to assist the state concerned in stabilizing its budget. The federal government is authorized, although not obligated, to make supplementary appropriations to a financially weak state. Rather, the federal government can decide which of the instruments provided for in the German Constitution will use in order to enable such state to remedy its budget emergency and to fulfill its constitutional functions. Therefore, a state should always be able to remedy a budget emergency and to fulfill its financial obligations assuming that the federal government and the other states are able to provide the required support.

German Unity Fund

Pursuant to the law of June 25, 1990 implementing the treaty of May 18, 1990, between the Federal Republic of Germany and the German Democratic Republic, which laid the foundation for German unification in October 1990, the German legislature established the German Unity Fund (*Fonds Deutsche Einheit*) to provide financial support to the new German states. In accordance with this law, the German Unity Fund contained DM 160.7 billion at the end of 1994 and was funded by allocations from the German federal budget (DM 65.7 billion) and through the issuance of securities and other borrowings (DM 95 billion). The federal government is liable for repayment of principal of, and interest on, the borrowings of the German Unity Fund. For the payment of interest on such securities and borrowings, the German Unity Fund receives contributions from the federal budget in the amount of 10% of the total borrowings outstanding at the end of the preceding year. The 11 original German states must reimburse the federal government for 50% of such contributions. In addition, beginning in 1995, the 11 original German states were each obligated to provide for an additional payment in the amount of DM 2.1 billion annually to the federal government. The five new German states are exempt from payments. The current calculations for the reimbursement obligations of the states are based on appraisals of the expected tax revenues of such states and the development of their populations.

The following table sets forth the projected payments of Rheinland-Pfalz, Nordrhein-Westfalen and Baden-Württemberg (taking into effect the Solidarity Pact described below) with respect to the German Unity Fund for each of the years indicated.

German Unity Fund Repayment Obligations
(in millions of DM)

	1997 and thereafter	1996	1995	1994	1993
Rheinland-Pfalz's payments	352	350	347	809	529
Nordrhein-Westfalen's payments	2,132	2,149	2,167	3,730	2,448
Baden-Württemberg's payments	1,232	1,241	1,250	2,156	1,415
Payments of all obligated German states	6,850	6,850	6,850	14,623*	9,710*

* Not including VAT

Source: Bundesministerium der Finanzen

Developments regarding German Unification

The structural changes in Germany following reunification require that approximately 5% of the gross domestic product ("GDP") be reinvested towards the equalization of living standards in the unified Germany over the next several years.

On March 13, 1993, representatives of the German federal and state governments and of the major political parties announced that they had reached an agreement in principle on a solidarity pact (*Solidarpakt*, the "Solidarity Pact") for German unification and the development of the economies of the new German states. On June 23, 1993, the Solidarity Pact found expression in the Law for the Implementation of the Federal Consolidation Program (*Gesetz zur Umsetzung der Föderalen Konsolidierungsprogramms*, the "Implementation Law"). The Implementation Law clarifies the extent to which the new German states shall be supported in future years by the federal government and the original German states. The funds required under the Implementation Law will be obtained through a package of reductions in expenditures, reductions in subsidies and tax increases by the federal government.

The Implementation Law also contains provisions concerning the reorganization of the system of vertical and horizontal revenue equalization (*Finanzausgleich*). Since January 1, 1995, the new German states participate in the system of revenue equalization. Through this method financial support is being provided to the new German states. This reorganization has replaced the German Unity Fund and provides the new German states with greater planning certainty with respect to their revenues.

Public Debt

Summary of Debt

Rheinland-Pfalz. At December 31, 1996, Rheinland-Pfalz's total outstanding credit market debt amounted to DM 29.6 billion. Net borrowings decreased from 1.5% of Rheinland-Pfalz's GDP in 1983 to 1.3% in 1996. In 1996, Rheinland-Pfalz spent 13.8% of its tax revenues to make interest payments, compared to an average of 11.0% for all German states.

Nordrhein-Westfalen. At December 31, 1996, Nordrhein-Westfalen's total outstanding credit market debt amounted to DM 127.6 billion. Net borrowings decreased from 1.7% of Nordrhein-Westfalen's GDP in 1983 to 0.8% in 1996. In 1996, Nordrhein-Westfalen spent 11.7% of its tax revenues to make interest payments, compared to an average of 11.0% for all German states.

Baden-Württemberg. At December 31, 1996, Baden-Württemberg's total outstanding credit market debt amounted to DM 50.4 billion. Net borrowings decreased from 0.7% of Baden-Württemberg's GDP in 1983 to 0.5% in 1996. In 1996, Baden-Württemberg spent 8.0% of its tax revenues to make interest payments, compared to an average of 11.0% for all German states.

The following table sets forth the aggregate principal amount of direct debt of Rheinland-Pfalz, Nordrhein-Westfalen and Baden-Württemberg outstanding at December 31 of each of the years indicated:

Direct Debt

	1996	1995	1994	1993	1992
			(in billions of DM)		
Rheinland-Pfalz	29.6	27.2	25.9	24.3	23.3
Nordrhein-Westfalen	127.6	120.7	110.9	107.3	102.7
Baden-Württemberg	50.4	47.2	45.1	43.4	42.0

Source: Bundesministerium der Finanzen

In addition to their own direct debt obligations, Rheinland-Pfalz, Nordrhein-Westfalen and Baden-Württemberg have guarantied the payment of the principal of and interest on certain obligations of various public and private enterprises.

The following table sets forth the aggregate principal amount of such debt guaranteed by Rheinland-Pfalz, Nordrhein-Westfalen and Baden-Württemberg outstanding at December 31 of each of the years indicated:

Guaranteed Debt(1)

	1995	1994	1993	1992
		(in billions of DM)		
Rheinland-Pfalz	0.6	0.6	0.6	0.5
Nordrhein-Westfalen	5.6	5.5	5.3	5.4
Baden-Württemberg	3.1	1.5	1.3	1.2

(1) Other than debt supported by Rheinland-Pfalz, Nordrhein-Westfalen and Baden-Württemberg under their maintenance obligations (*Anstaltslast*) under administrative law and its guaranty obligations (*Gewährträgerhaftung*) pursuant to specific statutes with respect to liabilities of certain entities organized under public law.

Source: Statistisches Landesamt Rheinland-Pfalz, Statistische Berichte, LIII 1j/96
Statistisches Landesamt Nordrhein-Westfalen, Statistische Berichte, LIII 1j/96
Statistisches Landesamt Baden-Württemberg, Statistische Berichte, LIII 1j/96

Debt Service

The following table sets forth the debt service requirements (*Zinsausgaben*) for each of the years indicated in respect of all of the direct debt of Rheinland-Pfalz, Nordrhein-Westfalen and Baden-Württemberg outstanding at December 31 of each of the years indicated:

Debt Service Requirements

	2000	1999	1998	1997	1996	1995
			(in billions of DM)			
Rheinland-Pfalz	2.1	2.0	2.0	1.9	1.8	1.7
Nordrhein-Westfalen	9.4	9.7	8.9	8.6	8.4	7.7
Baden-Württemberg	4.2	3.9	3.6	3.4	3.2	3.1

Source: Ministerium der Finanzen Rheinland-Pfalz, Finanzplan für die Jahre 1996-2000
Ministerium der Finanzen Nordrhein-Westfalen, Finanzplan für die Jahre 1996-2000
Ministerium der Finanzen Baden-Württemberg, Finanzplan für die Jahre 1996-2000

Debt Record

Since their formation Rheinland-Pfalz, Nordrhein-Westfalen and Baden-Württemberg have always paid promptly when due the full amount of the principal of and interest on their indebtedness.

Supplemental Information

Revenues and Expenditures
Budget of the State of Rheinland-Pfalz

	1996(1)	1995	1994	1993	1992
			(in billions of DM)		
I. Revenues					
1. Taxes	13.1	12.8	12.0	12.0	11.7
Change from prior year in %(2)	1.6	7.3	(0.5)	2.9	7.6
2. Gross borrowing	6.3	5.8	5.5	4.8	4.1
Change from prior year in %(2)	8.2	6.1	12.8	16.9	23.7
3. Net borrowing	2.0	1.7	1.6	1.2	1.1.
Change from prior year in %(2)	16.5	4.4	31.6	14.6	(27.3)
4. Revenues from horizontal revenue equalization	0.2	0.2	0.7	0.8	0.7
Change from previous year in %(2)	2.6	(65.1)	(15.6)	17.7	12.2
5. Miscellaneous revenues	6.2	5.5	5.2	5.1	5.0
Change from prior year in %(2)	13.3	4.5	1.7	2.0	10.9
6. Total revenues	21.5	20.2	19.5	19.2	18.4
Change from prior year in %(2)	6.2	3.9	1.5	3.9	5.7
II. Expenditures					
1. Public servants	8.5	8.2	7.9	7.7	7.4
Change from prior year in %(2)	2.7	4.3	2.5	4.3	7.4
2. Investments	3.2	2.9	2.8	3.0	3.1
Change from prior year in %(2)	8.9	3.2	(6.8)	(0.9)	2.8
3. Interest payment	1.8	1.7	1.7	1.7	1.7
Change from prior year in %(2)	5.7	(2.7)	3.0	2.3	7.3
4. Principal payment	4.3	4.1	3.8	3.6	3.1
Change from prior year in %(2)	4.8	6.8	6.4	17.7	63.8
5. Payments for horizontal revenue equalization	—	—	—	—	—
Change from prior year in %(2)	—	—	—	—	—
6. Total expenditures	21.5	20.2	19.5	19.2	18.5
Change from prior year in %(2)	6.3	3.8	1.5	3.9	6.0

(1) Preliminary results.

(2) Differences are due to rounding of the absolute figures.

Source: Bundesministerium der Finanzen

Supplemental Information

Revenues and Expenditures
Budget of the State of Nordrhein-Westfalen

	1996(1)	1995	1994	1993	1992
			(in billions of DM)		
I. Revenues					
1. Taxes	66.4	65.3	61.0	61.3	61.3
Change from prior year in %(2)	1.6	7.2	(0.6)	0.1	9.1
2. Gross borrowing	22.3	22.7	22.1	18.7	16.1
Change from prior year in %(2)	(2.0)	2.8	18.1	16.2	41.8
3. Net borrowing	6.0	6.1	6.2	4.4	2.2
Change from prior year in %(2)	(1.4)	(1.3)	40.1	99.7	(47.2)
4. Revenues from horizontal revenue equalization	—	—	0.2	0.0	—
Change from prior year in %(2)	—	—	—	—	—
5. Miscellaneous revenues	13.4	11.7	12.0	12.2	11.2
Change from prior year in %(2)	15.2	(3.2)	(1.2)	8.8	6.0
6. Total revenues	85.8	83.1	79.4	78.0	74.7
Change from prior year in %(2)	3.3	4.7	1.8	4.4	5.3
II. Expenditures					
1. Public servants	34.2	33.4	31.7	31.1	29.7
Change from prior year in %(2)	2.6	5.3	2.0	4.5	7.2
2. Investments	9.4	9.6	10.0	10.6	10.0
Change from prior year in %(2)	(1.8)	(4.1)	(5.0)	6.0	0.5
3. Interest payment	7.8	7.7	7.5	7.6	7.6
Change from prior year in %(2)	1.3	1.9	(1.1)	0.1	3.7
4. Principal payment	16.2	16.6	15.9	14.3	13.9
Change from prior year in %(2)	(2.2)	4.4	11.3	2.9	94.0
5. Payments for horizontal revenue equalization	3.1	3.4	—	—	0.0
Change from prior year in %(2)	(9.1)	—	—	—	—
6. Total expenditures	85.8	83.1	79.4	77.9	74.7
Change from prior year in %(2)	3.2	4.7	1.8	4.4	5.3

(1) Preliminary results.

(2) Differences are due to rounding of the absolute figures.

Source: Bundesministerium der Finanzen

Revenues and Expenditures
Budget of the State of Baden-Württemberg

	1996(1)	1995	1994	1993	1992
			(in billions of DM)		
I. Revenues					
1. Taxes	38.7	38.1	35.8	37.2	36.3
Change from prior year in %(2)	1.8	6.3	(3.8)	2.5	4.7
2. Gross borrowing	10.3	9.5	8.5	7.3	6.8
Change from prior year in %(2)	7.8	12.7	16.6	6.2	(0.6)
3. Net borrowing	2.7	2.8	1.7	1.6	1.9
Change from prior year in %(2)	(3.4)	64.6	3.6	(16.2)	(22.0)
4. Revenues from horizontal revenue equalization	—	—	—	—	—
Change from prior year in %(2)	—	—	—	—	—
5. Miscellaneous revenues	12.9	12.4	12.1	11.1	10.4
Change from prior year in %(2)	4.2	2.5	9.1	6.6	1.9
6. Total revenues	54.3	53.2	49.6	49.9	48.6
Change from prior year in %(2)	2.1	7.4	(0.7)	2.6	2.7
II. Expenditures					
1. Public servants	22.2	21.8	20.9	20.5	19.5
Change from prior year in %(2)	1.9	4.0	2.2	5.1	8.2
2. Investments	5.7	6.0	6.0	6.4	6.5
Change from prior year in %(2)	(4.1)	0.1	(6.9)	(1.6)	4.3
3. Interest payment	3.0	3.1	3.1	3.0	2.8
Change from prior year in %(2)	(1.0)	0.1	3.1	5.5	2.3
4. Principal payment	7.6	6.8	6.8	5.6	4.9
Change from prior year in %(2)	12.4	(0.3)	20.4	15.2	11.7
5. Payments for horizontal revenue equalization	2.5	2.8	0.4	1.0	1.5
Change from prior year in %(2)	(9.9)	—	(59.5)	(32.8)	(39.9)
6. Total expenditures	54.4	53.3	49.6	50.0	48.7
Change from prior year in %(2)	2.1	7.4	−0.7	2.6	2.8

(1) Preliminary results.

(2) Differences are due to rounding of absolute figures.

Source: Bundesministerium der Finanzen

TERMS AND CONDITIONS OF THE GLOBAL BONDS

§ 1
General Provisions

(1) *Principal Amount and Denomination.* The issue of the Step-Up Global Subordinated Bonds (the "Global Bonds") of Landesbank Rheinland-Pfalz —Girozentrale— (the "Issuer") in the aggregate principal amount of U.S. dollars three hundred million (U.S.$300,000,000) is divided into 300,000 bonds in the principal amount of U.S.$1,000 each which rank *pari passu* among themselves.

(2) *Ranking, Conversion and Repurchase.* (a) The Global Bonds represent direct, unconditional and unsecured obligations of the Issuer. The Global Bonds rank *pari passu* and without any preference among themselves and *pari passu* with all other unsecured and unsubordinated obligations of the Issuer, other than liabilities that are statutorily preferred.

(b) The Issuer may at its option, at any time, convert the Global Bonds into subordinated obligations of the Issuer. Upon such conversion, of which the Issuer will give notice to the Holders of the Global Bonds as soon as practicable, the provisions set forth under (a) above shall be deemed to be replaced by the following provisions set forth under paragraphs (c) to (h) below.

(c) The Global Bonds represent direct, unconditional, unsecured and subordinated obligations of the Issuer. The Global Bonds rank *pari passu* and without any preference among themselves and *pari passu* with all other unsecured subordinated obligations of the Issuer.

(d) The obligation of the Issuer to pay the principal amount of the Global Bonds is (i) upon the commencement and during the continuation of proceedings instituted by or against the Issuer seeking to adjudicate it a bankrupt or an insolvent within the meaning of the German Banking Act (*Kreditwesengesetz*) or (ii) upon the commencement of the liquidation of the Issuer within the meaning of the German Banking Act, junior in right of payment from the Issuer to the prior payment in full of all other obligations of the Issuer, except those obligations which by their terms rank *pari passu* with or junior to the Global Bonds. All terms of the Global Bonds shall be interpreted in a way that they are Liable Capital in the meaning of Section 10 (5a) of the German Banking Act.

(e) No holder of a Global Bond shall be entitled to exercise or claim, before any court or otherwise, any rights of set-off or counterclaim in respect of any amounts due under the Global Bonds.

(f) No agreement shall have the effect of limiting the subordination of the obligation to pay the principal amount of the Global Bonds, shorten the term of the Global Bonds or the period of notice of redemption, if any, nor may the obligations of the Issuer under the Global Bonds be subject to a guarantee or other credit support by, or be secured by any lien, security interest or other incumbrance on any property.

(g) If the Global Bonds are repaid prior to the date of maturity (other than pursuant to and in accordance with Section 5(2)), the holders of Global Bonds shall return to the Issuer the amounts so paid irrespective of any agreement to the contrary unless, at the time of such repayment or immediately prior to such repayment (i) the Issuer shall have, to the extent required by law, replaced the capital created by the Global Bonds with Liable Capital (*haftendes Eigenkapital* within the meaning of the German Banking Act) of equal or higher ranking or (ii) the Issuer shall have been liquidated.

(h) Except to the extent permitted by law, the Issuer will not, and will procure that none of its subsidiaries will, acquire for its own account any of the Global Bonds, or finance the acquisition for the account of any other person of any of the Global Bonds, or accept any lien, security interest or other encumbrance of any of the Global Bonds as security for any obligation owed to the Issuer.

(3) *Global Certificates and Custody.* The Global Bonds will be represented by two permanent global certificates without interest coupons. One of the two permanent global certificates (the "Regulation S-Global Certificate") will be kept in custody by Deutsche Bank Aktiengesellschaft, Frankfurt am Main,

Business Day and a New York Business Day, and no further interest shall be paid in respect of the delay in such payment. A "Frankfurt Business Day" shall be any day on which credit institutions are open for business in Frankfurt am Main, and a "New York Business Day" shall be any day on which banking institutions in New York City are not obligated and not authorized to close.

(5) *Payment Date and Due Date.* For the purposes of these Terms and Conditions "Payment Date" means the day on which the payment is actually to be made, where applicable as adjusted in accordance with subsection (4), and "Due Date" means the payment date provided for herein, without taking account of any such adjustment.

§ 5
Taxes

(1) *Taxes.* All payments of principal and interest in respect of the Global Bonds shall be made by the Issuer to the Global Bond Holders without deduction or withholding for or on account of any present or future taxes or other duties of whatever nature levied by or in Germany, unless the Issuer shall be obligated by law to make such deduction or withholding. In such event, the Issuer will pay such additional amounts as may be necessary in order that the net amounts received by the Global Bond Holders after such deduction or withholding equal the respective amounts of principal and interest which they would have received had such withholding or deduction not been made. The Issuer shall not, however, be obliged to pay such additional amounts on account of such deduction or withholding to the extent that a Global Bond Holder is subject to such deduction or withholding by reason of the fact that such Global Bond Holder has a connection to Germany other than the mere fact of being a holder of Global Bonds or on account of any deduction or withholding which would not have been made if the Global Bond Holder had duly claimed payment within 30 days after the date on which the payment became due.

(2) *Early Redemption for Tax Reasons.* If, as a result of any change of the legal provisions applicable in Germany or any change in the application or official interpretation of such legal provisions, the Issuer shall become obligated to pay additional amounts pursuant to subsection (1), then the Issuer may at its option at any time, on giving not less than 30 days' notice by publication pursuant to § 8, redeem all, but not part, of the Global Bonds at their principal amount together with interest accrued to the date of redemption; provided, however, that no such redemption may be made as of a date which is more than three months before the date on which the Issuer shall first become obligated to make payments pursuant to subsection (1).

§ 6
Substitution of Issuer

(1) *Substitution.* The Issuer may, without the consent of the Global Bond Holders, at any time substitute any wholly owned subsidiary of the Issuer (the "Substitute Obligor") as the principal debtor in respect of all rights and obligations arising under or in connection with the Global Bonds subject to the condition that (i) the Substitute Obligor assumes all obligations of the Issuer arising under or in connection with the Global Bonds, (ii) the Substitute Obligor has obtained all necessary governmental approvals and authorizations for the substitution, (iii) the Substitute Obligor is in a position to fulfill all payment obligations arising under or in connection with the Global Bonds in freely negotiable and convertible legal tender of the United States of America without any deduction or withholding for, or on account of, taxes, duties or governmental charges, (iv) the obligations of the Substitute Obligor arising under or in connection with the Global Bonds are irrevocably and unconditionally guaranteed by the Issuer, (v) the Maintenance Obligation and the Guaranty Obligation (or substantially equivalent governmental credit support) will continue to be in full force and effect for the obligations of the Landesbank Rheinland-Pfalz —Girozentrale— in the same manner as before such substitution, (vi) each stock exchange on which the Global Bonds are listed shall have confirmed that, following the proposed substitution of the Substitute Obligor, such Global Bonds will continue to be listed on such

stock exchange, (vii) the Substitute Obligor shall have appointed process agents in Germany and New York for service of process as contemplated by § 9, and (viii) legal opinions shall have been delivered to the Paying Agent (from whom copies will be available) (in each case dated not more than three days prior to the intended date of substitution) from legal advisors of good standing selected by the Issuer in each jurisdiction in which the Substitute Obligor and (if different) the Issuer are incorporated confirming, as appropriate, that upon the substitution taking place (aa) the requirements of this § 6, save as to the giving of notice to the Global Bond Holders, have been met, (bb) the guarantee to be executed by the Issuer is a legal, valid and binding obligation of the Issuer enforceable in accordance with its terms and (cc) the Global Bonds are legal, valid and binding obligations of the Substitute Obligor enforceable in accordance with their terms.

(2) *References.* In case of such substitution, any references in these Terms and Conditions to the "Issuer" shall be deemed to refer to the "Substitute Obligor" and references to "Germany" shall be deemed to refer to "the country in which the Substitute Obligor has its domicile or is deemed resident for tax purposes".

§ 7
Further Issues

The Issuer reserves the right, from time to time without the consent of the Global Bond Holders, to issue additional Global Bonds, on terms identical in all respects to those set forth herein, except for the amount and date of the first payment of interest thereon, so that such additional Global Bonds shall be consolidated with, form a single issue with and increase the aggregate principal amount of, the Global Bonds. The term "Global Bonds" shall, in the event of such increase, also include such additionally issued Global Bonds.

§ 8
Notices

All notices regarding the Global Bonds shall be published in the following journals: (a) a leading daily newspaper printed in the English language and of general circulation in New York, (b) a leading daily newspaper printed in the English language and of general circulation in London, and (c) if and for so long as the Global Bonds are listed on the Luxembourg Stock Exchange, a daily newspaper of general circulation in Luxembourg. It is expected that such notices will normally be published in The Wall Street Journal, the Financial Times and the Luxemburger Wort. Any such notice will be deemed to have been given on the date of the first publication in all the relevant newspapers.

There may (provided that, in the case of Global Bonds listed on the Luxembourg Stock Exchange, the rules of the Luxembourg Stock Exchange so permit), so long as the Global Bonds are held in their entirety by or on behalf of the relevant clearing system, be substituted for such publication in such newspaper the delivery of the relevant notice to the relevant clearing system for communication by it to the Holders of the Global Bonds. Any such notice shall be deemed to have been given to the Holders of the Global Bonds on the seventh day after the day on which the said notice was given to the relevant clearing system.

§ 9
Governing Law, Jurisdiction, Process Agents and Enforcement

(1) *Governing Law.* The Global Bonds shall be governed by the law of Germany. Transfers and pledges of Global Bonds held through DTC and executed between DTC participants and between DTC and DTC participants will be governed by the laws of the State of New York (including the conflicts of law rules of the State of New York).

(2) *Jurisdiction.* Any action, suit or other legal proceedings ("Proceedings") arising out of or in connection with the Global Bonds may be brought in the District Court (*Landgericht*) in Mainz and the state or federal courts sitting in New York County, New York. The Issuer hereby submits to the

jurisdiction of these courts and waives, to the fullest extent it may effectively do so, any objection which it may now or hereafter have to the laying of venue of any such Proceeding; *provided* that the submission by the Issuer to the jurisdiction of the courts in New York County, New York, does not extend to Proceedings against the Issuer brought under any securities laws of the United States of America. The selection of courts in which Proceedings may be brought contained in this § 9(2) shall be exclusive and no Proceedings shall be brought in any other court.

(3) *Agent for Service of Process.* The Issuer hereby appoints CT Corporation System, 1633 Broadway, 23rd Floor, New York, New York 10019, U.S.A., in respect of any Proceedings brought in the state or federal courts sitting in New York County, New York, pursuant to subsection (2), as its agent for service of process.

(4) *Enforcement.* Any Global Bond Holder may in any Proceedings against the Issuer or to which the Global Bond Holder and the Issuer are parties protect and enforce in its own name its rights arising under its Global Bonds on the basis of (a) a certificate issued by its Custodian (i) stating the full name and address of the Global Bond Holder, (ii) specifying an aggregate principal amount of Global Bonds credited on the date of such statement to such Global Bond Holder's securities account maintained with such Custodian and (iii) confirming that the Custodian has given a written notice to Euroclear or Cedel or DTC, as the case may be, and the Registrar containing the information pursuant to (i) and (ii) and bearing acknowledgments of Euroclear or Cedel or DTC and the relevant Euroclear or Cedel accountholder or DTC participant and (b) a copy of the Regulation S-Global Certificate or the 144A-Global Certificate certified as being a true copy by a duly authorized officer of Euroclear, Cedel or DTC, as the case may be, or the Registrar. For purposes of the foregoing, "Custodian" means any bank or other financial institution of recognized standing authorized to engage in securities custody business with which the Global Bond Holder maintains a securities account in respect of any Global Bonds and includes Euroclear and Cedel and DTC.

CLEARING AND SETTLEMENT

Global Certificates and Custody

Clearing and settlement arrangements, including the existing links between Euroclear and Cedel and a link between these systems and DTC, will provide investors access to three major clearing systems. At initial settlement, the Global Bonds will be represented by two permanent global certificates in registered form which will not be exchangeable for definitive certificates representing individual Global Bonds except in limited circumstances. The 144A-Global Certificate to be held by Deutsche Bank AG, New York Branch, as custodian for DTC, will be issued in registered form in the name of DTC's nominee Cede & Co. and will represent the Global Bonds held by investors electing to hold Global Bonds through institutions that are participants in DTC ("DTC Participants"). The Regulation S-Global Certificate to be held by Deutsche Bank AG, as common depositary for Euroclear and Cedel, will be issued in registered form in the name of Deutsche Bank AG and will represent the Global Bonds held by investors electing to hold Global Bonds through institutions that are participants in Euroclear and Cedel ("Euroclear and Cedel Participants").

Together, the Global Bonds represented by the 144A-Global Certificate and the Regulation S-Global Certificate will equal the total aggregate principal amount of the Global Bonds outstanding at any time. When subsequent secondary market sales settle between DTC and the Euroclear or Cedel clearing systems, such sales shall be recorded in the Register and shall be reflected by respective increases and decreases in the 144A-Global Certificate and the Regulation S-Global Certificate.

As the Registrar, Deutsche Bank AG provides the link between DTC and the Euroclear and Cedel clearing systems.

Owners of beneficial interests in the 144A-Global Certificate or of legal co-ownership interests in the Regulation S-Global Certificate will not be entitled to have Global Bonds registered in their names, and will not receive or be entitled to receive physical delivery of definitive certificates representing individual Global Bonds.

Payments

Principal and interest payments on the Global Bonds will be made by the Issuer through the relevant paying agent to the registered holder of the 144A-Global Certificate and to the registered holder of the Regulation S-Global Certificate in U.S. dollars as set forth in "Terms and Conditions of the Global Bonds — Payments." Payments by DTC Participants and Indirect DTC Participants (as defined under "The Clearing Systems — DTC" below) to owners of beneficial interests in the 144A-Global Certificate will be governed by standing instructions and customary practices, as is now the case with securities held by the accounts of customers in bearer form or registered in "street name", and will be the responsibility of the DTC Participants or Indirect DTC Participants. Neither the Bank nor either Paying Agent will have any responsibility or liability for any aspect of the records of DTC relating to or payments made by DTC on account of beneficial interests in the 144A-Global Certificate or for maintaining, supervising or reviewing any records of DTC relating to such beneficial interests. Substantially similar principles will apply with regard to the Regulation S-Global Certificate and payments to holders of interest therein.

If any of DTC, Euroclear or Cedel is at any time unwilling or unable to continue as a clearing system and a successor clearing system is not appointed by the Bank within 90 days, or the Bank decides to discontinue use of the system of book-entry transfers through any clearing system (or a successor securities clearing system), the Bank will issue certificates for the Global Bonds in definitive registered form in exchange for the Rule 144A-Global Certificate and the Regulation S-Global Certificate, as the case may be.

The Clearing Systems

DTC

DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code and a "clearing agency" registered pursuant to the provisions of Section 17A of the United States Securities Exchange Act of 1934. DTC holds securities that DTC Participants deposit with DTC. DTC also facilitates the settlement among DTC Participants of securities transactions in deposited securities through electronic computerized book-entry changes in DTC Participants' accounts, thereby eliminating the need for physical movement of securities certificates. DTC Participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. Indirect access to the DTC system is also available to others, such as securities brokers and dealers, banks and trust companies that clear through or maintain a custodial relationship with a DTC Participant, either directly or indirectly ("Indirect DTC Participants"). Persons who are not DTC Participants may beneficially own securities held by DTC only through DTC Participants or Indirect Participants.

Transfers of beneficial interests in Global Bonds in DTC may be made only through a DTC Participant. In addition, beneficial owners of Global Bonds in DTC will receive all distributions of principal of and interest on the Global Bonds from the Paying Agent through a DTC Participant. Distributions in the United States will be subject to tax reporting in accordance with relevant United States tax and law regulations. See "Taxation — United States Taxation."

Because DTC can only act on behalf of DTC Participants, who in turn act on behalf of Indirect DTC Participants, and because beneficial owners will hold interests in the Global Bonds through DTC Participants or Indirect DTC Participants, the ability of such beneficial owners to pledge Global Bonds to persons or entities that do not participate in DTC, or otherwise take actions with respect to such Global Bonds, may be limited.

The established procedures of DTC provide that (i) upon issuance of the Global Bonds by the Landesbank, DTC will credit the accounts of DTC Participants designated by the Underwriters with the principal amount of the Global Bonds purchased by the Underwriters, and (ii) ownership of interests in the DTC Global Certificate will be shown on, and the transfer of that ownership will be effected only through, records maintained by DTC, the DTC Participants and the Indirect DTC Participants. The laws of some jurisdictions require that certain persons take physical delivery in definitive form of securities which they own. Consequently, the ability to transfer beneficial interests in the Global Certificate is limited to such extent.

Cedel

Cedel Bank, société anonyme, 67 BD Grande-Duchesse Charlotte, L-1331 Luxembourg ("Cedel"), was incorporated in 1970 as a limited company under Luxembourg law. Cedel is owned by banks, securities dealers and financial institutions, and currently has about 100 shareholders, including U.S. financial institutions or their subsidiaries. No single entity may own more than five percent of Cedel's stock. Cedel is registered as a bank in Luxembourg, and as such is subject to regulation by the Institut Monétaire Luxembourgeois, "IML", the Luxembourg Monetary Authority, which supervises Luxembourg banks. Cedel holds securities for its customers and facilitates the clearance and settlement of securities transactions by electronic book-entry transfers between their accounts. Cedel provides various services, including safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Cedel also deals with domestic securities markets in several countries through established depository and custodial relationships. Cedel has established an electronic bridge with Morgan Guaranty Trust as the Euroclear Operator in Brussels to facilitate settlement of trades between systems. Cedel currently accepts over 70,000 securities issues on its books.

Cedel's customers are world-wide financial institutions including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations. Cedel's U.S. customers are limited to securities brokers and dealers, and banks. Currently, Cedel has approximately 3,000 customers, located in over 60 countries, including all major European countries, Canada, and the United States. Indirect access to Cedel is available to other institutions which clear through or maintain a custodial relationship with an account holder of Cedel. Corporates can become Cedel customers for the purpose of the Triparty Repo Service offered by Cedel.

Cedel eligible securities are freely transferable in Cedel; Cedel holds securities on behalf of its customers. All customers of Cedel are banks, broker-dealers and other financial institutions. Cedel has information about the positions held by the various customers; however, it has no knowledge of, or information on the beneficial owners or holders of, the securities in question. Under general principles of Luxembourg banking secrecy law, Cedel may not disclose any information about a customer's account or positions in such account without having first obtained such customer's prior written authorisation. Cedel customers are not likely to authorise disclosure of such information. Therefore, no ownership nor any transfer restriction will be monitored by Cedel.

Distributions with respect to Global Bonds held beneficially through Cedel will be credited to cash accounts of Cedel Participants in accordance with Cedel's rules and procedures.

Euroclear

Euroclear was created in 1968 to hold securities for participants of Euroclear and to clear and settle transactions between Euroclear Participants through simultaneous book-entry delivery against payment, thereby eliminating the need for physical movement of certificates and any risk from lack of simultaneous transfers of securities and cash. Transactions may now be settled in various currencies, including Deutsche Mark. Euroclear includes various other services, including securities lending and borrowing and interfaces with domestic markets in several countries. Euroclear is operated by the Brussels, Belgium office of Morgan Guaranty Trust Company of New York (the "Euroclear Operator"), under contract with Euroclear Clearance System S.C., a Belgian cooperative corporation (the "Cooperative"). All operations are conducted by the Euroclear Operator, and all Euroclear securities clearance accounts and Euroclear cash accounts are accounts with the Euroclear Operator, not the Cooperative. Euroclear Participants include banks (including central banks), securities brokers and dealers and other professional financial intermediaries and may include the Underwriters. Indirect access to Euroclear is also available to other firms that clear through or maintain a custodial relationship with a Euroclear participant, either directly or indirectly.

The Euroclear Operator is the Belgian branch of a New York banking corporation which is a member bank of the Federal Reserve System. As such, it is regulated and examined by the Board of Governors of the Federal Reserve System and the New York State Banking Department, as well as the Belgian Banking Commission.

Securities clearance accounts and cash accounts with the Euroclear Operator are governed by the Terms and Conditions Governing Use of Euroclear and the related Operating Procedures of the Euroclear System, and applicable Belgian law (collectively, the "Euroclear Terms and Conditions"). The Euroclear Terms and Conditions govern transfers of securities and cash within Euroclear, withdrawals of securities and cash from Euroclear, and receipts of payments with respect to securities in Euroclear. All securities in Euroclear are held on a fungible basis without attribution of specific certificates to specific securities clearance accounts. The Euroclear Operator acts under the Euroclear Terms and Conditions only on behalf of Euroclear Participants, and has no record of or relationship with persons holding through Euroclear Participants.

Distributions with respect to Global Bonds held beneficially through Euroclear will be credited to the cash accounts of Euroclear Participants in accordance with the Euroclear Terms and Conditions, to the extent received by the Euroclear Operator.

Global Clearance and Settlement Procedures

Primary Market

The 144A-Global Certificate and the Regulation S-Global Certificate will be delivered at initial settlement to Deutsche Bank AG, New York Branch (as custodian for DTC) and to Deutsche Bank AG as common depositary for Euroclear and Cedel), respectively. Customary settlement procedures will be followed for participants of each system at initial settlement.

Primary market purchasers which are DTC Participants will have their securities accounts with DTC credited with Global Bonds against payment in U.S. dollars in same-day funds on the settlement date through

DTC's Same-Day Funds Settlement system. Settlement procedures applicable to eurobonds will be followed for primary market purchasers which are Euroclear or Cedel Participants, which means that Global Bonds will be credited to their securities accounts on the settlement date against payment in same-day funds.

Secondary Market

The following paragraphs set forth the procedures governing settlement of secondary market sales of securities such as the Global Bonds in effect on the date hereof.

Trading between DTC Participants. Secondary market trading between DTC Participants will occur in the ordinary way in accordance with DTC rules and will be settled using the procedures applicable to U.S. corporate debt obligations in DTC's Same-Day Funds Settlement System in same-day funds.

Trading between Euroclear and/or Cedel Participants. Secondary market trading between Euroclear Participants and/or Cedel Participants will occur in the ordinary way in accordance with the applicable rules and operating procedures of Cedel and Euroclear and will be settled using the procedures applicable to conventional eurobonds.

Trading between DTC seller and Euroclear or Cedel purchaser. When Global Bonds are to be transferred from the account of a DTC Participant to the account of a Euroclear Participant or a Cedel Participant, the DTC Participant will deliver the Global Bonds by book-entry delivery free of payment at least one business day prior to the settlement date to the appropriate account of the Registrar at DTC for delivery to the Euroclear Participant or Cedel Participant, as the case may be. Separate payment arrangements are required to be made between the DTC Participant and the Euroclear Participant or Cedel Participant, as the case may be. After delivery of the Global Bonds to the appropriate account of the Registrar, the Global Bonds will be credited to the respective clearing system and by the clearing system, in accordance with its usual procedures, to the Euroclear Participant's or Cedel Participant's account, as the case may be, on the following settlement date.

The Registrar, upon receipt of the delivery of such Global Bonds, will (i) decrease the quantity of Global Bonds evidenced by the 144A-Global Certificate and (ii) increase the quantity of Global Bonds evidenced by the Regulation S-Global Certificate.

Trading between Euroclear or Cedel seller and DTC purchaser. When Global Bonds are to be transferred from the account of a Euroclear Participant or Cedel Participant to the account of a DTC Participant, the Euroclear Participant or Cedel Participant must send to Euroclear or Cedel, as the case may be, delivery free of payment instructions at least one business day prior to the settlement date. Euroclear or Cedel, as the case may be, will in turn transmit such instructions to the Registrar on the settlement date. Separate payment arrangements are required to be made between the DTC Participant and the Euroclear Participant or Cedel Participant, as the case may be. On the settlement date, the Registrar will deliver such Global Bonds by book-entry delivery free of payment to the appropriate account of the DTC Participant.

The Registrar, upon receipt of the delivery of such Global Bonds, will (i) decrease the quantity of Global Bonds evidenced by the Regulation S-Global Certificate and (ii) increase the quantity of Global Bonds evidenced by the 144A-Global Certificate.

TRANSFER RESTRICTIONS

The Global Bonds have not been, and will not be, registered under the Securities Act and may not be offered or sold within the United States to, or for the account or benefit of, a U.S. person except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. The Underwriter has agreed that the Global Bonds may not be offered or sold except (i) in accordance with Regulation S under the Securities Act or (ii) to a "qualified institutional buyer" in accordance with Rule 144A (a "Qualified Institutional Buyer").

In addition, until 40 days after the commencement of the offering of the Global Bonds, an offer or sale of Global Bonds within the United States by any dealer (including dealers who are not participating in the offering of the Global Bonds) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A under the Securities Act.

Each purchaser of Global Bonds offered hereby in reliance on Rule 144A (the "Restricted Global Bonds") will be deemed to have represented and agreed as follows (terms used in this section that are defined in Rule 144A or Regulation S are used herein as defined therein):

(1) It is a Qualified Institutional Buyer, it is aware that the sale of such Restricted Global Bonds to it is being made in reliance on Rule 144A and it is acquiring such Restricted Global Bonds for its own account or for the account of a Qualified Institutional Buyer.

(2) It understands that the Restricted Global Bonds are being offered only in a transaction not involving any public offering in the United States within the meaning of the Securities Act, that such Restricted Global Bonds have not been and will not be registered under the Securities Act and that (A) it may not resell, pledge or otherwise transfer any such Restricted Global Bonds except (i) to a person that the seller reasonably believes is a Qualified Institutional Buyer in a transaction meeting the requirements of Rule 144A, (ii) pursuant to Rule 903 or 904 of Regulation S or (iii) pursuant to any other available exemption from the registration requirements of the Securities Act, and in each case, in accordance with any applicable securities laws of any State or territory of the United States, or any other jurisdiction and that (B) the purchaser will, and each subsequent holder of such Restricted Global Bonds is required to, notify any purchaser of such Restricted Global Bonds from it of the resale restrictions referred to in (A) above.

(3) It acknowledges that the Bank, the Registrar, the Underwriter (as defined below) and their affiliates and others will rely upon the truth and accuracy of the foregoing acknowledgments, representations and agreements. If it is acquiring any Global Bonds for the account of one or more qualified institutional buyers, it represents that it has sole investment discretion with respect to each such account and that it has full power to make the foregoing acknowledgments, representations and agreements on behalf of each such account.

TAXATION

The following is a general discussion of certain United States and German federal income tax consequences of the acquisition, ownership and disposition of Global Bonds to original purchasers of the Global Bonds. This summary is based on the laws currently in force and as applied in practice on the date of this Offering Circular, which are subject to change, possibly with retroactive effect.

PROSPECTIVE PURCHASERS OF GLOBAL BONDS ARE ADVISED TO CONSULT THEIR OWN TAX ADVISORS AS TO THE UNITED STATES, GERMAN OR OTHER TAX CONSEQUENCES OF THE PURCHASE, OWNERSHIP AND DISPOSITION OF GLOBAL BONDS, INCLUDING THE EFFECT OF ANY STATE OR LOCAL TAX LAWS.

United States Taxation

The following summary of the principal United States federal income tax consequences of the ownership of Global Bonds deals only with Global Bonds held as capital assets by investors who purchase Global Bonds in the offering at the issue price (as defined below), and does not purport to consider all possible tax consequences of the purchase, ownership or disposition of the Global Bonds, or the tax consequences applicable to special classes of holders, such as dealers in securities or currencies, banks, tax-exempt organizations, life insurance companies, persons that hold Global Bonds as a hedge or that are hedged against currency or interest rate risks or as part of a straddle or as part of a "synthetic security" or other integrated investment (including a "conversion transaction") consisting of a Global Bond and one or more other investments, or persons whose functional currency is not the U.S. dollar. Except to the limited extent expressly addressed below, the following discussion is not applicable to Non-U.S. Holders (as defined below). For these purposes, the "issue price" is the first price at which a substantial amount of the Global Bonds is sold for money to the public (not including bond houses, brokers or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). Investors who purchase Global Bonds at a price other than the issue price should consult their tax advisors as to the consequences of such a purchase, including the possible applicability to them of the amortizable bond premium or market discount rules. This summary is based on the Internal Revenue Code of 1986, as amended (the "Code"), its legislative history, existing and proposed regulations thereunder, published rulings and court decisions, all as currently in effect and all subject to change at any time, perhaps with retroactive effect.

United States Holders

Payments of Interest. Interest on Global Bonds will be taxable to a United States Holder (as defined below) at the time it is received or accrued, depending on the United States Holder's method of accounting for tax purposes. A "United States Holder" is a beneficial owner who or that is (i) an individual citizen or resident of the United States, (ii) a corporation created or organized under the laws of the United States or any political subdivision thereof or (iii) otherwise subject to United States federal income taxation on a net income basis in respect of Global Bonds. Under applicable Treasury Regulations, the Global Bonds will not be treated as issued with original issue discount because the amount of the discount with respect to the Global Bonds is less than a de minimis amount.

A United States Holder will include in taxable income any German tax withheld as described below in "— German Taxation" from the interest payment notwithstanding that such withheld tax is not in fact received by the United States Holder. To the extent that any such withholding does not give rise to a right to receive a refund in Germany, the United States Holder will be entitled to deduct or credit such tax in respect of its U.S. federal income tax liability, subject to applicable limitations. The rules governing foreign tax credits are complex, and investors are urged to consult their tax advisors regarding the availability of a foreign tax credit in their individual circumstances. Interest paid by the Bank on Global Bonds constitutes income from sources outside the United States, but, with certain exceptions, will be "passive" or "financial services" income, which is treated separately from other categories of income for purposes of computing the foreign tax credit allowable to a United States Holder.

Purchase, Sale and Retirement of Global Bonds. A United States Holder's tax basis in the Global Bonds will generally be its cost. A United States Holder will generally recognize gain or loss on the sale or retirement of the Global Bonds equal to the difference between the amount realized on the sale or retirement and the tax basis of the Global Bonds. Except to the extent attributable to accrued but unpaid interest, gain or loss recognized on the sale or retirement of Global Bonds will be capital gain or loss and will be capital gain or loss if the holding period in the Global Bond is more than one year at the time of sale or retirement. Any gain realized will generally be treated as United States source income. United States Holders should consult their tax advisors regarding the source of any loss recognized upon the sale, exchange or retirement of a Global Bond.

Pursuant to the terms and conditions of the Global Bonds, the Issuer is authorized to substitute a wholly owned subsidiary as principal debtor under the Global Bonds. A substitution of any person in place of the Issuer as principal debtor under the Global Bonds might be deemed for United States federal income tax purposes to be an exchange of the Global Bonds for new Global Bonds by the holders thereof, resulting in the recognition of gain or loss for such purposes and possibly certain other adverse tax consequences to the holders. Noteholders should consult their own tax advisors regarding the tax consequences of such a substitution.

United States Alien Holders

Payments of Interest. For purposes of this discussion, a "United States Alien Holder" is any beneficial owner of Global Bonds who or that is for United States federal income tax purposes (i) a nonresident alien individual, (ii) a foreign corporation or partnership or (iii) an estate, trust or other entity that is not subject to United States federal income tax on a net income basis in respect of income or gain from Global Bonds. Subject to the discussion of backup withholding below, interest on Global Bonds is exempt from United States federal income tax, including withholding tax, if paid to a United States Alien Holder, whether or not such Holder is engaged in a trade or business in the United States, unless (i) the United States Alien Holder is an insurance company carrying on a United States insurance business to which the interest is attributable, within the meaning of the Code, or (ii) (a) the United States Alien Holder has an office or other fixed place of business in the United States to which the interest is attributable and (b) the interest is derived in the active conduct of a banking, financing or similar business within the United States or is received by a corporation, the principal business of which is trading in stock or securities for its own account, and certain other conditions exist.

Purchase, Sale and Retirement of Global Bonds. A United States Alien Holder of Global Bonds will not be subject to United States federal income tax on any gain realized on the sale, exchange or retirement of Global Bonds unless (i) such gain is effectively connected with the conduct by the holder of a United States trade or business or (ii) in the case of an individual, the holder is present in the United States for 183 days or more during the taxable year in which such gain is realized and certain other conditions exist.

Estate Tax. For purposes of the United States federal estate tax, the Global Bonds will be deemed to be situated outside the United States and will not be includable in the gross estate of a holder who is neither a citizen nor a resident of the United States at the time of death.

United States Backup Withholding and Information Reporting

Payments of principal and interest on the Global Bonds held by certain non-corporate holders and the proceeds of a disposition of such Global Bonds may be subject to U.S. information reporting requirements. Such payments also may be subject to U.S. backup withholding at a rate of 31% if the holder does not provide a taxpayer identification number or otherwise establish an exemption. A holder may credit any amounts withheld pursuant to U.S. backup withholding against such holder's U.S. Federal income tax liability and claim a refund for amounts withheld in excess of its tax liability, provided any required information is submitted to the Internal Revenue Service. Recently finalised Treasury Regulations modify certain of the information reporting and backup withholding procedures with respect to payments made after December 31,

1998. Prospective investors are urged to consult their tax advisors regarding the application of the backup withholding and information reporting rules.

German Taxation

Tax Residents

Under German law, as presently in effect, payments of interest on the Global Bonds to persons who are residents of Germany (that is, persons whose residence, customary place of abode, head office or central management is located in Germany) are subject to the German personal or corporate income tax. If the Global Bonds 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% capital yield tax on interest payments (*Zinsabschlagsteuer*), plus a 5.5% solidarity surcharge on such tax, will be levied on interest payments, resulting in a total withholding tax charge of 31.65%. 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 holder sells a Global Bond during a current interest period, the accrued interest received in connection therewith (*Stückzinsen*) will also be subject to personal or corporate income tax and the 30% *Zinsabschlagsteuer* and solidarity surcharge.

Stückzinsen paid by a holder upon the purchase of a Global Bond reduce the personal or corporate income tax base and, under certain circumstances, the taxable base for the *Zinsabschlagsteuer* and solidarity surcharge.

If a Global Bond or coupons would be presented for payment over the counter of a German financial institution (*Tafelgeschäft, i.e.*, interest payments are made by the German financial institution upon presentation of the coupons), special regulations regarding the *Zinsabschlagsteuer* would be applicable (*e.g.*, tax rate of 35% plus a 5.5% solidarity surcharge resulting in a total withholding tax charge of 36.925%).

Not Tax Residents

Persons who are not tax residents of Germany are in general exempt from this German withholding tax and solidarity surcharge.

If the interest from a Global Bond kept or administered in a German securities deposit account is received by persons who are not residents of Germany and who are taxable in Germany only with respect to certain German-source income, and if according to German tax law such interest falls into a category of income from German sources (*e.g.*, income from letting or leasing of German property, income effectively connected with German trade or business) which is subject to a limited income tax liability on a special basis, the 30% *Zinsabschlagsteuer* and solidarity surcharge are applicable and can be set-off against the German personal or corporate income tax liability of the non-resident. If a Global Bond or coupons would be presented for payment over the counter of a German financial institution (*Tafelgeschäft, i.e.*, interest payments are made by the German financial institution upon presentation of the coupons), by a non-resident, special regulations regarding the *Zinsabschlagsteuer* would be applicable (*e.g.*, tax rate of 35%, subject to double tax convention rules).

No estate, inheritance or gift taxes with respect to any Global Bond will arise under the laws of Germany, if, in the case of estate and inheritance taxes, both the descendent and the beneficiary, and, in the case of gift taxes, both the donor and the donee, are non-residents of Germany and such Global Bond is not attributable to a permanent establishment in Germany. No stamp, issue, registration, or similar taxes or duties will be payable in Germany in connection with the issuance, delivery or execution of the Global Bonds.

UNDERWRITING

Under the terms and subject to the conditions contained in the Underwriting Agreement dated February 20, 1998 (the "Underwriting Agreement"), Morgan Stanley & Co. Incorporated (the "Underwriter") has agreed to purchase from the Landesbank, and the Landesbank has agreed to sell to it, all of the Global Bonds offered hereby.

The Underwriting Agreement provides that the obligation of the Underwriter to pay for and accept delivery of the Global Bonds is subject to, among other conditions, the delivery of certain legal opinions by its counsel.

In the Underwriting Agreement, subject to the conditions thereof, the Underwriter has agreed to purchase the Global Bonds at a discount from the price indicated on the cover page hereof and to resell such Global Bonds to purchasers as described herein under "Selling Restrictions." The Global Bonds will initially be offered at the price indicated on the cover page hereof. After the initial offering of the Global Bonds, the offering price and other selling terms may from time to time be varied by the Underwriter.

The Underwriting Agreement provides that the Landesbank will indemnify the Underwriter against certain liabilities, including liabilities under the Securities Act, and will contribute to payments the Underwriter may be required to make in respect thereof.

In order to facilitate the offering of the Global Bonds, the Underwriter may engage in transactions that stabilize, maintain or otherwise affect the price of the Global Bonds. Specifically, the Underwriter may overallot in connection with the offering, creating a short position in the Global Bonds for its own account. In addition, to cover overallotments or to stabilize the price of the Global Bonds, the Underwriter may bid for, and purchase, Global Bonds in the open market. Any of these activities may stabilize or maintain the market price of the Global Bonds above independent market levels. The Underwriter is not required to engage in these activities, and may end any of these activities at any time.

Application has been made to list the Global Bonds on the Luxembourg Stock Exchange.

Selling Restrictions

United Kingdom

The Underwriter has represented and agreed that: (a) it has not offered or sold and, prior to the expiry of the period of six months from the settlement date, will not offer or sell any Global Bonds 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 business 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; (b) it has complied and will comply with all applicable provisions of the Financial Services Act 1986 with respect to anything done by it in relation to the Global Bonds in, from or otherwise involving the United Kingdom; and (c) it has only issued or passed on and will only issue or pass on in the United Kingdom any document received by it in connection with the issue of the Global Bonds to a person who is of a kind described in Article 11(3) of the Financial Services Act 1986 (Investment Advertisements) (Exemptions) Order 1996 (as amended) or is a person to whom such document may otherwise lawfully be issued or passed on.

As used herein, "United Kingdom" means the United Kingdom of Great Britain and Northern Ireland.

United States of America

The Global Bonds have not been and will not be registered under the Securities Act and may not be offered or sold within the United States to, or for the account or benefit of, a U.S. person except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. The Underwriter has agreed that the Global Bonds may not be offered or sold except (i) in accordance with Regulation S under the Securities Act and (ii) to Qualified Institutional Buyers in accordance with Rule 144A under the Securities Act.

The Underwriter has represented and agreed that it has offered and sold, and will offer and sell the Global Bonds only in accordance with Rule 903 of Regulation S under the Securities Act or Rule 144A under the Securities Act. Accordingly, neither the Underwriter nor its affiliates, nor any persons acting on its or their behalf, have engaged or will engage in any directed selling efforts (as defined in Regulation S) with respect to the Global Bonds, and the Underwriter and its affiliates and all persons acting on its or their behalf have complied and will comply with the offering restrictions requirement of Regulation S. The Underwriter has agreed that, at or prior to confirmation of sale of the Global Bonds (other than a sale pursuant to Rule 144A), the Underwriter will have sent to each distributor, dealer or person receiving a selling concession, fee or other remuneration that purchases the Global Bonds from it a confirmation or notice to substantially the following effect:

> "The bonds covered hereby have not been registered under the U.S. Securities Act of 1933 (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 accordance with Regulation S (or Rule 144A if available) under the Securities Act. Terms used above have the meanings given to them by Regulation S."

General

The Underwriter has acknowledged that no action has been or will be taken in any jurisdiction by the Underwriter or the Landesbank that would permit a public offering of the Global Bonds, or possession or distribution of this Offering Circular or any other offering material, in any jurisdiction where action for those purposes is required. Irrespective of the selling restrictions described herein, the Underwriter will comply with all applicable laws in each jurisdiction in which it purchases, offers, sells or delivers Global Bonds or has in its possession or distributes this Offering Circular or any other offering material relating to the Global Bonds.

EXCHANGE RATE AND MARKET INFORMATION

Exchange Rate Information

The following table shows the period end, average, high and low noon buying rates in the City of New York for cable transfers in Deutsche Mark as announced by the Federal Reserve Bank of New York for customers purposes, expressed in U.S. dollars per DM 1.00, during the periods indicated.

	U.S. dollar per Deutsche Mark			
Year ending December 31,	**Period End**	**Average**	**Low**	**High**
1992	0.6174	0.6408	0.5961	0.7191
1993	0.5749	0.6020	0.5745	0.6380
1994	0.6454	0.6204	0.5673	0.6702
1995	0.6971	0.7013	0.6405	0.7372
1996	0.6499	0.6636	0.6388	0.6967
1997	0.5558	0.5755	0.5441	0.6112

Source: The Federal Reserve Bank of New York.

On February 18, 1998, the noon buying rate was U.S.$0.5483 to DM 1.00.

No representation is made that the Deutsche Mark or U.S. dollar amounts referred to herein could have been or could be converted into U.S. dollars or Deutsche Mark, as the case may be, at any particular rate or at all.

Exchange Controls

There are, except in limited embargo circumstances, no legal restrictions in Germany on international capital movements and foreign exchange transactions. However, for statistical purposes only, every individual or corporation residing in Germany must report to the Deutsche Bundesbank, subject to certain exceptions, any payment received from or made to an individual or a corporation resident outside of Germany if such payment exceeds DM 5,000 (or the equivalent in a foreign currency).

Trading Practices and Procedures on the Luxembourg Stock Exchange

In 1997, trading volume on the Luxembourg Stock Exchange amounted to LUF 86.52 billion. As of December 31, 1996, 12,897 securities representing over 3,500 issuers from 90 different countries were officially listed on the Luxembourg Stock Exchange. Of these securities, 8,449 were bonds, 304 were shares, 2,773 were investment funds and 1,361 were warrants and other instruments.

All securities listed on the Luxembourg Stock Exchange are traded on the Multi-Fixing System ("MFX") via the Automated Trading System (Système Automatisé de Marché, "SAM"). Securities traded on the MFX are divided into fixing groups which are called in sequence according to a time schedule. When trading is terminated, the matching prices are validated and the resulting trades are confirmed immediately. Each group may be quoted several times per day.

A second market segment, the On-Demand Continuous Market ("MCD") was launched in December 1997.

Trading on the Luxembourg Stock Exchange takes place via members' computer connections. Trades are supervised by computer at the Luxembourg Stock Exchange's premises. Prices are quoted on the MFX each working day between the hours of 10:15 a.m. and 1:00 p.m. and again between 2:00 p.m. and 3:00 p.m. Transactions on the Luxembourg Stock Exchange are settled on the third business day following trading.

In 1997, in addition to the Luxembourg franc, quotations of securities took place in 34 foreign currencies, the ECU and the Euro. The legal and regulatory provisions governing the Luxembourg Stock Exchange impose no restriction on investments made by persons or legal entities residing abroad.

GENERAL INFORMATION

There is no litigation or arbitration, actual or pending, which relates to the Landesbank or any of its subsidiaries and to which the Landesbank or any of its subsidiaries is a party or of which the Landesbank has been notified that it will be made a party, which is material in the context of the issuance of the Global Bonds.

No consents, approvals, authorizations or other orders from regulatory authorities are required by the Landesbank under the law of Germany for the issuance of the Global Bonds.

There has been no material adverse change in the financial position of the Landesbank and its subsidiaries considered as a whole since December 31, 1996, the date of the latest audited financial statements of the Bank.

The 1996 Financial Statements of Landesbank Rheinland-Pfalz and the Landesbank Rheinland-Pfalz Group included in this Offering Circular have been audited by C & L DEUTSCHE REVISION Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, as indicated in their report with respect thereto, and are included herein in reliance upon such report given upon the authority of such firm as experts in accounting and auditing.

Copies of this Offering Circular, the Ordinance of the Landesbank, the latest Annual Report of the Landesbank and, when available, semi-annually unaudited financial information of the Landesbank will, so long as any of the Global Bonds remain outstanding, be obtainable during usual business hours at the principal office of the Landesbank and Banque de Luxembourg S.A.

The Global Bonds represented by the Regulation S-Global Certificate have been accepted for clearance through Euroclear and Cedel under Common Code number 8486344 and have been assigned International Securities Identification Number ("ISIN") XS0084863447; the Global Bonds represented by the 144A-Global Certificate have been accepted for clearance by DTC under CUSIP No. 514887AB4 and by Euroclear and Cedel under Common Code number 8488231. For reference purposes only, the Global Bonds have been assigned the Wertpapier-Kenn-Nr. ("WKN") 283291.

Application has been made to list the Global Bonds on the Luxembourg Stock Exchange. Banque de Luxembourg S.A. will act as listing agent for the Luxembourg Stock Exchange and in such capacity will act as an intermediary between the Bank and the Global Bond Holders. Prior to the listing of any Global Bonds, the constitutional documents of the Landesbank and the legal notices relating to the issue will be registered with the Registrar of the District Court in Luxembourg *(Greffier en Chef du Tribunal d'Arrondissement de et à Luxembourg)*, where copies of these documents may be obtained upon request.

LEGAL OPINIONS

The validity of the Global Bonds and certain matters of German and United States law will be passed upon by Shearman & Sterling, German and U.S. counsel to the Underwriter.

SUMMARY OF MATERIAL DIFFERENCES BETWEEN GENERALLY ACCEPTED GERMAN AND UNITED STATES ACCOUNTING PRINCIPLES

The audited consolidated and unconsolidated financial statements of the Landesbank for the years ended December 31, 1996, 1995 and 1994 have been prepared in accordance with German GAAP (see "Regulation and Supervision of the Landesbank — Audits and Financial Statements"), which emphasize the concept of "prudence" in the presentation of the financial statements in order to protect the interest of creditors. The Landesbank's consolidated and unconsolidated financial statements included in this Offering Circular differ in certain substantial respects from financial statements prepared in accordance with the accounting and financial reporting practices followed in the United States and have not been prepared in accordance with the accounting rules and regulations adopted by the Securities and Exchange Commission under the Securities Act of 1933. It is not feasible to prepare and present the various financial statements of the Landesbank in accordance with practices and principles followed in the United States.

The following is a summary of the principal features of German GAAP at December 31, 1996 and the date of this Offering Circular:

1. Receivables (loans) and liabilities are classified under German GAAP according to their original maturity or the period after which the obligor thereof may, or may be required to, repay in full such receivables or liabilities at the earliest after inception, rather than according to their remaining maturity as of the balance sheet date as under generally accepted accounting principles in the United States ("U.S. GAAP"). In contrast to U.S. GAAP, which divide receivables and liabilities into current assets and debt with a remaining maturity of up to one year and long-term assets and debt with a remaining maturity of one year or longer, German GAAP for credit institutions require that a bank divide receivables and liabilities on its balance sheet into short-term assets and debt that are either payable on demand, have an original maturity of less than four years or may be, or may be required to be, repaid in full in less than four years after inception and long-term assets and debt that have an original maturity of four years or longer and may be, or may be required to be, repaid in full at the earliest at or after four years after inception.

2. Under German GAAP, assets are categorized as fixed assets (*Anlagevermögen*) or current assets (*Umlaufvermögen*). Fixed assets are assets deemed to be held for permanent use or investment and current assets are deemed not to be held for permanent use or investment. Fixed assets and current assets are valued differently. Current assets are valued individually based on a strict minimum value principle at the lower of historic cost (the original purchase price), book value or market value. Fixed assets are valued based upon a modified minimum value principle according to which the historic cost (the original purchase price) is only subject to an exceptional depreciation where a permanent impairment in value is anticipated. Once the value of an asset has been written down, its book value is permitted, but is not required, to be readjusted to the historic cost when the reasons for the write-down are no longer applicable. The book value of an asset, therefore, may be lower than both market value on the balance sheet date and historic cost.

Non-investment securities (current assets) are valued individually under the strict "minimum value principle", that is, at the lower of historic cost (the original purchase price), book value or market value. Once the value of a security has been written down, its book value is permitted, but is not required, to be readjusted to the historic cost when the reason for the write-down is no longer applicable. The book value of a security, therefore, may be lower than both market value on the balance sheet date and historic cost. In general, investment securities (fixed assets) are not valued, or are not permitted to be valued, under the strict "minimum value principle" and can instead be valued at historic cost.

Securities are defined in Section 7 of the Regulation on Accounting by Credit Institutions (*Verordnung über die Rechnungslegung der Kreditinstitute*); in the balance sheet they are disclosed under "Bonds and other interest-bearing securities" and "Shares and other non interest-bearing securities". In disclosing income and expense, a distinction is made between securities held in trading portfolios (*Handelsbestand*) and those held as liquidity reserves in the liquidity portfolio (*Liquiditätsreserve*) (securities which are neither treated as fixed assets nor held for trading purposes). In both cases the securities are carried as current assets and are valued, for each type of security separately, at the lower of moving average values and market value at the balance sheet date. Expenses and income from securities held as liquidity reserves can be stated net of the general banking risk reserves allowed by Section 340f of the German Commercial Code (*Handelsgesetzbuch*).

Equity investments (*Beteiligungen*) in non-affiliated and affiliated companies are valued at cost. In the consolidated balance sheet the significant investments in associated companies are included according to the equity method of accounting based on the Bank's holding of equity in the respective company.

3. German GAAP, unlike U.S. GAAP, permit credit institutions like the Landesbank to create loss risk provisions that, in accordance with German law, are not disclosed. Provisions for risks are dealt with as follows under German GAAP:

(a) The credit risk of the loan and securities portfolio is continuously assessed with respect to each individual exposure. Specific provisions are established in the loan portfolio and in the current asset securities portfolio held as liquidity reserve by writing down the book value of each such item according to its assessed risk (*Einzelwertberichtigung*). In addition, a general provision is established for risk that is not individually identifiable but is inherent in the loan portfolio (*Pauschalwertberichtigung*). Like specific provisions, general provisions are deducted from the assets reserved against and are therefore not shown separately on the balance sheet.

(b) Under German law (Section 340f of the German Commercial Code (*Handelsgesetzbuch*)), in order to create a general provision for risks inherent in a bank's business, banks are permitted to record in the balance sheet certain receivables and non-investment securities at a lower value than would otherwise be required by specific valuation procedures (*Vorsorge für allgemeine Bankrisiken*). Moreover, with respect to presentation in the profit and loss account, banks are permitted to offset (without disclosure) profits from the sale of certain securities (in the so-called liquidity portfolio, see paragraph 2 above) and the revaluation of receivables (*i.e.*, payments received on loans previously written-off or write-backs of risk provisions) against write-downs of the respective receivables and securities. Based on the foregoing, the Bank discloses the net result from movements in risk provisions and management of the liquidity portfolio.

In addition to the aforementioned German GAAP, further details of the manner in which the Bank has applied German GAAP are set out in the Notes to the Financial Statements.

GLOSSARY OF CERTAIN TERMS

Certain Terms Used in the Bank's Balance Sheets

Debt instruments issued by public institutions and bills of exchange eligible for refinancing with central banks

This item includes treasury bills, treasury notes and similar debt instruments and bills of exchange (drafts), all of which bear interest on a discounted basis and are eligible for refinancing with central banks, in the case of the Landesbank, with the Deutsche Bundesbank. Debt instruments issued by public institutions that do not meet the requirements of this item are entered under "Bonds and other interest-bearing securities — money market instruments — of public institutions" if they are eligible for listing on a stock exchange and otherwise under "Claims on customers". For a discussion of refinancing by the Bundesbank see "Regulation and Supervision of the Landesbank — Powers of the Deutsche Bundesbank Affecting the Landesbank's Conduct of Business."

Claims on banks

This item includes all amounts due from German and non-German banks, unless the obligations are bills of exchange (drafts) meeting the requirements of item "Debt instruments issued by public institutions and bills of exchange, eligible for refinancing with central banks — bills of exchange", or notes, bonds or other interest-bearing securities that are eligible for listing on a stock exchange (and are entered under "Bonds and other interest-bearing securities — bonds and notes — of other issuers").

Claims on customers

This item includes all amounts due from customers that are not banks, unless the obligations are bills of exchange (drafts) meeting the requirements of item "Debt instruments issued by public institutions and bills of exchange, eligible for refinancing with central banks — bills of exchange", or notes, bonds or other interest-bearing securities that are eligible for listing on a stock exchange (and are entered under "Bonds and other interest-bearing securities").

This item includes mortgage-secured loans (*Hypothekendarlehen*) made by the Group that meet certain requirements of the Act Concerning Secured Bonds and Related Bonds of Public Law Banks (*Gesetz über die Pfandbriefe und verwandten Schuldverschreibungen öffentlich-rechtlicher Kreditanstalten*) or the Act on Building and Loan Associations (*Gesetz über Bausparkassen*). This item also includes loans to public authorities and entities organized under public law (*Kommunalkredite*). These are loans, e.g., to the German federal government and German states, to municipalities, counties, special purpose associations of municipalities and counties, and other entities and associations established under German public law (*Anstalten* and *Körperschaften*) and to member states of the European Union and their territorial subdivisions meeting certain requirements, and loans guaranteed by such entities.

Bonds and other interest-bearing securities

This item includes interest-bearing debt securities that are eligible for listing on a stock exchange, such as bearer debt securities (*Inhaberschuldverschreibungen*), negotiable debt securities that are part of an offering, treasury bills and treasury notes (that are not treasury bills, discounted treasury notes or similar debt instruments issued by public institutions eligible for refinancing with central banks) and other money market instruments (such as commercial papers, euro-notes, certificates of deposit), medium-term (up to four years) interest-bearing notes in bearer form (*Kassenobligationen*) and book-entry securities (*Schuldbuchforderungen*). This item contains securities that are part of the trading portfolio as well as securities that are part of the liquidity portfolio. See "Summary of Material Differences between Generally Accepted German and United States Accounting Principles".

Bonds and other interest-bearing securities — eligible as collateral for Deutsche Bundesbank advances

Bonds that are eligible as collateral for Lombard loans from the Deutsche Bundesbank must be presented separately in the balance sheet even if they are already serving as collateral for other obligations. Eligible securities are set forth on a list of securities eligible as collateral for Lombard loans maintained by the Deutsche Bundesbank. Lombard loans are short-term loans extended by the Deutsche Bundesbank to banks that are secured by collateral and usually bear interest at a rate of 1% over the Bundesbank discount rate.

Bonds and other interest-bearing securities — bonds issued by the Group

This item consists of securities that are eligible for listing on a stock exchange that were issued by the Group in a public offering and later repurchased by the Group. Securities issued by the Group that are not eligible for listing on a stock exchange and that were repurchased by the Group are deducted from "Certificated liabilities — bonds and notes issued by the Group" on the liabilities side of the balance sheet. The Group purchases and holds its own bonds and notes for purposes of price support of its securities issues.

Shares and other non interest-bearing securities

This item includes shares that are not contained under the next two items. It also includes profit participation certificates (*Genußscheine*) that are bearer or negotiable instruments and that are eligible for listing on a stock exchange, and all other non interest-bearing securities that are listed on a stock exchange. This item contains securities that are part of the trading portfolio as well as securities that are part of the liquidity portfolio. See "Summary of Material Differences between Generally Accepted German and United States Accounting Principles".

Equity investments in non-affiliated companies; Equity investments in affiliated companies; Associated companies

"Affiliated Companies" (*verbundene Unternehmen*) within the meaning of Section 271 (2) of the German Commercial Code (*Handelsgesetzbuch*) are companies (i) that are wholly or more than 50% owned, or otherwise controlled, by the Group, (ii) the Group's interest in which is characterized as an equity investment (*Beteiligung*) and (iii) which must be fully consolidated with the Group in accordance with Section 290 of the German Commercial Code.

If a parent company which is included in the consolidated financial statements can exercise a significant influence over the business and financial policies of a second company which is not included in the consolidation and in which the parent company has an investment pursuant to Section 271 (1) of the German Commercial Code (*Beteiligung*), then the second company is an "associated company" (*assoziiertes Unternehmen*) as defined in Section 311 of the German Commercial Code. A significant influence will be presumed if the parent company holds at least 20% of the voting rights of the other company. Equity investments (*Beteiligungen*) in associated companies are equity investments in non-affiliated companies but must be shown in the consolidated balance sheet under a separate heading. They are shown in the balance sheet of the Bank as a subheading under "Equity investments in non-affiliated companies".

An "equity investment" (*Beteiligung*) as defined in Section 271 (1) of the German Commercial Code is a direct or indirect equity interest in another company that the Group intends to hold on a long-term basis in order to establish a permanent relationship that contributes to its own business. Equity interests of 20% or more are subject to a rebuttable presumption that they are equity investments (*Beteiligungen*). The balance sheet of the Group shows equity investments (*Beteiligungen*) in affiliated companies and equity investments (*Beteiligungen*) in non-affiliated companies in different line items.

Enterprises in which a company owns at least 20% of the capital must be listed in the notes to financial statements of such company pursuant to Section 285 No. 11 of the German Commercial Code.

Trust assets; trust liabilities

The major portion of "trust assets" and "trust liabilities" consist of loans that are made by the Group in the Group's name but on behalf of other entities with funds entirely supplied by, and/for a purpose and on terms specified by, such other entities. The Group has liability only for its duties as trustee of the other entities' funds and bears no credit risks with respect to trust loans. An equal amount appears under trust loans on both the assets side and the liabilities side of the balance sheet.

Equalization claims on public authorities

This item consists of adjustment claims against the State of Rheinland-Pfalz or the German federal government provided to financial institutions in connection with the currency reform in 1948 and in connection with the German reunification in 1990, in amounts equal to deficits otherwise existing at such times.

Liabilities to banks

This item includes all kinds of liabilities to German and non-German credit institutions unless the liabilities are "Certificated liabilities". "Liabilities to banks" include, among others, registered debt securities (*Namenschuldverschreibungen*), negotiable debt securities that are not part of an offering, registered money market instruments, and obligations arising out of securities transactions or arising out of settlement accounts and obligations arising from bills of exchange (drafts) sold by the Group for which no payment has been received by the Group from its customers. This item includes debt certificate borrowings from banks (*Schuldscheindarlehen*).

Liabilities to customers

This item includes all kinds of liabilities to German and non-German customers other than banks, unless these obligations are "Certificated liabilities". "Liabilities to customers" include, among others, savings deposits, registered debt securities, negotiable debt securities that are not part of an offering, and registered money market instruments. This item includes debt certificates borrowings (*Schuldscheindarlehen*).

Certificated liabilities

Certificated liabilities are debt obligations that are evidenced by a transferable certificate other than a certificate registered in the name of the holder. "Bonds and notes issued by the Group" are bearer debt securities (*Inhaberschuldverschreibungen*) and negotiable debt securities that are part of an offering, in each case irrespective of whether they are eligible for listing on a stock exchange or not. Debt securities issued by the Group that are not eligible for listing on a stock exchange and that were repurchased by the Group must be deducted from this item. This item includes mortgage-backed and public debt-backed bonds issued by the Group.

Special item including a reserve element

This item (*Sonderposten mit Rücklagenanteil*) represents reserves from gains resulting from the sale of certain assets permitted pursuant to Section 6b of the German Income Tax Act (*Einkommensteuergesetz*) for future tax free investments in other capital assets.

Profit participation capital

Capital paid in consideration of profit participation rights (*Genußscheine*) meeting certain conditions set forth in the German Banking Act, including the requirements that it be subordinated to all other creditors and participate in the bank's losses. A Genußschein is part of a bank's liable capital if it meets certain requirements established by the German Banking Act, principally

(i) if it participates in full in any loss by the bank and the bank is obligated in case of loss to postpone interest payments;

(ii) if it is agreed that in case of bankruptcy or liquidation of the bank, it can be paid back only after all nonsubordinated creditors have been satisfied;

(iii) if it has been placed at the bank's disposal for at least 5 years and cannot be prepaid upon demand of the creditor. (The 5-year period does not apply if a change in tax law results in the payment of additional interest and the capital is replaced by other liable capital of at least equal ranking);

(iv) as long as any claim for repayment is not due, or by virtue of the agreement cannot become due, in less than two years.

Reserve required by the Landesbank's Ordinance

Pursuant to Section 21 of the Landesbank's Ordinance, at least 10% of the Group's net profit for each year must be allocated to this reserve.

Contingent liabilities on negotiated bills of exchange

This item includes contingent liabilities relating to negotiated bills of exchange settled with customers. It does not include liabilities in connection with instruments deposited with the Deutsche Bundesbank as collateral for Lombard loans or for purposes of repurchase agreements.

Liabilities from guaranties and indemnity agreements

This item includes contingent liabilities in respect of guaranties, avals on bills of exchange, check guaranties and indemnity agreements.

Mortgage-backed bonds

Mortgage-backed bonds (*Pfandbriefe*) are long-term and short-term bonds (generally with an original maturity of one year or longer), the principal and interest of which are at all times secured by a pool of specified mortgage loans listed in a register maintained by the Group. The pool must have an aggregate principal amount and interest revenues at least equal to the principal amount and interest of the mortgage-backed bonds issued. The pool is continuously replenished as required to keep the mortgage-backed bonds fully secured. Mortgage-backed bonds may be issued in registered or bearer form.

Public debt-backed bonds

Public debt-backed bonds (*Öffentliche Pfandbriefe* or *Kommunalschuldverschreibungen*) are long-term and short-term bonds (generally with an original maturity of one year or longer), the principal and interest of which are at all times secured by a pool of specified loans listed in a register maintained by the Group and that are made by the Group to public authorities or entities organized under public law (*Kommunalkredite*). *Kommunalkredite* are described under "Claims on customers" above. The pool must have an aggregate principal amount and interest revenues at least equal to the principal amount and interest of the public debt-backed bonds issued. The pool is continuously replenished as required to keep the public debt-backed bonds fully secured. Public debt-backed bonds may be issued in registered or bearer form.

The issuance by banks established under public law of mortgage-backed bonds and public-debt backed bonds is authorized and regulated by the Act Concerning Secured Bonds and Related Bonds of Public Law Banks (*Gesetz über die Pfandbriefe und verwandten Schuldverschreibungen öffentlich-rechtlicher Kreditanstalten*).

Debt certificate borrowings

Debt certificate borrowings (*Schuldscheindarlehen*) are a financing method where the lending entity, generally a bank or insurance company, receives a certificate evidencing its loan to the borrower and stating the terms of such loan. Maturities of debt certificate borrowings range from five to ten years. The certificates generally authorize a maximum of three assignments.

Certain English terms used in the translation of the Financial Statements contained in this Offering Circular differ from the terms used in the translation of the Financial Statements contained in the English version of the Landesbank's Annual Report for 1996.

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Landesbank Rheinland-Pfalz

Balance Sheet
as of December 31, 1996

Assets

	DM thousands	DM thousands	DM thousands	DM thousands	Dec. 31, 1995 DM thousands
Cash reserve					
a) cash on hand			6,752		6,323
b) balances with central banks			8,163		3,085
including: with Deutsche Bundesbank	8,163				3,085
c) balances on postal giro accounts			21		11
				14,936	9,419
Debt instruments issued by public institutions and *bills of exchange, eligible for refinancing with* central banks					
a) treasury bills and interest-free					
treasury bonds and similar public			209,606		0
debt instruments			0		13,194
b) bills of exchange				209,606	13,194
including:					
eligible for refinancing with Deutsche					
Bundesbank	209,606				13,194
Claims on banks					
a) payable on demand			860,347		1,102,979
b) other			24,584,421		19,610,666
				25,444,768	20,713,645
including: building loans of Landes-Bausparkasse	539				641
Claims on customers				30,610,752	26,433,575
including:					
secured by mortgages	5,952,711				5,569,715
loans to public authorities and entities organized under public law	14,504,783				12,253,362
building loans of Landes-Bausparkasse	2,832,713				2,668,290
Bonds and other interest-bearing securities					
a) money market instruments		0			14,864
aa) of public institutions		17,070			0
ab) of other issuers			17,070		14,864
b) bonds and notes					
ba) of public institutions		4,444,341			5,426,038
bb) of other issuers		7,629,896			7,323,548
			12,074,237		12,749,586
including: eligible as collateral for Deutsche Bundesbank advances	4,548,558				5,907,061
c) bonds issued by the Bank			254,747		425,676
				12,346,054	13,190,126
principal amount	239,679				404,962
Shares and other non interest-bearing securities				409,196	75,016
Equity investments in non-affiliated companies				377,152	323,395
including: banks	295,399				231,845
Equity investments in affiliated companies				135,392	137,392
including: banks	106,218				106,218
Trust assets				4,817,402	4,678,262
including: trust loans	4,817,402				4,678,262
Fixed assets				315,280	324,662
Other assets				515,795	349,423
Deferred items				147,391	123,802
Total assets				75,343,724	66,371,911

Landesbank Rheinland-Pfalz

Balance Sheet
as of December 31, 1996

Liabilities

	DM thousands	DM thousands	DM thousands	DM thousands	Dec. 31, 1995 DM thousands
Liabilities to banks					
a) payable on demand			2,181,089		1,864,813
b) with agreed maturity or period of notice			26,170,847		22,330,094
c) savers' deposits of Landes-Bausparkasse			12,336		11,482
				28,364,272	24,206,389
Liabilities to customers					
a) savings deposits and savers' deposits of Landes-Bausparkasse					
aa) savers' deposits of Landes-Bausparkasse		2,741,146			2,639,311
ab) savings deposits with agreed period of notice of three months		28,182			23,781
ac) savings deposits with agreed period of notice of more than three months		6,755			6,475
			2,776,083		2,669,567
b) other liabilities					
ba) payable on demand		1,355,517			1,594,007
bb) with agreed maturity or period of notice		10,267,893			9,447,863
			11,623,410		11,041,870
				14,399,493	13,711,437
Certificated liabilities					
a) bonds and notes issued by the Bank			23,948,075		20,161,578
b) other			201,950		212,005
				24,150,025	20,373,583
including: own acceptances and promissory notes outstanding	201,950				212,005
Trust liabilities				4,817,402	4,678,262
including: trust loans	4,817,402				4,678,262
Other liabilities				462,563	325,010
Deferred items				227,019	205,969
Provisions					
a) for pensions and similar obligations			373,678		349,036
b) tax reserve			60,231		186,971
c) other			119,232		121,766
				553,141	657,773
Provisions for building society requirements				759	0
Special item including a reserve element				29,269	30,015
Subordinated liabilities				658,496	670,488
Profit participation capital				340,285	340,285
Provisions for general banking risks				100,000	0
Equity capital					
a) subscribed capital			520,000		520,000
b) reserves from retained earnings					
ba) reserves required by the Bank's Ordinance		106,450			96,500
bb) other reserves from retained earnings		525,000			471,000
			631,450		567,500
c) profit			89,550		85,200
				1,241,000	1,172,700
Total liabilities				75,343,724	66,371,911
Contingent liabilities					
a) contingent liabilities on negotiated bills of exchange			151,553		172,380
b) liabilities from guarantees and indemnity agreements			2,063,505		1,306,176
				2,215,058	1,478,556
Other contingent liabilities					
irrevocable credit commitments				2,409,853	2,844,392

Landesbank Rheinland-Pfalz

Statement of Income
January 1, to December 31, 1996

	DM thousands	DM thousands	DM thousands	DM thousands	Dec. 31, 1995 DM thousands
Interest earned from					
a) lending and money market transactions including Landes-Bausparkasse:		2,491,597			2,635,802
savers' building loans	89,669				88,375
advance and bridge financing	58,819				52,319
other building loans	156				161
b) interest-bearing securities and book-entry securities		679,522			670,371
			3,171,119		3,306,173
Interest paid			2,673,479		2,857,672
of which: interest on savers' deposits of Landes-Bausparkasse	72,512				70,681
				497,640	448,501
Current income from					
a) shares and other non interest-bearing securities			1,403		1,764
b) equity investments in non-affiliated companies (other than associated companies)			18,810		8,817
c) equity investments in affiliated companies			11,179		10,750
				31,392	21,331
Income from profit pooling, profit transfer and partial profit transfer agreements				7,377	5,173
Commission income			114,445		101,892
including Landes-Bausparkasse:					
from entering into and arrangement of Landes-Bausparkasse savings contracts	16,088				14,272
from loan arrangements	7,766				7,403
Commission expenditure			58,964		47,215
including: entering into and arrangement of Landes-Bausparkasse savings contracts	36,315				25,821
				55,482	54,677
Net income from trading activities				46,830	47,070
Other operating income				51,294	46,233
Income from reversal of special item including a reserve element				746	746
General administrative expenses					
a) personnel costs					
aa) wages and salaries		141,666			139,146
ab) compulsory social security contributions and expenses for pensions and other employee benefits		65,482			68,289
			207,148		207,435
including: for pensions	51,950				54,897
b) other administrative expenses			95,527		88,155
				302,675	295,590
Carried forward				388,086	328,141

	DM thousands	DM thousands	DM thousands	DM thousands	Dec. 31, 1995 DM thousands
Carried forward				388,086	328,141
Depreciation and value adjustments on tangible and intangible fixed assets				32,483	30,568
Other operating expenses				49,787	62,470
Write-downs and value adjustments on loans and certain securities as well as allocations to loan loss provisions				67,638	33,861
including:					
Allocation to provisions for general banking risks	100,000				0
Write-downs and value adjustments on equity investments in non-affiliated companies (including associated companies) and in affiliated companies and securities treated as fixed assets				5,424	7,682
Expenses from assumption of losses				190	1,647
Operating results				232,564	191,913
Taxes on income and revenues				133,064	97,213
Net Income for the year				99,500	94,700
Allocation of net income to reserves from retained earnings					
— reserves required by the Bank's Ordinance				9,950	9,500
Profit				89,550	85,200

Landesbank Rheinland-Pfalz — Group

Balance Sheet
as of December 31, 1996

Assets

	DM thousands	DM thousands	DM thousands	DM thousands	Dec. 31, 1995 DM thousands
Cash reserve					
a) cash on hand			7,601		6,651
b) balances with central banks			8,962		3,111
including: with Deutsche Bundesbank	8,961				3,111
c) balances on postal giro accounts			36		27
				16,599	9,789
Debt instruments issued by public institutions and bills of exchange, eligible for refinancing with central banks					
a) treasury bills and interest-free treasury bonds and similar public debt instruments			209,606		0
b) bills of exchange			0		13,194
				209,606	13,194
including: eligible for refinancing with Deutsche Bundesbank	209,606				13,194
Claims on banks					
a) payable on demand			960,574		1,116,869
b) other			26,715,453		21,722,001
				27,676,027	22,838,870
including: building loans of Landes-Bausparkasse	539				641
Claims on customers				32,429,514	27,312,473
including:					
secured by mortgages	6,238,532				5,615,216
loans to public authorities and entities organized under public law	15,147,126				12,651,422
building loans of Landes-Bausparkasse	2,832,713				2,668,290
Bonds and other interest-bearing securities					
a) money market instruments					
aa) of public institutions		0			22,288
ab) of other issuers		34,779			5,001
			34,799		27,289
b) bonds and notes					
ba) of public institutions		5,468,140			6,225,261
bb) of other issuers		8,875,758			7,937,580
			14,343,898		14,162,841
including: eligible as collateral for Deutsche Bundesbank advances	4,865,135				6,188,551
c) bonds issued by the Bank			503,815		635,843
				14,882,492	14,825,973
principal amount	488,622				615,027
Shares and other non interest-bearing securities				509,741	169,688
Equity investments in non-affiliated companies				227,502	233,389
including:					
banks	107,899				106,845
associated companies	36,339				67,609
Equity investments in affiliated companies				28,637	31,485
including: investments in banks	0				0
Trust assets				4,827,278	4,685,917
including: trust loans	4,827,278				4,685,917
Equalization claims on public entities including bonds and notes issued in substitution thereof				12,187	12,630
Intangible assets				54,047	51,900
Fixed assets				325,794	340,787
Other assets				628,699	431,684
Deferred items				201,613	125,910
Total assets				82,029,736	71,083,689

Landesbank Rheinland-Pfalz — Group

Balance Sheet
as of December 31, 1996

Liabilities

	DM thousands	DM thousands	DM thousands	DM thousands	Dec. 31, 1995 DM thousands
Liabilities to banks					
a) payable on demand			2,361,972		2,256,112
b) with agreed maturity or period of notice			30,503,820		25,108,891
c) savers' deposits of Landes-Bausparkasse			12,336		11,482
				32,878,128	27,376,485
Liabilities to customers					
a) savings deposits and savers' deposits of Landes-Bausparkasse					
aa) savers' deposits of Landes-Bausparkasse		2,741,146			2,639,311
ab) savings deposits with agreed period of notice of three months		28,182			23,781
ac) savings deposits with agreed period of notice of more than three months		6,755			6,475
			2,776,083		2,669,567
b) other liabilities					
ba) payable on demand		1,814,109			1,801,119
bb) with agreed maturity or period of notice		8,645,455			10,281,953
			10,459,564		12,083,072
				13,235,647	14,752,639
Certificated liabilities					
a) bonds and notes issued by the Bank			26,871,108		20,364,188
b) other			201,950		212,006
				27,073,058	20,576,194
including: own acceptances and promissory notes outstanding	201,950				212,006
Trust liabilities				4,827,278	4,685,917
including trust loans	4,827,278				4,685,917
Other liabilities				603,986	430,350
Deferred items				270,854	209,084
Provisions					
a) for pensions and similar obligations			382,725		357,407
b) tax reserve			107,736		208,442
c) other			148,316		138,322
				638,777	704,171
Provisions for building society requirements				759	0
Special item including a reserve element				34,118	30,015
Subordinated liabilities				658,496	701,850
Profit participation capital				340,285	340,285
Provisions for general banking risks				100,000	0
Equity capital					
a) subscribed capital			520,000		520,000
b) reserves from retained earnings					
ba) reserves required by the Bank's Ordinance		106,450			96,500
bb) other reserves from retained earnings		622,405			545,945
			728,855		642,445
c) Adjusting item for minority interests					221
ca) Share of capital		396			0
cb) Share of profit		320	716		221
d) profit			118,779		114,033
				1,368,350	1,276,699
Total liabilities				82,029,736	71,083,689
Contingent liabilities					
a) contingent liabilities on negotiated bills of exchange			151,830		172,380
b) liabilities from guarantees and indemnity agreements			2,311,119		1,364,810
				2,462,949	1,537,190
Other contingent liabilities					
irrevocable credit commitments				3,488,797	3,541,004

Landesbank Rheinland-Pfalz — Group

Statement of Income
January 1 to December 31, 1996

	DM thousands	DM thousands	DM thousands	DM thousands	Dec. 31, 1995 DM thousands
Interest earned from					
a) lending and money market transactions		2,813,242			2,945,520
including Landes-Bausparkasse:					
savers' building loans	89,669				88,375
advance and bridge financing	58,819				52,319
other building loans	156				161
b) interest-bearing securities and book-entry securities		838,664			784,296
			3,651,906		3,729,816
Interest paid			3,066,485		3,214,139
of which: interest on savers' deposits of Landes-Bausparkasse	72,512				70,681
				585,421	515,677
Current income from					
a) shares and other non interest-bearing securities			1,462		1,792
b) equity investments in non-affiliated companies (other than associated companies)			18,895		8,817
c) equity investments in affiliated companies			1,179		967
d) equity investments in associated companies			1,381		3,833
				22,917	15,409
Income from profit pooling, profit transfer and partial profit transfer agreements				6,355	5,173
Commission income			150,523		126,077
including commission income of Landes-Bausparkasse:					
from entering into and arrangement of Landes-Bausparkasse savings contracts	16,088				14,272
from loan arrangements	7,766				7,403
Commission expenditure			70,027		54,299
including: entering into and arrangement of Landes-Bausparkasse savings contracts	36,315				25,821
				80,496	71,778
Net income from trading activities				56,433	52,812
Other operating income				96,157	69,535
Income from reversal of special item including a reserve element				746	746
General administrative expenses					
a) personnel costs					
aa) wages and salaries		166,874			156,685
ab) compulsory social security contributions and expenses for pensions and other employee benefits		69,986			71,585
			236,860		228,270
including: for pensions	53,560				56,381
b) other administrative expenses			136,739		110,569
				373,599	338,839
Carried forward				474,926	392,291

	DM thousands	DM thousands	DM thousands	DM thousands	Dec. 31, 1995 DM thousands
Carried forward				474,926	392,291
Depreciation and value adjustments on tangible and intangible fixed assets				39,330	33,372
Other operating expenses				54,789	70,137
Write-downs and value adjustments on loans and certain securities as well as allocations to loan loss provisions				91,174	48,794
including:					
Allocation to provisions for general banking risks	100,000				0
Write-downs and value adjustments on equity investments in non-affiliated companies (including associated companies) and affiliated companies and securities treated as fixed assets				5,424	7,682
Expenses from assumption of losses				190	1,647
Allocation to reserves with an equity portion				4,849	0
Operating results				279,170	230,659
Taxes on income and revenues				157,864	117,126
Net income for the year				121,306	113,533
Profit brought forward from previous year				7,743	10,000
				129,049	123,533
Allocation of net income to reserves from retained earnings					
— reserves required by the Bank's Ordinance				9,950	9,500
				119,099	114,033
Minority interest in profits				(320)	0
Profit				118,779	114,033

Notes to the Financial Statements

1. General

Landesbank Rheinland-Pfalz has prepared its unconsolidated and consolidated Annual Financial Statements in accordance with the provisions of the German Commercial Code (HGB) and the Regulation on Accounting by Credit Institutions (*Verordnung über die Rechnungslegung der Kreditinstitute*).

The Financial Statements for the year 1996 contain the figures for the Bank, including its Luxembourg branch, and also the figures for Landes-Bausparkasse Rheinland-Pfalz.

Consolidated in the Financial Statements of the Landesbank Group are:

— Landesbank Rheinland-Pfalz International S.A., Luxembourg,

— Deutsche Anlagen-Leasing Group, Mainz, as associated company,

— Westdeutsche ImmobilienBank Group, Mainz, included on a proportional basis pursuant to Section 310 of the HGB because the Bank has agreed with the other owners to manage the company jointly.

— The Meridian Vermögensverwaltungsgesellschaft mbH, Mainz,

— LB Rheinland-Pfalz Finance B.V., Amsterdam.

The last two of the above listed companies were included for the first time pursuant to Article 290 of the German Commercial Code.

The companies were consolidated for the first time on January 1, 1996.

As a result of the inclusion of LB Rheinland-Pfalz Finance B.V., Amsterdam, DM 2,315 million in liabilities to customers were shifted to certificated liabilities. In the previous year, these amounted to DM 1,475 million.

2. Accounting and Valuation Principles

Assets, liabilities and pending transactions were accounted for and valued in accordance with Sections 252 et seq. and Sections 340 et seq. of the HGB.

Claims on customers and on banks are shown at their principal amounts outstanding. Discounts on loans which were retained at the disbursement of such loans are entered under deferred items and are spread over the term of the loan or over a shorter period for which an interest rate has been agreed upon.

In the case of discernible risks relating to claims on customers or on banks, provisions were established in the amount of the expected loss (*Einzelwertberichtigungen*). In addition, provisions were established for risks inherent in the portfolio of claims in amounts based on past experience (*Pauschalwertberichtigungen*).

Bills of exchange (drafts) are carried at their actual cash value, in appropriate cases reduced by provisions (*Einzelwertberichtigungen*). They were discounted at their effective interest rates.

Certificated liabilities of public sector entities and all securities were valued in accordance with the strict minimum value principle.

Equity investments in non-affiliated companies and equity investments in affiliated companies are carried at cost; where loss of value is expected to be permanent, they are written down to the lower applicable value.

Derivative transactions entered into to hedge interest rate and other price risks are included in the overall assessment of the applicable risk categories and are therefore not shown separately. Other derivative transactions are carried at their market value. Valuation losses are accounted for, but valuation gains are not shown as income.

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

Liabilities are carried at the amount due. Differences are accounted for under deferred items under assets or liabilities and are released over the term of the related asset or liability.

The provision for pension obligations has been computed in accordance with actuarial principles on the basis of a 6% interest rate in accordance with Section 6a of the German Income Tax Act (*Einkommensteuergesetz*). Other provisions are adequate to cover any discernible risks and contingent liabilities.

Foreign currencies are converted in accordance with Section 340h of the HGB. Fixed assets denominated in foreign currencies are converted into DM at cost. Other foreign currency assets and liabilities and very short-term transactions (*Kassageschäfte*) entered into before, but settled after, the balance sheet date are converted at the mid-market exchange rate (*Kassa-Mittelkurs*) on the balance sheet date. Forward transactions not performed on the balance sheet date are converted at the forward exchange rate on the balance sheet date.

The consolidated Financial Statements are prepared in accordance with the accounting and valuation principles applicable to the Bank. The capital consolidation and the equity valuation of the associated company are based on the book value method.

Claims and liabilities as well as income and expenses among consolidated companies are consolidated. No profit or loss had to be eliminated.

3. Explanations on the Balance Sheet (DM millions)

Claims on banks

	Bank 1996	Group 1996	Bank 1995	Group 1995
Including:				
— claims on savings banks in Rheinland-Pfalz	5,713.4	5,744.2	4,986.6	5,005.7
— claims on affiliated companies	501.7	0	486.9	0
— claims on non-affiliated companies in which the Bank holds an equity investment	741.6	1,041.6	786.2	1,068.6
— subordinated claims	5.1	5.1	0	0
— claims serving as cover for bonds issued	13,741.2	13,862.6	12,368.4	12,355.1
Sub-item b) "other claims" includes claims with an original maturity or non-prepayment period of:				
— less than three months	3,046.6	3,060.8	2,279.5	2,395.1
— at least three months but less than four years	12,098.8	13,054.7	8,859.0	9,860.6
— four years or more	9,439.1	10,599.9	8,472.2	9,466.3

Claims on customers

	Bank 1996	Group 1996	Bank 1995	Group 1995
Including:				
— claims on affiliated companies	42.6	40.5	43.4	43.4
— claims on non-affiliated companies in which the Bank holds an equity investment	315.1	315.1	287.4	287.4
— subordinated claims	5.0	5.0	0.5	0.5
— claims serving as cover for bonds issued	22,796.2	23,292.2	19,950.0	19,950.0
This item includes claims with an original maturity or non-prepayment period of:				
— less than four years	6,214.3	6,816.8	4,958.9	5,327.8
— four years or more	24,396.4	25,612.7	21,474.7	21,984.7

Bonds and other interest-bearing securities

	Bank 1996	Group 1996	Bank 1995	Group 1995
Including:				
— claims on affiliated companies	218.1	0	202.5	0
— claims on non-affiliated companies in which the Bank holds an equity investment	243.4	243.4	111.5	139.5
— subordinated claims	3.5	3.5	3.5	9.9
— securities serving as cover for debt issues	1,231.5	1,231.5	0	0
Securities eligible for listing on a stock exchange included in this item				
— listed on a stock exchange	10,369.8	12,633.0	11,772.6	13,227.6
— not listed on a stock exchange	1,976.3	2,249.5	1,417.5	1,598.4
Sub-item b) "bonds and notes" includes bonds and notes with an original maturity or non-prepayment period of:				
ba) public institutions as issuers				
less than four years	115.7	170.3	379.2	399.8
four years or more	4,328.6	5,297.8	5,046.9	5,825.5
bb) other issuers				
up to (and including) four years	1,326.8	1,711.4	1,551.5	1,772.5
more than four years	6,303.1	7,164.4	5,772.0	6,165.1

Shares and other non interest-bearing securities

	Bank 1996	Group 1996	Bank 1995	Group 1995
Securities eligible for listing on a stock exchange included in this item				
— listed on a stock exchange	338.1	340.0	53.2	54.9
— not listed on a stock exchange	17.3	115.5	16.4	109.3
This item includes subordinated securities in the amount of	15.6	15.6	15.6	15.6

Equity-Investments in Non-Affiliated Companies

	Bank 1996	Group 1996	Bank 1995	Group 1995
Securities eligible for listing on a stock exchange				
— listed on a stock exchange	0	0	0	0
— not listed on a stock exchange	24.8	24.8	24.9	24.9

Shares in affiliated companies

	Bank 1996	Group 1996	Bank 1995	Group 1995
Securities eligible for listing on a stock exchange				
— listed on a stock exchange	0	0	0	0
— not listed on a stock exchange	130.4	24.4	130.4	24.4

Notes to the Financial Statements — (Continued)

Trust assets

	Bank 1996	Group 1996	Bank 1995	Group 1995
including:				
— claims on banks	55.3	55.3	69.0	69.0
— claims on customers	4,762.1	4,772.0	4,609.3	4,617.0
Governmental housing loans included in this item amount to	4,607.5	4,607.5	4,430.3	4,430.3

Equalization claims on public entities including bonds and notes issued in substitution thereof

	Bank 1996	Group 1996	Bank 1995	Group 1995
Serving as cover for bonds issued included in this item	0	0	0	12.6

Fixed assets

	Bank 1996	Group 1996	Bank 1995	Group 1995
including:				
— real estate and buildings used for the Bank's own business	225.7	225.9	273.2	279.2
— office equipment	39.8	46.7	35.3	41.6

Other assets

	Bank 1996	Group 1996	Bank 1995	Group 1995
including:				
— deferred interest-rate swaps	292.5	389.4	135.1	212.8
— claims for tax refunds	113.5	114.0	122.8	123.1
— subordinated items	0.1	0.1	0.1	0.1

Deferred items

	Bank 1996	Group 1996	Bank 1995	Group 1995
including premiums and discounts relating to claims and liabilities of	133.1	141.7	103.5	104.7

Indications relating to several items

	Bank 1996	Group 1996	Bank 1995	Group 1995
Assets denominated in a foreign currency	8,839.1	11,677.9	7,159.1	9,596.1
Book value of assets under repurchase agreements	0	60.5	0	18.7

Investments

	Acquisition/ production costs	Additions	Subtractions	Transfers	Write-ups	Depreciations 1996	Depreciations cumulated	Book value Dec. 31, 1996	Book value Dec. 31, 1995
Bank									
Equity investments in non-affiliated companies	323.9	63.7	8.7	0	0	1.6	1.7	377.2	323.4
Equity investments in affiliated companies	137.4	0.3	0	0	0	2.3	2.3	135.4	137.4
Fixed assets	413.3	23.8	15.0	0	0	32.5	106.8	315.3	324.7
Bank total	874.6	87.8	23.7	0.0	0.0	36.4	110.8	827.9	785.5
Group									
Bonds and other interest-bearing securities	24.9	28.6	0	0	0	0	0	53.5	24.9
Equity investments in non-affiliated companies	233.9	2.6	8.7	0	1.4	1.6	1.7	227.5	233.4
Equity investments in affiliated companies	31.5	0.6	1.2	0	0	2.3	2.3	28.6	31.5
Intangible assets	0.3	0.1	0	0	0	0	0.3	0.1	0
Goodwill	51.9	8.0	2.1	0	0	3.8	3.8	54.0	51.9
Fixed assets	438.5	27.3	23.2	0	0	35.4	116.8	325.8	340.8
Group total	781.0	67.2	35.2	0.0	1.4	43.1	124.9	689.5	682.5

The amount under write-ups reflects increases in the equity capital of Deutsche Anlagen Leasing Group included according to the equity method.

Liabilities to banks

	Bank 1996	Group 1996	Bank 1995	Group 1995
including:				
— liabilities to related savings banks	5,457.0	5,580.4	4,140.1	4,256.5
— liabilities to affiliated companies	316.4	51.7	401.8	0
— liabilities to non-affiliated companies in which the Bank holds an equity investment	2,980.5	4,048.8	3,100.2	3,769.7
Sub-item b) includes liabilities with an original maturity or non-prepayment period of:				
— less than three months	12,446.9	15,121.9	12,674.6	14,842.1
— at least three months but less than four years	9,771.7	10,886.5	6,714.4	7,367.9
— four years or more	3,964.6	4,527.7	2,952.6	2,910.3
of which: due within four years	23,849.5	27,860.7	20,533.2	23,325.9

Liabilities to customers

	Bank 1996	Group 1996	Bank 1995	Group 1995
including:				
— liabilities to affiliated companies	2,324.1	12.1	1,511.7	1,514.2
— liabilities to non-affiliated companies in which the Bank holds an equity investment	346.8	346.8	240.2	240.2
Sub-item bb) includes liabilities with an original maturity or non-prepayment period of:				
— less than three months	1,243.3	1,605.8	1,467.3	1,998.7
— at least three months but less than four years	493.1	797.4	637.9	940.5
— four years or more	8,531.5	6,242.3	7,342.6	7,342.8
of which: due within four years	5,321.3	5,085.6	5,478.1	6,312.1

Certificated liabilities

	Bank 1996	Group 1996	Bank 1995	Group 1995
Including:				
— liabilities to affiliated companies	50.8	20.2	26.0	18.3
— liabilities to non-affiliated companies in which the Bank holds an equity investment	419.9	477.6	177.3	177.3
This item includes liabilities with an original maturity or non-prepayment period of:				
— up to four years	5,774.6	5,834.8	5,162.2	5,162.2
— four years or more	18,375.4	21,238.2	15,211.4	15,414.0
of which: due within four years	17,007.2	18,166.2	14,671.6	14,671.6

Trust liabilities

	Bank 1996	Group 1996	Bank 1995	Group 1995
including:				
— liabilities to banks	191.2	191.2	222.9	222.9
— liabilities to customers	4,626.2	4,636.1	4,455.4	4,463.1
Governmental housing loans included in this item amount to	4,607.5	4,607.5	4,430.3	4,430.3

Other liabilities

	Bank 1996	Group 1996	Bank 1995	Group 1995
including:				
— deferred interest-rate swaps in the amount of	286.1	395.7	225.9	317.2
— proportionate share of interest owed for subordinated liabilities	12.8	12.8	0	0

Deferred items

	Bank 1996	Group 1996	Bank 1995	Group 1995
Deferred items on the liabilities side include received discounts relating to claims	115.5	125.8	107.3	109.6

Provisions

	Bank 1996	Group 1996	Bank 1995	Group 1995
Pension obligations on the balance sheet date but not shown in the balance sheet	0	0	0	0.8

Special item including a reserve element

	Bank 1996	Group 1996	Bank 1995	Group 1995
The special items shown were based on following laws:				
— Section 6 b of the German Income Tax Act	29.3	29.3	30.0	30.0
— Article 54 Luxembourg Income Tax Act	0	4.8	0	0

Subordinated liabilities

	Bank 1996	Group 1996	Bank 1995	Group 1995
Costs incurred in connection with the raising of the funds shown in this item	42.5	42.5	30.8	33.7

Details as to subordinated liabilities:

Description	currency	amount	interest rate	due
Debt certificate borrowing	DM	60.0	9.00%	06/19/2002
Notes	DM	141.3	8.30%	06/19/2002
Collared Floating Rate Notes	US-$	155.5	6-months-Libor Cap: 8% Floor: 5%	12/29/2005
Notes	Yen	33.5	4.95%	09/13/2004
Dual Currency Notes	Yen	268.2	5.30%	10/16/2015
Bank total		658.5		
Group total		658.5		

The terms of subordination of these funds meet the requirements of the German Banking Act. A conversion into equity or into another form of debt is not provided for. There is no right of early redemption.

Equity capital

	Bank 1996	Group 1996	Bank 1995	Group 1995
This item is composed as follows:				
a) subscribed capital	520.0	520.0	520.0	520.0
b) reserves from retained earnings/ reserves from retained earnings of the Group				
ba) reserves required by the Bank's Ordinance	106.5	106.5	96.5	96.5
of which: reserves of Landes-Bausparkasse	18.9	18.9	18.2	18.2
bb) other reserves from retained earnings	525.0	622.4	471.0	546.0
of which: reserves of Landes-Bausparkasse	177.8	177.8	168.8	168.8
c) Third parties' interests in the equity capital	0	0.4	0	0.2
d) profit	89.5	119.1	85.2	114.0
of which: profit of Landes-Bausparkasse	5.8	5.8	9.0	9.0

Indications relating to several items

	Bank 1996	Group 1996	Bank 1995	Group 1995
Liabilities denominated in a foreign currency	11,275.2	14,017.7	7,924.7	10,327.0

4. Notes to the Statement of Income (DM millions)

Geographical breakdown:

Interest income

	Bank 1996	Group 1996	Bank 1995	Group 1995
— Federal Republic of Germany	2,999.4	3,058.8	3,128.1	3,134.0
— Europe	171.7	593.1	178.1	595.8

Current income from shares and other non interest-bearing securities, equity investments in non-affiliated companies and in affiliated companies

	Bank 1996	Group 1996	Bank 1995	Group 1995
— Federal Republic of Germany	38.8	29.3	26.5	20.6
— Europe	0	0	0	0

Commission income

	Bank 1996	Group 1996	Bank 1995	Group 1995
— Federal Republic of Germany	114.4	130.5	101.9	110.0
— Europe	0	20.0	0	16.1

Net income from trading activities

	Bank 1996	Group 1996	Bank 1995	Group 1995
— Federal Republic of Germany	44.8	45.3	52.0	52.3
— Europe	2.0	11.1	(4.9)	0.5

Other operating income

	Bank 1996	Group 1996	Bank 1995	Group 1995
— Federal Republic of Germany	51.3	90.8	46.2	68.9
— Europe	0	5.4	0	0.6

5. Further Information

Cover fund (DM millions)

	Bank 1996	Group 1996	Bank 1995	Group 1995
Mortgage-backed bonds				
Mortgage-backed bonds in circulation	1,630.5	1,724.6	1,914.7	1,914.7
Assets serving as cover	5,035.5	5,284.0	4,835.2	4,835.2
Cover surplus	3,405.0	3,559.4	2,920.5	2,920.5
Public debt-backed bonds				
Public debt-backed bonds in circulation	12,034.2	12,290.1	10,867.9	10,867.9
Assets serving as cover	14,646.8	15,041.4	14,656.0	14,656.0
Cover surplus	2,612.6	2,751.3	3,788.1	3,788.1
Other bonds according to the Bank's Ordinance				
Bonds outstanding	16,038.3	16,038.3	10,768.6	10,768.6
Assets serving as cover	18,086.7	18,086.7	12,827.2	12,839.9
Cover surplus	2,048.4	2,048.4	2,058.6	2,071.3

Information on transactions exposed to market risks

On the balance sheet date, unsettled futures contracts comprised:

— currency related futures contracts (such as forward currency transactions, interest rate swaps in foreign currencies, cross currency swaps and currency options)

— interest rate-related futures contracts (such as interest rate futures, interest rate swaps, forward rate agreements, floors and caps and interest rate options)

— futures contracts with other price risks (such as share futures, share options, index futures and index options).

Most of these transactions were entered into by the Bank and by the Group for hedging purposes.

Transactions in derivative products of the major Group companies are set forth in the following table:

Derivative Transactions — Volumes —

	Nominal values Dec. 31, 1996	Nominal values Dec. 31, 1995	Credit risk equivalents Dec. 31, 1996	Replacement costs Dec. 31, 1996
		— DM millions —		
Interest rate risks				
Interest rate swaps	36,620	22,645	371	762
FRAs	1,030	1,610	1	—
Interest rate options				
— Purchases	206	266	4	29
— Sales	322	457	—	—
Caps, Floors	3,495	2,395	8	14
Exchange traded contracts	739	297	—	—
Other interest-rate futures transactions	192	176	3	—
Interest rate risks total	42,604	27,846	387	805
Currency risks				
Forward currency transactions	26,165	19,945	112	—
Interest rate swaps in foreign currencies, cross currency swaps	3,314	2,158	130	144
Currency options				
— Purchases	237	223	1	—
— Sales	183	34	—	—
Exchange traded contracts	—	—	—	—
Other currency futures transactions	—	—	—	—
Currency risks total	29,899	22,360	243	144
Shares and other price risks				
Share forward transactions	—	—	—	—
Share options				
— Purchases	1	1	—	—
— Sales	5	15	—	—
Exchange traded contracts	122	109	—	—
Other forward transactions	—	—	—	—
Shares and other price risks total	128	125	—	—

Derivative Transactions — Maturity Breakdown —

	Interest rate risks		Currency risks		Shares and other price risks	
	Dec. 31, 1996	Dec. 31, 1995	Dec. 31, 1996	Dec. 31, 1995	Dec. 31, 1996	Dec. 31, 1995
	Nominal values — DM millions —					
Residual time to maturity						
— less than 1 year	6,596	4,680	26,716	20,821	128	125
— less than 5 years	18,530	13,783	2,012	917	—	—
— more than 5 years	17,478	9,383	1,171	622	—	—
Total	42,604	27,846	29,899	22,360	128	125

Derivatives — counterparty breakdown —

	Nominal values Dec. 31, 1996	Nominal values Dec. 31, 1995	Credit risk equivalents Dec. 31, 1996	Replacement costs Dec. 31, 1996
	— DM millions —			
OECD banks	62,309	42,218	477	563
non-OECD banks	2,331	4,059	2	4
OECD public sector entities	213	180	—	2
Other counterparties*)	7,778	3,874	151	380
Total	72,631	50,331	630	949

*) including exchange traded contracts

Derivatives — transactions —

	Nominal values Dec. 31, 1996	Nominal values Dec. 31, 1995	Credit risk equivalents Dec. 31, 1996	Replacement costs Dec. 31, 1996
	— DM millions —			
Interest rate contracts	10,853	3,177	104	186
Currency contracts	29,795	22,254	207	144
Share contracts	—	12	—	—
Total	40,648	25,443	311	330

The credit risk equivalent is calculated pursuant to Principle I according to the time basis method and taking into consideration the counterparty weighting. The replacement costs, in contrast, are an amount computed only at the end of the year on the basis of market prices. Only contracts the covering of which — which would be necessary after an assumed failure of the counterparty in order to achieve the same position as existed prior to such failure — would lead to additional costs are included.

Other financial commitments not included in the balance sheet

On the balance sheet date the Bank has deposited bonds with a principal amount of DM 1,900 million with the Landeszentralbank in Rheinland-Pfalz und im Saarland, Mainz, as collateral for advances against securities (Lombard loans) of which DM 2 million where utilized. Furthermore, the Bank has pledged DM 1,856 million to the Landeszentralbank under repurchase agreements.

The Bank's contingent liability arising from its participation in the Reserve Fund of the Landesbanken/Girozentralen (*Sicherungsreserve*) for the protection of depositors of the public-sector banks amounted to DM 15.1 million on the balance sheet date. The maximum liability of the Bank is equal to 1% of deposits from non-bank customers. The Bank currently has no payment obligations to the fund.

In accordance with the statutes of the Deposit Insurance Fund, we are additionally obliged to indemnify the German Savings Banks and Giro Association e.V., Bonn, as the guardian of the Reserve Fund of the Landesbanken/Girozentralen, for any losses that they may incur arising from measures in support of a credit institution in which we hold an equity investment.

Financial obligations of about DM 34 million will be incurred due to initiated capital expenditures and planned maintenance measures.

Liabilities from not fully paid capital subscriptions relating to equity investments amounted to DM 5.5 million. Contingent liabilities in accordance with Section 24 of the Act Relating to Limited Liability Companies (*GmbH-Gesetz*) relating to calls for payment of capital contributions existed in the case of one company.

The Bank's equity capital in Liquiditäts-Konsortialbank GmbH, Frankfurt (Main), has been fully paid up. Under the obligation of each shareholder to make additional contributions in the amount of up to 5 times its equity capital in said bank, the Bank is liable for an amount of DM 25.7 million, commensurate with its equity capital in said bank. The Bank is obligated to make further contributions, in case other shareholders in said bank, who are members of the German Savings Banks and Giro Association fail to meet their obligations to make additional contributions.

Other than in the case of political risk the Bank undertakes to take all necessary steps to enable Landesbank Rheinland-Pfalz International S.A., Luxembourg, and WestLB (Schweiz) AG, Zurich, to perform their obligations. This commitment applies to WestLB (Schweiz) AG, irrespective of the ownership percentage of the Bank.

Supervisory Board of Landesbank Rheinland-Pfalz

Chairman

Friedel Neuber
from 20 March 1997
Vice Chairman:
until 19 March 1997

Vice Chairmen

Karl-Adolf Orth
from 20 March 1997
Chairman:
until 19 March 1997
Heinrich Haasis
Gernot Mittler

Members

Dr. Peter Barth
Jürgen Creutzmann
Hans-Jörg Duppré
Helmut Fahlbusch
Dr. Michael Frenzel
Kurt Grob
Paul Heidingsfeld
until 31 December 1996
Dr. Winfried Hirschberger
Max Dietrich Kley
Dieter Mühlenhoff
Dr. Wolf-Albrecht Prautzsch
Michael W. Schmidt
from 7 March 1997
Werner Schmidt
Dr. Wolfgang Schulte
Dr. Christof Wolff

Bank employees in advisory capacity

Werner Hauck
Günter Keuper
Bernd Kunze
Sigrid Müller-Gessinger
Günther Pönitz
Heiner Reckel
Beate Rüdiger
Wilfried Stephan
Juliane Zimmer

Deputy Members

Dr. Dieter Falke
Dr. Karl Heidenreich
Dr. Rudolf Holdijk
Georg Kalbfuß
Jakob Kaster
Siegfried Klaus
Richard Patzke
Hermann Paul
Alfred Reifenberg
Dr. Thilo Sarrazin
until 28 February 1997
Lothar Schatto
Heinz Scherer
Werner Schineller
Josef Schmidt
Rolf Wegeler
Peter Paul Weinert
Herman-Hartmut Weyel
until 3 May 1997

Managing Board of Landesbank Rheinland-Pfalz

Klaus G. Adam
Chairman

Hermann-Josef Bungarten

Franz-Karl Eichborn
until March 31, 1996

Werner Fuchs
from May 1, 1996

Dr. Friedhelm Plogmann
from May 1, 1996

Paul K. Schminke

Total remuneration of the Managing Board amounted to DM 3,121 thousand of the Supervisory Board to DM 501 thousand and of the Advisory Board to DM 126 thousand.

Current payments to former members of the Managing Board and their surviving dependents amounted to DM 2,703 thousand. Provisions for pension liabilities for this group currently amount to DM 24,032 thousand.

Loans granted to members of the Managing Board amounted to DM 356 thousand; to members of the Supervisory Board to DM 4,096 thousand.

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ISSUER

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Wirtschaftsprüfungsgesellschaft
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