

**Auction rules for the issue  
of Federal bonds, five-year Federal notes,  
Federal Treasury notes and Treasury discount paper  
(as of October 2007)**

1. Acting for the account of the Federal Government, the German Finance Agency, through the Deutsche Bundesbank, offers Federal bonds, five-year Federal notes, Federal Treasury notes and Treasury discount paper for sale by auction. The terms and conditions of each individual issue are announced together with the invitations to bid via press releases, financial information services and the Deutsche Bundesbank's Bund Bidding System (BBS).
2. There are no restrictions on the range of potential buyers. However, only members of the "Bund Issues Auction Group" determined by the German Finance Agency may participate in the auctions directly. German resident credit institutions, securities trading firms and securities trading banks pursuant to section 1 (1) and (3d) sentence 2 and sentence 3 of the German Banking Act and German branches of foreign enterprises pursuant to sections 53, 53b and 53c of the German Banking Act may become members provided that they are authorised to engage in issuing business pursuant to section 1 (1) sentence 2 number 10 of the German Banking Act. Membership is also possible for credit institutions within the meaning of Article 1 number 1 of Directive 2000/12/EC as well as for investment firms within the meaning of Article 4 (1) number 1 subparagraph 1 of Directive 2004/39/EC which are domiciled in another member state of the European Union and render investment services and activities within the meaning of numbers 1 to 6 of Annex I, section A of this Directive if the enterprise is licensed by the competent authorities of the home state, the business it conducts is covered by the licence, the enterprise is supervised by the competent authorities in accordance with the Directives issued by the European Union and the enterprise is not exempt from the application of the Directive. Subject to these conditions, the intra-Community branches of credit institutions authorised in a third country and the intra-Community branches of investment firms authorised in a third country within the meaning of the aforementioned Directive can also become members. Membership is subject to the requirement that monetary settlement of the auctions can be effected via a giro account at a branch of the Deutsche Bundesbank and delivery via an account at Clearstream Banking AG Frankfurt.
3. Applications for membership of the Auction Group may be submitted to the German Finance Agency at any time. Applicants have no legal right of admission to the Auction Group. The Auction Group members are expected to have submitted successful bids for at least 0.05% (unrounded) of the total issue amounts allotted, weighted by duration, at auctions in one calendar year. The respective weights to be applied will be published by press release and notified to all the bidders. A ranking list of the Auction Group members by size of their shares in the weighted issue volume allotted without quoting percentages will be published annually. Those member institutions which fail to reach the required minimum share of the total amount allotted will be excluded from the Auction Group; it will be possible for them to rejoin at a later date.
4. Bids are to be transmitted electronically through the Deutsche Bundesbank's Bund Bidding System (BBS) before the bidding deadline specified in the invitation to bid. The special terms and conditions for auction procedures of the Deutsche Bundesbank for auctions of German Federal securities using the Bund Bidding System (BBS) are an integral part of these auction rules.

5. Bids for Federal bonds, five-year Federal notes and Federal Treasury notes must be for a par value of no less than EUR 1 million or an integral multiple thereof and should state the price, as a percentage of the par value, at which the bidders are prepared to purchase the Federal securities offered. No yield bids will be considered for Federal bonds, five-year Federal notes and Federal Treasury notes. The price bids for Federal bonds and five-year Federal notes must be expressed as full 0.01 percentage points. The price bids for Federal Treasury notes must be expressed as full 0.005 percentage points. It is possible to make non-competitive bids and to submit several bids at different prices.

Bids for Treasury discount paper must be for a par value of not less than EUR 1 million or an integral multiple thereof and should state the yield at which the bidders are prepared to purchase the Treasury discount paper offered. No price bids will be considered for Treasury discount paper. The yield bids for Treasury discount paper must be expressed as full 0.0005 percentage points. It is possible to make non-competitive bids and to submit several bids at different yields.

The bidders are bound by their bids until allotment.

6. The bids for Federal bonds, five-year Federal notes and Federal Treasury notes which are accepted by the Federal Government will be allotted at the price specified in the bid. Bids which are above the lowest price accepted by the Federal Government will be allotted in full. Bids which are below the lowest accepted price will not be considered. Non-competitive bids are allotted at the weighted average price of the competitive bids accepted. The Federal Government reserves the right to reject all bids, or to scale down bids quoting the lowest accepted price, and/or to scale down non-competitive bids. If bids are scaled down, there will be no minimum allotment. Bids which have been submitted on time but which, for technical reasons, have to be considered after the allotment will have no effect on the weighted average price of accepted bids which is relevant for settlement.

The bids for Treasury discount paper which are accepted by the Federal Government will be allotted at the yield specified in the bid. Bids which are below the highest yield accepted by the Federal Government will be allotted in full. Bids which are above the highest accepted yield will not be considered. Non-competitive bids are allotted at the weighted average yield of the competitive bids accepted. The Federal Government reserves the right to reject all bids, or to scale down bids quoting the highest accepted yield, and/or to scale down non-competitive bids. If bids are scaled down, there will be no minimum allotment. Bids which have been submitted on time but which, for technical reasons, have to be considered after the allotment will have no effect on the weighted average yield of accepted bids which is relevant for settlement.

Bidders will be informed of the allotment immediately. The securities allotted will be settled on the value date specified in the invitation to bid. The settlement will be effected in the night-time processing of Clearstream Banking AG Frankfurt in accordance with the terms and conditions of Clearstream for night-time processing.

The Federal Government reserves the right to reopen the issues.

7. For any deviations from these auction rules, please see the invitation to bid concerned.

DEUTSCHE BUNDESBANK