

Financial Report

2004

WestLB Group



New Answers in Banking

Key Figures

Key Figures

in millions	WestLB Group		WestLB AG	
	2004 €	2003 €	2004 €	2003 €
Total assets	253,793	256,244	214,596	218,167
Business volume	349,118	365,242	270,535	291,481
Credit volume	222,177	234,446	193,821	207,039
Risk-weighted assets according to Principle I	114,332	135,294	71,209	82,512
Own funds pursuant to §§ 10, 10a KWG	14,828	16,896	10,736	12,082
Certificated liabilities	48,137	55,059	35,776	42,431
Deposits	179,056	176,215	153,318	152,474
Net interest income	1,592	1,891	1,657	1,548
Provisions for credit risks	118	- 1,182	234	- 1,098
Net interest income after provisions for credit risks	1,710	709	1,892	450
Net commission income	336	438	278	338
Net income from trading operations	- 171	1	- 93	- 104
Other operating expenses/income	213	254	59	142
Personnel expenses	924	985	698	685
Other administrative expenses	878	843	778	825
Result of securities and participations	52	- 1,022	35	- 1,266
Profit from ordinary activities	509	- 1,447	696	- 1,950
Special items from the EU aid proceedings	1,536	-	1,411	-
Profit/loss after taxes	- 1,159	- 1,897	- 920	- 2,320
Number of employees	7,154	7,738	5,132	4,955
BIS overall ratio	12.4%	12.2%	14.4%	14.3%
BIS core capital ratio	8.1%	7.6%	9.0%	8.8%
Overall ratio according to Principle I	13.0%	12.5%	15.1%	14.6%
Return on equity before taxes (excluding special items from the EU aid proceedings)	13.2%	neg.	13.5%	neg.
Cost-income ratio	79.7%	neg.	76.6%	neg.

Ratings	Short Term	Long Term
Moody's	P-1	Aa2
Standard & Poor's	A-1+	AA-
Fitch Ratings	F1+	AAA

Financial Report 2004

WestLB Group, Düsseldorf/Münster

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WestLB AG Group Statement of Financial Condition at December 31, 2004

Performance at a Glance

Despite a persistently challenging economic environment and a tough banking market, we achieved a profit from ordinary activities of € 508.6 million in the WestLB Group. Thus, after the high losses sustained in 2002 and 2003, WestLB Group returned to profitability on an operating basis in the year under review. Charges to the 2004 results came in the form of non-recurring expenses from settling the aid proceedings between the European Commission and public-law Landesbanks, which led to a net loss for the year of € 1,159.3 million.

We exceeded our earnings target by a wide margin. Excluding the charges resulting from the EU aid proceedings, we were aiming for a profit before taxes of at least € 357 million with the trading book marked to market. At € 528.4 million, we achieved a profit that surpassed our goal by nearly 50%. This adjusted result was calculated as follows – starting with the profit before taxes reported pursuant to the German Commercial Code (HGB):

WestLB Group Exceeds Its Target

	Dec. 31, 2004 € millions	2004 Target € millions
Result before taxes	- 1,075.0	
EU aid proceedings WestLB AG	1,411.3	
EU aid proceedings HSH Nordbank AG (at-equity)	124.3	
Change in unrecognised market value reserves	67.8	
Marked-to-market profit before taxes, adjusted for special items from the EU aid proceedings	528.4	> 357

As a result of the completion of the Wfa aid proceedings and related repayment to the State of North Rhine-Westphalia, WestLB AG incurred extraordinary expenses of € 1,411.3 million. Moreover, the at-equity consolidation of HSH Nordbank AG into the WestLB Group and the repayment of aid to the Freie und Hansestadt Hamburg and the State of Schleswig-Holstein resulted in charges of € 124.3 million in WestLB Group's annual accounts.

Also of note is that, apart from the realised gains and losses on derivatives and trading book holdings, unrealised gains can only be recognised under the German Commercial Code's imparity principle to the extent that they can be netted against realised losses at the macro portfolio level. The marked-to-market trading result was € -102.7 million, which is € 67.8 million higher than the result of € -170.5 million under the German Commercial Code.

Furthermore, additional key milestones were reached in 2004 in the restructuring of WestLB Group's business:

- The recording of the capital increase totalling € 1.5 billion in the Commercial Registers of Münster and Düsseldorf marked the official recognition of the new shareholder structure. Following this capital increase, the two savings banks associations of North Rhine-Westphalia, the Savings Banks and Giro Association of the Rhineland (RSGV) and the Savings Banks and Giro Association of Westphalia-Lippe (WLSGV), each hold 30.626% and thus a combined majority of WestLB.
- The basis of the financial alliance between WestLB and the savings banks in North Rhine-Westphalia was embodied in a master agreement as well as a series of bilateral agreements.
- WestLB set up reserve funds with the two savings banks associations of € 500 million each.
- The sale of non-strategic equity investments and reduction of risk concentrations in the lending and investment portfolio freed up additional equity capital for a targeted development and expansion of certain core fields in the new business model.

Backed by the key strategic course set in 2004 and strengthened by its financial alliance with the savings banks in North Rhine-Westphalia, WestLB considers itself to be in an excellent position to face future challenges, even after the elimination of guarantor liability and institutional liability.

Economic Setting

The global economic upswing exceeded all expectations in 2004. World GNP grew an average of nearly 5% over the year, a level of momentum last seen in the mid-1980s. The pace of growth picked up substantial steam, more or less, in all corners of the global economy. The emerging markets in Asia once again achieved the highest rates, centred around China as growth pole, but above-average growth was also reported in Latin America, as well as the transition countries of Central and Eastern Europe. Among industrialised nations, the United States topped the list again, and even in deflation-ridden Japan, demand and production rose considerably.

Fostered by the sharp upturn in the global economy, expansionary forces also reclaimed the upper hand in Germany and the other partner nations to Economic and Monetary Union (EMU). After three years of quasi stagnation, overall economic output was up 1.6% in Germany. About a third of this growth, however, was due to the greater number of working days. The economy itself grew by a mere 1.0%, in a year characterised by boom-like expansion in the world economy. Foreign trade accounted for nearly all of the momentum. Domestic demand, in contrast, continued to drag, with private consumption "ailing", in particular. As in prior years, growth in the EMU overall – adjusted for calendar effects – was a good half a percentage point higher than in Germany.

In the wake of the global upswing, crude oil prices rose sharply, but so did the prices for non-energy raw materials. Crude prices temporarily reached new record levels in the autumn, at over US\$ 50 a barrel. Despite the inflationary impulses coming from the world's raw materials markets, the increase in consumer prices was relatively moderate, especially as global competition prevented the inflationary trends from spreading to wages.

Development in the Banking Sector

After a series of challenging years, gross income figures for the European banking industry rose only slightly in 2004. Fixed-income business lost momentum over the course of the year, as interest rates started to climb again and bond spreads narrowed. Compared to the previous year, performance in the equities business improved noticeably, but the gains during 2004 were just modest. The same proved true for asset management. The lending business was the only area to develop positively overall.

Domestically, 2004 was an even less favourable year, with lending and deposit-taking activities expanding only slightly. In contrast to developments in the rest of Europe, corporate lending in Germany continued to drop. Commercial real estate finance has been on the decline for years, and even residential construction lending reported almost no gains. Some of Germany's major banks, in particular, suffered drops in income, while most of their European counterparts managed to achieve at least minimal growth.

Despite what was in some cases a weak performance in individual product segments, the earnings situation of banks continued to improve in the year under review. Cost-cutting measures and distinctly lower levels of risk provisioning were factors. Nevertheless, the euro's sharp rise against the dollar tempered the recovery at institutions with a sizeable U.S. business.

EU Proceedings

The recent history of WestLB has been characterised not only by challenges posed by the market, but also by questions raised about the integration of the Wohnungsbauförderungsanstalt (Wfa), as well as about institutional liability and guarantor liability. As Germany's largest and most international Landesbank, WestLB has been the centre of attention – often as a representative of the entire public-law financial sector – in the struggle to settle the controversy over key issues facing the European banking market.

In 1992 the State of North Rhine-Westphalia integrated the Wohnungsbauförderungsanstalt (Wfa) into WestLB as a contribution in kind, a move which brought WestLB roughly € 2 billion in additional liable capital. This capital was a key factor in WestLB's growth and the long-term increase in its value in the nineties. The Federal Banking Supervisory Office and the Directorate-General of the European Commission responsible for banks expressly upheld the recognition of Wfa's assets as qualified contributions towards WestLB's capital adequacy. Later on, some of the other federal states took similar measures for their Landesbanks.

In 1994 the Association of German Banks (BdB) filed a complaint with the European Commission which challenged the remuneration for the Wfa capital. Their complaint resulted in the Commission's decision of 1999 that the integration of Wfa was to be regarded as impermissible aid. The sole basis of the Commission's decision was that the remuneration for the Wfa integration was too low.

The German Federal Government, State of North Rhine-Westphalia and WestLB appealed the Commission's decision with the European Courts and prevailed. In March 2003, the European Court of First Instance overturned the decision of the Commission, primarily because of the Commission's failure to substantiate the 12% base rate of return and 1.5% risk premium. Since both of these parameters were of paramount importance to the economic analysis underlying the Commission's strategy, the Court was unable to make any definitive judgement on the reasonableness of the Wfa remuneration.

Since its original decision was overturned, the Commission announced that it would follow the standard procedure in such cases and issue a new decision.

In the summer of 2004, an understanding was reached with the BdB about a reasonable remuneration for the Wfa capital.

Taking this understanding into account, the European Commission issued a new decision on October 20, 2004, which it based on the rate of return negotiated with the BdB. The amount, including interest, that WestLB owes to the State of North Rhine-Westphalia as a result is approximately € 1.4 billion. By means of an effective payment, WestLB implemented the decision on January 21, 2005, as agreed and within the specified time.

Aware of the Commission's upcoming new decision, the owners of WestLB executed a shareholders' agreement in the summer of 2004 in which they pledged to ensure that WestLB was adequately capitalised.

In parallel proceedings against HSH Nordbank AG, the Commission issued a decision in late 2004 requiring HSH Nordbank AG as the legal successor to Landesbank Schleswig-Holstein and Hamburgische Landesbank to pay the sum of approximately € 756 million to the State of Schleswig-Holstein and the Freie und Hansestadt Hamburg. This repayment was made at the turn of the year 2004/2005. The shareholders of HSH Nordbank AG pledged in an agreement to offset the resulting charges with capital measures that would inject some € 556 million into the bank.

Elimination of Institutional Liability and Guarantor Liability

Separately from the proceedings described above, the European Banking Association filed its own complaint with the European Commission, the goal of which was to have institutional liability and guarantor liability for public-law banks recognised as state aid and held to be at odds with European competition law. The Commission agreed and demanded that the Federal Republic of Germany eliminate these liability mechanisms.

In order to protect the public-law banks from the ongoing pressure of lengthy court battles and prevent them from weakening in the market as a result, WestLB reached an out-of-court settlement with the Commission. The settlement provides for the continued existence of the legal structure of public-law banks; however, after a transitional phase ending on July 18, 2005, institutional liability and guarantor liability will be eliminated. The new liability structures taking their place will be more akin to the relationship between a shareholder and a corporation organised under private law.

The guarantors of public-law banks will retain the right to provide their institutions with capital, but they will have to do so on prevailing market terms in order to comply with European aid law.

The rules and transitional periods set forth in the understanding reached with the Commission are as follows:

All liabilities incurred by July 18, 2001 remain fully covered by institutional and guarantor liability until the time they mature. For creditors of banks that were supported by institutional and guarantor liability, such as WestLB AG, this means that there will be no changes for commitments made by the July 18, 2001 deadline (i.e. these claims are grandfathered in).

Institutional liability and guarantor liability will remain in effect in their present form during the transitional period, which lasts from July 19, 2001, through July 18, 2005.

Any liabilities incurred during this transitional period are completely covered by guarantor liability so long as they mature by December 31, 2015.

With respect to these liabilities and up until the time that all such liability items have matured, the guarantors will completely satisfy the obligations arising from their guarantor liability, as soon as they have properly determined and set forth in writing that the creditors of such liabilities cannot be satisfied from the respective institution's assets. This explicitly includes the possibility of servicing debts precisely at the same time they fall due. The giving of a notice as normally required under aid law will not be necessary.

The mandatory rules and regulations have been established in the applicable state laws.

Structural Changes in the WestLB Group

WestLB has revised its strategy fundamentally and in the first half of 2004 worked in cooperation with the owners to develop a new business model. Based on this new model, WestLB will position itself as a European commercial bank, with firm roots in its home region of North Rhine-Westphalia (NRW) and Germany. Of central importance is a close business partnership with the savings banks in North Rhine-Westphalia and Brandenburg, where WestLB's expertise in national and international investment and corporate banking will play a key role. The Bank will serve as a gateway to the world's markets for the savings banks, their customers and medium-sized companies, while the broad distribution platform that the savings banks represent will enable the Bank to offer its international clients access to the German market. The financial alliance between WestLB and the savings banks in North Rhine-Westphalia has its contractual basis in a framework agreement, as well as bilateral agreements. The essence of the bilateral agreements is an annual business plan which the respective savings bank and WestLB establish jointly in their agreed mutual business fields. The savings banks and WestLB act as a unified organisation in conjunction with the financial alliance, but remain independent legal entities with autonomous responsibility for the business and economic aspects of their own companies.

The organisational structure of WestLB was adapted in accordance with the new business model and a Managing Board made up almost entirely of new members took office. Dr. Thomas R. Fischer has been serving as Chairman of the Managing Board since January 1, 2004. Also in January, Dr. Matthijs van den Adel assumed his post as Chief Risk Officer. Dr. Norbert Emmerich assumed his role in May 2004 as the Board member responsible for the savings banks partnership and lending business. Robert M. Stein, an investment banker with substantial international experience, came on board in July 2004 to head the asset management unit and oversee the planned rebuilding of the private banking business. Dr. Hans-Jürgen Niehaus, Chief Financial Officer, joined as the final member in November 2004.

In June 2004, the shareholders' meeting endorsed a € 1.5 billion capital increase. The owners agreed that the Savings Banks and Giro Association of the Rhineland, as well as the Savings Banks and Giro Association of Westphalia-Lippe, would each contribute half of the additional capital. Effective July 1, 2004, the two savings banks associations also exercised their direct investment option, converting their shares in NRW.BANK into direct stakes in WestLB AG. Following the capital increase completed in October 2004, the two savings banks associations of North Rhine-Westphalia each held 30.626% of WestLB's shares at year-end, which gave them a combined majority. The State of North Rhine-Westphalia is an indirect shareholder in WestLB AG through NRW.BANK. With the new majority shareholder structure, the parent-subsidiary relationship between NRW.BANK and WestLB was dissolved. Additional changes to the shareholder structure came about in February 2005 due to the conversion of the second tranche of silent contributions to capital from 2003. As a result, the Regional Associations of the Rhineland and Westphalia-Lippe as well as the State of North Rhine-Westphalia directly hold a total of 1.215% of WestLB AG. This slightly reduced the stakes of the savings banks associations to 30.372% each; NRW.BANK's stake now stands at 38.041%.

In July 2004, the Bank's owners reached an agreement to establish reserve funds totalling € 1 billion as of October 1, 2004. To this end, each of the savings banks associations set up in equal parts with WestLB a reserve fund of € 500 million. Each fund consists of liquid funds of € 250 million and an additional funding obligation of the same amount. The two associations and WestLB paid the first annual instalments of € 12.5 million in the year under review. The purpose of the reserve funds is to support WestLB and the member savings banks should any of them face imminent or existing financial difficulties. The new reserve funds will complement the existing security reserve of the German Savings Banks and Giro Association (DSGV), of which WestLB remains a member. Both the capital increase and the new reserve funds are an expression of the close partnership between WestLB and the savings banks of North Rhine-Westphalia.

Another aspect of the new business model is relieving the balance sheet of activities and investments which are no longer compatible with its strategic direction. In fiscal 2003, the Bank had already subjected its loan and investment portfolios to a thorough review, making adjustments where necessary. The principal finance portfolio underwent further trimming in the year under review. For example, the Bank sold its stakes in British cinema chain Odeon Limited and in BoxClever.

WestLB also freed up additional equity capital by disposing of non-strategic investments. We sold our stake in LRP Landesbank Rheinland-Pfalz at the beginning of 2004. Later in the year, we disposed of our shares in TUI AG and reached an agreement on selling our stake in Klöckner & Co AG. The Bank will continue to scale back its portfolio of non-strategic investments in the current fiscal year.

In the autumn of 2004, WestLB and NORD/LB Norddeutsche Landesbank Girozentrale signed a letter of intent on establishing a joint venture for the settlement and sale of non-performing loans. In a first step, real estate loans totalling € 400 million will be brought into the joint venture, followed also by loans to corporate clients. Eventually, the goal is to invite third parties, particularly public-sector entities, to participate in the new entity.

In 2004 WestLB agreed to increase its stake in Deutsche Anlagen-Leasing GmbH (DAL) to around 92% of the voting rights by acquiring the shares held by fellow DAL shareholders Landesbank Hessen-Thüringen Girozentrale and LRP Landesbank Rheinland-Pfalz. Within the Savings Banks Finance Group, DAL is a specialist in liquidity and balance sheet-enhancing leasing and rental solutions for real estate and large-scale movables. By becoming the majority shareholder, WestLB has taken a first step towards its goal of actively participating in the anticipated consolidation in the German leasing market. In March 2005, WestLB agreed to sell its majority stake to the Deutsche Leasing Group. The consolidation within the savings banks sector will progress further as a result of bundling the activities of Deutsche Leasing and DAL. WestLB is entering into cooperation agreements to ensure that its customers will continue to have access to the full range of services offered by the Deutsche Leasing Group.

Effective January 1, 2005, we transferred our global IT infrastructure as well as parts of application development to Hewlett-Packard. In conjunction with this move, some 400 employees of the former IT service provider, a WestLB Group company, have been offered jobs at Hewlett-Packard. In future, the Bank wants to focus more intently on its core competencies. By outsourcing these activities, we will reduce our IT costs even further and gain access to flexible, top-quality IT products and services. Due to the high implementation costs, the intended cooperation with DZ BANK AG in the area of domestic and international payment transactions was discontinued.

Composition of the WestLB Group

WestLB Group consists of WestLB AG, Düsseldorf/Münster, together with WestLB AG's 426 affiliated companies. In addition to WestLB AG, 79 affiliated companies are consolidated into the Group accounts; three of these are subgroups: Boullioun Aviation Services Inc., Westdeutsche ImmobilienBank and, new in fiscal 2004, Banco WestLB do Brasil S.A.

WestLB AG continues to dominate the business activities of WestLB Group; in terms of total assets after consolidation, WestLB AG accounts for approximately 84.6%, while the consolidated subsidiaries account for 15.4%.

The following chart depicts the major companies of WestLB Group and their share in total consolidated assets.

Composition of the WestLB Group

	Total Assets Dec. 31, 2004 € billions	Total Assets Dec. 31, 2003 € billions	Changes Dec. 31, 2003 to Dec. 31, 2004 in %
- WestLB AG, Düsseldorf/Münster	214.6	218.2	- 1.6
- Westdeutsche ImmobilienBank (Subgroup)	21.5	20.1	7.0
- WestLB International S.A., Luxembourg	14.2	15.8	- 10.1
- WestLB Covered Bond Bank plc, Dublin	11.1	7.0	58.6
- Banque d'Orsay, Paris	4.5	3.4	32.4
- WestLB Ireland plc, Dublin	3.7	4.0	- 7.5
- Boullioun (Subgroup)	2.0	2.0	0.0
- WestLB (Italia) Finanziaria S.p.A., Milan	1.0	0.9	11.1
- Other Group companies/Subgroup	13.4	16.8	- 20.2
Consolidations	- 32.2	- 32.0	0.6
WestLB Group	253.8	256.2	- 0.9

Employees

The number of employees in the Group dropped by 584, from 7,738 at December 31, 2003 to 7,154 (6,893 full-time employees) at December 31, 2004. The cuts were handled, as before, in a socially responsible manner. In such situations, WestLB uses a variety of innovative personnel management tools. Effective January 1, 2005, responsibility for the services previously rendered by WestLB Systems was transferred to Hewlett-Packard. In conjunction with this transfer of business, Hewlett-Packard hired over 400 WestLB employees. Personnel expenses for the Group as a whole fell 6.1% to € 924.3 million.

Accounting Methods and Reporting Standards

The Group annual accounts and Group statement of financial condition were prepared in accordance with the provisions of the German Commercial Code (HGB), the German Stock Corporation Act (AktG) and the Ordinance Regarding Accounting for Banks and Financial Services Institutions (RechKredV). The applicable German Accounting Standards (GAS) from the German Accounting Standards Committee (GASC) were also followed.

The EU regulation of July 19, 2002 on the application of international accounting standards ("IAS Regulation") requires companies whose securities are admitted to trading on a regulated market of any Member State to prepare their consolidated accounts in conformity with the international accounting standards for fiscal years beginning on or after January 1, 2005. Companies which have only debt securities admitted to trading on a regulated market of any Member State or whose securities are admitted to public trading in a non-member State and which, for that purpose, already apply internationally accepted standards, were given the option of extending the deadline for application of the International Financial Reporting Standards (IFRS) to fiscal years beginning on or after January 1, 2007.

WestLB intends to prepare its first IFRS consolidated annual accounts at December 31, 2006.

Statement of Income

The following factors, in particular, shaped WestLB Group's earnings performance in fiscal 2004:

On the one hand, WestLB Group succeeded in achieving a result from ordinary activities of € 508.6 million due to higher net interest income following credit risk provisioning, additional cost savings and systematic portfolio realignment, despite persistently challenging conditions in the banking sector overall.

On the other hand, through completion of the so-called Wfa aid proceedings with the European Commission and resulting repayment, WestLB incurred, both directly and indirectly through its equity stake in HSH Nordbank AG, extraordinary expenses of € 1.5 billion, which had a significant impact on the bottom line in 2004.

The total net loss for the year of € 1,159.3 million will be offset with transfers from capital and Group reserves and from silent contributions. The obligations under profit participation certificates are being serviced in accordance with the terms on which the certificates were issued.

We calculate the return on equity by setting the result for the year (profit/loss before taxes/net income for the year) in relation to the average equity capital reported on the balance sheet, marking the trading book to market and eliminating the non-recurring expenses related to the EU aid proceedings. After negative return on equity in the previous year, the return for 2004 was 13.2% before taxes and 11.1% after taxes.

WestLB Group Statement of Income January 1 – December 31, 2004

	1. 1.–31. 12. 2004 € millions	1. 1.–31. 12. 2003 € millions	€ millions	Change in %
Net interest income	1,591.7	1,891.4	- 299.7	- 15.8
Provisions for credit risks	117.9	- 1,181.8	1,299.7	> 100
Net interest income after provisions for credit risks	1,709.6	709.6	1,000.0	> 100
Net commission income	336.4	438.1	- 101.7	- 23.2
Net income from trading operations	- 170.5	1.4	- 171.9	> - 100
Other operating expenses/income	212.6	254.3	- 41.7	- 16.4
Personnel expenses	924.3	984.7	- 60.4	- 6.1
Other administrative expenses	878.2	843.3	34.9	4.1
Result of securities and participations	52.2	- 1,021.9	1,074.1	> 100
Income from the release of the fund for general bank risks established under § 340g of the German Commercial Code (HGB)	170.8	0.0	170.8	> 100
Result from ordinary activities	508.6	- 1,446.5	1,955.1	> 100
Extraordinary result	- 1,583.6	- 390.8	- 1,192.8	> - 100
Result before taxes	- 1,075.0	- 1,837.3	762.3	41.5
Taxes on income and revenues	84.3	60.1	24.2	40.3
Profit/Loss for the year	- 1,159.3	- 1,897.4	738.1	38.9

Net Interest Income

At € 1,591.7 million, net interest income before provisions for credit risks was down € 299.7 million from the previous year. Driving this development were the reduction of risk-weighted assets in the investment book (German Banking Act, KWG) by over 20% compared to the previous year and the drop in income contributions from companies valued at equity, the latter occasioned, among other factors, by the sale of equity stakes, such as LRP Landesbank Rheinland-Pfalz, and the non-recurring expenses relating to the EU aid proceedings involving HSH Nordbank AG.

Provisions for Credit Risks

At € 117.9 million, the result of provisions for credit risks was positive and was € 1,299.7 million above the previous year's figure. Most especially, this is the outcome of systematically realigning the credit portfolio in 2003, which resulted in complete coverage for all risks discernible at the time. The Risk Report contains a detailed breakdown of the provisioning for credit risks.

Aggregate risk provisions in the year under review dropped € 1,238.9 million to € 3,103.6 million. This was due to the net write-back of provisions for credit risks in 2004, but most especially the depletion of allowances formed in previous years. We adequately covered all discernible risks. Related to the risk-weighted assets of the investment book, the risk provision ratio was 3.7% (2003: 4.1%). This is higher than the 2002 figure (3.6%), but our portfolio's current risk structure is much more diversified.

Net Commission Income

The figure for net commission income also reflects the strategy shift in 2004 toward a lending policy rooted in a more robust risk culture. The resulting drop in commission income could not be offset by the growth in income generated in the securities business. Accordingly, the € 336.4 million in commission income is € 101.7 million less than in the previous year.

Net Income from Trading Operations

Net income from trading operations as determined by applying German Commercial Code (HGB) valuation principles stood at € -170.5 million (2003: € 1.4 million). Contributions from trading activities in equities as well as stock and index derivatives were positive on the whole; the result from currency transactions and interest rate products was not. The result from interest rate products captured in this item should be viewed in close connection with the € 807.5 million in earnings contributions from money market and securities trading transactions, which are reported under net interest income. With the trading book marked to market, net income from trading operations was € -102.7 million (2003: € -19.3 million).

Other Operating Expenses/Income

The drop in other operating expenses/income by € 41.7 million to € 212.6 million is partially the result of the first-time contribution of € 25.0 million toward the new reserve funds established with the savings banks associations in North Rhine-Westphalia, as well as the lower income from IT services in the amount of € 39.2 million.

Administrative Expenses

Administrative expenses were reduced by € 25.5 million to € 1,802.5 million in the year under review.

Despite moderate agreed increases in existing salaries and wages, personnel expenses fell € 60.4 million, or 6.1%, to € 924.3 million in the year under review. The reduced number of employees in the Group is the primary reason.

Other administrative expenses rose € 34.9 million to € 878.2 million. This slight increase is the result of consolidation effects, including the first-time inclusion of two real estate companies. With the transfer of web/office applications and IT infrastructure-related services to Hewlett-Packard as of January 1, 2005, WestLB Group expects to see further reductions in its IT costs starting in 2006, as well as a drop in its administrative expenses as a result.

We calculate the cost-income ratio by setting administrative expenses (€ 1,802.5 million) in relation to the income from ordinary activities (€ 2,261.0 million), marking the trading book to market. In 2004, the cost-income ratio was 79.7%. In the previous year, the ratio was negative because of high charges reflected in the result of securities and participations.

Result of Securities and Participations

The result of securities and participations stood at € 52.2 million, which marks a € 1,074.1 million improvement over the previous year. It can be broken down as follows:

	Dec. 31, 2004 € millions	Dec. 31, 2003 € millions	€ millions	Change %
Result of participations	30.0	- 1,043.5	1,073.5	> 100
Result of securities	22.2	21.6	0.6	2.8
Result of securities and participations	52.2	- 1,021.9	1,074.1	> 100

The € 30.0 million result of participations is primarily attributable to gains on the sale of investments. Noteworthy divestments included the non-strategic holdings in Bayerische Hypo- und Vereinsbank AG, ThyssenKrupp AG, RWE AG, AXA S.A. and Heidelberger Zement South-East Asia GmbH.

The result of participations in the previous year came in at € -1,043.5 million, a reflection of the write-downs occasioned by sweeping portfolio realignment; the resulting provisions covered all discernible risks.

The result of securities was largely unchanged in 2004.

Extraordinary Result

The resolution of the Wfa aid proceedings with the EU and resulting repayment to the State of North Rhine-Westphalia resulted in extraordinary expenses of € 1,411.3 million. This item also includes restructuring expenses of € 173.4 million.

Taxes on Income and Revenues

Tax expense rose € 24.2 million to € 84.3 million in the year under review, in large measure because of the positive earnings contributions of WestLB AG's foreign branch offices.

Performance of the Segments

Despite the charges relating to the EU aid proceedings, WestLB Group's loss before taxes of € 1,075.0 million for 2004 marks an improvement of € 762.3 million over the previous year's result. Backing out the effects from the EU aid proceedings, the Group achieved a profit before taxes of € 460.6 million. All business units contributed to this considerable turnaround in the operating business.

Lending

After successful consolidation, the Lending segment returned to profitability in 2004 with profit before taxes of € 35.8 million, an increase of € 180.7 million over the previous year. We focused our lending activities more on Europe in the year under review and considerably reduced our commitments in North and South America and the Asia/Pacific region. In addition, individual commitments were optimised for profitability.

The result from Westdeutsche ImmobilienBank (WIB) was below expectations because of systematic realignment in the real estate portfolio and a revaluation of the equity stakes. WIB is WestLB Group's centre of competence for real estate finance and all related advisory services. As a speciality bank, it can offer its customers products like structured, cash-flow-based finance, equity finance, as well as portfolio finance and transactions, more efficiently and competitively than before.

Systematic optimisation of the lending business will also be a priority going forward. This will have an impact on the amount of capital required to back the segment's business and on its risk situation. Active management of the credit portfolio, including transactions aimed at trimming country, industry and volume-based concentrations, will reduce concentration risk further.

The creation of standardised credit offers for customers in the mid-cap market and a profitable expansion of the joint lending business are among the segment's key goals.

Special Finance

After experiencing restrained growth in the first half of 2004 – in part at the hands of negative market expectations – the Special Finance segment substantially recovered as the rest of the year progressed. With € 201.3 million in profit before taxes, we achieved a remarkable turnaround of € 641.3 million, thanks, in part, to WestLB's A- shadow rating, as well as new and improved risk procedures. Potential risks were down considerably as a result of portfolio adjustments and early repayments, but this trend was accompanied by reduced income from the Americas.

A robust special finance business should continue to deliver solid earnings contributions in the coming years. Continued development of the certificated and structured lending business will be a priority. Enhancing the range of products for savings banks and mid-cap customers (e.g. export finance) will also remain a key objective.

Trading

The Trading segment can look back on a year replete with challenging market conditions. All the same, we successfully doubled the profit before taxes in this segment, bringing it up to € 226.7 million. The new strategic course and recovery on the stock markets led to a substantial increase in the result from the equities business. The figures reflect WestLB's rededicated focus on core business in Germany and the UK. Even after the sale of WestLB Panmure Ltd., a broad range of primary and secondary market activities will ensure complete product coverage in the equities business.

Developments in the Global Financial Markets unit, which houses all money market/foreign exchange and fixed-income activities, were the opposite, with income falling after a successful 2003. Difficult conditions on the financial markets and a less dynamic customer business squeezed the results.

WestLB International S.A. continues to perform well. It released \$ 340g HGB reserves in the year under review and distributed them to WestLB AG. Looking forward, plans are to continue to expand the range of capital market products specifically geared toward international customers, especially structured products for retail customers and institutional investors.

Services

After considerable losses in the Services segment in the previous year, we almost reached the break-even point in 2004. Strategic realignment of the Asset Management unit continued successfully in the year under review, particularly with respect to focusing on the core markets of Germany, France and the UK. As systematic redevelopment of the unit continues, asset management activities will be tailored even more to the needs of the savings banks and their customers.

In the area of transaction services, WestLB commands a dominant position in paperless transactions and in the POS business. Situating the Transaction Services unit as a central clearing bank for international payment transactions in the Savings Banks Finance Group will open up additional sources of business. Other plans include building up export risk management services for the savings banks and their customers by expanding the trade finance business.

Equity Investments

Fiscal 2003 was marked by substantial valuation charges for some investments. In 2004, the successful sale of numerous large-scale stakes returned the segment to positive territory. By selling WestLB's shares in Odeon Limited and BoxClever, we largely divested ourselves of the principal finance business in 2004. The sale of the London-based principal finance business was completed in February 2005.

Internal Service Units/Other

The chief item reported under the Other segment is the extraordinary expense resulting from the European Commission's decision in the aid proceedings (€ -1,411.3 million). The Internal Service Units and consolidations between the segments are also shown here. These include the netting of income and expenses as well as the netting of internally generated income and expenses necessary for creating an accurate picture of the segment results. The selling expenses, expenses of the Managing Board and staff council, as well as allocations to pension provisions for retired employees, are also captured in this segment.

The Internal Service Units provide services for the Group's front-office and sales operations which are billed on the basis of internal prices. The internal prices correspond to market prices or, where no market price is available, they reflect fair prices. This procedure ensures that the allocation of costs for needed resources is economical. It also encourages a cost-conscious approach to resource use that transcends the boundaries of profit centres, and creates an incentive for providing services on a more cost-effective basis. Expenses were down further from the previous year. Significant savings were realised in the area of IT, in particular.

Balance Sheet

WestLB Group's total assets decreased € 2.4 billion in 2004 to € 253.8 billion.

The year-on-year comparison of key items on the balance sheet is as follows:

Assets

	Dec. 31, 2004 € billions	Dec. 31, 2003 € billions	€ billions	Change %
Cash/Liquid debt issues	4.1	17.2	- 13.1	- 76.2
Claims on banks	85.4	70.3	15.1	21.5
Claims on customers	75.0	84.9	- 9.9	- 11.7
Securities/Equalisation claims	75.4	68.4	7.0	10.2
Equity investments in affiliated and non-affiliated companies	3.1	5.5	- 2.4	- 43.6
Trust assets	0.5	0.5	0.0	0.0
Fixed assets	2.4	2.1	0.3	14.3
Other assets	7.9	7.3	0.6	8.2
Total assets	253.8	256.2	- 2.4	- 0.9

Liabilities

	Dec. 31, 2004 € billions	Dec. 31, 2003 € billions	€ billions	Change %
Liabilities to banks	112.1	106.1	6.0	5.7
Liabilities to customers	67.0	70.1	- 3.1	- 4.4
Certificated liabilities	48.1	55.1	- 7.0	- 12.7
Trust liabilities	0.5	0.5	0.0	0.0
Other liabilities	15.3	13.4	1.9	14.2
Subordinated liabilities/ Profit participation capital	6.9	7.2	- 0.3	- 4.2
Equity capital/Fund for general bank risks	3.9	3.8	0.1	2.6
Total liabilities	253.8	256.2	- 2.4	- 0.9
Contingent liabilities	13.2	14.2	- 1.0	- 7.0
Other commitments/Credit commitments	48.7	65.0	- 16.3	- 25.1
Administered funds	33.5	29.8	3.7	12.4
Business volume	349.2	365.2	- 16.0	- 4.4

Credit Volume

WestLB Group's credit volume stood at roughly € 229.3 billion at December 31, 2004, compared to € 241.0 billion at the end of 2003.

We continued to pursue our rigorous system of credit portfolio management in 2004, consolidating our business with major international clients, for example. Declining figures were likewise reported in the off-balance-sheet segment. At € 48.7 billion, irrevocable credit commitments were down € 16.3 billion from the previous year. The volume of liquidity support lines for asset backed commercial paper programmes was also much lower.

Credit Volume

	Dec. 31, 2004 € millions	Dec. 31, 2003 € millions	€ millions	Change %
Claims on banks	85,358	70,302	15,056	21.4
Claims on customers	74,976	84,916	- 9,940	- 11.7
Contingent liabilities	13,169	14,233	- 1,064	- 7.5
Irrevocable credit commitments	48,674	64,995	- 16,321	- 25.1
Credit volume carried on the balance sheet	222,177	234,446	- 12,269	- 5.2
Derivatives (credit risk equivalents)	7,110	6,506	604	9.3
Total credit volume	229,287	240,952	- 11,665	- 4.8

Securities Holdings/Equalisation Claims

The total holdings of € 70.0 billion in bonds, other interest-bearing securities and equalisation claims include money market instruments in the amount of € 6.5 billion, bonds and notes in the amount of € 61.8 billion, own bonds in the amount of € 1.5 billion, which are held to keep prices stable, and equalisation claims in the amount of € 0.2 billion. Most of the money market instruments are denominated in foreign currencies.

The securities of the investment portfolio are carried as long-term investments of the Bank (i.e. valued as fixed assets) and funded almost entirely with matching maturities and currencies or hedged with interest rate derivatives; this is predominantly the case with the liquidity reserve.

The book value of the shares and other non-interest-bearing securities held by WestLB was around € 5.4 billion at December 31, 2004. Of that, the volume of shares in investment funds was around € 2.4 billion. Most of the investment funds were established by Group companies and are mainly for own investment purposes.

Equity Investments in Associated, Affiliated and Non-Affiliated Companies

The carrying value of the equity investments in associated, affiliated and non-affiliated companies fell € 2.4 billion to € 3.1 billion as a result of implementing the newly defined corporate strategy.

Key sales with respect to non-affiliated companies included WestLB AG's direct holdings in Bayerische Hypo- und Vereinsbank AG, RWE AG, ThyssenKrupp AG, AXA S.A. and TUI AG.

In the case of associated companies, the drop was chiefly the result of the withdrawal from LRP Landesbank Rheinland-Pfalz and the deconsolidation of Heidelberger Zement South-East Asia GmbH.

Customer and Bank Deposits

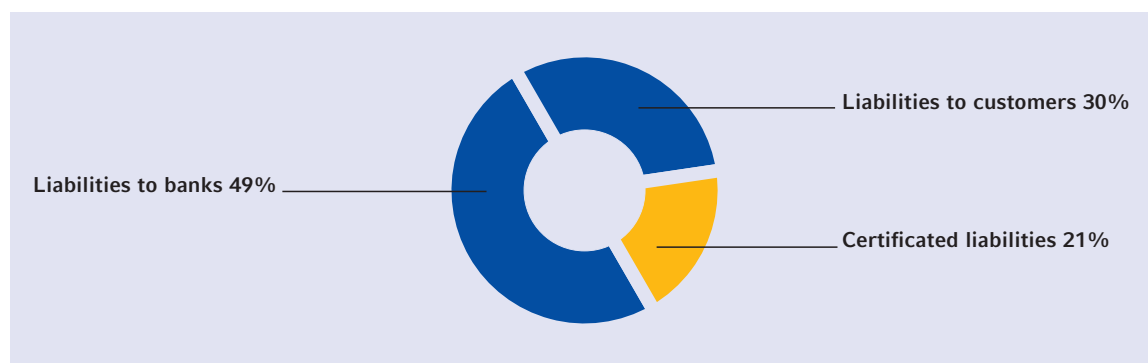
The Bank's principal source of refinancing is other banks. Compared to the previous year, liabilities to banks were up € 6.0 billion to € 112.1 billion, while liabilities to customers were down about € 3.1 billion to € 67.0 billion.

Of the € 179.1 billion in liabilities to banks and customers, € 51.7 billion stem from securities repurchase agreements.

Issuing Business

WestLB Group's issuing volume exceeded € 23.3 billion in 2004, setting a record; € 16.6 billion of that amount was attributable to WestLB AG. However, high aggregate redemptions reduced the total volume of certificated liabilities outstanding to approximately € 48.1 billion at December 31, 2004.

Breakdown of Refinancing at December 31, 2004 (%)



WestLB AG successfully issued or increased the volume of several euro benchmark bonds, both with fixed-interest and variable-interest coupons. The preferred maturities were five, ten and eleven years. In addition to euro bonds, which account for roughly 90% of the total issuing volume, WestLB was also active with issues in the following currencies: AUD, CAD, CHF, GBP, HKD, JPY, NOK, SEK and SGD. Whereas WestLB typically taps its existing € 50 billion debt issuance programme, a domestic debt issuance programme for the Australian market was introduced in 2004. Several bonds have already been issued under this programme and placed with Australian investors. Overall, WestLB made good progress in 2004 toward the goal of diversifying the investor base.

In its home market, WestLB AG placed some € 2 billion in structured investment products through savings banks. These products are developed in collaboration with the savings banks and then placed with their retail customers via the local distribution channels these banks provide.

In addition, institutional investors spent some € 2 billion on interest rate and currency products.

WestLB issues are rated Aa2 by Moody's Investors Service and AA- by Standard & Poor's. The Bank's issues enjoy a AAA rating with Fitch Ratings.

In addition to WestLB AG, Westdeutsche ImmobilienBank (WIB), Mainz, and WestLB Covered Bond Bank plc (WCBB), Dublin, were also active on the capital market. As the Group's real estate bank, WIB specialises in mortgage bonds, in particular, while WCBB issues covered bonds under Irish law. The pool of assets backing the latter consists of claims on public authorities and securities from public issuers. The issuing volume of WIB in 2004 was € 3.4 billion; WCBB issued approximately € 3.3 billion.

Own Funds

Under § 10 of the German Banking Act (KWG), as well as under Principle I, WestLB must have adequate capital and reserves to back its operations. Specifically, its capital and reserves must not fall below 8% of the sum of the risk-weighted assets of its investment book and 12.5 times the relevant amount for the market risk positions in its trading book. WestLB Group well exceeded the required capital backing at all times in 2004.

The capital and reserves recognised for German banking regulatory purposes consist of core and supplementary capital and Tier III capital. For WestLB Group, these own funds totalled € 14,828 million at December 31, 2004. The breakdown of eligible capital and reserves under the German Banking Act (KWG) is depicted in the following table (shown are the data as at December 31, 2004, as well as after the transfers from reserves and silent contributions to capital to offset the net loss for the year):

	WestLB Group Dec. 31, 2004 € millions after WestLB's AG result for the year	WestLB Group Dec. 31, 2004 € millions	WestLB Group Dec. 31, 2003 € millions after WestLB's AG result for the year
Core capital	6,550	7,641	6,676
Paid-in capital	7,486	7,486	6,468
Disclosed reserves	5,502	6,357	7,420
Asset contributions of silent partners	1,807	1,872	2,296
Fund for general bank risks under § 340g of the German Commercial Code (HGB)	229	400	499
Net loss for the year	- 278	- 278	- 503
Intangible assets	- 70	- 70	- 44
Book value of the capital shares accounted for by Group companies	- 8,812	- 8,812	- 10,244
Capitalised aggregation difference under § 10a (6) Sentences 6 and 7 of the German Banking Act (KWG)	686	686	784
Supplementary capital	5,746	6,323	6,316
Deductions from core and supplementary capital	- 71	- 71	- 111
Liable capital	12,226	13,893	12,881
Tier III capital	1,480	935	1,945
Total own funds	13,705	14,828	14,826
Unused Tier III capital	-	-	- 293
Own funds under § 2 (2) and (3) Principle I	13,705	14,828	14,533

As of January 2, 2003, WestLB AG had taken in silent contributions to capital of € 1,250.0 million. It does not have to repay these silent contributions to capital. Instead, in five annual instalments of € 250.0 million each paid over a period of time ending December 31, 2007, they will be converted at the price of 750% into capital and reserves of WestLB. Conversion of the second tranche, due December 31, 2004, was recorded in the Commercial Registers in February 2005. After recording the respective capital increase in the Commercial Register, the capital will increase by another € 33.3 million and the capital reserves by another € 216.7 million. In the amount remaining after the conversion initiated on December 31, 2004 (i.e. € 337.1 million), the silent contributions to capital shared 7.02%, or € 64.6 million, in the loss for the fiscal year.

As of September 30, 2004, the capital of WestLB AG was increased by a total of € 1,499.9 million. Of this amount, the sum of € 810.8 million was placed in capital, while the remaining € 689.1 million was added to capital reserves. At December 31, 2004, the subscribed capital of WestLB AG was € 1,794.6 million (2003: € 950.5 million). It is divided into 17,945,718 (2003: 9,505,000) no-par-value registered shares, each with a theoretical par value of € 100.00. NRW.BANK held 38.748% of the subscribed capital, the two savings banks associations, RSGV and WLSGV, each held 30.626%.

Unlike the consolidation performed under the German Commercial Code (HGB), the consolidation of the equity investment in HSH Nordbank AG for regulatory purposes is done on a pro rata basis.

The profit participation rights and subordinated liabilities of WestLB Group included in the capital and reserves calculated for regulatory purposes satisfy the requirements of § 10 (5), (5a) and (7) of the German Banking Act (KWG). There can be no early repayment obligation on the subordinated liabilities. In the event the Bank goes bankrupt or is liquidated, the profit participation rights and subordinated liabilities will not be repaid until all unsubordinated claims have been satisfied.

The breakdown at December 31, 2004 by maturity of the volume of supplementary capital eligible under regulatory guidelines for inclusion is as follows:

WestLB Group Breakdown by Maturity

Maturity Date	Profit Participation Capital Dec. 31, 2004 € millions	Subordinated Liabilities Dec. 31, 2004 € millions
2005	–	233.4
2006	–	86.4
2007	546.9	556.8
2008	346.8	854.0
2009	687.4	1,811.0
2010	407.4	746.2
2011–2015	632.3	1,626.6
2016–2030	25.0	889.9
2031–2040	–	444.7
2041–2050	–	144.8
Total	2,645.8	7,393.8

Based on the capital and reserves recognised for regulatory purposes, the following Principle I ratios were determined at December 31, 2004:

Risk-Weighted Assets and Equity Capital Ratios pursuant to the German Banking Act (KWG)

	WestLB Group Dec. 31, 2004 € millions after WestLB AG's result for the year	WestLB Group Dec. 31, 2004 € millions	WestLB Group Dec. 31, 2003 € millions after WestLB AG's result for the year
Risk-weighted assets of the investment book	84,907	84,907	106,381
12.5 x the relevant amount for market risk positions	29,425	29,425	28,913
Total	114,332	114,332	135,294
Equity capital ratio	14.4	16.4	12.1
Overall ratio	12.0	13.0	10.7
Core capital ratio	6.9	8.2	5.7

Unlike the Basle recommendations (BIS ratio), Principle I only recognises an implicit core capital ratio. The Principle I ratio is an imputed figure calculated by subtracting the capital tied up in the trading book from core capital and dividing the result by the risk-weighted assets of the investment book multiplied by 100.

The ratios determined in accordance with the Basle recommendations are as follows:

Risk-Weighted Assets and Equity Capital Ratios pursuant to BIS

	WestLB Group Dec. 31, 2004 € millions after WestLB AG's result for the year	WestLB Group Dec. 31, 2004 € millions	WestLB Group Dec. 31, 2003 € millions after WestLB AG's result for the year
Risk-weighted assets of the investment book	94,745	94,745	116,467
12.5 x the relevant amount for market risk positions	23,213	23,213	22,363
Total	117,958	117,958	138,830
Overall ratio	11.5	12.4	10.3
Core capital ratio	6.9	8.1	5.7

WestLB closely tracked the continued development of the capital adequacy recommendations currently followed by internationally operating banks (Basle I) and actively participated in their refinement through its memberships in banking associations.

Even before the consultation period for the New Basle Capital Accord (Basle II) was over, WestLB AG began in 2002 the preliminary work for implementing the capital adequacy recommendations contained therein. Starting in 2003, the coordination and management of these efforts was vested in a Bank-wide project encompassing the various business units. The goal of the project is to implement the advanced, risk-sensitive options of the accord as early as possible at WestLB AG. Key conditions

for achieving this goal have already been met (including implementing rating procedures developed in keeping with the regulatory requirements up to the first review and reporting on parts of the project documentation by the Federal Financial Supervisory Authority (BaFin), setting up the necessary data histories/developing internal models for the EAD/LGD parameters, dovetailing the new procedures with internal management systems, implementing the organisational requirements, processes and technical platforms for managing operational risk). WestLB AG actively participated in the fourth Quantitative Impact Study (Dec. 2004 – Feb. 2005), the results of which will also serve not least as a source of ideas for additional internal management measures. In 2005, WestLB AG will concentrate on arranging for the implementation of the “Minimum Requirements for the Risk Management of Banks” (MaRisk), on closely integrating regulatory requirements and internal capital management processes and on audit preparations.

Risk Report

Integrated Bank-Wide Risk Management

To be sustainable and successful, a business model must forge a strong link between business strategy and risk strategy. Thus, risk management is an important cornerstone of WestLB’s new, Bank-wide strategy.

The foundation of any risk management system is defining the target risk profile and linking it with earnings plans. Accordingly, the goal of the value-driven, bank-wide steering system is to determine the most optimal allocation of resources among the business units that are generating sufficient returns given the risks they take.

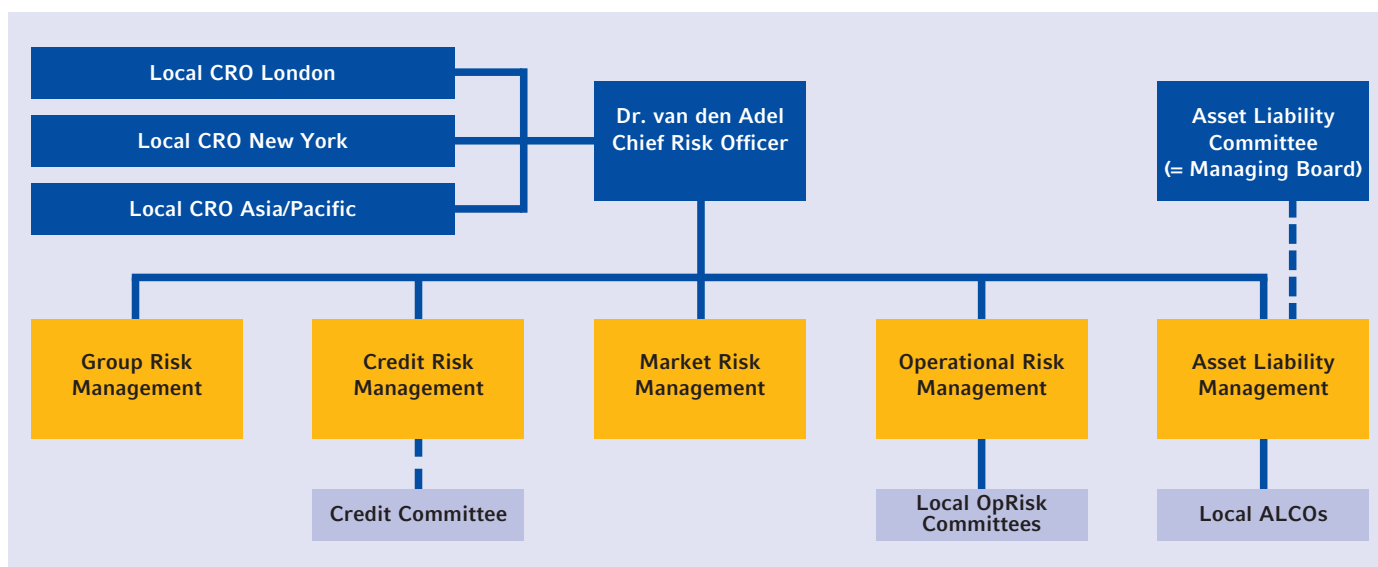
The concept of economic risk capital is the fundamental element of an integrated approach to managing all risks. Economic capital represents the security buffer required by the Bank to absorb unanticipated losses in its current portfolio. Economic capital makes it possible to compare risks between different categories and supports systematic diversification across products, customers and regions.

The Bank uses the economic capital approach to actively manage its risks. This is based on an efficient organisational structure and clearly defined processes. The risk measurement instruments employed not only make the overall risk situation more transparent. They also form the basis for measures-based reporting, which, in turn, supports active portfolio management.

Organisation

WestLB’s risk management system was reorganised in 2004 under the direction of the Chief Risk Officer (CRO). As a member of the Managing Board, the CRO is responsible for implementing the risk strategy, as well as for monitoring and managing the risks.

The new structure of risk management, which was largely in place by the end of 2004, encompasses transparently organised, central risk monitoring units. Each category of risk is the responsibility of a distinct unit. Decentralised risk-coordinating entities were also formed, which work through local chief risk officers and a central Group Risk Management unit whose focus encompasses all risk types.



The Managing Board has delegated decision-making responsibilities in the area of risk management to committees. As a rule, the committees base their decisions on reports provided by the individual units. The committees include the Asset Liability Committee (ALCO), which oversees asset liability management, the Credit Committee, which has credit approval authority, and the Credit Portfolio Committee. The Credit Portfolio Committee makes decisions regarding the management of the credit portfolio overall. The New York and Singapore offices have local ALCOs.

Asset Liability Management (ALM) is in charge of managing liquidity risks and the structure of the balance sheet. ALM also assumes responsibility for capital management and the Group's funding strategy. It does not have access to the market. The measures ALCO decides upon are implemented by the Investment Banking unit.

Within the framework of the new lending processes put into place, **Credit Risk Management (CRM)** is responsible for performing risk analysis, rating calculations and providing the second vote on credit applications. Other main functions include monitoring and controlling all substantial (Group-wide) credit risks for all types of counterparty default and transaction risk. CRM is subdivided into Counterparty Risk and Structured Risk areas, which are responsible for operational lending tasks (market succession), including risk analysis at the individual commitment level (voting and rating calculations), as well as monitoring compliance with the limits set. The Credit Risk Strategies & Framework unit is also part of Credit Risk Management. This unit deals with fundamental questions relating to the lending business and assumes responsibility for the overall steering of counterparty default risk and country risk. Specifically, its tasks include:

- being responsible for methods and setting standards in the lending business
- implementing regulatory requirements
- development and improvement internal rating procedures
- preparation of credit risk strategies
- managing select individual exposures by making, or helping to make, decisions on approval
- actively managing the Bank's loan portfolio
- intensive treatment on individual cases

Market Risk Management (MRM) is in charge of independently identifying, analysing and managing market price and counterparty risks from the trading business generated with the WestLB Group's trading and banking books. This responsibility includes determining market-price and credit risk-relevant methods and internal models, independent pricing and risk calculation of trading operations, as well as interpreting and giving measures-based reports on the risks arising from the trading business. MRM is also responsible, on a Group-wide basis, for defining and coordinating the review processes for new trading products in accordance with regulatory requirements.

Operational Risk Management (ORM) was set up as its own independent unit in 2004. ORM implements standardised methods for measuring and managing operational risk.

Group Risk Management (GRM) is responsible for implementing the Bank's economic risk capital approach (WestLB Capital Adequacy Programme, WestCap), a key component of complying with the requirements of Basle II. Accordingly, GRM ensures that risks are adequately measured, for all risk categories, in view of risk-return management and the capital adequacy assessments. Another of GRM's functions is to portray participation and business risk. GRM provides the Managing Board and supervisory bodies of the Bank with comprehensive reporting that encompasses all risk categories.

The position of **local chief risk officer** was created at the branch offices in London, New York and Singapore (where the responsibility extends to the entire Asia-Pacific region). These officers coordinate the local activities of the various risk units and also serve as contact points for local regulatory authorities.

Group Audit reviews the risk management system for its appropriateness and effectiveness on a regular basis. As an independent supervisory entity, Group Audit reports directly to the Managing Board with its results, analyses and evaluations, as well as with any recommendations.

The **Legal Department** offers advice and support for a variety of tasks related to risk management, including collateral agreements.

The **Group Compliance/Money Laundering Prevention** unit protects the Bank's integrity and reputation by promoting the lawful and proper conduct of business in the interests of customers, employees and shareholders, as well as by identifying and handling regulatory risks associated with the provision of banking services in order to prevent violations and identify them should they occur.

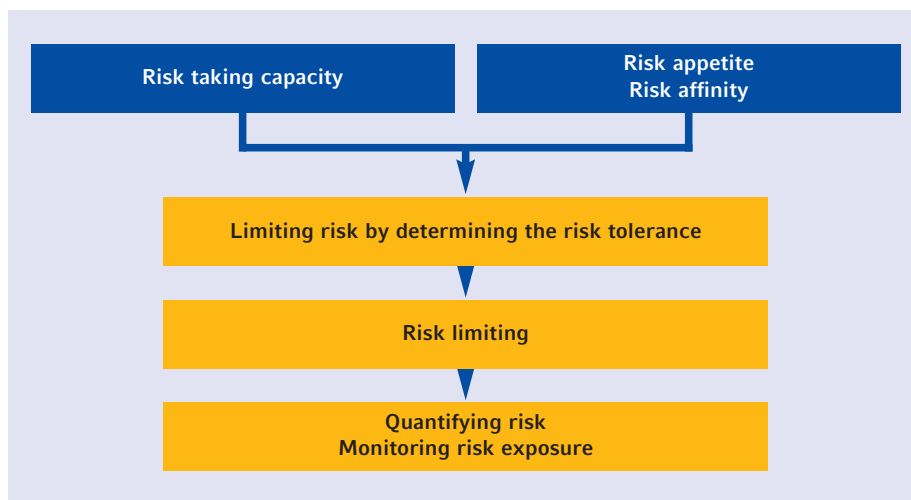
[Risk Measurement and Management](#)

With the continued development of the model for economic risk capital, as well as design and implementation of the WestCap programme in 2004, additional instruments and processes of vital importance to an integrated risk management system were put in place. As part of WestCap, the Bank's risk tolerance was determined and

limits per risk category were derived. Supplemented by additional measures differentiated by risk categories and level of detail, the Bank's risk and risk exposure are measured, monitored, reported and actively managed on an ongoing basis.

Risk Tolerance Concept and Limiting (WestCap)

The starting point for risk steering is the risk tolerance determined by the Managing Board and owners.



The risk tolerance is based on the risk taking capacity. In the year under review, these sources primarily consisted of Tier 1 capital, undisclosed reserves and portions of the anticipated result for the year. Risk tolerance expresses the scope of risk sought and limits, as an enterprise-wide value, the amount of risk the Bank can assume. Based on the risk tolerance, the Managing Board then derives the economic risk capital limits per risk category and business unit, which are monitored and managed continuously.

The usage of risk tolerance is determined via economic (risk) capital.

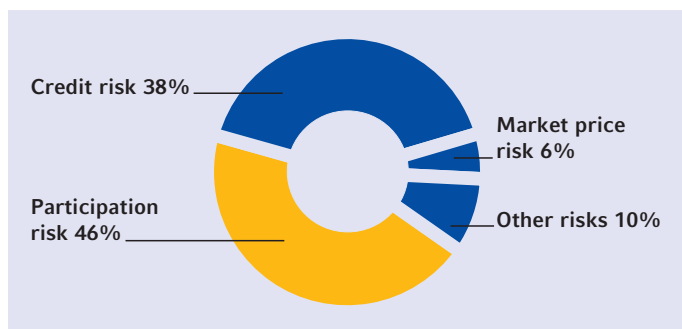
Economic Risk Capital

In order to ensure comparability between the various risk categories, the risk capital in each is determined for a confidence level of 99.95% and a horizon of one year and in line with a target rating in the "A" range. The economic capital for counterparty default, participation and market price risks is calculated on the basis of the value-at-risk (VaR) approach.

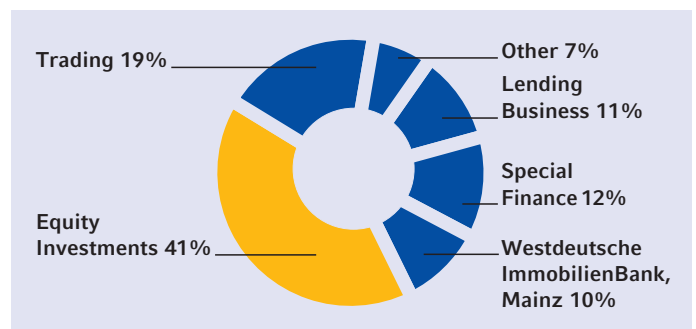
Because economic risk capital is of such importance for a sound risk-return-based management approach, the elements of the economic risk capital model undergo constant improvement.

The graph below shows the distribution of economic risk capital within the WestLB Group among the individual risk categories of December 31, 2004. The definition of categories themselves, as well as methods used to calculate the economic risk capital, are explained in later sections of this Risk Report. The amounts shown already take into account diversification effects that exist between the risk categories. Operational and general business risks are combined under other risks:

Breakdown of Risk Capital by Risk Category at Dec. 31, 2004



Breakdown of Risk Capital by Segment at Dec. 31, 2004



A significant portion of the credit risk capital is attributable to counterparty default risks in the trading business.

The risk limits set by the Managing Board within the framework of the risk tolerance were adhered to in fiscal 2004. As of December 31, 2004, WestLB Group had employed 68% of its risk tolerance.

Bank-Wide Risk

The economic risk capital figures for credit, market price, participation, operational and business risk are first determined taking into account diversification effects within the various risk categories. Then, these figures are combined into a Bank-wide risk capital figure that reflects correlations between the risk categories.

Planning and Management: Budgeting, Limiting and Reporting

With its integrated risk and return planning, the annual budget process is a cornerstone of Bank-wide risk steering.

During budgeting, the business fields and business units are allocated certain amounts of both regulatory capital and economic risk capital. The distribution of risk capital is linked with an earnings target, which itself stems from the returns the Bank and its owners expect. The risk capital limits per risk category and per organisational unit are based on the results of this budget process.

The risk profile of the WestLB Group determined in this manner is thus largely managed on the basis of the economic capital approach. Other instruments are used as supplementary tools for managing the portfolio's structure. These include specific VaR and sensitivity limits for managing trading risks, as well as individual concentration and industry limits for managing the credit portfolio. In the process, particular attention is paid to ensuring that the various management figures are consistent with the economic capital limits.

The Bank's risk management is supported by regular, measures-based reporting that provides the evidence about the status and evolution of the current risk situation and provides a basis for deciding what measures need to be taken.

The use of consistent risk figures allows it to compare the different risk categories within the evidence about the Bank's overall exposure. The extent to which measures have been implemented is a focus of the reporting.

All of these factors make reporting a vital tool for monitoring the course the Bank pursues with its risk strategy.

Market Price Risks

Market price risk represents the potential loss resulting from price movements on the financial markets. It encompasses general and specific interest rate risks, as well as exchange rate and equity price risks.

For measuring market price risk from trading activities with the trading and banking books, we make use throughout the Group of a Monte Carlo simulation technique to determine the value-at-risk (VaR). For internal steering purposes, the VaR is calculated for a confidence level of 95% and a holding period of one day.

The management of risk positions in the trading and banking books is done by means of a VaR-based limit system that caps the potential loss from market price risks. The risk limits are derived directly from the economic risk capital limit for market price risk established by the full Managing Board and then allocated among the various trading units with due allowances for diversification effects. Deriving the individual market price risk limits from the economic risk capital places the management of market price risks in the context of a greater, comprehensive Bank-wide risk management system.

Limits that have been approved, but not yet directly allocated, flow into a limit reserve that can be tapped in special situations and on predetermined terms and conditions. Allocated limits must not be exceeded. When limits are exceeded, the matter is escalated immediately and the timely implementation of countermeasures is monitored.

MRM reports daily to the relevant trading units, the relevant Managing Board members and the CRO on the VaR, utilisation of VaR limits and trading income relating to the prior day's risk positions. As part of Bank-wide risk reporting, the full Managing Board receives a detailed report about the market price risk situation on a monthly basis.

Stress tests are performed in addition to VaR. They identify the potential loss that extraordinary market events and worst-case scenarios could cause. We consider general shock scenarios on the interest rate, foreign exchange and stock markets, but also examine the potential effects of scenarios involving specific positions and market occurrences.

Additional instruments for risk analysis and management include product and portfolio-based sensitivity and scenario analyses.

Economic risk capital figures are determined by adjusting the VaR figures to reflect a specified confidence level and holding period. With respect to the holding period, consideration is given to the fact that trading positions are actively managed in situations of accumulating losses.

Market Price Risks in the Trading Book

The VaR model we have developed takes into account general and specific market price risks.

The part employed to determine the general interest rate risk posed to WestLB AG's trading book by interest rate movement was approved by the Federal Financial Supervisory Authority (BaFin) at the end of 2002 for use in regulatory reporting under Principle I. BaFin is close to completing its review on extending this approval to the techniques employed for determining equity price and foreign exchange risk (full use), as well as for incorporating specific risks. A decision is expected by mid-2005.

The following table shows the aggregate market price risks from the WestLB Group's trading book:

€ millions	Year-End 2004	Average 2004	Maximum 2004	Minimum 2004	Year-End 2003
GFM ¹	41.1	53.9	112.5	28.0	53.1
Equity Markets ²	15.7	19.4	27.5	12.4	19.3
Other ³	3.1	6.7	13.2	3.1	7.1
WestLB Group*	56.3	77.5	138.8	43.2	77.8

* Based on the perspective relevant for regulatory purposes (i. e. confidence level of 99%, holding period of 10 days), with due allowances for diversification effects

¹ Mostly interest rate and currency-related business

² Mostly stock/index-related business

³ Interest rate/foreign exchange/stock/index-related business of Banque d'Orsay, WestLB International S.A., Luxembourg, strategic stock holdings, special finance. Banque d'Orsay's risk positions are not yet fully subject to VaR calculation.

Over the course of 2004, our VaR model was systematically expanded and enhanced with the inclusion of credit spread risks and specific interest rate risks. These components are not included in the figures for 2003.

The appropriateness of the risk measuring techniques developed for assessing existing risk positions is double-checked by means of regular back testing, which involves comparing the VaR values to the changes in market values. The results from back testing in 2004 gave no indication of any general weaknesses in WestLB's VaR model.

Market Price Risks in the Banking Book

The market price risk for trading business with the WestLB Group's banking book consists primarily of the risk of interest rate movement. At year-end 2004, the market price risks from the banking book positions included in the VaR calculation totalled € 117 million (average VaR 2004 € 131 million, year-end VaR 2003 € 148 million).

The Bank systematically expanded and enhanced its VaR model for banking book positions in the year under review.

Counterparty Default Risks

Counterparty default risk is defined as the risk of potential losses caused by business partners' defaulting. It includes the classic credit risk, as well as issuer, counterparty and country risk.

The framework for managing all counterparty default risks and the credit portfolio is the credit risk strategy. In 2004 the Bank defined its risk strategy in further detail taking into consideration the Minimum Requirements for the Lending Activities of Banks (MaK). The Managing Board adopted the credit risk strategy in June and presented it to the Risk Committee and Supervisory Board in September and December 2004, respectively. Individual risk strategies for specific customer and product groups were added to the overall credit risk strategy to ensure an accurate reflection of the structure of WestLB's business. Using the Bank's business strategy and risk tolerance as starting points, the credit risk strategy sets in place additional structural guidelines and limits for the concrete management of business. This helps to prevent unbalanced portfolio movements and risk concentrations and ensures an even distribution of risk. The Managing Board reviews the credit risk strategy annually, bearing in mind changing external conditions, as well as new internal strategic guidelines.

Measuring the Counterparty Default Risk

The Bank calculates its counterparty default risk using an extension of the CreditRisk+™ model widely used in banking. Within this credit portfolio model, counterparty default risk is determined by taking the credit standing of the borrowers and any concentrations in the portfolio into account. The extension employed also allows for a sophisticated portrayal of the concentration and diversification effects between industries and regions. The higher the default probability and bigger the concentrations involving individual counterparties, industries and regions, the greater the utilisation of credit risk capital. This information is important for determining an appropriate risk-return profile and achieving the desired level of diversification and granularity among counterparty default risks. It also assists in portfolio management by providing insights on optimising the portfolio and managing concentrations.

Managing Individual Risks

Measured in terms of the Bank's economic risk capital, credit risk represents one of the most important risk categories. The analysis, evaluation and monitoring of credit risk is done on the basis of uniform, Bank-wide standards for counterparty risk management which are explained in WestLB's credit manual. The two pillars of risk management at the individual commitment level are the credit approval process and the ongoing monitoring process.

Each new credit transaction with a customer, as well as any material change involving an existing commitment, is subject to approval by the responsible entity. The supreme decision-making body is the Credit Committee, which is chaired by the Chief Credit Risk Officer (CCRO). Credit applications that were previously presented to the Managing Board for approval are now decided on by the Credit Committee, unless regulatory provisions require a decision by the full Managing Board. The lending process has been revised in terms of both front office and back office procedures, and new rules pertaining to lending authority have been adopted for fiscal year 2005.

Credit approval is based on a thoughtful risk assessment of the overall exposure with a particular customer, which is then presented in an application file. An integral component of this file is an internal rating, for which quantitative and qualitative variables are systematically examined. The approval process incorporates the current risk strategy, portfolio characteristics and risk-return considerations.

The monitoring process is the core task of the back office units, which are supported in their work by the front office units. All credit commitments are monitored on an ongoing basis. The intensity with which they are monitored depends on the respective borrower's current risk situation. A credit monitoring file is prepared on each borrower at least once a year. The Bank also has procedures in place that allow it to early identify loans that might be subject to an elevated default risk. The market-based early warning system launched in 2004 aims to identify potential performance problems early on, as well as counteract them in cases where there is still room for sufficient measures.

Commitments that are or are likely to become non-performing are added to the WestLB Global Watchlist (GW) and subject to closer supervision.

The GW is a Group-wide database that captures three categories of problem loans: commitments for which individual allowances are recommended, commitments which require further explanation and commitments which require further observation. Which category applies depends, among other factors, on ratings, classifications by external auditors and the default criteria as defined in Basle II. The GW serves many purposes, including functioning as a tool for planning and monitoring the implementation of countermeasures, supporting the Group's risk reporting needs and playing a central role in determining where allowances for doubtful accounts are required.

Problem cases are transferred for closer scrutiny to a special centralised processing unit, where a team of experts works to maintain the value of loans and limit the Bank's loss exposure by developing suitable restructuring strategies.

Every quarter, the Managing Board and risk committee of the Supervisory Board are presented with a report which looks at current risk developments in order to portray the Bank's needs for risk protection and recommend allowances for specific credit risks. In addition to the recommendations for the last quarter, a year-end summary of the recommendations made throughout the year is prepared, with Credit Risk Management, Group Audit and Group Finance taking part. The Managing Board uses this report as a basis for determining allocations to the risk provisions.

Portfolio Management

Chaired by the CRO, the Credit Portfolio Committee (CPC) assumes Bank-wide responsibility for all credit risk management activities at the portfolio level. Based on recommendations from the Portfolio Management department, CPC decides on measures for managing credit risk positions, taking the overall Bank and the entire loan portfolio into consideration. The Portfolio Management department, which functions independently of the front office, continuously monitors credit risks at the portfolio level and centrally works across all individual business units to actively distribute and limit credit risk, particularly concentration risk (single-names, industries and countries). Using appropriate techniques, among them credit derivatives and loan sales, as well as rigorous management of new business, the Portfolio Management department provides better diversification of the loan portfolio.

Global measures implemented by Portfolio Management in 2004 included:

- managing and reducing single-name concentration risks
- improving the limiting of concentrations (single-names, industries) in the context of the credit risk strategy
- managing country risks
- reducing unprofitable lending
- actively managing non-performing loans

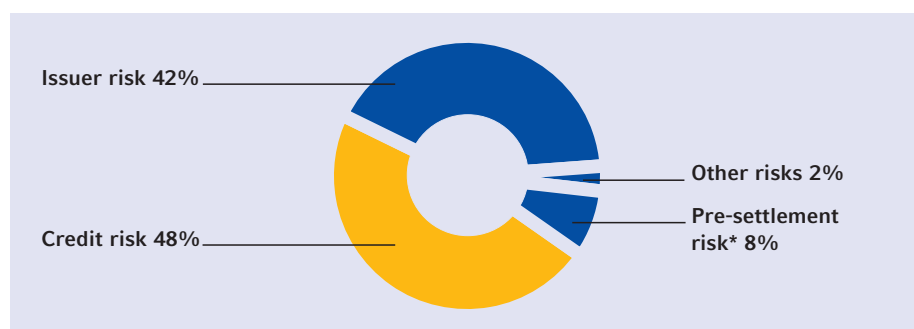
In the year under review, the economic risk capital required to support single-name concentration risks within the credit derivative and loan sales programme was reduced by 69%. In addition, the credit risk in industries subject to special credit limits was substantially reduced. These included the telecommunication (–33%), aviation (–25%) and energy (–30%) industries.

Counterparty Default Risk from the Portfolio Perspective

As part of internal reporting and management, data about the counterparty default risks in the WestLB Group's portfolio are regularly prepared and analysed. The goal is to identify, analyse, evaluate and actively manage the risks in the portfolio.

To this end, the portfolio is assessed on the basis of risk types, the responsible business units, rating classes, industries, volume ranges, maturities and regions. The result is a portfolio analysis that identifies risk concentrations and provides a basis for risk mitigating activities.

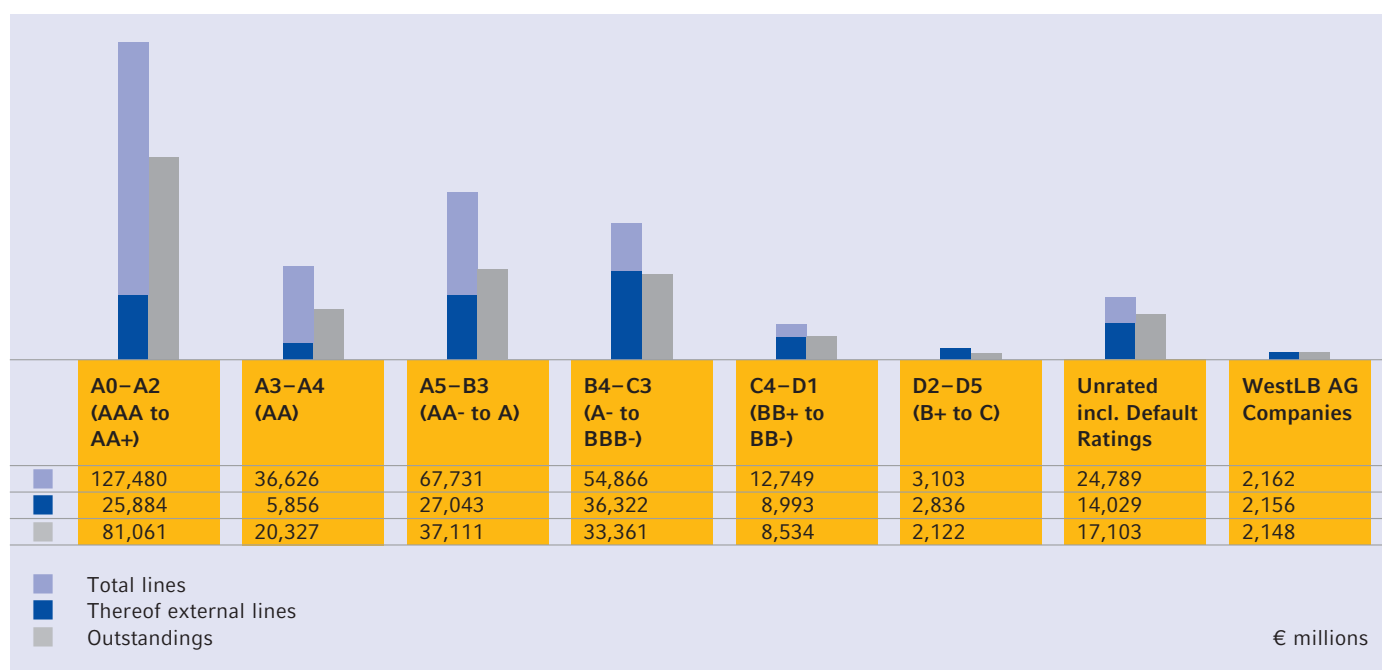
Breakdown by Risk Type (Outstandings) (WestLB Group)



* The risk of loss on derivatives products from a counterparty failing to meet its obligations and as a result having to replace the transaction at the prevailing market rate.

The graph illustrates that a substantial portion of the counterparty default risk is attributable to credit risk and issuer risk. Issuer risk captures the risk relating to securities held in both the investment and trading portfolios, with 51% of the total lines being carried in the investment book and 49% in the trading book.

Breakdown by Rating Class at December 31, 2004 (WestLB Group)



The table shows external lines, total lines¹ and the outstandings at December 31, 2004, broken down according to the internal rating classes making up the new Basle-II-compliant rating scale. Pursuant to the default probabilities associated with them, classes A0 to C3² represent the investment grade range.

¹ The figure for total lines refers to the sum of internal and external lines, excluding the available balances on internal trading lines; derivatives are shown on the basis of the expected exposure.

² The investment grade range for financial institutions is currently A0 to C1.

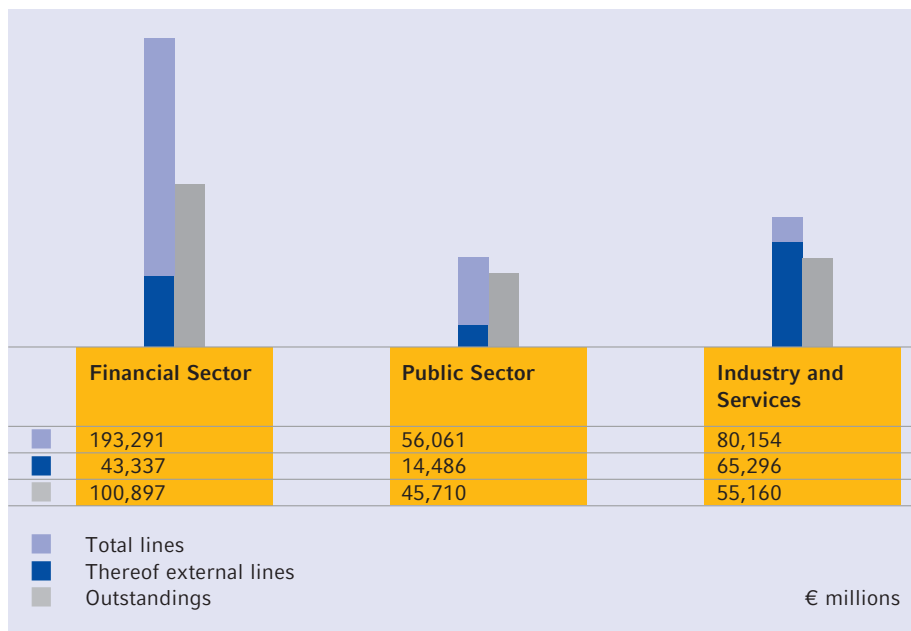
A substantial part of the portfolio (50% of total lines) carries a good rating of A0 to A4. Most of these lines are provided to banks, governments, and local and regional authorities (chiefly internal trading lines) and asset backed transactions (externally committed liquidity lines) with substantial unutilised volumes.

With more than 50%, commitments to corporate clients make up the bulk of the lines with mid-range ratings (B4 to C3).

Thus, 95% of the rated portfolio (total lines) is investment grade.

Since some internal rating procedures are still in the initial application stage, 8% of the total lines from all commitments are not rated. Most of the unrated commitments involve ABS transactions and other financial institutions.

Breakdown by Sector at December 31, 2004 (WestLB Group)

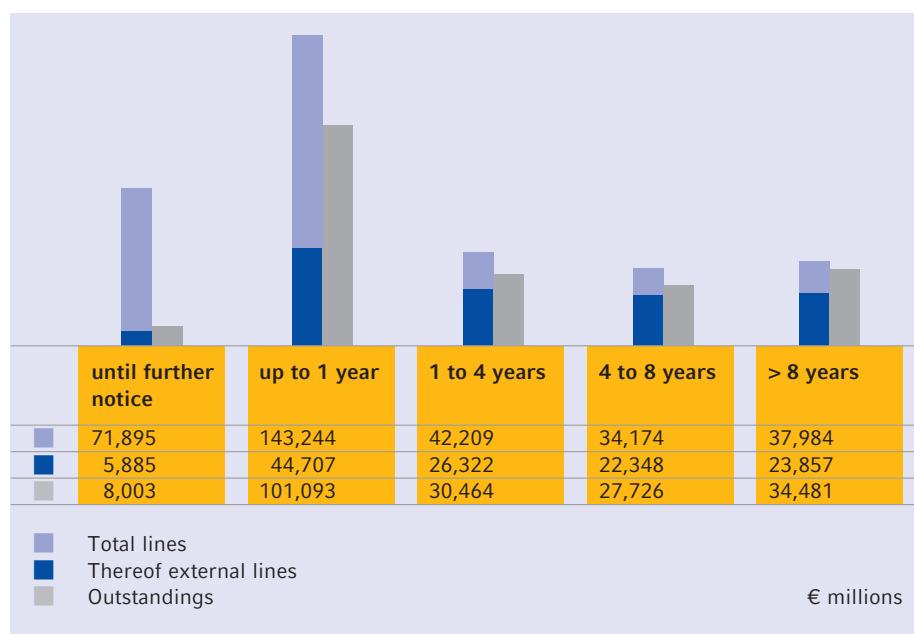


Commitments to counterparties in the financial sector and public sector (which includes banks, insurance companies and ABS transactions) make up the bulk of the portfolio with 76% of total lines. For the most part, the customers in these two sectors command good ratings.

Industry and services can be divided into 15 individual sectors, representing 24% of the total lines. The primary concentration here is construction and real estate management, chiefly because of the business of Westdeutsche ImmobilienBank (WIB).

Other concentrations include the energy, aviation, telecom and automotive sectors (the first three being subject to limitation and the fourth being subject to close observation).

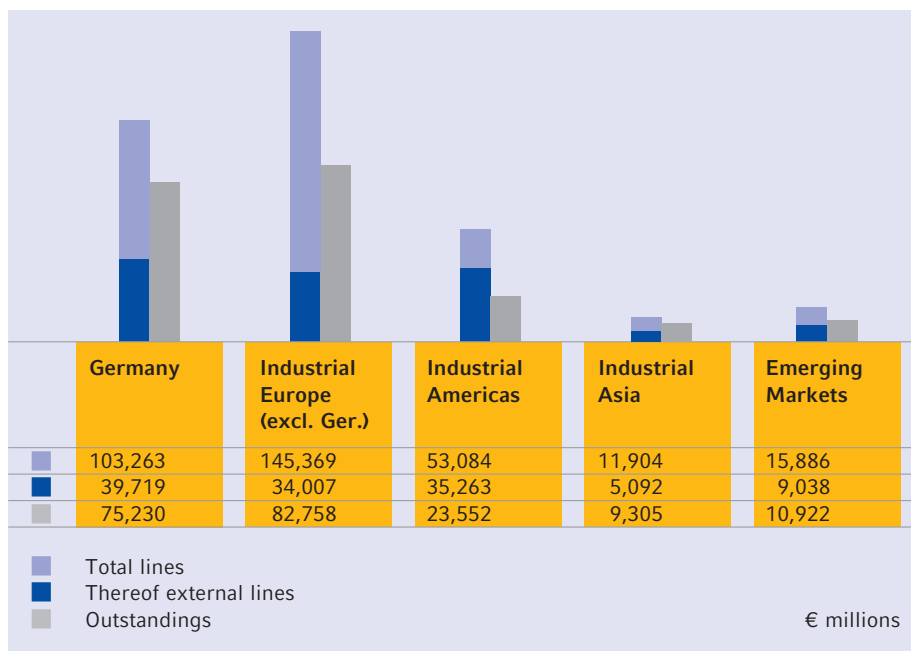
Breakdown by Maturity at December 31, 2004 (WestLB Group)



With respect to maturities, most of the commitments are short-term (43% of the total lines and 50% of the outstandings belong to the maturity range “up to 1 year”). The most important products in this maturity range are facilities (mainly liquidity lines for asset backed transactions and working capital credits to corporate clients), bonds (issued by banks and governments) and time deposit assets (almost exclusively with large banks). The short-term products themselves tend to represent trading business (45% of the amounts utilised in the entire portfolio stem from trading business, with 93% of that belong to the maturity range “up to 1 year”); in the medium and long-term ranges, lending transactions preponderate, which make up 55% of the total portfolio.

A large part of the long-term business is attributable to WIB.

In terms of a geographical breakdown, the credit portfolio consists of foreign currency business (which involves country risk, or more particularly transfer risk) and local currency business.

Breakdown by Regions at December 31, 2004 (WestLB Group)

WestLB's lending activities focus on Germany and the other industrialised countries of Europe (75% of total lines). Emerging markets in the Americas (Brazil, in particular) and Europe (Russia and Turkey) dominate the emerging markets category. To a lesser extent, WestLB also supplies credit to customers in the emerging markets of Asia.

Country Risk

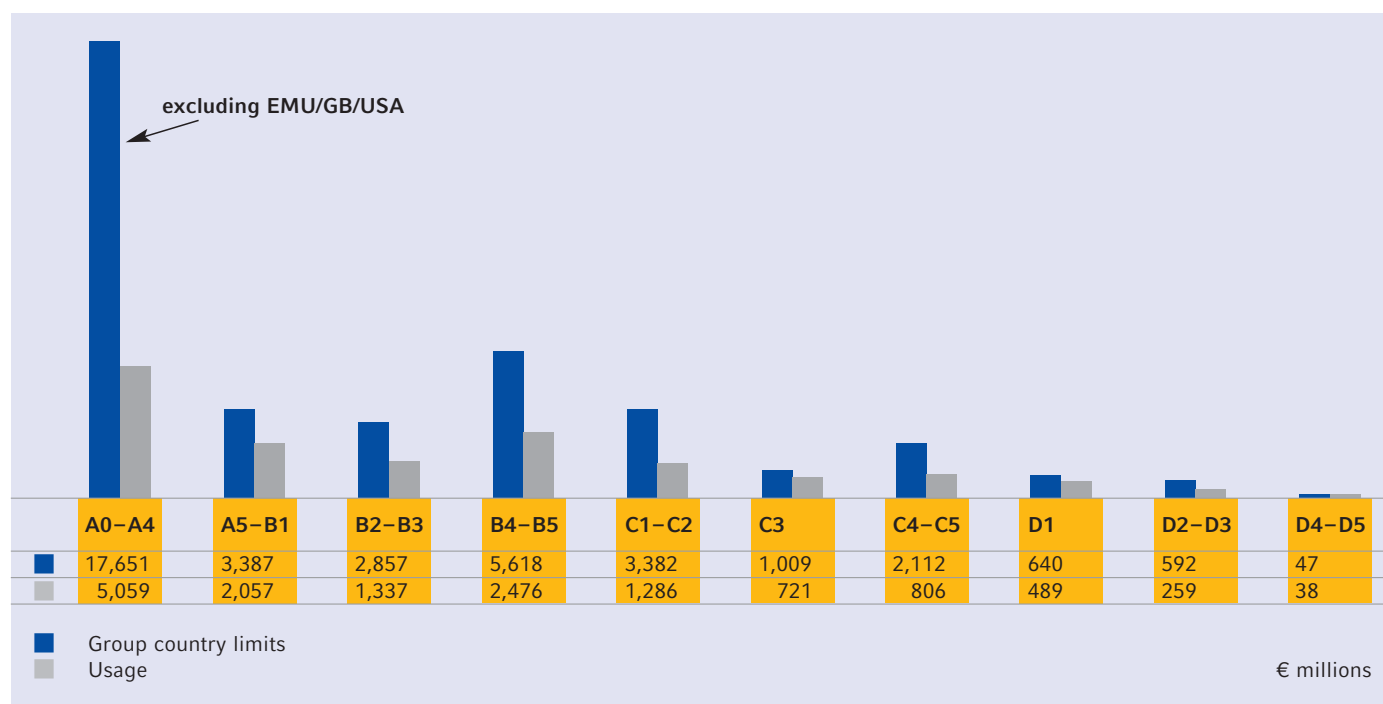
WestLB defines country risk as the risk that a borrower will not (or will no longer) be able to service its foreign currency debt because of a worsening of the overall economy or political situation in the borrower's home country. Based on this definition, any commitment by WestLB that is not denominated in the borrower's home currency is subject to a potential country risk and should be included in the country exposure list.

WestLB's Economics Department gives each relevant country an internal rating. In 2004, the country rating procedures were modified to reflect Basle II requirements. Numerical country limits are determined on the basis of the country rating and the risk-bearing capacity of WestLB. Depending on the rating category, country limits are divided into limits for short-term and long-term business, respectively, depending on the rating category. The Country Limit Committee is in charge of country limit management.

In addition to determining the scale of the limits, the Country Risk Committee handles questions pertaining to the methodologies and procedures of country risk management. The extent to which limits are utilised is monitored continuously and reported to the Managing Board. When establishing provisions for country risk, allowance ratios accepted by financial administrative departments are recognised.

The regional client business units are directly responsible for managing the utilisation of some of the country limits and work with the individual product units from a risk-return point of view to determine how much of a country's overall limit is needed and used.

Use of Country Limits by Rating Category for All Countries Subject to Limits at December 31, 2004 (WestLB Group)



Counterparty Default and Country Risks in Trading Operations

Trading transactions with external customers are subject to default risk related to the counterparty and/or country involved. Monitoring and managing default risk in the trading business requires a broad range of risk measurement and management tools and consolidation into one overarching process.

The correct measurement of counterparty default and country risks takes into account and models the unique aspects of a given product with the goal of developing customer-specific and type-specific risk profiles over the entire life of transactions. For its derivatives business, the Bank uses Monte Carlo-based portfolio simulation techniques.

When limiting individual risks (per counterparty or group), the Bank typically determines the peak exposure at a confidence level of 95%.

If counterparties are grouped into sub-portfolios, e.g. to calculate risk capital for risk-return management, the Bank looks at the average expected exposure.

In line with regulatory requirements on monitoring individual risks, exposures are set daily against the relevant limit by Market Risk Management (MRM). Thus, the Group has a central record of all counterparty and issuer limits in trading, which ensures integrated and up-to-the-minute risk monitoring.

The responsible decision makers determine all counterparty and country limits in the trading business in the context of the Group-wide lending process.

Issuer limits for short-term liquid positions in the trading units are generated by MRM, on the basis of a ratings-dependent matrix determined by the Managing Board, and monitored daily.

The Bank systematically works with collateral agreements in its derivatives business in order to reduce the counterparty risk. It uses the standard master agreements available on the market, which provide for close-out netting and the provision of security. The legal and operating requirements for recognising this type of risk reduction are defined within the Bank by the Netting Committee, which is a sub-committee of the Credit Committee.

Provisions for Credit Risks

The amounts reported under provisions for credit risks encompass the P&L effects on the WestLB Group resulting from the evaluation of acute and latent counterparty default risks:

Result of Risk Provisions – Lending Business

€ millions	Allocations to Allowances	Write-Backs from Allowances	Net Allowances	Other Risk Exp./Income	Risk Result
Acute counterparty default risk	- 553.8	559.0	5.2	- 7.9	- 2.7
Credit rating risk	- 380.6	343.5	- 37.1	- 13.6	- 50.7
Country risk	- 173.2	215.5	42.3	0.0	42.3
Other risk				5.7	5.7
Latent counterparty default risk	- 31.5	152.1	120.6	0.0	120.6
	- 585.3	711.1	125.8	- 7.9	117.9

Implementation of Basle II and the Minimum Requirements for the Lending Activities of Banks (MaK)

In the year under review, WestLB systematically continued its preparations for the new equity capital regulations (Basle II). As an internationally operating commercial bank, WestLB is aspiring to use the advanced IRB (internal ratings-based) approach. It has developed a Bank-wide Basle II project which will allow for the centralised management of all preparations for the many and diverse requirements of the new capital accord and ongoing supervision of the progress. Special topics will be dealt with in sub-projects.

One emphasis of the work is the development of new and improvement of existing internal rating procedures. WestLB has many years' experience in the deployment of internal rating procedures, having had its own corporate client rating system in place for more than 15 years. Given the requirements of the Basle II Accord, the Bank has added rating systems for additional client portfolios and special portfolios. It has also revamped systems already in place and tested them for compliance with Basle II. The new rating systems were introduced gradually over the course of 2004. Based on a master scale that is valid for all rating systems, each rating class is assigned a unique probability of default (PD). These probabilities of default provide the basis for the Bank's risk management.

All internal and external rating data are stored in a central ratings database, thus providing a comprehensive, uniform source for all ratings data required under Basle II.

To complement the systematic capturing of PD in the ratings database, improvements were made to the WestLB Global Watchlist (WGW) so that default events could be systematically captured as defined in Basle II, and the exposure at default (EAD) and loss given default (LGD) archived and chronicled.

In view of the preparations for Basle II, two other special credit projects are of particular importance:

The first is the EAD/LGD project, which involves developing methodological strategies for estimating EAD and LGD, risk parameters that play an important role in determining the equity capital required to support loans and other risk-weighted assets of the investment book. The necessary data histories are being structured with the help of the data captured in the WGW and the collateral database. Data were also gathered manually and other existing systems analysed as part of a far-reaching campaign aimed at improving the quality of the data.

The second project is a collateral database project involving the development of methodological guidelines for analysing collateral and building the database required for the full inclusion of collateral in the advanced IRB approach.

With respect to the requirements under the second and third pillars, better communication with banking regulators was fostered. At the association level, WestLB is helping to work toward standardisation among the institutions when it comes to meeting disclosure obligations.

In the past, WestLB had already deployed many of the newly defined Minimum Requirements for the Lending Activities of Banks (MaK). In 2004, a standardised New Product Process (NPP) for approving and introducing new credit products was implemented. WestLB also applied MaK principles when restructuring its risk areas and risk processes.

Participation Risks

Participation risk represents the risk of loss stemming from the provision of equity capital to third parties.

When measuring participation risk, the chief item taken into account is the risk that the value of the respective equity stake will fluctuate. Thus, the Bank uses a Monte Carlo simulation technique to determine the VaR. Key risk parameters in this regard are volatilities and correlations determined on the basis of stock price time series. In the case of companies that are not publicly traded, stock price time series for listed companies having similar characteristics are used.

Generally speaking, the management of participation risk at WestLB refers to managing all of the Group's participations, which is a task that has been assigned to the Equity Investments business unit. In addition, Group companies that are banks in their own right are fully incorporated into WestLB's risk and operational management. In addition, certain of our investments are followed by specialist units and monitored in terms of their risk situations. This approach allows for optimal support of companies whose business activities are closely linked with the activities of the respective product unit.

The assessment of current and future risks posed by the participations that are not captured by the aforementioned original management mechanisms is based first and foremost on analysing the company data provided in the course of ongoing participations controlling. The internal controlling system used in this regard was expanded and improved in 2004. The information collected provides a starting point for actively supporting the participations from a shareholder perspective and managing them in keeping with the equity investment strategy.

Members of WestLB's Managing Board represent the Bank's interests as a shareholder by holding seats on the supervisory boards of major Group companies. This kind of representation is an integral part of the Group's management.

Monitoring and managing risks in a way that focuses on the health of the business is the responsibility of the Equity Investments business unit. This is particularly important in the case of companies that are exposed to self-generated risks.

Liquidity Risks

Liquidity risk represents the risk that present or future payment obligations cannot be met in full or on time, or, in the case of a liquidity bottleneck, the risk that liabilities can be refinanced only at elevated market rates (funding risk) or assets liquidated only at an increased market rates (market liquidity risk).

WestLB's liquidity risk management in 2004 focused on the preparations for the withdrawal of guarantor liability and institutional liability on July 18, 2005. WestLB launched a comprehensive programme aimed at decreasing the amount of liquidity mismatching and the overall unsecured funding requirements. The Bank's goal in this regard is to absorb the anticipated reduction in liquidity lines and delay the impact of rising refinancing costs.

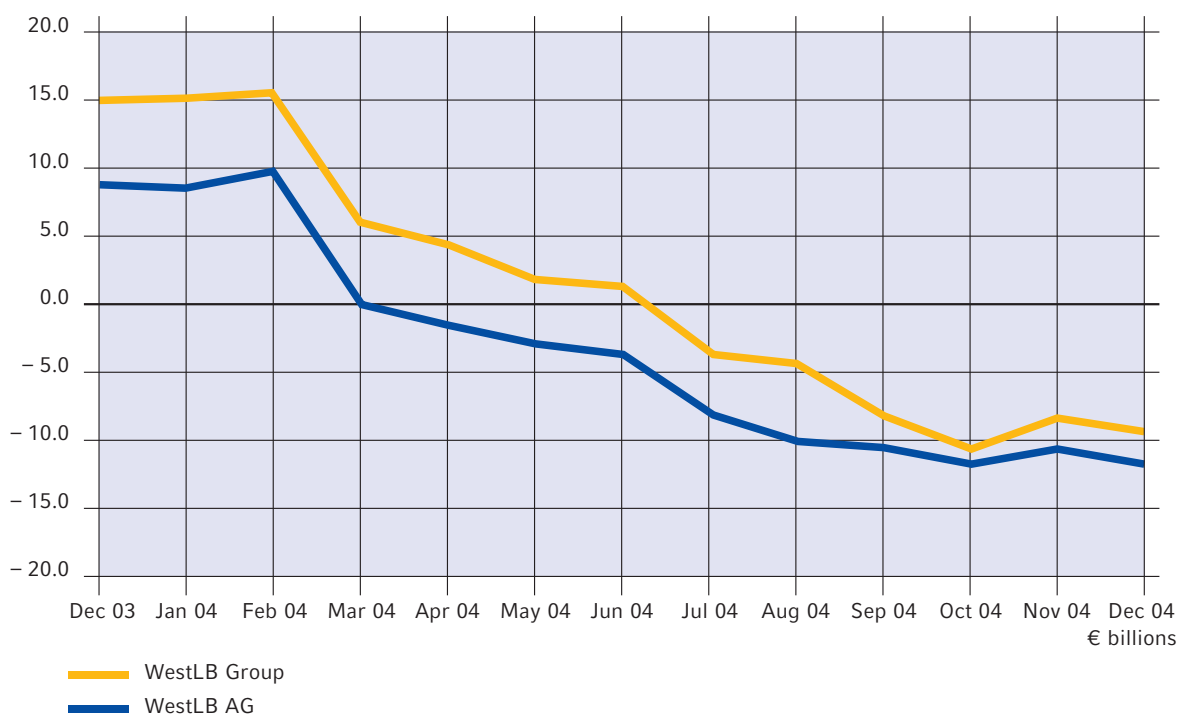
The objective of liquidity management is to avoid a concentration of financing requirements with very short-term maturities, to keep enough liquid assets on hand for unexpected liquidity needs and, at the same time, to optimise the Bank's structural liquidity with the help of a medium and long-term-oriented funding programme. Liquidity planning is also designed to broaden the refinancing base with banks and non-banks by maintaining a permanent presence on the money and capital markets.

Structural Liquidity – Funding Programmes

A gap report is produced in order to measure the structural mismatch position. All assets and liabilities sorted and aggregated into time buckets, based on their maturity. Liquid securities are assigned to the shorter-term time buckets rather than the time buckets reflecting their contractual maturities. Positions without a maturity, such as equity stakes, are bucketed according to the expected holding period. As a wholesale bank, WestLB assigns the other financial instruments according to their contractual maturities.

The difference between the maturing assets and liabilities in each time bucket is called the gap. Together with the assumptions concerning new business, these gaps form the basis for the annual funding programme. In 2004, it aimed at eliminating liquidity gaps and building a liquidity reserve.

Changes in the Liquidity Mismatching* of the WestLB Group and WestLB AG



* Liquidity mismatching = assets over 1 year less liabilities over 1 year

The graph illustrates that the net overlent position was converted into a net overborrowed position over the course of the year. Thus, the goal of having a surplus funding was reached.

WestLB uses a variety of funding instruments and programmes (see table on page 41). The bulk of unsecured liquidity raising is done by WestLB AG, while subsidiaries Westdeutsche ImmobilienBank (WIB), Mainz, and WestLB Covered Bond Bank plc, Dublin, specialise in issuing secured instruments (Pfandbriefe and covered bonds). In addition, short-term issues are placed as part of a global commercial paper programme.

Overview of the Various Issuing Programmes and Issuing Instruments in the WestLB Group

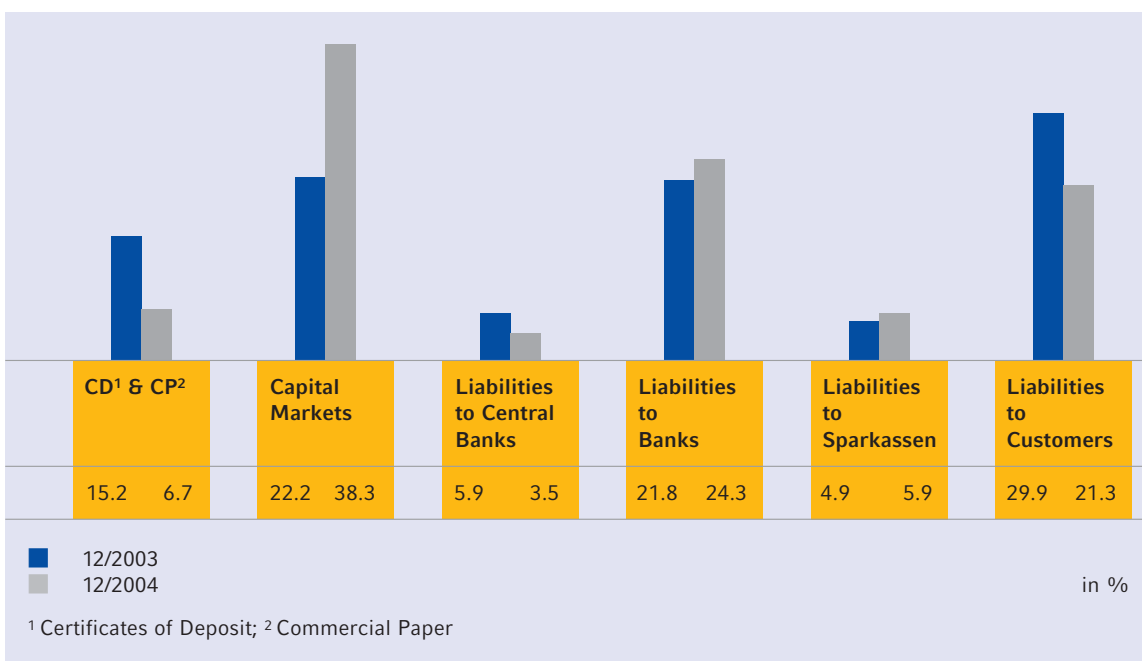
Issuer	Name	Type
WestLB AG or issuing vehicle	Debt Issuance Programme	unsecured
WestLB AG, WIB	Bearer bonds	unsecured
WestLB AG, WIB	Promissory Notes (Schuldscheindarlehen)	unsecured
WestLB AG	Domestic Debt Issuance Programme	unsecured
WIB	Public and mortgage-backed Pfandbriefe	secured
WIB	Debt Issuance Programme	unsecured
WestLB Covered Bond Bank plc	Irish Covered Bonds	secured
WestLB Covered Bond Bank plc	Medium Term Notes Programme	unsecured

The funding volume of the WestLB Group reached the record level of € 23.3 billion in 2004; € 19.2 billion of this amount was in unsecured issues.

Diversification of Liabilities

The money and capital markets represent WestLB's primary source of refinancing. Its access to unsecured refinancing is limited by its rating. Another goal of the issuing programme was to adjust the volume of short-term, unsecured refinancing in anticipation of the elimination of guarantor and institutional liability. The portion of uncertificated liabilities, most of them short-term, making up our unsecured refinancing volume dropped from 78% to 62% between December 31, 2003 and December 31, 2004, while the percentage of long-term capital market funds rose from 22% to 38%. Diversifying our refinancing profile across investor groups, regions, instruments and currencies is another principle of our liquidity management.

Development of the Liability Structure in the WestLB Group: Breakdown of Unsecured Funds by Product



Short-Term Liquidity – Liquidity Reserve

A large portfolio of highly liquid capital market securities from top-rated issuers is held as liquidity reserve. When needed, these securities can be sold for cash or converted into cash on the repo market. This puts WestLB in a position of matching increased short-term liquidity needs from, for example, unexpected draws on irrevocable credit commitments. In addition, WestLB monitors its short-term liquidity situation regularly on the basis of internal ratios.

To support its activities in the area of payment transactions, WestLB continuously maintains a € 5 billion security portfolio with the European Central Bank.

As a German Bank, WestLB is governed by the regulations on bank liquidity ("Principle II") set forth in the German Banking Act (KWG). These regulations were adhered to at all times.

Liquidity Contingency Planning, Stress Tests and Scenario Analysis

The Bank has a global liquidity contingency plan in place which specifies the communication channels, responsibilities, procedures and steps for addressing liquidity shortfalls. The Bank's large branches have local liquidity contingency plans.

WestLB runs stress tests and scenario analyses to quantify the impact that unexpected events would have on the Bank's liquidity. The scenarios are either market or WestLB-specific. In the case of WestLB-specific scenarios, the Bank paid particular attention to the effects a rating downgrade would have. The results were taken into account when updating the liquidity and funding strategies.

The liquidity needs of the WestLB Group were fulfilled at all times in 2004.

Operational Risks

Operational risk refers to the risk of losses resulting from inadequate or failed internal processes, people and systems or from the external environment.

The creation of a separate Operational Risk Management business unit (ORM) is a testament to the increased importance of managing operational risk. ORM is the independent management unit which sets the framework for Operational Risk Management (OpRisk) throughout the Bank and coordinates all related activities. The main task for the business units is to target the creation of a high, Bank-wide standard of quality for the analysis, measurement, management and monitoring of operational risk. First and foremost, this entails uniform, standard Operational Risk Management methods, Risk Self-Assessment, a Risk Event Database and Key Risk Indicators for identifying and assessing operational risk, all of which form a solid foundation for active operational risk management. The development of methods to quantify operational risk has been started, with the aim of satisfying the requirements for an Advanced Measurement Approach under Basle II as early as possible.

The primary responsibility for management of operational risk rests with the business units themselves. The heads of the business units are supported in their efforts by Operational Risk Managers, who also function as contact points for their respective units on matters relating to OpRisk. By deploying the methods developed by ORM, these managers ensure that the required quality standard is met. The branches proceed in a similar fashion.

The business units also work together with central units of the Bank (e.g. Contingency Planning, Information Security, Data Quality Management), which, because they cross business units and product lines, set guidelines which are applicable to the entire Bank, perform controlling functions, provide tools, and support the development and execution of preventive or reactive measures and responses. It was also in this vein that the position of Bank Security Officer was established to address all key security issues facing the Bank. For the purpose of a more effective, cross-divisional management of bank security matters, a Banking Security Executive Committee (BSEC) chaired by the Bank Security Officer was also formed.

For some types of operational risk, it is possible and, on a cost-benefit level, also prudent to transfer the risk by means of insurance. At Group level, the International Insurance Programme provides WestLB with comprehensive coverage which has been pulled together into one central insurance portfolio. WestLB also has a directors & officers policy at Group level. The Internal Service and ORM units work together to make suggestions regarding insurance, as well as alternative operational risk transfer models in which insurance companies participate.

To minimise legal risks, the business units are supported by the Legal Department. The support that the Legal Department offers includes reviewing contracts presented to it because of their risk relevance, updating the credit and collateral manuals, and monitoring developments in the legal arena. It also observes the use of standard agreements and model contracts to reduce contractual risk, some of which have been developed in cooperation with other banks and institutions.

One way of avoiding risks caused by the mistakes or misconduct of personnel is to ensure that all employees are adequately trained. WestLB does this by offering a comprehensive programme of internal and external training seminars. These seminars cover the whole range of risk types and are complemented by web-based learning opportunities. Compliance guidelines mitigate the risk of insider trading. Adequate control processes initiated by the central and local compliance offices monitor the observance of these guidelines.

The responsibility for collecting information on loss events was vested in the decentralised Operational Risk Managers effective January 1, 2004, a move which made the global gathering and analysis process run more efficiently. The resulting data history, which has been expanded continuously since 1999, serves as the basis for applying methods aimed at quantifying the operational risk.

A qualitative approach to analysing and evaluating operational risk has also been developed, and the requisite software implemented. Cause-based, this approach examines potential sources of risk in the areas of personnel, information technology, business processes and external events. One area of focus is the relevant IT applications and the processes used in the business units. The aim is to gather information that the business units can use to develop their own risk-reducing measures. To gain an overall sense of the operational risks faced by the Bank and to introduce this standard method of OpRisk Management into the Bank, a simplified Self-Assessment was performed throughout the Group in 2004 which examined all product, customer and support processes. In 2005, this procedure will be deployed on a more sophisticated basis in terms of scope and methodology. The system for managing operational risks will be improved with the aim of meeting regulatory requirements. The goal is to manage these risks efficiently and successfully.

Currently, the Bank estimates the economic capital required to support its operational and business risk on the basis of that needed to cover the other categories of risk (credit, market price and participation risk). In an effort to generate more precise measurements, work has commenced on procedures aimed at quantifying operational risk more accurately.

Summary

In 2004, an integrated risk management system was established, and a new central and local risk monitoring organisation was put into place. As a result, the Bank has at its disposal state-of-the-art risk management instruments and processes:

- **WestCap**

Determining the risk profile on the basis of existing risk taking capacity and deriving appropriate limits per risk category and business unit

- **Integrated Planning and Budgeting**

Allocating both regulatory and economic risk capital in conjunction with an earnings target while taking into account the desired risk profile

- **Measurement and Management**

Measuring the extent to which limits have been utilised based on economic risk capital as well as regular reporting on the risk situation as a basis for portfolio management

■ Portfolio Management

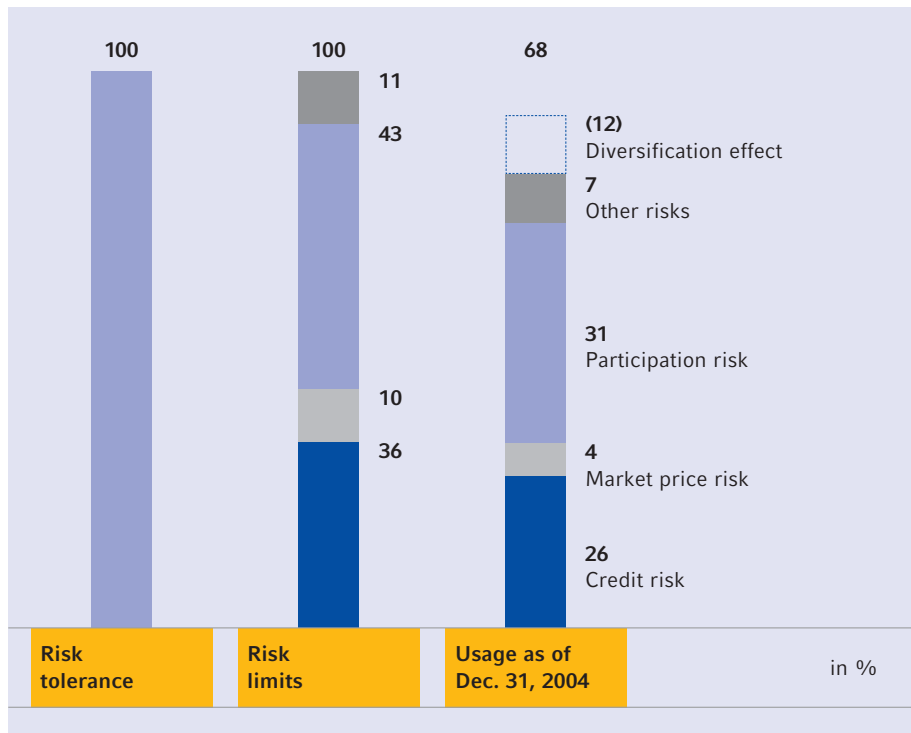
Active management of the loan portfolio through managing and reducing single-name concentrations, effective limiting of concentration risks with respect to individual counterparties and industries, as well as reducing unprofitable exposures and actively managing non-performing loans

■ Credit Approval Process

Revising the credit process, both front office and back office, in view of MaK and Basle II

The risk limits for the various categories of risk, as set by the Managing Board in view of the risk tolerance, were adhered to without exception in 2004.

The following graph summarises the risk situation at December 31, 2004 on the basis of the risk tolerance approach. The limits and utilisation of economic risk capital are shown as percentages of the risk tolerance:



Taking into account the diversification effect, 68% of the risk tolerance had been utilised as of December 31, 2004. Even by conservative estimates, i. e. excluding the diversification effect, the Bank was still operating within its risk tolerance.

Events Occurring After the Close of the Fiscal Year

From its remaining principal finance portfolio, the Bank divested itself of its commitments with BoxClever Group, Whyte & Mackay and Mid Kent Water plc. at the beginning of the 2005 fiscal year. These transactions marked the final sales from the principal finance portfolio.

In February 2005, HSH Nordbank AG announced its plans to convert silent contributions into capital and reserves. The conversion will take place in two steps, with € 605 million being converted on July 1, 2005 and € 750 million on December 31, 2007. WestLB intends to participate in this conversion in proportion to its 26.86% stake in HSH Nordbank AG. However, it does have the right with respect to the second conversion in 2007 to withdraw from the agreement if performance with a calculated value of € 8.6 million is waived.

In March 2005, WestLB agreed to sell its majority holding in Deutsche Anlagen-Leasing GmbH (DAL) to the Deutsche Leasing Group. This reduced WestLB's stake in DAL to 6%.

The sale of the 94.9% stake in Klöckner & Co AG, contractually arranged in December 2004, was finalised in mid-March 2005.

In March 2005, WestLB AG decided to take advantage of the favourable conditions on the capital markets and strengthen its core capital through the issue of hybrid Tier 1 capital. The issue encompasses US\$ 600 million, with private investors and the State of North Rhine-Westphalia each subscribing to half of the issue on the same terms and conditions. All other things being equal, this will increase WestLB Group's imputed core capital ratio to over 7%.

Outlook

The global economic upswing of 2004 is past its prime, with expansionary trends in monetary and fiscal policy easing, especially in the USA, but also in other industrialised nations. In China, economic policy makers are hard at work restricting lending and increasing interest rates in an effort to curb the boom and thereby counter inflation risks and distortion in the country's real economic figures. The rapid price increases on the world's raw materials markets are also having a tempering effect overall.

Given these developments, growth in the world economy will be lower in 2005 than 2004, but at 3¾% is likely to fall roughly in line with the trend.

The slowdown in global momentum will spawn a drop in the stimulus foreign trade has given Germany and other euro area countries. The euro's strong appreciation on foreign exchange markets is having a similar effect, as it erodes the ability of export-driven companies in the common currency area to compete on prices. Domestic demand, in contrast, is poised to strengthen gradually, as companies have made substantial progress consolidating their balance sheets, revising their corporate structures and improving their production processes. In addition, financing conditions remain favourable, and the social reforms already introduced promise to start encouraging growth. However, growth in Germany and the euro area in general will continue to lag noticeably behind that seen in other industrialised nations in 2005.

In this persistently challenging economic environment, WestLB will have its first chance in 2005 to see its new business model in action over an entire fiscal year. The course has been set, key measures taken, and the first successes are in sight. The business model will demonstrate its value not least in the stronger partnership forged with the savings banks, which has its basis in the joint budget planning for 2005 performed with the savings banks in North Rhine-Westphalia. The goal is to considerably increase the volume of business generated with the savings banks in all defined product areas. To this end, concrete plans have been stipulated in bilateral agreements with the individual institutions.

Another goal is to expand the Bank's market share with mid-cap corporate clients, particularly in North Rhine-Westphalia but also elsewhere in Germany, through close cooperation with the savings banks and through the Bank's own direct clients business. At the heart of this "Mittelstand" initiative is the provision of equity capital products, additional credit volume for joint loans with the savings banks, and the expansion of the savings banks' customer base, chiefly with regard to strengthening the export, forfaiting and securitisation businesses.

In investment banking, a further increase in fee-based customer business will be sought. Innovative product solutions placed at the interface of the lending and capital market businesses are helping to open major sources of global earnings potential. The "Mittelstand" initiative and partnership with the savings banks will result in additional business opportunities.

In the area of global asset management, greater emphasis will be placed on profitable products, and the distribution network in Germany, France and the UK will be centralised. Once existing no-compete agreements expire, WestLB intends to relaunch its private banking business in Germany in the second quarter of 2005. Of course, this will not yet have any major effect on results for 2005.

WestLB continued to cut costs in the year under review. Headcount reductions are proceeding on schedule and should be completed by the end of 2005. With the comprehensive realignment of its risk situation and balance sheet, as well as sustainable improvement in its risk management system, WestLB expects to see risk costs stabilise at a level appropriate for its business compared to the loss-making years of 2002 and 2003.

In the year under review, WestLB considerably reduced its risk concentrations, particular in the lending and investment portfolios, thus substantially limiting the risk for 2005 of large-scale losses from single exposures. This also created new leeway with respect to the Bank's risk tolerance, which will allow it to push ahead with the planned development and expansion of individual business fields in the context of the new business model.

The new business model and restructuring of the portfolio will also have a significant impact on the future risk exposure. WestLB believes that the investment and sales risks associated with implementing the new business model will be held in check because of the close business alliance with the savings banks.

The expansion of business with mid-cap customers will be accompanied by a trend toward weaker ratings for individual transactions. However, the focus on smaller-scale business and resulting improvement in the entire portfolio's diversification will have a risk-reducing effect.

The risk-return-based allocation of risk capital will play a key role in expanding and trimming business fields. An Economic Capital Steering Committee will ensure that the requirements of Basle II become an integral part of internal capital management.

The management of operational risk will occur on a much more sophisticated level in 2005 and the development of methods aimed at quantifying operational risk will continue.

Owing to the additional measures taken in the year under review to systematically restructure the balance sheet, reduce costs and strengthen the capital base, as well as the implementation of a forward-thinking, growth-driven business model, today's WestLB Group is a more stable entity which has created the strategic foundation for maintaining a lasting ability to compete, even after the elimination of the state guarantees on July 18, 2005. We are confident, as a result, that we can achieve the targets for 2005 anchored in our business model, generating Group profit before taxes of approximately € 600 million on a marked-to-market basis. This assumes that the pace of economic growth will pick up in Germany and the euro area and that WestLB will receive a competitive rating for the time following the elimination of institutional liability and guarantor liability.

Group Balance Sheet as at December 31, 2004

Assets

	see Notes No.	€	€	31. 12. 2004 €	31. 12. 2003 € thousands
1. Cash					
a) cash on hand			5,697,362.09		(6,313)
b) balances with central banks			1,474,698,286.20		(4,622,158)
including:					
with Deutsche Bundesbank					
€ 875,072,374.02					
				1,480,395,648.29	4,628,471
2. Debt instruments issued by public institutions and bills of exchange eligible for refinancing with central banks					
a) treasury bills and discounted treasury notes as well as similar debt instruments issued by public institutions			2,636,379,893.86		(12,527,241)
including:					
eligible for refinancing with Deutsche Bundesbank					
€ 1,942,928,776.31					
b) bills of exchange			162,313.20		(774)
including:					
eligible for refinancing with Deutsche Bundesbank					
€ —					
				2,636,542,207.06	12,528,015
3. Claims on banks	6, 18				
a) payable on demand			18,802,406,166.04		(7,475,539)
b) other			66,555,628,681.13		(62,826,814)
				85,358,034,847.17	70,302,353
4. Claims on customers	7, 8, 18			74,976,129,393.—	84,915,742
including:					
secured by mortgages					
€ 4,942,137,993.92					
loans to public authorities and entities under public law			€ 11,616,514,820.86		
5. Bonds and other interest-bearing securities	9, 15, 18, 19				
a) money market instruments					
aa) of public institutions			1,718,069,194.16		(1,127,184)
including:					
eligible as collateral for Deutsche Bundesbank					
advances € 1,628,409,663.69					
ab) of other issuers			4,819,452,438.29		(648,947)
including:					
eligible as collateral for Deutsche Bundesbank					
advances € 51,189,760.—			6,537,521,632.45		1,776,131
b) bonds and notes					
ba) of public institutions			23,974,493,001.02		(25,827,764)
including:					
eligible as collateral for Deutsche Bundesbank					
advances € 15,014,104,807.80					
bb) of other issuers			37,838,526,844.61		(34,440,211)
including:					
eligible as collateral for Deutsche Bundesbank					
advances € 13,880,959,468.93			61,813,019,845.63		60,267,975
c) bonds issued by the Bank			1,512,485,078.91		(1,084,156)
principal amount € 1,142,746,498.46				69,863,026,556.99	63,128,262
				234,314,128,652.51	235,502,844
			To be carried forward:		

Liabilities

	see Notes No.	€	€	31. 12. 2004 €	31. 12. 2003 € thousands
1. Liabilities to banks	20, 23, 32				
a) payable on demand			17,437,445,374.11		(12,700,065)
b) with agreed maturity or period of notice			<u>94,647,276,347.26</u>		<u>(93,386,859)</u>
				112,084,721,721.37	106,086,924
2. Liabilities to customers	21, 23, 32				
a) deposits of building and loan associations and saving deposits					
aa) saving deposits with agreed period of notice of three months		221,385.59			(343)
ab) saving deposits with agreed period of notice of more than three months		<u>-:—</u>			<u>(—)</u>
			221,385.59		343
b) other liabilities					
ba) payable on demand		12,054,273,502.45			(16,675,393)
bb) with agreed maturity or period of notice		<u>54,917,027,974.03</u>			<u>(53,452,345)</u>
			<u>66,971,301,476.48</u>		<u>70,127,738</u>
				66,971,522,862.07	70,128,081
3. Certificated liabilities	22, 32				
a) bonds and notes issued by the Bank			22,116,011,241.63		(20,011,877)
b) other certificated liabilities			<u>26,020,683,175.58</u>		<u>(35,047,157)</u>
including: money market instruments € 8,601,216,237.48				48,136,694,417.21	55,059,034
4. Trust liabilities	23, 32			526,970,490.13	532,813
including: trust loans € 151,993,455.13					
5. Other liabilities	24, 32			12,719,273,791.35	10,447,662
6. Deferred items	25, 32			364,069,101.30	563,852
7. Provisions	26, 32				
a) for pensions and similar obligations			612,791,814.89		(588,859)
b) tax reserve			237,460,901.81		(405,180)
c) other			<u>1,279,517,540.76</u>		<u>(1,427,281)</u>
				2,129,770,257.46	2,421,320
8. Subordinated liabilities	27, 31, 32			4,278,425,744.59	4,506,713
			To be carried forward:	247,211,448,385.48	249,746,400

Group Balance Sheet as at December 31, 2004

Assets

	see Notes No.	€	€	31. 12. 2004 €	31. 12. 2003 € thousands	
				To be carried forward:	234,314,128,652.51	235,502,844
6. Shares and other non-interest-bearing securities	10, 15, 18			5,386,343,189.19	4,989,950	
7. Equity investments in non-affiliated companies	11, 15, 18, 37, 55			1,488,367,267.23	3,530,387	
including:						
banks						
€ 276,894,000.77						
including:						
financial services institutions						
€ 4,076,111.60						
8. Equity investments in associated companies	11, 15			947,605,713.95	1,396,738	
9. Equity investments in affiliated companies	12, 15			704,144,075.91	621,589	
including:						
banks						
€ —						
including:						
financial services institutions						
€ 78,266,187.96						
10. Trust assets	13			526,970,490.13	532,813	
including:						
trust loans						
€ 151,993,455.13						
11. Equalisation claims against public authorities including bonds and notes issued in substitution thereof	15			145,156,771.61	289,464	
12. Intangible assets	15			80,453,624.66	43,742	
including:						
goodwill € 4,034,555.29						
13. Fixed assets	15			2,364,724,260.55	2,123,825	
14. Other assets	14			6,938,118,836.94	6,132,600	
15. Deferred items	17			896,557,872.65	1,079,804	
Total assets				253,792,570,755.33	256,243,756	

Group Statement of Income

for the Period January 1 – December 31, 2004

	see Notes No.	€	€	1. 1. – 31. 12. 2004 €	1. 1. – 31. 12. 2003 € thousands
1. Interest from	38				
a) lending and money market transactions		6,810,379,531.24			(5,776,307)
b) interest-bearing securities and book-entry securities		<u>2,662,647,175.85</u>			(2,722,921)
			9,473,026,707.09		8,499,228
2. Interest paid			<u>8,365,615,922.65</u>	1,107,410,784.44	(7,160,065)
					1,339,163
3. Current income from	38				
a) shares and other					
non-interest-bearing securities			151,569,055.90		(232,313)
b) equity investments in non-affiliated companies			163,018,554.89		(116,321)
c) equity investments in affiliated companies			<u>68,040,122.79</u>		(80,982)
				382,627,733.58	429,616
4. Income from equity investments in associated companies				45,345,244.17	103,855
5. Income from profit pooling, profit transfer and partial profit transfer agreements	38			56,286,384.90	18,742
6. Commission income	38		570,739,392.60		(654,123)
7. Commission paid			<u>234,370,662.78</u>	336,368,729.82	(216,040)
					438,083
8. Net expense from trading operations	38			- 170,454,406.52	1,406
9. Income from leasing business	40			230,519,017.39	183,526
10. Expenses from leasing business	40			181,729,443.96	151,284
11. Other operating income	41			350,249,999.04	355,417
12. Income from reversal of special item with partial reserve character				-.	3,986
13. General administrative expenses					
a) personnel expenses					
aa) wages and salaries		712,747,302.38			(757,348)
ab) compulsory social security contributions and expenses for pensions and other employee benefits		<u>211,507,907.07</u>			(227,380)
including:			924,255,209.45		984,727
for pensions					
€ 116,843,203.66					
b) other administrative expenses			<u>731,934,640.62</u>	1,656,189,850.07	(701,863)
					1,686,590
14. Depreciation and value adjustments on intangible and tangible fixed assets	15			146,243,427.35	141,402
15. Other operating expenses	41			173,649,085.21	118,643
16. Write-downs and value adjustments on loans and certain securities as well as allocations to loan loss provisions	42			-.	1,169,642
			To be carried forward:	180,541,680.23	- 393,766

for the Period January 1 – December 31, 2004

	see Notes No.	€	€	1. 1. – 31. 12. 2004 €	1. 1. – 31. 12. 2003 € thousands
			To be carried forward:	180,541,680.23	- 393,766
17. Income from revaluation of loans and certain securities as well as from the reversal of loan loss provisions	42	148,296,572.43		148,296,572.43	-
18. Write-downs and value adjustments on equity investments in non-affiliated companies, equity investments in affiliated companies and securities treated as fixed assets	42	-.	-.	-.	1,002,991
19. Income from revaluation of equity investments in non-affiliated companies, equity investments in affiliated companies and securities treated as fixed assets	42	33,990,322.40		33,990,322.40	-
20. Income from reversal of the fund for general bank risks pursuant to § 340g HGB				170,771,488.32	-
21. Expenses from the assumption of losses				12,158,258.39	35,018
22. Profit or loss on ordinary activities				521,441,804.99	- 1,431,776
23. Extraordinary income	43	421,394.30			(4,142)
24. Extraordinary expenses	43	1,584,003,558.87			(394,976)
25. Extraordinary result	43			- 1,583,582,164.57	- 390,834
26. Taxes on income and revenues	45	84,296,674.81			(60,108)
27. Other taxes not shown under other operating expenses		12,814,102.87		97,110,777.68	(14,651) 74,759
28. Net loss for the year				- 1,159,251,137.26	- 1,897,368
29. Withdrawals from silent contributions to capital				64,629,112.16	412,922
30. Withdrawals from capital reserves				855,370,887.84	523,878
31. Withdrawals from reserves from retained earnings	30, 31				
a) legal reserves			-.		(-)
b) reserves required by WestLB's articles and bylaws			-.		(409,346)
c) other reserves			-.		(973,854)
				-.	1,383,200
32. Withdrawals from/allocations to Group reserves				239,195,127.53	- 420,377
33. Profit attributable to shareholders outside the Group		1,816,480.08			(2,440)
34. Loss apportionable to shareholders outside the Group		1,872,489.81		56,009.73	(186) 2,255
35. Group profit/Group loss				-.	-

Statement of Changes in Shareholders' Equity

€ millions	Parent Company							Minority Shareholders		Group Equity Capital		
	Subscribed capital	Paid-in contribution for agreed capital increase	Capital reserves	Silent contributions	Group equity capital earned		Cumulative other Group result	Equity capital	Equity capital			
					Reserves from retained earnings	Group profit/loss	Group Reserves Group reserves earned	Equalising items from foreign currency translation	Other neutral transactions			
Balance at January 1, 2003	951		2,035	0	1,383	0	- 147	- 294	1,067	4,995	2	4,997
Group loss for 2003						- 1,897				- 1,897		- 1,897
Distribution of Group profit for 2002										0		0
Withdrawal from capital reserves			- 524			524				0		0
Allocation to silent contributions to capital				1,250						1,250		1,250
Withdrawal from silent contributions to capital				- 413		413				0		0
Withdrawal from reserves from retained earnings					- 1,383	1,383				0		0
Allocation to Group reserves						- 421				- 421		- 421
Changes in scope of consolidation							- 147	6	- 508	- 649		- 649
Share of minority interests in profit							- 2			- 2	2	0
Currency translation, consolidation effects and other changes in capital							225	178	- 93	310	2	312
Balance at December 31, 2003	951		1,511	837	0	0	- 69	- 110	466	3,586	6	3,592
Group loss for 2004						- 1,159				- 1,159		- 1,159
Distribution of Group profit for 2003										0		0
Capital increase	844		906							1,750		1,750
Paid-in contribution for agreed capital increase			250							250		250
Withdrawal from Group reserves			- 855			855				0		0
Withdrawal from silent contributions to capital				- 565		65				- 500		- 500
Withdrawal from Group reserves						239				239		239
Changes in scope of consolidation							222	12	35	269		269
Share of minority interests in profit										0	- 2	- 2
Currency translation, consolidation effects and other changes in capital							- 488	- 72	- 46	- 606	11	- 595
Balance at December 31, 2004	1,795	250	1,562	272	0	0	- 335	- 170	455	3,829	15	3,844

Cash Flow Statement

The cash flow statement shows the changes in cash and cash equivalents and the cash flows of the WestLB Group, divided into operating activities, investing activities and financing activities.

The cash and cash equivalents shown include the balance sheet items “cash” and “debt instruments issued by public institutions and bills of exchange eligible for refinancing with central banks.”

Cash flows are allocated to operating activities as operating income accrues. The cash flow from investing activities results primarily from cash received and cash used in connection with selling or acquiring financial and tangible assets.

The change in cash from financing activities captures the relationships to equity capital providers. The statement was prepared in accordance with German Accounting Standard No. 2 (DRS 2), as supplemented by the bank-specific German Accounting Standard No. 2–10 (DRS 2–10).

Cash Flow Statement

€ millions	2004	2003
Net income (including minority shareholders' interests) before extraordinary items	424.3	- 1,508.8
Non-cash items included in net income and reconciliation with cash flow from operating activities		
Depreciation, write-downs and write-ups of claims, tangible and financial assets	960.2	2,061.3
Changes in provisions	- 461.6	90.5
Changes in other non-cash items	- 1,171.6	- 269.7
Gain on the sale of financial and tangible assets	- 667.3	- 429.1
Other adjustments (balance)	- 1,292.6	- 1,548.0
Subtotal	- 2,208.7	- 1,603.8
Changes in assets and liabilities from operating activities		
Claims		
- on banks	- 14,730.4	6,121.3
- on customers	7,577.6	9,805.0
Securities (with the exception of financial assets)	- 8,921.6	8,607.7
Other assets from operating activities	1,062.6	- 7.0
Liabilities		
- to banks	5,467.3	- 14,923.7
- to customers	- 3,968.6	5,898.1
Certificated liabilities	- 6,971.0	- 6,973.8
Other liabilities from operating activities	681.4	1,696.6
Interest and dividends received	11,356.7	9,678.1
Interest paid	- 6,438.5	- 7,935.8
Extraordinary cash received	0.3	3.8
Extraordinary cash disbursed	- 82.9	- 79.8
Income tax payments	- 253.7	- 243.5
Cash flow from operating activities	- 17,429.3	10,043.2
Cash from the disposal of		
- financial assets	7,534.3	5,393.9
- tangible assets	488.3	1,137.8
Disbursements for investments in		
- financial assets	- 3,995.7	- 9,224.0
- tangible assets	- 626.1	- 701.0
Cash from the sale of consolidated companies and other business units	2.4	140.1
Disbursements from the acquisition of consolidated companies and other business units	0.0	- 183.6
Changes in cash from other investing activities (balance)	- 51.8	- 7.9
Cash flow from investing activities	3,351.4	- 3,444.8
Cash from allocations to equity capital (capital increases, sale of treasury shares, etc.)	1,499.9	1,250.0
Disbursements to company owners and minority shareholders		
- dividend payments	0.0	0.0
- other disbursements	0.0	0.0
Cash changes from other capital (balance)	- 156.3	- 618.7
Cash flow from financing activities	1,343.6	631.3
Net increase/decrease in cash and cash equivalents (total of 19, 25, 29)	- 12,734.4	7,229.7
Changes in cash due to changes in exchange rate, scope of consolidation and valuation	- 305.2	- 785.0
Cash at the beginning of the period	17,156.5	10,711.8
Cash at the end of the period	4,116.9	17,156.5

Segment Report WestLB Group 2004

Profit is planned and managed within WestLB Group at business unit level on the basis of WestLB's profit centre accounting. The portfolios, results and resources of the specific business units/profit centres are combined into segments that represent the main businesses and areas in which WestLB Group is active.

The segments are formed on the basis of WestLB Group's internal management and reflect the focus and market presence of the business units as well as the functional synergies among organisational units, as these existed in fiscal 2004. The previous year's figures were adjusted for recent changes within the segments in order to facilitate comparison with the primary segments' 2004 results.

Group Segments		
Lending Central Credit Management/ Credit Coordination Office Credits Germany/Europe Credits America Credits Asia/Pacific Westdeutsche ImmobilienBank (WIB)	Special Finance Global Specialised Finance Boullioun Group/Aircraft Leasing	Services Global Asset Management Banque d'Orsay Transaction Services
Trading Equity Markets Mergers & Acquisitions Global Financial Markets WestLB International S.A., Luxembourg Group Operations Market Risk Management	Equity Investments Equity Investments HSH Nordbank AG Principal Finance (Workout)	Other Asset Liability Management (ALM) Consolidations Other business units Internal Service Units <ul style="list-style-type: none"> ■ Group Finance ■ Group Strategy/Controlling ■ Internal Services ■ Human Resources ■ Group Marketing/Sales Support ■ Legal ■ Group Audit ■ WestLB Systems/IT ■ Chief Information Office (CIO) ■ Operational Risk Management

The following tables depict the contributions that the individual segments made to the consolidated result in fiscal years 2004 and 2003, respectively. The net income from trading operations reflects marked-to-market values; the reconciliation to the published accounts are captured under Other. The income and expenses generated internally between the segments and netted are shown as separate line items. The risk-weighted assets were determined on the basis of Principle I (German Banking Act, KWG). The allocated capital was calculated using the internal minimum equity capital ratio of 8.7%.

Primary Segment Report WestLB Group 2004

€ millions	Lending	Special Finance	Trading	Services	Equity Investments	Other	WestLB Group Result
Net interest income							
Result 2004	245.2	266.7	806.8	37.6	87.0	148.4	1,591.7
Result 2003	282.3	330.6	931.5	-9.9	168.8	188.1	1,891.4
Provisions for credit risks							
Result 2004	-55.5	-59.2	24.0	8.4	97.1	103.1	117.9
Result 2003	-396.5	-315.2	-48.3	-0.1	-344.7	-77.0	-1,181.8
Net interest income after provisions for credit risks							
Result 2004	189.7	207.5	830.8	46.0	184.1	251.5	1,709.6
Result 2003	-114.2	15.4	883.2	-10.0	-175.9	111.1	709.6
Net commission income							
Result 2004	52.7	97.4	97.8	78.4	3.2	6.9	336.4
Result 2003	78.1	138.9	148.4	82.4	19.8	-29.5	438.1
Net income from trading operations							
Result 2004	1.4	26.4	-108.6	18.3	-0.7	-107.3	-170.5
Result 2003	3.8	3.4	-22.2	14.7	-5.0	6.7	1.4
Balance of other operating expenses/income							
Result 2004	39.2	37.7	-58.0	0.1	-53.3	246.9	212.6
Result 2003	23.3	27.8	1.4	-6.6	25.1	183.3	254.3
Personnel expenses							
Result 2004	-105.0	-73.6	-263.7	-78.0	-12.2	-391.8	-924.3
Result 2003	-101.5	-81.7	-305.7	-68.7	-17.0	-410.1	-984.7
Other administrative expenses							
Result 2004	-73.0	-41.5	-199.3	-38.5	-20.1	-505.8	-878.2
Result 2003	-52.5	-63.2	-164.0	-18.4	-30.6	-514.6	-843.3
Balance of internal services charges							
Result 2004	-23.0	-43.0	-188.6	-40.7	-4.1	299.4	0.0
Result 2003	-37.9	-51.4	-249.6	-45.9	-4.3	389.1	0.0
Result of securities and participations							
Result 2004	-28.7	2.0	-34.0	33.8	94.0	-14.9	52.2
Result 2003	80.3	-426.3	-51.3	-9.7	-796.4	181.5	-1,021.9
Release of 340 g HGB reserves							
Result 2004	0.0	0.0	170.8	0.0	0.0	0.0	170.8
Result 2003	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Result from ordinary activities							
Result 2004	53.3	212.9	247.2	19.4	190.9	-215.1	508.6
Result 2003	-120.6	-437.1	240.2	-62.2	-984.3	-82.5	-1,446.5
Extraordinary result							
Result 2004	-17.5	-11.6	-20.5	-25.3	-2.5	-1,506.2	-1,583.6
Result 2003	-24.3	-2.9	-130.4	-37.3	-1.1	-194.8	-390.8
Result before taxes							
Result 2004	35.8	201.3	226.7	-5.9	188.4	-1,721.3	-1,075.0
Result 2003	-144.9	-440.0	109.8	-99.5	-985.4	-277.3	-1,837.3
Cost-income ratio (based on income from ordinary activities marked to market)¹							
2004 (%)	67.5	42.2	80.0	93.5	30.1	-	79.7
2003 (%)	44.8	neg.	77.0	neg.	neg.	-	neg.
Risk positions of the investment and trading portfolio							
2004 (€ millions)	28,678	11,138	38,218	1,989	30,598	3,712 ²	114,332
2003 (€ millions)	34,023	16,264	35,552	2,356	43,563	3,535 ³	135,294
Allocated capital							
2004 (€ millions)	2,495	969	3,325	173	2,662	323 ²	9,947
2003 (€ millions)	2,960	1,415	3,093	205	3,790	308 ³	11,771
Segment assets							
Result 2004 (€ millions)	39,902.1	17,571.5	165,095.2	1,008.1	6,403.2	23,812.5	253,792.6
Result 2003 (€ millions)	43,882.9	23,585.1	150,392.7	634.3	7,837.9	29,910.9	256,243.8
Segment liabilities							
Result 2004 (€ millions)	24,052.8	2,620.3	195,619.3	2,929.5	422.9	24,304.3	249,949.1
Result 2003 (€ millions)	22,111.5	3,220.9	191,435.6	1,950.7	237.9	33,695.6	252,652.2
Number of full-time employees							
at Dec. 31, 2004	1,165	453	1,872	498	100	2,805	6,893
at Dec. 31, 2003	1,242	494	2,151	550	167	2,940	7,544

¹ Marking the income from ordinary activities to market reflects internal practices of the WestLB Group. Under HGB, the cost-income ratio is calculated by setting administrative expenses in relation to the sum of net interest income, net commission income, net income from trading operations and the balance of other operating expenses/income. Accordingly, the HGB cost-income ratio for the Lending segment was 62.2%; for the Special Finance segment it was 42.4%; for Trading, 91.2%; it was negative for the Services and Equity Investments segments and 91.5% for the WestLB Group.

² This includes the reconciliation of regulatory to HGB scope of consolidation.

³ This includes the reconciliation of Subgroup 2003 to Group 2003.

Secondary Segment Report WestLB Group 2004

The secondary segment report captures the regional distribution of the key balance sheet items and results of WestLB Group at December 31, 2004 and December 31, 2003, respectively. The allocation to specific regions was determined on the basis of the domicile of the branches or subsidiaries on whose accounts the relevant transactions were carried.

€ millions	Germany	Europe	North/South America	Asia/Australia	Reconciliation	WestLB Group Result
Result from ordinary activities						
Result 2004	442.2	528.3	68.8	63.9	- 594.6	508.6
Result 2003	- 1,605.1	- 33.9	- 445.8	82.8	555.5	- 1,446.5
thereof result of provisions for credit risks						
Result 2004	82.9	98.3	- 64.3	30.8	- 29.8	117.9
Result 2003	- 473.4	- 515.6	- 195.0	- 4.0	6.2	- 1,181.8
thereof result of securities and participations						
Result 2004	- 29.8	46.3	- 45.8	2.8	78.7	52.2
Result 2003	- 1,280.1	- 32.4	- 460.5	- 1.8	752.9	- 1,021.9
thereof release of 340 g HGB reserves						
Result 2004	0.0	170.8	0.0	0.0	0.0	170.8
Result 2003	0.0	0.0	0.0	0.0	0.0	0.0
Result before taxes						
Result 2004	- 1,064.9	471.5	53.6	78.5	- 613.7	- 1,075.0
Result 2003	- 1,840.1	- 162.8	- 457.0	66.6	556.0	- 1,837.3
Segment assets						
2004	103,605.0	125,045.7	36,336.5	9,543.7	- 20,738.3	253,792.6
2003	126,998.8	109,035.6	34,869.1	6,578.0	- 21,237.7	256,243.8
Segment liabilities						
2004	121,725.1	106,755.5	38,314.5	6,528.1	- 23,374.1	249,949.1
2003	123,591.5	109,066.1	34,449.1	6,551.6	- 21,006.1	252,652.2
Cost-income ratio (based on income from ordinary activities marked to market)¹						
2004 (%)	77.0	54.2	61.7	68.2	-	79.7
2003 (%)	neg.	58.7	neg.	50.4	-	neg.

¹ Marking the income from ordinary activities to market reflects internal practices of the WestLB Group. Under HGB, the cost-income ratio is calculated by setting administrative expenses in relation to the sum of net interest income, net commission income, net income from trading operations and the balance of other operating expenses/income. Accordingly, the HGB cost-income ratio for the Germany segment was 75.5%; for the Europe segment it was 70.5%; for North/South America, 54.5%; Asia/Australia, 70.1%; it was 91.5% for the WestLB Group.

Reconciliation of HGB to KWG Figures in Respect of Capital

€ millions	Core Capital	Supplementary Capital	Tier III Capital	Own Funds
Capital and reserves according to the HGB balance sheet				10,860
Subscribed capital	1,795			1,795
Paid-in contribution for agreed capital increase	250			250
Capital reserves	1,561			1,561
Silent contributions to capital	273			273
Group reserves	- 50			- 50
Equalising items for shares of other shareholders	15			15
Fund for general bank risks		89		89
Subordinated liabilities		4,278		4,278
Profit participation capital		2,649		2,649
Deductions associated with banking regulations (e.g. market support, residual maturity limitation, book values, intangible assets)	36	- 950		- 914
Reclassifications associated with banking regulations	261	- 1,024	935	172
General provisions/reserves for defaults		176		176
Other effects (e.g. differences in the scope of consolidation and consolidation methods)	3,466	1,068	-	4,534
Own funds under Principle I				14,828

Notes to the WestLB AG Group Annual Accounts at December 31, 2004

Basis for Preparation of Group Annual Accounts (1)

WestLB's consolidated annual accounts are prepared in accordance with the provisions of the German Commercial Code (HGB), the Ordinance Regarding Accounting for Banks and Financial Services Institutions (RechKredV) and the relevant provisions of the German Stock Corporation Act (AktG). Information that may appear either on the balance sheet or in the Notes has been included in the Notes.

In preparing the consolidated annual accounts, the following German Accounting Standards (GAS) published by the German Accounting Standards Committee (GASC) were applied:

- GAS 2 Cash Flow Statements and GAS 2–10 Cash Flow Statements of Financial Institutions
- GAS 3 Segment Reporting and GAS 3–10 Segment Reporting by Financial Institutions
- GAS 5 Risk Reporting and GAS 5–10 Risk Reporting by Financial Institutions and Financial Services Institutions
- GAS 7 Group Equity and Total Recognised Results
- GAS 14 Currency Translation

GAS 8 – Accounting for Investments in Associates in Consolidated Financial Statements – was applied in most cases. Specifically, a test to determine the lower of cost or market value, as set forth in GAS 8.28, was conducted for any associated enterprise valued with the equity method.

Accounting and Valuation Principles (2)

As a rule, the same accounting principles, valuation principles and reporting procedures applied in the case of WestLB AG are used for the WestLB Group. In accordance with the legal requirements, the financial accounts of the subsidiaries included in the Group annual accounts are prepared in accordance with WestLB AG's standard accounting and valuation methods.

Assets, liabilities and pending transactions are valued in accordance with §§ 252 et seq. and §§ 340 et seq. of the German Commercial Code (HGB).

Claims are reported at their outstanding principal balances less any unamortised discounts. Liabilities are carried at their repayment amounts, with any related discounts reported under deferred items. Premiums on claims and liabilities are reported under deferred items as an asset or liability respectively. The accrued interest on a claim or liability at year-end is included with the claim or liability to which it applies. Deferred items resulting from own bonds issued and the lending business are valued according to the proportionate interest method.

Bills of exchange, as well as treasury bills and non-interest-bearing treasury bonds, are discounted and shown with the effective discount rate. Non-interest-bearing loans to employees are reported at their outstanding principal balance in accordance with tax regulations. Zero-coupon bonds issued are carried as liabilities at their issue price plus interest accrued as of the balance sheet date.

Discernible risks in the lending business are adequately covered by individual value adjustments and provisions. A global provision was formed in accordance with tax valuation methods for latent risks from claims and contingent liabilities. In the case of loans to countries with acute transfer risk, specific allowances for bad debts are

made or provisions are established. The classification of a country as having acute transfer risk is based on the regularly updated internal rating for that country; the rate at which the respective receivables are written down is derived from recognised market rates.

Securities held in the liquidity reserve are valued strictly at the lower of market or book value.

Securities treated as fixed assets (financial assets) are valued at cost. Any difference between the cost and the repayment amount is recognised on a pro rata basis in income. Where a loss of value is expected to be permanent, the securities are written down to the lower fair value. Any such securities carried at a value higher than their current market value because of application of the modified lower of cost or market principle are shown separately in the Notes. This information is subject to change over time because of portfolio changes, as well as movements in interest rates and/or market value.

Shares, bonds, derivatives and other trading instruments held by the WestLB Group for proprietary trading purposes are reported at their individual market values as of the balance sheet date.

They are carried either at market value or their fair value as at December 30, 2004 (last trading day for liquid markets); pro-rata interest, non-recurring payments and option premiums are taken into account. The individual results of valuation are combined into macro portfolios, which are broken down into risk categories (interest rate, share price and other price risks) and, within these risk categories, into currencies, classes of shares and other basic instruments. Positive and negative valuation results are netted within the macro portfolios; if there are any positive valuation results remaining, these unrealised gains are netted against realised losses. Any unrealised gains remaining after that are not recognised in income; any remaining unrealised losses are written down and provisions are established. Due to improvements in risk management processes, the make-up of the macro portfolios for interest rate risks and for other risks was adjusted for the 2004 Group annual accounts.

Current income from securities and money market holdings (interest income, dividends), as well as refinancing costs, are reported as part of the interest result on the statement of income. To the extent they result from trading transactions, price gains and losses, as well as payments obtained and received under forward contracts, options and other derivative instruments, are included in the net income from trading operations; the same applies to trading product valuation results that affect income. The dividend income from some equity trading portfolios is also included in the net income from trading operations.

Equity investments in associated companies of minor importance and in other non-affiliated companies are captured in the balance sheet item "equity investments in non-affiliated companies". Equity investments in subsidiaries of minor importance are captured under "equity investments in affiliated companies". All equity investments are carried at cost; where a loss of value is expected to be permanent, they are written down to the lower fair value.

The book values of the associated companies included in the Group annual accounts with the equity method are tested on the balance sheet date for impairment pursuant to GAS 8.28. The value of these associated companies is written down if the equity value exceeds the fair value. If the reason for a write-down no longer exists, the value is written up.

Tangible assets with a limited useful life and intangible assets acquired against payment with a limited useful life are depreciated in accordance with the applicable tax regulations. Low-value assets are written off in full in their year of purchase. Aircraft listed under leasing assets are depreciated to a residual value of 20% over a 20-year period.

Adequate provisions have been made for contingent liabilities and anticipated losses from pending transactions. The provision for pensions was established on the basis of actuarial principles in accordance with § 6a of the German Income Tax Act (EStG).

A fund for general bank risks pursuant to § 340g of the German Commercial Code (HGB) is reported separately on the balance sheet; there are also reserves pursuant to § 340f of the German Commercial Code (HGB).

Foreign currency amounts have been translated in accordance with § 340h of the German Commercial Code (HGB), taking into account GAS 14. Assets and liabilities denominated in foreign currencies, as well as open spot deals, are translated using the ECB reference rates effective on December 30, 2004. Pending forward transactions (currency forwards, currency options and currency futures) are carried at the mean forward rate or option premium effective on that day (last trading day for the liquid market). Income and expenses for which a particular exchange rate has been agreed are translated at the respective hedge rate. Swap premiums on hedged balance sheet items are deferred and amortised over time. The amortisation amounts are included in the interest result.

Each of the items on WestLB Group's balance sheet, as well as each pending transaction, which is denominated in a foreign currency is classified and valued as specifically hedged by an item that is also denominated in that currency within the meaning of § 340h (2) Sentence 2 of the German Commercial Code (HGB). Therefore, in accordance with § 340h (2) Sentences 1 and 2 of the German Commercial Code (HGB), all expenses and income generated from the translation of foreign currency are captured on the statement of income. There was no income that had to be reported separately since the currency positions open as of the balance sheet date were short-term. The negative result from the individual valuation of pending currency transactions is reported under other liabilities as a net amount.

Deferred tax items are not netted against each other, but instead reported under assets and liabilities, respectively. A deferred tax asset is formed when a tax expense in the corresponding amount arises at the relevant Group company or local WestLB AG branch in the course of the year. Deferred tax assets are only shown at the respective taxable entity up to the amount of any deferred tax liabilities.

Consolidation Principles (3)

The accounts of the individual Group companies are, as required by law, uniformly prepared in accordance with the accounting and valuation methods applicable to WestLB AG. Claims and liabilities, expenses and income, as well as intra-group results which exist or arise between companies included in the Group accounts, and which are not insubstantial pursuant to § 304 (2) of the German Commercial Code (HGB), are eliminated. Where necessary, a deferred tax item is formed to cover any consolidation measures affecting net income.

In the case of foreign subsidiaries whose accounts are prepared in a foreign currency, balance sheet items and, as a rule, all items pertaining to profit distribution were converted using the ECB reference rates effective on December 30, 2004. Items on the statement of income up to profit for the year were translated using mean exchange rates. Valuation differences arising from exchange rate adjustments in previous years are netted against Group reserves.

When Group companies are consolidated for the first time, the book value method is used, with valuation as at the Group balance sheet date. In a first step, a net € 0.4 million in income resulting from the first-time consolidation of companies in 2004 was captured in full in the relevant items on the Group statement of income. Then, pursuant to HFA 3/1995, owing to the consolidation as at the Group balance sheet date, the annual results attributable to the stakes in these companies were neutralised through formation of equalising items that were reported as other operating expenses or income.

Consolidation balances resulting from the first-time consolidation of fully consolidated subsidiaries are offset against Group reserves.

WestLB follows § 304 (1) of the German Commercial Code (HGB) when eliminating intra-group results. Accordingly, any assets from consolidated companies to be included in the Group accounts are carried at the value that would apply if the consolidated companies represented a single entity for legal purposes, as well.

Westdeutsche ImmobilienBank has modified the treatment of consolidation balances arising from first-time consolidation, offsetting all such balances uniformly against Group reserves. This change resulted in a charge to Group reserves of € 65.6 million.

Unless they are netted as part of capital consolidation, the earnings of the consolidated subsidiaries are allocated to Group reserves. The Group reserves contain the results of consolidation measures both affecting and not affecting profit. Group profit is identical to that of WestLB AG.

The at-equity valuation of the 36 associated companies (2003: 27) included in the Group annual accounts is performed according to the book value method. When companies are first classified as associated companies, the basis for valuation is the reporting date for the Group annual accounts. Any valuation methods used for associated companies which deviate from those applied by the WestLB Group are not adjusted. There were no facts requiring the elimination of intra-group results with associated companies.

Positive consolidation balances resulting from the first-time consolidation of companies valued according to the equity method are offset against Group reserves. Negative valuation balances resulting from the consolidation of such companies are generally not reflected in Group reserves.

When companies that are consolidated into the WestLB Group at equity demonstrate changes in their equity capital that have no or no clearly identifiable impact on earnings, such changes are reflected in their equity values on a pro rata basis, but are not recognised in income.

Companies Included in the Group Annual Accounts (4)

At the end of the 2004 fiscal year, WestLB AG held direct and indirect stakes in 426 affiliated companies, of which 79 were included in the Group annual accounts. The following table shows the changes in the number and classification of the companies included in the Group annual accounts:

Group Companies of WestLB AG

	Previous Year	Additions	Subtractions	Conversions	Report Year
Affiliated companies	433	22	30	1	426
included in the Group accounts	75	3	4	5	79
not included in the Group accounts pursuant to § 296 (1) No. 3 or (2) of the German Commercial Code (HGB)	357	19	26	- 4	346
not included in the Group accounts pursuant to § 295 (1) of the German Commercial Code (HGB)	1	-	-	-	1
Associated companies	74	-	5	- 1	68
Associated companies (valued at equity pursuant to § 312 (1) of the German Commercial Code (HGB))	27	-	2	11	36
Associated companies (not valued at equity pursuant to § 311 (2) of the German Commercial Code (HGB))	47	-	3	- 12	32

Among the 79 affiliated companies included in the Group annual accounts are three subgroups, namely Boullioun Aviation Services Inc., Westdeutsche ImmobilienBank and, new in fiscal 2004, Banco WestLB do Brasil S.A.

Three Group companies were added to those included in the Group accounts as a result of the conversion of GOD Grundstücksverwaltungsgesellschaft & Co. KG and GOH Grundstücksverwaltungsgesellschaft & Co. KG from non-affiliated to affiliated companies and one addition in the Westdeutsche ImmobilienBank Subgroup. The subtraction of four Group companies is the result of two sales and two intra-group mergers.

In addition to changes in the companies in which WestLB AG holds direct and indirect stakes, changes in the Boullioun Aviation Services Inc., Westdeutsche ImmobilienBank and Banco WestLB do Brasil S.A. subgroups made up the bulk of the conversions that took place among associated and affiliated companies. The conversions helped to streamline Group structures and improve their transparency. In net terms, one company valued at equity in previous years was converted into an affiliated company.

A total of 346 affiliated companies were not included in the Group accounts, because they are only of minor importance to WestLB Group's net assets, financial condition and earnings or because the shares in them are held solely for the purpose of being sold. Of these, 137 companies alone are part of Klöckner & Co AG, the shares of which are intended for resale.

The value of the aggregate unconsolidated assets of the companies which were not consolidated due to their minor importance is equal to 0.75% of total Group assets.

One affiliated company is not included in the Group accounts because its inclusion is prohibited pursuant to § 295 of the German Commercial Code (HGB). Its line of business (a relief fund) differs from that of the WestLB Group.

32 (2003: 47) associated companies are not valued with the equity method, since they are not material to stating the Group's net assets, financial condition and earnings.

The structure of WestLB Group is as follows:

WestLB Group (companies, directly consolidated)

WestLB AG, Düsseldorf
WestLB Europa Holding AG, Düsseldorf
WestLB (Italia) Finanziaria S.p.A., Milan, Italy
WestLB Europe (UK) Holdings Ltd., London, UK
WestLB Covered Bond Bank plc, Dublin, Ireland
WestLB Ireland plc, Dublin, Ireland
WestLB Hungaria Bank Rt., Budapest, Hungary
West Merchant Bank Limited, London, UK
WestLB Bank Polska S.A., Warsaw, Poland
Bank WestLB Vostok (ZAO), Moscow, Russia
WestLB Beteiligungsholding GmbH, Düsseldorf
WestLB International S.A., Luxembourg, Luxembourg
WestLB Securities Pacific Limited, Hong Kong
WestLB UK Limited, London, UK
WestLB Asset Management Kapitalanlagegesellschaft mbH, Düsseldorf
WestLB Finance Netherlands B.V., Amsterdam, Netherlands
WestLB Finance Curaçao N.V., Willemstad, Netherlands Antilles
WestLB Finance UK plc, London, UK
WestLB Fund Investments Limited, London, UK
Banque d'Orsay S.A., Paris, France
WestLB Asia Pacific Limited, Singapore
WestLB Finance (Credits) Ltd., London, UK
WestLB New York Capital Investment Ltd., Jersey, Channel Islands
WestAM Holding GmbH, Düsseldorf
GOH Grundstücksverwaltungsgesellschaft & Co. KG, Mainz
GOD Grundstücksverwaltungsgesellschaft & Co. KG, Mainz
WestLB Limited, London, UK
Sparrowship Ltd., London, UK
RWS Securities Services Gesellschaft für Wertpapiervermittlung mbH, Düsseldorf
WestLB Securities Inc., Dover/Delaware, USA
WestLB Property Services Limited, London, UK
WestLB Europe (UK) Fund Ltd., London, UK
Iberian Investments (Guernsey) Ltd., St. Peter Port, Channel Islands
WestLB Systems GmbH, Düsseldorf
West Private Equity Fund 2000 (Number Four) GmbH & Co. KG, Stuttgart
GEV Gesellschaft für Energie- und Versorgungswerte mbH, Dortmund
WestLeasing Westdeutsche Leasing Holding GmbH, Düsseldorf
WestKB Westdeutsche Kapitalbeteiligungsgesellschaft mbH, Düsseldorf
GSF Beteiligungs-Holding GmbH, Düsseldorf
Woolgate Investments CV, Dublin, Ireland
WestLB General Investments (UK) Ltd., London, UK
Euro-Equity Holding GmbH, Düsseldorf

Westdeutsche ImmobilienBank – Subgroup with 14 companies

Boullioun Aviation Services Inc. – Subgroup with 22 companies

Banco WestLB do Brasil S.A. – Subgroup with 2 companies

Forward Transactions/Derivatives (5)

As part of their business operations, the companies of WestLB Group enter into the following types of forward transactions and derivative instruments:

- **Forward transactions/derivatives based on interest rates**

Interest rate swaps, interest rate futures, forward rate agreements (FRAs), interest rate options (bought and written), issued interest rate warrants, interest rate caps, interest rate floors, interest rate collars and swaptions.

- **Forward transactions/derivatives based on exchange rates**

Currency forwards, currency options (bought and written), currency futures, issued currency warrants, currency swaps and interest currency swaps.

- **Forward transactions/derivatives based on share prices and other prices**

Stock forwards, stock options (bought and written), index forwards, index options (bought and written), issued stock warrants and issued index warrants, and precious metal/commodity forwards, swaps, futures and options.

- **Credit derivatives (bought and written)**

Credit default swaps, total return swaps and credit linked notes.

In the 2004 fiscal year, the average annual value, in nominal terms, of WestLB Group's derivatives and other forward transactions was € 2,799.5 billion (2003: € 2,840.2 billion).

Derivatives – Average Volumes

Average Jan. 1 – Dec. 31	Nominal Values		Credit Risk Equivalents	
	2004	2003	2004	2003
€ millions				
Products based on interest rates	2,456,960	2,534,000	10,268	11,500
Products based on exchange rates	263,748	241,250	4,188	3,868
Products based on share prices and other prices	19,391	16,216	352	328
Credit derivatives	59,389	48,774	305	306
Total derivatives	2,799,488	2,840,240	15,113	16,002

Credit risk equivalents are calculated on the basis of the mark-to-market method described in banking regulatory guidelines. The market value is calculated only for those contracts for which the replacement transaction necessary to regain the previous position in the event of a counterparty default would result in additional expenditure or lower income; gains and losses generated by replacement transactions are not netted. In line with the above-mentioned banking regulatory guidelines, the counterparty weighting and the add-on for all derivatives are included when calculating the credit risk equivalents. There was no netting in this portrayal of the credit risk equivalent calculation.

WestLB Group's credit risk equivalents pursuant to §§ 10 and 10a of the German Banking Act (KWG) represent 13.1% (2003: 13.3%) of its total counterparty default risks (risk-weighted assets and relevant amount for the counterparty default risk of the trading book). Close-out netting is used to calculate the credit risk equivalents for banking regulatory purposes. As a result, the average credit risk equivalents declined by approx. 56.4% (2003: 57.3%).

In nominal terms, the total volume of WestLB Group's forward transactions/derivatives business was € 2,389.4 billion (2003: € 2,615.2 billion) as of the balance sheet date. The emphasis continues to be on interest rate products, whose share of the total volume dropped to approx. 85.5% (2003: 88.7%).

In addition to the credit derivatives held in the trading book, as listed in the following table, there were also credit derivatives assigned to the investment book. Of those in the investment book, WestLB Group was the guarantee for (had bought) € 6,110.0 million (2003: € 6,027.0 million) and was guarantor for (had sold) a volume of € 1,306.0 million (2003: € 1,578.0 million) at December 31, 2004.

In honouring the broader disclosure obligations relating to derivative financial instruments contained in the German Accounting Reform Act (Bilanzrechtsreformgesetz), information on market values was added to the presentation of derivative volumes and the breakdown by counterparty. Book values that are only relevant with respect to option premiums paid or received are captured under "other assets" and "other liabilities", respectively.

To the extent available, market values are used for valuing the derivative financial instruments. If market values are not available or cannot be reliably determined, the fair value is determined on the basis of standard pricing models or discounted cash flows.

Derivatives – Group Volumes at the Reporting Date

€ millions	Nominal Values		Credit Risk Equivalents		Positive Market Values		Negative Market Values
	Dec. 31, 2004	Dec. 31, 2003	Dec. 31, 2004	Dec. 31, 2003	Dec. 31, 2004	Dec. 31, 2003	Dec. 31, 2004
Products based on interest rates							
Interest rate swaps	1,276,278	1,220,904	9,612	9,047	28,337	25,602	28,362
FRAs	114,185	174,043	10	18	34	77	34
Interest rate options, swaptions							
– bought	49,390	42,092	500	364	1,769	1,125	–
– written	52,971	53,486	–	–	–	–	1,706
Caps, floors	232,119	140,264	375	317	949	884	1,127
Stock market contracts	307,797	674,493	–	–	437	–*	351
Other interest rate forwards	10,792	15,031	214	72	428	136	281
Total products based on interest rates	2,043,532	2,320,313	10,711	9,818	31,954	27,824	31,861
Products based on exchange rates							
Currency forwards	63,884	69,595	672	729	1,628	1,865	1,596
Interest currency swaps/ currency swaps	187,538	143,300	4,075	3,273	5,934	4,870	7,081
Currency options							
– bought	6,323	6,877	151	145	311	295	–
– written	6,081	6,740	–	–	–	–	353
Stock market contracts	202	233	–	–	0	–*	0
Other currency forwards	718	1,006	25	38	46	49	71
Total products based on exchange rates	264,746	227,751	4,923	4,185	7,919	7,079	9,101
Products based on share prices and other prices							
Stock forwards	0	56	0	2	0	0	0
Stock options							
– bought	6,058	5,664	322	294	608	482	–
– written	5,627	6,125	–	–	–	–	363
Stock market contracts	4,589	6,212	–	–	596	–*	401
Other forwards	599	1,928	1	60	1	20	0
Total products based on share prices and other prices	16,873	19,985	323	356	1,205	502	764
Credit derivatives							
Credit derivatives							
– bought	27,932	19,015	279	271	142	101	504
– written	36,301	28,162	–	–	518	–*	27
Total credit derivatives	64,233	47,177	279	271	660	101	531
Total derivatives	2,389,384	2,615,226	16,236	14,630	41,738	35,506	42,257
Netting effects	–	–	– 9,126	– 8,124	–	–	–
Total derivatives after netting	2,389,384	2,615,226	7,110	6,506	41,738	35,506	42,257

* information not collected by the Bank

WestLB Group enters into derivative transactions with top-rated counterparties.

Derivatives – Breakdown by Counterparty

€ millions	Nominal Values		Credit Risk Equivalents		Positive Market Values		Negative Market Values
	Dec. 31, 2004	Dec. 31, 2003	Dec. 31, 2004	Dec. 31, 2003	Dec. 31, 2004	Dec. 31, 2003	Dec. 31, 2004
OECD banks	1,640,003	1,488,243	9,775	8,196	32,865	27,402	32,273
Non-OECD banks	7,925	4,880	78	100	129	151	221
Customers (incl. stock market contracts)	740,367	1,121,391	6,364	6,319	8,664	7,899	9,687
Public-sector entities	1,089	712	19	15	80	54	76
Total	2,389,384	2,615,226	16,236	14,630	41,738	35,506	42,257

Almost all of the derivatives are trading transactions; customer transactions are entered into by the trading units. Contracts for hedging the Bank's own non-trading portfolio are reflected in the trading portfolio by way of internal contracts.

Most of the products with share price and other price risks are short-term. The interest rate and currency contracts are medium to long-term, with 27.1% (2003: 21.3%) of the interest rate contracts having more than five years to maturity. Long-term contracts are predominant in the credit derivative business.

Derivatives – Breakdown by Maturity

Nominal Values € millions	Products Based on Interest Rates		Products Based on Exchange Rates		Products Based on Share Prices and Other Prices		Credit Derivatives	
	Dec. 31, 2004	Dec. 31, 2003	Dec. 31, 2004	Dec. 31, 2003	Dec. 31, 2004	Dec. 31, 2003	Dec. 31, 2004	Dec. 31, 2003
Residual maturity								
– up to 3 months	445,962	842,409	58,916	59,354	6,227	8,513	834	0
– 3 months to 1 year	325,881	354,919	50,129	48,705	5,843	8,019	11,481	2,364
– 1 to 5 years	717,074	628,935	103,484	81,548	4,292	3,078	25,693	34,447
more than 5 years	554,615	494,050	52,217	38,144	511	375	26,225	10,366
Total	2,043,532	2,320,313	264,746	227,751	16,873	19,985	64,233	47,177

Notes to the Group Balance Sheet

Claims on Banks (6)

	Dec. 31, 2004 € millions		Dec. 31, 2003 € millions	
	Claims on Affiliated Banks	Claims on Other Banks	Claims on Affiliated Banks	Claims on Other Banks
Payable on demand	907.5	17,894.9	350.0	7,125.5
with residual maturities of				
– up to 3 months	836.8	47,372.7	1,087.2	39,758.5
– between 3 months and 1 year	298.6	10,475.2	369.2	12,580.0
– between 1 and 5 years	503.0	5,029.7	391.3	6,061.8
– more than 5 years	652.8	1,386.8	908.7	1,670.2
Total	3,198.7	82,159.3	3,106.4	67,196.0
Book value	85,358.0		70,302.4	

Affiliated banks pursuant to § 2 No. 2 of the Articles and Bylaws of WestLB AG (central institution for the savings banks function) refer to the savings banks in North Rhine-Westphalia and Brandenburg.

Claims on other banks include no claims on affiliated companies (2003: € 8,820.6 million). A total of € 1,557.8 million (2003: € 447.2 million) in claims on other companies in which equity investments are held is included.

Claims from leasing transactions amounted to € 288.0 million (2003: € 317.3 million).

Claims on Customers (7)

	Dec. 31, 2004 € millions	Dec. 31, 2003 € millions
Book value	74,976.1	84,915.7
including		
– on unconsolidated affiliated companies	529.6	844.3
– on companies in which equity investments are held	9,399.8	4,940.0
– from leasing activities	1,667.1	1,472.0
Breakdown by residual maturity		
– up to 3 months	31,032.4	28,264.7
– between 3 months and 1 year	6,199.7	12,386.5
– between 1 and 5 years	20,137.6	22,523.2
– more than 5 years	17,606.4	21,741.3
Claims with undetermined maturity	1,585.4	2,945.5

Claims Secured by Mortgages (8)

	Dec. 31, 2004 € millions	Dec. 31, 2003 € millions
Claims on customers with residual maturities of		
– up to 3 months	223.5	155.8
– between 3 months and 1 year	330.7	157.3
– between 1 and 5 years	2,276.1	560.6
– more than 5 years	2,111.8	2,634.3
Book value	4,942.1	3,508.0

Bonds and Other Interest-Bearing Securities (9)

	Dec. 31, 2004 € millions	Dec. 31, 2003 € millions
Book value	69,863.0	63,128.3
including:		
amounts that will become due by December 31 of the following fiscal year	13,300.9	14,628.0
Breakdown by product		
– money market instruments	6,537.5	1,776.1
– bonds and notes of public-sector issuers	23,974.5	25,827.8
– bonds and notes of other issuers	37,838.5	34,440.2
– notes issued by the Group	1,512.5	1,084.2
Breakdown by marketability		
– marketable securities	69,863.0	63,128.3
thereof		
– listed on a stock exchange	63,376.3	52,581.8
– not listed on a stock exchange	6,486.7	10,546.5
Breakdown by portfolio		
– trading portfolio	35,269.0	28,141.4
– liquidity reserve	2,345.0	1,787.6
– investment portfolio	32,249.0	33,199.3
Breakdown by Group affiliation		
– securities of companies in which equity investments are held	1,101.1	897.8

The € 32.2 billion (2003: € 33.2 billion) in bonds and other interest-bearing securities held in the investment portfolio is part of fixed assets. At year-end, € 11.0 billion (2003: € 11.1 billion) of WestLB's financial assets had been valued at the modified lower of cost or market; the fair value of these holdings totalled € 10.9 billion (2003: € 10.9 billion). Of that, € 8.2 billion (2003: € 7.9 billion) represented debt obligations that were acquired in connection with interest rate swaps (asset swaps), the commercial value of which equals the purchase price entered on the books. The portion not hedged with assets swaps at the individual transaction level (€ 2.8 billion) was either funded at matching maturities and currencies or secured against market price-based changes in value at the portfolio level.

Shares and Other Non-Interest-Bearing Securities (10)

	Dec. 31, 2004 € millions	Dec. 31, 2003 € millions
Book value	5,386.3	4,989.9
Breakdown by marketability		
– marketable securities	3,003.4	2,273.1
thereof		
– listed on a stock exchange	1,834.1	1,728.6
– not listed on a stock exchange	1,169.3	544.5
Breakdown by portfolio		
– trading portfolio	2,266.4	1,332.5
– liquidity reserve	420.4	447.6
– investment portfolio	2,699.5	3,209.8

This item includes € 2,410.3 million (2003: € 2,716.8 million) in fund shares held in the investment book, the aggregate book value of which is € 83.1 million higher than the aggregate fair value (€ 2,327.2 million). Due to the recent performance of the funds and the consistently solid credit rating of the issuers of the interest-bearing securities held in them, the decrease in value is not expected to be permanent. The other shares contain undisclosed reserves.

Equity Investments in Non-Affiliated Companies and Associated Companies (11)

	Dec. 31, 2004 € millions	Dec. 31, 2003 € millions
Book value	2,436.0	4,927.1
thereof:		
– in banks	963.4	1,324.9
– in financial services institutions	4.1	4.1
– in other companies	1,468.5	3,598.1
Breakdown by marketability		
– marketable securities	1,494.6	2,431.9
thereof		
– listed on a stock exchange	1,013.8	2,287.0
– not listed on a stock exchange	480.8	144.9

The € 2.5 billion drop in “equity investments in non-affiliated companies and associated companies” is chiefly the result of the sale of shares in the non-affiliated companies Bayerische Hypo- und Vereinsbank AG, RWE AG, ThyssenKrupp AG, AXA S.A. and TUI AG. In the case of associated companies, key changes included the withdrawal from LRP Landesbank Rheinland-Pfalz and the deconsolidation of Heidelberger Zement South-East Asia GmbH.

Equity Investments in Affiliated Companies (12)

	Dec. 31, 2004 € millions	Dec. 31, 2003 € millions
Book value	704.1	621.6
thereof:		
– in banks	0.0	111.0
– in financial services institutions	78.3	61.5
– in other companies	625.8	449.1
Breakdown by marketability		
– marketable securities	139.8	396.1
including		
– listed on a stock exchange	0.0	0.0
– not listed on a stock exchange	139.8	396.1

In the case of equity investments in associated companies and shares in affiliated companies, allowances have been made for all discernible risks. As a result, their book value is never lower than their fair value, to the extent a fair value could be reliably determined.

A complete list of shareholdings pursuant to § 285 No. 11 and § 340a (4) No. 2 of the German Commercial Code (HGB) has been filed in the commercial registers maintained by the Local Courts (Amtsgerichte) of Düsseldorf and Münster.

Trust Assets (13)

	Dec. 31, 2004 € millions	Dec. 31, 2003 € millions
Claims on banks	0.2	0.2
Claims on customers	151.8	157.6
Participations in RWI-Fonds	375.0	375.0
Total	527.0	532.8

Other Assets (14)

	Dec. 31, 2004 € millions	Dec. 31, 2003 € millions
Book value	6,938.1	6,132.6
including:		
– offsetting entries from the valuation of the trading portfolio (not including currency transactions)	2,731.2	2,357.4
– premiums for options	2,202.0	1,962.5
– leasing assets	1,741.7	1,719.9
– claims arising from tax refunds, the refunds themselves stemming almost exclusively from corporate income tax and investment income tax withheld on investment income and dividends	956.9	723.5
– claims from deferred tax assets	33.2	43.4

Fixed Assets (15)

€ millions	Acquisition Cost/Cost of Production	Additions/ Reclassifi- cations (R)	Retirements/ Reclassifi- cations (R)	Total Depreciation	Net Book Value	Depreciation/ Write-Ups (W) in the Fiscal Year
	Jan. 1, 2004				Dec. 31, 2004	
Bonds and other interest-bearing securities forming part of fixed assets	33,327.6	5,286.0 2.2 (R)	– 6,207.6 – 10.6 (R)	– 148.6	32,249.0	– 94.4
Shares and other non-interest-bearing securities forming part of fixed assets	3,231.8	0.4	– 532.2 – 0.1 (R)	– 0.4	2,699.5	0.0
Equity investments in associated and non-affiliated companies	6,510.9	1,218.5 36.7 (R)	– 3,583.2 – 385.2 (R)	– 1,361.7	2,436.0	– 358.0 3.0 (W)
Equity investments in affiliated companies	875.1	408.0 171.5 (R)	– 85.6 – 93.7 (R)	– 571.2	704.1	– 337.5 9.3 (W)
Equalisation claims against public authorities	196.5	–	– 51.3	–	145.2	–
Intangible assets	10.8	9.5 452.2 (R)	– 100.8	– 295.3	76.4	– 33.5
Goodwill	94.3	4.0 0.3 (R)	– 4.7 – 29.5 (R)	– 60.3	4.1	– 11.2
Land and buildings	320.9	365.4 5.9 (R)	– 6.1 – 151.6 (R)	– 124.7	409.8	– 30.4
Leasing assets	2,541.1	332.9	– 273.6	– 858.7	1,741.7	– 148.6
Office equipment	953.9	256.4 8.1 (R)	– 131.7 – 458.5 (R)	– 420.2	208.0	– 67.6
Other fixed assets	18.2	0.2 0.3 (R)	– 0.3	– 13.2	5.2	– 3.6

With regard to securities, the changes in the fiscal year include additions and retirements, as well as changes resulting from the amortisation of premiums and discounts. The expansion of Covered Bond Bank plc's business was a primary source of these changes.

The acquisition of shares in Fresenius accounted for a substantial portion of the additions to equity investments in non-affiliated companies. Key retirements in the area of equity investments included the sale of shares in TUI AG, Bayerische Hypo- und Vereinsbank AG, RWE AG, ThyssenKrupp AG and AXA S.A. over the course of 2004. Beteiligungsgesellschaft der Westdeutschen Landesbank mbH was merged into WestKB Westdeutsche Kapitalbeteiligungsgesellschaft mbH. In the case of associated companies, the retirements represented the withdrawal from LRP Landesbank Rheinland-Pfalz and the deconsolidation of Heidelberger Zement South-East Asia GmbH.

Among the associated companies in the year under review were companies consolidated at equity whose equity value was carried as zero, since their aggregate value was € – 38.3 million. The Westdeutsche ImmobilienBank Subgroup is responsible for € 34.5 million of this negative equity, which was offset with sales proceeds realised through marketing efforts.

The lion's share of the additions and depreciation in equity investments in affiliated companies stems from the deconsolidation of WestLB Basinghall Ltd.

Pursuant to IDW Standard RS HFA 11, adopted in 2004, software acquired against payment, which had previously been reported under office equipment, was reclassified as intangible assets.

Real property with a book value of € 379.3 million (2003: € 95.9 million) was utilised for own business activities. In previous years, the Bank made use of special tax write-offs pursuant to § 82 Letter i/k of the German Income Tax Act (EStG) in conjunction with § 5 (1) Sentence 2 of the German Income Tax Act (EStG).

The first-time consolidation of GOD Grundstücksverwaltungsgesellschaft & Co. KG and GOH Grundstücksverwaltungsgesellschaft & Co. KG increased the total land and buildings carried on the books.

Additions to leasing assets mainly reflect the increase in the aircraft holdings of the Boullioun Group.

Own Shares (16)

WestLB Group did not hold any of its own shares at December 31, 2004 or at any other time in the year under review.

Deferred Items (17)

	Dec. 31, 2004 € millions	Dec. 31, 2003 € millions
Premiums on claims	20.6	25.5
Discounts from underwriting business	282.3	157.1
Discounts from liabilities	471.1	534.8
Other	122.6	362.4
Book value	896.6	1.079.8

Subordinated Assets (18)

	Dec. 31, 2004 € millions	Dec. 31, 2003 € millions
Claims on banks	742.7	333.4
Claims on customers	64.9	164.5
Bonds and other interest-bearing securities	55.8	74.2
Equity investments in non-affiliated companies	15.2	4.2
Total	878.6	576.3

Pledged Assets (19)

Of the assets shown, WestLB Group pledged € 47,499.3 million (2003: € 49,666.7 million) under repurchase agreements.

Liabilities to Banks (20)

	Dec. 31, 2004 € millions		Dec. 31, 2003 € millions	
	Liabilities to Affiliated Banks	Liabilities to Other Banks	Liabilities to Affiliated Banks	Liabilities to Other Banks
Payable on demand	4,675.1	12,762.3	4,036.3	8,663.8
With residual maturities of				
– up to 3 months	4,028.4	58,861.6	4,468.4	60,392.3
– between 3 months and 1 year	859.2	14,432.9	633.0	16,986.0
– between 1 and 5 years	311.4	8,849.9	380.3	6,653.9
– more than 5 years	646.9	6,657.0	471.4	3,401.5
Total	10,521.0	101,563.7	9,989.4	96,097.5
Book value	112,084.7		106,086.9	

Liabilities to banks include liabilities to affiliated companies in the amount of € 1,941.4 million (2003: € 3,767.6 million) and liabilities to other companies in which equity investments are held in the amount of € 713.8 million (2003: € 482.8 million).

Liabilities to Customers (21)

	Dec. 31, 2004 € millions	Dec. 31, 2003 € millions
Savings deposits	0.2	0.3
thereof:		
savings deposits with agreed periods of notice of		
– up to 3 months	0.2	0.3
– between 3 months and 1 year	–	–
– between 1 and 5 years	–	–
– more than 5 years	–	–
Liabilities to customers	66,971.3	70,127.8
thereof:		
– payable on demand	12,054.3	16,675.4
with residual maturities of		
– up to 3 months	27,112.4	29,011.3
– between 3 months and 1 year	9,532.2	7,459.9
– between 1 and 5 years	5,962.6	4,398.4
– more than 5 years	12,309.8	12,582.8
Book value	66,971.5	70,128.1
including:		
– liabilities to unconsolidated affiliated companies	564.8	826.1
– liabilities to companies in which equity investments are held	8,910.3	2,787.4

Certificated Liabilities (22)

	Dec. 31, 2004 € millions	Dec. 31, 2003 € millions
Bonds issued	22,116.0	20,011.9
including:		
– amounts becoming due before December 31, 2005	3,074.5	2,608.0
Other certificated liabilities	26,020.7	35,047.1
thereof with residual maturities of		
– up to 3 months	8,626.3	19,062.7
– between 3 months and 1 year	3,643.0	9,602.9
– between 1 and 5 years	4,410.7	3,494.1
– more than 5 years	9,340.7	2,887.4
Book value	48,136.7	55,059.0
including:		
– certificated liabilities to companies in which equity investments are held	61.1	–

Trust Liabilities (23)

	Dec. 31, 2004 € millions	Dec. 31, 2003 € millions
Liabilities to banks	111.0	103.6
Liabilities to customers	40.6	54.2
RWI certificates	375.4	375.0
Book value	527.0	532.8

Other Liabilities (24)

	Dec. 31, 2004 € millions	Dec. 31, 2003 € millions
Book value	12,719.3	10,447.7
including:		
– securities delivery obligations	4,830.3	4,382.1
– premiums from options	3,130.9	2,676.6
– offsetting items from the valuation of currency transactions	1,444.3	1,588.0
– Wfa aid proceedings	1,411.3	–
– Liabilities to NRW.BANK under pension commitments	462.7	453.6
– Interest to be paid on existing profit participation rights and subordinated liabilities after approval of the annual accounts (tentatively on May 18, 2005)	240.2	266.4

Deferred Items (25)

	Dec. 31, 2004 € millions	Dec. 31, 2003 € millions
Premiums from own bonds issued	26.6	28.2
Other	337.5	535.7
Book value	364.1	563.9

Provisions (26)

€ millions	Beginning Balance	Utilised	Released	Other Changes	Additions	Ending Balance
	Jan. 1, 2004					Dec. 31, 2004
For pension liabilities	588.9	- 52.9	0.0	3.0	73.8	612.8
For taxes	405.2	- 220.1	- 6.3	5.9	52.8	237.5
In the area of personnel	512.7	- 160.1	- 46.8	2.9	149.2	457.9
For loans/equity investments	388.8	- 42.6	- 155.9	1.9	86.1	278.3
In the trading business	185.6	- 169.5	- 0.0	- 16.1	92.9	92.9
Other provisions	340.1	- 169.8	- 56.3	- 1.7	338.1	450.4
Book value	2,421.3	- 815.0	- 265.3	- 4.1	792.9	2,129.8

The provisions for taxes include provisions for future tax expenses, deferred taxes and the provision for the tax audit.

The provisions for personnel chiefly relate to measures associated with reducing headcount. At € 152.0 million, the principal items captured under other provisions are provisions for potential litigation risks, for adapting the business and organisational structure and for sales commissions.

Subordinated Liabilities (27)

	Dec. 31, 2004 € millions	Dec. 31, 2003 € millions
Book value	4,278.4	4,506.7
including:		
- due within 2 years	443.6	517.9

There are no liabilities to affiliated companies or to other companies in which equity investments are held included in subordinated liabilities.

Of the total subordinated liabilities of € 4,278.4 million (2003: € 4,506.7 million), the junior bond of USD 750 million (due 2009; interest rate 6.05%) issued by WestLB's New York branch in 1999 exceeds 10% of the total volume of all subordinated liabilities. There is no early redemption obligation. There is no existing or planned agreement to convert these funds into capital or into another form of debt.

Of the total subordinated liabilities, € 443.6 million (2003: € 517.9 million) have a residual maturity of less than two years. The original maturities range from five to forty years.

In 2004, interest expense of € 241.9 million (2003: € 297.0 million) was incurred for subordinated liabilities.

Subordinated liabilities carried by WestLB AG or its subsidiaries comply with the requirements of § 10 (5a) of the German Banking Act (KWG); the right to terminate the liabilities without notice has not been reserved.

Profit Participation Capital (28)

The changes in profit participation capital within the Group were as follows in the year under review:

Dec. 31, 2003 € millions	Additions € millions	Other Changes € millions	Dec. 31, 2004 € millions
2,644.9	15.0	- 11.2	2,648.7

These changes stem exclusively from WestLB AG.

Fund for General Bank Risks (29)

The fund for general bank risks stands at € 89.0 million.

Equity Capital (30)

As of September 30, 2004, the capital of WestLB AG was increased by a total € 1,499.9 million. Of this amount, the sum of € 810.8 million was placed in capital, while the remaining € 689.1 million was added to capital reserves. At December 31, 2004, the subscribed capital of WestLB AG was € 1,794.6 million (2003: € 950.5 million). It is divided into 17,945,718 (2003: 9,505,000) no-par-value registered shares, of which 9,775,318 are shares of common stock and 8,170,400 are shares that offer a preferred dividend up through the year 2010. The theoretical par value of each share is € 100.00. NRW.BANK holds 38.748% of the subscribed capital, the two savings banks associations, RSGV and WLSGV, each hold 30.626%.

In 2003, WestLB AG took in silent contributions to capital of € 1,250.0 million. WestLB does not have to repay these silent contributions. Instead, over a period of time ending December 31, 2007, they will be converted at the rate of 750% into capital (a maximum of € 166.7 million being authorised) and reserves in five annual instalments of € 250.0 million each. Conversion of the first tranche was completed in 2004, with € 33.3 million (which corresponds to 333,318 no-par-value shares, each with a theoretical par value of € 100.00) being placed in capital and € 216.7 million in capital reserves. The amount of the second tranche, due December 31, 2004, is shown under the item "paid-in contribution for agreed capital increase". Conversion of this second tranche was recorded in the Commercial Registers in February 2005. After the capital increase is recorded in the Commercial Registers, the capital will increase by another € 33.3 million and the capital reserves by another € 216.7 million. The silent contributions to capital, as they stood following the conversion at December 31, 2004 (€ 337.1 million), shared 7.02%, or € 64.6 million, in the loss for the fiscal year.

Following conversion of the first tranche of silent contributions to capital, the € 166.7 million in authorised capital approved by the shareholders on December 11, 2002 stood at € 133.3 million. Conversion of the second tranche will reduce the authorised capital by another € 33.3 million to € 100.0 million.

WestLB Group's reserves stand at € 1,511.7 million (2003: € 1,798.1 million). The sum of € 855.4 million was transferred from capital reserves to offset part of the loss for the year. After a total € 905.8 million in additions from the capital increase and from the conversion of silent contributions to capital, as well as this € 855.4 million withdrawal, the capital reserves stood at € 1,561.3 million (2003: 1,510.9 million). The sum of € 76.6 million was transferred from Group reserves to cover more of the Group loss for the year.

The reserves of the Group contain the preferred shares of WestLB New York Capital Investment Ltd. in the amount of € 869.2 million. The make-up of these shares is similar in economic terms to a silent contribution to capital with indefinite maturity.

For the first time, the shares of outside shareholders of GOH Grundstücksverwaltungsgesellschaft & Co. KG and GOD Grundstücksverwaltungsgesellschaft & Co. KG are included in the equalising items for shares of other shareholders. The shares of minority shareholders of West Private Equity Ltd., West Private Equity Verwaltungsgesellschaft mbH, WPE General Partner Ltd. and WPE Carried Interest Partner Ltd. are not included anymore since these companies were no longer included in the Group accounts in fiscal year 2004.

At December 31, 2004 WestLB Group reported equity capital pursuant to the German Commercial Code (HGB) of € 3,843.5 million, which marks a € 251.9 million (7.02%) increase over the previous year.

Additional details concerning changes in the equity capital are broken down on the Statement of Changes in Shareholders' Equity.

Capital and Reserves (31)

The capital and reserves of WestLB Group consist of the following:

	Dec. 31, 2004 € millions	Changes € millions	Dec. 31, 2003 € millions
Subscribed capital	1,794.6	844.1	950.5
Contributions made for implementing the capital increase resolved	250.0	250.0	–
Capital reserves	1,561.3	50.4	1,510.9
Reserves from retained earnings	–	–	–
– statutory	–	–	–
– other	–	–	–
Typical silent contributions to capital	272.5	– 564.6	837.1
Group reserves	– 49.6	– 336.8	287.2
Equalising items for shares of other shareholders	14.7	8.8	5.9
Equity capital pursuant to the German Commercial Code (HGB)	3,843.5	251.9	3,591.6
Subordinated liabilities	4,278.4	– 228.3	4,506.7
including:			
due within 2 years	443.6		517.9
Profit participation capital	2,648.7	3.8	2,644.9
including:			
due within 2 years	92.0		11.2
Fund for general bank risks	89.0	– 171.9	260.9
Other capital and reserves	7,016.1	– 396.4	7,412.5
Total capital and reserves	10,859.6	– 144.5	11,004.1

Changes in the equity capital as reported under the German Commercial Code (HGB) were as follows:

€ millions	Changes Resulting from Conversion of the Silent Contribution to Capital	Changes Resulting from the Capital Increase	Transfers Made to Offset the Loss for the Year	Other Changes	Total Changes
Subscribed capital	33.3	810.8			844.1
Contribution made for implementing the capital increase resolved	250.0				250.0
Capital reserves	216.7	689.1	- 855.4		50.4
Reserves from retained earnings					
Typical silent contributions to capital	- 500.0		- 64.6		- 564.6
Group reserves			- 76.6	- 260.2	- 336.8
Equalising items for shares of other shareholders				8.8	8.8
Equity capital pursuant to the German Commercial Code (HGB)	-	1,499.9	- 996.6	- 251.4	251.9

Banque d'Orsay S.A. issued € 30.0 million in new subordinated issues in fiscal year 2004.

A total of € 129.0 million in subordinated liabilities and profit participation rights fell due at WestLB AG in the year under review, thus reducing the figure reported by this amount. Altogether, subordinated liabilities and profit participation capital amounted to € 6,927.1 million (2003: € 7,151.6 million).

Exchange rate fluctuations had a negative impact on the amount of capital and reserves reported by WestLB AG, decreasing the total by € 110.5 million (2003: € 347.0 million).

Liability for Pre-Existing Commitments – Grandfathering (32)

Article 1 § 11 of the Act on Redefining the Legal Status of Public-Law Banking Institutions in North Rhine-Westphalia (Gesetz zur Neuregelung der Rechtsverhältnisse der öffentlich-rechtlichen Kreditinstitute in Nordrhein-Westfalen) stipulates that the public-law liability mechanisms of institutional liability and guarantor liability will continue to apply to WestLB. This provision is consistent with the agreement reached between the German government and the European Commission on July 18, 2001.

Specifically, this means that

- all liabilities incurred by July 18, 2001 are fully covered by institutional and guarantor liability until the time they mature, and
- institutional and guarantor liability will remain in effect in their present form for all liabilities incurred from July 19, 2001 to July 18, 2005, so long as the liabilities mature by December 31, 2015.

The guarantors of the former Westdeutsche Landesbank Girozentrale will completely satisfy the obligations arising from their guarantor liability with respect to WestLB, as soon as they have properly determined and set forth in writing at the time a liability matures that the creditor of such liability cannot be satisfied from the respective institution's assets. This explicitly includes the possibility of servicing debts precisely at the same time they fall due. The giving of a notice as normally required under aid law would not be necessary.

The following amounts represent those of WestLB Group's liabilities covered by institutional liability and guarantor liability.

Balance Sheet Item

€ millions	Maturity Incurred before July 19, 2001 Payable at Any Time		Maturity Incurred on or after July 19, 2001 Payable by Dec. 31, 2015	
	Liabilities to customers	7,880.4		61,796.6
Liabilities to banks	7,991.2		120,700.3	
Certificated liabilities	6,814.5		44,017.1	
Other liabilities	41.8		13,242.5	
Subordinated liabilities	4,398.4	27,126.3	2,588.1	242,344.6
Consolidation			22,793.7	
Total			246,677.2	

At December 31, 2004, the amount of liabilities covered by institutional liability and guarantor liability after consolidation was € 246.7 billion (2003: € 245.8 billion); allowing for a total of approx. € 9.4 billion (2003: € 10.0 billion) in equity (including the fund for general bank risks), deferred items, provisions, profit participation capital and trust liabilities, this means that 99.8% (2003: 99.8%) of total Group liabilities are covered by guarantor liability.

Commission Decision on Wfa Integration (33)

In 1992, the State of North Rhine-Westphalia transferred the Wohnungsbauförderungsanstalt (Wfa) to Westdeutsche Landesbank Girozentrale as a contribution in kind, a move which brought the Bank roughly € 2 billion in additional liable capital under § 10 of the German Banking Act (KWG).

In 1994, the private sector banks, acting through their association, filed a complaint against the amount of the remuneration for the Wfa capital, alleging that it constituted impermissible aid. The resulting state aid proceedings initiated by the European Commission culminated in the decision of July 8, 1999 that, because the remuneration for the Wfa capital was allegedly too low, approx. € 800.0 million in aid had been awarded between 1992 and 1999.

The Federal Republic of Germany, State of North Rhine-Westphalia and WestLB AG each filed an appeal against the Commission's decision with the European Courts.

On March 6, 2003, the European Court of First Instance overturned the Commission's 1999 decision and ordered that the Commission bear the costs of the proceedings. In the reasons for its decision, the Court cited the Commission's failure to comply to the extent required with its obligation under European law to substantiate the 12% base rate of return and 1.5% risk premium it alleged should have served as the basis for the remuneration.

Since both of these parameters were of paramount importance to the economic analysis underlying the Commission's strategy, the Court was unable to make any definitive judgement on the reasonableness of the Wfa remuneration which the Commission demanded.

Taking into account an understanding reached with the Association of German Banks (BdB) in the summer of 2004 about a reasonable remuneration for the Wfa capital, the European Commission issued a new decision on October 20, 2004. The resulting amount, including interest, which WestLB AG must repay is approximately € 1.4 billion; this figure has been reported as a liability on the 2004 Group balance sheet and appears on the Group statement of income as an extraordinary expense. By means of an effective payment to the State, WestLB AG implemented the decision on January 21, 2005, as agreed and within the time specified.

Foreign Currency Assets/Foreign Currency Liabilities (34)

At year-end, WestLB had foreign currency assets valued at € 84.5 billion (2003: € 105.2 billion) and foreign currency liabilities valued at € 72.3 billion (2003: € 94.9 billion).

Other Commitments (35)

The amounts shown for irrevocable credit commitments involve external credit lines which have not yet been utilised.

The volume of € 48.7 billion (2003: € 65.0 billion) shown on the Group balance sheet stems from ordinary domestic and international lending activities, as well as liquidity facilities in connection with asset backed transactions.

Disposal Restrictions/Security Provisions (36)

As part of the European Central Bank's peak refinancing facility for open-market repo transactions with the Bundesbank, WestLB Group has deposited or assigned own bonds and securities, as well as those of Group companies, with a face value of € 5,925.1 million (2003: € 6,738.5 million) as collateral. Accounts receivable totalling € 453.2 million (2003: € 810.0 million) were assigned by WestLB AG to secure loans made as part of public credit programmes. In some cases, the Group's business activities abroad were subject to legal requirements and local practices that required the provision of collateral to public institutions and banks. Compliance with such requirements tied up € 5,414.3 million (2003: € 5,277.1 million) in assets.

Assets Pledged as Security for Liabilities (37)

The following table shows the amount of assets pledged as security for liabilities:

	Dec. 31, 2004 € millions	Dec. 31, 2003 € millions
Liabilities to banks	344.0	434.6
Liabilities to customers	286.4	556.5
Certificated liabilities	–	526.0
Other liabilities (such as liabilities under securities lending, reverse repo and OTC transactions)	48,238.3	53,448.8
Total assets pledged	48,868.7	54,965.9

Notes to the Statement of Income

Geographic Breakdown of Income Components (38)

The principal components of income shown on WestLB Group's statement of income were obtained in the following geographical markets:

€ millions Jan. 1 – Dec. 31, 2004	Interest Income	Current Income Result from Associated Companies and Income from Profit Transfer	Commission Income	Net Income from Trading Operations	Other Operating Income and Income from Leasing Business
Germany	7,351.4	934.2	243.6	30.7	425.0
Rest of Europe	6,026.7	90.1	174.8	- 170.8	127.9
Far East and Australia	587.2	3.1	19.6	- 3.4	14.3
North/South America	2,108.6	3.4	138.2	36.3	207.9
Consolidations	- 6,600.9	- 546.5	- 5.5	- 63.3	- 194.3
Amount reported on the Statement of Income	9,473.0	484.3	570.7	- 170.5	580.8

The geographic breakdown of income was determined on the basis of the domicile of the respective subsidiary and on the basis of the domicile of the WestLB AG branch on whose account the transaction is carried or which was responsible for the transaction. Current income includes income from profit pooling and (partial) profit transfer agreements. Other operating income includes income from the leasing business.

Administrative and Custodial Services (39)

Services rendered on behalf of third parties include, in particular, custodial services, asset management and the administration of trustee loans.

Result of Leasing Business (40)

Entries relating to leasing business have been added to the statement of income. Income from leasing business included, in addition to € 226.6 million from regular lease payments, gains of € 3.9 million (2003: € 0.7 million) on the sale of leased property. Expenses from leasing business included € 148.6 million (2003: € 127.7 million) in scheduled depreciation taken on property being leased and refinancing expenses of € 33.1 million (2003: € 23.6 million).

Altogether, the result of leasing business was € 48.8 million (2003: € 32.2 million).

Other Operating Result (41)

	1. 1.–31. 12. 2004 € millions	1. 1.–31. 12. 2003 € millions
Other operating income		
Amount reported on the Statement of Income	350.2	355.4
including:		
– income from the write-back of other provisions	88.4	50.9
– income recognised on a pro rata basis as well as revenue from real estate projects	39.3	16.4
– income from cost apportionment and reimbursement of expenses	68.9	20.6
– income from IT services	20.0	59.2
– gains on the sale of fixed assets	17.9	38.9

	1. 1.–31. 12. 2004 € millions	1. 1.–31. 12. 2003 € millions
Other operating expenses		
Amount reported on the Statement of Income	173.6	118.6
including:		
– expenses for services procured in the area of real estate development projects	37.0	10.1
– allocation to other provisions	25.8	9.5
– allocations to the reserve fund	25.0	0.0
– losses on the sale of fixed assets	11.5	25.4

Risk Provisions (42)

Allowances for Specific Risks, General Loan Loss Provisions, Global Provisions and Reserve Risk Provisions Pursuant to § 340 f of the German Commercial Code (HGB) (excluding the fund for general bank risks pursuant to § 340 g HGB)

	2004 € millions	2003 € millions
Beginning balance at January 1	4,342.5	4,441.4
Allocations	585.3	1,346.5
Write-backs	– 711.1	– 290.3
Depletions	– 974.1	– 759.0
Market value differences/Other changes	– 139.0	– 396.1
Ending balance at December 31	3,103.6	4,342.5

Write-Downs and Adjustments Pursuant to § 340f (3) and § 340c (2) of the German Commercial Code (HGB)

	1. 1.–31. 12. 2004 € millions	1. 1.–31. 12. 2003 € millions
Provisions for credit risks/Result of securities and participations	182.3	– 2,172.6
Loans and securities (income/expenses)	148.3	– 1,169.6
thereof: loans	117.9	– 1,183.4
securities	30.4	13.8
Participations, securities and loans (income/expenses)	34.0	– 1,003.0
thereof: participations	42.2	– 1,011.8
securities	– 8.2	7.9
loans	0.0	0.9

Pursuant to § 340f (3) of the German Commercial Code (HGB), the income and expenses of the WestLB Group resulting from the evaluation of the lending business were offset by write-ups and write-downs on securities held in the liquidity reserve; the net result was a positive € 148.3 million (2003: negative € 1,169.6 million). Similarly, pursuant to § 340c (2) of the German Commercial Code (HGB), the expenses related to shares in affiliated and non-affiliated enterprises, as well as securities held in the investment portfolio, were offset by the income amounts for these investments. The net result was a positive € 34.0 million (compared to a negative € 1,003.0 million in 2003). There were also losses of € 12.2 million (2003: € 35.0 million) assumed from subsidiaries.

Extraordinary Result (43)

The extraordinary result of € –1,583.6 million is chiefly the result of the extraordinary expense of € 1,411.3 million associated with the settlement of the Wfa aid proceedings, as well as restructuring expenses.

Income and Expenses Relating to Different Accounting Periods (44)

	1. 1.–31. 12. 2004 € millions	1. 1.–31. 12. 2003 € millions
Interest expense	– 0.9	– 0.8
Interest income	– 5.7	– 3.2
Commission expense	– 1.2	– 0.1
Commission income	2.9	0.2
Back taxes/tax refunds	– 2.6	8.3
Income from the write-back of other provisions	88.4	50.9
Income from the release of the special item with partial reserve character	0.0	4.0
Non-recurring other expenses and income	– 9.2	0.0
Total	71.7	59.3

Taxes on Income and Revenues (45)

The € 84.3 million (2003: € 60.1 million) in taxes on income and revenues was attributable mostly to the payment of taxes on the result from ordinary activities in the amount of € 78.3 million (2003: € 78.1 million). A total of € 31.4 million (2003: € 40.6 million) was allocated to the provisions for future tax expenses. Deferred taxes in the amount of € 10.6 million (2003: € 18.9 million) had an offsetting effect.

Miscellaneous Items

Contingent Liabilities (46)

WestLB has issued various “letters of undertaking” in conjunction with the residual value guarantees provided by one of its subsidiaries. Although these letters merely represent conditional obligations to provide guarantees, they are reported under contingent liabilities with an annotation.

Effective January 1, 2005, responsibility for the IT infrastructure-related services and web/office applications previously rendered by WestLB Systems was transferred to an outside company. In conjunction with this outsourcing agreement, WestLB AG assumed certain responsibilities with respect to the WestLB Group companies that acceded to this agreement.

Letters of Comfort (47)

WestLB will, except in the case of political risk, ensure that – proportionate with its investment quota – the banks, financial institutions and management companies in which it holds a significant investment will be in a position to meet their obligations. The enterprises covered by these Letters of Comfort and the amount of WestLB’s investment quotas in such enterprises are set forth below.

The subsidiaries covered by these Letters of Comfort and WestLB AG’s investment quotas in them (direct and indirect) are as follows:

Group Subsidiaries

Banco WestLB do Brasil S.A., São Paulo (100%)
 WestLB do Brasil Cayman Ltd. (100%)
 Bank WestLB Vostok (ZAO), Moscow (100%)
 Banque d’Orsay S.A., Paris (100%)
 Compagnie Belge de la WestLB (C.B.W.) S.A. (formerly BEAL), Waterloo (100%)
 Westdeutsche ImmobilienBank, Mainz (100%)
 Assetis GmbH, Düsseldorf (98%)
 Westdeutsche Immobilienholding GmbH, Düsseldorf (94.6%)
 WestFonds Immobilien-Anlagegesellschaft mbH, Düsseldorf (100%)
 WestGkA Management Gesellschaft für kommunale Anlagen mbH, Düsseldorf (100%)
 WestProject & Consult Gesellschaft für Projektentwicklung und Consulting mbH, Düsseldorf (100%)
 WestLB (Italia) Finanziaria S.p.A., Milan (100%)
 WestLB Asia Pacific Ltd., Singapore (100%)
 WestLB Asset Management (Australia) Ltd., Sydney (51%)
 WestLB Asset Management (UK) Ltd., London (100%)
 WestLB Asset Management (US) LLC, Houston (100%)
 WestLB Asset Management (USA) LLC, Chicago (100%)
 WestLB Asset Management Kapitalanlagegesellschaft mbH, Düsseldorf (100%)
 WestLB Bank Polska S.A., Warsaw (100%)
 WestLB Covered Bond Bank plc, Dublin (100%)
 WestLB Europa Holding AG, Düsseldorf (100%)
 WestLB Europe (UK) Holdings Ltd., London (100%)
 WestLB Finance (Credits) Ltd., London (100%)
 WestLB Fund Investment Ltd., London (100%)
 WestLB Hungaria Bank Rt., Budapest (100%)

WestLB International S.A., Luxembourg (100%)
WestLB Ireland plc, Dublin (100%)
WestLB Property Services Ltd., London (100%)
WestLB Securities Inc., Dover/Delaware (100%)
WestLB Securities Pacific Ltd., Hong Kong (100%)
WestLB UK Ltd., London (100%)
WestRM – West Risk Markets AG, Zug (100%)
WMB Leasing Nine Limited, London (100%)

WestLB Asset Management (Australia) Pty. Ltd. is covered irrespective of WestLB AG's investment quota.

In addition to the general Letters of Comfort listed above, WestLB AG has also issued specific Letters of Comfort to third parties for the following companies:

PE Projektentwicklungsgesellschaft mbH & Co. Büro- und Business Center Büropark
Leipzig-Park KG (Medico – Fonds Dresden Bürocenter)
PE Projektentwicklungsgesellschaft mbH & Co. Büro- und Business Center Büropark
Leipzig-Park KG (Medico – Fonds Berlin Badstrasse)
Westdeutsche ImmobilienBank
WestLB Asia Pacific Ltd.
West Merchant Bank Ltd.

Other Financial Obligations (48)

WestLB Group has € 1,226.9 million in other financial obligations on its books. WestLB AG's liability to make additional contributions to the Liquiditätskonsortialbank of which it is a member remained unchanged at € 65.3 million. The Bank may incur additional obligations with respect to its joint liability for the additional contributions to the Liquiditätskonsortialbank from partners who are members of the German Savings Banks and Giro Association (DSGV).

The deficit resulting from pension obligations not carried on the balance sheet within the meaning of Art. 28 (2) of the Introductory Act to the German Commercial Code (EGHGB) was € 69.1 million.

The rental and leasing obligations for the year amounted to € 106.8 million (2003: € 116.7 million), of which € 6.7 million (2003: € 31.2 million) stems from affiliated companies; the agreements run for a maximum of 22 years.

NRW.BANK and WestLB AG are jointly and severally liable until the end of 2006 for all liabilities that were incurred before the division of WestLB GZ. The liability for pre-existing commitments assumed by the former guarantors of WestLB GZ also covers this joint liability of WestLB AG.

In December 2004, the shareholders of HSH Nordbank AG contractually agreed to the details of converting € 605.0 million of silent contributions into share capital of HSH Nordbank AG. In accordance with this agreement, WestLB Beteiligungsholding GmbH pledged to subscribe as of July 1, 2005 for a € 162.5 million portion of common shares converted from silent contributions to capital previously by that time.

To improve the quality of HSH Nordbank's equity capital structure even further, another € 750.0 million of silent contributions is to be converted into common shares of the bank effective December 31, 2007. In the case of this conversion,

WestLB Beteiligungsholding GmbH secured the right from HSH Nordbank's other shareholders to withdraw from its obligation to subscribe for its € 201.4 million portion of these new common shares in exchange for waiving a calculated par value of € 8.6 million.

Deposit Insurance (49)

WestLB AG is a member of the German Savings Banks and Giro Association (DSGV) and makes contributions to the security reserves of the Landesbanks. These security reserves constitute protection for contributing banks within the meaning of § 12 of the German Deposit Protection and Investor Compensation Act (Einlagensicherungs- und Anlegerentschädigungsgesetz, EAG) and are associated in local statutes with the deposit insurance scheme of the savings banks.

The deposit insurance scheme of the German savings banks organisation consists of eleven funds belonging to the regional savings banks and giro associations, the security reserves of the Landesbanks and the security fund of the Landesbausparkassen, which together form a community of joint liability. There are rules and regulations governing the relationships between regional and national funds that provide for offsetting in cases where coverage is claimed (so-called overflow agreements). In 2004, there was no liability to make additional contributions to the security reserves of the Landesbanks/Girozentralen.

Effective October 1, 2004, each of the two savings banks associations of North Rhine-Westphalia – the Savings Banks and Giro Association of the Rhineland (RSGV) and the Savings Banks and Giro Association of Westphalia-Lippe (WLSGV) – jointly established a reserve fund with WestLB AG to support WestLB AG and the member savings banks should any of them face financial difficulties. To this end, both savings banks associations set up in equal parts with WestLB AG a reserve fund of € 500 million. Both funds consist of € 250 million in cash and an additional funding obligation of the same amount. WestLB AG made contributions of € 25 million in 2004. The remaining € 225 million in cash is to be paid in equal instalments over the next nine years, with the income generated by the funds offsetting the relevant amounts.

Guarantor Liability (50)

Together with its wholly owned subsidiary WestLB Beteiligungsholding GmbH, WestLB AG is a guarantor, to the extent permitted by law, of LRP Landesbank Rheinland-Pfalz, Mainz, (for commitments entered into until October 1, 2004) and HSH Nordbank AG, Hamburg/Kiel. In addition, it is the sole guarantor of Westdeutsche ImmobilienBank, Mainz, and is also a guarantor of DekaBank Deutsche Girozentrale, Frankfurt/Main.

Corporate Governance Code (51)

WestLB AG adopted its own rules of corporate governance in August 2002 which are based on the provisions of the German Corporate Governance Code that apply to listed companies. The Managing Board and Supervisory Board of the Bank undertook a voluntary obligation in doing so which extends beyond what is required of them by law. The Supervisory Board, Managing Board and employees of the Bank support the corporate governance rules. The rules ensure that WestLB AG's operations are managed and supervised responsibly and in keeping with the principles of good corporate citizenship. A monitoring system ensures compliance.

WestLB AG sees corporate governance as a dynamic process, which is why the Bank has adapted its rules to changes in national legislation in this area. Reviewing the effectiveness of the Supervisory Board's work on a regular basis is one example, with the first such review conducted in 2004. The current version of WestLB AG's corporate governance rules can be accessed by going to the Bank's website at www.westlb.com and following the "About us" and "Corporate Governance Rules" links.

WestLB complied with its corporate governance rules in full in fiscal 2004, especially with the following measure: With respect to the remuneration of the Supervisory Board, the Shareholders' Meeting of May 13, 2004 set a fixed compensation (cf. II 2.4 of the Corporate Governance Rules).

Remuneration of the Governing Bodies (52)

	1. 1.–31. 12. 2004 € millions	1. 1.–31. 12. 2003 € millions
Total remuneration of the Managing Board	14.9	9.6
– fixed	10.8	9.6
– performance-based	4.0	0.0
– long-term incentive programmes	0.0	0.0
– from holding supervisory board seats at Group subsidiaries	0.1	0.1
Total remuneration of former Managing Board members and their survivors	8.0	9.0
Total remuneration of Supervisory Board members	1.1	1.1
– fixed	1.1	1.1
– performance-based	0.0	0.0
– long-term incentive programmes	0.0	0.0
Pension provisions for former Managing Board members and their survivors	55.9	46.7

The € 1.1 million reported as remuneration of the Supervisory Board members represents a lump-sum reimbursement of their out-of-pocket expenses (€ 0.2 million) and a provision established for their compensation (€ 0.9 million); the compensation for the 2004 fiscal year will first be definitively determined by the 2005 Shareholders' Meeting. The remuneration for 2003 was determined at the 2004 Shareholders' Meeting and adjusted accordingly for the year under review.

Loans to Members of the Governing Bodies (53)

The members of the Managing Board of WestLB AG received no advances or loans in 2004 (2003: € 0.03 million). The members of the Supervisory Board of WestLB Group received advances and loans totalling € 0.25 million (2003: € 0.25 million).

Number of Employees (54)

The average number of employees in 2004 was as follows:

Number of Employees

	Male	Female	Total 2004	Total 2003
Domestic Group companies/ branches	2,622	2,003	4,625	5,148
Foreign Group companies/ branches	1,672	1,038	2,710	2,998
Total	4,294	3,041	7,335	8,146

An average of 157 (2003: 189) employees were engaged in apprenticeship training or equivalent training.

Shareholdings in WestLB (55)

NRW.BANK holds 38.748% of WestLB AG's subscribed capital; the savings banks associations RSGV and WLSGV each hold 30.626%. WestLB was given notice hereof in accordance with § 20 (1) and (5) of the German Stock Corporation Act (AktG).

Group Shareholdings (56)

WestLB Group companies hold more than 5% of the voting rights in the following major corporations:

AKA Ausfuhrkredit-Gesellschaft mbH, Frankfurt/Main
 Babcock Borsig Aktiengesellschaft i.L., Oberhausen
 Banca Carige S.p.A., Genoa
 Banco Finantia S.A., Lisbon
 Compagnie Belge de la WestLB (CBW) S.A. (formerly BEAL), Waterloo
 Fraikin Groupe S.A., Levallois Perret
 Girindus AG, Bergisch Gladbach
 Herlitz Aktiengesellschaft, Berlin
 Klöckner & Co AG, Duisburg
 Metro Capital B.V., Venlo-Blerick
 Nordex AG, Norderstedt
 RW Holding AG, Düsseldorf
 TA Triumph-Adler AG, Nuremberg
 Technotrans AG, Sassenberg
 The Wireless Group plc, London
 Westfälische Textil-Gesellschaft Klingenthal & Co. mbH, Salzkotten
 WestLB Administration Inc., New York
 WestLB Asset Management (Australia) Pty. Limited, Sydney
 WestLB Basinghall Ltd., London
 WestMerchant Beteiligungs GmbH, Düsseldorf
 West Private Capital GmbH i.L., Stuttgart
 WestRM – West Risk Markets AG, Zug
 WMB Beteiligungs GmbH, Düsseldorf

WestLB Group companies hold more than 5% of the voting rights in the following major corporations which are included in the consolidated accounts with the equity method:

Asia Leasing Ltd., Hamilton, Bermuda
Deutsche Anlagen-Leasing GmbH, Mainz
HSH Nordbank AG, Hamburg/Kiel
Singapore Aircraft Leasing Enterprise Pte Ltd., Singapore

Shareholdings in Partnerships (57)

Pursuant to § 285 No. 11 a of the German Commercial Code (HGB), the following is a list of partnerships in which companies of the WestLB Group are a general partner:

Darnley Estates Unlimited, Dublin
GbR Industrie- und Handelskammer Rheinisch-Westfälische-Börse, Düsseldorf
GIE MM Cogene 2, Paris
GLB GmbH & Co. OHG, Frankfurt a.M.
Secofinance WestLB, Paris
Société Civile Immobilière Franco-Allemande (SCIFA), Paris
Woolgate Investments CV, Dublin

Seats Held by Members of the Managing Board (58)

Members of the Managing Board are members or chairmen of the following companies' supervisory boards or other supervisory bodies. Offices marked with an asterisk indicate voluntary disclosures that fall outside of the reporting requirements regarding seats on the boards of large corporations pursuant to § 340 a (4) No. 1, in conjunction with § 267 (3), of the German Commercial Code (HGB).

Dr. Thomas R. Fischer

AMVESCAP PLC
Audi AG
AXA Konzern AG (from July 8, 2004)
DekaBank Deutsche Girozentrale*
Hapag-Lloyd AG (from November 18, 2004)
HSH Nordbank AG (from February 19, 2004)
kfw – Kreditanstalt für Wiederaufbau* (from January 1, 2005)
LRP Landesbank Rheinland-Pfalz* (until October 8, 2004)
RWE AG (from November 9, 2004)
TUI AG (until January 26, 2005)

Dr. Matthijs van den Adel

LRP Landesbank Rheinland-Pfalz* (until October 11, 2004)
RWE Energy AG (from May 19, 2004)
Westdeutsche ImmobilienBank*
WestLB International S.A. (from April 7, 2004)

Dr. Norbert Emmerich

Aurelis Management GmbH (from May 1, 2004)
Deutsche Anlagen-Leasing GmbH (from May 1, 2004)

Hüttenwerke Krupp Mannesmann GmbH (from December 1, 2004)
ifb AG

LRP Landesbank Rheinland-Pfalz* (until October 11, 2004)
TUI AG (from November 5, 2004 to January 26, 2005)
Westdeutsche ImmobilienBank* (from May 1, 2004)
WestLB International S.A. (from May 14, 2004)

Klaus-Michael Geiger

Boullioun Aviation Services Inc.
LRP Landesbank Rheinland-Pfalz* (until October 8, 2004)
Westdeutsche ImmobilienBank*
WestLB Systems GmbH (until March 31, 2004)
WestUBG Westdeutsche Unternehmens-Beteiligungs-Aktiengesellschaft

Dr. Manfred Puffer

Börse Düsseldorf AG (from June 14, 2004)
Boullioun Aviation Services Inc.
Deutsche Anlagen-Leasing GmbH (until March 6, 2005)
Österreichische Bundesfinanzierungsagentur Ges.mbH
ThyssenKrupp Stahl AG (from September 20, 2004)
WestLB Asset Management Kapitalanlagegesellschaft mbH (until November 23, 2004)
WestLB Basinghall Ltd.
WestLB Covered Bond Bank plc
WestLB International S.A.
WestLB Securities Pacific Ltd.

Robert Restani (until March 31, 2004)

Aurelis Management GmbH (until March 31, 2004)
Deutsche Anlagen-Leasing GmbH (until May 1, 2004)
LRP Landesbank Rheinland-Pfalz* (until May 14, 2004)
Westdeutsche ImmobilienBank* (until April 30, 2004)

Gerhard Roggemann (until March 20, 2004)

AXA Lebensversicherung AG
Banque d'Orsay S.A. (until May 6, 2004)
Börse Düsseldorf AG (until June 14, 2004)
Fresenius AG
Hapag-Lloyd AG
Solvay Deutschland GmbH
VHV Holding AG
Westdeutsche ImmobilienBank* (until April 30, 2004)
WestLB Asset Management Kapitalanlagegesellschaft mbH (until April 22, 2004)
WestLB International S.A. (until April 30, 2004)
West Pensionsfonds AG (until March 31, 2004)
West Pensionskasse AG (until March 31, 2004)

Rainer Schmitz

Banque d'Orsay S.A. (from May 6, 2004)
Deka Investment GmbH
Westdeutsche ImmobilienBank* (from May 1, 2004)
WestLB Asset Management Kapitalanlagegesellschaft mbH (from April 22, 2004)
West Pensionsfonds AG (from April 1, 2004)
West Pensionskasse AG (from April 1, 2004)

Robert M. Stein

Banque d'Orsay S.A. (from October 22, 2004)

WestLB Asset Management Kapitalanlagegesellschaft mbH (from November 23, 2004)

WestLB International S.A. (from September 20, 2004)

Seats Held by Group Employees (59)

The following employees are members or chairs of the following companies' supervisory boards:

Franz-Josef Becker

Bank WestLB Vostok (ZAO)

WestLB Bank Polska S.A.

WestLB Covered Bond Bank plc

WestLB Ireland plc (until December 31, 2004)

Holger Bredekamp

Wohnungsgesellschaft Münsterland mbH

Dr. Helmut Brocke

RW Holding AG (until December 16, 2004)

Peter Clermont

WestLB Securities Pacific Ltd.

Ian Clifton

WestLB Covered Bond Bank plc

WestLB Securities Pacific Ltd. (from September 1, 2004)

WestLB Ireland plc (from January 1, 2005)

Neil Colvered

WestLB Covered Bond Bank plc

Trevor Cowan

WestLB Bank Polska S.A. (from January 25, 2005)

Lourens de Beer

Bank WestLB Vostok (ZAO) (from November 30, 2004)

WestLB Bank Polska S.A. (from September 1, 2004 to January 24, 2005)

Robert De La Mare Peddar

Volcan Compania Minera S.A.A. (from March 30, 2004)

Moses Dodo

Compagnie Belge de la WestLB (CBW) S.A.* (from December 1, 2004)

Sean Dunne

WestLB Covered Bond Bank plc
Compass Securitisation Ltd.

Michael East

Bank WestLB Vostok (ZAO) (from June 30, 2004 to November 30, 2004)
WestLB Bank Polska S.A. (until August 31, 2004)

Thorsten Ellwanger

WestLB AG

Felipe Errazuriz

Volcan Compania Minera S.A.A. (from May 14, 2004 to May 31, 2004)

Maurizio Fazzari

Banca Carige S.P.A.

William Bruce Fraser

WestLB Securities Pacific Ltd. (until August 31, 2004)

Wolfgang Freudenmann

WestUBG Westdeutsche Unternehmens-Beteiligungs-Aktiengesellschaft
(from January 1, 2004)

Dr. Patrick Fürer

Bank WestLB Vostok (ZAO) (from February 15, 2005)
WestLB Bank Polska S.A. (from February 15, 2005)

Birgitt Garitz

Boullioun Aviation Services Inc.

Jürgen Germies

Wolfson Microelectronics plc (until March 24, 2004)

Richard Gordon

WestLB Securities Pacific Ltd. (until August 31, 2004)

Kerstin Heidler

Deka International-Ireland-Ltd. (from May 24, 2004)
Deutsche Apotheker- und Ärztebank (Ireland) Investment (from April 23, 2004)

Hans-Josef Hoeveler

Bank WestLB Vostok (ZAO) (until June 30, 2004)
Boullioun Aviation Services Inc. (until May 31, 2004)
Global Trade Finance Private Ltd. (until December 24, 2004)
WestLB Bank Polska S.A. (until August 31, 2004)

Herbert Jackel

Banco Finantia S.A. (from March 1, 2005)

Thomas Kaiser

Deka International-Ireland-Ltd.
Deutsche Apotheker- und Ärztebank (Ireland) Investment

Manfred Kammans

WestLB Bank Polska S.A. (from September 1, 2004)

Horst Klophaus

WestLB AG

Gerhard Knoke

Compagnie Belge de la WestLB (CBW) S.A.*
Westdeutsche ImmobilienBank*

Dirk Koerner

Bank WestLB Vostok (ZAO)
WestLB Bank Polska S.A.

Judit Kovács

Giro Elszámolásforgalmi Rt.

Joachim Krämer

WestLB AG (from January 15, 2004)

Marcus Kramer

Westdeutsche ImmobilienBank* (from November 8, 2004)

Michael Kramer

Singapore Aircraft Leasing Enterprise Pte. Ltd.

Dr. László Lengyel

Delalföldi Gázzolgáltatató Rt.
Deldunantuli Gázzolgáltatató Rt.

Uwe Löschmann

WestLB AG

Manfred Matthewes

WestLB AG

James (Jim) Morris

Formula One Holdings Ltd. (from January 1, 2004)

Michael Morrison

WestLB Property Services Ltd.

Erik Nagel

Banque d'Orsay S.A. (from January 1, 2005)
Compagnie Belge de la WestLB (CBW) S.A.* (from December 1, 2004)
Singapore Aircraft Leasing Enterprise Pte. Ltd. (from January 1, 2005)
West Pensionsfonds AG (from November 23, 2004)
West Pensionskasse AG (from November 23, 2004)

Klaus Neuhaus

Compagnie Belge de la WestLB (CBW) S.A.* (until December 1, 2004)
Westdeutsche ImmobilienBank* (until November 8, 2004)

Dr. Wolfgang Nickels

Bank WestLB Vostok (ZAO) (from July 1, 2004)
Boullioun Aviation Services Inc. (from June 1, 2004)
Compagnie Belge de la WestLB (CBW) S.A.* (until December 1, 2004)

Dr. Klaus Nittinger

Singapore Aircraft Leasing Enterprise Pte. Ltd.

Luke Nunneley

WestLB Asset Management Kapitalanlagegesellschaft mbH (from November 23, 2004)

Werner Peters

WestLB Asset Management Kapitalanlagegesellschaft mbH

Thomas Reh

MTBC Bank Deutschland GmbH i.L. (until July 23, 2004)
West Pensionsfonds AG (until December 10, 2004)
West Pensionskasse AG (until December 10, 2004)

Wolfgang Richter

AXA Investment Managers Deutschland GmbH (until December 9, 2004)
Banque d'Orsay S.A. (until January 1, 2005)
Compagnie Belge de la WestLB (CBW) S.A.* (until December 1, 2004)
MTBC Bank Deutschland GmbH i.L. (from April 1, 2004 to July 23, 2004)
Singapore Aircraft Leasing Enterprise Pte. Ltd. (until January 1, 2005)
West Pensionsfonds AG (until November 23, 2004)
West Pensionskasse AG (until November 23, 2004)

Albrecht Sabelus

WestLB Securities Pacific Ltd. (from January 24, 2004)

Heinz-Günter Sander

WestLB AG

Frank Schmitz

Legrand S.A.

Guido Schmitz

Singapore Aircraft Leasing Enterprise Pte Ltd.

Jürgen Schneider

JT International Germany GmbH

Detlef Semberg

AKA Ausfuhrkredit-Gesellschaft mbH

Frank Simon

WestRM West Risk Markets AG

Bernhard Thiel

West Pensionsfonds AG (from December 10, 2004)

West Pensionskasse AG (from December 10, 2004)

Margit Timmermann-Rassat

WestLB Asset Management Kapitalanlagegesellschaft mbH (until November 23, 2004)

Karl-August Trawny

Bank WestLB Vostok (ZAO) (from June 30, 2004)

Deutsche Anlagen-Leasing GmbH (from March 7, 2005)

WestLB Asset Management Kapitalanlagegesellschaft mbH (from November 23, 2004)

WestLB Bank Polska S.A. (from September 1, 2004)

Joachim Voss

Technotrans AG

WestUBG Westdeutsche Unternehmens-Beteiligungs-Aktiengesellschaft

Matthias Wargers

Westdeutsche ImmobilienBank*

Elisabeth Weber

WestLB AG

Andreas Roger Weiss

MFI AG (from April 1, 2004)

Dr. Ludger Wennemar

WestLB Systems GmbH (until March 31, 2004)

Dr. Alexander Winkels

Klöckner & Co AG

Madaus AG

Phoenix AG (until May 3, 2004)

Schmitz Cargobull AG

WestUBG Westdeutsche Unternehmens-Beteiligungs-Aktiengesellschaft

Governing Bodies of WestLB (60)**Managing Board of WestLB AG**

Dr. Thomas R. Fischer, Chairman

Dr. Matthijs van den Adel

Dr. Norbert Emmerich (from May 1, 2004)

Klaus-Michael Geiger

Dr. Hans-Jürgen Niehaus (from November 15, 2004)

Dr. Manfred Puffer

Robert Restani (until March 31, 2004)

Gerhard Roggemann (until March 20, 2004)

Rainer Schmitz (Deputy Member)

Robert M. Stein (from July 1, 2004)

Members of the Supervisory Board of WestLB AG**Dr. Rolf Gerlach, Chairman (from June 29, 2004)**

President, Savings Banks and Giro Association of Westphalia-Lippe

Dr. Bernd Lüthje, Chairman and Member (until June 29, 2004)

Chairman of the Managing Board, NRW.BANK

Gerd-Uwe Löschmann, Deputy Chairman

Director, WestLB AG Düsseldorf

Jean-Pascal Beaufret (until June 29, 2004)

Chief Financial Officer, Alcatel

Dr. Karlheinz Bentele

President, Savings Banks and Giro Association of the Rhineland

Jochen Dieckmann

Finance Minister, State of North Rhine-Westphalia

Thorsten Ellwanger

Prokurist, WestLB AG Hamburg

Bernd Fiegler

Deputy Regional Director, ver.di Vereinte Dienstleistungsgewerkschaft

Dr. Karl-Ludwig Kley (until June 29, 2004)

Member of the Managing Board, Deutsche Lufthansa AG

Horst-Wolfgang Klophaus

Manager, WestLB AG Düsseldorf

Hans-Peter Krämer

Chairman of the Managing Board, Kreissparkasse Köln

Joachim Krämer (from January 15, 2004)

Senior Managing Director, WestLB AG Düsseldorf

Dr. Siegfried Luther (until June 29, 2004)

Deputy Chairman of the Managing Board, Bertelsmann AG

Manfred Matthewes

Prokurist, WestLB AG Düsseldorf

Udo Molsberger

Regional Director, Regional Association of the Rhineland

Hans Pixa (from June 29, 2004 to January 3, 2005)

District Administrator (ret.), Coesfeld District

Dr. Hans-Ulrich Predeick

Regional Councillor, Regional Association of Westphalia-Lippe

Dr. Dietrich Rümker (from June 29, 2004)

Former Chairman of the Managing Board, c/o HSH Nordbank AG

Heinz-Günter Sander

Bank Officer, WestLB AG Düsseldorf

Gustav Adolf Schröder (from June 29, 2004)

Chairman of the Managing Board, Stadtsparkasse KölnBonn

Franz-Georg Schröermeyer

Secretary for Financial Services

ver.di Vereinte Dienstleistungsgewerkschaft

Christiane Stascheit

Deputy Director for the Düsseldorf Region

ver.di Vereinte Dienstleistungsgewerkschaft

Hans-Georg Vogt (from June 29, 2004)

Chairman of the Managing Board, Sparkasse Bielefeld

Elisabeth Weber

Prokurist, WestLB AG Düsseldorf

Düsseldorf/Münster, March 22, 2005

WestLB AG

The Managing Board

Dr. Fischer

Dr. Niehaus

Dr. van den Adel

Dr. Puffer

Dr. Emmerich

Schmitz

Geiger

Stein

Auditor's Opinion

We have issued the following opinion on the Group annual accounts and Group statement of financial condition:

"We have audited the Group annual accounts and Group statement of financial condition prepared by WestLB AG, Düsseldorf/Münster, for the financial year ending December 31, 2004. The preparation of the Group annual accounts and Group statement of financial condition according to German commercial law regulations is the responsibility of the legal representatives of the Company. It is our task to give an opinion on the Group annual accounts and Group statement of financial condition on the basis of our audit.

We carried out our audit in accordance with § 317 of the German Commercial Code (HGB) while complying with the German principles of proper auditing laid down by the Institute of German Certified Public Accountants (IDW – Institut der Wirtschaftsprüfer). According to these principles, the audit must be planned and carried out in a way which ensures that errors and infringements which have a material impact on the presentation of the Group's net assets, financial condition and earnings in the Group annual accounts and Group statement of financial condition can be identified as not being in accordance with generally accepted accounting principles. When defining the audit processes, knowledge of the business activities and economic and legal environment of the Group as well as the expectations regarding possible errors are taken into account. In the context of the audit, the effectiveness of the internal control system and evidence of the correctness of the information contained in the Group annual accounts and Group statement of financial condition are for the most part assessed on the basis of samples. The audit covers an assessment of the annual accounts of the companies included in the Group annual accounts, the scope of consolidation, the accounting and consolidation principles applied and the relevant estimates made by the legal representatives as well as an opinion on the overall presentation of the Group annual accounts and Group statement of financial condition. We are of the opinion that our audit forms a sufficiently reliable basis for our assessment.

Our audit resulted in no objections.

In our opinion, the Group annual accounts, in complying with standard accounting principles, present a true and fair view of the net assets, financial condition and earnings of the Group. The Group statement of financial condition adequately reflects the Group's situation and the risks inherent in its future development."

Frankfurt am Main, March 22, 2005

Ernst & Young AG
Wirtschaftsprüfungsgesellschaft

Müller-Tronnier
German Public Accountant

Dombek
German Public Accountant

Report of the Supervisory Board

For WestLB AG, 2004 was dominated by a fundamental strategic reorientation. This factored heavily into the work of the Supervisory Board and its committees.

A key date was June 29, 2004, the day on which the Annual Shareholders' Meeting endorsed the Supervisory Board's proposal to increase the capital by € 1.5 billion, with the two savings banks associations in North Rhine-Westphalia – the Savings Banks and Giro Association of the Rhineland and the Savings Banks and Giro Association of Westphalia-Lippe – contributing the additional capital in equal parts. This capital formed the foundation for systematically expanding the cooperation between WestLB AG and the savings banks in North Rhine-Westphalia. Also of note in this regard is the shareholder agreement signed on the same day between WestLB AG and the Bank's direct and indirect owners – the Savings Banks and Giro Association of the Rhineland, the Savings Banks and Giro Association of Westphalia-Lippe, the Regional Association of the Rhineland, the Regional Association of Westphalia-Lippe, the State of North Rhine-Westphalia and NRW.BANK. The third pillar in the transformation was the signing of a framework agreement between the North Rhine-Westphalian savings banks and WestLB AG that sets out the principles of their future cooperation.

These agreements, together with the two reserve funds established in September 2004, which are funded in each case by WestLB AG and one of the two North Rhine-Westphalian savings banks associations, respectively, set the stage for implementing the plan formulated by the Managing Board and backed by the Supervisory Board on strategically repositioning WestLB AG. Going forward, the Bank will focus its business on Europe, with particular emphasis on its home market of Germany and North Rhine-Westphalia. The close alliance with the savings banks will be at the heart of these efforts, especially with respect to the new business focus: medium-sized companies, private banking and asset management. Building on its proven expertise in this field, the Bank will at the same time strengthen its role within the alliance as a gateway to the international capital markets. In streamlining its equity investments in 2004, a move supported by the Supervisory Board, WestLB AG created additional flexibility in its capital base to support the new policies and simultaneously improved its risk profile.

An additional component of the realignment was a thorough reworking of the Bank's risk management system, which addressed issues identified in the special business audits performed under § 44 of the German Banking Act (KWG) in 2003. The risk management system the Bank has in place today satisfies all statutory requirements, as well as the demands of the new business model.

A further focus of the Supervisory Board's work was the continued progress of the Wfa proceedings. The Bank succeeded in bringing to an end the aid proceedings with the EU which had dragged on for a number of years. Even if the outcome caused the Bank to report another loss for the year on its income statement, WestLB AG gained the necessary breathing space to concentrate on implementing its new business model. The impact of carrying out the EU decision, reviewing the 2004 annual accounts and performing the duties prescribed by law and the Bank's own rules and regulations have dominated the Supervisory Board's work thus far in 2005. The approval to issue hybrid Tier 1 capital was part of these efforts. The private sector subscribed to a good 50% of the issue; the remainder was assumed by the State of North Rhine-Westphalia.

Changes in the Composition of the Supervisory Board and Managing Board

The Supervisory Board underwent the following changes in 2004: Joachim Krämer, Senior Managing Director and Head of the Sparkassen/Public-Sector Clients business unit, was appointed on January 15, 2004 to serve as the senior employees' representative to the Supervisory Board. He succeeded Rainer Schmitz, who had been appointed Deputy Member of the Managing Board and Employee Relations Director on October 23, 2003.

Four new appointments were made by the Annual Shareholders' Meeting on June 29, 2004, the same day the above capital increase was endorsed: Dr. Dietrich Rümker, former Chairman of the Managing Board of Landesbank Schleswig-Holstein, Gustav Adolf Schröder, Chairman of the Managing Board of Sparkasse KölnBonn, Hans-Georg Vogt, Chairman of the Managing Board of Sparkasse Bielefeld, and Hans Pixa, District Administrator of the Coesfeld District (until September 30, 2004), who has since resigned from the Board with effect from January 3, 2005.

The members of the Supervisory Board elected fellow member Dr. Rolf Gerlach as their new Chairman on June 29, 2004. Dr. Gerlach is the President of the Savings Banks and Giro Association of Westphalia-Lippe.

The following members resigned from the Supervisory Board on that date: Dr. Bernd Lüthje, Chairman of the Managing Board of NRW.BANK and acting Chairman of the Supervisory Board of WestLB AG, Jean-Pascal Beaufret, Chief Financial Officer of Alcatel, Dr. Karl-Ludwig Kley, member of the Managing Board of Deutsche Lufthansa AG, and Dr. Siegfried Luther, Deputy Chairman of the Managing Board of Bertelsmann AG. The Supervisory Board thanks these members for their outstanding work and commitment.

The following changes occurred in the composition of the Managing Board in the year under review:

Dr. Thomas R. Fischer, Chairman of the Managing Board, and Dr. Matthijs van den Adel, member of the Managing Board and Chief Risk Officer, officially took up their posts on January 1, 2004; the appointments themselves had been made by the Supervisory Board on October 23, 2003. On February 20, 2004, the Supervisory Board appointed Dr. Norbert Emmerich to serve as a member of the Managing Board with effect from May 1, 2004. As of May 1, 2005, Dr. Emmerich also assumed the office of Deputy Chairman of the Managing Board. At its meeting on June 29, 2004, the Supervisory Board appointed Robert M. Stein to serve as a Managing Board member effective July 1, 2004. At the same meeting, the Supervisory Board appointed Dr. Hans-Jürgen Niehaus to serve as a member of the Managing Board, with initial effect from January 1, 2005. However, at a meeting held on September 22, 2004, the Supervisory Board moved the effective date of Dr. Niehaus' appointment forward to November 15, 2004. Dr. Niehaus serves as the Managing Board's Chief Financial Officer. Gerhard Roggemann and Robert Restani resigned from the Managing Board as of March 20, 2004 and March 31, 2004, respectively.

Supervision and Advising of Management

In fiscal year 2004, the Supervisory Board of WestLB AG fulfilled the tasks of supervising and advising management in accordance with the statutory requirements as well as the Bank's articles and bylaws. In particular, the Supervisory Board supported the Managing Board in the key strategic decisions made in the year under review and thereby contributed to the Bank's new direction. The primary goal of the Supervisory Board was and is to prepare the Bank for the elimination of institutional liability and guarantor liability later this year and to ensure its future competitiveness.

At regular meetings and special meetings, the Managing Board provided the Supervisory Board and its committees with regular, detailed reports on all relevant aspects of planning, the course of business, with special emphasis on the risk situation and risk management, company management and strategy, as well as on important events and transactions.

In addition, the Chairman and Deputy Chairman of the Supervisory Board and the Chairman of the Managing Board regularly discussed current developments. Transactions requiring the Supervisory Board's approval were presented to the Supervisory Board and a decision was made. The Supervisory Board addressed matters within its sphere of responsibility. The Supervisory Board supervised and examined the Managing Board's management activities on the basis of the information contained in the documents provided.

Supervisory Board Meetings

There were four regular and six special meetings of the Supervisory Board in the year under review. At its regular meetings, the Supervisory Board was presented with regular reports on WestLB AG's business situation and the work of the Supervisory Board committees. It made decisions concerning important equity investments and sales involving real estate. The following additional items were also handled:

In the special meeting held on February 2, 2004, the Supervisory Board elected Dr. Emmerich to serve as a member of the Managing Board with effect from May 1, 2004.

In addition to strategy, the joint liability system of the Savings Banks Financial Group and the corporate governance rules were the focus of the regular meeting held on February 17, 2004.

At the Supervisory Board's special meeting on March 20, 2004, agenda items included business relations with the former auditing firm as well as the possibility of asserting claims for damages against the former Managing Board and auditors.

In addition to the future strategic direction of WestLB AG, matters relating to the annual accounts (single-entity annual accounts, Group annual accounts, the Report of the Supervisory Board in the Annual Report, ratifying the acts of the Managing Board and Supervisory Board members, appointing the auditors) and revisions to the Bank's corporate governance rules and the Supervisory Board's rules for conducting business were the main topics of discussion at the meeting held on May 7, 2004.

The two special meetings held on June 29, 2004 dealt, among other things, with signing the shareholder and framework agreements mentioned earlier and preparing a recommendation to present to the Annual Shareholders' Meeting later that same day on the proposed capital increase and appointment of new Supervisory Board members. In another meeting following the Annual Shareholders' Meeting, the Supervisory Board elected a new Chairman.

The business conducted by the Supervisory Board at its regular meeting on September 22, 2004 included decisions on conversion of the silent contribution to capital and on establishing an advisory council to cover industry and the savings banks and another advisory council to cover public-sector clients. Additionally, discussion was held on the further course of action with respect to asserting claims for damages against governing bodies of the Bank and its former auditors for their involvement in one particularly large commitment. This was also the topic of discussion at the special meeting of the Supervisory Board held on November 25, 2004. The possibility of bias on the part of certain board members was handled in accordance with the statutory requirements and the Bank's rules and regulations.

Agenda items at the regular meeting on December 2, 2004 included the credit risk strategy and WestLB AG's bonus system.

The Supervisory Board talked in detail about the current status of the Wfa proceedings at the special meeting held on December 14, 2004.

Work in the Committees

The Executive Committee prepared the meetings of the Supervisory Board at its four regular meetings held on February 17, 2004, May 7, 2004, September 22, 2004, and December 2, 2004, as well as its four special meetings held on February 2, 2004, March 20, 2004, June 29, 2004, and December 14, 2004. At the regular meetings, the Managing Board mandates and general Managing Board matters were also standard topics.

The Audit Committee met three times in the year under review. At its first regular meeting held on March 15, 2004, it dealt with three sections of annotations from the audit report prepared on the 2003 annual accounts of WestLB AG by Ernst & Young (Section II [Lending Business], Section III [Equity Investments Business] and Section IV [Trading Business]). It also received reports on the progress made addressing the key findings of the special audits commissioned by the Federal Financial Supervisory Authority (BaFin) in 2003 under § 44 of the German Banking Act (KWG). Finally, the Audit Committee discussed the 2003 annual summary report prepared by Group Audit.

On April 26, 2004, the Audit Committee examined the main report on the audit of the 2003 annual accounts of WestLB AG (including the Section I annotations), the report on the audit of the 2003 Group annual accounts of WestLB AG (including the relevant annotations), as well as the 2003 subordinate status report of WestLB AG. It also gave its recommendations to the Supervisory Board concerning ratifying the acts of the Managing Board for the fiscal year 2003 and for appointing the auditors for the fiscal year 2004.

Topping the agenda at the special meeting held on November 3, 2004 were data quality, the audit under § 36 (1) of the German Securities Trading Act, the IAS status report and the Bank's bonus system.

The Audit Committee and the Risk Committee held one joint meeting on March 15, 2004. At this meeting, the Managing Board reported on the progress made tackling the demands and suggestions related to securing an adequate risk structure for the Bank – tasks originating in the corresponding instructions that BaFin gave to the Chairman of the Supervisory Board and the Managing Board of WestLB AG in connection with the audits performed in 2003 under § 44 of the German Banking Act (KWG).

The Risk Committee held four meetings, on January 21, 2004, April 22, 2004, September 9, 2004, and November 3, 2004, respectively, where it discussed the commitments that are subject to its review by law and by virtue of the articles and bylaws (in particular major loans and loans to members of the Bank's governing bodies), issuing its approval where required.

In addition to examining recent developments, including Basle II and credit portfolio management, the Bank's risk exposure, especially its credit, liquidity, market price and participations risks, was a central topic of discussion, as was the status of commitments of the former Principal Finance unit. At the meeting on September 9, 2004, the Managing Board presented WestLB AG's credit risk strategy. This strategy was also discussed at the meeting of the Supervisory Board held on December 2, 2004.

The Mediation Committee did not meet in 2004.

Essential Features of the Compensation System for Managing Board Members

The responsibility for determining the compensation of the members of WestLB AG's Managing Board rests with the Supervisory Board's Executive Committee. In particular, the Executive Committee determines the salaries and other forms of compensation for Managing Board members, including pension commitments. Employment agreements detailing the remuneration have been executed with the members of the Managing Board. These contracts include a fixed compensation component and a variable component in the form of a year-end bonus. The fixed component includes non-cash compensation awarded in customary amounts. The amount of the individual bonus depends on a performance review, the chief focus of which is the attainment of business goals. The compensation paid in 2004 to active Managing Board members, as well as former Managing Board members and their survivors, is provided in the Notes to the annual accounts.

Audit and Adoption of the Single-Entity and Group Annual Accounts

At its meeting on February 17, 2005, the Supervisory Board looked at the preliminary data on the Bank's 2004 annual accounts. The Group annual accounts prepared by the Managing Board were discussed at a special Supervisory Board meeting held on March 23, 2005. In preparation for upcoming shareholders' meetings, the Supervisory Board also discussed dividend policy and the issue of hybrid Tier 1 capital at this meeting. Well in advance of the meeting held on May 18, 2005, Supervisory Board members received copies of the single-entity annual accounts and statement of financial condition prepared by the Managing Board for the Bank, the Group annual accounts and Group statement of financial condition, the external auditors' reports on the single-entity annual accounts and Group annual accounts, as well as the annual summary report prepared by Group Audit pursuant to the Minimum Requirements for the Internal Audit Function of Banks.

The Audit Committee discussed the external auditors' reports on the single-entity annual accounts and Group annual accounts at its meetings on March 23, 2005 and April 26, 2005. The external auditors, Ernst & Young AG, Wirtschaftsprüfungsgesellschaft, attended these meetings, as well as the Supervisory Board meeting held on May 18, 2005. The external auditors audited the single-entity annual accounts and statement of financial condition, as well as the Group annual accounts and Group statement of financial condition, for the fiscal year 2004. The annual accounts and statements of financial condition of WestLB AG and WestLB Group, as well as the bookkeeping on which they are based, received the external auditors' unqualified audit opinion.

The Supervisory Board and the Audit Committee formed from among its members examined the annual accounts and statements of financial condition and discussed in detail the reports of the external auditors on the results of their audit. Following the final result of the audit, they raised no objections. The Supervisory Board adopted the single-entity annual accounts and approved the Group annual accounts.

The Supervisory Board also examined and approved the report on relations with affiliated companies prepared by the Managing Board pursuant to § 312 of the German Stock Corporation Act (AktG) and took note of the external auditors' related report.

Based on their audits, the external auditors issued the following audit opinion:

" ...

Our audit resulted in no objections.

In our opinion, the annual accounts, in complying with standard accounting principles, present a true and fair view of the net assets, financial condition and earnings of the Company. The statement of financial condition adequately reflects the Company's situation and the risks inherent in its future development."

Corporate Governance Rules

WestLB AG adopted its own rules of corporate governance in August 2002 which are based on the provisions of the German Corporate Governance Code that apply to listed companies. The Managing Board and Supervisory Board of the Bank undertook a voluntary obligation in doing so which extends beyond what is required of them by law. The Supervisory Board, Managing Board and employees of the Bank support the corporate governance rules, which ensure that WestLB's operations are managed and supervised responsibly and in keeping with the principles of good corporate citizenship. A monitoring system created in 2003 ensures compliance with the corporate governance rules.

WestLB sees corporate governance as a dynamic process, which is why the Bank has adapted its rules to changes in national legislation in this area, including the introduction of a regular review of the Supervisory Board for efficiency. The first such review was conducted in 2004. The current version of WestLB AG's corporate governance rules can be accessed by going to the Bank's website at www.westlb.com (About us/Corporate Governance Rules).

WestLB AG complied with its corporate governance rules in full in 2004, with one exception: With respect to the remuneration of the Supervisory Board, the Shareholders' Meeting of May 13, 2004 set a fixed compensation (cf. II 2.4 of the Corporate Governance Rules).

The Supervisory Board thanks the Managing Board and all employees for the work they have done.

Düsseldorf/Münster, May 18, 2005



Chairman of the Supervisory Board
Dr. Rolf Gerlach

Financial Calendar

May 19, 2005	Annual Press Conference
August 11, 2005	Interim Report Jan. 1 – June 30, 2005
November 10, 2005	Interim Report Jan. 1 – Sept. 30, 2005

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Disclaimer

Reservation regarding forward-looking statements

This Financial Report contains forward-looking statements on our business and earnings performance, estimates, forecasts and expectations. The statements entail risks and uncertainties, as there are a variety of factors which influence our business and to a great extent lie beyond our sphere of influence. Above all, these include the economic situation, the state of the financial markets worldwide and possible loan losses. Actual results and developments may, therefore, diverge considerably from our current assumptions, which, for this reason, are valid only at the time of publication. We undertake no obligation to revise our forward-looking statements in the light of either new information or unexpected events.



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