Financial Report 2004

WestLB AG

WestLB

New Answers in Banking

Key Figures

Key Figures

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

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

Financial Report 2004
WestLB AG, Düsseldorf/Münster

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We will be pleased to send you a copy of the WestLB Annual Report 2004 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, 2004

Economic Setting

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

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

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

Development in the Banking Sector

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

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

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

EU Proceedings

The recent history of WestLB has been characterised not only by challenges posed by the market, but also by questions raised about the integration of the Wohnungsbauförderungsanstalt (Wfa), as well as about institutional 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 its value in the nineties. The Federal Banking Supervisory Office and the Directorate-General of the European Commission responsible for banks expressly upheld the recognition of Wfa's assets as qualified contributions towards WestLB's capital adequacy. Later on, some of the other federal states took similar measures for their Landesbanks.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Structural Developments at WestLB AG

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

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

In June 2004, the shareholders' meeting endorsed a € 1.5 billion capital increase. The owners agreed that the Savings Banks and Giro Association of the Rhineland, as well as the Savings Banks and Giro Association of Westphalia-Lippe, would each contribute half of the additional capital. Effective July 1, 2004, the two savings banks associations also exercised their direct investment option, converting their shares in NRW.BANK into direct stakes in WestLB AG. Including the capital increase completed in October 2004, the two savings banks associations of North Rhine-Westphalia each now hold 30.626% of WestLB's shares, which gives them a combined majority. The State of North Rhine-Westphalia is an indirect shareholder in WestLB AG through NRW.BANK. With the new majority shareholder structure, the parent-subsidiary relationship between NRW.BANK and WestLB was dissolved.

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

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

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

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

In 2004 WestLB agreed to increase its stake in Deutsche Anlagen-Leasing GmbH (DAL) to 92% of the voting rights by acquiring the shares held by fellow DAL shareholders Landesbank Hessen-Thüringen Girozentrale and LRP Landesbank Rheinland-Pfalz. Within the Savings Banks Finance Group, DAL is a specialist in liquidity and balance sheet-enhancing leasing and rental solutions for real estate. By becoming the majority shareholder, WestLB has taken a first step towards its goal of actively participating in the anticipated consolidation in the German leasing market.

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

WestLB AG's Branch Network

In addition to its registered office in Düsseldorf and Münster, WestLB continues to maintain branch offices in Berlin, Cologne, Dortmund and Frankfurt am Main. It also has sales offices in Hamburg and Munich. Elsewhere in Europe, customers are served by branch offices in Istanbul, London, Madrid, Milan and Paris. Outside Europe, there are branches in Hong Kong, New York, Shanghai, Singapore, Sydney, Tokyo and Toronto. The Bank's international presence is rounded out by representative and sales offices in key financial centres. As part of its new business strategy, the Bank is currently examining its international locations with a view toward possible synergies and additional cost-saving potential.

Employees

By integrating employees of subsidiaries, including some 650 employees of WestLB Systems in Germany and abroad, WestLB AG increased its headcount from 4,955 at December 31, 2003 to 5,132 at December 31, 2004. As a result, personnel expenses rose slightly in 2004, up 1.8% from € 684.9 million to € 697.5 million.

In areas where staff numbers were reduced, the cuts were handled, as before, in a socially responsible manner. In such situations, WestLB uses a variety of innovative personnel management tools.

Accounting Methods and Reporting Standards

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

Statement of Income

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

On the one hand, WestLB succeeded in achieving a result from ordinary activities of € 696.2 million due to higher net interest income, additional cost savings and systematic portfolio realignment, despite persistently challenging conditions in the banking sector overall.

On the other hand, through completion of the Wfa aid proceedings with the European Commission and resulting repayment, WestLB incurred extraordinary expenses of € 1.4 billion, which had a significant impact on the bottom line in 2004.

The total net loss for the year of € 920.0 million will be offset with transfers from capital reserves and from silent contributions. The obligations under profit participation certificates are being serviced in accordance with the terms on which the certificates were issued.

WestLB AG Statement of Income for the Period January 1 – December 31, 2004

	1. 1.–31. 12. 2004 € millions	1. 1.–31. 12. 2003 € millions	Changes € millions	%
Net interest income	1,657.3	1,548.3	109.0	7.0
Provisions for credit risks	234.4	– 1,098.3	1,332.7	> 100
Net interest income after provisions for credit risks	**1,891.7**	**450.0**	**1,441.7**	**> 100**
Net commission income	278.0	338.1	– 60.1	– 17.8
Net income from trading operations	– 92.8	– 104.2	11.4	10.9
Balance of other operating expenses/income	59.1	142.2	– 83.1	– 58.4
Personnel expenses	697.5	684.9	12.6	1.8
Other administrative expenses	777.7	825.3	– 47.6	– 5.8
Result of securities and participations	35.4	– 1,266.3	1,301.7	> 100
Result from ordinary activities	**696.2**	**– 1,950.4**	**2,646.6**	**> 100**
Extraordinary result	– 1,571.0	– 342.0	– 1,229.0	> – 100
Result before taxes	**– 874.8**	**– 2,292.4**	**1,417.6**	**61.8**
Taxes on income and revenues	45.2	27.6	17.6	63.8
Net income/loss for the year	**– 920.0**	**– 2,320.0**	**1,400.0**	**60.3**

Net Interest Income

At € 1,657.3 million, net interest income before provisions for credit risks was up € 109.0 million over the previous year. The chief reason for this improvement is the considerable increase in income from equity investments reported in the net interest result; € 202.5 million is attributable to a special dividend paid by WestLB International S.A., Luxembourg. The transfer of municipal loans to subsidiary Westdeutsche ImmobilienBank had the opposite effect, reducing the interest result from lending and money market transactions.

Provisions for Credit Risks

At € 234.4 million, the result of provisions for credit risks was positive and was € 1,332.7 million above the previous year's figure. Most especially, this is the outcome of systematically realigning the credit portfolio in 2003, which resulted in complete coverage for all risks discernible at the time. The Risk Report contains a detailed breakdown of the provisioning for credit risks.

Net Commission Income

The figure for net commission income also reflects the strategy shift in 2004 toward a lending policy rooted in a more robust risk culture. The resulting drop in commission income could not be offset by the growth in income generated in the securities business. Accordingly, the € 278.0 million in net commission income is € 60.1 million less than in the previous year.

Net Income from Trading Operations

At € – 92.8 million, net income from trading operations was up € 11.4 million over the previous year. Contributions from trading activities in equities, stock and index derivatives and interest rate products were positive on the whole; the result from currency transactions was not. The result from interest rate products captured in this item should be viewed in close connection with the € 737.1 million in earnings contributions from money market and securities trading transactions, which are reported under net interest income.

Other Operating Surplus

The reduction in other operating surplus by € 83.1 million to € 59.1 million is partially the result of the first-time contribution of € 25.0 million toward the new reserve funds established with the savings banks associations in North Rhine-Westphalia. Lower income from the write-back of provisions which were no longer necessary, as well as lower income from internal netting, were also factors.

Administrative Expenses

Administrative expenses were reduced by € 35.0 million to € 1,475.2 million in the year under review.

At € 697.5 million, personnel expenses were only slightly above their previous year's level. Moderate increases in existing salaries and wages and the reintegration into WestLB AG of employees from subsidiaries were the principal reasons for the narrow rise. In addition, allocations to provisions for performance-related compensation also rose in 2004.

Through added systematic efficiency boosts in the area of IT, we succeeded in cutting our other administrative expenses, which stood at € 777.7 million for the year, by € 47.6 million. With the transfer of our web/office applications and IT infrastructure-related services to Hewlett Packard as of January 1, 2005, the Bank expects to see further reductions in its IT costs starting in 2006.

Result of Securities and Participations

The result of securities and participations stood at € 35.4 million, which marks a € 1,301.7 million improvement over the previous year. It is broken down as follows:

	Dec. 31, 2004 € millions	Dec. 31, 2003 € millions	Changes € millions	%
Result of participations	37.0	– 1,208.2	1,245.2	> 100
Result of securities	– 1.6	– 58.1	56.5	97.2
Result of securities and participations	**35.4**	**– 1,266.3**	**1,301.7**	**> 100**

The € 37.0 million result of participations is primarily attributable to gains on the sale of investments. Noteworthy divestments included the non-strategic holdings in Bayerische Hypo- und Vereinsbank AG, ThyssenKrupp AG, RWE AG, AXA S.A. and Heidelberger Zement South-East Asia GmbH. The result of participations in the previous year came in at € –1,208.2 million, a reflection of the write-downs occasioned by sweeping portfolio realignment; the resulting provisions covered all discernible risks.

Additionally, the result of securities, i.e. chiefly of bond and note sales, rose € 56.5 million on the previous year.

Extraordinary Result

The resolution of the Wfa aid proceedings with the EU and resulting repayment to the State of NRW resulted in extraordinary expenses of € 1,411.3 million. This item also includes restructuring expenses of € 159.7 million.

Taxes on Income and Revenues

Tax expense rose € 17.6 million to € 45.2 million in the year under review, in large measure because of the positive earnings contributions of our foreign branch offices.

Balance Sheet

At € 214.6 billion, WestLB's total assets at December 31, 2004 were down € 3.6 billion compared to the previous year.

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

Assets

	Dec. 31, 2004 € billions	Dec. 31, 2003 € billions	Changes € billions	%
Cash/Liquid debt issues	3.9	16.7	– 12.8	– 76.6
Claims on banks	81.7	66.1	15.6	23.6
Claims on customers	56.2	67.7	– 11.5	– 17.0
Securities/Equalisation claims	57.5	51.2	6.3	12.3
Equity investments in affiliated and non-affiliated companies	6.6	8.9	– 2.3	– 25.8
Trust assets	0.5	0.5	0.0	0.0
Fixed assets	0.3	0.3	0.0	0.0
Other assets	7.9	6.8	1.1	16.2
Total assets	**214.6**	**218.2**	**– 3.6**	**– 1.6**

Liabilities

	Dec. 31, 2004 € billions	Dec. 31, 2003 € billions	Changes € billions	%
Liabilities to banks	94.4	91.5	2.9	3.2
Liabilities to customers	58.9	61.0	– 2.1	– 3.4
Certificated liabilities	35.8	42.4	– 6.6	– 15.6
Trust liabilities	0.5	0.5	0.0	0.0
Other liabilities	14.6	12.6	2.0	15.9
Subordinated liabilities/ Profit participation capital	6.5	6.8	– 0.3	– 4.4
Equity capital/Fund for general bank risks	3.9	3.4	0.5	14.7
Total liabilities	**214.6**	**218.2**	**– 3.6**	**– 1.6**
Contingent liabilities	9.6	11.9	– 2.3	– 19.3
Other commitments/Credit commitments	46.3	61.3	– 15.0	– 24.5
Business volume	**270.5**	**291.4**	**– 20.9**	**– 7.2**

Credit Volume

WestLB's credit volume stood at roughly € 201 billion at December 31, 2004, compared to € 214 billion at the end of 2003.

We continued to pursue our rigorous system of credit portfolio management in 2004, consolidating our business with major international clients, for example. We also transferred € 2.2 billion in loans to Westdeutsche ImmobilienBank.

Declining figures were likewise reported in the off-balance-sheet segment. At € 46.3 billion, irrevocable credit commitments were down € 15.1 billion from the previous year. The volume of liquidity support lines for asset backed commercial paper programmes was also much lower.

Credit Volume

	31. 12. 2004 € millions	31. 12. 2003 € millions	Changes € millions	%
Claims on banks	81,737	66,076	15,661	23.7
Claims on customers	56,189	67,693	– 11,504	– 17.0
Contingent liabilities	9,627	11,923	– 2,296	– 19.3
Irrevocable credit commitments	46,268	61,347	– 15,079	– 24.6
Credit volume carried on the balance sheet	**193,821**	**207,039**	**– 13,218**	**– 6.4**
Derivatives (credit risk equivalents)	7,615	6,892	723	10.5
Total credit volume	**201,436**	**213,931**	**– 12,495**	**– 5.8**

Securities Holdings

The total holdings of € 53.1 billion in bonds and other interest-bearing securities include money market instruments in the amount of € 6.5 billion, bonds and notes in the amount of € 45.5 billion and own bonds in the amount of € 1.1 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 € 8.9 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 or hedged with interest rate derivatives; this is predominantly the case with the liquidity reserve.

The book value of the shares and other non-interest-bearing securities held by WestLB was around € 4.3 billion at December 31, 2004. Of that, the volume of shares in investment funds was around € 2.4 billion. Most of the investment funds were established by Group companies and are mainly for own investment purposes.

Equity Investments in Affiliated and Non-Affiliated Companies

In the course of implementing the Bank's redefined strategy, the carrying value of its equity investments in affiliated and non-affiliated companies dropped € 2.3 billion to € 6.6 billion.

Major divestments were the stakes in Bayerische Hypo- und Vereinsbank AG, RWE AG, ThyssenKrupp AG, AXA S.A. and Heidelberger Zement South-East Asia GmbH. Acquisition-based additions included stakes in Singapore Aircraft Leasing Enterprise Pte. Ltd., Fresenius AG and METRO Group Asset Management GmbH & Co. KG.

Important changes with respect to affiliated companies included the increase in Westdeutsche ImmobilienBank's capital base, as well as the sale of the investments in Landesbank Rheinland-Pfalz and TUI AG.

Customer and Bank Deposits

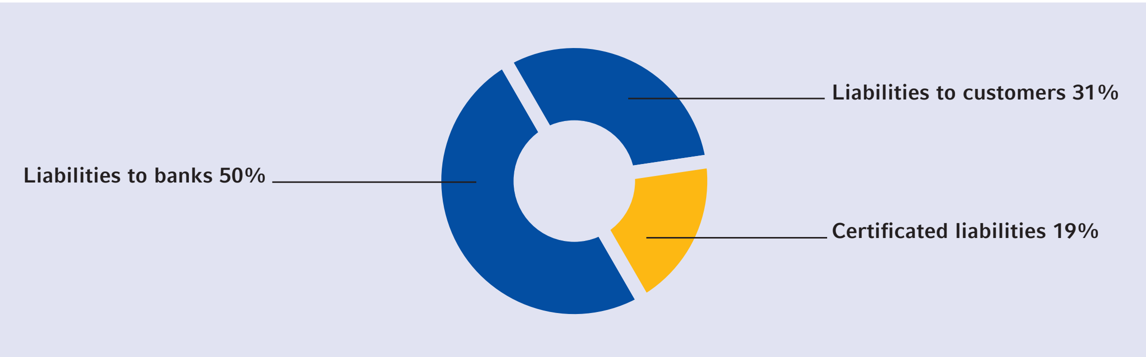
The Bank's principal source of refinancing is other banks. Compared to the previous year, liabilities to banks were up € 2.9 billion to € 94.4 billion, while liabilities to customers were down about € 2.1 billion to € 58.9 billion.

Of the € 153.3 billion in liabilities to banks and customers, € 47.3 billion stem from securities repurchase agreements.

Issuing Business

WestLB AG's issuing volume exceeded € 16.6 billion in 2004, setting a record. However, high aggregate redemptions reduced the total volume of certificated liabilities outstanding to approximately € 35.8 billion at December 31, 2004.

Breakdown of Refinancing at December 31, 2004 (%)



WestLB successfully issued, or increased the volume of, several euro benchmark bonds, both with fixed-interest and variable-interest coupons. The preferred maturities were 5, 10 and 11 years. In addition to euro bonds, which account for roughly 90% of the total issuing volume, WestLB was also active with issues in the following currencies: AUD, CAD, CHF, GBP, HKD, JPY, NOK, SEK and SGD. Whereas WestLB typically taps its existing € 50 billion debt issuance programme, a domestic debt issuance programme for the Australian market was introduced in 2004. Several bonds have already been issued under this programme and placed with Australian investors. Overall, WestLB made good progress in 2004 toward the goal of diversifying the investor base.

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

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

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

Own Funds

Under § 10 of the German Banking Act (KWG), as well as under Principle I, WestLB must have adequate capital and reserves to support 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 the required capital backing at all times in 2004.

The capital and reserves recognised for German banking regulatory purposes consist of core and supplementary capital and Tier III capital. For WestLB AG, these own funds totalled € 10,736.6 million at December 31, 2004. The breakdown of WestLB's eligible capital and reserves under the German Banking Act (KWG) is depicted in the following table (shown are the data as at December 31, 2004, as well as after the transfers from reserves and silent contributions to offset the net loss for the year):

	WestLB AG Dec. 31, 2004 € millions after result for the year	WestLB AG Dec. 31, 2004 € millions	WestLB AG Dec. 31, 2003 € millions after result for the year
Core capital	**3,926.4**	**4,846.4**	**3,376.8**
Paid-in capital	1,794.6	1,794.6	950.5
Disclosed reserves	1,561.3	2,416.7	1,510.9
Asset contributions of silent partners	522.4	587.0	837.1
Special item for general bank risks under § 340 (g) of the German Commercial Code (HGB)	82.0	82.0	82.0
Intangible assets	– 33.9	– 33.9	– 3.7
Supplementary capital	**3,926.4**	**4,525.2**	**3,376.8**
Deductions from core and supplementary capital	**– 46.2**	**– 46.2**	**– 41.2**
Liable capital	**7,806.6**	**9,325.4**	**6,712.4**
Tier III capital	**2,009.9**	**1,411.2**	**1,641.8**
Total own funds	**9,816.5**	**10,736.6**	**8,354.2**
Unused Tier III capital	– 534.0	–	– 157.8
Own funds under § 2 (2) and (3) Principle I	**9,282.5**	**10,736.6**	**8,196.4**

As of January 2, 2003 WestLB had taken in silent contributions of € 1,250.0 million. WestLB does not have to repay these amounts. Instead, in five annual instalments of € 250.0 million each paid over a period of time ending December 31, 2007, they will be converted at the price of 750% into capital and reserves. Conversion of the first tranche was completed in 2004, with € 33.3 million (which corresponds to 333,318 no-par-value shares, each with a theoretical par value of € 100.00) being placed in capital and € 216.7 million in reserves. Conversion of the second tranche, due December 31, 2004, was recorded in the Commercial Register in February 2005. After recording the respective capital increase in the Commercial Register, the capital will increase by another € 33.3 million and the capital reserves by another € 216.7 million. In the amount remaining after the conversion initiated on December 31, 2004 (€ 337.1 million), the silent contributions shared 7.02%, or € 64.6 million, in the loss for the fiscal year.

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

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

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

WestLB AG Breakdown by Maturity

Maturity Date	Profit Participation Capital Dec. 31, 2004 € millions	Subordinated Liabilities Dec. 31, 2004 € millions
2005	0.0	147.0
2006	0.0	30.4
2007	495.2	285.8
2008	225.7	447.0
2009	620.5	1,142.0
2010	280.4	249.2
2011–2015	455.2	863.6
2016–2030	25.0	409.9
2031–2040	–	199.7
2041–2050	–	59.8
Total	**2,102.0**	**3,834.4**

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

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

	WestLB AG Dec. 31, 2004 € millions after result for the year	WestLB AG Dec. 31, 2004 € millions	WestLB AG Dec. 31, 2003 € millions after result for the year
Risk-weighted assets of the investment book	45,380	45,380	56,542
12.5 x the relevant amount for market risk positions	25,829	25,829	25,970
Total	**71,209**	**71,209**	**82,512**
Equity capital ratio	17.2	20.5	11.9
Overall ratio	13.0	15.1	9.9
Core capital ratio	7.4	9.4	4.9

Concluding Statement from the Subordinate Status Report

On August 1, 2002, NRW.BANK assumed 100% of the shares of WestLB AG, with retroactive effect to January 1, 2002. Following the capital increase endorsed by the shareholders' meeting on June 29, 2004 and its subsequent entry in the Commercial Register on October 20, 2004, NRW.BANK now holds 38.748% of WestLB AG's shares. As a result, the parent-subsidiary structure between NRW.BANK and WestLB and, with it, their relationship as affiliated enterprises has been dissolved. In light of these developments, a subordinate status report was prepared for the last time on October 19, 2004.

Pursuant to § 312 (3) of the German Stock Corporation Act (AktG), WestLB AG's Managing Board made the following statement at the end of that report:

"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 period from January 1, 2004 to October 19, 2004 upon the instructions or in the interests of companies affiliated with it."

Risk Report

Integrated Bank-Wide Risk Management

To be sustainable and successful, a business model must forge a strong link between business strategy and risk strategy. Thus, risk management is an important cornerstone of WestLB AG's new, Bank-wide strategy. Since WestLB's risk management is geared toward the WestLB Group, the figures presented in this Risk Report generally refer to the Group as a whole. Any figures referring explicitly to WestLB AG will be clearly identified as such.

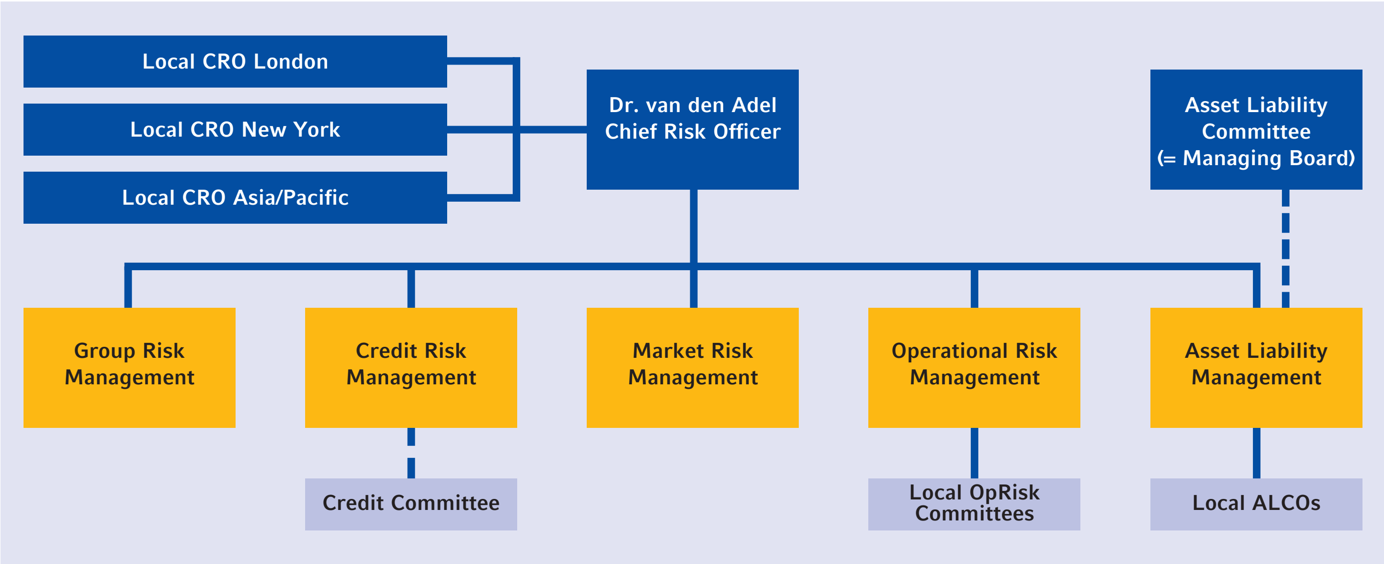
The foundation of any risk management system is defining the target risk profile and linking it with earnings plans. Accordingly, the goal of our value-driven, bank-wide steering system is to determine the most optimal allocation of resources among the business units that are generating sufficient returns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

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

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

Organisation

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



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

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

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

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

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

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

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

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

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

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

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

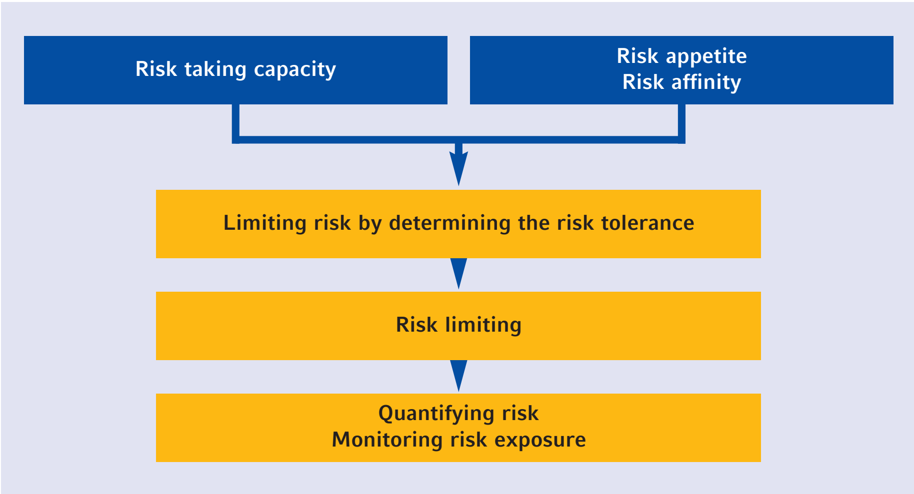
The **Group Compliance/Money Laundering Prevention** unit protects the Bank's integrity and reputation by promoting the lawful and proper conduct of business in the interests of customers, employees and shareholders, as well as by identifying and handling regulatory risks associated with the provision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

Risk Measurement and Management

With the continued development of the economic risk capital model as well as design and implementation of the WestLB Capital Adequacy Programme (WestCap) in 2004, additional instruments and processes of vital importance to an integrated risk management system were put in place. As part of WestCap, the Bank's risk tolerance was determined and limits per risk category were derived. Supplemented by additional measures differentiated by risk categories and level of detail, the Bank's risk and risk exposure are measured, monitored, reported and actively managed on an ongoing basis.

Risk Tolerance Concept and Limiting (WestCap)

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



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

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

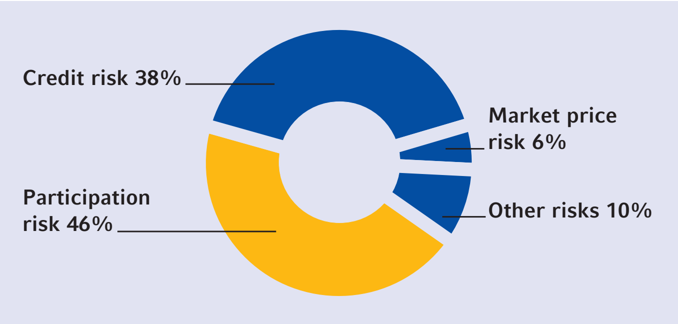
Economic Risk Capital

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

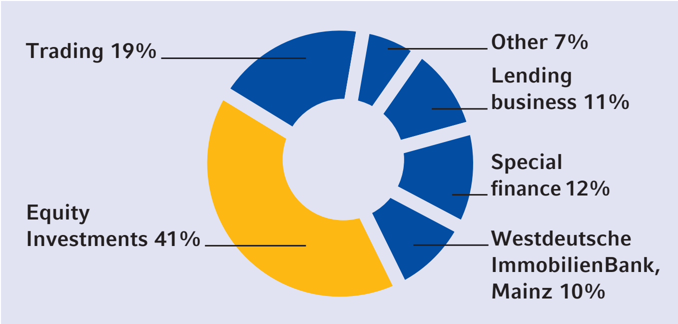
Because economic capital is of such importance for a sound risk-return-based management approach, the elements of the economic capital concept undergo constant improvement.

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

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



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



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

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

Bank-Wide Risk

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

Planning and Management: Budgeting, Limiting and Reporting

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

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

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

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

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

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

Market Price Risks

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

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

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

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

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

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

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

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

Market Price Risks in the Trading Book

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

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

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

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

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

[1] Mostly interest rate and currency-related business

[2] Mostly stock/index-related business

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

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

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

Market Price Risks in the Banking Book

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

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

Counterparty Default Risks

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

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

Measuring the Counterparty Default Risk

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

Managing Individual Risks

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

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

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

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

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

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

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

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

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

Global measures implemented by Portfolio Management in 2004 included:

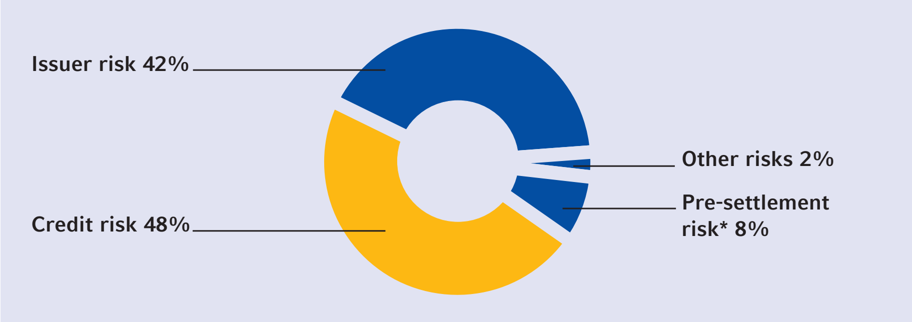
- managing and reducing single-name concentration risks
- improving the limiting of concentrations (single-names, industries) in the context of the credit risk strategy
- managing country risks
- reducing unprofitable lending
- actively managing non-performing loans.

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

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

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

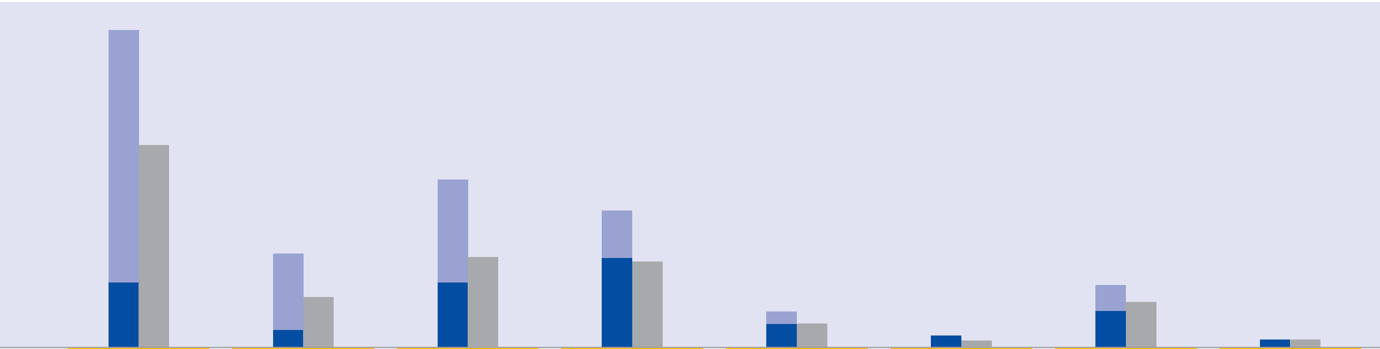
Breakdown by Risk Type (Outstandings) (WestLB Group)



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

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

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



	A0–A2 (AAA to AA+)	A3–A4 (AA)	A5–B3 (AA- to A)	B4–C3 (A- to BBB-)	C4–D1 (BB+ to BB-)	D2–D5 (B+ to C)	Unrated	WestLB AG Entities
Total lines	127,480	36,626	67,731	54,866	12,749	3,103	24,789	2,162
Thereof external lines	25,884	5,856	27,043	36,322	8,993	2,836	14,029	2,156
Outstandings	81,061	20,327	37,111	33,361	8,534	2,122	17,103	2,148

€ millions

The table shows external lines, total lines[1] and the outstandings at December 31, 2004, broken down according to the internal rating classes making up the new Basle II-compliant rating scale. Pursuant to the default probabilities associated with them, classes A0–C3[2] represent the investment grade range.

[1] The figure for total lines refers to the sum of internal and external lines, excluding the available balances on internal trading lines; derivatives are shown on the basis of the expected exposure.
[2] The investment grade range for financial institutions is currently A0–C1.

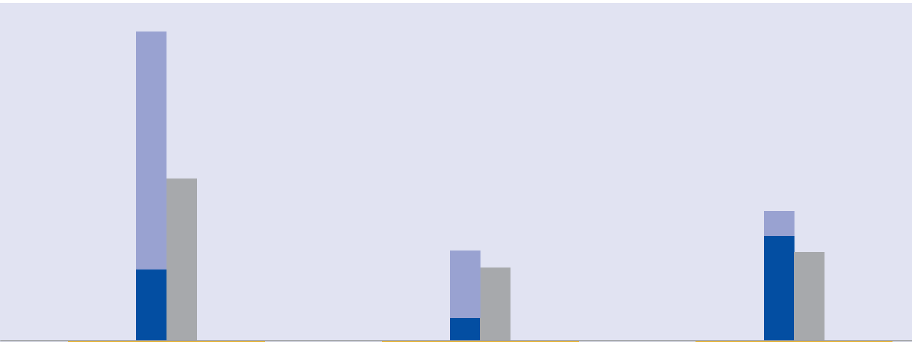
A substantial part of the portfolio (50% of total lines) carries a good rating of A0 to A4. Most of these lines are provided to banks, governments and local and regional authorities (chiefly internal trading lines) and asset backed transactions (externally committed liquidity lines) with substantial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

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

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

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

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



	Financial Sector	Public Sector	Industries and Services
	193,291	56,061	80,154
	43,337	14,486	65,296
	100,897	45,710	55,160

Total lines
Thereof external lines
Outstandings

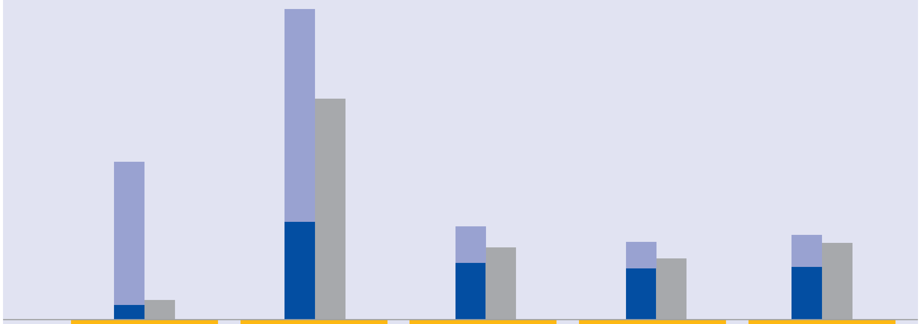
€ millions

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

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

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

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



	until further notice	up to 1 year	1 to 4 years	4 to 8 years	> 8 years
	71,895	143,244	42,209	34,174	37,984
	5,885	44,707	26,322	22,348	23,857
	8,003	101,093	30,464	27,726	34,481

Total lines
Thereof external lines
Outstandings

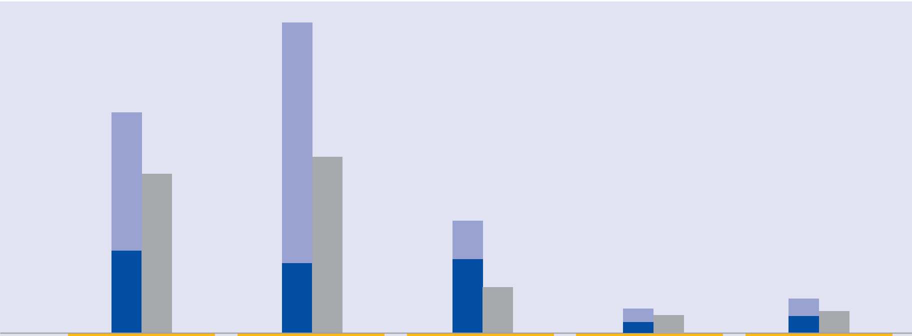
€ millions

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

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

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

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



	Germany	Industrial Europe (excl. Ger.)	Industrial Americas	Industrial Asia	Emerging Markets
Total lines	103,263	145,369	53,084	11,904	15,886
Thereof external lines	39,719	34,007	35,263	5,092	9,038
Outstandings	75,230	82,758	23,552	9,305	10,922

€ millions

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

Country Risk

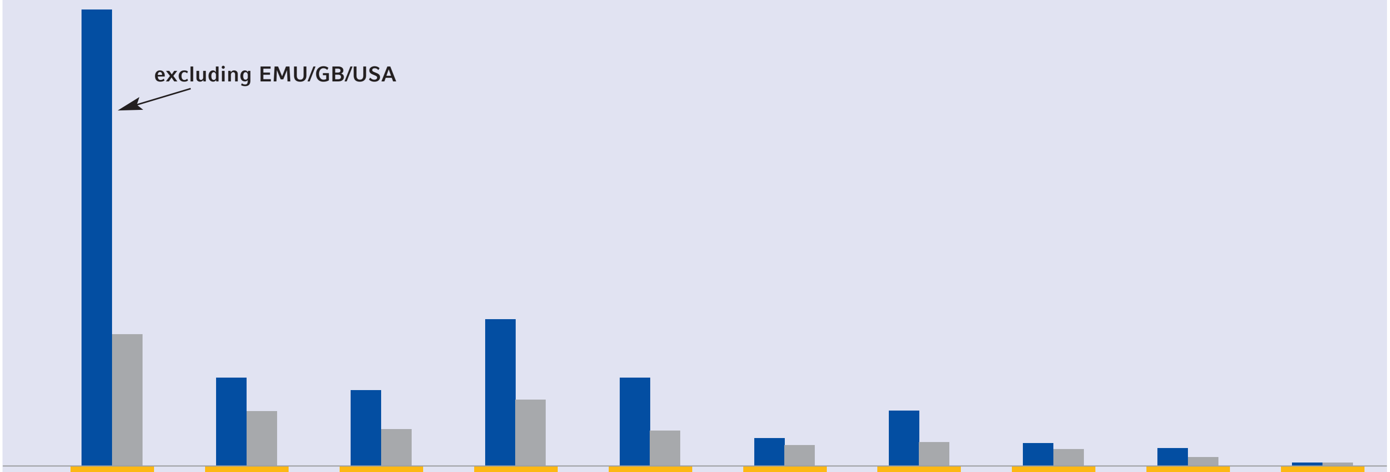
WestLB defines country risk as the risk that a borrower will not (or will no longer) be able to service its foreign currency debt because of a worsening of the overall economy or political situation in the borrower's home country. Based on this definition, any commitment by WestLB that is not denominated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

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

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

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

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



	A0–A4	A5–B1	B2–B3	B4–B5	C1–C2	C3	C4–C5	D1	D2–D3	D4–D5
Group country limits	17,651	3,387	2,857	5,618	3,382	1,009	2,112	640	592	47
Amounts utilised	5,059	2,057	1,337	2,476	1,286	721	806	489	259	38

€ millions

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

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

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

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

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

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

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

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

Provisions for Credit Risks

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

Result of Risk Provisions – Lending Business

€ millions	Allocations to Allowances	Write-Backs from Allowances	Net Allowances	Other Risk Exp./Income	Risk Result
Acute counterparty default risk	**– 419.9**	**532.3**	**112.4**	**3.8**	**116.2**
Credit rating risk	– 258.3	326.2	67.9	– 12.9	55.0
Country risk	– 161.6	206.1	44.5	0.0	44.5
Other risk	0.0	0.0	0.0	16.7	16.7
Latent counterparty default risk	**– 31.5**	**149.7**	**118.2**	**0.0**	**118.2**
	– 451.4	**682.0**	**230.6**	**3.8**	**234.4**

Implementation of Basle II and MaK

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

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

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

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

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

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

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

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

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

Participation Risks

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

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

Generally speaking, the management of participation 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. In addition, Group companies that are banks in their own right are fully incorporated into WestLB's risk and operational management. Certain of our investments are also followed by specialist units and monitored in terms of their risk situations. This approach allows for optimal support of companies whose business activities are closely linked with the activities of the respective product unit.

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

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

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

Liquidity Risks

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

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

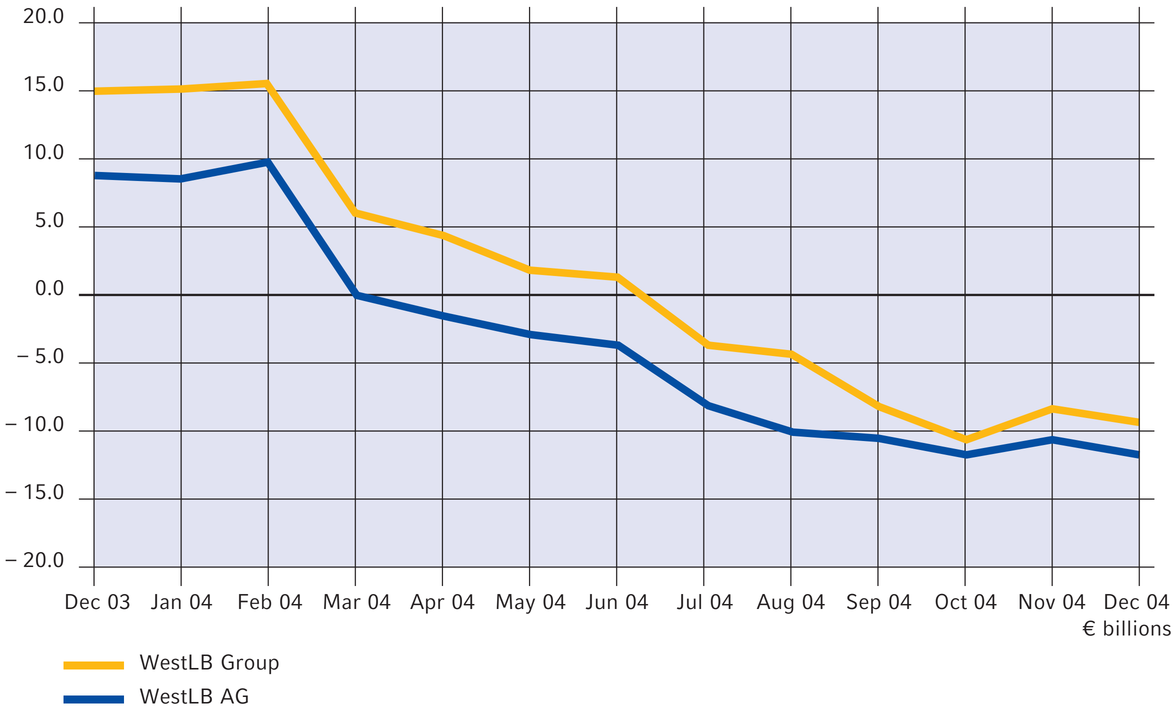
The objective of liquidity management is to avoid a concentration of financing requirements with very short-term maturities, to keep enough liquid assets on hand for unexpected liquidity needs and, at the same time, to optimise the Bank's structural liquidity with the help of a medium and long term-oriented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

Structural Liquidity – Funding Programmes

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

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

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



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

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

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

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

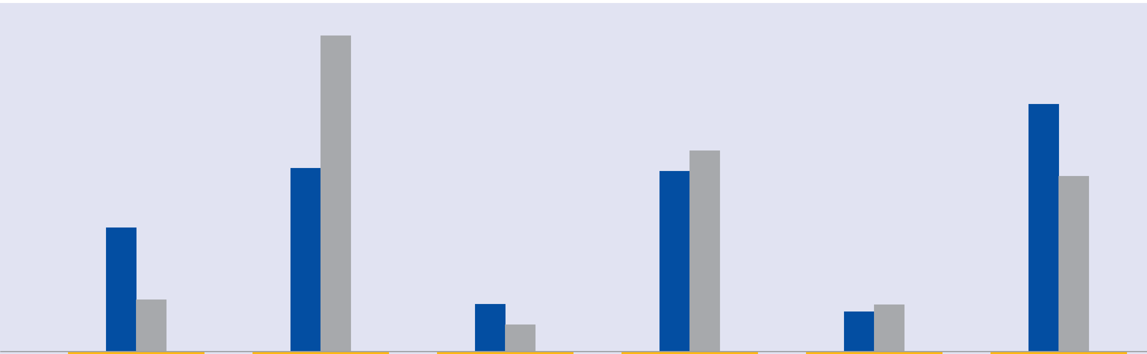
Issuer	Name	Type
WestLB AG or issuing vehicle	Debt Issuance Programme	unsecured
WestLB AG, WIB	Bearer bonds	unsecured
WestLB AG, WIB	Promissory Notes (Schuldscheindarlehen)	unsecured
WestLB AG	Domestic Debt Issuance Programme	unsecured
WIB	Public and mortgage-backed Pfandbriefe	secured
WIB	Debt Issuance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

The funding volume of the WestLB Group reached the record level of € 24.5 billion in 2004; € 19.2 billion of this amount was in unsecured issues.

Diversification of Liabilities

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

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



	CD[1] & CP[2]	Capital Markets	Liabilities to Central Banks	Liabilities to Banks	Liabilities to Sparkassen	Liabilities to Customers
12/2003	15.2	22.2	5.9	21.8	4.9	29.9
12/2004	6.7	38.3	3.5	24.3	5.9	21.3

12/2003
12/2004

in %

[1] Certificates of Deposit; [2] Commercial Paper

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

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

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

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

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

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

Operational Risks

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

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

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

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

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

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

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

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

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

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

Summary

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

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

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

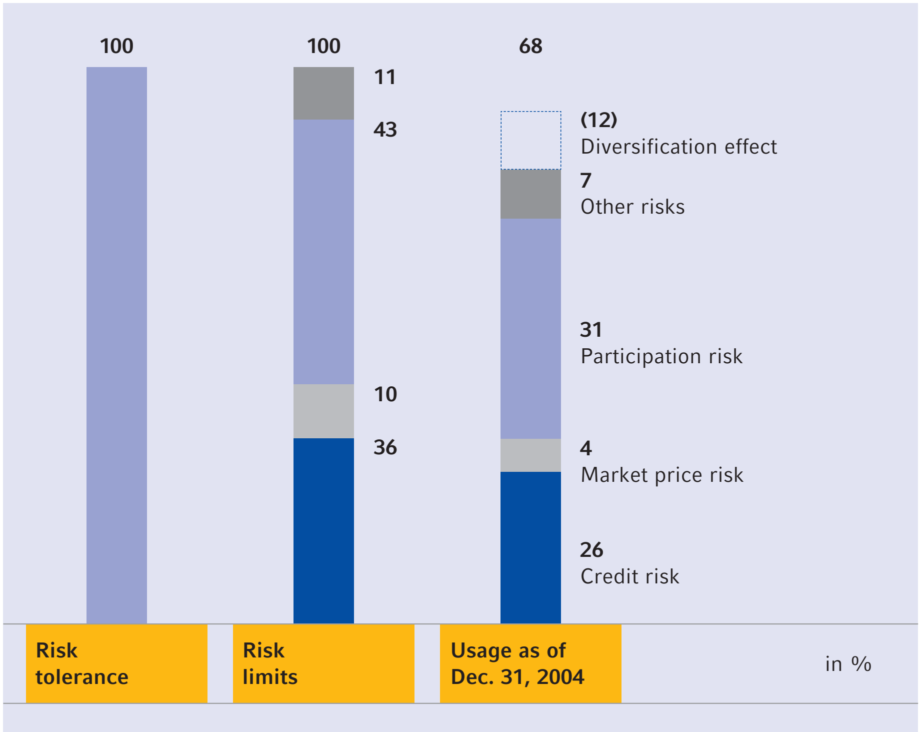
- **Measurement and Management**
  Measuring the extent to which limits have been utilised based on economic risk capital as well as regular reporting on the risk situation as a basis for portfolio management

- **Portfolio Management**
  Active management of the loan portfolio through managing and reducing single-name concentrations, limiting of industry concentration risks, as well as reducing unprofitable exposures and actively managing non-performing loans

- **Credit Approval Process**
  Revising the credit process, both front office and back office, in view of MaK and Basle II

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

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



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

Events Occurring after the Close of the Fiscal Year

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

In February 2005, HSH Nordbank AG announced its plans to convert silent contributions into capital and reserves. The conversion will take place in two steps, with € 605 million being converted on July 1, 2005 and € 750 million on December 31, 2007. WestLB intends to participate in this conversion in proportion to its 26.86% stake in HSH Nordbank AG.

Outlook

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

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

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

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

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

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

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

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

WestLB AG Balance Sheet as at December 31, 2004

Assets

	see Notes No.	€	€	31. 12. 2004 €	31. 12. 2003 € thousands
1. Cash					
a) cash on hand			3,661,483.78		(3,965)
b) balances with central banks			1,407,438,514.20		(4,411,774)
including:					
with Deutsche Bundesbank					
€ 862,767,749.20					
				1,411,099,997.98	4,415,739
2. Debt instruments issued by public institutions					
and bills of exchange eligible for refinancing					
with central banks					
a) treasury bills and discounted treasury					
notes as well as similar debt instruments					
issued by public institutions			2,506,738,715.47		(12,271,976)
including:					
eligible for refinancing with Deutsche Bundesbank					
€ 1,942,928,776.31					
b) bills of exchange			162,313.20		(774)
including:				**2,506,901,028.67**	12,272,750
eligible for refinancing with Deutsche Bundesbank					
€ –.—					
3. Claims on banks	4, 34, 35, 40				
a) payable on demand			17,270,303,689.53		(7,434,746)
b) other			64,466,224,182.72		(58,641,117)
				81,736,527,872.25	66,075,863
4. Claims on customers	5, 6, 16, 34, 35, 40			**56,188,777,986.72**	67,692,517
including:					
secured by mortgages					
€ 761,113,134.56					
loans to public authorities and entities					
under public law € 5,630,182,548.31					
5. Bonds and other interest-bearing					
securities	7, 13, 17, 34, 35, 40				
a) money market instruments					
aa) of public institutions		1,718,069,194.16			(1,127,184)
including:					
eligible as collateral for Deutsche Bundesbank					
advances € 1,628,409,663.69					
ab) of other issuers		4,810,379,450.24			(630,485)
including:					
eligible as collateral for Deutsche Bundesbank					
advances € 51,189,760.—			6,528,448,644.40		(1,757,669)
b) bonds and notes					
ba) of public institutions		20,184,026,999.87			(23,554,623)
including:					
eligible as collateral for Deutsche Bundesbank					
advances € 13,651,919,247.12					
bb) of other issuers		25,310,797,163.97			(20,990,105)
including:					
eligible as collateral for Deutsche Bundesbank					
advances € 13,265,672,518.91			45,494,824,163.84		(44,544,728)
c) bonds issued by the Bank			1,065,060,109.63		(866,313)
principal amount € 1,084,652,498.46				**53,088,332,917.87**	47,168,710
			To be carried forward:	**194,931,639,803.49**	197,625,579

Liabilities

	see Notes No.	€	€	31. 12. 2004 €	31. 12. 2003 € thousands
1. Liabilities to banks	18, 30				
a) payable on demand			18,192,538,849.52		(12,073,701)
b) with agreed maturity or					
period of notice			76,232,495,260.39		(79,439,509)
				94,425,034,109.91	91,513,210
2. Liabilities to customers	19, 30				
a) deposits					
aa) with agreed period of notice					
of three months		221,385.59			(343)
ab) with agreed period of notice					
of more than three months		–.—			(–)
			221,385.59		(343)
b) other liabilities					
ba) payable on demand		12,445,422,373.36			(15,074,288)
bb) with agreed maturity or					
period of notice		46,447,584,165.89			(45,886,338)
			58,893,006,539.25		(60,960,626)
				58,893,227,924.84	60,960,969
3. Certificated liabilities	20, 30				
a) bonds and notes issued					
by the Bank			11,536,548,497.56		(8,946,078)
b) other certificated liabilities			24,239,200,873.26		(33,485,300)
including:				**35,775,749,370.82**	42,431,378
money market instruments					
€ 8,589,518,107.97					
4. Trust liabilities	21			**468,899,357.76**	501,267
including:					
trust loans € 93,922,357.76					
5. Other liabilities	22, 30			**12,274,336,321.30**	9,972,494
6. Deferred items	23			**425,208,383.12**	494,858
7. Provisions	24				
a) for pensions and similar					
obligations			581,444,600.51		(563,349)
b) tax reserve			184,658,318.04		(355,327)
c) other			1,068,079,619.88		(1,231,076)
				1,834,182,538.43	2,149,752
8. Subordinated liabilities	25, 29, 30			**4,111,031,500.82**	4,338,551
9. Profit participation capital	26, 29			**2,427,649,706.14**	2,423,867
including:					
due in less than two years					
€ 92,032,538.62					
10. Fund for general bank risks	27, 29			**82,000,000.—**	82,000
			To be carried forward:	**210,717,319,213.14**	214,868,346

WestLB AG Balance Sheet as at December 31, 2004

Assets

	see Notes No.	€	€	31. 12. 2004 €	31. 12. 2003 € thousands
			To be carried forward:	**194,931,639,803.49**	197,625,579
6. Shares and other non-interest-bearing securities	8, 13, 34, 35, 40			**4,298,675,123.90**	3,858,721
7. Equity investments in non-affiliated companies	9, 13, 40, 54, 55			**1,549,175,893.76**	2,774,872
including: banks € 233,493,449.68					
financial services institutions € –.—					
8. Equity investments in affiliated companies	10, 13, 40, 54, 55			**5,092,040,315.24**	6,125,190
including: banks € 2,058,841,563.88					
financial services institutions € 99,917,781.96					
9. Trust assets	11			**468,899,357.76**	501,267
including: trust loans € 93,922,357.76					
10. Equalisaton claims against public authorities including bonds and notes issued in substitution therof	13			**105,334,717.30**	207,502
11. Intangible assets	13			**73,225,288.07**	3,661
12. Fixed assets	13			**263,861,393.68**	297,778
13. Other assets	12, 16			**6,903,167,055.51**	5,783,548
14. Deferred items	15			**909,672,179.29**	988,731
Total assets	32			**214,595,691,128.—**	218,166,849

Liabilities

	see Notes No.	€	€	31. 12. 2004 €	31. 12. 2003 € thousands
			To be carried forward:	**210,717,319,213.14**	214,868,346
12. Equity capital	28, 29				
a) subscribed capital			1,794,571,800.—		(950,500)
b) paid-in contribution for agreed capital increase			249,998,499.94		(–)
c) capital reserves			1,561,349,730.45		(1,510,925)
d) reserves from retained earnings					
da) legal reserves		–.—			(–)
db) reserves required by WestLB's articles and bylaws		–.—			(–)
dc) other reserves		–.—			(–)
			–.—		
e) typical silent contribution to capital			272,451,884.47		(837,078)
f) profit			–.—		(–)
				3,878,371,914.86	3,298,503
Total liabilities	32			**214,595,691,128.—**	218,166,849
1. Contingent liabilities	45				
a) liabilities from guarantees and indemnity agreements				9,626,665,527.60	(11,922,587)
2. Other commitments	33				
a) irrevocable credit commitments				46,267,996,500.35	(61,347,329)
3. Administered funds				44,160,476.48	(44,158)

WestLB AG Statement of Income

for the Period January 1 – December 31, 2004

	see Notes No.	€	€	1. 1. – 31. 12. 2004 €	1. 1. – 31. 12. 2003 € thousands
1. Interest from	36				
a) lending and money market transactions		4,743,092,655.89			(5,104,738)
b) interest-bearing securities and book-entry securities		1,876,318,390.20			(2,033,058)
			6,619,411,046.09		(7,137,796)
2. Interest paid			5,760,772,771.35		(6,000,509)
				858,638,274.74	(1,137,287)
3. Current income from	36				
a) shares and other non-interest-bearing securities			128,866,249.07		(192,092)
b) equity investments in non-affiliated companies			120,938,866.31		(80,060)
c) equity investments in affiliated companies			366,807,228.07		(91,075)
				616,612,343.45	(363,227)
4. Income from profit pooling, profit transfer and partial profit transfer agreements				**182,038,276.37**	(47,989)
5. Commission income	36		452,114,340.48		(528,562)
6. Commission paid			174,113,462.58		(190,504)
				278,000,877.90	(338,058)
7. Net expense from trading operations	36			**92,817,841.56**	(104,227)
8. Income from leasing business	38			**37,114,419.14**	(10,956)
9. Expenses from leasing business	38			**33,597,735.50**	(10,086)
10. Other operating income	36, 39			**169,884,325.01**	(198,284)
11. Income from the reversal of the special item with partial reserve character				**–.—**	(25,317)
12. General administrative expenses					
a) personnel expenses					
aa) wages and salaries		534,272,167.20			(523,339)
ab) compulsory social security contributions and expenses for pensions and other employee benefits		163,229,260.29			(161,607)
including: for pensions € 111,203,349.92			697,501,427.49		(684,946)
b) other administrative expenses			687,377,234.81		(742,592)
				1,384,878,662.30	(1,427,538)
13. Depreciation and value adjustments on intangible and tangible fixed assets	13			**90,273,862.77**	(82,741)
14. Other operating expenses	39			**106,523,296.28**	(44,635)
			To be carried forward:	**434,197,118.20**	(451,891)

for the Period January 1 – December 31, 2004

	see Notes No.	€	€	1. 1. – 31. 12. 2004 €	1. 1. – 31. 12. 2003 € thousands
			To be carried forward:	434,197,118.20	(451,891)
15. Write-downs and value adjustments on loans and certain securities as well as allocations to loan loss provisions	40			–.—	(1,089,191)
16. Income from revaluation of loans and certain securities as well as from the reversal of loan loss provisions	40			248,488,770.89	(–)
17. Write-downs and value adjustments on equity investments in non-affiliated companies, equity investments in affiliated companies and securities treated as fixed assets	13, 40			–.—	(817,039)
18. Income from revaluaton of equity investments in non-affiliated companies, equity investments in affiliated companies and securities treated as fixed assets	13, 40			36,709,305.57	(–)
19. Expenses from the assumption of losses	40			15,377,093.17	(483,701)
20. Profit or loss on ordinary activities				704,018,101.49	(– 1,938,040)
21. Extraordinary income	41		338,075.—		(3,825)
22. Extraordinary expenses	41		1,571,370,322.75		(345,843)
23. Extraordinary result	41			– 1,571,032,247.75	(– 342,018)
24. Taxes on income and revenues	43		45,206,397.01		(27,613)
25. Other taxes not shown under other operating expenses			7,779,456.73		(12,329)
				52,985,853.74	(39,942)
26. Net loss for the year				920,000,000.—	(2,320,000)
27. Withdrawals from capital reserves	28, 29			855,370,887.84	(523,878)
28. Withdrawals from reserves from retained earnings					
a) legal reserves			–.—		(–)
b) reserves required by WestLB's articles and bylaws			–.—		(409,346)
c) other reserves			–.—		(973,854)
				–.—	(1,383,200)
29. Withdrawals from silent contributions to capital	28, 29			64,629,112.16	(412,922)
30. Profit				–.—	(–)

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

Preparation of Annual Accounts (1)

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

Pursuant to § 340 (i) in conjunction with §§ 290 et seq. of the German Commercial Code (HGB), WestLB prepares consolidated accounts in addition to its single-entity annual accounts. Both the single-entity annual accounts and consolidated annual accounts of WestLB are filed in the Commercial Registers of Düsseldorf and Münster pursuant to § 325 and § 328 of the German Commercial Code (HGB).

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 issued are carried as liabilities at their issue price plus interest accrued as of the balance sheet date.

Discernible risks in the lending business are adequately covered by individual value adjustments and provisions. A global provision was formed in accordance with tax valuation methods for latent risks from claims and contingent liabilities. In the case of loans to countries with acute transfer risk, specific allowances for bad debts are made or provisions are established. The classification of a country as having acute transfer risk is based on the regularly updated internal rating for that country; the rate at which the respective receivables are written down is derived from recognized market rates.

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

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

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

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

Equity investments in 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. Acquired goodwill is reported under intangible assets. All goodwill is tested for its future economic benefit on the balance sheet date. Impairments that are expected to be permanent result in unscheduled amortisation. The period for scheduled amortisation of goodwill is four years.

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

A fund for general bank risks pursuant to § 340 (g) of the German Commercial Code (HGB) is reported separately on the balance sheet; there are also 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 statement 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, 2004. Pending forward transactions (currency forwards, currency options and currency futures) are carried at the mean forward rate or option premium effective on that day (last trading day for the liquid market). Income and expenses for which a particular exchange rate has been agreed are translated at the respective hedge rate. Swap premiums on hedged balance sheet items are deferred and amortised over time. The amortisation amounts are included in the interest result.

Each of the items on WestLB's balance sheet, as well as each pending transaction, which is denominated in a foreign currency is classified and valued as specifically hedged by an item that is also denominated in that currency within the meaning of § 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 on the statement of income. There was no income that had to be reported separately since the currency positions open as of the balance sheet date were short-term. The negative result from the individual valuation of pending currency transactions 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 transactions and derivative instruments:

- **Forward transactions/derivatives based on interest rates**
  Interest rate swaps, interest rate futures, forward rate agreements (FRAs), interest rate options (bought and written), issued interest rate warrants, interest rate caps, interest rate floors, interest rate collars and swaptions

- **Forward transactions/derivatives based on exchange rates**
  Currency forwards, currency options (bought and written), currency futures, issued currency warrants, currency swaps and interest currency swaps

- **Forward transactions/derivatives based on share prices and other prices**
  Stock forwards, stock options (bought and written), index forwards, index options (bought and written), issued stock warrants and issued index warrants, and precious metal/commodity forwards, swaps, futures and options

- **Credit derivatives (bought and written)**
  Credit default swaps, total return swaps and credit linked notes

In fiscal 2004, the average annual value, in nominal terms, of the derivatives and forward transactions was € 2,818.2 billion (2003: € 2,795.9 billion).

Derivatives – Average Volumes

Jan. 1 – Dec. 31	Nominal Values		Credit Risk Equivalents	
€ millions	**2004**	**2003**	**2004**	**2003**
Products based on interest rates	2,477,503	2,489,843	10,736	11,678
Products based on exchange rates	260,751	238,966	4,203	3,889
Products based on share prices and other prices	18,644	16,137	352	329
Credit derivatives	61,346	50,966	345	359
Total derivatives	**2,818,244**	**2,795,912**	**15,636**	**16,255**

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

WestLB’s credit risk equivalents pursuant to Principle I represent 27.1% (2003: 21.8%) of its total counterparty default risks (risk-weighted assets and relevant amount for the counterparty default risk of the trading book). Close-out netting is used to calculate the credit risk equivalents for banking regulatory purposes. As a result, the average credit risk equivalents declined by approx. 55.5% (2003: approx. 56.7%).

In nominal terms, the total volume of WestLB’s forward transactions and derivatives was € 2,438.9 billion (2003: € 2,637.2 billion) as of the balance sheet date. The emphasis continues to be on interest rate products, whose share of the total volume decreased to 85.9% (2003: approx. 88.8%).

In addition to the credit derivatives held in the trading book, as listed in the following table, there were also credit derivatives assigned to the investment book. Of those in the investment book, WestLB was the guarantee for (had bought) a volume of € 4,869.2 million (2003: € 4,050.2 million) and was guarantor for (had sold) a volume of € 1,208.8 million (2003: € 1,558.4 million) at December 31, 2004.

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

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

Derivatives – Volumes at the Reporting Date

€ millions	Nominal Values		Credit Risk Equivalents		Positive Market Values		Negative Market Values
	Dec. 31, 2004	Dec. 31, 2003	Dec. 31, 2004	Dec. 31, 2003	Dec. 31, 2004	Dec. 31, 2003	Dec. 31, 2004
Products based on interest rates							
Interest rate swaps	1,300,849	1,241,471	10,162	9,402	29,752	26,596	28,396
FRAs	128,718	177,864	11	18	39	79	35
Interest rate options, swaptions							
– bought	52,324	42,878	519	365	1,836	1,119	–
– written	55,021	53,857	–	–	–	–	1,796
Caps, floors	244,498	150,557	383	321	985	899	1,130
Stock market contracts	306,350	672,510	–	–	412	–*	439
Other interest rate forwards	7,116	3,702	207	71	411	134	442
Total products based on interest rates	**2,094,876**	**2,342,839**	**11,282**	**10,177**	**33,435**	**28,827**	**32,238**
Products based on exchange rates							
Currency forwards	60,561	67,353	654	710	1,613	1,806	1,468
Interest currency swaps/ currency swaps	188,519	143,823	4,113	3,312	6,119	5,002	7,175
Currency options							
– bought	6,321	7,229	151	185	311	364	–
– written	6,085	6,738	–	–	–	–	354
Stock market contracts	202	233	–	–	0	–*	0
Total products based on exchange rates	**261,688**	**225,376**	**4,918**	**4,207**	**8,043**	**7,172**	**8,997**
Products based on share prices and other prices							
Stock forwards	0	56	0	2	0	0	0
Stock options							
– bought	6,039	5,684	319	296	593	484	–
– written	5,689	6,145	–	–	–	–	365
Stock market contracts	4,589	6,211	–	–	596	–*	401
Other forwards	3	1,737	1	60	1	20	0
Total products based on share prices and other prices	**16,320**	**19,833**	**320**	**358**	**1,190**	**504**	**766**
Credit derivatives							
Credit derivatives							
– bought	29,864	20,985	316	352	142	101	512
– written	36,170	28,215	–	–	518	–*	27
Total credit derivatives	**66,034**	**49,200**	**316**	**352**	**660**	**101**	**539**
Total derivatives	**2,438,918**	**2,637,248**	**16,836**	**15,094**	**43,328**	**36,604**	**42,540**
Netting effects	**–**	**–**	**9,256**	**8,202**	**–**	**–**	**–**
Total derivatives after netting	**2,438,918**	**2,637,248**	**7,580**	**6,892**	**43,328**	**36,604**	**42,540**

* information not collected by the bank

WestLB enters into derivative transactions with top-rated counterparties.

Derivatives – Breakdown by Counterparty

€ millions	Nominal Values		Credit Risk Equivalents		Positive Market Values		Negative Market Values
	Dec. 31, 2004	Dec. 31, 2003	Dec. 31, 2004	Dec. 31, 2003	Dec. 31, 2004	Dec. 31, 2003	Dec. 31, 2004
OECD banks	1,693,130	1,566,661	10,040	8,411	33,608	28,028	32,370
Non-OECD banks	7,038	4,231	58	65	87	94	161
Customers (incl. stock market contracts)	737,793	1,065,502	6,719	6,604	9,559	8,428	9,936
Public-sector entities	957	854	19	14	74	54	73
Total	**2,438,918**	**2,637,248**	**16,836**	**15,094**	**43,328**	**36,604**	**42,540**

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 products with currency, share price and other price risks are short-term. The interest rate contracts are spread across the entire spectrum of maturities, with approx. 27% (2003: approx. 21%) having more than five years to maturity. Long-term contracts are predominant in the credit derivative business.

Derivatives – Breakdown by Maturity

Nominal Values € millions	Products Based on Interest Rates		Products Based on Exchange Rates		Products Based on Share Prices and Other Prices		Credit Derivatives	
	Dec. 31, 2004	Dec. 31, 2003	Dec. 31, 2004	Dec. 31, 2003	Dec. 31, 2004	Dec. 31, 2003	Dec. 31, 2004	Dec. 31, 2003
Residual maturity								
– up to 3 months	466,811	850,991	55,976	56,753	5,629	8,321	818	–
– 3 months to 1 year	336,284	362,253	48,971	47,221	5,843	8,019	11,457	2,364
– 1 to 5 years	725,975	632,784	103,839	82,680	4,337	3,118	25,703	36,413
more than 5 years	565,806	496,811	52,902	38,722	511	375	28,056	10,423
Total	**2,094,876**	**2,342,839**	**261,688**	**225,376**	**16,320**	**19,833**	**66,034**	**49,200**

Notes to the Balance Sheet

Claims on Banks (4)

	Dec. 31, 2004 € millions		Dec. 31, 2003 € millions	
	Claims on Affiliated Banks	Claims on Other Banks	Claims on Affiliated Banks	Claims on Other Banks
Payable on demand	907.1	16,363.2	350.0	7,084.7
Breakdown by residual maturity				
– up to 3 months	835.3	47,557.0	1,085.7	38,923.7
– between 3 months and 1 year	295.8	8,572.5	362.6	10,290.5
– between 1 and 5 years	394.1	4,785.7	312.4	5,422.2
– more than 5 years	647.6	1,378.2	871.9	1,372.2
Total	**3,079.9**	**78,656.6**	**2,982.6**	**63,093.3**
Book value	**81,736.5**		**66,075.9**	

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

Claims on other banks include claims on affiliated companies in the amount of € 6,329.6 million (2003: € 12,504.0 million) and claims on other companies in which equity investments are held in the amount of € 1,972.9 million (2003: € 864.6 million). Claims from leasing transactions amounted to € 288.0 million (2003: € 317.3 million).

Claims on Customers (5)

	Dec. 31, 2004 € millions	Dec. 31, 2003 € millions
Book value	**56,188.8**	**67,692.5**
including:		
– on affiliated companies	4,266.5	5,494.7
– on other companies in which equity investments are held	8,797.1	4,383.6
– from the leasing business	1,664.5	1,468.6
Breakdown by residual maturity		
– up to 3 months	30,400.5	26,283.4
– between 3 months and 1 year	4,938.1	11,595.9
– between 1 and 5 years	9,296.9	15,489.8
– more than 5 years	10,298.8	11,723.3
Claims with undetermined maturity	1,254.5	2,600.1

Claims Secured by Mortgages (6)

	Dec. 31, 2004 € millions	Dec. 31, 2003 € millions
Breakdown of claims on customers by residual maturity		
– up to 3 months	125.9	88.5
– between 3 months and 1 year	181.4	32.3
– between 1 and 5 years	177.7	201.8
– more than 5 years	276.1	355.7
Book value	**761.1**	**678.3**

Bonds and Other Interest-Bearing Securities (7)

	Dec. 31, 2004 € millions	Dec. 31, 2003 € millions
Book value	**53,088.3**	**47,168.7**
including:		
– amounts that will become due by December 31 of the following fiscal year	17,436.8	10,433.7
Breakdown by product		
– money market instruments	6,528.4	1,757.7
– bonds and notes of public-sector issuers	20,184.0	23,554.6
– bonds and notes of other issuers	25,310.8	20,990.1
– notes issued by the Bank	1,065.1	866.3
Breakdown by marketability		
– listed on a stock exchange	46,903.6	38,287.1
– not listed on a stock exchange	6,184.8	8,881.6
Breakdown by portfolio		
– trading portfolio	34,596.5	27,121.2
– liquidity reserve	472.8	763.9
– investment portfolio	18,019.0	19,283.6
Breakdown by Group affiliation		
– securities of affiliated companies	3,634.6	586.3
– securities of other companies in which equity investments are held	843.5	–

The € 18.0 billion (2003: € 19.3 billion) in bonds held in the investment portfolio is part of fixed assets. At year-end, € 2.5 billion (2003: € 2.3 billion) of WestLB's financial assets had been valued at the modified lower of cost or market; the fair value of these holdings totalled € 2.4 billion (2003: € 2.1 billion). Of that, € 0.7 billion (2003: € 1.2 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. The portion not hedged with asset swaps at individual transaction level (€ 1.8 billion) was either funded at matching maturities and currencies or secured against market price-based changes in value at the portfolio level. No individual allowances for rating downgrades were required with these holdings. A total of € 3.7 million of the aforesaid financial assets will become due in the following year.

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

This item includes shares of special funds held by WestLB totalling € 2,357.4 million (2003: € 2,645.6 million). The funds themselves consist mainly of listed securities and are included in the investment portfolio.

	Dec. 31, 2004 € millions	Dec. 31, 2003 € millions
Book value	**4,298.7**	**3,858.7**
Breakdown by marketability		
– marketable securities	1,939.5	1,147.6
thereof		
– listed on a stock exchange	1,125.9	971.5
– not listed on a stock exchange	813.6	176.1
Breakdown by portfolio		
– trading portfolio	1,797.3	984.8
– liquidity reserve	14.2	16.9
– investment portfolio	2,487.2	2,857.0

The special funds held in the investment portfolio are not valued strictly at the lower of cost or market. As a result, their fair value (€ 2,286.2 million) is € 71.2 million less than their book value. As these special funds consist exclusively of interest-bearing securities and any adverse movements have not been credit rating related, the decrease in value is not expected to be permanent.

Equity Investments in Non-Affiliated Companies (9)

	Dec. 31, 2004 € millions	Dec. 31, 2003 € millions
Book value	**1,549.2**	**2,774.9**
including:		
– banks	233.5	383.9
– financial services institutions	–	–
Breakdown by marketability		
– marketable securities	741.5	1,438.8
thereof		
– listed on a stock exchange	488.7	1,308.5
– not listed on a stock exchange	252.8	130.3

Equity Investments in Affiliated Companies (10)

	Dec. 31, 2004 € millions	Dec. 31, 2003 € millions
Book value	**5,092.0**	**6,125.2**
including: – banks	2,058.8	1,771.5
– financial services institutions	99.9	99.9
Breakdown by marketability		
– marketable securities	1,343.6	1,384.8
thereof – not listed on a stock exchange	1,343.6	1,384.8

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

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

Trust Assets (11)

	Dec. 31, 2004 € millions	Dec. 31, 2003 € millions
Claims on banks	0.2	0.2
Claims on customers	93.7	126.1
Participations in RWI-Fonds	375.0	375.0
Total	**468.9**	**501.3**

Other Assets (12)

	Dec. 31, 2004 € millions	Dec. 31, 2003 € millions
Book value	**6,903.2**	**5,783.5**
including: – Offsetting entries from the valuation of the trading portfolio (not including currency transactions)	2,663.1	2,199.2
– Premiums for options	2,201.9	1,959.1
– 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	902.9	708.2
– Back-end fees on swaps	537.0	322.8
– Margin payments	50.9	150.9

Fixed Assets (13)

€ millions	Acquisition Cost/Cost of Production	Additions/ Reclassifi-cations (R) Allocations (A)	Retirements/ Reclassifi-cations (R)	Total Depreciation	Net Book Value	Depreciation in the Fiscal Year
	Jan. 1, 2004				Dec. 31, 2004	
Bonds and other interest-bearing securities forming part of fixed assets	19,431.7	108.1	1,372.7	148.1	18,019.0	94.4
Shares and other non-interest bearing securities forming part of fixed assets	2,857.4	–	369.8	0.4	2,487.2	–
Equity investments in non-affiliated companies	3,309.9	332.7	1,147.0	946.4	1,549.2	26.4
Equity investments in affiliated companies	7,392.0	346.2 9.3 (A)	1,674.0	981.5	5,092.0	99.6
Equalisation claims against public authorities	127.5	–	64.7	–	62.8	–
Intangible assets	10.2	4.8 425.1 (R)	96.3	270.6	73.2	32.6
Land and buildings	81.3	0.5	4.3 0.3 (R)	47.6	29.6	6.0
Leasing assets	97.0	0.0	44.5	3.9	48.6	33.6
Office equipment	689.4	240.4	105.6 424.8 (R)	213.8	185.6	51.7

With regard to securities, the changes in the fiscal year include additions and retirements, as well as changes resulting from the amortisation of premiums and discounts.

Noteworthy changes in the equity investments in affiliated and non-affiliated companies include the capital increase at Westdeutsche ImmobilienBank, the capital repayment at GEV Gesellschaft für Energie- und Versorgungswerte mbH (in conjunction with the sale of the shares in TUI AG), as well as the distribution of capital reserves at WestLB Beteiligungsholding GmbH (in conjunction with the sale of the shares in LRP Landesbank Rheinland-Pfalz).

Over the course of 2004, shares in Bayerische Hypo- und Vereinsbank AG, RWE AG, ThyssenKrupp AG, AXA S.A. and Heidelberger Zement South-East Asia GmbH were sold.

Share purchases chiefly relate to the acquisition of Singapore Aircraft Leasing Enterprise Pte. Ltd. and the purchase of shares in Fresenius. The associated company of Westdeutsche Landesbank mbH was merged into WestKB-Westdeutsche Kapitalbeteiligungsgesellschaft mbH.

Real property with a book value of € 11.1 million (2003: € 12.2 million) was utilised for WestLB's own business activities. In previous years, the Bank made use of special tax write-offs pursuant to § 82 i/k of the German Income Tax Act (EStG) in conjunction with § 5 (1) Sentence 2 of the German Income Tax Act (EStG). As of the balance sheet date, WestLB held € 7.2 million (2003: € 11.6 million) in land and buildings that had been acquired as part of bail-out transactions and carried on the books for more than five years.

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

Own Shares (14)

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

Deferred Items (15)

	Dec. 31, 2004 € millions	Dec. 31, 2003 € millions
Premiums on claims	2.2	–
Discounts from underwriting business	250.2	147.2
Discounts from liabilities	467.4	530.6
Other	189.9	310.9
Book value	**909.7**	**988.7**

Subordinated Assets (16)

The following items include subordinated assets:

	Dec. 31, 2004 € millions	Dec. 31, 2003 € millions
Claims on customers	52.9	146.0
including: affiliated companies	–	57.9
including: companies in which equity investments are held	–	23.7
Other assets	–	350.0
including: affiliated companies	–	350.0
including: companies in which equity investments are held	–	–
Total	**52.9**	**496.0**

Pledged Assets (17)

Of the assets reported on the balance sheet, WestLB has pledged € 46,045.7 million (2003: € 43,749.7 million) under repurchase agreements.

Liabilities to Banks (18)

	Dec. 31, 2004 € millions		Dec. 31, 2003 € millions	
	Liabilities to Affiliated Banks	Liabilities to Other Banks	Liabilities to Affiliated Banks	Liabilities to Other Banks
Payable on demand	4,663.4	13,529.1	4,035.9	8,037.8
Breakdown by residual maturity				
– up to 3 months	3,991.1	50,687.7	4,446.9	52,616.0
– between 3 months and 1 year	830.7	12,328.8	539.1	14,508.3
– between 1 and 5 years	309.9	3,327.6	376.2	3,864.6
– more than 5 years	646.9	4,109.8	471.4	2,617.0
Total	**10,442.0**	**83,983.0**	**9,869.5**	**81,643.7**
Book value	**94,425.0**		**91,513.2**	

Liabilities to banks include liabilities to affiliated companies in the amount of € 6,245.5 million (2003: € 8,377.7 million) and liabilities to companies in which equity investments are held in the amount of € 848.5 million (2003: € 691.9 million).

Liabilities to Customers (19)

	Dec. 31, 2004 € millions	Dec. 31, 2003 € millions
Savings deposits	0.2	0.3
including:		
– savings deposits with agreed periods of notice of	0.2	0.3
– up to 3 months	0.2	0.3
– between 3 months and 1 year	–	–
– between 1 and 5 years	–	–
– more than 5 years	–	–
Liabilities to customers	58,893.0	60,960.7
including:		
– payable on demand	12,445.4	15,074.3
with residual maturities of		
– up to 3 months	23,360.0	25,864.2
– between 3 months and 1 year	8,383.1	6,264.7
– between 1 and 5 years	4,199.9	4,058.8
– more than 5 years	10,504.6	9,698.7
Book value	**58,893.2**	**60,961.0**
including:		
– liabilities to affiliated companies	4,442.7	5,537.8
– liabilities to companies in which equity investments are held	8,881.2	2,785.6

Certificated Liabilities (20)

	Dec. 31, 2004 € millions	Dec. 31, 2003 € millions
Bonds issued	11,536.5	8,946.1
including: – amounts becoming due before December 31, 2005	1,132.2	865.5
Other certificated liabilities	24,239.2	33,485.3
including with residual maturities of		
– up to 3 months	7,073.1	17,587.9
– between 3 months and 1 year	3,476.1	9,531.7
– between 1 and 5 years	4,410.4	3,478.3
– more than 5 years	9,279.6	2,887.4
Book value	**35,775.7**	**42,431.4**
including: – certificated liabilities to affiliated companies	–	–
– certificated liabilities to companies in which equity investments are held	–	–

Trust Liabilities (21)

	Dec. 31, 2004 € millions	Dec. 31, 2003 € millions
Liabilities to banks	74.5	99.5
Liabilities to customers	19.4	26.8
RWI certificates	375.0	375.0
Book value	**468.9**	**501.3**

Other Liabilities (22)

	Dec. 31, 2004 € millions	Dec. 31, 2003 € millions
Book value	**12,274.3**	**9,972.5**
including: – Securities delivery obligations	4,830.3	4,382.1
– Premiums from options	3,130.5	2,672.2
– Wfa aid proceedings	1,411.3	–
– Offsetting items from the valuation of currency transactions	1,376.3	1,657.2
– Back-end fees on swaps	558.6	333.7
– Liabilities to NRW.BANK under pension commitments	462.7	453.6
– Interest to be paid on existing profit participation rights after approval of the annual accounts (tentatively on May 18, 2005)	156.6	160.1

Deferred Items (23)

	Dec. 31, 2004 € millions	Dec. 31, 2003 € millions
Premiums from own bonds issued	21.4	21.5
Premiums from liabilities	4.5	6.0
Other	399.3	467.4
Book value	**425.2**	**494.9**

Provisions (24)

€ millions	Beginning Balance	Utilised	Released	Other Changes	Additions	Ending Balance
	Jan. 1, 2004					Dec. 31, 2004
For pension liabilities	563.3	– 50.7	0.0	– 1.6	70.5	581.5
For taxes	355.3	– 198.3	– 0.5	6.9	21.2	184.6
In the personnel area	459.5	– 117.8	– 38.4	5.4	122.2	430.9
For loans/equity investments	390.3	– 39.3	– 185.3	– 1.5	73.9	238.1
In the trading business	165.1	– 149.2	0.0	– 15.9	83.3	83.3
Other provisions	216.2	– 118.3	– 14.8	– 13.1	245.8	315.8
Book value	**2,149.7**	**– 673.6**	**– 239.0**	**– 19.8**	**616.9**	**1,834.2**

A total of € 327.5 million of the provisions for personnel relate to measures aimed at reducing headcount. Other provisions include € 46.3 million for adapting the business and organisational structure of WestLB, € 29.7 million for sales commissions and € 100.6 million for potential litigation risks.

Subordinated Liabilities (25)

	Dec. 31, 2004 € millions	Dec. 31, 2003 € millions
Book value	**4,111.0**	**4,338.5**
Breakdown by Group affiliation		
– to affiliated companies	2,085.8	2,218.2
– to companies in which equity investments are held	–	–

Of the total subordinated liabilities of € 4,111.0 million (2003: € 4,338.5 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 volume of all subordinated liabilities. There is no early redemption obligation. There is no existing or planned agreement to convert these funds into capital or into another form of debt.

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

In 2004 the Bank incurred interest expense of € 139.5 million (2003: € 161.5 million) for its subordinated liabilities.

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

Profit Participation Capital (26)

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

at Jan. 1, 2004 € millions	Additions € millions	Other Changes € millions	at Dec. 31, 2004 € millions
2,423.9	15.0	– 11.2	2,427.7

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

Maturity	€ millions
2005	92.0
2006	232.1
2007	495.4
2008	225.7
2009	621.6
2010	280.4
2011	257.6
2012–2021	222.9
Total	**2,427.7**

The profit participation certificates constitute own funds of € 2,102.0 million for the Bank within the meaning of § 10 (5) of the German Banking Act (KWG).

Fund for General Bank Risks (27)

The fund for general bank risks stands at € 82.0 million.

Equity Capital (28)

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

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

Following a withdrawal of € 855.4 million, WestLB's capital reserves stood at € 1,561.3 million (2003: 1,510.9) million.

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

WestLB AG's equity capital pursuant to the German Commercial Code (HGB) is € 3,878.4 million.

Capital and Reserves (29)

The capital and reserves reported on WestLB's balance sheet consist of the following:

	Dec. 31, 2004 € millions		Changes € millions	Dec. 31, 2003 € millions	
Subscribed capital	1,794.6		844.1	950.5	
Paid-in contribution for agreed capital increase	250.0		250.0	–	
Capital reserves	1,561.3		50.4	1,510.9	
Reserves from retained earnings	–		–	–	
– statutory	–		–	–	
– other	–		–	–	
Typical silent contribution	272.5		– 564.6	837.1	
Equity capital pursuant to the German Commercial Code (HGB)		**3,878.4**	**579.9**		**3,298.5**
Subordinated liabilities	4,111.0		– 227.5	4,338.5	
including: – due within 2 years	443.6		– 74.3	517.9	
Profit participation capital	2,427.7		3.8	2,423.9	
including: – due within 2 years	92.0		80.8	11.2	
Fund for general bank risks	82.0		0.0	82.0	
Other capital and reserves		**6,620.7**			**6,844.4**
Total capital and reserves		**10,499.1**			**10,142.9**

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

€ millions	Changes Resulting from Conversion of the Silent Contribution	Changes Resulting from the Capital Increase	Transfers Made to Offset the Loss for the Year	Total Changes
Subscribed capital	33.3	810.8		844.1
Paid-in contribution for agreed capital increase	250.0			250.0
Capital reserves	216.7	689.1	– 855.4	50.4
Reserves from retained earnings				
– statutory				
– other				
Typical silent contributions	– 500.0		– 64.6	– 564.6
Equity capital pursuant to the German Commercial Code (HGB)	**–**	**1,499.9**	**– 920.0**	**579.9**

There were no new subordinated issues in fiscal 2004 (compared to € 567.5 million in 2003). A total of € 129.0 million in subordinated liabilities and profit participation rights fell due in the year under review, thus reducing the figure reported by this amount. Altogether, subordinated liabilities and profit participation capital amounted to € 6,538.7 million (2003: € 6,762.4 million). Exchange rate fluctuations had a negative impact on capital and reserves, decreasing the total by € 110.5 million (2003: € 347.0 million).

At December 31, 2004 (following the transfer from capital reserves), WestLB AG's own funds under §§ 10 of the German Banking Act (KWG) amounted to € 9,282.5 million after the deduction of unused Tier III capital eligible for inclusion.

As before, undisclosed reserves (revaluation reserves) pursuant to § 10 (4 a) Sentence 1 No. 4 of the German Banking Act (KWG) were not counted as supplementary capital. WestLB adhered to the principles relating to own funds and liquidity under §§ 10, 10 a and 11 of the German Banking Act (KWG).

Liability for Pre-Existing Commitments – Grandfathering (30)

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

Specifically, this means that

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

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

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

Balance Sheet Item

€ millions	**Maturity incurred prior to July 19, 2001 until maturity**		**Maturity incurred on or after July 19, 2001 until Dec. 31, 2015**	
Liabilities to customers	7,622.8		50,786.8	
Liabilities to banks	4,944.9		89,422.2	
Certificated liabilities	4,786.9		30,951.2	
Other liabilities	0.0		12,274.3	
Subordinated liabilities	1,946.1	**19,300.7**	2,164.9	**185,599.4**
Total		**204,900.1**		

At December 31, 2004, the amount of liabilities covered by institutional and guarantor liability was € 204.9 billion (2003: € 208.9 billion); taking into account approx. € 9.1 billion (2003: € 9.0 billion) in equity capital (including the fund for general bank risks), deferred items, provisions, profit participation capital and trust liabilities, 99.7% (2003: 99.9%) of total liabilities are covered by guarantor liability.

Commission Decision on Wfa Integration (31)

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

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

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

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

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

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

Foreign Currency Assets/Foreign Currency Liabilities (32)

At year-end, WestLB had foreign currency assets valued at € 71.3 billion (2003: € 97.9 billion) and foreign currency liabilities valued at € 74.8 billion (2003: € 96.7 billion).

Other Commitments (33)

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

The volume of € 46.3 billion (2003: € 61.3 billion) shown on the balance sheet stems from ordinary domestic and international lending activities, as well as liquidity facilities in connection with asset backed transactions.

Disposal Restrictions/Security Provisions (34)

As part of the European Central Bank's peak refinancing facility for open-market repo transactions with the Bundesbank, WestLB AG has deposited or assigned € 5,280.5 million (2003: € 4,856.5 million) of its own bonds and securities as collateral. Receivables totalling € 453.2 million (2003: € 810.0 million) were assigned to secure loans made as part of public lending 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 € 5,400.0 million (2003: € 5,250.3 million) in assets.

Assets Pledged as Security for Liabilities (35)

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

	Dec. 31, 2004 € millions	Dec. 31, 2003 € millions
Liabilities to banks	344.0	434.6
Liabilities to customers	286.4	556.5
Certificated liabilities	–	526.0
Other liabilities (such as liabilities under securities lending, reverse repo and OTC transactions)	49,099.0	54,211.5
Total assets pledged	**49,729.4**	**55,728.6**

Notes to the Statement of Income

Geographic Breakdown of Income Components (36)

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

€ millions Dec. 31, 2004	Interest Income	Current Income	Commission Income	Net Income from Trading Operations	Other Operating Income
Germany	6,404.5	789.1	193.8	29.6	145.8
UK	3,731.1	1.1	97.7	– 184.2	38.1
Rest of Europe	229.9	2.3	26.5	– 3.2	48.1
Far East and Australia	574.6	3.0	15.8	– 2.5	9.7
North America	1,840.1	3.2	120.4	55.4	– 3.0
Offsets	– 6,160.8	0.0	– 2.1	12.1	– 31.7
Amount reported on the Statement of Income	**6,619.4**	**798.7**	**452.1**	**– 92.8**	**207.0**

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 from WestLB's statement of income. Current income includes income from profit pooling and (partial) profit transfer agreements. Other operating income includes income from the leasing business.

Administrative and Brokerage Services (37)

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

Result from Leasing Business (38)

Entries relating to the leasing business have been added to the statement of income. Income from the leasing business includes regular lease payments. Expenses from the leasing business include depreciation of the property being leased.

Other Operating Result (39)

	Dec. 31, 2004 € millions	Dec. 31, 2003 € millions
Other operating income		
Amount reported on the Statement of Income	**169.9**	**198.3**
including:		
– Reimbursements from Group companies and third parties	78.0	113.9
including: income from IT services	20.4	0.4
– Income from the write-back of other provisions	26.1	35.9
– Gains on the sale of fixed assets	16.4	7.2
– Rental and property income	11.7	13.3

	Dec. 31, 2004 € millions	Dec. 31, 2003 € millions
Other operating expenses		
Amount reported on the Statement of Income	**106.5**	**44.6**
including:		
– Allocations to other provisions	25.4	–
– Allocations to the reserve fund	25.0	–
– Reimbursement of expenses incurred by subsidiaries	17.0	–
– Losses on the sale of fixed assets	11.4	15.9
– Expenses for services and benefits in kind	1.8	0.8
– Expenses for land and buildings not used by the Bank	1.3	2.1

Risk Provisions (40)

Allowances for Specific Risks and General Loan Loss Provisions (excl. reserves pursuant to §§ 340 [f, g] HGB)

	Dec. 31, 2004 € millions	Dec. 31, 2003 € millions
Beginning balance	3,226.0	3,509.8
Allocations	419.9	1,060.7
Write-backs	– 532.3	– 244.6
Usage	– 763.2	– 721.9
Market value differences/Other changes	– 96.9	– 378.0
Ending balance	**2,253.5**	**3,226.0**

Write-Downs and Adjustments Pursuant to § 340 (f) (3) and § 340 (c) (2) HGB

	Dec. 31, 2004 € millions	Dec. 31, 2003 € millions
Result of provisions	**285.2**	**– 1,906.2**
Income/Expenses from loans and securities	248.5	– 1,089.2
including: loans	234.4	– 1,099.0
securities	14.1	9.8
Income/Expenses from participations and securities	36.7	– 817.0
including: participations	52.4	– 749.1
securities	– 15.7	– 67.9

Pursuant to § 340 (f) (3) of the German Commercial Code (HGB), the income and expenses resulting from the evaluation of the lending business were offset by write-ups and write-downs on securities held in the liquidity reserve; the net result was a positive € 248.5 million (2003: negative € 1,089.2 million). Similarly, pursuant to § 340 (c) (2) of the German Commercial Code (HGB), the expenses related to shares in affiliated and non-affiliated enterprises, as well as securities held in the investment portfolio, were offset by the income amounts for these investments. The net result was a positive € 36.7 million (compared to negative € 817.0 million in 2003). There were also losses of € 15.4 million (2003: € 483.7 million) assumed from subsidiaries.

Extraordinary Result (41)

The extraordinary result of € – 1,571.0 million is chiefly the result of the extraordinary expense of € 1,411.3 million associated with the settlement of the Wfa aid proceedings (cf. No. 31), as well as restructuring expenses.

Income and Expenses Relating to Different Accounting Periods (42)

	Dec. 31, 2004 € millions	Dec. 31, 2003 € millions
Interest expense	0.4	– 0.3
Interest income	– 5.2	– 3.2
Commission expense	1.2	0.1
Commission income	2.9	0.2
Back taxes	0.4	– 8.6
Write-back of other provisions	26.1	35.9
Income from the release of the special item with partial reserve character	0.0	25.3
Total	**21.8**	**67.0**

Taxes on Income and Revenues (43)

The € 45.2 million (2003: € 27.6 million) in taxes on income and revenues was incurred mostly on the result from ordinary activities at foreign branches.

Miscellaneous Items

Contingent Liabilities (44)

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

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

Letters of Comfort (45)

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

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

Group Subsidiaries
Assetis GmbH, Düsseldorf (98%)
Banco WestLB do Brasil S.A., São Paulo (100%)
Bank WestLB Vostok (ZAO), Moscow (100%)
Banque d'Orsay S.A., Paris (100%)
Compagnie Belge de la WestLB (CBW) S.A. (formerly BEAL), Waterloo (100%)
Westdeutsche ImmobilienBank, Mainz (100%)
Westdeutsche Immobilienholding GmbH, Düsseldorf (94.6%)
WestFonds Immobilien-Anlagegesellschaft mbH, Düsseldorf (100%)
WestGkA Management Gesellschaft für Kommunale Anlagen mbH, Düsseldorf (100%)
WestLB Asia Pacific Limited, Singapore (100%)
WestLB Asset Management (Australia) Pty. Ltd., Sydney (51%)
WestLB Asset Management Kapitalanlagegesellschaft mbH, Düsseldorf (100%)
WestLB Asset Management (UK) Ltd., London (100%)
WestLB Asset Management (US) LLC, Houston, Texas (100%)
WestLB Asset Management (USA) LLC, Chicago (100%)
WestLB Bank Polska S.A., Warsaw (100%)
WestLB Covered Bond Bank plc, Dublin (100%)
WestLB do Brasil Cayman Ltd. (100%)
WestLB Europa Holding AG, Düsseldorf (100%)
WestLB Europe (UK) Holdings Ltd., London (100%)
WestLB Finance (Credits) 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 Property Services Ltd., London (100%)
WestLB Securities Inc., Dover/Delaware (100%)

WestLB Securities Pacific Ltd., Hong Kong (100%)
WestLB UK Ltd., London (100%)
WestProject & Consult Gesellschaft für Projektentwicklung und Consulting mbH, Düsseldorf (100%)
WestRM – West Risk Markets AG Zug (100%)
WMB Leasing Nine Ltd., London (100%)

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

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

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

Other Financial Obligations (46)

WestLB's liability to make additional contributions to the Liquiditätskonsortialbank of which it is a member remained unchanged at € 65.3 million (2003: € 65.3 million). The Bank may incur additional obligations with respect to its joint liability for the additional contributions to the Liquiditätskonsortialbank from partners who are members of the German Savings Banks and Giro Association.

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

WestLB AG has rental and leasing obligations of € 1,211.2 million, € 639.6 million of which are to affiliated companies; the agreements run for a maximum of 22 years.

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

Deposit Insurance (47)

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). In 2004, there was no liability to make additional contributions to the security reserves of the Landesbanks/Girozentralen.

Effective October 1, 2004, each of the two savings banks associations of North Rhine-Westphalia – the Savings Banks and Giro Association of the Rhineland (RSGV) and the Savings Banks and Giro Association of Westphalia-Lippe (WLSGV) – jointly established a reserve fund with WestLB to support WestLB and the member savings banks should any of them face financial difficulties. To this end, both savings banks associations set up in equal parts with WestLB a reserve fund of € 500 million each. Both funds consist of € 250 million in cash and an additional funding obligation of the same amount. WestLB AG made contributions of € 25 million in 2004. The remaining € 225 million in cash is to be paid in equal instalments over the next 9 years, with the income generated by the funds offsetting the relevant amounts.

Guarantor Liability (48)

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

Corporate Governance Code (49)

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 which extends beyond what is required of them by law. The Supervisory Board, Managing Board and employees of the Bank support the corporate governance rules. The rules ensure that WestLB’s operations are managed and supervised responsibly and in keeping with the principles of good corporate citizenship. A monitoring system ensures compliance.

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

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

Remuneration of the Governing Bodies (50)

	Dec. 31, 2004 € millions	Dec. 31, 2003 € millions
Total remuneration of the Managing Board	**14.8**	**9.5**
– fixed	10.8	9.5
– performance-based	4.0	0.0
– long-term incentive programmes	0.0	0.0
Total remuneration of former Managing Board members and their survivors	**8.0**	9.0
Total remuneration of Supervisory Board members	**1.1**	**1.1**
– fixed	1.1	1.1
– performance-based	0.0	0.0
– long-term incentive programmes	0.0	0.0
Pension provisions for former Managing Board members and their survivors	**55.9**	**46.7**

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

Loans to Members of the Governing Bodies (51)

The members of the Managing Board of WestLB received no advances or loans in 2004 (2003: € 0.027 million). The members of the Supervisory Board of WestLB received advances and loans totalling € 0.25 million.

Number of Employees (52)

The average number of employees in 2004 was as follows:

Number of Employees

	Male	Female	Total 2004	Total 2003
Domestic branches	1,886	1,598	3,484	3,252
Foreign branches	1,114	677	1,791	1,880
Total	**3,000**	**2,275**	**5,275**	**5,132**

An average of 157 (2003: 152) employees were engaged in apprenticeship training or equivalent training.

Shareholdings in WestLB (53)

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

Shareholdings in Major Corporations (54)

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

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

Asia Leasing Ltd., Hamilton, Bermuda
BAHC (Bermuda) One Ltd., Hamilton, Bermuda
Banco WestLB do Brasil S. A., São Paulo
Bank WestLB Vostok (ZAO), Moscow
Banque d'Orsay S. A., Paris
Bellevue Aircraft Leasing Ltd., Dublin
Boullioun Aviation Services (International) Inc., Hamilton, Bermuda
Boullioun Aviation Services (Netherlands) B.V., Amsterdam
Boullioun Aviation Services Inc., Bellevue/WA
Deutsche Anlagen-Leasing GmbH, Mainz
GEV Gesellschaft für Energie- und Versorgungswerte mbH, Dortmund
HSH Nordbank AG, Hamburg/Kiel
Northern Aircraft Leasing AS, Oslo

Rainier Aircraft Leasing (Ireland) Ltd., Dublin
Singapore Aircraft Leasing Enterprise Pte. Ltd., Singapore
WestGkA Management Gesellschaft für kommunale Anlagen mbH, Düsseldorf
WestLB Asset Management Kapitalanlagegesellschaft mbH, Düsseldorf
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 Fund Investments Ltd., London
WestLB Hungaria Bank Rt., Budapest
WestLB International S.A., Luxembourg
WestLB Ireland plc, Dublin
WestLB New York Capital Investment Ltd., Jersey
WestLB Property Services Ltd., London
WestLB Securities Inc., Dover/Delaware
WestLB Securities Pacific Ltd., Hong Kong
WestLB Systems GmbH, Düsseldorf
WestLB UK Ltd., London
West Merchant Bank Ltd., London

Shareholdings in Partnerships (55)

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
Secofinance WestLB, Paris
Société Civile Immobilière Franco-Allemande (SCIFA), Paris
Woolgate Investments CV, Dublin

Seats Held by Members of the Managing Board (56)

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

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

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

Dr. Norbert Emmerich
Aurelis Management GmbH (from May 1, 2004)
Deutsche Anlagen-Leasing GmbH (from May 1, 2004)
Hüttenwerke Krupp Mannesmann GmbH (from December 1, 2004)
ifb AG
LRP Landesbank Rheinland-Pfalz* (until October 11, 2004)
TUI AG (from November 5, 2004 to January 26, 2005)
Westdeutsche ImmobilienBank* (from May 1, 2004)
WestLB International S.A. (from May 14, 2004)

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

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

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

Gerhard Roggemann (until March 20, 2004)
AXA Lebensversicherung AG
Banque d'Orsay S.A. (until May 6, 2004)
Börse Düsseldorf AG (until June 14, 2004)
Fresenius AG
Hapag-Lloyd AG
Solvay Deutschland GmbH
VHV Holding AG

Westdeutsche ImmobilienBank* (until April 30, 2004)
WestLB Asset Management Kapitalanlagegesellschaft mbH (until April 22, 2004)
WestLB International S.A. (until April 30, 2004)
West Pensionsfonds AG (until March 31, 2004)
West Pensionskasse AG (until March 31, 2004)

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

Robert M. Stein
Banque d'Orsay S.A. (from October 22, 2004)
WestLB Asset Management Kapitalanlagegesellschaft mbH (from November 23, 2004)
WestLB International S.A. (from September 20, 2004)

Seats Held by Employees (57)

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

Franz-Josef Becker
Bank WestLB Vostok (ZAO)
WestLB Bank Polska S.A.
WestLB Covered Bond Bank plc
WestLB Ireland plc (until December 31, 2004)

Holger Bredekamp
Wohnungsgesellschaft Münsterland mbH

Dr. Helmut Brocke
RW Holding AG (until December 16, 2004)

Peter Clermont
WestLB Securities Pacific Ltd.

Ian Clifton
WestLB Ireland plc (from January 1, 2005)
WestLB Securities Pacific Ltd. (from September 1, 2004 to January 24, 2005)

Lourens de Beer
Bank WestLB Vostok (ZAO) (from November 30, 2004)
WestLB Bank Polska S.A. (from September 1, 2004 to January 24, 2005)

Robert De La Mare Peddar
Volcan Compañia Minera S.A.A. (from March 30, 2004)

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

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

Thorsten Ellwanger
WestLB AG

Felipe Errazuriz
Volcan Compañia Minera S.A.A. (from May 14, 2004 to May 31, 2004)

Maurizio Fazzari
Banca Carige S.p.A.

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

Birgitt Garitz
Boullioun Aviation Services Inc.

Jürgen Germies
Wolfson Microelectronics plc (until March 24, 2004)

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

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

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

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

Horst Klophaus
WestLB AG

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

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

Joachim Kraemer
WestLB AG (from January 15, 2004)

Marcus Kramer
Westdeutsche ImmobilienBank* (from November 8, 2004)

Michael Kramer
Singapore Aircraft Leasing Enterprise Pte. Ltd.

Uwe Löschmann
WestLB AG

Manfred Matthewes
WestLB AG

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

Michael Morrison
WestLB Property Services Ltd.

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

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

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

Dr. Klaus Nittinger
Singapore Aircraft Leasing Enterprise Pte. Ltd.

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

Werner Peters
WestLB Asset Management Kapitalanlagegesellschaft mbH

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

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

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

Heinz-Günter Sander
WestLB AG

Detlef Semberg
AKA Ausfuhrkredit-Gesellschaft mbH

Frank Schmitz
Legrand S.A.

Guido Schmitz
Singapore Aircraft Leasing Enterprise Pte. Ltd.

Jürgen Schneider
JT International Germany GmbH

Frank Simon
WestRM West Risk Markets AG

Bernhard Thiel
West Pensionsfonds AG (from December 10, 2004)
West Pensionskasse AG (from December 10, 2004)

Margit Timmermann-Rassat
WestLB Asset Management Kapitalanlagegesellschaft mbH (until November 23, 2004)

Karl-August Trawny
Bank WestLB Vostok (ZAO) (from June 30, 2004)
WestLB Asset Management Kapitalanlagegesellschaft mbH (from November 23, 2004)
WestLB Bank Polska S.A. (from September 1, 2004)

Joachim Voss
Technotrans AG
WestUBG Westdeutsche Unternehmens-Beteiligungs-Aktiengesellschaft

Matthias Wargers
Westdeutsche ImmobilienBank*

Elisabeth Weber
WestLB AG

Andreas Roger Weiss
MFI AG (from April 1, 2004)

Dr. Ludger Wennemar
WestLB Systems GmbH (until March 31, 2004)

Dr. Alexander Winkels
Klöckner & Co AG
Madaus AG
Phoenix AG (until May 3, 2004)
Schmitz Cargobull AG
WestUBG Westdeutsche Unternehmens-Beteiligungs-Aktiengesellschaft

Governing Bodies of WestLB (58)

Managing Board of WestLB

Dr. Thomas R. Fischer, Chairman
Dr. Matthijs van den Adel
Dr. Norbert Emmerich (from May 1, 2004)
Klaus-Michael Geiger
Dr. Hans-Jürgen Niehaus (from November 15, 2004)
Dr. Manfred Puffer
Robert Restani (until March 31, 2004)
Gerhard Roggemann (until March 20, 2004)
Rainer Schmitz (Deputy Member)
Robert M. Stein (from July 1, 2004)

Members of the Supervisory Board of WestLB

Dr. Rolf Gerlach, Chairman (from June 29, 2004)
President, Savings Banks and Giro Association of Westphalia-Lippe

Dr. Bernd Lüthje, Chairman and Member (until June 29, 2004)
Chairman of the Managing Board, NRW.BANK

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

Jean-Pascal Beaufret (until June 29, 2004)
Chief Financial Officer, Alcatel

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

Jochen Dieckmann
Finance Minister, State of North Rhine-Westphalia

Thorsten Ellwanger
Prokurist, WestLB AG, Hamburg

Bernd Fiegler
Deputy Regional Director, ver.di Vereinte Dienstleistungsgewerkschaft

Dr. Karl-Ludwig Kley (until June 29, 2004)
Member of the Managing Board, Deutsche Lufthansa AG

Horst-Wolfgang Klophaus
Manager, WestLB AG, Düsseldorf

Hans-Peter Krämer
Chairman of the Managing Board, Kreissparkasse Köln

Joachim Kraemer (from January 15, 2004)
Senior Managing Director, WestLB AG, Düsseldorf

Dr. Siegfried Luther (until June 29, 2004)
Deputy Chairman of the Managing Board, Bertelsmann AG

Manfred Matthewes
Prokurist, WestLB AG, Düsseldorf

Udo Molsberger
Regional Director, Regional Association of the Rhineland

Hans Pixa (from June 29, 2004 to January 3, 2005)
District Administrator (ret.), Coesfeld District

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

Dr. Dietrich Rümker (from June 29, 2004)
Former Chairman of the Managing Board, c/o HSH Nordbank AG

Heinz-Günter Sander
Bank Officer, WestLB AG, Düsseldorf

Gustav Adolf Schröder (from June 29, 2004)
Chairman of the Managing Board, Stadtsparkasse KölnBonn

Franz-Georg Schröermeyer
Secretary for Financial Services
ver.di Vereinte Dienstleistungsgewerkschaft

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

Hans-Georg Vogt (from June 29, 2004)
Chairman of the Managing Board, Sparkasse Bielefeld

Elisabeth Weber
Prokurist, WestLB AG, Düsseldorf

Düsseldorf/Münster, February 22, 2005

WestLB AG

The Managing Board

Dr. Fischer	Dr. van den Adel	Dr. Emmerich	Geiger
Dr. Niehaus	Dr. Puffer	Schmitz	Stein

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, 2004. The bookkeeping and preparation of the annual accounts and the statement of financial condition according to German commercial law regulations 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.

Frankfurt am Main, February 25, 2005

Ernst & Young AG
Wirtschaftsprüfungsgesellschaft

Müller-Tronnier	Dombek
German Public Accountant	German Public Accountant

Report of the Supervisory Board

Rolf Purlach

Financial Calendar

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

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The Financial Report is also available in German and
on the Internet at www.westlb.com/Investor Relations.

Disclaimer
Reservation regarding forward-looking statements

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

WestLB

New Answers in Banking

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