WestLB

A Strong Partnership for Performance and Security.

Annual Accounts 2003

Key Figures

KEY FIGURES

in millions	WestLB Group 2003 €	WestLB Group 2002 €	WestLB AG 2003 €	WestLB AG 2002 €
Total assets	256,244	265,601	218,167	238,325
Business volume	365,242	396,916	291,481	328,056
Credit volume	234,446	261,342	207,039	243,038
Risk-weighted assets according to Principle I	135,294	155,182	82,512	102,598
Certificated liabilities	55,059	58,148	42,431	49,723
Deposits	176,215	182,594	152,474	165,939
Capital and reserves	11,004	12,861	10,143	11,852
Net interest income	1,891	1,540	1,548	1,286
Net commission income	438	692	338	439
Net income from trading operations	1	177	– 104	220
Personnel expenses	985	1,218	685	774
Other administrative expenses	843	1,056	825	902
Operating result before provision for risks	757	366	414	384
Risk provisions/result of evaluation	– 2,204	– 1,945	– 2,365	– 870
Profit/loss after taxes	– 1,897	– 1,730	– 2,320	– 610
Staff	7,738	9,621	4,952	5,547

BIS overall ratio	12.2%	10.1%	14.3%	10.7%
BIS core capital ratio	7.6%	5.8%	8.8%	6.0%
Overall ratio according to Principle I	12.5%	10.5%	14.6%	11.2%
Return on equity	– 37.3%	– 27.9%	– 51.4%	– 11.8%
Cost-income ratio	70.7%	86.1%	78.5%	81.4%

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

Annual Accounts 2003
WestLB AG, Düsseldorf/Münster

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We will be pleased to send you a copy of the WestLB Annual Report 2003 and Group Annual Accounts. The Annual Report is also available on the Internet at www.westlb.com.

WestLB AG Statement of Financial Condition
at December 31, 2003

Development in the Year under Review

Despite difficult market conditions in 2003, WestLB achieved a satisfactory operating result. The result before risk provisions and evaluation improved, increasing 7.9% to € 414.2 million. The positive growth in income was due in large part to a sharp rise in the interest result. Rigorous cost management led to considerable savings in personnel and operating expenses.

Shaped by substantial provisions for risks in the lending and equity investments business, the risk provisions/result of evaluation was a high € – 2,364.6 million in the year under review, compared to € – 869.5 million in 2002. The extraordinary result of € – 342.0 million is due almost exclusively to restructuring expenses. Overall, WestLB posted a net loss for the year of € 2,320.0 million.

Economic Setting

The steep rise in crude oil prices and widening reach and persistence of the bear market engendered by the Iraq conflict and looming war in the region plagued the world economy into the spring of 2003. The spread of SARS also impacted economic activity, particularly in South-East Asia.

Given the precarious state of the economy and disinflationary trends, the possibility of deflation started to weigh heavier on the minds of the financial markets. In response, central banks cut interest rates even further and yields on the capital markets fell, even if only temporarily, to historical lows.

Following a swift end to military combat in Iraq and the containment of SARS, the economic climate improved visibly around the globe. The wait-and-see attitude vanished, spending that had been put on hold was resumed, and the stock markets quickly broke free of their longest and most severe slump in post-war history. All in all, the buoyant forces in the world economy clearly regained the upper hand.

The U.S. was at the helm of the global upswing once again. Fuelled by the combined force of an unusually expansionary monetary and fiscal policy, demand and production rose sharply enough to cause average annual growth in the U.S. gross domestic product to rise to 3.1%, a gain of 0.9 percentage points over the year before, despite weak growth in the first few months of 2003. Of course, this “forced” expansion had its downside. The U.S. budget deficit and trade deficit continued to balloon, exerting pressure on the international monetary system.

South-East Asia also picked up considerable momentum after the SARS threat subsided. China positioned itself as a centre of growth in the region and won greater attention from the world economy because of its vitality and high absorptive capacity. Even in Japan, which was plagued by deflation in the year under review, the forces of growth still gained the upper hand.

In contrast to these developments, the German economy remained stagnate well into summer, as did the economies of numerous other Western European countries. It was not until the end of the year that any appreciable recovery took hold. Gross domestic product in Germany was down 0.1% from its 2002 level; GDP in the euro area was up a mere ½%.

Development in the Banking Sector

After a slew of difficult years with some massive losses, the European banking industry finally reached a turning point in the year under review. Operating results before risk provisions rose sharply; improvements in gross income were accompanied by declining costs and falling cost-income ratios.

In the German banking sector, there were concerted efforts to continue to reduce headcount. The cycle of rising operating costs – particularly in the area of IT – was broken. Developments on the markets for key capital market products turned positive again in 2003. Fostered by further drops in interest rates and brisk demand for corporate bonds, particularly solid growth was seen in the market for fixed income products in the first half of 2003. The earnings situation with stocks, particularly German stocks, also started to pick up as the year progressed, as did the margins with corporate clients, where considerable improvements were made. These positive trends notwithstanding, the favourable income growth at European banks with a substantial U.S. business is being overshadowed by the euro’s strength against the dollar.

Business Development

Cost management, portfolio realignment and establishing a new business model were the focus of attention for WestLB in the 2003 fiscal year. The three pillars of the 2005 business model are: concentrate the international business with large companies and financial institutions on Europe; expand business with medium-sized companies and financial institutions and with public-sector clients; expand business with the savings banks.

With its 2005 business model, WestLB has laid the groundwork for the Bank’s long-term competitive development. The model will ensure that the Bank has the capital base and profitability it needs to operate successfully in the market after the elimination of institutional and guarantor liability. It will also ensure a broadening of the Bank’s revenue base, most notably through an expansion of its business with medium-sized corporate clients and more intense use of the opportunities presented by its close relationship with the savings banks.

In addition to focusing its international business on Europe and concentrating on opportunities with medium-sized companies and the savings banks, WestLB is planning far-reaching measures aimed at strengthening its capital base and reducing costs. Additional cost savings in the areas of personnel and operating expenses will be achieved by the end of 2005. The number of employees in WestLB Group will be reduced to 6,200 by year-end 2005. The Bank also intends to step up its use of asset securitisation and loan syndication as a means of transferring more risk to the market and to review its equity investments in companies which are not part of the Bank’s core business. The overall goal is to increase WestLB’s core capital ratio by actively managing its risks.

WestLB has made considerable progress implementing its 2005 business model, particularly in the area of cost management. Costs were reduced by an additional € 165.9 million in the year under review; coupled with the cost-cutting measures realised in 2002, this represents total savings of € 385.1 million.

As part of streamlining its international operations, WestLB continued to review its worldwide branch network. The representative offices in Bangkok, Jakarta, Mumbai and Taipei were closed in 2003; the local markets there will now be served by the remaining offices in the region. WestLB also continued to restructure its South American operations; business in Argentina, previously handled by subsidiary Banque Européenne pour l'Amérique Latine (BEAL) S.A., will be handled in future by a representative office in Buenos Aires.

In addition to its registered office in Düsseldorf and Münster, WestLB maintains branch offices in Berlin, Cologne, Dortmund, Frankfurt am Main, Hamburg and Munich. Elsewhere in Europe, customers are served by branches in Istanbul, London, Madrid, Milan and Paris, while outside Europe there are branches in Hong Kong, New York, Singapore, Shanghai, Sydney, Tokyo and Toronto. There are also representative and sales offices in other major financial centres worldwide.

In the course of strengthening its market position in key businesses, WestLB continued to bundle its activities in the year under review, including its real estate activities. The Bank acquired the remaining shares of Westdeutsche ImmobilienBank (WIB), Mainz, from Landesbank Baden-Württemberg and Landesbank Rheinland-Pfalz and now holds 100% of the shares in WIB. All of real estate finance and the related advisory services are now bundled in WIB as a competence centre for real estate; the capital market-based products and services of WestLB will complement WIB's work.

WestLB streamlined its equities business to suit the new market conditions and realised substantial cost savings in the process. The core equities business, with its emphasis on large European companies and medium-sized German companies, and M&A consulting have been bundled into separate operating segments; that part of the equities business of subsidiary Panmure UK Ltd. which focused on small and medium-sized UK companies was sold at the beginning of 2004. The UK market continues to be served by the branch in London.

WestLB pressed ahead with restructuring its portfolio in the Principal Finance business unit in the 2003 fiscal year and successfully sold its stake in UK pub chain Pubmaster.

In the payments field, WestLB laid the groundwork for a pronounced strengthening of its market position. A memorandum of understanding was signed with DZ BANK AG, Frankfurt am Main, on cooperating in the area of domestic and international payment transactions. The intention is for WestLB to acquire a stake in Transaktionsinstitut der DZ BANK AG, and contribute its system for processing international payments to the joint venture.

As part of its 2005 business model, WestLB will significantly expand its business with the savings banks. After WestLB concluded a framework agreement on cooperation with the savings banks in 2002, the first Landesbank to do so, the collaborative efforts were intensified in the year under review, most notably in the area of refinancing. The refinancing base of the savings banks has been broadened, in large part through the work of WestLB Covered Bond Bank plc in Dublin. Founded in 2002, WestLB Covered Bond Bank specialises in the issue of Irish mortgage bonds (Pfandbriefe). WestLB has also prepared for greater collaboration with the savings banks in future by setting up specialist operating units – so-called “savings bank desks” – in all relevant business units. In addition, WestLB has launched joint customer acquisition initiatives with select savings banks in order to expand its medium-sized corporate customer base in the context of the 2005 business model.

EU Proceedings

The recent history of WestLB has been characterised not only by the challenges posed by the market, but also by the questions raised about the integration of the Wohnungsbauförderungsanstalt (Wfa), as well as about institutional 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 (NRW) 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 WestLB’s 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 Germany’s Federal Association of Private 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 filed appeals against the Commission’s decision with the European Courts, in which they argued that the Commission’s decision was not proper from a business standpoint or from the standpoint of the letter of the law and the laws on state aid. A number of analyses and reports from economic and tax experts supported their view.

The European Court held that the decision of the European Commission in 1999 was invalid, because the Commission failed to comply fully with its obligation to substantiate the 12% base rate of return and 1.5% risk premium it alleged should have been the basis of the remuneration for the Wfa capital.

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.

However, the Court also explained that it was not permitted to substitute its own economic analysis for the Commission's, and by doing so, afforded the Commission considerable leeway in the economic points of the matter at hand, points which are taken out of the realm of the Court's judgement as a result.

Therefore, it is to be expected that the Commission will follow the standard procedure in such cases and issue a new decision, since its original decision was overturned.

Elimination of Guarantor Liability and Institutional 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 to keep the market from suffering as a result, WestLB reached an out-of-court settlement with the Commission. The settlement provides for the continued existence 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 under 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 liabilities 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.

Environmental Protection Becomes Sustainability Management

By signing the United Nations Environment Programme's (UNEP's) Statement by Banks on the Environment and Sustainable Development in January 2002, one of the promises that WestLB made was to comply with all regional, national and international environmental requirements applicable to its business activities and services. By transforming its successful environmental management programme into a comprehensive system of sustainability management, WestLB is making good on its promise to promote sustainable development. WestLB's clear belief in sustainability has been summarised in Group-wide sustainability principles that build on the Guidelines for Environmentally Friendly and Sustainable Development adopted in 2000.

Effective Organisational Structures as the Basis for Sustainability Management

In order to implement the principle of sustainability in all Group areas effectively and with a view to the long term, WestLB decided to create an organisational basis for its sustainability programme. A Sustainability Management department is currently being formed which is deliberately separated from the Bank's client business and reports directly to the Chairman of the Managing Board. In this way, the department is designed to be a competence centre for decision-making and implementation that is both neutral and effective. The Sustainability Management department will assume the planning, management and supervision of all sustainability activities in the Bank and will also be responsible for further developing the Bank's sustainability strategy over time.

Sustainability in Finance

Sustainability criteria already factor into WestLB's strategy for managing credit risks and the process of assigning credit ratings to customers. In an effort to promote a sustainability standard in the area of project finance, WestLB worked with three other banks and the International Finance Corporation (IFC), a subsidiary of the World Bank, to develop what are known as the Equator Principles. WestLB officially adopted the Equator Principles in June 2003. In doing so, the Bank committed to provide financing for projects only if the borrowers meet certain environmental and social criteria. The principles are based on the existing guidelines of the World Bank and International Finance Corporation (IFC). Twenty banks have adopted the Equator Principles. In 2002, these adopting banks managed over 70% of world project finance volume.

Sustainability in Investment Products and Research

Sustainability is not just a topic for the lending and finance activities of WestLB. The Bank also offers its customers proprietary products and research on socially responsible and environmentally friendly investment strategies.

For example, as the first underwriter to do so, WestLB issued certificates in April 2002 which track the performance of the Dow Jones Euro STOXX℠ Sustainability Index. The index captures the leading European companies in terms of sustainability principles. In addition, the Pension Dynamic Fonds and KölnWerteFonds of WestLB Asset Management Kapitalanlagegesellschaft (WestAM) invest exclusively in stocks that are listed in the Dow Jones Euro STOXX℠ Sustainability Index.

The Bank's research analysts integrate sustainability into their company spotlights and, in special issue reports, investigate the impact of sustainability-relevant factors like climate change on companies, sectors and investor behaviour. WestLB also issues its own sustainability ratings for the companies listed in the Dow Jones STOXX 600. Several times each year WestLB holds conferences on topics directly linked to sustainability. In 2003, conference topics included climate change, tourism and automobiles.

Social Responsibility

To fulfil its social responsibilities, WestLB initiates and supports numerous projects, institutions and activities. These include commitments to the arts and culture, charities and sponsorships, as well as memberships in various organisations, development programmes and associations.

WestLB's ZUKUNFT NRW foundation (The Future of North Rhine-Westphalia) is spearheading efforts towards change, particularly those aimed at protecting the environment, as demonstrated in its AKWA 2100 project on finding alternatives to municipal water supply and sewage disposal.

Environmental Protection "at Work"

WestLB laid the groundwork for creating a comprehensive sustainability management programme when it created its environmental management system several years ago, a system which seeks to optimise environmental protection within the Bank. WestLB has regularly prepared environmental responsibility reports on its operations since 1997. These reports give an account of all of WestLB's environmentally relevant data, which are captured, documented and evaluated in accordance with uniform standards. In addition, business processes are measured on the basis of environmental factors and the results are used to set goals and develop measures aimed at reducing resource consumption within the Bank.

Paper consumption has been cut by more than half since 2000, and effective 2003 the Bank uses only recycled paper for internal purposes. The consumption of electricity, heat and drinking water has also been substantially reduced in recent years, as has the pollution by company cars. When the Bank's buildings are renovated, greater effort is made to install systems that preserve resources. For example, the use of radiant cooling ceilings, energy-saving light bulbs and optimised lighting schedules allows for continual improvement in consumption levels.

WestLB promotes environmental protection within its ranks by holding information and training seminars for employees.

Employees

Restructuring of WestLB Leads to Cutbacks and Reassignments

The business model adopted in 2003 mandated reducing headcount in WestLB Group to 6,200 by year-end 2005. Good progress was made in this regard in the year under review. Further cuts were realised as the headcount at domestic and international branch offices was reduced and responsibilities were concentrated in individual locations. Nevertheless, the reintegration into WestLB of entire subsidiaries or parts thereof offset some of the personnel cuts. Of particular note were the transfers of employees from WestEK Westdeutsche Einkaufskoordination GmbH and from parts of WestLB Panmure Ltd. Overall, the total number of employees at WestLB AG had dropped from 5,547 to 4,952 (10.7%) at December 31, 2003, with a drop of 345 at domestic branch offices (5.2%) and 250 at foreign branches (13.5%).

In making the necessary headcount cuts, WestLB uses innovative personnel tools which ensure that future reductions in its workforce will also be handled in a socially responsible manner. Employees are only terminated for compelling business reasons when the cuts made as part of the personnel strategy developed with employee representatives are not sufficient.

Job Training and Personnel Development

In order to offer its customers the high-quality financial products and services they have come to expect, WestLB relies on well-trained and highly motivated employees. The employees guarantee the Bank's ability to meet future challenges successfully. For these reasons, WestLB attaches great importance to job training and strategy-based training. In fiscal year 2003, training measures focused on cultivating and refining job skills, particularly specialist knowledge in innovative product fields. In addition, employees and management receive instruction on dealing with and managing change.

A Good Education Equals Solid Performance

Despite the current headcount reductions, WestLB depends on its ability to attract and hire young talent. Apprentices are a key factor in this regard. WestLB trained fewer new employees in 2003 compared to previous years as a result of the organisational demands of dividing the former Westdeutsche Landesbank Girozentrale. Nevertheless, there were still 120 employees (2002: 153) engaged in apprenticeship training or equivalent training at December 31, 2003.

To attract new talent, WestLB increasingly uses the new media. Potential applicants are invited to browse the career pages on WestLB's website. According to a study by a Swedish management consulting firm which examined the German career pages of 140 leading employers, WestLB ranked high among its direct competitors, placing first in a sector comparison.

WestLB offers young professional women additional opportunities to develop their careers, and has been dedicated to equal opportunity in the workplace for years. In 2003, the Bank expanded its efforts to promote equal opportunity and in mid-year joined a cross-mentoring programme that supports qualified women as they seek specialist and management positions. Cross-mentoring has gained in popularity over the last few years. With it the Bank can offer its female talent the opportunity to see how other companies and other corporate cultures function.

Equal opportunity is part of WestLB's overall programme to promote diversity at the workplace. By promoting diversity and recognising the wide array of talents stemming from the different ethnic and cultural backgrounds of our employees, WestLB seeks to foster the most in creativity, innovation and teamwork. The aim of the diversity programme is to create the best possible work environment for our employees, regardless of their sex, age, nationality, religion or culture. Issues that are tackled include work life balance, intercultural management and fairness at the workplace. WestLB regards openness, mutual respect and tolerance as prerequisites for creativity, successful teamwork and dedication, and thus as keys to increasing employees' willingness and ability to perform.

Performance-Based Compensation and Flexible Work Schedules

The Bank rewards good work with good pay. In doing so, it looks more and more to the marketplace for guidance on its compensation guidelines and factors in performance and results when deciding on employees' pay. The Bank has refined its compensation models and added new programmes, taking its current requirements into account. The goal of the new models is to keep top-performing employees motivated and ensure their long-term commitment to the Bank.

Flexible work scheduling has been a part of the Bank's culture for years. In 2003 a pilot test was run in a few select areas of the Bank on a system whereby employees are allowed to set their work schedules largely independently. The advantage of this model is the ability it affords employees to strike a balance between customer service, efficiency and personal interests.

Accounting Methods and Reporting Standards

The balance sheet and statement of income were prepared in accordance with the provisions of the German Commercial Code (HGB), German Stock Corporation Act (AktG), the Ordinance Regarding Accounting for Banks and Financial Services Institutions (RechKredV) and the applicable standards and opinions of Germany's Institute of Certified Public Accountants. In its risk report, WestLB is guided by accounting standards 5–10 of the German Accounting Standards Committee (GASC).

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. The member states were given the option of extending the deadline for application of the International Financial Reporting Standards (IFRS)/International Accounting Standards (IAS) to fiscal years beginning on or after January 1, 2007, for 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. According to the draft version of the Accounting Reform Act (Bilanzrechtsreformgesetz) (December 2003), the German Federal Government intends to adopt this option into national law.

In 2002, WestLB developed a comprehensive project for switching its Group accounting over to IFRS/IAS. The plan is to prepare the IFRS/IAS opening balance sheet for WestLB AG Group at January 1, 2005.

Statement of Income

WestLB reported an operating result before risk provisions of € 414.2 million in the year under review. For various reasons, most notably risk expense of € 2,364.6 million in the lending and equity investments business, WestLB posted a net loss for the year of € 2,320.0 million. Transfers from reserves, as well as a pro rata transfer from silent contributions, were used to offset the net loss. WestLB's profit participation capital is being serviced in accordance with the terms on which it was issued.

STATEMENT OF INCOME

	2003 € millions	2002 € millions	Changes € millions	 %
Net interest income	1,548.3	1,286.2	262.1	20.4
Net commission income	338.1	438.6	– 100.5	– 22.9
Net income from trading operations	– 104.2	219.7	– 323.9	> – 100.0
Personnel expenses	– 684.9	– 773.7	88.8	– 11.5
Other administrative expenses	– 825.3	– 902.4	77.1	– 8.5
Other operating expenses/income	142.2	115.6	26.6	23.0
Operating result before risk provisions/ result of evaluation	**414.2**	**384.0**	**30.2**	**7.9**
Risk provisions/result of evaluation	– 2,364.6	– 869.5	– 1,495.1	> 100.0
Operating result after risk provisions/ result of evaluation	**– 1,950.4**	**– 485.5**	**– 1,464.9**	**> 100.0**
Extraordinary result	– 342.0	– 65.3	– 276.7	> 100.0
Profit/loss for the year before taxes	**– 2,292.4**	**– 550.8**	**– 1,741.6**	**> 100.0**
Taxes on income and revenues	– 27.6	– 59.2	31.6	– 53.4
Profit/loss for the year after taxes	**– 2,320.0**	**– 610.0**	**– 1,710.0**	**> 100.0**

Net Interest Income

Net interest income was very satisfactory in the year under review, increasing by € 262.1 million to € 1,548.3 million. The main reason for the increase was a marked improvement in the result from money market and securities trading activities.

Net Commission Income

At € 338.1 million, net commission income is much lower than the previous year’s result of € 438.6 million. A more selective lending policy, particularly in the case of structured products, was the main factor behind this development.

Net Income from Trading Operations

Net income from trading operations was € – 104.2 million for the year. Though negative, the sales/evaluation result with interest rate products captured in this item should be regarded in close connection with the marked rise in net interest income, since substantial profit shares from money market and securities trading activities were reported in the interest result. The profitable marked-to-market result earned in interest rate trading and equities and equity derivatives trading is considerably higher than the result reported under the German Commercial Code (HGB); the use of German accounting principles had an adverse effect on the carrying value of the result.

Administrative Expenses

The cost-cutting measures introduced in previous years were systematically pursued in the year under review. Administrative expenses were reduced by a total of € 165.9 million to € 1,510.2 million in 2003.

Scheduled headcount cuts and fewer allocations to pension provisions were responsible for most of the 11.5% drop in personnel expenses, which stood at € 684.9 million for the year. At € 825.3 million, other administrative expenses were down € 77.1 million from a year earlier. Measures aimed at standardizing and coordinating IT architecture also helped reduce the cost basis in the year under review. Additional cost savings in IT can be expected in the years to come.

Other Operating Surplus

Other operating surplus rose 23.0% to € 142.2 million. Income resulting from the write-back of excess provisions and increased rental income from renewed building leases were the main factors behind this increase.

Risk Provisions/Result of Evaluation

The risk provisions/result of evaluation comprise the following line items from the form used to prepare WestLB AG's statement of income:

- Income from the release of the special item with partial reserve character
- Write-downs and other allowances for claims and certain securities, as well as allocations to provisions for credit risks
- Write-downs and other allowances for equity investments in affiliated companies, equity investments in non-affiliated companies and securities treated as fixed assets, as well as expenses resulting from the assumption of losses

When allowances and provisions are written back, the amount of the write-back is deducted from the corresponding risk expense in the lending and equity investments business.

Risk provisions and the result of evaluation increased by € 1,495.1 million to € 2,364.6 million as compared to the previous year.

RISK PROVISIONS/RESULT OF EVALUATION

	2003 € millions	2002 € millions	Changes € millions	%
Result of provisions for credit risks	– 1,098.3	– 1,881.9	783.6	– 41.6
Result of participations	– 1,208.2	1,106.7	– 2,314.9	> – 100.0
Result of securities	– 58.1	– 94.3	36.2	– 38.4
Risk provisions/result of evaluation	**– 2,364.6**	**– 869.5**	**– 1,495.1**	**> 100.0**

The result of provisions for credit risks stood at € – 1,098.3 million, an improvement of € 783.6 million over the year earlier. This development is tied to the objective set in the previous year of systematically realigning the risks in the lending business and covering the discernible risks in full. Weak economic activity, industry-specific risks and corporate scandals fuelled the need for greater risk provisions overall in 2003.

Increased write-downs on equity investments shaped the result of participations, which stood at € – 1,208.2 million for the year. Efforts to fully cover all risks were made here, too; all equity investments in listed companies were written down to their market values. All discernible risks with equity investments in non-listed companies were likewise taken into account.

At € – 58.1 million, the result of securities improved € 36.2 million over the previous year. Write-downs on North American bonds and German stocks held in the investment portfolio were the main items captured here.

Extraordinary Result

As part of the restructuring and personnel changes introduced in previous years, extraordinary expenses of € 345.8 million were incurred in the year under review. In addition to the costs associated with personnel restructuring measures scheduled for 2004/2005, this item includes one-time expenditures related to adapting the Bank's organisational structure.

The extraordinary income reflects the last instalment of € 3.8 million on the purchase price for the private banking business, which was sold in 2002.

Taxes on Income and Revenues

As a result of tax refunds and the development of earnings, the tax expense was only € 27.6 million in the year under review.

Segment Results

Profit is planned and managed on the basis of profit centre accounting at WestLB. For accounting and information purposes, the results of the various profit centres are combined into segments that represent the Bank's main businesses. Each segment incorporates a number of legal entities, which means that all major subsidiaries are captured. Since segment reporting would not be meaningful for the single-entity accounts of WestLB, the relevant segment information is discussed in the WestLB AG Group statement of financial condition.

Balance Sheet

WestLB's total assets declined in 2003. Portfolio realignment, the decline in the value of assets denominated in a foreign currency resulting from exchange rate movements and the transfer of real estate finance activities to WIB were the main factors driving this development.

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

ASSETS

	Dec. 31, 2003 € billions	Dec. 31, 2002 € billions	Changes € billions	 %
Cash, liquid debt issues and bills of exchange	16.7	10.4	6.3	60.6
Claims on banks	66.1	72.2	– 6.1	– 8.4
Claims on customers	67.7	81.1	– 13.4	– 16.5
Securities/Equalisation claims	51.2	59.0	– 7.8	– 13.2
Equity investments in affiliated and non-affiliated companies	8.9	8.7	0.2	2.3
Trust assets	0.5	0.5	0.0	0.0
Fixed assets	0.3	0.3	0.0	0.0
Other assets	6.8	6.1	0.7	11.5
Total assets	**218.2**	238.3	**– 20.1**	**– 8.4**

LIABILITIES

	Dec. 31, 2003 € millions	Dec. 31, 2002 € millions	Changes € millions	 %
Liabilities to banks	91.5	104.7	– 13.2	– 12.6
Liabilities to customers	61.0	61.2	– 0.2	– 0.3
Certificated liabilities	42.4	49.7	– 7.3	– 14.7
Trust liabilities	0.5	0.5	0.0	0.0
Other liabilities	12.6	10.3	2.3	22.3
Subordinated liabilities/ Profit participation capital	6.8	7.4	– 0.6	– 8.1
Equity capital/ Fund for general bank risks	3.4	4.5	– 1.1	– 24.4
Total liabilities	**218.2**	**238.3**	**– 20.1**	**– 8.4**
Contingent liabilities	11.9	14.8	– 2.9	– 19.6
Other commitments/Credit commitments	61.3	74.9	– 13.6	– 18.2
Administered funds	0.0	0.0	0.0	0.0
Business volume	**291.4**	**328.0**	**– 36.6**	**– 11.2**

Credit Volume

WestLB's credit volume stood at roughly € 214 billion at December 31, 2003, compared to € 250 billion at the end of 2002.

Additional measures aimed at systematic credit portfolio management were implemented in fiscal year 2003. These included a reduction in individual credit risks and sector risks through syndication and placements on the secondary market. Generally speaking, the measures focused on WestLB's international lending business.

In addition to its revised strategy, the lending business had to contend with uncertain economic conditions in 2003, which resulted in reduced activity in the corporate clients business in Germany and only a measured degree of new business abroad. In addition, adequate risk provisions had to be established for the risks in the lending business.

The decline of € 13.6 billion in irrevocable credit commitments is largely the result of business trends at the New York branch, which was providing fewer liquidity support lines for asset backed commercial paper programmes as of the balance sheet date. The credit default swaps of the investment portfolio captured under contingent liabilities were down € 0.8 billion to € 1.2 billion.

CREDIT VOLUME

	Dec. 31, 2003 € millions	Dec. 31, 2002 € millions	Changes € millions	%
Claims on banks	66,076	72,215	– 6,139	– 8.5
Claims on customers	67,693	81,141	– 13,448	– 16.6
Contingent liabilities	11,923	14,756	– 2,833	– 19.2
Irrevocable credit commitments	61,347	74,926	– 13,579	– 18.1
Credit volume carried on the balance sheet	**207,039**	**243,038**	**– 35,999**	**– 14.8**
Derivatives (credit risk equivalents)	6,892	7,342	– 450	– 6.1
Total credit volume	**213,931**	**250,380**	**– 36,449**	**– 14.6**

Securities Holdings

The total holdings of € 47.2 billion in bonds and other interest-bearing securities include money market instruments in the amount of € 1.8 billion, bonds in the amount of € 44.5 billion and own bonds in the amount of € 0.9 billion, which are held to keep prices stable. Most of the money market instruments are denominated in foreign currencies. Of the other bonds, a total of € 4.5 billion carry a variable interest rate.

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; 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 € 3.9 billion at December 31, 2003. Of that, the volume of shares in investment funds was nearly unchanged at € 2.6 billion. Most of the investment funds were established by Group companies and are mainly for own investment purposes.

Equity Investments in Affiliated and Non-Affiliated Companies

The carrying value of the equity investments in affiliated and non-affiliated companies totalled € 8.9 billion at December 31, 2003. This represents an increase of € 182.7 million over the previous year. The investees include banks, financial services institutions and other companies, the latter group consisting of major industrial companies as well as medium-sized enterprises.

With respect to equity investments in non-affiliated companies, additions included the acquisition of shares in Fraikin Groupe S.A., as well as a sizeable investment in Aurelis Real Estate GmbH & Co. KG (€ 99.7 million). Major retirements included the sale of shares in Hypo Real Estate Holding AG and the sale of the stake in IRP Holdings Ltd., Dublin.

Through its subsidiary WestLB Beteiligungsholding GmbH, WestLB holds 37.5% of the share capital of Landesbank Rheinland-Pfalz and 26.9% of the subscribed capital of HSH Nordbank AG.

In the year under review, WestLB AG increased the stake it holds in Klöckner & Co AG through West Logistics Gesellschaft für Logistikbeteiligungen mbH from 5.5% to 94.9%. Because the shares of Klöckner & Co AG are being held for the purpose of being sold, it was not included in the consolidated accounts.

As part of realigning its real estate business, WestLB purchased shares of WIB with a par value of € 96 million (purchase price € 184 million) from Landesbank Baden-Württemberg and Landesbank Rheinland-Pfalz, with retroactive effect to January 1, 2003. WIB's core capital was increased by € 250 million in the course of the year under review. After acquiring all of WIB's capital, WestLB's real estate finance activities are now bundled in WIB as the Bank's sole competence centre for real estate finance. As part of WestLB's new business model, WIB will serve as a specialist bank for real estate business. Increasing the stake in WIB was the prerequisite for this move.

Other additions to affiliated companies included WestLB Securities Pacific Ltd., whose capital base was increased.

Effective January 1, 2003, all shares in former subsidiary WPS WertpapierServicebank AG were sold to the Savings Banks and Giro Association of the Rhineland and the Savings Banks and Giro Association of Westphalia-Lippe.

A permanent impairment in the value of the aircraft fleet of American subsidiary Boullioun Aviation Services Inc. resulted in a special write-down on the book value of WestLB's equity investment in the company. In addition, a write-down to going concern value on the shares held in subsidiary WestLB Europe (UK) Holdings Ltd. was necessary as a result of the sale of WestLB Panmure Ltd. at the beginning of 2004. Sizeable write-downs were also taken on the Bank's holdings in listed companies. This had a negative impact on the values shown on the balance sheet.

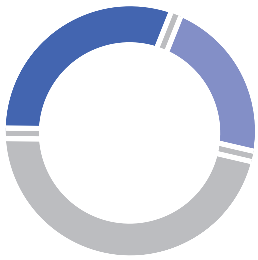
Customer and Bank Deposits

At € 91.5 billion, deposits from banks represent WestLB's largest source of refinancing. Customer deposits were at € 61.0 billion, which is at the level of the previous year.

Issuing Business

With an issuing volume of € 12.3 billion, WestLB enjoyed a strong presence on the domestic and international bond markets in 2003. The liquid benchmark bonds with maturities of five and ten years issued with WestLB as lead manager met with brisk demand in the domestic market and abroad and were placed on attractive terms. Also extremely successful was the placement of a junior bond of WestLB with a face value of € 300 million. WestLB also flexed its muscle

BREAKDOWN OF REFINANCING AT DECEMBER 31, 2003 (%)



on the international scene with a number of issues in other currencies as well, including USD, GBP, CHF, JPY, HKD, SKK (Slovak Korunas) and LVL (Latvian Lats). In 2003 WestLB bolstered its position in the structured issues segment, with convincing placements of a number of equity linked products, like the MOVE Bond and Top-7 Bond, which highlighted its expertise in the segment. Numerous structured interest rate and currency products, as well as private placements tailored to special investor needs, rounded out WestLB's issuing activity in the year under review.

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 AG well exceeded this equity capital ratio at all times in 2003.

The capital and reserves recognised for German banking regulatory purposes consist of liable equity capital (core capital and supplementary capital) and Tier III capital. For WestLB AG, these own funds totalled € 12,082.4 million at December 31, 2003. The breakdown of WestLB's eligible capital and reserves under the German Banking Act (KWG) is depicted in the following table. Both the data as at December 31, 2003, as well as after the transfer from reserves to offset the net loss for the year, are shown.

	WestLB AG Dec. 31, 2003 € millions after the result for the year	WestLB AG Dec. 31, 2003 € millions	WestLB AG Dec. 31, 2002 € millions
Core capital	**3,376.8**	**5,696.8**	**5,054.4**
Paid-in capital	950.5	950.5	950.5
Disclosed reserves	1,510.9	3,418.0	4,028.0
Asset contributions of silent partners	837.1	1,250.0	0.0
Special item for general bank risks under § 340 (g) of the German Commercial Code (HGB)	82.0	82.0	82.0
Intangible assets	– 3.7	– 3.7	– 6.1
Supplementary capital	**3,376.8**	**5,258.9**	**4,937.5**
Deductions from core capital and supplementary capital	**– 41.2**	**– 41.2**	**– 28.4**
Liable capital	**6,712.4**	**10,914.5**	**9,963.5**
Tier III capital	**1,641.8**	**1,167.9**	**1,803.8**
Total own funds	**8,354.2**	**12,082.4**	**11,767.3**
Unused Tier III capital	– 157.8	–	– 227.5
Own funds under § 2 (2) and (3) Principle I	**8,196.4**	**12,082.4**	**11,539.8**

At January 2, 2003, WestLB had taken in silent contributions of € 1,250.0 million. WestLB does not have to repay these silent contributions. Instead, they will be converted at a rate of 750% into capital and reserves over five annual instalments of € 250.0 million each. The conversion of the portion due on December 31, 2003 has already begun. After recording the capital increase in the Commercial Register, the capital will increase by € 33.3 million and the capital reserves by € 216.7 million. In the amount remaining after the conversion initiated on December 31, 2003 (i.e. € 1,000.0 million), the silent contributions shared 17.8%, or € 412.9 million, in the loss for the fiscal year.

The profit participation rights and subordinated liabilities of WestLB AG included in the capital and reserves for regulatory purposes satisfy the requirements of § 10 (5), (5 a) 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, 2003, by maturity and amount, of the supplementary capital eligible to be included in the capital ratio for regulatory purposes is as follows:

WESTLB AG BREAKDOWN BY MATURITY

Maturity Date	Profit Participation Capital Dec. 31, 2003 € millions	Subordinated Liabilities Dec. 31, 2003 € millions
2004	–	47.1
2005	92.0	160.1
2006	232.1	79.9
2007	495.3	287.3
2008	225.7	448.9
2009	620.2	1,193.9
2010	280.4	253.0
2011–2015	440.2	865.6
2016–2030	25.0	421.0
2031–2040	–	199.7
2041–2050	–	59.8
Total	**2,410.9**	**4,016.3**

Based on the capital and reserves recognised for regulatory purposes, the following Principle I ratios were determined at December 31, 2003:

RISK-WEIGHTED ASSETS AND EQUITY CAPITAL RATIO PURSUANT TO KWG

	WestLB AG Dec. 31, 2003 € millions after the result for the year	WestLB AG Dec. 31, 2003 € millions	WestLB AG Dec. 31, 2002 € millions
Risk-weighted assets of the investment book	56,542	56,542	75,014
12.5 x the relevant amount for market risk positions	25,970	25,970	27,584
Total	**82,512**	**82,512**	**102,598**
Equity capital ratio	11.9	19.3	13.3
Overall ratio	9.9	14.6	11.2
Core capital ratio	4.9	9.0	5.9

Unlike the BIS ratio, Principle I only recognises an implicit core capital ratio. The Principle I ratio is calculated for costing purposes 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 (Basle I) are as follows:

RISK-WEIGHTED ASSETS AND EQUITY CAPITAL RATIO PURSUANT TO BASLE I

	WestLB AG Dec. 31, 2003 € millions after the result for the year	WestLB AG Dec. 31, 2003 € millions	WestLB AG Dec. 31, 2002 € millions
Risk-weighted assets of the investment book	64,573	64,573	84,476
12.5 x the relevant amount for market risk positions	19,238	19,238	20,350
Total	**83,811**	**83,811**	**104,826**
Overall ratio	9.4	14.3	10.7
Core capital ratio	5.2	8.8	6.0

WestLB tracked the continued development of the capital adequacy recommendations currently followed by internationally operating banks (Basle I) throughout the year under review 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 began implementing the capital adequacy recommendations contained therein in 2002 with a series of coordinated efforts and projects (including, most notably, the creation of a database of credit ratings and collateral, the determination of the risk parameters as required under Basle II, the ascertainment of operational risks, market discipline and the updating of IT systems). By starting early, the Bank has given itself the time it needs to archive data and to meet the new accord’s deadlines. Much has been accomplished in the way of a ratings database and ascertainment of operational risks. Use of the internal rating procedures already developed for a large part of the Bank’s loan portfolio has been mandatory since the beginning of 2004. To ascertain the operational risks, an Intranet-based platform has been established for keeping an up-to-date log of loss events, as required by the regulatory authorities. The options Basle II provides allow full use of the risk-reducing effects of collateral, provided certain risk parameters – exposure at default, loss given default – are determined on the basis of sufficiently long data histories (several years) and incorporated into the internal risk management system. The work on determining these parameters, as well as on a computerised system for capturing the relevant collateral electronically, should be complete in the first half of 2004.

Statement on Subordinate Status Report

Landesbank NRW holds 100% of the shares of WestLB AG.

Accordingly, the Managing Board of WestLB AG has issued the following statement pursuant to § 312 (3) of the German Stock Corporation Act (AktG):

"Based on circumstances known to the Managing Board at the time transactions were entered into with affiliated companies, the Company received adequate consideration for each such transaction. There were no measures that the Company took, or refrained from taking, in the year under review upon the instructions or in the interests of companies affiliated with it."

Risk Report

Integrated Bank-Wide Risk Management

Risk is a permanent part of banking. Banks accept risks knowingly with the goal of generating income. It is a fundamental principle of WestLB's business policy to approach such risks responsibly and with an eye towards returns. WestLB's risk management is based on the risk profile approved by the Bank's decision makers. In order to provide adequate risk management, risks must be identified, uniformly measured and continually monitored.

Organisation

The Bank's risk management structure is centralised, both from an institutional and organisational perspective. The Supervisory Board determines the Bank's risk profile and sets the framework for risk management. Its Risk Committee regularly verifies that the Bank is on course with the targets, standards and quality of the various risk categories. The Managing Board analyses the risk-return position at least once every two weeks, paying close attention to solvency and liquidity, as well as to the adherence to limits. In managing risks, the Bank's decision makers are supported by an independent Risk Management department which reports directly to the Managing Board and is responsible for measuring, monitoring and managing the various risk categories. This department is now headed by the Managing Board's Chief Risk Officer (CRO).

The Risk Management Support & Control (RMS&C) unit is in charge of developing the methods for the Bank's risk management, as well as performing the measurements used for risk-return management and for analysing how much risk the Bank can bear. Using these methods and measures as a basis, RMS&C offers integrated reporting on all risk categories, including an analysis of the loan portfolio. In the year under review, operational risk controlling was also added to the tasks of RMS&C.

As before, RMS&C is responsible for independently managing the risks (market price risks, risks of interest rate movements) in the trading and investment portfolios, as well as managing the counterparty default risks in the trading business and introducing new products into the trading business. By using the instruments developed for these tasks and relying on its decentralised presence, RMS&C is a vital part of overall Bank-wide risk management.

The regional loan departments (Germany/Europe, America, Asia/Pacific) and Global Specialised Finance – Transaction Management are responsible for the operating functions of the lending business (back office work). This includes analysing the risks associated with each commitment (giving approvals and issuing ratings), as well as monitoring adherence to the limits that have been set.

The Central Credit Management (CCM) unit has overall responsibility for managing the Bank's worldwide counterparty default and country risk in the lending business. This includes:

- developing methods and setting Bank-wide lending standards,
- implementing the guidelines set by regulatory authorities,
- managing selected individual exposures through final loan approval or through helping the loan departments make a decision on approval,
- active loan portfolio management.

The Asset & Liability Committee (ALCO) manages the Bank's assets and liabilities structure, as well as its liquidity risk and the risk of interest rate movements. The members of the Managing Board responsible for the Bank's client business and risk management are part of the Asset & Liability Committee. The Capital & Mismatch Management (CMM) unit is responsible for implementing the measures resolved by ALCO. Global Financial Markets (GFM) is responsible for the daily management of the liquidity risk.

Routine management of participation risks is the responsibility of the Equity Investments business group.

The appropriateness and effectiveness of the risk management overall is constantly monitored by the Group Auditing unit. As an independent supervisory entity, the auditing unit 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.

Risk Measurement and Management

Individual risks are measured using a variety of methods, each tailored to the requirements of the respective risk category. The methods themselves are part of a larger system encompassing all products and business units which is used to determine the Bank's economic capital. Economic capital represents the security buffer required by the Bank at any given time to cover unanticipated losses from its current commitments. Unlike regulatory capital, which is largely geared towards investor protection, economic capital helps the Bank gauge its own risk tolerance. Using economic capital as its starting point, the Bank can work on reducing its risk profile by, for example, systematically diversifying and spreading its risks across products, sectors, regions and activities. Thus, economic capital is a far more appropriate standard for the Bank's risk management than regulatory capital.

To arrive at a figure for economic capital, the Bank takes the value-at-risk (VaR) approach. VaR is used to estimate the potential future losses of a given portfolio which will not be exceeded with a given likelihood within a specified period of time.

Economic capital is calculated for counterparty default, participation, market price, operational and business risks. The Bank uses a loan portfolio model to determine its counterparty default risk that represents an extension of the CreditRisk+™ model widely used in banking. Within this loan portfolio model, counterparty default risk is determined by taking the credit standing of the borrowers and any clusters in the portfolio into account. This process is crucial in understanding how to achieve the appropriate level of diversification and granularity among counterparty default risks. This approach is a useful tool in optimising the portfolio and managing cluster risks.

The Asset Liability Management (ALM) unit and individual trading units deploy VaR on the basis of a Monte Carlo simulation technique. VaR is also used for measuring operational risks.

The economic capital determined by using VaR creates the foundation for risk-return management and for comparing the Bank's risk to its risk coverage. The goal of risk-return management is to determine the most optimal allocation of the Bank's available economic capital among the business units that are generating sufficient returns for the risks taken. With this goal in mind, economic capital was integrated into the Bank's budget process for the first time in the year under review. It represents a key piece of information that the Managing Board can use to manage the Bank and implement strategy.

In addition, the use of uniform risk ratios makes it easier to compare the different risk categories within the context of the Bank's overall documented exposure. This documented exposure is complemented by the concentration of reporting in RMS&C. When RMS&C issues a report, that report provides an up-to-the-minute view of the Bank's risk exposure and how it came to be, and also serves as the basis for decisions on what, if any, countermeasures need to be taken. Such reports also discuss the progress made implementing specific risk management measures.

All of these factors make reporting a vital tool for supporting and monitoring the Bank's risk strategy.

Counterparty Default Risks

The framework for managing all counterparty default risks and for the loan portfolio was the credit risk strategy that the Managing Board adopted in 2003. Binding throughout the Bank, this strategy sets out in detail the criteria and terms of the risk policy and the guidelines for assuming credit risks. The Minimum Requirements for the Lending Activities of Banks, or MaK, served as the basis for the strategy. In light of how much risk could be borne, limits were set to prevent sector clusters and clusters based on loan volume. Each year, the entire Managing Board will review the credit risk strategy of the previous year and adopt a revised strategy.

Managing Individual Risks

The two pillars of risk management at the individual commitment level are the credit approval process and the ongoing monitoring process. Each credit approval takes into consideration the total commitments which an individual borrower, or, if applicable, a group of companies, has with the WestLB Banking Group. The borrower's creditworthiness and the risk of the transaction or item of property are analysed and documented in a credit application file prepared by the relevant loan or special finance department. The risk evaluation gives rise to an internal rating that plays a significant role in the remaining credit approval process, as well as in risk-return and portfolio management. Depending on the magnitude of the borrower's total commitments and the credit rating awarded, joint credit approval competence is delegated to the relevant customer and lending units or, in the case of special finance, to Global Specialised Finance and CCM. Credit applications that fall outside of certain parameters are reviewed by CCM. CCM gives an opinion on these applications and then passes them on to the Managing Board for a decision.

The foundation of the ongoing monitoring process is the credit monitoring file prepared at least once a year on each individual borrower. Like the credit application file created in the application phase, the credit monitoring file includes a review of the borrower's creditworthiness, as well as a review of the borrower's credit rating and collateral.

In 2003, the Bank added to its risk management processes a Group-wide database that serves as a unified watchlist. If a loan threatens to become non-performing because of the worsening situation of a borrower, that loan is added to the WestLB Global Watchlist (WGW) and subject to closer scrutiny and support. Thus, as a tool for planning and monitoring the implementation of countermeasures, the watchlist serves the risk reporting needs of the Group and also plays a central role in determining where allowances for doubtful accounts need to be taken.

Problem cases are earmarked for closer monitoring and generally transferred to CCM. The goal is to limit the Bank's potential losses by formulating restructuring strategies in a timely manner.

As part of regular reporting, a quarterly report is prepared for the Managing Board which looks at current risk developments in order to portray the Bank's needs for risk protection and recommend allowances for specific credit risks. When deciding on the amount of specific allowances in light of the risks posed, the following steps are taken:

- analyse the borrower's anticipated cash flows in order to determine its future solvency,
- value the borrower's net assets in order to estimate the anticipated proceeds of liquidating existing collateral and,
- if applicable, find out what prices credit default swaps or loans of the borrower are getting on the secondary market.

In addition to the recommendations for the last quarter, a year-end summary of the recommendations made throughout the year is prepared by the loan departments, CCM, Group Auditing and Group Finance. The Managing Board uses this report as a basis for determining allocations to the risk provisions.

Portfolio Management

The structure of the loan portfolio is regularly reviewed in order to ensure its compatibility with the risk policy defined by the Managing Board.

Central responsibility for credit risk management has been delegated to the Credit Portfolio Committee (CPC), a committee consisting of Managing Board members and chaired by the Chief Risk Officer. The Portfolio Management department prepares the CPC's regular meetings, recommends measures and ensures implementation of the CPC's resolutions. CPC's management of credit risk positions is a higher-order management that takes the whole Bank and the entire loan portfolio into consideration.

In the year under review, its first in existence, the Portfolio Management department successfully implemented active management measures in the loan portfolio. In addition to managing Bank-wide clusters, the bulk of the measures focused on the traditional lending business. Active portfolio management involves increasing profitability, but also involves actively reducing credit risk, most notably by controlling risk clusters (be they at the individual borrower, sector or country level).

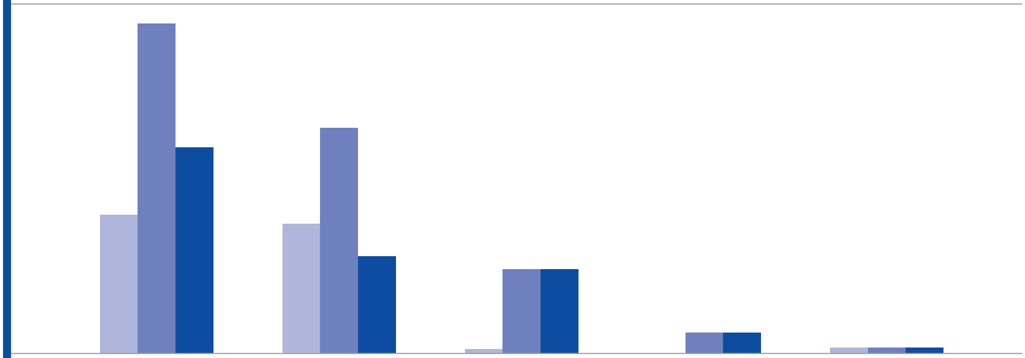
Global measures implemented by Portfolio Management in 2003 included:

- setting additional sector limits and formulating sector strategies
- reducing individual cluster risks
- reducing the number of unprofitable loans
- increasing the core capital ratio by reducing risk-weighted assets and
- managing country clusters

These goals were reached through rigorous management of new lendings, as well as comprehensive sell-off and collateralisation measures. The Portfolio Management department will continue to systematically expand its activities. At the end of 2003, the first synthetic securitisation was structured and successfully placed. It involved transferring to the market the default risk on a € 2 billion portfolio of loans to companies in Europe, America and Asia. In years past, WestLB had demonstrated its success at securitizing mortgage loans and placing the resulting mortgage bonds (Pfandbriefe) on the market.

Credit Commitments

BREAKDOWN BY RISK TYPE AT DECEMBER 31, 2003



	Total Portfolio	Credit Risk	Issuer Risk	Pre-Settlement Risk	Other Risks
■	151,320	142,457	4,390	0	4,473
■	363,058	245,343	92,500	20,643	4,573
■	225,064	107,370	92,500	20,643	4,551

■ External lines at Dec. 31, 2003
■ Total lines at Dec. 31, 2003
■ Amounts utilised at Dec. 31, 2003

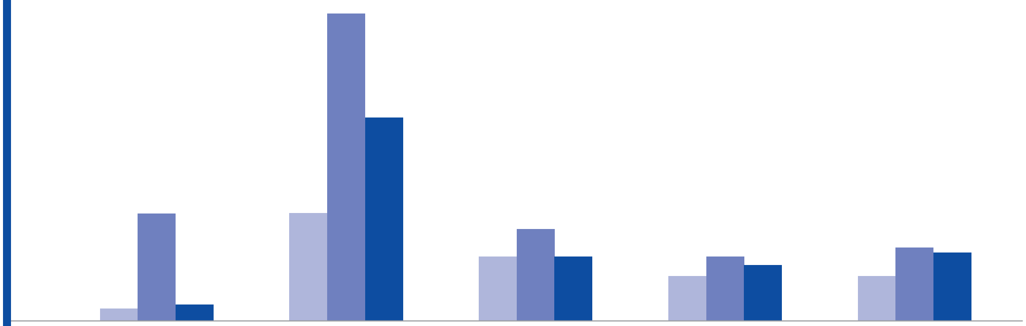
The majority of WestLB Group's counterparty default risks are credit risks and issuer risks. For the most part, credit risks are posed by lendings in the money market, the traditional lending business, as well as special finance and construction and project finance. Of the issuer risks, half come from the trading book. With respect to the investment book, governments and banks are the largest issuers. For issuer and pre-settlement risks, the total credit lines are shown at the amounts at which they have been utilised. The category Other Risks mostly includes participation risks vis-à-vis third parties.

BREAKDOWN BY RATING PROCEDURE APPLIED

Rating Procedure Applied	External Lines Dec. 31, 2003 € millions	%	Total Lines Dec. 31, 2003 € millions	%	Amounts utilised Dec. 31, 2003 € millions	%
Companies	40,562	26.8	57,086	15.7	31,253	13.9
Banks	9,946	6.5	118,466	32.6	64,010	28.4
Governments/Central banks	1,079	0.7	39,215	10.8	38,240	17.0
Central, regional and local authorities	11,379	7.5	20,738	5.7	13,105	5.8
Project finance cash flow	10,511	7.0	10,889	3.0	7,238	3.2
Asset backed transactions	21,154	14.0	28,697	7.9	6,448	2.9
WIB	20,359	13.5	22,288	6.2	20,795	9.2
Other	36,330	24.0	65,679	18.1	43,975	19.6
Total	**151,320**	**100.0**	**363,058**	**100.0**	**225,064**	**100.0**

The above table shows (with the exception of WIB) the breakdown of the entire portfolio by internal rating method used and also provides a summary of how the portfolio is divided among customer groups and transaction types. Governments/Central banks, banks, and central, regional and local authorities, the vast majority of which have good credit ratings, account for a good half of the credit line amounts utilised. The category "Other", in addition to capturing those commitments (e.g. to private clients, other financial institutions, insurance companies) which are rated using a procedure other than the ones for the major customer and product groups, also captures commitments for which a rating procedure has been devised, but not yet technically implemented.

BREAKDOWN BY MATURITY



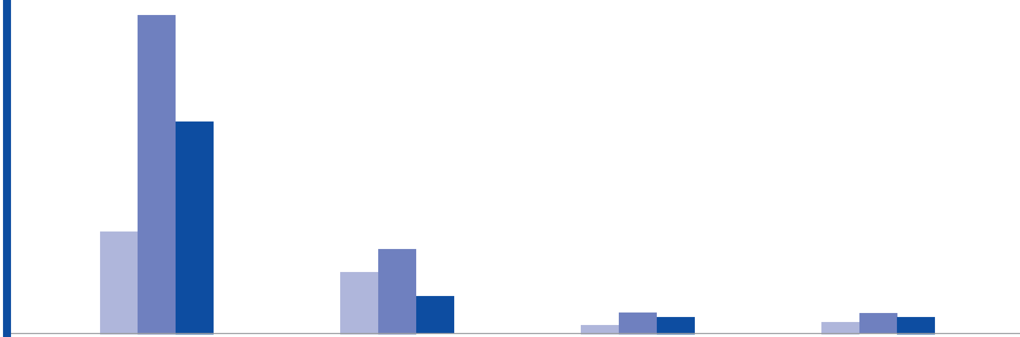
	u. f. n.	up to 1 year	1 to 4 years	4 to 8 years	> 8 years
■	6,624	61,256	35,366	22,727	25,347
■	61,204	173,886	51,419	35,808	40,741
■	8,961	114,244	35,445	29,450	36,964

€ millions

- External lines at Dec. 31, 2003: 151,320
- Total lines at Dec. 31, 2003: 363,058
- Amounts utilised at Dec. 31, 2003: 225,064

The majority of commitments are short-term commitments of up to 1 year (55% of the amounts utilised). The high total lines associated with the maturity range "u. f. n." ("until further notice"), as compared to the amounts utilised/external lines, is due to the available balances on general lines of credit extended to other banks within the Group.

BREAKDOWN BY REGION



	Industrial Europe	Industrial America	Industrial Asia	Emerging Markets
■	84,748	50,394	6,590	9,588
■	261,387	69,883	15,677	16,111
■	173,796	27,717	11,913	11,638

€ millions

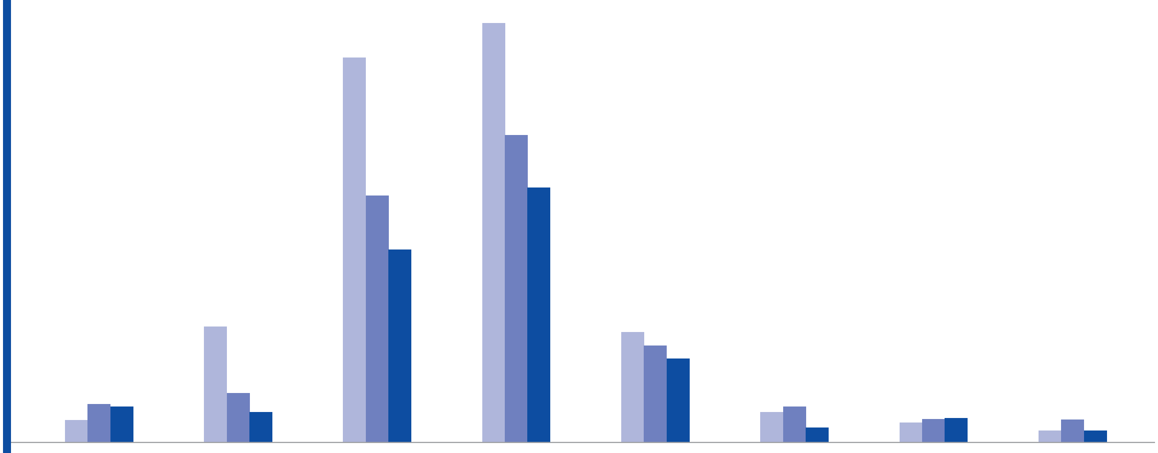
- External lines at Dec. 31, 2003: 151,320
- Total lines at Dec. 31, 2003: 363,058
- Amounts utilised at Dec. 31, 2003: 225,064

The regional emphasis of the overall portfolio is on European industrialised nations, which account for 77% of the total amounts utilised. More than one-third (39%) of the total amounts utilised is attributable to Germany. Emerging market (EM) countries account for roughly 4.4% of the total lines (2.5% EM America, 1.4% EM Central Europe, 0.5% EM Asia). The exposure within the EM countries is mainly in the financial services sector (incl. central banks) and in unitary states.

Ratings Breakdown in Corporate Clients/Commercial Real Estate Finance

Fiscal year 2003 was characterised by the persistence of the global economic downswing. It continued to affect how ratings were distributed within the corporate clients and banks portfolios.

RATINGS BREAKDOWN IN CORPORATE CLIENTS/COMMERCIAL REAL ESTATE FINANCE AT DECEMBER 31, 2001, 2002 AND 2003, RESPECTIVELY, ON THE BASIS OF EXTERNAL LINES



	1	2	3	3/4	4	4/5	5	6
Dec. 31, 2001	1,539	7,132	23,298	25,373	6,768	2,146	1,527	988
Dec. 31, 2002	2,627	3,157	14,969	18,649	6,079	2,477	1,617	1,597
Dec. 31, 2003	2,504	1,997	11,879	15,543	5,252	1,221	1,683	981

Dec. 31, 2001
Dec. 31, 2002
Dec. 31, 2003

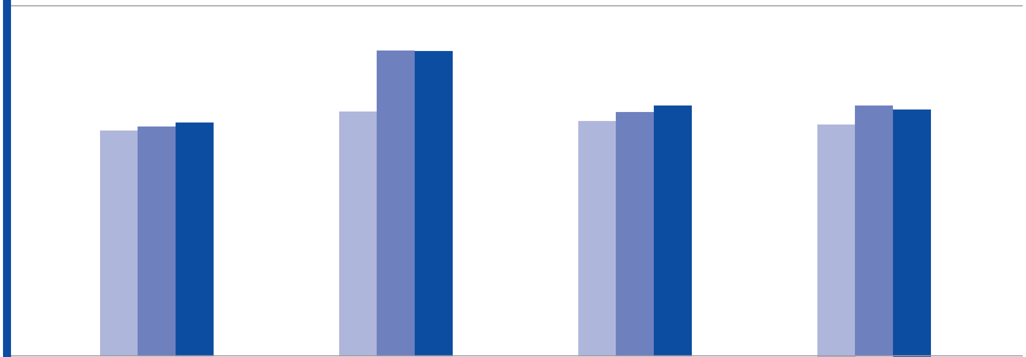
€ millions

As was the case in previous years, most of the customers in WestLB's corporate clients portfolio are rated 3 or 3/4. The conspicuous decline in the amount of the lines is partly due to the transfer of construction finance transactions to Westdeutsche ImmobilienBank, whose business is not reflected in the above chart. In addition, portfolio realignment and exchange rate effects – most notably the strength of the euro against the dollar – resulted in lower credit line limits.

Average Ratings in Corporate Clients/Commercial Real Estate Finance

The drop in the average rating in the America portfolio in the previous year was chiefly because of the crisis in South America and other economic influences.

AVERAGE RATINGS IN CORPORATE CLIENTS/COMMERCIAL REAL ESTATE FINANCE AT YEAR-END 2001, 2002 AND 2003, BASED ON AMOUNTS UTILISED



	Europe	America	Asia	Total
■	3.67	3.98	3.81	3.77
■	3.73	4.97	3.94	4.05
■	3.78	4.96	4.08	4.01

■ Dec. 31, 2001
■ Dec. 31, 2002
■ Dec. 31, 2003

The average rating across all three sub-portfolios at year-end 2003 was 4.01, which corresponds to a credit rating of 3/4.

Risk Provisions/Result of Evaluation

The amount reported in risk provisions/result of evaluation under the result of provisions for credit risks encompasses the P&L effects resulting from the evaluation of acute and latent counterparty default risks:

RISK PROVISIONS/RESULT OF EVALUATION – LENDING BUSINESS

	Allocations to Allowances € millions	Write-Backs from Allowances € millions	Net Allowances € millions	Other Risk Exp./Income € millions	Risk Result € millions
Acute counterparty default risk	**– 1,060.7**	**244.6**	**– 816.1**	**– 116.3**	**– 932.4**
Credit rating risk	– 991.8	113.9	– 877.9	– 124.6	– 1,002.5
Country risk	– 68.9	130.7	61.8		61.8
Other risk				8.3	8.3
Latent counterparty default risk	**– 178.6**	**12.7**	**– 165.9**		**– 165.9**
	– 1,239.3	**257.3**	**– 982.0**	**– 116.3**	**– 1,098.3**

The allocations to risk provisions are also discussed in the section on the Statement of Income.

Country Risk

The Bank 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 general economy or the political situation in the borrower's home country. Based on this definition, any credit granted by WestLB that is not denominated in the borrower's home currency faces a potential country risk and should be included in the country exposure list.

When determining the credit volumes subject to a country risk, WestLB goes well beyond the classical transfer risk. When assigning risk to a country, the Bank not only takes the borrower's country of residence into account; the country risk of the borrower's ultimate parent company, the providers of collateral and any other guarantors is also considered.

The data found in the country risk recording system CORESY is used to analyse the credit volume affected by a particular country risk. Commitments are assigned to a specific country in accordance with the CORESY report. When determining the credit volume to be analysed, finance projects that are of special importance to the country (co-finance packages with supranational institutions, short-term trade finance for the import of food, etc.) and those that are backed by political/moratorium guarantees are excluded. Lines/disbursements that have not been drawn upon are also excluded, as are trade portfolios for which the country risk was considered when the portfolio was marked to market. When determining the amount to allocate to the provisions for country risks, standard bad loan charge ratios are used.

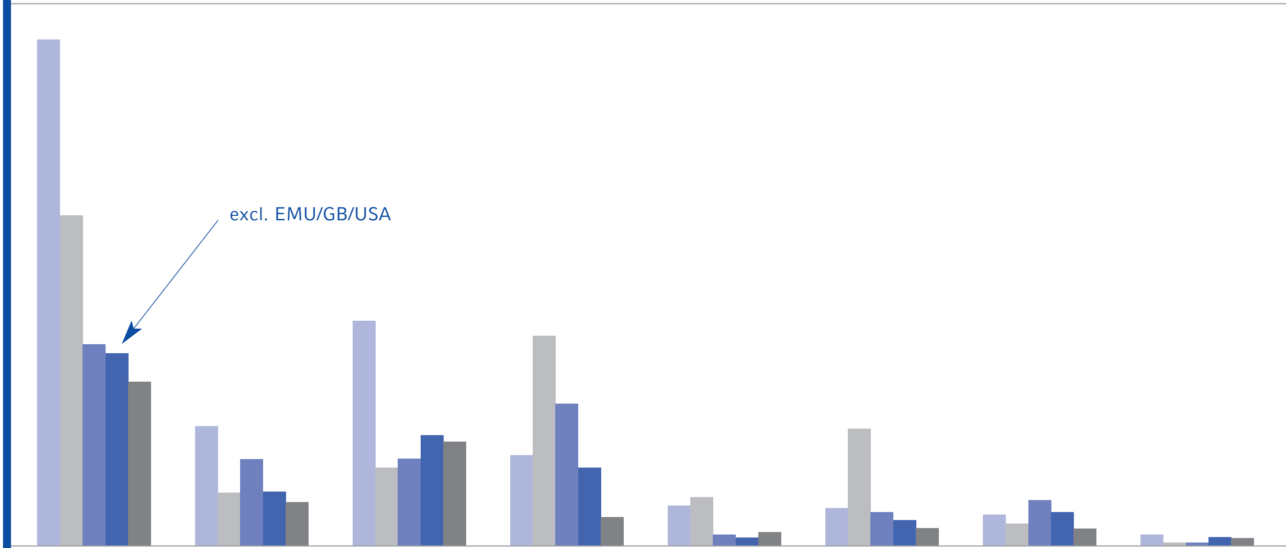
The Bank's Economics Department assigns internal ratings to all relevant countries, which are reviewed at regular intervals. Numerical country limits are determined on the basis of the country rating, the country's size, as reflected in its gross domestic product, as well as the Bank's risk-bearing potential. Depending on the rating category, the country limits are divided on the basis of fixed ratios into limits for short-term business and limits for long-term business.

The Country Limit Committee is in charge of centralised country limit management. In addition to determining the scale of the limits, the Country Limit Committee handles questions related to the methodologies and procedures of country risk management. The final decision on country limits rests with the Managing Board, which works on the basis of the Country Limit Committee's recommendations. CCM continually monitors the usage of limits for non-trading products and reports its findings to the Managing Board and the Risk Committee. RMS&C monitors and reports on trading products.

The use of individual country limits is managed by the regional client business units. Their country managers work with the individual product units to determine how much of a country's overall limit is needed and used.

The country managers also control the distribution of resources among the various product units from a risk-return point of view.

USAGE OF COUNTRY LIMITS BY RATING CATEGORY



A Countries	B1	B2	B3	B3/C1	C1	C2	C3
18,230	4,248	8,041	3,261	1,337	1,272	1,107	370
12,065	1,976	2,951	7,728	1,810	4,352	856	49
7,337	3,240	3,151	5,241	446	1,391	1,700	32
7,048	2,058	4,054	2,952	409	1,062	1,355	382
6,018	1,670	3,840	1,097	601	786	681	235

Group CL current
Usage Dec. 31, 2000
Usage Dec. 31, 2001
Usage Dec. 31, 2002
Usage Dec. 31, 2003

€ millions

In 2003 the Bank continued its policy of systematically reducing its commitments in countries with poor ratings.

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. The controlling and management activities undertaken to counteract the risk of default in the trading business require a wide array of tools and consolidation into one uniform process. The individual steps are as follows:

The correct measurement and modelling of the counterparty default and country risks forms the basis. The aim is to develop customer-specific and type-specific risk profiles over the life of transactions by taking into account the unique aspects of a given product. With derivatives based on interest rates, the Banks uses a Monte Carlo-based portfolio simulation method.

The RMS&C unit incorporates the exposures into the relevant limits every day. Thus, the Group has a central record of all counterparty and issuer limits in trading, which ensures uniform and up-to-the-minute risk monitoring.

The responsible decision makers determine all counterparty and country risk limits in the trading business using the Group-wide credit processing mechanisms. Limit compliance is checked daily. Once it has been determined that a limit has been exceeded, the trading unit issues an opinion and the Managing Board members responsible for the RMS&C unit and for the trading units are informed. In addition, standard reports regularly report on how close active operations are coming to the limits set.

Issuer limits for short-term liquid positions in the trading units are generated by RMS&C, on the basis of a ratings-dependent matrix determined by the Managing Board, and monitored daily. In its work, RMS&C relies on up-to-the-minute market information so that it can ensure proactive and timely risk management in this segment. The goal is to make greater use of the information which is available in the market on ratings changes, credit spreads and liquidity changes to determine what, if any, immediate action to take. This market-informed style of limit management is also part of the lending process and the monitoring of limits on large-scale commitments.

In order to reduce the counterparty risks in the derivatives business, the Bank systematically works with collateral agreements. Specifically, it uses the standard master agreements available on the market, which provide for close-out netting and the provision of security. Collateral management (which generally takes the form of daily margins calls by the Group Operations unit) is taken into account by RMS&C as part of the Bank-wide management of counterparty default risks.

The legal and operational requirements for recognising this type of risk reduction are defined within the Bank by the Netting Committee. The substantial amount of legal documentation that is required also helps with measuring the Principle I capital ratios for counterparty risks. Internal risk management and reporting to external parties both make use of information that is contained in a Bank-wide legal database.

In addition to monitoring the risks posed by individual customers, RMS&C supports the management of counterparty default risk in the Bank's overall portfolio by analysing and quantifying the risks from trading operations, which are then incorporated into the relevant modelling.

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

To the extent a specific rating procedure exists for the relevant customer and product groups, the loan and product units determine an internal rating for each customer.

Ratings are given as part of the approval process for new loans, as well as part of the regular monitoring of existing loans, and are based on the up-to-the-minute risks analyses performed. The risk analyses incorporate quantitative and qualitative elements that are determined on the basis of a pre-set system.

The individual credit rating determined reflects a standardised default probability for each customer that forms the basis of the Bank's risk pricing and loan portfolio analysis.

The Bank has had an internal rating system in place for more than 14 years for corporate clients that are grouped into one of its major portfolios. Other rating systems have been added over the years. As of December 31, 2003, 78% of the Group's credit line volume (excluding WIB) was being rated internally.

Given the requirements that are expected to emerge from the Basle II Accord, the Bank intends to add rating systems for additional client portfolios and special portfolios, as well as to revamp existing systems and test them for compliance with Basle II. The first of these new and revamped systems were introduced in the middle of 2003. The remaining systems will be introduced gradually over the course of 2004. All internal and external rating data will be stored in a central ratings database, thus providing a comprehensive and uniform basis for all ratings data required under Basle II.

To complement the systematic capturing of probability of default (PD) in the ratings database, improvements will be made to the Global Watchlist in order to archive and chronicle the exposure at default (EAD) and loss given default (LGD).

As part of Bank-wide preparations for Basle II, two additional lending projects have been conceived which will fall under the responsibility of Central Credit Management in terms of their methods and under the responsibility of the loan departments in terms of their technical support.

The first is a collateral database project involving the development of methodological guidelines for analysing collateral and building the data warehouse required for the full inclusion of collateral in the advanced internal ratings-based (IRB) approach.

The second is the LGD/EAD project, which involves developing methodological strategies for estimating EAD and LGD. In future, these two risk parameters will play a central role in determining the equity capital ratios of loans and other risk-weighted assets of the investment book. The necessary data histories will be structured with the help of the data captured in the WestLB Global Watchlist and the collateral database.

In the year under review, the Bank reviewed its organisational structure and workflow with a view toward compliance with the Minimum Requirements for the Lending Activities of Banks (MaK). Most of the defined requirements have been implemented. Currently, the Bank is deploying a standardised process for handling new products.

WestLB has a voice on the Federal Financial Supervisory Authority's (BaFin's) expert panel on MaK.

Market Price Risks

Managing Market Price Risks

The Bank's Managing Board is responsible for setting the risk policy and profitability goals of the trading business. It also defines trading strategies that determine which products are offered to what customers on which markets. The required limits and framework for risk management are derived by looking at the budget and considering how much risk the Group can bear.

The individual trading units are responsible for their own risk management within the guidelines defined by the Managing Board. They are directly accountable for the risks and returns of their activities.

By providing decision makers with regular risk analyses and key information about all required risk and earnings ratios, the RMS&C unit actively supports the risk management of the trading business. Individual risk committees for market price risks regularly meet with RMS&C to discuss the risk exposure in the trading business. The entire Managing Board meets at least once every two weeks to discuss the risk situation in the trading business and in asset liability management.

WestLB satisfied the Minimum Requirements for the Trading Activities of Banks at all times in the year under review.

Measuring Market Price Risks

The market risks in WestLB Group's trading and investment portfolios are computed daily. The Bank manages its market price risks by using a combination of risk management variables, including value at risk (VaR), sensitivities and stress tests.

In the process, the following types of market price risks are differentiated:

- Interest rate risk (including general and specific interest rate risks)
- Share price risk (including general and specific share price risks)
- Currency risk (including commodity price risks)

At the end of 2002, the Bank received BaFin's approval to begin using the internal VaR model to determine Principle I equity capital ratios for the trading business. The approval also covers all of WestLB's foreign branches. The internal model fully captures general interest rate risks. Work is currently under way to teach the model to recognise specific interest rate risks, currency risks and share price risks. Once the model can recognise these additional risks, it will be possible to calculate the capital necessary to cover all the market risks in the trading business by using the internal model exclusively.

Value-at-Risk Approach

The value-at-risk (VaR) approach is what the majority of all internationally operating banks use to determine market price risk under normal market conditions. VaR is used to estimate the potential future losses of a given portfolio which will not be exceeded with a given likelihood within a specified period of time. The VaR technique can be applied consistently to all products and markets, which makes it possible to compare risks between different portfolios.

The VaR model employed at the Bank for interest rate and foreign exchange risks is based on a Monte Carlo simulation technique. For internal purposes, VaR calculations are done on the unweighted basis of the last 250 changes to all market parameters that materially impact the portfolio, assuming a holding period of one day and a confidence level of 95%. For external purposes, a confidence level of 99% and a holding period of ten days are assumed.

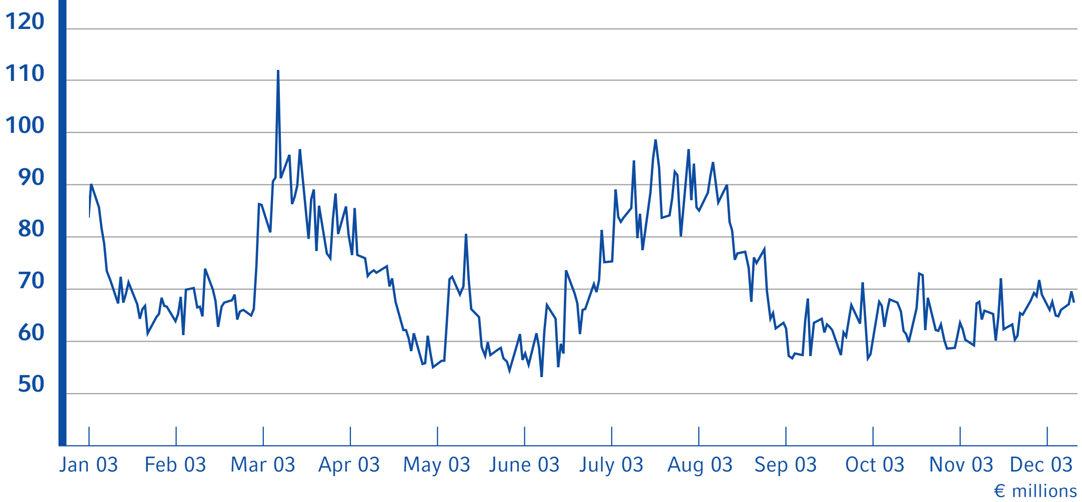
Market risks are measured using a central data warehouse that makes it possible to reprice the relevant trading products and identify non-linearities and diversification on all trading levels, regardless of the front office systems used.

In order to determine value at risk, it is necessary to make statistical assumptions about the change in the risk factors used. The Bank assumes a standard logarithmic distribution of the daily variance and uses the variance-co-variance approach when performing its Monte Carlo simulations. The (co-)variants are determined on the basis of a time series of equally weighted logarithmic changes in the risk factors.

The Monte Carlo-based market price risk calculations are also used to determine stock risks. Doing so ensures that diversification effects are included and that non-linear risks are adequately captured.

Based on a confidence level of 99% and a holding period of ten days, the values at risk in 2003 were as follows:

DAILY VALUE AT RISK IN THE TRADING UNITS IN 2003
(HOLDING PERIOD OF 10 DAYS; CONFIDENCE LEVEL OF 99%)

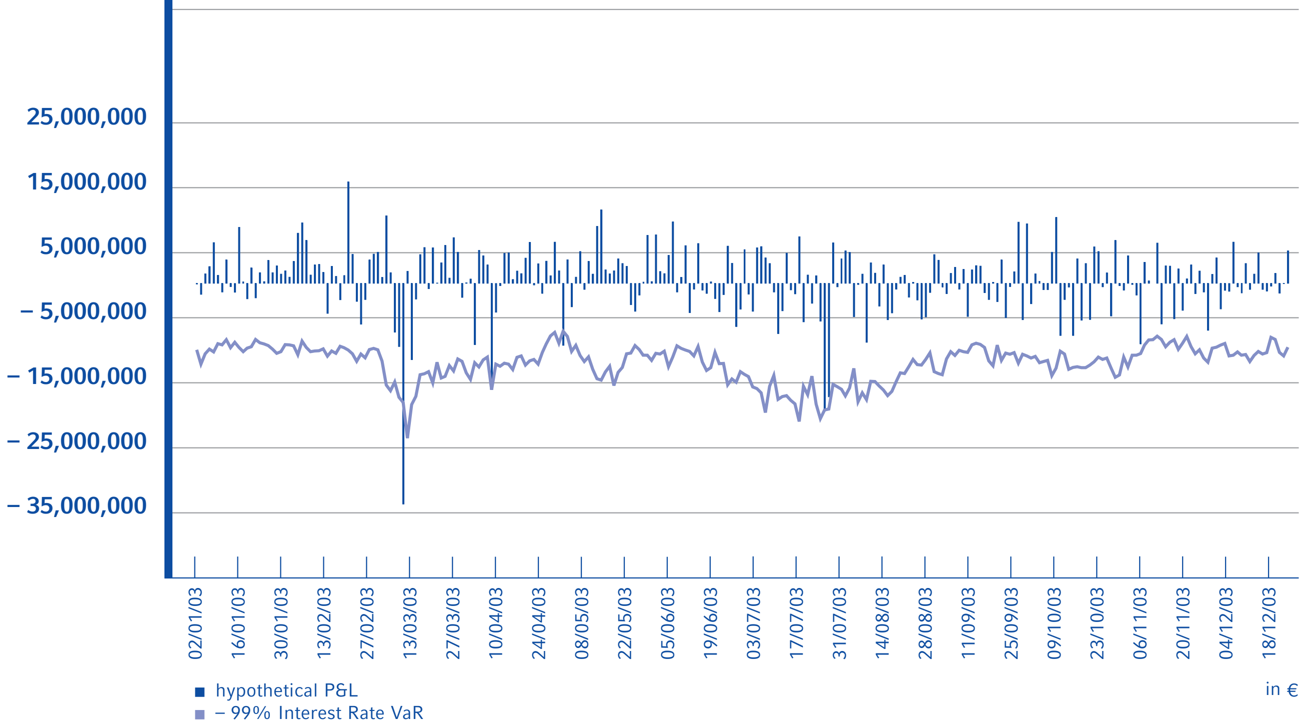


VALUE AT RISK IN WESTLB GROUP'S TRADING UNITS IN 2003
(CONFIDENCE LEVEL OF 99%, HOLDING PERIOD OF 10 DAYS)

	VaR at Dec. 31, 2003 € millions	Minimum VaR in 2003 € millions	Maximum VaR in 2003 € millions	Average VaR in 2003 € millions
WestLB Group	77.8	57.2	113.6	75.3
GFM	53.1	36.9	91.9	55.7
Equities	19.3	9.5	22.4	14.5
Other*	7.1	4.1	12.7	7.3

* incl. Banque d'Orsay, WestLB Int. S.A., Luxembourg, WSP Equities, Strategic Stock Positions, Specialised Finance, WPSI

INTERNAL MODEL – CLEAN BACK TESTING FOR WESTLB'S GENERAL RISK OF INTEREST RATE MOVEMENTS (99% CONFIDENCE LEVEL, HOLDING PERIOD OF 1 DAY) – JANUARY 2, 2003 – DECEMBER 31, 2003



The quality of the Bank's risk measurement is monitored continuously. A key element of this quality control is testing the risk parameters that are being used (back testing) for the general risk in interest rate movements. In addition to daily risk analyses, there are quarterly analyses. The conclusions drawn make an important contribution towards improving the VaR model. The results are also incorporated into the model validation that takes place every six months. The goal of the six-month validation is to ensure that the VaR model is capable of adequately determining risks, even if the risk parameters change. In 2003, the hypothetical P&L exceeded the VaR on two occasions. This is in keeping with the two to three anomalies one would expect in the course of a year when using a VaR model with a confidence level of 99%.

Stress Testing

Whereas VaR estimates the maximum loss under normal market conditions, scenario analyses simulate less likely movements in market parameters which are not captured by the confidence interval of our VaR calculations. When performing these scenario analyses, the Bank uses parametric and historical scenarios. Stress tests are performed on a weekly basis, with the results passed on to the Risk Committees for trading operations. At least once every month, the results are also reported to the Managing Board.

By analysing and commenting on the potential losses revealed in these analyses, the RMS&C unit ensures that the trading units and/or Managing Board have what they need to react to extreme market situations and avoid major losses.

Processes of Market Risk Management

Limit Process

VaR is the most important tool for limiting market price risks that the Managing Board has at its disposal. The Managing Board sets market risk limits for each business unit. These global VaR limits are then allocated among all relevant organisational levels of the trading business which have risk and profit responsibility. The limits can only be altered by means of a formal limit change process.

The RMS&C unit monitors the VaR limits daily to see how much of them has been used and if any limits have been exceeded. If there are limits which have been exceeded, the trading unit involved will decide on measures to return its operations to within the approved limits and RMS&C will ensure that these measures are implemented. The head of the RMS&C unit is notified each time a VaR limit is exceeded. The Managing Board is notified when the amount by which a VaR limit is exceeded is substantial.

Other information in addition to VaR (e.g. sensitivities, correlation risks, binary risks) is gathered in order to portray and limit risks and risk clusters.

Reporting

Risk reporting within WestLB Group occurs on various portfolio levels, both on a daily and on a monthly basis.

Daily risk reporting is up-to-the-minute and includes all relevant portfolio levels and earnings ratios. The monthly risk report includes detailed portrayals and analyses of all relevant risk categories in the Bank's trading and investment books. In addition to market price risks, topics such as counterparty default risk and country risk in the trading business are also discussed, as are the results of stress tests.

Participation Risks

Participation risk refers to potential fluctuations in the value of companies making up WestLB Group, as well as risks arising from contracts with companies in which WestLB participates.

Generally speaking, the management of participation risks 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. The companies of the Banking Group are fully incorporated into the risk and operational management of WestLB.

The risk management of companies that are not consolidated into the Banking Group is also handled by the Equity Investments unit. Certain of our investments are also followed by specialist units and monitored in terms of their risk. This approach allows for optimal support of companies whose business activities are closely linked with the activities of the respective product unit.

For the most part, participation risks are managed by determining credit lines, accepting supervisory positions and performing decentralised risk controlling for the companies' products and services.

The assessment of current and future risks posed by the participations that are not captured by the Banking Group's original management mechanisms is based first and foremost on analysing the company data provided in the course of ongoing participations controlling. The information collected also provides a starting point for actively supporting the participations from a shareholder perspective and managing the participations in keeping with the Bank's equity investment strategy. WestLB's interests as a shareholder are represented at all major Group companies in that members of the Managing Board holds seats on the supervisory boards of these companies. This kind of representation is an integral part of the Group's management.

To monitor and manage risks, as the Equity Investments unit does, in a way that focuses on the health of the Bank's business is particularly important in the case of participations in companies that are exposed to self-generated risks. Equity capital is injected into fast-growing companies directly and through third-party funds. To the extent some of the funds were still being invested in and the growth companies faced a difficult economic situation in the year under review, WestLB increased its risk provisions accordingly.

Liquidity Risks

Liquidity management within the WestLB AG Banking Group is carried out in accordance with guidelines established by the Bank's Asset & Liability Committee (ALCO), a Managing Board committee whose responsibilities include the structural liquidity mismatch position. While Global Financial Markets (GFM) ensures short-term liquidity, Capital & Mismatch Management (CMM) is responsible for planning and managing structural liquidity. The latter refers to ensuring the Bank's compliance with banking regulatory requirements (Principle II) and taking care of its economic liquidity. A comprehensive liquidity strategy was adopted two years ago and has been implemented in the meantime. The work that goes into determining and planning liquidity requirements is done on the basis of a proprietary information system. There is also a continuous exchange of information with the business, customer and product units concerned, as well as regular meetings of the persons involved in risk management. This ensures that all necessary information is available for the timely procurement and allocation of liquid funds.

The Banking Group's liquidity position is a regular agenda item at ALCO and Managing Board meetings. ALCO and the Managing Board are presented with a liquidity report which covers the following topics: short-term economic liquidity, credit commitments not yet drawn upon, the liquidity reserve, regulatory liquidity, large-scale investors, the amount of capital tied up, issuing activity and terms of issues.

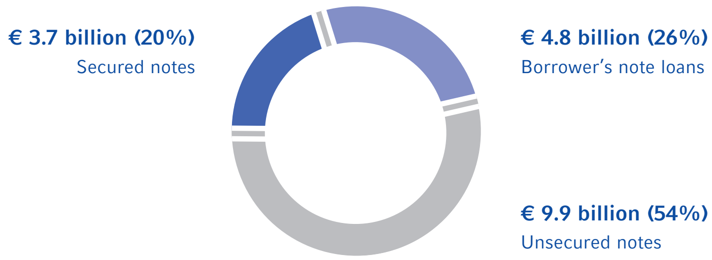
The objective of liquidity management is to avoid a concentration of financing requirements with very short-term maturities, to keep enough liquid assets on hand for unexpected liquidity needs and, at the same time, to optimise the Bank's structural liquidity with the help of a medium and long-term-oriented 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.

The central bank function for the savings banks in North Rhine-Westphalia and Brandenburg is a focus of WestLB's treasury activities.

The Group uses customary financial instruments to procure the required liquidity. In addition to borrower's note loans (Schuldscheindarlehen), WestLB issues unsecured notes. As a rule, the issues are part of debt issuance programmes. WestLB's subsidiaries issue secured notes. For example, WIB issues mortgage bonds (Pfandbriefe) under the German Public Mortgage Bond Act (Öffentliches Pfandbrief-Gesetz) and WestLB Covered Bond Bank plc, Dublin, issues covered bonds under Irish law.

The issuing volume of the WestLB AG Banking Group reached the record level of € 18.4 billion in 2003 (2002[1]: € 2.8 billion).

ISSUES OF WESTLB AG BANKING GROUP IN 2003



Short-term issues are issued as part of a € 15 billion global commercial paper programme. At year-end 2003, the volume outstanding was € 6.9 billion.

Liquidity is procured primarily in the major currencies: EUR, USD, JPY and GBP. Where necessary, the funds raised are converted into the target currency using derivatives. Responsibility for liquidity optimisation is delegated to the respective local branches and subsidiaries. As far as possible, liquidity flows are kept within these local offices, with liquidity deficits and surpluses being netted; to this end there is regular contact between the regional managers.

WestLB holds a large portfolio, worth more than € 20 billion on average, of highly liquid securities which are suitable for repos and central bank tenders. As a result, WestLB has access to substantial refinancing facilities when it needs them. WestLB also maintains a portfolio worth € 5 billion on average which it uses to provide collateral for cash needs in the context of euro clearing activities.

A global liquidity contingency plan has been in place since 2001. The plan outlines the communication channels, responsibilities, procedures and steps for remedying liquidity bottlenecks. It was updated at the end of 2003.

At December 31, 2003, WestLB's Principle II liquidity ratio was 1.28 (December 31, 2002: 1.12). The provision of liquidity was ensured at all times in 2003.

[1] Excluding Westdeutsche ImmobilienBank. In 2002, the division of WestLB occurred.

Operational Risks

The Operational Risk Management (ORM) unit of the Bank was situated in Risk Management Support & Control (RMS&C) in the year under review. ORM is the independent central management unit which sets the framework for operational risk management throughout the Bank and coordinates all related activities. The main tasks for the business units target the creation of high standards throughout the Bank for the analysis, management and monitoring of operational risk. First and foremost, this includes the use of a uniform system of self-assessment, the capture of operational losses, which are unique to each unit, and the definition of risk indicators for use in identifying and analysing operational risk as the foundation for active operational risk management.

The primary responsibility for managing operational risk rests with the business units. In the year under review, an operational risk manager was appointed for each business unit and each foreign branch. These operational risk managers will support the heads of the respective business units and branches in their work to manage operational risk. In particular, the operational risk managers are responsible for applying the standard "OpRisk" methods set by ORM.

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 that are applicable to the entire Bank, perform controlling functions, provide tools, and support the development and execution of preventive measures and responses. It was in this vein that the position of Bank Security Officer was established, who is responsible for addressing all key security issues facing the Bank.

In the context of operational risks, it makes sense on a cost-benefit level for some areas to use insurance and market instruments as a means of risk transfer. On the Group level, the International Insurance Programme provides WestLB with comprehensive insurance coverage that has been pulled together into one central insurance portfolio.

To minimise legal risks, the business units are supported by the Legal Department. The control and support that the Legal Department offers includes reviewing the contracts presented to it in light of risks, maintaining a lending handbook and a collateral handbook, and ongoing observation of changes in the legal environment. The Legal Department also observes the use of standard agreements and model contracts to reduce contractual risk, some of which were developed in cooperation with other banks and institutions.

One way to avoid the risks caused by the mistakes or misconduct of employees is to ensure that our employees are adequately informed. WestLB offers numerous internal and external training opportunities as part of its overall personnel development programme.

Compliance guidelines have been developed to offset the risk of insider trading. Adequate control processes initiated by central and local compliance officers ensure that the guidelines are followed.

In 2003, the loss event gathering process in place since 1999 was transformed into a new, Intranet-based IT platform. The new platform guarantees a more efficient execution of global data gathering and analysis processes. The constantly expanding data history it provides will serve as the basis for applying methods aimed at quantifying operational risks.

A qualitative approach for analysing and evaluating operational risks has also been developed. Cause-based, this approach will examine potential sources of risk in the areas of personnel, information technology, business processes and external events. One focus will be the relevant IT applications and the main processes used in the business units. The goal of this self-assessment is to gather information that the business units can use to develop their own risk-reducing measures. This qualitative approach has enjoyed success in its first applications.

The operational risk management system undergoes constant improvement and takes into account the regulatory requirements to expect from current developments with Basle II.

Business Risks

Changes in the market environment and in the prevailing technological and institutional conditions can trigger fluctuations in business volume and margins. The extent to which such changes pose business risks depends on the Group’s ability to react to changes in external parameters as early as possible. The business risks are reduced if the Bank succeeds in making its use of resources in the various business units and product lines adaptable to changing conditions.

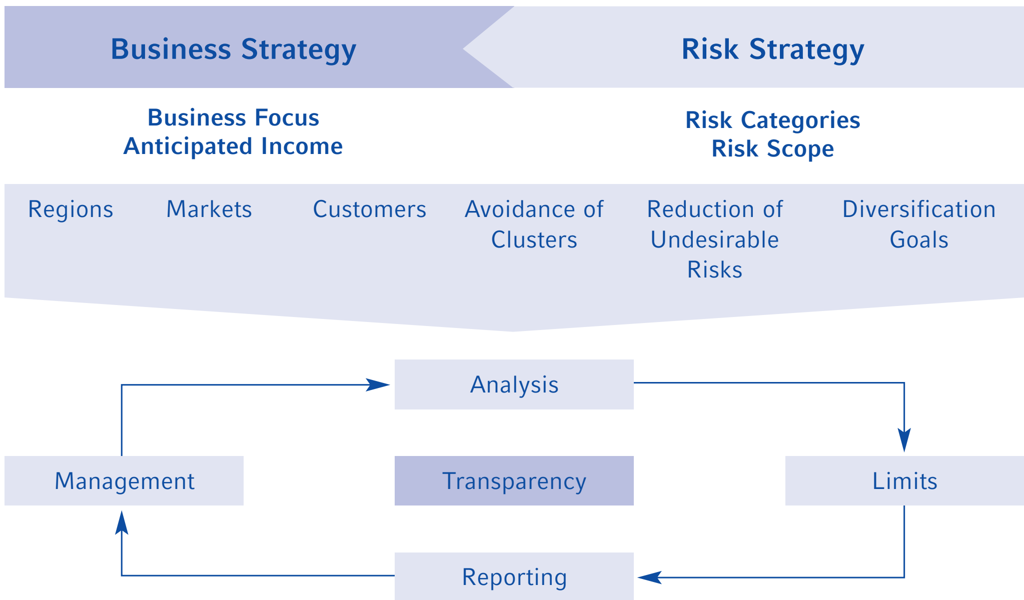
WestLB will continue its work on a process to identify and measure business risks which result from cost structures that cannot be adapted to fluctuations in volume and margins within one year’s time.

Continual Improvement of the Risk Management System

The business strategy and risk strategy of the Bank are closely intertwined and mutually dependent on each other. To ensure a successful business focus, the centralised tasks of an integrated risk management system will be strengthened. The required instruments are subject to ongoing development and are used for active risk management.

Key tasks include:

- systematically orienting the Bank's risk profile to its risk-bearing potential
- setting limits and guidelines based on the risk-bearing potential to avoid risk clusters, minimising undesirable risks and making more use of risk diversification
- using and making improvements to economic capital as a chief instrument in determining the risk profile, resource allocation and risk management
- strictly adhering in business development efforts to the high standards of risk management based on economic capital
- strengthening active management of the loan portfolio and improving the efficiency of loan processes
- accelerating the development of a Bank-wide system of operational risk management that meets the standards set forth in the Basle Committee's "Sound Practices for the Management and Supervision of Operational Risk" and becomes an integral component of Bank-wide risk management
- expanding the internal model for determining market price risk in the trading business into a full-use and specific-risk system that can also support active management of credit spread risks



The measurement and analysis of all risks, setting of adequate limits and measures-based reporting allow for a transparent, comprehensive risk management system that is a key tool in implementing the Bank's risk strategy and business strategy.

Outlook

Only moderate economic growth is expected in Germany in 2004. There are signs of recovery, but a strong, self-sustaining upswing is not yet in sight. The world economy will provide some momentum, as will structural reforms, which are likely to improve medium-term growth prospects as well. Growth among banks and financial services institutions will also be only moderate and consolidation pressure in the sector will increase.

The largest risks faced by the German economy and that of the remaining euro area will be euro-related. Since the beginning of 2002, the euro has gained more than 40% on the dollar and about 20% on the average for all major currencies. The current appreciation has already restrained real economic growth. If the euro continues to strengthen at this kind of pace, the recovery now emerging would stall again, and renewed setbacks on the stock markets would be likely.

In fiscal year 2004, WestLB will direct its attention towards preparations for the substantial structural changes awaiting it in 2005, most notably the elimination of institutional and guarantor liability. It will focus its energy on regaining lost territory and on creating a stable and sustainable foundation for the future. WestLB will also concentrate on meeting the criteria to maintain a sound A rating on a stand-alone basis.

Stepping up the Bank's cooperation with the savings banks will be of central importance in 2004. WestLB believes that this is the right approach strategically and the most promising course of action for all involved. The successes of similar cooperations involving other Landesbanks, the Landesbausparkassen and public-law insurance companies underscore the prospects that a close, stable cooperation between WestLB and the savings banks can have. For this reason, it is necessary to adapt WestLB's business model so that it and the savings banks can exploit the existing market potential and synergies. The first step towards this goal will be the creation of binding rules on the provision and purchase of products and services among member institutions. The rules will be tailored to the needs of the savings banks and their customers.

WestLB made substantial progress in reducing costs in the year under review, with cost savings of an additional € 165.9 million realised. Rigorous cost management will continue in 2004. The goal will be to improve cost efficiency without compromising our offering to customers and the revenue base they provide.

The largest part of the headcount reductions set to be complete by year-end 2005 will take place in 2004. The final goal is 6,200 by year-end 2005. There are currently 7,764 employees in the Banking Group. By year-end 2004, that number will be 6,500. Long-term savings in operating expenses will accompany the personnel cuts. The outsourcing of central computing services, for example, will result in substantial IT savings. In addition, the systematic standardisation and coordination of front office systems in the Global Financial Markets business unit will considerably reduce both IT production expenditure and IT support costs. The planned bundling of payment transaction activities into the joint Transaktionsinstitut with DZ BANK AG will also yield significant cost savings in the long term.

All and all, WestLB expects considerable improvements in income and in reducing administrative expenses in fiscal year 2004. WestLB will also direct its attention towards expanding its market position and its position within the savings banks organisation. Growth will be targeted in the corporate clients, asset management and securities businesses, in particular.

Based on the realignments and allocations to risk provisions made at year-end 2003, WestLB is confident that it is going into 2004 with no discernible risks in its portfolios. Broad measures on limiting and optimising the Bank’s risks have been introduced, among them greater efforts to actively manage cluster risks in the portfolios. In addition, the WISDOM transaction, a comprehensive programme for securitising credit risks, represents a first step towards transferring more of the risk to the market.

By realigning its risks and making the necessary risk provisions, introducing rigorous cost-saving measures, and revising its business model to expand its own customer and revenue base in addition to adding more services for the savings banks and their customers, WestLB has set the stage for a positive business performance in 2004 and beyond. If momentum from the upswing in the world economy has a positive impact on the domestic economy and at least some of the structural reforms which have been introduced start to have an effect, the chances are improving that WestLB AG’s operating result will increase in 2004.

WestLB AG Balance Sheet as at December 31, 2003

ASSETS

	see Notes No.	€	€	31. 12. 2003 €	31. 12. 2002 € thousands
1. Cash					
a) cash on hand			3,965,023.51		(9,084)
b) balances with central banks			4,411,773,818.41		(1,931,142)
including:					
with Deutsche Bundesbank					
€ 414,572,852.27					
				4,415,738,841.92	1,940,226
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			12,271,976,035.68		(8,490,202)
including:					
eligible for refinancing with Deutsche Bundesbank					
€ 12,248,668,259.87					
b) bills of exchange			774,017.46		(17,316)
including:				**12,272,750,053.14**	8,507,518
eligible for refinancing with Deutsche Bundesbank					
€ 260,661.97					
3. Claims on banks	4, 16, 32, 33, 36				
a) payable on demand			7,434,746,554.40		(8,822,989)
b) other			58,641,116,793.06		(63,391,807)
				66,075,863,347.46	72,214,796
4. Claims on customers	5, 6, 16, 32, 33, 36			**67,692,517,081.16**	81,123,454
including:					
secured by mortgages					
€ 678,304,868.73					
loans to public authorites and entities					
under public law € 6,636,250,443.38					
5. Bonds and other interest-bearing securities	7, 13, 17, 32, 33, 36				
a) money market instruments					
aa) of public institutions		1,127,184,243.05			(156,527)
including:					
eligible as collateral for Deutsche Bundesbank					
advances € 1,033,850,353.47					
ab) of other issuers		630,484,442.39			(1,698,179)
including:					
eligible as collateral for Deutsche Bundesbank					
advances € –.—			1,757,668,685.44		(1,854,706)
b) bonds and notes					
ba) of public institutions		23,554,622,816.16			(28,537,019)
including:					
eligible as collateral for Deutsche Bundesbank					
advances € 5,641,476,080.32					
bb) of other issuers		20,990,104,991.70			(24,477,901)
including:					
eligible as collateral for Deutsche Bundesbank					
advances € 8,486,642,381.52			44,544,727,807.86		(53,014,920)
c) bonds issued by the Bank			866,312,925.18		(348,147)
principal amount € 834,554,624.36				**47,168,709,418.48**	55,217,773
			To be carried forward:	**197,625,578,742.16**	219,003,767

LIABILITIES

	see Notes No.	€	€	31. 12. 2003 €	31. 12. 2002 € thousands
1. Liabilities to banks	18, 27				
a) payable on demand			12,073,701,123.26		(14,600,279)
b) with agreed maturity or period of notice			79,439,508,800.64		(90,130,127)
				91,513,209,923.90	104,730,406
2. Liabilities to customers	19, 27				
a) deposits					
aa) with agreed period of notice of three months		343,356.69			(33,001)
ab) with agreed period of notice of more than three months		–.—			(–)
			343,356.69		(33,001)
b) other liabilities					
ba) payable on demand		15,074,288,451.18			(13,681,818)
bb) with agreed maturity or period of notice		45,886,337,450.45			(47,493,762)
			60,960,625,901.63		(61,175,580)
				60,960,969,258.32	61,208,581
3. Certificated liabilities	20, 27				
a) bonds and notes issued by the Bank			8,946,078,198.52		(7,539,915)
b) other certificated liabilities			33,485,299,706.19		(42,183,006)
including:				**42,431,377,904.71**	49,722,921
money market instruments € 24,882,012,568.21					
4. Trust liabilities	21			**501,266,812.81**	505,940
including: trust loans € 126,289,812.81					
5. Other liabilities	22			**9,972,493,449.41**	7,821,123
6. Deferred items	23			**494,857,949.27**	481,925
7. Provisions	25				
a) for pensions and similar obligations			563,348,876.60		(571,993)
b) tax reserve			355,327,244.50		(368,903)
c) other			1,231,075,936.52		(1,035,975)
				2,149,752,057.62	1,976,871
8. Special item with partial reserve character	24			–.—	25,317
9. Subordinated liabilities	26, 27, 28			**4,338,551,055.51**	4,977,181
10. Profit participation capital	28			**2,423,867,175.48**	2,424,720
including: due in less than two years € 11,217,469.34					
11. Fund for general bank risks	28			**82,000,000.—**	82,000
			To be carried forward:	**214,868,345,587.03**	233,956,985

WestLB AG Balance Sheet as at December 31, 2003

ASSETS

	see Notes No.	€	€	31. 12. 2003 €	31. 12. 2003 € thousands
			To be carried forward:	**197,625,578,742.16**	219,003,767
6. Shares and other non-interest-bearing securities	8, 13, 32, 33, 36			**3,858,721,248.36**	3,455,947
7. Equity investments in non-affiliated companies	9, 13, 36, 50, 51			**2,774,872,094.04**	3,012,800
including: banks € 383,893,006.06					
8. Equity investments in affiliated companies	10, 13, 36, 50, 51			**6,125,190,021.19**	5,704,578
including: banks € 1,771,541,563.88; financial services institutions € 99,917,781.96					
9. Trust assets	11			**501,266,812.81**	505,940
including: trust loans € 126,289,812.81					
10. Equalisaton claims against public authorities including bonds and notes issued in substitution therof				**207,502,359.84**	310,591
11. Intangible assets	13			**3,660,559.19**	6,101
12. Fixed assets	13			**297,778,344.85**	297,200
13. Other assets	12, 16			**5,783,547,776.43**	4,770,805
14. Deferred items	15			**988,730,543.03**	1,257,759
Total assets	30			**218,166,848,501.90**	238,325,488

LIABILITIES

	see Notes No.	€	€	31. 12. 2003 €	31. 12. 2002 € thousands
			To be carried forward:	**214,868,345,587.03**	233,956,985
12. Equity capital	28				
a) subscribed capital			950,500,000.—		(950,500)
b) capital reserves			1,510,924,918.35		(2,034,803)
c) reserves from retained earnings					
ca) legal reserves		–.—			(–)
cb) reserves required by WestLB's articles and bylaws		–.—			(409,346)
cc) other reserves		–.—			(973,854)
			–.—		
d) typical silent contribution to capital			837,077,996.52		(–)
e) profit			–.—		(–)
				3,298,502,914.87	4,368,503
Total liabilities	30			**218,166,848,501.90**	238,325,488
1. Contingent liabilities	43				
a) liabilities from guarantees and indemnity agreements			11,922,586,849.24	**11,922,586,849.24**	(14,755,987)
2. Other commitments	31				
a) irrevocable credit commitments			61,347,329,237.79	**61,347,329,237.79**	(74,925,672)
3. Administered funds			44,157,844.78	**44,157,844.78**	(48,654)

WestLB AG Statement of Income

FOR THE PERIOD JANUARY 1 – DECEMBER 31, 2003

	see Notes No.	€	€	1. 1. – 31. 12. 2003 €	1. 1.– 31. 12. 2002 € thousands
1. Interest from					
a) lending and money market transactions		5,104,738,087.11			(6,477,410)
b) interest-bearing securities and book-entry securities		2,033,058,092.01			(1,964,933)
			7,137,796,179.12		(8,442,343)
2. Interest paid			6,000,508,952.04		(7,670,772)
				1,137,287,227.08	(771,571)
3. Current income from					
a) shares and other non-interest-bearing securities			192,092,304.64		(170,932)
b) equity investments in non-affiliated companies			80,060,025.13		(126,077)
c) equity investments in affiliated companies			91,075,475.26		(120,637)
				363,227,805.03	(417,646)
4. Income from profit pooling, profit transfer and partial profit transfer agreements				**47,988,822.46**	(97,094)
5. Commission income			528,562,245.48		(631,506)
6. Commission paid			190,503,924.62		(192,915)
				338,058,320.86	(438,591)
7. Net expense from trading operations				**– 104,227,110.43**	(219,656)
8. Income from leasing business				**10,955,705.44**	(–)
9. Expenses from leasing business				**10,086,324.35**	(–)
10. Other operating income				**198,283,687.42**	(211,113)
11. Income from the reversal of the special item with partial reserve character				**25,316,648.20**	(27,167)
12. General administrative expenses					
a) personnel expenses					
aa) wages and salaries		523,338,976.82			(524,730)
ab) compulsory social security contributions and expenses for pensions and other employee benefits		161,606,696.30			(248,968)
including: for pensions € 104,796,413.04			684,945,673.12		(773,698)
b) other administrative expenses			742,592,022.67		(795,991)
				1,427,537,695.79	(1,569,689)
13. Depreciation and value adjustments on intangible and tangible fixed assets	13			**82,740,520.71**	(106,390)
14. Other operating expenses				**44,635,459.77**	(82,639)
15. Write-downs and value adjustments on loans and certain securities as well as allocations to loan loss provisions	36			**1,089,190,851.55**	(1,930,381)
			To be carried forward:	**– 637,299,746.11**	(– 1,506,261)

FOR THE PERIOD JANUARY 1 – DECEMBER 31, 2003

	see Notes No.	€	€	1. 1. – 31. 12. 2003 €	1. 1. – 31. 12. 2002 € thousands
			To be carried forward:	– 637,299,746.11	(– 1,506,261)
16. Write-downs and value adjustments on equity investments in non-affiliated companies, equity investments in affiliated companies and securities treated as fixed assets	36			817,039,154.03	(–)
17. Income from revaluaton of equity investments in non-affiliated companies, equity investments in affiliated companies and securities treated as fixed assets	36			–.—	(1,113,644)
18. Expenses from the assumption of losses				483,701,197.07	(79,888)
19. Profit or loss on ordinary activities				– 1,938,040,097.21	(– 472,505)
20. Extraordinary income			3,825,065.67		(22,553)
21. Extraordinary expenses			345,843,360.22		(87,879)
22. Extraordinary result	39			– 342,018,294.55	(– 65,326)
23. Taxes on income and revenues	41		27,612,924.18		(59,254)
24. Other taxes not shown under other operating expenses			12,328,684.06		(12,915)
				39,941,608.24	(72,169)
25. Net loss for the year				– 2,320,000,000.—	(– 610,000)
26. Withdrawals from capital reserves	28			523,877,996.52	(–)
27. Withdrawals from reserves from retained earnings	28				
a) legal reserves			–.—		(–)
b) reserves required by WestLB's articles and bylaws			409,346,407.92		(–)
c) other reserves			973,853,592.08		(610,000)
				1,383,200,000.—	(610,000)
28. Withdrawals from silent contributions to capital	28			412,922,003.48	(–)
29. Profit				–.—	(–)

Notes to the Annual Accounts
at December 31, 2003

Preparation of Annual Accounts (1)

WestLB's single-entity annual accounts were 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 in the balance sheet or the Notes has been included in the Notes.

WestLB prepares consolidated annual accounts for the WestLB (sub-) group in accordance with § 340 (i) in conjunction with §§ 290 et seq. of the German Commercial Code (HGB). In accordance with § 325 (3) – (5), § 328 and § 329 (1) of the German Commercial Code (HGB), the single-entity and consolidated annual accounts of WestLB are filed with the Commercial Registers of Düsseldorf and Münster.

WestLB and its Group companies are included in the consolidated annual accounts of Landesbank NRW. Landesbank NRW's annual accounts are also filed with the Commercial Register of Düsseldorf.

Accounting and Valuation Principles (2)

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 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.

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

Securities held in the investment portfolio (financial assets) are valued at cost; where a loss of value is expected to be permanent, they are written down to the lower fair value. Any difference between the cost and the repayment amount is recognised on a pro rata basis in income. To the extent that securities held in the investment portfolio are carried at values higher than their current market value, these securities are shown separately in the Notes as valued as fixed assets. 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 WestLB 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, 2003 (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 Bank-wide macro portfolios, which are broken down into risk categories (interest rates, shares 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 as income; any remaining unrealised losses are written down and provisions are established. The current results from the securities trading portfolio (interest income, dividends), as well as refinancing costs, are reported as part of the interest result in 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 and other derivative instruments, as well as options, are included in the net income from trading operations. The dividend income from some equity trading portfolios is also included in the net income from trading operations.

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

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.

Adequate provisions have been made for contingent liabilities and pending losses; a provision for anniversary expenses has been established in the amount permitted under tax law. The provision for pensions was established on the basis of actuarial principles in accordance with § 6 (a) of the German Income Tax Act (EStG).

There is a fund for general bank risks pursuant to § 340 (g) and reserves pursuant to § 340 (f) of the German Commercial Code (HGB).

Foreign currency amounts have been translated in accordance with § 340 (h) of the German Commercial Code (HGB) and BFA 3/95. Assets and liabilities denominated in foreign currencies, as well as open spot deals, are translated using the ECB reference rates effective on December 30, 2003. Open forward contracts (forward exchange transactions, foreign currency options and foreign 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's balance sheet, as well as each pending transactions, which is denominated in a foreign currency has been covered by an item that is also denominated in that currency within the meaning of § 340 (h) (2) Sentence 2 of the German Commercial Code (HGB). Therefore, in accordance with § 340 (h) (2) Sentences 1 and 2 of the German Commercial Code (HGB), all expenses and income generated from the translation of foreign currency are captured in the statement of income. There was no income that had to be reported separately since the foreign exchange positions open as of the balance sheet date were short-term. The negative result from the valuation of individual open positions has been netted and reported under other liabilities.

Forward Transactions/Derivatives (3)

As part of its business operations, WestLB enters into the following types of forward contracts and derivatives:

- **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 foreign exchange rates**
  Forward exchange transactions, currency options (bought and written), currency futures, issued currency warrants, currency swaps and interest-currency swaps

- **Forward transactions/derivatives based on share price and other price risks**
  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 fiscal year 2003, the average annual value, in nominal terms, of WestLB's derivatives and other forward transactions was € 2,795.9 billion (2002: € 2,263.4 billion).

DERIVATIVES – AVERAGE VOLUMES

Jan. 1 – Dec. 31, 2003 € millions	Nominal Values		Credit Risk Equivalents		Replacement Costs	
	2003	2002	2003	2002	2003	2002
Interest-rate risks	2,489,843	1,918,855	11,678	9,246	34,677	26,462
Currency risks	238,966	286,582	3,889	4,314	6,168	6,933
Share and other price risks	16,137	15,774	329	531	586	598
Risks from credit derivatives	50,966	42,146	359	359	170	409
Total derivatives	**2,795,912**	**2,263,357**	**16,255**	**14,450**	**41,601**	**34,402**

The credit risk equivalents and replacement costs are calculated on the basis of the market valuation method in accordance with German banking regulatory requirements. 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; profits and losses generated by replacement transactions are not netted. In line with the above-mentioned banking regulatory requirements, a counterparty weighting and add-on for all derivatives are included when calculating the credit risk equivalents. There is no netting for the purpose of calculating average credit risk equivalents.

WestLB's credit risk equivalents pursuant to Principle I represent 21.8% (2002: 15.2%) of its total counterparty default risks (weighted risk assets and relevant amount for the counterparty 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. 56.7% (2002: 54.5%).

In nominal terms, the total volume of WestLB's forward transactions/derivatives business was € 2,637.2 billion (2002: € 2,278.6 billion) as of the balance sheet date. The emphasis continues to be on interest-rate risks, whose share of the total volume increased to 88.8% (2002: approx. 86.1%).

In addition to the credit derivatives from the trading book listed in the table, there were also credit derivatives in the investment book. Of those in the investment book, WestLB was the guarantee for (had bought) a volume of € 4,050.2 million (2002: € 1,181.6 million) and was the guarantor for (had sold) a volume of € 1,558.4 million (2002: € 2,011.6 million) at December 31, 2003.

DERIVATIVES – VOLUMES

€ millions	Nominal Values		Credit Risk Equivalents		Replacement Costs	
	Dec. 31, 2003	Dec. 31, 2002	Dec. 31, 2003	Dec. 31, 2002	Dec. 31, 2003	Dec. 31, 2002
Interest-rate risks						
Interest-rate swaps	1,241,471	1,169,145	9,402	10,531	26,596	31,914
FRAs	177,864	199,187	18	27	79	125
Interest-rate options, swaptions						
– bought	42,878	37,920	365	458	1,119	1,602
– written	53,857	39,482	–	–	–	–
Stock market contracts	672,510	353,633	–	–	–	–
Caps, floors	150,557	119,185	321	363	899	1,116
Other interest-rate forward transactions	3,702	42,841	71	59	134	101
Total interest-rate risks	**2,342,839**	**1,961,393**	**10,177**	**11,438**	**28,827**	**34,858**
Currency risks						
Forward exchange transactions	67,353	114,359	710	1,130	1,806	3,236
Interest-currency swaps/currency swaps	143,823	114,499	3,312	2,750	5,002	3,183
Currency options						
– bought	7,229	11,745	185	137	364	356
– written	6,738	11,694	–	–	–	–
Stock market contracts	233	521	–	–	–	–
Total currency risks	**225,376**	**252,818**	**4,207**	**4,017**	**7,172**	**6,775**
Share and other price risks						
Stock forward transactions	56	11	2	–	–	–
Stock options						
– bought	5,684	2,769	296	174	484	532
– written	6,145	2,552	–	–	–	–
Stock market contracts	6,211	6,809	–	–	–	–
Other forward transactions	1,737	3,657	60	129	20	87
Total share and other price risks	**19,833**	**15,798**	**358**	**303**	**504**	**619**
Credit derivatives						
Credit derivatives						
– bought	20,985	22,831	352	390	101	405
– written	28,215	25,765	–	–	–	–
Total credit derivative risks	**49,200**	**48,596**	**352**	**390**	**101**	**405**
Total derivatives	**2,637,248**	**2,278,605**	**15,094**	**16,148**	**36,604**	**42,657**
Netting effects	–	–	**8,202**	**8,806**	–	–
Total derivatives after netting	**2,637,248**	**2,278,605**	**6,892**	**7,342**	**36,604**	**42,657**

WestLB enters into derivative transactions with top-rated counterparties.

DERIVATIVES – CLASSIFICATION OF COUNTERPARTIES

€ millions	Nominal Values		Credit Risk Equivalents		Replacement Costs	
	Dec. 31, 2003	Dec. 31, 2002	Dec. 31, 2003	Dec. 31, 2002	Dec. 31, 2003	Dec. 31, 2002
OECD banks	1,566,661	1,494,030	8,411	9,079	28,028	33,170
Non-OECD bank	4,231	4,691	65	87	94	127
Customers (incl. stock market contracts)	1,065,502	778,528	6,604	6,958	8,428	9,258
Public-sector entities	854	1,356	14	24	54	102
Total	**2,637,248**	**2,278,605**	**15,094**	**16,148**	**36,604**	**42,657**

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 portfolios are reflected in the trading portfolio by way of internal contracts. Most of the currency and stock contracts are short-term. The interest-rate contracts are spread across the entire spectrum of maturities, with approximately 21% (2002: approximately 21%) having a residual maturity of more than five years.

DERIVATIVES – CLASSIFICATION BY MATURITY

Nominal Values	Interest-Rate Risks		Currency Risks		Share and Other Price Risks		Risks from Credit Derivatives	
€ millions	Dec. 31, 2003	Dec. 31, 2002	Dec. 31, 2003	Dec. 31, 2002	Dec. 31, 2003	Dec. 31, 2002	Dec. 31, 2003	Dec. 31, 2002
Residual maturity								
– up to 3 months	850,991	635,181	56,753	92,804	8,321	7,283	–	9
– between 3 months and 1 year	362,253	320,172	47,221	53,552	8,019	5,776	2,364	–
– between 1 and 5 years	632,784	591,771	82,680	73,306	3,118	2,561	36,413	1,683
– more than 5 years	496,811	414,269	38,722	33,156	375	178	10,423	46,904
Total	**2,342,839**	**1,961,393**	**225,376**	**252,818**	**19,833**	**15,798**	**49,200**	**48,596**

Notes to the Balance Sheet

Claims on Banks (4)

	Dec. 31, 2003 € millions		Dec. 31, 2002 € millions	
	Claims on Affiliated Banks	Claims on Other Banks	Claims on Affiliated Banks	Claims on Other Banks
Payable on demand	350.0	7,084.7	722.7	8,100.2
Residual maturity				
– up to 3 months	1,085.7	38,923.7	1,013.4	42,107.5
– between 3 months and 1 year	362.6	10,290.5	283.0	11,120.9
– between 1 and 5 years	312.4	5,422.2	220.2	6,241.5
– more than 5 years	871.9	1,372.2	378.3	2,027.1
Total	**2,982.6**	**63,093.3**	**2,617.6**	**69,597.2**
Book value	**66,075.9**		**72,214.8**	

Affiliated banks include the savings banks in North Rhine-Westphalia and Brandenburg.

Claims on other banks include claims on affiliated companies in the amount of € 12,504.0 million (2002: € 16,491.9 million) and claims on companies in which equity investments are held in the amount of € 864.6 million (2002: € 2,642.3 million). Claims from leasing transactions amount to € 317.3 million (2002: € 443.8 million).

Claims on Customers (5)

	Dec. 31, 2003 € millions	Dec. 31, 2002 € millions
Residual maturity		
– up to 3 months	28,883.5	34,996.5
– between 3 months and 1 year	11,595.9	15,367.3
– between 1 and 5 years	15,489.8	18,290.1
– more than 5 years	11,723.3	12,469.6
Book value	**67,692.5**	**81,123.5**
including: – claims with undetermined maturity	2,600.1	1,960.1
– on affiliated companies	5,494.7	5,335.5
– on companies in which equity investments are held	4,383.6	3,878.8
– from leasing transactions	1,468.6	1,487.1

Claims Secured by Mortgages (6)

	Dec. 31, 2003 € millions	Dec. 31, 2002 € millions
Breakdown of claims on customers by residual maturity		
– up to 3 months	88.5	195.2
– between 3 months and 1 year	32.3	136.1
– between 1 and 5 years	201.8	611.6
– more than 5 years	355.7	1,774.6
Book value	**678.3**	**2,717.5**

Bonds and Other Interest-Bearing Securities (7)

	Dec. 31, 2003 € millions	Dec. 31, 2002 € millions
Bonds and other interest-bearing securities		
Book value	**47,168.7**	**55,217.8**
including: amounts that will become due by December 31 of the following fiscal year	10,433.7	17,788.0
Breakdown by product		
– money market instruments	1,757.7	1,854.7
– bonds and notes of public-sector issuers	23,554.6	28,537.0
– bonds and notes of other issuers	20,990.1	24,478.0
– notes issued by the Bank	866.3	348.1
Breakdown by marketability		
– listed on a stock exchange	38,287.1	44,141.7
– not listed on a stock exchange	8,881.6	11,076.1
Breakdown by portfolio		
– trading portfolio	27,121.2	34,812.6
– liquidity reserve	763.9	1,884.2
– investment portfolio	19,283.6	18,521.0
Breakdown by Group affiliation		
– securities of affiliated companies	586.3	1,352.2
– securities of companies in which equity investments are held	–	301.5

The € 19.3 billion (2002: € 18.5 billion) in bonds held in the investment portfolio is part of fixed assets. At year-end, € 2.3 billion (2002: € 2.4 billion) of WestLB's financial assets had been valued at the modified lower of cost or market value. Of that, € 1.2 billion (2002: € 0.7 billion) consisted of debt obligations acquired in connection with interest-rate swaps (asset swaps), the commercial value of which equals the purchase price entered on the books; € 0.1 billion will become due in the following year.

Shares and Other Non-Interest-Bearing Securities (8)

The item includes shares in special funds held by WestLB totalling € 2,645.6 million (2002: € 2,645.6 million). The funds themselves consist mainly of listed securities and are included in the investment portfolio.

	Dec. 31, 2003 € millions	Dec. 31, 2002 € millions
Shares and other non-interest-bearing securities		
Book value	**3,858.7**	3,455.9
Breakdown by marketability		
– marketable securities	1,147.6	796.0
including:		
– listed on a stock exchange	971.5	703.2
– not listed on a stock exchange	176.1	92.8
Breakdown by portfolio		
– trading portfolio	984.8	499.7
– liquidity reserve	16.9	19.6
– investment portfolio	2,857.0	2,936.6

Equity Investments in Non-Affiliated Companies (9)

	Dec. 31, 2003 € millions	Dec. 31, 2002 € millions
Equity investments in non-affiliated companies		
Book value	**2,774.9**	**3,012.8**
including: – banks	383.9	692.6
– financial services institutions	–	–
Breakdown by marketability		
– marketable securities	1,438.8	1,540.9
of these: – listed on a stock exchange – not listed on a stock exchange	 1,308.5 130.3	 1,428.0 112.9

The equity investments in non-affiliated companies held by WestLB in accordance with § 285 No. 11 of the German Commercial Code (HGB) are itemised in a separate list that has been deposited with the Local Court (Amtsgericht) in Düsseldorf.

Equity Investments in Affiliated Companies (10)

	Dec. 31, 2003 € millions	Dec. 31, 2002 € millions
Equity investments in affiliated companies		
Book value	**6,125.2**	**5,704.6**
including: – banks	1,771.5	1,356.7
– financial services institutions	99.9	79.9
Breakdown by marketability		
– marketable securities	1,384.8	1,744.3
of these: – not listed on a stock exchange	1,384.8	1,744.3

Trust Assets (11)

	Dec. 31, 2003 € millions	Dec. 31, 2002 € millions
Claims on banks	0.2	0.2
Claims on customers	126.1	130.7
Participations in RWI-Fonds	375.0	375.0
Total	**501.3**	**505.9**

Other Assets (12)

	Dec. 31, 2003 € millions	Dec. 31, 2002 € millions
Other assets		
Book value	**5,783.5**	**4,770.8**
including: Offsetting entries from the valuation of the trading portfolio (not including currency transactions)	2,199.2	1,448.2
Premiums for options	1,959.1	1,711.3
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	708.2	754.7
Margin payments	150.9	503.3
Claims from profit and loss pooling agreements with companies in which equity investments are held	–	123.6

Fixed Assets (13)

€ millions	Acquisition Cost/Cost of Production Jan. 1, 2003	Additions	Retire-ments	Total Depre-ciation	Net Book Value Dec. 31, 2003	Depreciation in the Financial Year
Bonds and other interest-bearing securities forming part of fixed assets	18,647.0	774.7	12.1	126.0	19,283.6	43.8
Shares forming part of fixed assets	2,936.6	–	59.1	20.5	2,857.0	12.5
Equity investments in non-affiliated companies	3,581.3	451.0	332.4	925.0	2,774.9	164.8
Equity investments in affiliated companies	6,389.2	948.9	212.3	1,000.6	6,125.2	507.8
Equalisation claims against public authorities	190.3	–	62.8	–	127.5	–
Intangible assets	10.2	–	–	6.5	3.7	2.4
Land and buildings	112.1	0.5	31.3	44.8	36.5	7.4
Leasing	–	98.3	1.3	10.1	86.9	10.1
Office equipment	722.7	42.7	76.0	515.0	174.4	72.9

With regard to securities, the changes in the fiscal year include additions and retirements, as well as changes resulting from the dissolution, on a pro rata basis, of premiums and discounts.

With regard to equity investments in affiliated and non-affiliated companies, the additions and retirements were due to restructuring of the equity investment portfolio. Changes of special note include the acquisition of the remaining 50% of shares in Westdeutsche ImmobilienBank, the divestiture of WPS WertpapierService Bank AG and the merger of WestLB France S.A. into WestLB's Paris branch, capital increases at Boullioun Aviation Services, Inc. and West Logistics Gesellschaft für Logistikbeteiligungen mbH, and the addition of Aurelis Real Estate GmbH & Co. KG.

Real property with a book value of € 12.2 million (2002: € 14.7 million) is utilised for WestLB's own business activities. Land and buildings that WestLB acquires as part of bail-out transactions and carries on the books for more than five years are included under fixed assets in the amount of € 11.6 million (2002: € 24.5 million).

Effective October 1, 2003, the leasing business of subsidiary WestLB France S.A. was transferred to WestLB's Paris branch.

Own Shares (14)

WestLB did not hold any of its own shares at December 31, 2003.

Deferred Items (15)

	Dec. 31, 2003 € millions	Dec. 31, 2002 € millions
Premiums on claims	–	4.4
Discounts from underwriting business	147.2	88.4
Discounts from liabilities	530.6	645.7
Other	310.9	519.3
Book value	**988.7**	**1,257.8**

Subordinated Assets (16)

The following items include subordinated assets:

	Dec. 31, 2003 € millions	Dec. 31, 2002 € millions
Claims on banks	–	0.8
including: – affiliated companies	–	–
– companies in which equity investments are held	–	–
Claims on customers	146.0	256.4
including: – affiliated companies	57.9	88.6
– companies in which equity investments are held	23.7	5.3
Other assets	350.0	–
including: – affiliated companies	350.0	–
– companies in which equity investments are held	–	–
Total	**496.0**	257.2

Pledged Assets (17)

Of the assets shown, WestLB pledged € 43,749.7 million (2002: € 49,458.2 million) under repurchase agreements.

Liabilities to Banks (18)

	Dec. 31, 2002 € millions		Dec. 31, 2002 € millions	
	Liabilities to Affiliated Banks	Liabilities to Other Banks	Liabilities to Affiliated Banks	Liabilities to Other Banks
Payable on demand	4,035.9	8,037.8	3,952.1	10,648.2
Breakdown by residual maturity				
– up to 3 months	4,446.9	52,616.0	5,712.5	61,729.9
– between 3 months and 1 year	539.1	14,508.3	431.2	14,948.4
– between 1 and 5 years	376.2	3,864.6	261.9	3,945.6
– more than 5 years	471.4	2,617.0	164.3	2,936.3
Total	**9,869.5**	**81,643.7**	**10,522.0**	**94,208.4**
Book value	**91,513.2**		**104,730.4**	

Liabilities to banks include liabilities to affiliated companies in the amount of € 8,377.7 million (2002: € 8,828.7 million) and liabilities to companies in which equity investments are held in the amount of € 691.9 million (2002: € 1,355.8 million).

Liabilities to Customers (19)

	Dec. 31, 2003 € millions	Dec. 31, 2002 € millions
Savings deposits	0.3	33.0
including: savings deposits with agreed periods of notice of	0.3	33.0
– up to 3 months	0.3	33.0
– between 3 months and 1 year	–	–
– between 1 and 5 years	–	–
– more than 5 years	–	–
Liabilities to customers	60,960.7	61,175.6
including: – payable on demand	15,074.3	13,681.8
with residual maturities of		
– up to 3 months	25,864.2	29,621.3
– between 3 months and 1 year	6,264.7	6,516.1
– between 1 and 5 years	4,058.8	4,464.8
– more than 5 years	9,698.7	6,891.6
Book value	**60,961.0**	**61,208.6**
including: – liabilities to affiliated companies	5,537.8	5,366.9
– liabilities to companies in which equity investments are held	2,785.6	4,243.8

Certificated Liabilities (20)

	Dec. 31, 2003 € millions	Dec. 31, 2002 € millions
Bonds issued	8,946.1	7,539.9
including:		
– amounts due before Dec. 31, 2004	865.5	658.5
Other certificated liabilities	33,485.3	42,183.0
including those with residual maturities of		
– up to 3 months	17,587.9	23,601.2
– between 3 months and 1 year	9,531.7	17,151.4
– between 1 and 5 years	3,478.3	808.9
– more than 5 years	2,887.4	621.5
Book value	**42,431.4**	**49,722.9**
including: – certificated liabilities to affiliated companies	–	–
– certificated liabilities to companies in which equity investments are held	–	127.2

Trust Liabilities (21)

	Dec. 31, 2003 € millions	Dec. 31, 2002 € millions
Liabilities to banks	99.5	83.8
Liabilities to customers	26.8	47.1
RWI certificates	375.0	375.0
Book value	**501.3**	**505.9**

Other Liabilities (22)

	Dec. 31, 2003 € millions	Dec. 31, 2002 € millions
Other liabilities		
Book value	**9,972.5**	**7,821.1**
including: Securities delivery obligations	4,382.1	4,102.7
Premiums from options	2,672.2	2,251.8
Offsetting items from the valuation of currency transactions	1,657.2	273.1
Liabilities to Landesbank NRW under pension commitments	453.6	413.5
Interest to be paid on existing profit participation rights after approval of the annual accounts (tentatively on May 7, 2004)	160.1	157.7

Deferred Items (23)

	Dec. 31, 2003 € millions	Dec. 31, 2002 € millions
Premiums from own bonds issued	27.5	22.1
Other	467.4	459.8
Book value	**494.9**	**481.9**

Special Item with Partial Reserve Character (24)

This item was formed in fiscal year 1999 because the Bank had to comply with the revaluation requirement on participations, loans and securities under the 1999/2000/2002 Tax Relief Act. Pursuant to § 273 of the German Commercial Code (HGB), in conjunction with § 6 (1) and § 52 (16) of the German Income Tax Act (EStG), four-fifths of the written-up amounts were transferred to the special item with partial reserve character. A total of € 25.3 million (2002: € 27.2 million) was released in the 2003 fiscal year.

	Dec. 31, 2003 € millions	Dec. 31, 2002 € millions
Balance on January 1	25.3	52.5
Releases	– 25.3	– 27.2
Book value	**0.0**	**25.3**

Due to the release of the special item with partial reserve character pursuant to § 273 of the German Commercial Code (HGB) and the resulting impact on WestLB's tax liability, the net loss for the year was € 25.3 million higher than would have been reported without the release.

Provisions (25)

	Beginning Balance Jan. 1, 2003 € millions	Utilised € millions	Released € millions	Other Changes € millions	Additions € millions	Ending Balance Dec. 31, 2003 € millions
For pension liabilities	572.0	– 51.3	–	– 3.4	46.0	563.3
For tax	368.9	– 15.5	– 0.6	– 20.2	22.8	355.4
In the personnel area	211.1	– 65.9	– 7.7	– 1.3	323.3	459.5
For loans/equity investments	476.7	– 10.5	– 39.8	– 150.5	114.4	390.3
In the trading business	141.5	– 42.4	–	– 99.1	165.3	165.3
Other provisions	206.7	– 139.9	– 28.2	0.8	176.6	216.0
Book value	**1,976.9**	**– 325.5**	**– 76.3**	**– 273.7**	**848.4**	**2,149.8**

At € 347.8 million, the provisions for personnel relate to measures aimed at reducing headcount. Other provisions include € 51.2 million for adapting the business and organisational structure, € 14.4 million for sales commissions and € 9.2 million for potential litigation risks. The tax provisions include provisions for deferred taxes in the amount of € 6.8 million (2002: € 0.9 million) related to the business activities of foreign branches.

Subordinated Liabilities (26)

	Dec. 31, 2003 € millions	Dec. 31, 2002 € millions
Subordinated liabilities		
Book value	**4,338.5**	**4,977.2**
including: due within 2 years	517.9	1,064.9
Breakdown by Group affiliation – affiliated companies	2,218.2	3,080.2
– companies in which equity investments are held	–	–

Of the subordinated liabilities of € 4,338.5 million (2002: € 4,977.2 million), the junior bond of US$ 750 million (due 2009; interest rate 6.05%) issued by WestLB's New York branch exceeds 10% of the total value of all subordinated liabilities. There is no early redemption obligation. There is no existing or planned agreement to convert these funds into capital or another form of debt.

Of the total subordinated liabilities, € 517.9 million (2002: € 1,064.9 million) have a residual maturity of less than two years. The original maturities range between 5 and 40 years.

The Bank incurred interest expense of € 161.5 million (2002: € 279.6 million) for subordinated liabilities in 2003.

Subordinated liabilities carried by WestLB 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.

Liability for Pre-Existing Commitments – Grandfathering (27)

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 Government of the Federal Republic of Germany 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 will not be necessary.

The following amounts represent those of WestLB's liabilities covered by institutional 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	8,244.4		52,474.5	
Liabilities to banks	6,376.5		85,085.8	
Certificated liabilities	4,975.9		37,428.6	
Other liabilities	–		9,972.5	
Subordinated liabilities	3,385.0	**22,981.8**	953.6	**185,915.0**
Total		**208,896.8**		

At December 31, 2003, the amount of liabilities covered by institutional and guarantor liability was € 208.9 billion (2002: € 227.9 billion); allowing for a total of approx. € 9.0 billion (2002: € 9.9 billion) in equity (including the fund for general bank risks), deferred items, provisions, profit participation capital and trust liabilities, this means that 99.9% (2002: 99.8%) of total liabilities are covered by guarantor liability.

Capital and Reserves (28)

At December 31, 2003, the subscribed capital of WestLB was € 950.5 million (2002: € 950.5 million). It is divided into 9,505,000 (2002: 9,505,000) no-par-value shares, each with a theoretical par value of € 100.0. As WestLB's sole shareholder, Landesbank NRW holds all of WestLB's capital.

The Managing Board was authorised by a resolution of the Shareholders' Meeting on December 11, 2002 to increase the capital by a maximum of € 166.7 million by issuing new shares.

After transferring the sum of € 523.9 million from capital reserves and € 1,383.2 million from retained earnings, WestLB has reserves totalling € 1,510.9 million (2002: € 3,418.0 million). The fund for general bank risks stands at € 82.0 million.

WestLB's capital and reserves comprise the following:

	Dec. 31, 2003 € millions		Dec. 31, 2002 € millions	
Subscribed capital	950.5		950.5	
Capital reserves	1,510.9		2,034.8	
Reserves from retained earnings	–		1,383.2	
– required by WestLB AG's articles and bylaws	–		409.3	
– other	–		973.9	
Silent contributions to capital	837.1		–	
Equity capital pursuant to the German Commercial Code (HGB)		**3,298.5**		**4,368.5**
Fund for general bank risks	82.0		82.0	
Subordinated liabilities	4,338.5		4,977.2	
including: – due within two years	517.9		1,064.9	
Profit participation capital	2,423.9		2,424.7	
including: – due within two years	11.2		12.1	
Other capital and reserves		**6,844.4**		**7,483.9**
Total capital and reserves		**10,142.9**		**11,852.4**

At January 2, 2003, WestLB had taken in silent contributions 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 a rate of 750% into capital and reserves in five annual instalments of € 250.0 million each. The conversion of the portion due on December 31, 2003 has already begun. After recording the capital increase in the Commercial Register, the capital will increase by € 33.3 million and the capital reserves by € 216.7 million. In the amount remaining after the conversion initiated on December 31, 2003 (i.e. € 1,000.0 million), the silent contributions shared 17.8%, or € 412.9 million, in the loss for the fiscal year.

There was a total of € 567.5 million in subordinated issues in fiscal year 2003 (2002: € 0.0 million). Subordinated liabilities and profit participation capital were down € 860.0 million because of those obligations that fell due during the course of the year. Altogether, subordinated liabilities and profit participation capital amount to € 6,762.4 million (2002: € 7,401.9 million). Exchange rate fluctuations had a negative impact on capital and reserves, decreasing the total by € 347.0 million (2002: € 371.0 million).

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

Jan. 1, 2003 € millions	Additions € millions	Other Changes € millions	Dec. 31, 2003 € millions
2,424.7	–	– 0.8	2,423.9

The following table depicts the breakdown of the profit participation capital by maturity (nominal, before discounts):

Maturity	€ millions
2004	11.2
2005	92.0
2006	232.1
2007	495.4
2008	225.7
2009	621.6
2010	280.4
2011–2020	465.5
Total	**2,423.9**

At December 31, 2003, WestLB's capital and reserves under § 10 of the German Banking Act (KWG) (after the transfer from retained earnings) amounted to € 8,196.4 million after the deduction of short-term subordinated debt (Tier III capital) eligible for inclusion. As before, undisclosed reserves (revaluation reserves) pursuant to § 10 (4a) Sentence 1 No. 4 of the German Banking Act (KWG) were not counted as supplementary capital. WestLB adhered at all times to the ratios relating to own funds and liquidity as defined in §§ 10, 10 (a) and 11 of the German Banking Act (KWG).

Commission Decision on Wfa Integration (29)

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

In 1993 the private banks filed a complaint which challenged the remuneration for the capital that was contributed. They alleged that it constituted impermissible aid. In 1997, the European Commission initiated state aid proceedings.

The state aid proceedings culminated in the Commission's decision of July 8, 1999 that, because the remuneration for the Wfa capital was allegedly too low, Westdeutsche Landesbank Girozentrale had received approx. € 800.0 million in state aid between 1992 and 1999.

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

On March 6, 2003, the European Court of First Instance overturned the Commission's decision and ordered that the Commission bear the costs of the proceedings.

Legally, the reversal created a situation in which it is as if the Commission's original decision were never made.

As a result, the need to implement the decision also lapses. Accordingly, the judgement of the European Court of Justice on December 12, 2002 concerning the proper implementation of the decision (proceedings for failure to fulfil an obligation) has been rendered invalid. The Court overturned the Commission's decision of 1999 because the Commission failed to comply fully with its obligation under European law to substantiate the 12% base rate of return and 1.5% risk premium it alleged should have been the basis of the remuneration for the Wfa capital.

Since both of these parameters are 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.

The European Commission will follow the standard procedure in such cases and issue a new decision, since its original decision was overturned. This new decision will take into account the deliberations of the European Court of First Instance.

Westdeutsche Landesbank Girozentrale transferred Wfa to Landesbank NRW on August 1, 2002 as part of the division of WestLB GZ. The Commission expressly accepted this solution with respect to the future. Therefore, the proceedings before the European Courts apply exclusively to the past.

Foreign Currency Assets/Foreign Currency Liabilities (30)

At year-end, WestLB had foreign currency assets valued at € 94.3 billion (2002: € 103.1 billion) and foreign currency liabilities valued at € 84.2 billion (2002: € 106.4 billion).

Other Commitments (31)

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

The volume of € 61.3 billion (2002: € 74.9 billion) shown on the balance sheet stems from current domestic and international lendings, as well as liquidity facilities in connection with asset-backed transactions.

Disposal Restrictions/Security Provisions (32)

As part of the European Central Bank's peak refinancing facility for open-market repo transactions with the Bundesbank, WestLB has deposited or assigned € 8,605.3 million (2002: € 12,977.0 million) of its own bonds and securities, as well as those of affiliated companies, as collateral. Accounts receivable totalling € 810.0 million (2002: € 926.9 million) were assigned to secure loans made as part of public credit programmes. In some cases, the Bank'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 € 5,250.3 million (2002: € 4,872.3 million) in assets.

Assets Pledged as Security for Liabilities (33)

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

	Dec. 31, 2003 € millions	Dec. 31, 2002 € millions
Liabilities to banks	434.6	636.3
Liabilities to customers	556.5	623.7
Certificated liabilities	526.0	292.5
Other liabilities (such as liabilities under securities lending, reverse repo and OTC transactions)	54,211.5	59,296.4
Total assets pledged	**55,728.6**	**60,848.9**

Contingent Liabilities (34)

WestLB's liability to make additional contributions to the Liquiditätskonsortialbank of which it is a member remained unchanged at € 65.3 million (2002: € 65.3 million). In 2003, there was no liability to make additional contributions to the security reserves of the Landesbanken/Girozentralen. 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.

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 € 54.7 million.

Other Financial Obligations (35)

WestLB has rental and leasing obligations of € 108.4 million (2002: € 99.9 million), € 29.0 million (2002: € 31.2 million) of which is to affiliated companies and € 26.8 million (2002: € 3.1 million) of which is to companies in which equity investments are held.

Landesbank NRW and WestLB will be jointly and severally liable until the end of 2006 for all liabilities that were incurred before the division of WestLB GZ. WestLB's joint liability will also be covered by the liability for pre-existing commitments assumed by the former guarantors of WestLB GZ.

Notes to the Statement of Income

Risk Provisions (36)

ALLOWANCES FOR SPECIFIC RISKS AND GENERAL LOAN LOSS PROVISIONS (EXCL. RESERVES PURSUANT TO §§ 340 f, g HGB)

	Dec. 31, 2003 € millions	Dec. 31, 2002 € millions
Beginning balance	3,509.8	2,410.9
Division-related deductions	–	– 146.4
Allocations	1,060.7	1,941.2
Write-backs	– 244.6	– 305.8
Usage	– 721.9	– 229.6
Market value differences/Other changes	– 378.0	– 160.5
Ending balance	**3,226.0**	3,509.8

WRITE-DOWNS AND ADJUSTMENTS PURSUANT TO § 340 f (3) AND § 340 c (2) HGB

	Dec. 31, 2003 € millions	Dec. 31, 2002 € millions
Result of provisions	**– 1,906.2**	**– 816.8**
Expenses from loans and securities:	– 1,089.2	– 1,930.4
– loans	– 1,099.0	– 1,884.5
– securities	9.8	– 45.9
Income from participations and securities:	– 817.0	1,113.6
– participations	– 749.1	1,162.1
– securities	– 67.9	– 48.5

Pursuant to § 340 f (3) of the German Commercial Code (HGB), the income and expenses of WestLB 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 loss of € 1,089.2 million (2002: € 1,930.4 million). Similarly, pursuant to § 340 c (2) of the German Commercial Code (HGB), the expenses for participations, shares in affiliated enterprises, as well as securities held in the investment portfolio, were offset by the income amounts for these investments. The resulting net loss was € 817.0 million (compared to a net gain of € 1,113.6 million in 2002). There were also losses of € 483.7 million (2002: € 79.9 million) assumed from subsidiaries.

Geographic Breakdown of Profit Components (37)

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

€ millions Dec. 31, 2003	Interest Income	Current Income	Commission Income	Net Income from Trading Operations	Other Operating Income
Germany	7,027.9	403.6	197.6	113.5	172.4
Great Britain	6,994.1	4.2	115.4	– 153.0	43.1
Rest of Europe	302.2	–	40.5	– 9.3	19.7
Far East and Australia	546.2	0.7	24.2	– 22.4	10.9
USA	2,090.1	2.7	150.9	43.7	0.6
Offsets	– 9,822.7	–	–	– 76.7	– 37.5
Profit	**7,137.8**	**411.2**	**528.6**	**– 104.2**	**209.2**

The geographic breakdown of income was determined on the basis of the domicile of the branch on whose account the transaction is carried or which was responsible for the transaction. This table includes the profit/loss that was derived from transactions between the regional units, but eliminated in WestLB's statement of income. Operating income includes income from profit pooling and (partial) profit transfer agreements. Other operating income includes income from the leasing business.

Result from Leasing Business (38)

Income from the leasing business includes regular lease payments. Leasing expenses include depreciation of the property being leased.

Extraordinary Result (39)

The extraordinary expenses include € 266.1 million for restructuring measures in the area of personnel and € 79.7 million in resulting operating expenses (vacancy costs, depreciation of software). The € 3.8 million in extraordinary income is from the sale of the private banking business.

Income and Expenses Relating to Different Accounting Periods (40)

	Dec. 31, 2003 Mio €
Interest expense	0.3
Interest income	– 3.2
Commission expense	– 0.1
Commission income	0.2
Back taxes	8.6
Write-back of other provisions	35.9
Income from the release of the special item with partial reserve character	25.3
Total	**67.0**

Taxes on Income and Revenues (41)

The € 27.6 million (2002: € 59.3 million) in taxes on income and revenues was mostly on the result from ordinary activities at foreign branches.

Miscellaneous Items

Deposit Insurance (42)

WestLB 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).

Letters of Comfort (43)

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. Enterprises covered by these Letters of Comfort and WestLB's investment quotas in such enterprises are set forth below.

The subsidiaries covered by these Letters of Comfort and WestLB's interest in them (direct and indirect) are as follows:

1. **Banking Group Subsidiaries**
   Banco WestLB do Brasil S.A., São Paulo (100%)
   Bank WestLB Vostok (ZAO), Moscow (100%)
   Banque d'Orsay S.A., Paris (100%)
   WestAM Holding GmbH, Düsseldorf (100%)
   Westdeutsche ImmobilienBank, Mainz (100%)
   WestLB Asia Pacific Limited, Singapore (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 Fund Investments Ltd., London (100%)
   WestLB Hungaria Bank Rt., Budapest (100%)
   WestLB International S.A., Luxembourg (100%)
   WestLB Ireland plc, Dublin (100%)
   WestLB (Italia) Finanziaria S.p.A., Milan (100%)
   WestLB Panmure Ltd., London (100%)
   WestLB Securities Inc., Dover/Delaware (100%)
   WestLB Securities Pacific Ltd., Hong Kong (100%)
   WestLB UK Ltd., London (100%)

2. **Other Group Subsidiaries**
   Banque Européenne pour l'Amérique Latine (BEAL) S.A., Brussels (100%)
   PE Projektentwicklungsgesellschaft mbH & Co. Büro- und Businesscenter Leipzig-Park KG, Düsseldorf (100%)
   WestAM (USA) Ltd., Addison, Texas (100%)
   WestLB Asset Management (Australia) Pty. Ltd., Sydney (51%)
   WestLB Asset Management (UK) Ltd., London (100%)
   WestLB Asset Management (US) LLC, Houston, Texas (100%)
   WestLB Asset Management (USA) LLC, Chicago (100%)
   WestLB Finance (Credits) Ltd., London (100%)
   WestLB Finance Curaçao N.V., Willemstad (100%)
   WestLB Finance Netherlands B.V., Amsterdam (100%)
   WestLB Finance UK plc, London (100%)
   WestLB Property Services Ltd., London (100%)
   West Merchant Bank Ltd., London (100%)
   WestRM – West Risk Markets AG, Zug (100%)
   WMB Leasing Nine Ltd., London, (100%)
   WMB Leasing Seven Ltd., London (100%)
   WMB Leasing Ten Ltd., London (100%)

3. **Other Equity Investments**
   West Pensionsfonds AG, Düsseldorf (49.9%)
   West Pensionskasse AG, Düsseldorf (49.9%)

Guarantor Liability (44)

Together with its wholly owned subsidiary WestLB Beteiligungsholding GmbH, WestLB is a guarantor, to the extent permitted by law, of Landesbank Rheinland-Pfalz, Mainz, and HSH Nordbank AG, Hamburg/Kiel, and also the sole guarantor of Westdeutsche ImmobilienBank, Mainz. WestLB continues to be a guarantor of DEKA Deutsche Girozentrale, Frankfurt/Main.

Corporate Governance Code (45)

WestLB 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 undertook a voluntary obligation in doing so. The Supervisory Board, Managing Board and employees fully support the corporate governance rules. The rules will ensure that WestLB's operations are managed and supervised responsibly and in keeping with the principles of good corporate citizenship.

In 2003, WestLB created a system for monitoring compliance with its corporate governance rules. Responsibilities and duties were clearly delegated. The new system will ensure compliance at all levels.

WestLB sees corporate governance as a dynamic process and will continue to develop the content and means of implementing its corporate governance rules. In 2004, WestLB intends to examine its rules in light of new experiences, legislation and revised national and international standards, making changes where necessary. With efforts such as these, the quality of WestLB's corporate governance will continue to improve over time.

WestLB complied with its corporate governance rules in full in 2003, with one exception: Due to an unusually heavy workload, one member of the Supervisory Board was unable to attend Supervisory Board meetings in person, to the extent stipulated by the corporate governance rules (see II. 2.4 of the CG). This member resigned from office in the fiscal year under review. In addition, on May 14, 2003 a resolution was adopted that set a fixed remuneration for Supervisory Board members for the 2002 fiscal year. The remuneration for fiscal year 2003 will be decided at the Shareholders' Meeting on May 13, 2004 (see II. 2.4 of the CG).[1]

Remuneration of the Governing Bodies (46)

	Dec. 31, 2003 € millions	Dec. 31, 2002 € millions
Total remuneration of the Managing Board	**9.5**	**6.5**
– fixed	9.5	6.5
– performance-based	0.0	0.0
– long-term incentive programmes	0.0	0.0
Total remuneration of former Managing Board members and their survivors	**9.0**	**3.9**
Total remuneration of Supervisory Board members	**0.1**	**0.3**
– fixed	0.1	0.3
– performance-based	0.0	0.0
– based on long-term performance of WestLB	0.0	0.0
Pension provisions for former Managing Board members and their survivors	**46.7**	**36.2**

[1] These statements are based on the current version of WestLB's Corporate Governance Rules (CG), dated May 13, 2003.

The remuneration paid to members of the Supervisory Board in the previous year was € 0.5 million, while that paid to members of the Guarantors' Meeting amounted to € 0.1 million and that paid to members of the Advisory Boards was € 0.5 million.

The € 0.1 million paid to members of the Supervisory Board represents a lump-sum reimbursement of their out-of-pocket expenses. The remuneration to be paid for 2003 will be determined at the 2004 Shareholders' Meeting. The remuneration for 2002 was determined at the 2003 Shareholders' Meeting and will be adjusted accordingly for the year under review.

Loans to Members of the Governing Bodies (47)

The members of the WestLB Managing Board received advances and loans totalling € 0.027 million (2002: € 0.6 million). The members of the WestLB Supervisory Board received advances and loans totalling € 0.25 million.

Number of Employees (48)

The average number of employees in 2003 was as follows:

Number of employees	Men	Women	Total 2003	Total 2002
Domestic branches	1,646	1,606	3,252	3,738
Foreign branches	1,149	731	1,880	2,158
Total	**2,795**	**2,337**	**5,132**	**5,896**

An average of 152 (2002: 196) employees were engaged in apprenticeship training or equivalent training.

Shareholdings in WestLB (49)

Landesbank NRW holds 100% of the subscribed capital of WestLB. WestLB was given notice hereof in accordance with § 20 (1) and (4) of the German Stock Corporation Act (AktG).

Shareholdings in Major Corporations (50)

The Bank holds more than 5% of the voting rights in the following companies (disclosure pursuant to § 340 a (4) No. 2 HGB):

AKA Ausfuhrkredit-Gesellschaft mbH, Frankfurt/Main
Asia Leasing Ltd., Hamilton, Bermuda
AXA Investment Managers Deutschland GmbH, Cologne
Babcock Borsig Aktiengesellschaft, Oberhausen
BAHC (Bermuda) One Ltd., Hamilton, Bermuda
Banca Carige S.p.A., Genoa
Banque Européenne pour l'Amerique Latine (BEAL) S.A., Brussels
Bellevue Aircraft Leasing Ltd., Dublin
Boullioun Aviation Services (International) Inc., Hamilton, Bermuda
Boullioun Aviation Services (Netherlands) B.V., Amsterdam
Fraikin Groupe S.A., Levallois-Perret
Girindus AG, Bergisch Gladbach
Herlitz AG, Berlin
Metro Capital B.V., Venlo-Blerick
Nordex AG, Norderstedt
Northern Aircraft Leasing AS, Oslo
OP Team Estate Management SAS (OTEM), Paris
Orsay Asset Management, Paris
Orsay Gestion, Paris
Orsay Wagram, Paris
Rainier Aircraft Leasing (Ireland) Ltd., Dublin
RW Holding AG, Düsseldorf
Société Financière Aquitaine S.A., Paris
TA Triumph-Adler AG, Nuremberg
Technotrans AG, Sassenberg
The Wireless Group plc, London
TUI AG, Berlin and Hanover
WestLB Administration Inc., New York
WestLB (Hungaria) Ingatlan Kereskedelmi Kft. i. L., Budapest
West Private Capital GmbH, Stuttgart
WestRM – West Risk Markets AG, Zug

In addition to the disclosure pursuant to § 340 a (4) No. 2 of the German Commercial Code (HGB), the following is a list of companies which are fully consolidated into the Group annual accounts:

Banco WestLB do Brasil S.A., São Paulo
Banque d'Orsay S.A., Paris
Boullioun Aviation Services Inc., Bellevue
Deutsche Anlagen-Leasing GmbH, Mainz
HSH Nordbank AG, Hamburg/Kiel
Landesbank Rheinland-Pfalz Girozentrale, Mainz
Singapore Aircraft Leasing Enterprise Pte Ltd., Singapore
WestLB Bank Polska S.A., Warsaw
WestLB Covered Bond Bank plc, Dublin
WestLB Europe (UK) Holdings Ltd., London
WestLB Finance Curaçao N.V., Willemstad
WestLB Hungaria Bank Rt., Budapest
WestLB International S.A., Luxembourg

WestLB Ireland plc, Dublin
WestLB New York Capital Investment Ltd., Jersey
WestLB Panmure Ltd., London
WestLB Securities Inc., Dover/Delaware
WestLB Securities Pacific Ltd., Hong Kong
WestLB Systems GmbH, Düsseldorf
West Merchant Bank Ltd., London
West Private Equity Verwaltungsgesellschaft GmbH, Stuttgart
WPE Carried Interest Partner Ltd., London
WPE General Partners Ltd., London

Shareholdings in Partnerships (51)

Pursuant to § 285 No. 11a) of the German Commercial Code (HGB), the following is a list of partnerships in which WestLB is 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/Main
Grundstücksgesellschaft am Fürstenwall (GbR), Düsseldorf
SECOFINANCE WestLB, Paris
Société Civile Immobilière Franco-Allemande (SCIFA), Paris
Woolgate Investments CV, Dublin

Seats Held by Members of the Managing Board (52)

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 major corporations pursuant to § 340 a (4) No. 1, in conjunction with § 267 (3), of the German Commercial Code (HGB).

Jürgen Sengera (until July 2, 2003)
AXA Konzern AG
DekaBank Deutsche Girozentrale* (until July 2, 2003)
Deutsche Anlagen-Leasing GmbH (until September 30, 2003)
Deutsche Post AG
Ford-Werke AG
HSH Nordbank AG (until June 2, 2003)
Landesbank Rheinland-Pfalz Girozentrale* (until July 31, 2003)
Landesbank Schleswig-Holstein Girozentrale* (until June 2, 2003)
Rockwool International A/S
TUI AG (until August 21, 2003)
Westdeutsche ImmobilienBank* (until July 31, 2003)
WestLB Systems GmbH (until February 5, 2003)

Dr. Johannes Ringel (until December 31, 2003)
Babcock Borsig AG (until March 15, 2003)
Banque Européenne pour l'Amérique Latine (BEAL) S.A. (until August 31, 2003)
DekaBank Deutsche Girozentrale* (from September 1, 2003)
HSH Nordbank AG (from August 6, 2003)
Hüttenwerke Krupp Mannesmann GmbH
Klöckner & Co AG (until August 7, 2003)
Landesbank Rheinland-Pfalz Girozentrale* (from July 31, 2003)
MTBC Bank Deutschland GmbH
Nordex AG (until November 5, 2003)
Phoenix AG (until October 7, 2003)
Rütgers AG
RWE Energy AG (from October 1, 2003)
STEAG AG
ThyssenKrupp Stahl AG
TUI AG (from September 9, 2003)
WestLB Securities Pacific Ltd. (until June 25, 2003)
WPS WertpapierService Bank AG (until August 4, 2003)

Dr. Thomas R. Fischer (from January 1, 2004)
AMVESCAP plc (from January 29, 2004)
Audi AG
DekaBank Deutsche Girozentrale* (from January 1, 2004)
Landesbank Rheinland-Pfalz Girozentrale* (from January 1, 2004)
TUI AG (from January 16, 2004)

Dr. Matthijs van den Adel (from January 1, 2004)
Landesbank Rheinland-Pfalz Girozentrale* (from February 1, 2004)
Westdeutsche ImmobilienBank* (from January 20, 2004)

Dr. Adolf Franke (until December 31, 2003)
Bank Austria Creditanstalt AG (until March 17, 2003)
Banque Européenne pour l'Amérique Latine (BEAL) S.A. (until August 31, 2003)
Boullioun Aviation Services Inc. (until June 30, 2003)
Kaufhof Warenhaus AG (from March 13, 2003)
Landesbank Rheinland-Pfalz Girozentrale* (until December 31, 2003)
Landesbank Schleswig-Holstein Girozentrale* (until June 2, 2003)
rhenag Geschäftsführungs AG
rhenag Rheinische Energie AG
RWE Gas AG
Westdeutsche ImmobilienBank*
WestLB International S.A.
WestLB Systems GmbH

Klaus-Michael Geiger
Boullioun Aviation Services Inc. (from July 1, 2003)
Landesbank Rheinland-Pfalz Girozentrale* (from May 1, 2003)
Westdeutsche ImmobilienBank* (from July 31, 2003)
WestLB Systems GmbH (from February 5, 2003)

Dr. Manfred Puffer
Boullioun Aviation Services Inc. (from July 1, 2003)
Deutsche Anlagen-Leasing GmbH (from October 1, 2003)
HSH Nordbank AG (until August 6, 2003)
Österreichische Bundesfinanzierungsagentur Ges.m.b.H*
WestLB Asset Management Kapitalanlagegesellschaft mbH
WestLB International S.A.
WestLB Panmure Ltd.
WestLB Securities Pacific Ltd. (from June 25, 2003)

Robert Restani (until March 31, 2004)
Deutsche Anlagen-Leasing GmbH (from October 1, 2003)
Landesbank Rheinland-Pfalz Girozentrale*
Westdeutsche ImmobilienBank*

Gerhard Roggemann (until March 20, 2004)
AXA Lebensversicherung AG
Banque d'Orsay S.A.
Börse Düsseldorf AG*
Deutsche Börse AG (until May 12, 2003)
Fresenius AG
Hapag-Lloyd AG
Solvay Deutschland GmbH
VHV Autoversicherungs GmbH (until August 25, 2003)
VHV Holding AG (from July 8, 2003)
Westdeutsche ImmobilienBank*
WestLB Asset Management Kapitalanlagegesellschaft mbH
WestLB International S.A.
WPS WertpapierService Bank AG (until February 14, 2003)

Andreas Seibert (until July 2, 2003)
Banque Européenne pour l'Amérique Latine (BEAL) S.A. (until August 31, 2003)
Boullioun Aviation Services Inc. (until July 17, 2003)
INTERSEROH AG
Preussag Energie GmbH
Singapore Aircraft Leasing Enterprise Pte. Ltd. (until July 17, 2003)

Rainer Schmitz (from October 23, 2003)
Deka Investment GmbH

Seats Held by Employees (53)

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

Holger Bredekamp
Wohnungsgesellschaft Münsterland mbH

Dr. Helmut Brocke
RW Holding AG

Maurizio Fazzari
Banca Carige S.p.A.

Birgit Garitz
Boullioun Aviation Services Inc.

Jürgen Germies
Wolfson Microelectronics plc (from June 24, 2003)

Hans-Josef Hoeveler
Boullioun Aviation Services Inc.

Gerhard Knoke
Banque Européenne pour l'Amérique Latine (BEAL) S.A.
WestAM Holding GmbH
Westdeutsche ImmobilienBank
WestLB Europa Holding AG

Michael Kramer
Singapore Aircraft Leasing Enterprise Pte. Ltd.

Dagmar Lange
Fraikin Groupe S.A.

Klaus Neuhaus
Banque Européenne pour l'Amérique Latine (BEAL) S.A.

Dr. Wolfgang Nickels
Banque Européenne pour l'Amérique Latine (BEAL) S.A.

Werner Peters
WestLB Asset Management Kapitalanlagegesellschaft mbH

Thomas Reh
MTBC Bank Deutschland GmbH

Wolfgang Richter
Banque d'Orsay S.A.
Singapore Aircraft Leasing Enterprise Pte. Ltd.

Robin Saunders
BHS Ltd. (until September 29, 2003)

Guido Schmitz
Singapore Aircraft Leasing Enterprise Pte. Ltd.

Jürgen Schneider
JT International Germany GmbH

Joachim Voss
Technotrans AG

Dr. Alexander Winkels
Klöckner & Co AG
Madaus AG
Phoenix AG

Governing Bodies of WestLB (54)

Managing Board of WestLB

Dr. Johannes Ringel (Chairman from July 2, 2003 to December 31, 2003)
Jürgen Sengera (Chairman until July 2, 2003)
Dr. Thomas R. Fischer (Chairman from January 1, 2004)
Dr. Matthijs van den Adel (from January 1, 2004)
Dr. Norbert Emmerich (from May 1, 2004)
Dr. Adolf Franke (until December 31, 2003)
Klaus-Michael Geiger
Dr. Manfred Puffer
Robert Restani (until March 31, 2004)
Gerhard Roggemann (until March 20, 2004)
Rainer Schmitz (deputy member from October 23, 2003)
Andreas Seibert (until July 2, 2003)

Members of the Supervisory Board of WestLB

Dr. Bernd Lüthje, Chairman
Chairman of the Managing Board, Landesbank NRW

Gerd-Uwe Löschmann, Deputy Chairman
Prokurist, WestLB AG, Düsseldorf

Dr. Erich Bauer (until July 3, 2003)
Chief Executive Manager, TMD Friction Holding GmbH

Jean-Pascal Beaufret
Chief Financial Officer, Alcatel

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

Jochen Dieckmann (from July 3, 2003)
Finance Minister, State of North Rhine-Westphalia

Thorsten Ellwanger
Prokurist, WestLB AG, Hamburg

Bernd Fiegler
Deputy State Director
ver.di Vereinte Dienstleistungsgewerkschaft, Regional District of North Rhine-Westphalia

Dr. Rolf Gerlach
President, Savings Banks and Giro Association of Westphalia-Lippe

Dr. Karl-Ludwig Kley (from July 3, 2003)
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)
Bank Director, WestLB AG, Düsseldorf

Dr. Siegfried Luther
Deputy Chairman of the Managing Board, Bertelsmann AG

Manfred Matthewes
Bank officer, WestLB AG, Düsseldorf

Hartmut Mehdorn (until July 3, 2003)
Chairman of the Managing Board, Deutsche Bahn AG

Udo Molsberger
Regional Director, Regional Association of the Rhineland

Dr. Hans-Ulrich Predeick
Regional Councillor, Regional Association of Westphalia-Lippe

Heinz-Günter Sander
Bank employee, WestLB AG, Düsseldorf

Rainer Schmitz (until October 23, 2003)
Bank Director, WestLB AG, Düsseldorf

Franz-Georg Schröermeyer
Secretary, Financial Services
ver.di Vereinte Dienstleistungsgewerkschaft, Münster Regional Office

Christiane Staschelt
Deputy Director for the Düsseldorf Region
ver.di Vereinte Dienstleistungsgewerkschaft, Düsseldorf Regional Office

Elisabeth Weber
Bank officer, WestLB AG, Düsseldorf

Düsseldorf/Münster, February 16, 2004

WestLB AG

The Managing Board

Dr. Fischer	Dr. van den Adel	Geiger	Dr. Puffer
Restani	Roggemann	Schmitz	

Auditor's Opinion

We have audited the annual accounts, together with the bookkeeping system, and the statement of financial condition prepared by WestLB AG, Düsseldorf/Münster, for the financial year ending December 31, 2003. The bookkeeping and preparation of the annual accounts and the statement of financial condition according to German commercial law regulations and the supplementary provisions contained in the articles and bylaws are the responsibility of the legal representatives of the Bank. It is our task to give an opinion on the annual accounts, together with the bookkeeping system, and the 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 Bank's net assets, financial condition and earnings in the annual accounts and the 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 Bank 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 books, the annual accounts and the statement of financial condition are for the most part assessed on the basis of samples. The audit covers an assessment of the accounting principles applied and the relevant estimates made by the legal representatives as well as an opinion on the overall presentation of the annual accounts and the 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 annual accounts, while complying with standard accounting principles, present a true and fair view of the net assets, financial condition and earnings of WestLB AG, Düsseldorf/Münster. The statement of financial condition adequately reflects the Bank's situation and the risks inherent in its future development.

Düsseldorf, February 27, 2004

Ernst & Young AG
Wirtschaftsprüfungsgesellschaft

Dr. Wagner	Müller-Tronnier
German Public Accountant	German Public Accountant

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