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AG

Key Figures

KEY FIGURES

in millions	WestLB Group		WestLB AG	
	2002 €	2001* €	2002 €	2001 €
Total assets	265,601	264,049	238,325	237,726
Business volume	396,916	416,216	328,056	346,126
Credit volume	261,342	274,217	243,038	259,773
Certificated liabilities	58,148	54,423	49,723	46,032
Deposits	182,594	181,555	165,939	167,378
Capital and reserves	12,861	15,184	11,852	12,833
Nominal volume of derivatives	2,258,257	2,066,932	2,278,605	2,074,233
Net interest income	1,541	1,995	1,285	1,640
Net commission income	692	773	439	455
Net result from trading operations	177	185	220	98
Personnel expenses	1,218	1,354	774	935
Other administrative expenses	1,056	1,260	902	961
Operating result after provision for risks	- 1,580	178	- 486	140
Profit/loss before taxes	- 1,668	143	- 551	97
Staff	8,779**	9,465**	5,547	6,054

* After division and the at-equity consolidation of Landesbank Rheinland-Pfalz and Landesbank Schleswig-Holstein; computed figures for WestLB AG Group

** Banking Group, excluding jointly-managed companies

BIS overall ratio	10.1%	10.7%
BIS core capital ratio	5.8%	6.0%
Overall ratio according to Principle I	10.5%	11.2%
Return on equity	- 27.9%	- 11.8%
Cost-income ratio	86.1%	81.4%

Ratings	Short-Term	Long-Term
Moody's	P-1	Aa1
Standard & Poor's	A-1+	AA+
FITCH Ratings	F1+	AAA

Annual Accounts 2002

WestLB AG, Düsseldorf/Münster

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We will be pleased to send you a copy of the WestLB Annual Report 2002 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, 2002

WestLB AG – International Wholesale Bank, Strong Partner in the Market

WestLB AG came into being after its official formation on August 1, 2002, and subsequent registration in the commercial registers of Düsseldorf and Münster on August 30, 2002.

For purposes of tax and commercial law, the establishment of the new WestLB AG as a German stock corporation was backdated to January 1, 2002.

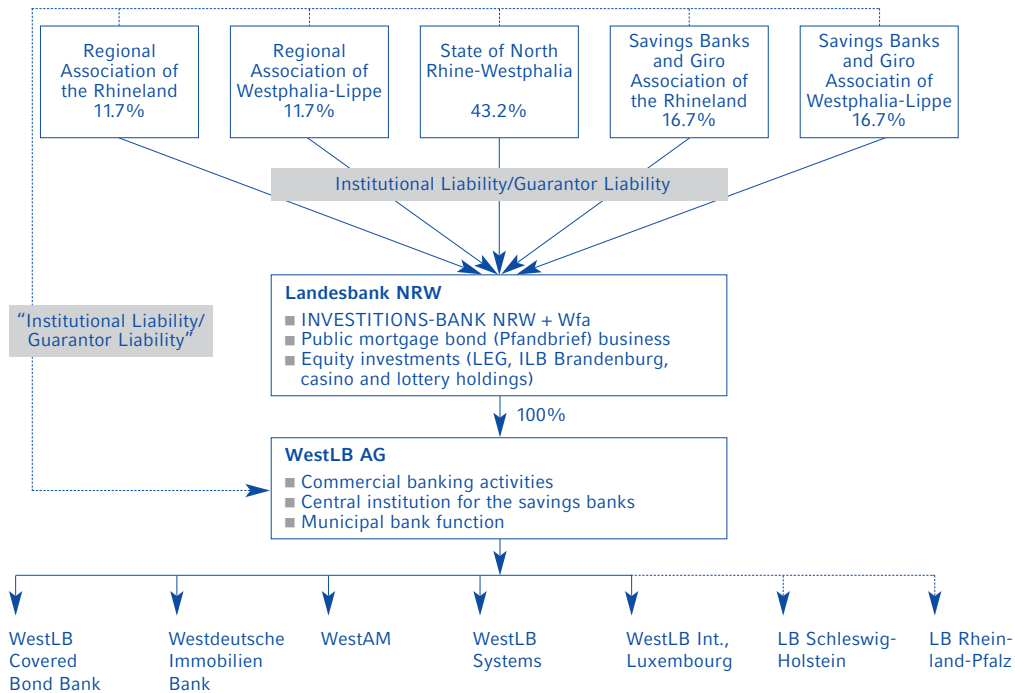
Based on the desire to make a clear separation between the public-sector operations and commercial business of Westdeutsche Landesbank Girozentrale (WestLB GZ) and to focus more closely on the segments and functions, WestLB was divided into two legally separate institutions, the public-law Landesbank NRW and the private-law WestLB AG, when 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) went into effect on August 1, 2002. At that time, WestLB AG became a wholly owned subsidiary of Landesbank NRW. LBS became an independent public-law institution and, because the savings banks associations in North Rhine-Westphalia saw LBS's business as a strategic addition to their portfolio, they acquired it soon afterwards.

In addition to its function as a municipal bank and central institution for the savings banks, the new WestLB will continue to concentrate on its strengths as an internationally operating European wholesale bank for companies, banks and institutional investors.

To this end, the private-law WestLB AG now houses all commercial banking activities, except for the mortgage bond (Pfandbrief) business. Such activities include commercial and investment banking, as well as the equity investments in the Landesbanks of Rhineland-Palatinate and Schleswig-Holstein, and in Westdeutsche ImmobilienBank. All foreign subsidiaries, as well as branches and representative offices, will remain part of WestLB AG. In accordance with its articles and bylaws, WestLB AG also houses all municipal bank functions and the functions related to its role as a central institution for the savings banks. WestLB AG's registered office is in Düsseldorf and Münster.

THE FUTURE STRUCTURE OF WESTLB

– Implementation of the Parent-Subsidiary Model –



All of WestLB's former public-sector business is concentrated in Landesbank NRW, one of the largest banks of its kind in Germany. Landesbank NRW is owned by the former guarantors of WestLB GZ. Their equity interests in the new entity are in proportion to their former holdings in WestLB GZ.

In its function as state and municipal bank, Landesbank NRW is responsible for supporting its owners in important tasks in the structural policy field. It houses the activities of INVESTITIONS-BANK NRW (IB NRW), Wohnungsbauförderungsanstalt NRW (Wfa) and the public mortgage bond (Pfandbrief) business.

In addition, Landesbank NRW's holdings in the public realm are pooled in an Equity Investments business unit. Such holdings include Investitionsbank des Landes Brandenburg (ILB), Landesentwicklungsgesellschaft NRW (LEG), the casino and lottery holdings, and the structural policy investments of INVESTITIONS-BANK NRW and the equity investment in WestLB AG.

EU Proceedings

European Court Overturns Commission Decision of 1999

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

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

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

The German Federal Government, State of North Rhine-Westphalia and WestLB filed appeals against the Commission's decision with the European Courts, in which they argued that the Commission's decision was not proper from a business standpoint or from the standpoint of the letter of the law and the laws on state aid. A number of analyses and reports from economic and tax experts supported their view.

Nevertheless, the Bank had no choice under European Union law but to accept and implement the Commission's decision, regardless of the appeals filed with the European Courts. The Bank decided to assign an added portion of its increase in value since the Wfa integration to the State of North Rhine-Westphalia. The European Commission found this form of implementation unacceptable and subsequently filed suit with the European Court of Justice against the Federal Republic of Germany. The basis of the Commission's claim was Germany's incorrect transposition into national law of an EU decision.

The European Court of Justice handed down its ruling in the matter of transposition on December 12, 2002. Technically, the Federal Republic of Germany did not prevail. However, the Court of Justice also ruled that a transposition involving no cash was fundamentally compatible with Community law. This was a key point where WestLB and the European Court of Justice agreed, namely that non-cash solutions were permissible.

In a decision dated March 6, 2003, the European Court ruled on the crux of the controversy surrounding the Wfa integration, i.e. whether the contribution of Wfa's capital and the remuneration for such contribution should be regarded as impermissible state aid.

Here, the Court held that the decision of the European Commission in 1999 was invalid, because the Commission did not give sufficient reasons with respect to the 12% base rate of return and 1.5% risk premium it alleged should have been the basis of the remuneration.

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

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

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

Elimination of Guarantor Liability and Institutional Liability

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

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

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

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

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

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

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

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

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

Development in the Year under Review

An extremely tough market environment adversely affected WestLB AG's operating result in the year under review, driving it down 31.9% to € 384 million. A particular indicator of the markets' weakness was the decline in net interest income. On the cost front, significant cost savings were achieved. However, the progress made in reducing personnel and operating expenses cost the Bank € 80 million in restructuring expenses, which also affected the result.

Due to the weak economy, the aftermath of accounting scandals and the slump on the international financial markets, risk provisions and the result of evaluation increased from € 424 million to € 870 million; this includes provisions set aside in connection with risks that became apparent in early April 2003. The net loss for the year of € 610 million was offset with funds from retained earnings; there is no question that profit participation capital will be serviced.

Economic Setting

2002 was the second year in a row to pose formidable challenges to the financial markets. Credit business in Germany and Europe faced extreme consolidation pressure, and international wholesale banks in particular posted dramatic losses in their earnings.

While the world economy made a speedier and even stronger (at least initially) recovery from the sharp downturn in 2000/2001 than was generally expected following the terrorist attacks of September 11, 2001, a broad-based improvement did not materialise. Instead, in the second half of the year the growing momentum already started to slow noticeably and concern about a global recession with deflationary tendencies mounted. At a yearly average of 2.75%, growth in the gross world product was only slightly higher than in the previous year. At 0.2% and 0.8% respectively, the growth rates in Germany and the euro area were even lower than in 2001.

In 2002 the United States emerged from the mild recession, but the basis for the recovery was narrow and the recovery itself has been very unstable. Periods in which the economy picked up were quickly followed by periods of weakness. Nevertheless, the U.S. gross domestic product averaged growth of 2.4% for the year, exceeding GDP growth in Western Europe and Japan by a substantial margin. However, the overall economic imbalances increased perceptibly. The U.S. budget deficit grew to more than 3.0% of the country's gross domestic product, while the current account deficit climbed to 4.75%.

The recent downslide in stock prices has not helped matters; the crisis of confidence in the financial markets, which, now three years old, is the longest and most widespread in post-war history, was fuelled by the accounting scandals of some major corporations and the increasing likelihood of military intervention in Iraq. In addition, doubts about the effectiveness of monetary policy decisions grew. The cumulative effect of all this bad news was to dampen the mood among companies and private households and to cripple economic activity around the globe.

In response to these developments, the central banks cut interest rates even further. The key interest rates in the U.S. and Europe are now at all-time lows. The same holds true for the yields on government bonds. Government bonds profited from investors' desire to flee to safe havens, but their yields dropped noticeably more than the yields on corporate bonds.

Future developments in the world economy and international financial markets will depend in large measure on how the conflict with Iraq is resolved. If conditions are favourable, the risk premium on oil prices will disappear and the price for a barrel of crude will drop to US\$ 20 or less. WestLB believes that such a drop would trigger a turn of events on the stock markets and thus cause a noticeable improvement in the world economic climate. In this kind of environment, the exceptionally expansionary moves in monetary policy around the world would be likely to gain in effectiveness. However, as long as the political future of Iraq remains uncertain, the economy and financial markets will remain hard-hit.

Business Development/Strategies

The key course set by the Bank in 2002 was the successful implementation of WestLB's future structure, with the division of WestLB GZ into the independent institutions Landesbank NRW, LBS Westdeutsche Landesbausparkasse and WestLB AG. Running parallel to the Bank's restructuring is a comprehensive programme on risk-return management for the years 2002 and 2003. In the year under review, the programme's main goal was to reduce costs and increase efficiency within the Bank. In keeping with its strategic orientation as a municipal bank and central institution for the savings banks, WestLB also stepped up its cooperation with the savings banks and pressed ahead with the business model of operating as a major wholesale bank.

The pace of personnel reductions, which encompasses the elimination of 1,500 jobs, was accelerated, and final implementation of the Bank's objectives has been brought forward from 2004 to 2003. WestLB came significantly closer to achieving its goal in the year under review. The number of employees declined by 507 to 5,547, while personnel expenses at WestLB AG decreased by 17.2% to € 774 million. Savings in the area of operating expenses mostly impacted IT costs. To supplement the cost-saving measures already in place, the Bank also introduced a programme to cut back on other operating expenses. This programme should result in additional significant savings.

Given the continued weakness of the market, cost-saving measures also affected the equities and investment banking business of WestLB Panmure. The goal of reducing the cost base by 16% was met and exceeded in 2002. However, because the market remains weak, it will be necessary to take additional measures in 2003.

The Bank trimmed its domestic branch network by closing the branches in Bielefeld and Essen. By centralising back office operations and revamping domestic loan processing, it also made the network substantially more cost-efficient. A review of the Bank's foreign branch network led to the closing of the branch in Izmir, with the Istanbul Branch now handling that business. The Bank also worked on centralising other functions, including certain trading and funding activities.

WestLB's registered office is in Düsseldorf and Münster. In Germany, WestLB maintains branch offices in Berlin, Dortmund, Frankfurt am Main, Hamburg and Cologne. Elsewhere in Europe, the Bank is supported by branches in Istanbul, London, Madrid, Milan and Paris. Outside Europe, customers are serviced by offices in Hong Kong, New York, Singapore, Shanghai, Sydney, Tokyo and – as of January 2003 – Toronto. There are representative and sales offices in other major financial centres.

WestLB's business in South America has undergone restructuring, with the Bank acquiring Banco WestLB do Brasil S.A. from its subsidiary BEAL. The strategy of handling business in Argentina through a branch of BEAL is being abandoned. In future, customer service in the region will be handled by a representative office in Buenos Aires. WestLB is scheduled to take over the remaining portfolios of BEAL in the course of 2003. Once the integration is complete, the Bank's presence on the markets will be marked by the WESTLB brand on all fronts.

The Clients business group was reorganised and clients were reassigned to new customer groups. The strategy of sub-dividing Western European corporate clients into industry and sector groupings will remain intact.

As planned, the domestic private banking business was sold to a private bank as of April 1, 2002. As part of its strategic repositioning, WestLB had decided to withdraw from the private banking business altogether. The securities account business for other private clients was closed as of December 31, 2002, and account management for private customers will end on June 30, 2003. The sale of WPS Bank to North Rhine-Westphalia's two savings banks associations was also part of WestLB AG's new strategic focus.

In order to strengthen its market position in core businesses, WestLB has dovetailed various business units with its special finance business. The Global Structured Finance business unit and the Asset Backed Securities unit have been grouped together in a new business unit entitled Global Specialised Finance. GSF also houses the commodity finance and forfaiting businesses. Credit derivatives operations were transferred to the Global Financial Markets business unit. Moreover, it was decided to concentrate the principal finance business in a separate business unit. Overall, these changes are designed to improve clients' access to products and to create additional synergies.

The founding of Dublin-based WestLB Covered Bond Bank was in response to the rapid growth experienced on the European market for secured bonds. The Covered Bond Bank will function as a centre of expertise for government financing, including savings bank refinancing. Irish covered bonds offer investors and issuers an attractive alternative to German mortgage bonds (Pfandbriefe). The new bank's first issue is expected to take place within the first six months of 2003.

As the central institution for the savings banks, WestLB will step up its collaborative efforts with the savings banks. To that end, the Bank has signed a framework agreement with the savings banks in North Rhine-Westphalia that sets forth their future cooperation in the area of product offerings and joint acquisition activities.

In 2003 the Bank will continue with its restructuring and strategy measures and will finalise its corporate policy strategy for the period following the elimination of institutional and guarantor liability.

Environmental Protection as a Management Task

WestLB is aware of its responsibility to society and the environment and conducts its business in accordance with the goals of sustainable development. By signing the United Nations Environment Programme's (UNEP's) Statement by Banks on the Environment and Sustainable Development at the beginning of 2002, one of the promises that WestLB made was to comply with all regional, national and international environmental requirements applicable to its business activities and services. For example, all finance commitments for projects that impact the environment are extensively tested for their compliance with all official environmental protection guidelines. Environmental criteria are also included in the Bank's credit risk strategy, as well as the credit ratings given to customers. Before WestLB agrees to provide financing for international energy projects, the recipients of the financing must not only show their compliance with the applicable national laws on environmental protection; they must also demonstrate compliance with the environmental and social standards established by the World Bank.

WestLB offers its customers proprietary products and research on socially responsible and environmentally friendly investment strategies. As the first underwriter to do so, WestLB issued certificates on the recently formed Dow Jones Euro STOXXSM Sustainability Index in April 2002. The index comprises Europe's leading companies in terms of sustainability principles. When ÖKO-TEST magazine compared the sustainability and environmental investment products available on the market in its February 2003 issue, WestLB's certificates were ranked first.

The WestLB foundation ZUKUNFT NRW (THE FUTURE OF NORTH RHINE-WESTPHALIA) is spearheading efforts towards change with targeted promotions and projects, particularly those aimed at protecting the environment. The goal of the AKWA 2100 project is to find alternatives to municipal water supply and sewage disposal arrangements by sensitising decision makers and other affected parties to the need for a long-term strategy on developing environmentally sound urban infrastructure systems for water. The goal of the KÄLTE AUS WÄRME (COLD OUT OF HEAT) project is to find a way to use waste heat or heat generated by solar power to produce cold in a way that could save resources and protect the environment.

The Group-wide GUIDELINES FOR ENVIRONMENTALLY FRIENDLY AND SUSTAINABLE DEVELOPMENT, which form the basis of the Bank's environmental management system, are an expression of the Bank's commitment to its social responsibility. One important aspect of these guidelines is environmental protection within the Group. The Bank has regularly prepared environmental responsibility reports on its operations since 1997. These reports give an account of all of WestLB's environmentally relevant data, which are captured, documented and evaluated in accordance with uniform standards. In addition, business processes are critiqued on the basis of environmental factors and the results are used to set goals and develop measures aimed at reducing the consumption of resources within the Group. The environmental responsibility report published in 2002 on the Bank's 2001 operations complied with the Federal Environmental Ministry's requirements for qualified environmental responsibility reports and is being updated. WestLB also promotes environmental protection within its ranks by offering information and training seminars to employees.

Employees

The foundation for WestLB's success is to be found in its highly skilled employees, who perform the demanding tasks of an internationally operating bank with dedication and creativity. In order to support the employees, WestLB offers a wide array of personnel development tools.

Personnel Development Tools

In the context of the restructuring which has taken place, WestLB has incorporated a three-tier support programme called MANAGING THE TRANSITION into its personnel development programme. The programme contains modules on advice, training and systems/tools. Through change, project and process management, the Bank is supporting the business groups with sets of measures designed to help them with everything from conducting workshops and holding training seminars to managing projects.

The e-learning application BEST@WestLB has been available to Bank employees since its global roll-out in December 2002. In the year under review, training modules on investment banking and global financial markets were successfully introduced. For 2003 additional product training modules are being developed.

In addition to the content offered through BEST@WestLB, employees also have access to the Bank's regular training programme, which is tailored to meet their needs and takes into account the international scope of the Bank, particularly in terms of product training. Employees are supported in their personal and professional development with a number of additional internal and external training opportunities, including language, behaviour and management classes.

Promoting Young Talent and Higher Qualification

Promoting and training young talent is a cornerstone of WestLB's personnel policy. As of the end of 2002, the Bank was training 153 young persons to become bankers, office communications staff, computer specialists and graduates in business administration. The plan is to offer as many apprenticeship training places in 2003 as were offered in 2002.

In the year under review, 146 employees took advantage of ongoing training opportunities to enhance their professional qualifications, an increase of 6.5% over the previous year.

Equal Opportunities and Diversity: Harnessing Potential

Promoting equal opportunities in the workplace is an express goal of WestLB's personnel work and is intended to enable the Bank to tap the potential of qualified young employees more effectively. Nearly half of the staff are women, but they continue to be under-represented in higher positions, in particular involving management tasks. As a result, one of the goals of the mentoring programme introduced in 2002 is to prepare qualified women for specialist and management positions.

The personal skills of employees are also key ingredients of the Bank's success. Employees come from a wide variety of countries and cultures, enabling the Bank to draw on an array of different talents. The aim of the diversity programme is to create an environment in which all employees are free to develop their abilities and creativity – regardless of sex, age, nationality or culture.

Socially Responsible Workplace Reduction

The Bank has introduced a rigorous cost-cutting programme, which includes a reduction in headcount by 1,500 throughout the Group. With the help of state-of-the-art personnel tools and close collaboration with the employee representatives to develop an appropriate personnel concept, WestLB was able to reduce its workforce in the year under review in a socially responsible manner.

The total number of employees dropped by 8.4% to 5,547 in 2002. The average number of employees was 5,896. The Notes contain a detailed breakdown of this average.

Private Pension Provision Expanded

For several years now, WestLB has offered its employees the opportunity to convert a part of their future remuneration into company pension rights. A total of € 600,000 in wages and salaries was converted into company pension entitlement in 2002 under the Deferred Compensation scheme.

In addition to Deferred Compensation, employees now have a further possibility to plan for their future retirement needs. Via the subsidiary West Pensionfonds AG, WestLB offers all employees the possibility to accumulate additional capital for their individual retirement plans through deferred compensation and investing in state-supported pension provision schemes (Riester model).

Accounting Methods and Reporting Standards

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

Due to the division of WestLB GZ in 2002, as well as the backdating of WestLB AG's formation to January 1, 2002, there are no original prior year results with which to compare the results for 2002. In the following analysis, the results for 2001 represent data of WestLB GZ which has been adjusted for the effects of the division.

Statement of Income

WestLB's income was affected by two major factors in the year under review:

First, the economy remained weak around the globe. Coupled with the protracted uncertainty on the capital markets and increasing caution on the part of investors, this led to losses in income. Moreover, the resulting drop in numerous companies' credit ratings, as well as corporate scandals, forced the Bank to increase the risk provisions in its lending business.

Second, the Bank systematically pursued and forged ahead with the risk-return management strategy introduced in the previous fiscal year, and enjoyed a marked decline in operating expenses as compared to 2001. However, in order to effect sustainable reductions in future operating expenses, the Bank had to incur a series of one-time charges that had a negative impact on the bottom line.

The resulting net loss for the year of € 610 million was offset with retained earnings; the obligations arising under profit participation certificates are thus being serviced in the agreed-upon manner.

STATEMENT OF INCOME				
	2002	2001	Changes	
	€ millions	€ millions	€ millions	%
Net interest income	1,285	1,640	- 355	- 21.6
Net commission income	439	455	- 16	- 3.5
Net income from trading operations	220	98	122	> 100
Personnel expenses	- 774	- 935	161	- 17.2
Other administrative expenses	- 902	- 961	59	- 6.1
Other operating expenses/income	116	267	- 151	- 56.6
Operating result before risk provisions/ result of evaluation	384	564	- 180	- 31.9
Risk provisions/result of evaluation	- 870	- 424	- 446	> 100
Operating result after risk provisions/ result of evaluation	- 486	140	- 626	-
Extraordinary result	- 65	- 43	- 22	51.2
Profit/loss for the year before taxes	- 551	97	- 648	-
Taxes on income and revenues	- 59	- 50	- 9	18.0
Net profit/loss for the year	- 610	47	- 657	-

Net Interest Income

The main factor behind the lower operating result of € 384 million was a drop in net interest income. Net interest income was € 1,640 million in the previous fiscal year, but fell to € 1,285 million in the year under review. Fewer opportunities to take advantage of arbitrage effects, reduced contributions from asset backed transactions and lower dividends on the Bank's equity investments played a key role. However, despite the substantial drop year-on-year, the Bank missed its target net interest income by only a narrow margin.

Net Commission Income

Net commission income fell 3.5% on the previous year. Because of the market, income from the securities and securities underwriting business was again low. The substantial contribution that the syndicated loan business made to net commission income (roughly 41%) is a testament to the dominant position which WestLB enjoys as an arranger and manager of complex finance projects.

Net Income from Trading Operations

Net income from trading operations was satisfactory, with income from proprietary trading up € 122 million to € 220 million. Two major factors for the increase were the income from foreign exchange products, which, at € 132 million, was more than double the previous year's result, and the € 45 million in net earnings from trading in

interest rate products, which was also an improvement on the previous year. Due to weak stock markets, the result from trading in stocks and equity derivatives fell by half to € 60 million. The recognition of market value reserves earned in previous years, but not yet realised as income, also made a positive contribution.

Administrative Expenses

In order to curb its administrative expenses, WestLB introduced sweeping cost-saving measures. The systematic review of cost structures resulted in a substantial reduction in both personnel expenses and other administrative expenses.

At € 774 million (2001: € 935 million) personnel expenses were substantially lower, not only because of the drop in recurring payroll expenses resulting from headcount cuts, but also because there were fewer allocations to reserves to cover performance-based compensation.

Other administrative expenses fell € 59 million to € 902 million as compared to the previous year. One of the main factors in this drop was reduced expenditure on IT services. At the same time, the Bank carried out various projects in the year under review to maintain and expand the capability of its IT infrastructure, including investments in office solutions; the solutions should help reduce fixed IT costs even further in the years ahead.

Other Operating Surplus

The main factor behind the sharp drop in other operating surplus from € 267 million to € 116 million was the lack of income that had been realised in 2001 when the Bank revamped its real estate strategy.

Risk Provisions/Result of Evaluation

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

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

Risk provisions and the result of evaluation increased by € 446 million to € 870 million as compared to the previous year:

RISK PROVISIONS/RESULT OF EVALUATION				
	2002	2001	Changes	
	€ millions	€ millions	€ millions	%
Result of provisions for credit risks	- 1,882	- 546	- 1,336	> 100
Result of participations	1,107	95	1,012	> 100
Result of securities	- 95	27	- 122	-
Risk provisions/result of evaluation	- 870	- 424	- 446	> 100

The result of provisions for credit risks rose to € 1,882 million, which represents an increase of € 1,336 million over the previous year. The main reason for the increase can be found in the amount of provisions set aside because of borrowers' credit rating problems, which rose by € 1,303 million to € 1,719 million in the year under review. The risks themselves are the result of a weak economy, accounting scandals and corporate fraud; provisions have additionally been set aside in connection with risks that became apparent in early April 2003. A substantial amount of the provisions were set aside for loans to North American and UK companies active primarily in the energy and telecommunications sectors. In order to cover latent credit risks, the Bank allocated more than € 200 million to its reserve risk provisions/general provision for loan losses.

At € 2,076 million, capital gains and the release of reserves in the participations portfolio were the main factors influencing the result of participations. However, at € 825 million, write-downs necessitated by the weak stock markets detracted from their positive contribution. The € 100 million in subsidies provided to Latin American subsidiary BEAL in the previous year compare to € 30 million allocated to reserves in the year under review.

At € - 95 million, the result of securities was well below the previous year's result. Write-downs on German stocks and on North American bond holdings held in the investment portfolio were the principal causes.

Extraordinary Result

The staff reductions made because of organisational measures and the concentration on core businesses resulted in € 80 million in one-time expenditures; this figure also includes the foreseeable costs for restructuring measures not yet taken. The Bank contributed € 8 million to the flood relief campaign sponsored by the German Savings Banks and Giro Association (Deutscher Sparkassen- und Giroverband, DSGV).

The sale of the private banking business that was planned as part of the strategic focus on core businesses resulted in extraordinary income.

Taxes on Income and Revenues

Despite an unsatisfactory result overall because of the prevailing market conditions, some foreign locations posted good results. As a result, the taxes on income and revenues were € 59 million in the year under review (2001: € 50 million).

Segment Results

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

Balance Sheet

The items on WestLB's balance sheet underwent only minor changes. Given the amount of Treasury bills included under cash, there was a shift in the use of funds available for investment in favour of securities holdings. Claims on customers, on the other hand, declined. The issue of bonds was increasingly used as a source of refinancing.

Key items on the balance sheet and how they changed from the beginning of the year are as follows:

ASSETS				
	Dec. 31, 2002 € billions	Jan. 1, 2002 € billions	Changes	
			€ billions	%
Cash, liquid debt issues and bills	10.4	6.1	4.3	70.5
Claims on banks	72.2	68.5	3.7	5.4
Claims on customers	81.1	82.9	- 1.8	- 2.2
Securities/Equalisation claims	59.0	64.0	- 5.0	- 7.8
Equity investments in affiliated and non-affiliated companies	8.7	7.2	1.5	20.8
Trust assets	0.5	0.5	0.0	0.0
Fixed asstes	0.3	0.5	- 0.2	- 40.0
Other assets	6.1	8.0	- 1.9	- 23.8
Total	238.3	237.7	0.6	0.3

LIABILITIES				
	Dec. 31, 2002 € billions	Jan. 1, 2002 € billions	Changes	
			€ billions	%
Liabilities to banks	104.7	96.8	7.9	8.2
Liabilities to customers	61.2	70.6	- 9.4	- 13.3
Certificated liabilities	49.7	46.0	3.7	8.0
Trust liabilities	0.5	0.5	0.0	0.0
Other liabilities	10.3	11.0	- 0.7	- 6.4
Subordinated liabilities/ Profit participation capital	7.4	7.7	- 0.3	- 3.9
Equity capital/ Fund for general bank risks	4.5	5.1	- 0.6	- 11.8
Total liabilities	238.3	237.7	0.6	0.3
Contingent liabilities	14.8	17.3	- 2.5	- 14.5
Other commitments/Credit commitments	74.9	91.1	- 16.2	- 17.8
Administered funds	0.0	0.1	- 0.1	- 100.0
Business volume	328.0	346.2	- 18.2	- 5.3

WestLB's credit volume was roughly € 243 billion at December 31, 2002, which meant that the amount of risk-weighted assets declined slightly. Claims were up by a narrow margin; irrevocable credit commitments and contingent liabilities dropped noticeably.

WestLB continued to strengthen its market position in the area of special finance and project finance. The projects for which financing is sought differ from region to region. In Asia, the emphasis is on ports and power station construction. In North America, the majority of deals involve the energy markets, while in Europe the focus is on the telecommunications sector. Infrastructure and airline projects are also popular.

In the course of 2002, WestLB AG continued to provide financing for cross-border leasing deals. In the last two deals, for example, the cities of Dortmund and Essen leased their rail infrastructure to U.S. investor trusts. At US\$ 1.8 billion and € 1.4 billion respectively, these transactions were the largest U.S. cross-border transactions that were made with a German city in 2002. WestLB executed payment undertaking agreements for the cities of Dortmund and Essen.

CREDIT VOLUME				
	Dec. 31, 2002 € millions	Jan. 1, 2002 € millions	Changes	
			€ millions	%
Claims on banks	72,215	68,471	3,744	5.5
Claims on customers	81,141	82,971	- 1,830	- 2.2
Contingent liabilities	14,756	17,279	- 2,523	- 14.6
Irrevocable credit commitments	74,926	91,052	- 16,126	- 17.7
Credit volume carried on the balance sheet	243,038	259,773	- 16,735	- 6.4
Derivatives (credit risk equivalents)	7,342	7,567	- 225	- 3.0
Total credit volume	250,380	267,340	- 16,960	- 6.3

The credit volume includes € 49.5 billion in repurchase agreements, of which € 24.0 billion was transacted with banks.

Given the anticipated entry into force of Basel II in 2007, the security for loans has become even more important. The decline in guaranty business and contingent liabilities is due in part to the extensive cash reserves the Bank has accumulated.

Securities Holdings

The total holdings of € 55.2 billion in bonds and other fixed-income securities include money market instruments in the amount € 1.9 billion, bonds in the amount of € 53.0 billion and own bonds in the amount of € 0.3 billion, which are held to keep prices stable. Most of the money market instruments are denominated in foreign currencies. Of the other bonds, an amount worth € 10.4 billion carry variable interest rates.

Of the total bond portfolio, WestLB held € 34.8 billion in the trading portfolio, € 18.5 billion in the investment portfolio and € 1.9 billion in the liquidity reserve.

The investment portfolio is carried as a long-term investment and funded almost entirely with matching maturities and currencies; this is predominantly the case with the liquidity reserve.

The book value of the shares and other non-interest-bearing securities held by the Bank was around € 3.5 billion at December 31, 2002. Of that, the volume of shares in investment funds was nearly unchanged at € 2.6 billion. Most of the investment funds were established by Group companies and are mainly for own investment purposes.

Equity Investments in Affiliated and Non-Affiliated Companies

In the course of the division of WestLB GZ, nearly all of the equity investments portfolio was transferred to WestLB AG. The few exceptions included public-sector holdings, e.g. Investitionsbank des Landes Brandenburg, LEG Landesentwicklungsgesellschaft NRW, Bürgschaftsbank Brandenburg and various companies belonging to the casino and lottery holdings.

The carrying value of the equity investments in affiliated and non-affiliated companies totalled € 8.7 billion at December 31, 2002. The investees included banks, financial service providers and other companies. In terms of other companies, WestLB holds shares in well-known industrial companies as well as in small and medium-sized enterprises.

The value of the equity investments portfolio increased by around € 1.5 billion over the previous year because of the way it was restructured in the year under review.

Notable additions include RWE AG due to the change in the structure of the investment, GLB GmbH & Co. OHG, into which nearly all of the Landesbanks, WestLB included, contributed their shares of DekaBank Deutsche Girozentrale, GOH Grundstücksverwaltungsgesellschaft & Co. KG and the interest in Banca Carige S.p.A. The investments in West STEAG Partners GmbH and HeidelbergCement South-East Asia GmbH were increased. With respect to disposals, the most noteworthy were the Landesbanks of Rhineland-Palatinate and Schleswig-Holstein, which were sold within the Group to WestLB Beteiligungsholding GmbH. The Bank also divested itself of its holdings in Österreichische Kontrollbank AG and Westfälische Provinzial. Write-downs were taken on the holdings in HypoVereinsbank, ThyssenKrupp AG and Nordex AG, as well as other listed companies. Due to the unusually low stock prices at the present time, the book value of some holdings in the Bank's portfolio is higher than the value of those holdings on the stock markets; however, given the going-concern value of these companies, the true value of the equity investment portfolio is still higher than what the balance sheet reflects.

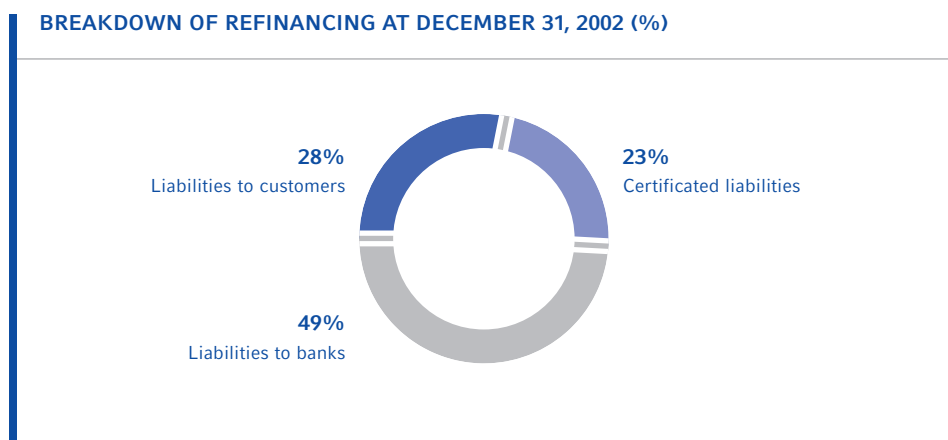
Of note among the Bank's recently acquired holdings in affiliated and non-affiliated companies is the investment in WestLB Covered Bond Bank plc, Dublin. The Bank intends to use its existing expertise in the traditional mortgage bond (Pfandbrief) business to take advantage of the opportunities presented by the Irish covered bonds market. As part of the restructuring of its South American business, WestLB acquired Banco WestLB do Brasil from Banque Européenne pour l'Amérique Latine (BEAL) S.A. The Bank also participated in the leveraged buy-out of French electrical company Legrand S.A.; WEB Westeuropa Beteiligungsgesellschaft, Luxembourg, increased its capital accordingly.

Customer and Bank Deposits

At € 104.7 billion, deposits from banks represent WestLB's largest source of refinancing. Customer deposits were down € 9.4 billion to € 61.2 billion. Of these liabilities to customers and banks, € 45.2 billion stem from repo transactions.

Issuing Business

Despite unfavourable conditions, WestLB enjoyed a strong presence on the international bond markets. Of particular note is the US\$ 1 billion bond which it issued and managed as part of the Debt Issuance Programme. The bond attracted the interest of a broad range of investors and was successfully placed. WestLB also made its presence known elsewhere around the world, with issues not only in USD, but PLN, JPY, GBP, NOK and HKD as well. WestLB has made a name for itself as a flexible issuer that offers tailor-made products.



In the short-term segment, WestLB AG makes use of its global commercial paper programme (CP programme), which posted good issue volume in 2002. WestLB AG's CP has been rated A1+ by Moody's and P1 by Standard & Poor's.

With outstanding CP volume valued at approx. € 6.75 billion as of November 30, 2002, CP Ware, an international source of market data, ranked WestLB's global CP programme sixth among the top 50 CP issuers in the European commercial paper (ECP) market. The Bank issued CP in EUR, USD, GBP, CHF, JPY and CZK. Both the European and U.S. commercial paper markets were used as venues.

Altogether, the portfolio of certificated liabilities amounted to € 49.7 billion as of December 31, 2002.

Own Funds

WestLB AG's subscribed capital amounted to € 950.5 million at December 31, 2002. The Bank's sole shareholder is Landesbank NRW.

The largest part of WestLB's reserves consists of additional paid-in capital from the capital increase of August 1, 2002, which was carried out in the course of implementing the parent-subsidiary model (i. e. the division of WestLB GZ into the public-law Landesbank NRW and the private-law WestLB AG). Of the total € 2,000 million contributed, € 266.7 million represents subscribed capital.

Parts of the Bank's reserves were transferred to Landesbank NRW and LBS in the course of the division (€ 500 million towards capital and € 3,016.6 million towards the special reserve for the promotion of housing construction in the case of Landesbank NRW and € 225 million towards retained earnings in the case of LBS).

Reserves from retained earnings are broken down into reserves required under the articles and bylaws of WestLB and other reserves. In 2002, € 610 million was released from retained earnings to cover the net loss for the year.

Subordinated liabilities and profit participation capital at WestLB AG dropped € 371.0 million to € 7,401.9 million in the year under review.

To strengthen WestLB AG's capital base, the former owners of WestLB GZ resolved in 2002 to increase WestLB AG's capital by € 1.25 billion. The capital increase was carried out on January 2, 2003, in the form of silent contributions. Repayment of the silent contributions will occur in five equal instalments, with the amounts contributed being converted into shares of WestLB AG. In order for the increase to take place, the shareholders of the Bank gave the Managing Board the authority to increase the Bank's capital by issuing new shares in exchange for cash or in-kind contributions. All increases are subject to Supervisory Board approval and must be completed by December 31, 2007. The silent contributions made comply with the statutory requirements for core capital as set forth in § 10 of the German Banking Act (KWG), as well as in the Basel Capital Accord.

The changes in capital and reserves are as follows:

	WestLB AG Jan. 2, 2003 € millions	WestLB AG Dec. 31, 2002 € millions	WestLB AG Jan. 1, 2002 € millions	WestLB GZ Dec 31, 2001 € millions
Subscribed capital	950.5	950.5	950.5	1,183.8
Capital reserves	2,034.8	2,034.8	2,034.8	3,318.1
– special reserves pertaining to the Wfa	0.0	0.0	0.0	3,016.6
Reserves from retained earnings	1,383.2	1,383.2	1,993.2	1,889.4
– reserves required under WestLB's articles and bylaws	409.3	409.3	409.3	529.5
– other reserves	973.9	973.9	1,583.9	1,359.9
Silent contributions	1,250.0	–	–	–
Equity capital pursuant to the German Commercial Code (HGB)	5,618.5	4,368.5	4,978.5	6,391.3
Fund for general bank risks	82.0	82.0	82.0	303.0
Subordinated liabilities	4,977.2	4,977.2	5,347.2	5,596.8
Profit participation capital	2,424.7	2,424.7	2,425.7	2,675.7
Total capital and reserves	13,102.4	11,852.4	12,833.4	14,966.8

Under § 10 of the German Banking Act (KWG), as well as under Principle I, WestLB must have adequate capital and reserves to back its operations. Specifically, the ratio between WestLB's capital and reserves and the sum of its risk-weighted assets plus 12.5 times the relevant amount for market risk positions (currency, commodity, trading book and option risks) must not fall below 8%. In addition, an equity capital ratio (liable capital vs. risk-weighted assets) of at least 8% must be maintained. WestLB AG exceeded this equity capital ratio at all times in 2002.

The capital and reserves recognised for German banking regulatory purposes consist of liable equity capital (core capital and supplementary capital) and Tier III capital, which for WestLB AG totalled € 11,539.8 million at December 31, 2002. The breakdown of capital and reserves recognised as liable capital under the German Banking Act is as follows:

	WestLB AG Jan. 2, 2003 € millions	WestLB AG Dec 31, 2002 € millions	WestLB GZ Dec 31, 2001 € millions
Core capital	6,304.4	5,054.4	5,623.0
Paid-in capital	950.5	950.5	1,183.8
Disclosed reserves	4,028.0	4,028.0	4,144.4
Asset contributions of silent partners	1,250.0	0.0	0.0
Special item for general bank risks under § 340 g of the HGB	82.0	82.0	303.0
Intangible assets	- 6.1	- 6.1	- 8.2
Supplementary capital	5,562.9	4,937.5	5,623.0
Deductions from core and supplementary capital	- 110.0	- 28.4	- 31.4
Liable capital	11,757.3	9,963.5	11,214.6
Tier III capital	1,110.5	1,803.8	2,167.9
Total own funds	12,867.8	11,767.3	13,382.5
Unused Tier III capital	0.0	- 227.5	0.0
Own funds under § 2 (2) and (3) Principle I	12,867.8	11,539.8	13,382.5

For accounting and tax purposes, the division of WestLB GZ into Landesbank NRW and WestLB AG was backdated to January 1, 2002. However, regulatory ratios could not be determined for the two new institutions until month-end August 2002. Therefore, for purposes of comparison between years, the figures are shown with those of the former WestLB GZ at December 31, 2001.

The profit participation rights and subordinated liabilities included in WestLB AG's capital and reserves 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.

Based on maturity, the breakdown at December 31, 2002 of supplementary capital eligible for recognition by the banking supervisory authorities is as follows:

WESTLB AG BREAKDOWN BY MATURITY

Maturity Date	Profit Participation Capital Dec. 31, 2002 € millions	Subordinated Liabilities Dec. 31, 2002 € millions
2003	–	379.7
2004	–	49.5
2005	92.0	478.7
2006	232.1	84.4
2007	495.3	303.7
2008	225.6	450.1
2009	620.1	1,321.0
2010	280.4	257.5
2011–2015	440.2	295.2
2016–2030	25.0	451.8
2031–2040	–	199.6
2041–2050	–	59.8
Total	2,410.7	4,331.0

Using the capital and reserves recognised for regulatory purposes as a basis, the following Principle I ratios were determined at December 31, 2002:

RISK-WEIGHTED ASSETS AND EQUITY CAPITAL RATIO PURSUANT TO KWG

	WestLB AG Dec. 31, 2002 € millions	WestLB GZ Dec. 31, 2001 € millions
Risk-weighted assets of the investment book	75,014	96,216
12.5 x the relevant amount for market risk positions	27,584	40,180
Total	102,598	136,396
Equity capital ratio	13.3	11.7
Overall ratio	11.2	9.8
Core capital ratio	5.9	4.9

The ratios determined in accordance with the BIS guidelines are as follows:

RISK-WEIGHTED ASSETS AND EQUITY CAPITAL RATIO PURSUANT TO BIS		
	WestLB AG Dec. 31, 2002 € millions	WestLB GZ Dec. 31, 2001 € millions
Risk-weighted assets of the investment book	84,476	108,448
12.5 x the relevant amount for market risk positions	20,350	31,575
Total	104,826	140,023
Overall ratio	10.7	9.3
Core capital ratio	6.0	5.2

The substantial decline in the amount of capital and reserves tied up for market risk positions can be attributed to the fact that the internal model for general risks of interest rate movements was used for the first time as of December 31, 2002. This effect overcompensated for the moderate expansion in business and essentially caused the noticeable improvement in capital ratios.

Even before the consultation period for the New Basel Capital Accord (Basel II) was over, WestLB began implementing the capital adequacy recommendations contained therein in 2002 with a series of coordinated efforts and projects (including, in particular, the creation of a database of credit ratings and collateral, the determination of the risk parameters as required under Basel II, the ascertainment of operational risks, market discipline and the updating of IT systems). By starting early, the Bank has given itself the time it needs to archive data and to meet the new accord's deadlines.

Statement on Subordinate Status Report

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

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

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

Risk Report

It is a fundamental principle of WestLB's business policy to approach risks responsibly and with an eye toward returns. To gauge and adequately exploit the earnings potential of a multitude of unique and innovative businesses within the context of a risk-return approach, risks must be identified, measured adequately and continually monitored. As a result, the risk management system and tools used at WestLB are organised on the basis of the Bank's product lines and the unique risks inherent to each of those product lines. Taken as a whole, the individual components of risk controlling and management form a comprehensive and effective system of risk management that generates the information needed by the Bank to make day-to-day, strategic business decisions.

Organisational Basis of Risk Management

The Managing Board's responsibility for units and businesses that perform substantive work in the area of risk management was concentrated in the function of Corporate Risk Officer in 2002.

The Central Credit Management unit is responsible for monitoring counterparty default risks in the lending business. The Risk Management Support & Control unit is responsible for monitoring market price risks in the trading and investment portfolios as well as counterparty risks in the trading business. The Global Financial Markets unit manages short-term liquidity risk, while the Capital & Mismatch Management unit manages structural liquidity risk. The Equity Investments business group handles the routine management of participation risks, as well as risk management for Group companies that are either not part of the Banking Group's risk management system or do not operate their own risk management systems. Any tasks related to developing and providing methods for risk-return management, including the relevant guidelines for the business units and the monitoring of how much risk the Bank can bear, are performed by the Group Strategy/Controlling unit. This unit also handles all other operational management duties.

The appropriateness and effectiveness of the Bank's overall risk management is constantly monitored by the internal auditing unit. As an independent supervisory entity, the internal auditing unit reports directly to the Managing Board with its results, analyses, evaluations and with any recommendations it may have.

Types of Risks

The Bank distinguishes between market price risks, counterparty default risks and liquidity risks, as well as participation risks, operational risks and other risks.

Market price risks are potential losses in the trading and investment portfolios caused by price fluctuations on the financial markets.

The risk of financial loss arising from a borrower's or counterparty's inability to meet its payment obligations to WestLB is known as counterparty default risk. In trading operations, counterparty default risk is referred to as counterparty risk. Country risk (particularly transfer risk) is a type of counterparty default risk; it arises when a borrower will not (or will no longer) be able to service its foreign currency debt because of a worsening of the general economy or the political situation in the borrower's home country.

Liquidity risk refers to potential bottlenecks in market liquidity, which could make it difficult for the Bank to meet its future payment obligations in full or at reasonable prices, within a reasonable time.

Participation risk refers to potential fluctuations in the value of companies in which WestLB has a controlling interest, as well as risks arising from contracts with companies in which WestLB participates.

Operational risks are defined as the threat of losses resulting from the inappropriate behaviour of employees or from the failure of internal procedures and systems. Operational risks also encompass external events.

Other risks include threats to the Bank's reputation and any other general business risks.

Uniform System of Risk Measurement

WestLB has incorporated the various methods used to measure specific risks into a risk management system that spans all products and business units; the measurement of operational and participation risks is currently being adapted to fit this uniform system. The use of uniform risk ratios makes it easier to compare the different types of risks against each other within the context of the Bank's overall documented exposure. The wealth of risk information captured includes the quantitative data required for regulatory reporting purposes and for the overall operational management of the Bank (e.g. risk-weighted assets, credit risk equivalents and economic capital, anticipated loss, value-at-risk, etc.), but also contains qualitative information (e.g. rating structures, market analyses).

The quality of risk measurement is monitored continuously. A key element of this quality control is to test the risk parameters that are being used (back testing). Simulations and stress tests ensure that even unlikely, extreme market situations are also taken into account.

Risk reporting to the decision makers in the business and management units is up-to-the-minute.

Consistent Management

One way that the risk policy defined by the Managing Board comes to life is in the form of a global system of risk limits for counterparty default and market price risks. This system ensures that the sum of the risks assumed by the individual business units stays within the Bank's total risk limit.

WestLB's risk policy is documented in guidelines and working instructions. Having these guidelines and instructions ensures that there is a system of risk-adjusted profit control for operations that is in harmony with the Bank's overall goals.

Monitoring and Managing Risks in the Trading Business

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

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

The Risk Management Support & Control (RMS&C) unit is responsible for independently implementing and guaranteeing adherence to the Managing Board's guidelines for risk management in the trading business. To that end, RMS&C is present in all locations where there is an active trading business. Its duties and responsibilities are described in detail in a trading handbook. This handbook is available as a database application, which means that all employees have access to the latest version of it.

RMS&C is also responsible for monitoring market price and counterparty risks. Limit structures are regularly reviewed and updated. In addition, adequate methods for quantifying risks are defined.

The RMS&C unit continues to collaborate on all activities aimed at improving the Bank's overall risk management system. It introduces trading-specific information into the individual management systems and ensures that these systems adequately capture the trading business.

RMS&C is also in charge of introducing new products into the trading business (New Product Process, or NPP). NPP ensures that all new transactions are performed properly and seamlessly, and also supports the Bank's efforts to respond in a timely manner to customers' demands for innovative products.

By providing decision makers with regular risk analyses and detailed information about all necessary risk and P&L numbers, the RMS&C unit actively supports the risk management of the trading business. Individual risk committees for market and counterparty risks regularly meet to discuss the risk exposure in the trading business. The Managing Board meets every two weeks to discuss the risk situation.

WestLB AG satisfied the minimum requirements for conducting trading operations at all times in the year under review.

Market Price Risks

Market risks, and the value of the WestLB AG Banking Group's trading and investment portfolios, are computed daily. In order to track the medium and long-term development of factors that impact market risks, analyses from the Bank's Economics Department are used. Particular emphasis is placed on information about products that have equity risks and interest rate risks, since these are the product categories under which most of the Bank's positions fall.

At the end of 2002, WestLB received approval to begin using its internal VaR model to determine Principle I equity capital ratios for the trading business. The approval also covers all of WestLB's foreign branches. The internal model fully captures general interest rate risks, and work is currently under way to teach the model to recognise specific interest rate risks as well.

The value-at-risk (VaR) approach is used to determine market price risk under normal market conditions. VaR is used to estimate the likelihood that a given portfolio's potential future losses will exceed a certain amount within a specified period of time. The VaR technique can be applied consistently to all products and markets, which makes it possible to compare risks between different portfolios.

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

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

Regular back testing is used to monitor how meaningful the VaR numbers are. Detailed quarterly analyses supplement the exhaustive daily tests, and the conclusions drawn from the testing make an important contribution towards improving the model. The results are also incorporated into the validation that takes place every six months. The goal of the six-month validation is to ensure that the model is capable of adequately determining risks, even if the risk parameters change.

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

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

VaR is the most important tool for limiting market price risks that the Managing Board has at its disposal. VaR limits have been set on all relevant levels, down to the smallest units with risk and profit responsibility (LIMIT UNITS).

VaR limits are monitored daily. If the limits are exceeded, RMS&C alerts the relevant trading unit, instructing it to take the necessary measures to return its business to within normal VaR limits and then monitoring that the trading unit does so. The head of the RMS&C unit is notified each time a VaR limit is exceeded. The Managing Board is notified when the amount by which a VaR limit is exceeded is substantial.

Additional information (e.g. sensitivities, correlation risks, binary risks, etc.) is gathered in order to portray and limit risk clusters and risks that are not captured by VaR.

Using the Bank for International Settlements' parameter (confidence level of 99% and holding period of ten days), the values at risk in 2002 were as follows (€ millions):

	VaR at Dec. 31, 2002 € millions	Minimum VaR in 2002 € millions	Maximum VaR in 2002 € millions	Average VaR in 2002 € millions
WestLB Group	77.2	72.8	121.0	93.0
thereof				
– GFM ¹	53.2	44.2	91.6	64.2
– WestLB Panmure	14.0	8.6	19.4	12.8
– Other trading units ²	18.3	12.0	28.2	18.5

¹ incl. Credit Derivatives

² Düsseldorf Trading Others; Banque d'Orsay; WestLB Int. Luxembourg; WSP Equities; Strategic Stock Positions; BEAL Buenos Aires; Specialised Finance

VaR estimates the maximum loss under normal market conditions. In order to look at movements in market parameters that are less likely than those assumed in the VaR calculations (FAT TAILS), scenario analyses are required. When doing fat-tail analysis, WestLB uses parametric and historical scenarios. In addition, stress tests are performed weekly and their results are passed on to the Managing Board at least once every month.

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

Counterparty and Country Risks in Trading Operations

Transactions with external customers are subject to default risk related to the counterparty and/or country involved.

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

The correct measurement and modelling of all risks forms the basis. The aim is to develop customer-specific and type-specific risk profiles over the life of transactions by taking into account the unique aspects of a given product. With interest rate swaps and other long-term derivatives, the Bank uses a Monte-Carlo-based portfolio simulation method.

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

The responsible decision makers determine the counterparty, issuer and country risks within the trading business using the Group-wide credit processing mechanisms.

Limit compliance is checked daily. Once it has been determined that a limit has been exceeded, the trading unit issues an opinion and the Managing Board members responsible for the RMS&C unit and for the trading units are informed. In addition to reports on short-term developments, standard reports regularly report on how close active operations are coming to the limits set. If needed, the member of the Managing Board in charge of the RMS&C unit is given suggestions on how to correct non-compliant activity.

In order to reduce the counterparty risks in the derivatives business, the Bank systematically works with collateral agreements. Specifically, it uses the standard master agreements available on the market, which provide for close-out netting and the provision of security. Collateral management (which generally takes the form of daily margin calls) is handled by the Global Back Office and RMS&C units as part of the Bank-wide management of counterparty default risks. The legal and operational requirements for recognising this type of risk reduction are defined at WestLB by the Netting Committee. The substantial amount of legal documentation that is required also helps with measuring the Principle I capital ratios for counterparty risks. Internal risk management and external reporting both make use of information that is contained in a Bank-wide legal database.

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

Monitoring and Managing Risks in the Lending Business

Central Credit Management (CCM) has overall responsibility for managing the Bank's worldwide counterparty default and country risks.

CCM defines the standards for conducting the Bank's lending business in accordance with the risk policy established by the Managing Board. This includes developing the credit approval limits to be approved by the Managing Board for the various credit and product groups, as well as creating the processes and methods used in the analysis, management and monitoring of counterparty default risks.

CCM has voting and co-determination rights where the credit approval and monitoring process is concerned. CCM is also responsible for monitoring the country limits of all non-trading products.

CCM is responsible for the overall planning and management of the loan portfolio, the goal of which is to optimise the structure of the Bank's credit exposure. The structure of the loan portfolio is regularly reviewed in order to ensure its compatibility with the risk policy defined by the Managing Board. The results are presented to the Managing Board in quarterly reports.

In the course of optimising its credit and capital management, the Bank created a separate Portfolio Management unit within CCM in 2002, the main task of which is active portfolio management. The Portfolio Management units makes recommendations to the Credit Portfolio Committee (CPC), which consists of the Managing Board members responsible for risk management, clients and special finance. Decisions are made by the full Managing Board and then implemented by the Portfolio Management unit.

Counterparty Default Risks – Risk Provisions

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

RISK PROVISIONS/RESULT OF EVALUATION – LENDING BUSINESS					
	Allocations to Allowances € millions	Write-Backs from Allowances € millions	Net Allowances € millions	Other Risk Exp./Income € millions	Risk Result € millions
Acute counterparty default risk	- 1,941	306	- 1,635	- 18	- 1,653
Credit rating risk	- 1,823	104	- 1,719	- 27	- 1,746
Country risk	- 118	202	84		84
Other risk				9	9
Latent counterparty default risk	- 245	16	- 229		- 229
	- 2,186	322	- 1,864	- 18	- 1,882

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

Counterparty Default Risks – Managing Individual Risks

The three regional lending business segments (Germany/Europe, America, Asia/Pacific) assume primary responsibility for independently monitoring and managing counterparty default risks. The special finance units Global Specialised Finance and Principal Finance, where risk analysis cannot be completely separated from the business structure, are responsible for their own risk-return management.

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

The foundation of the ongoing monitoring process is the credit monitoring file prepared at least once a year on each individual borrower. Like the credit application file created in the application phase, the credit monitoring file includes a review of the borrower's creditworthiness, as well as a review of the borrower's credit rating and collateral. If the review reveals that the borrower poses a greater risk than the borrower previously did, the borrower is included in the loan or product department's watch list and receives closer scrutiny and support.

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

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

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

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

Counterparty Default Risks – Rating Systems

The loan and product units determine an internal rating for each customer. Specific rating procedures are currently in place for these customer and product groups: corporate clients, banks, private clients, real estate finance, project finance, structured commodity finance, commodity trade finance and asset backed securities.

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

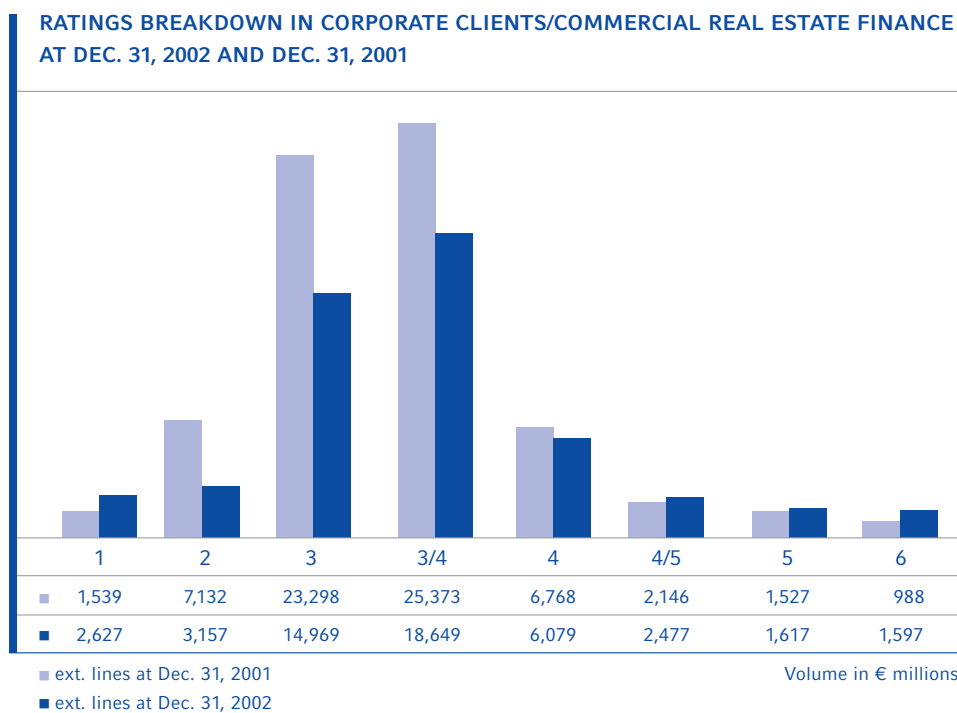
The individual credit rating determined reflects a standardised default probability for each customer that forms the basis of the Bank's risk pricing and loan portfolio analysis.

WestLB has had an internal rating system in place for more than 13 years for corporate clients that are grouped into one of its major portfolios. Other rating systems have been added over the years. As of December 31, 2002, 66% of the Group's credit line volume was being rated internally.

Given the requirements that are expected to emerge from the Basel II Accord, the Bank intends to add rating systems for its smaller client and special portfolios, as well as to revamp and improve the systems that are already in place. It will gradually introduce these systems in the course of 2003. By mid-year 2003, all functionalities related to the internal rating systems will be deployed in a rating database, so that the rating data required for compliance with Basel II will be systematically available.

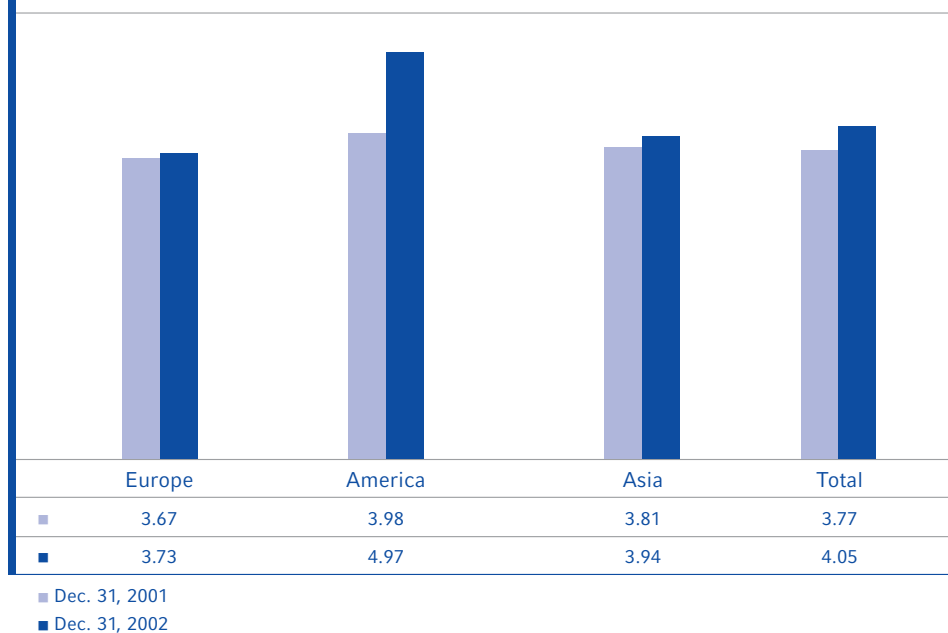
In order to systematically capture the default probabilities, the Global Watchlist will also be improved. The Global Watchlist is a database that provides worldwide monitoring and management of risks that require close supervision. The improvements will make it possible to archive and chronicle the exposure at default (EAD) and the loss given default (LGD).

Fiscal year 2002 was characterised by a global economic downswing. It also affected how ratings were distributed within the corporate clients and banks portfolios.



As was the case for WestLB GZ in the previous year, most of the customers in WestLB AG's corporate clients portfolio are rated 3 or 3/4. Shifts in ratings are due to the effects of the Bank's division and to changes in the estimated risks posed by companies in the telecom and energy sectors, as well as those posed by some companies based in Argentina.

CORPORATE CLIENTS/COMMERCIAL REAL ESTATE – AVERAGE RATINGS FOR 2001 AND 2002



The average rating dropped noticeably in the America portfolio in 2002, chiefly because of the crisis in South America and economic influences that forced some companies' ratings to fall. The average rating for the entire corporate clients portfolio was 4.05, which corresponds to a credit rating of 3/4.

Counterparty Default Risks – Portfolio Management

One way that WestLB systematically measures and manages credit risks is by using an actuarial credit risk model based on Credit Risk+. This model makes it possible to supplement individual analyses with an overall portfolio view and to quantify the risk potential of a portfolio by supporting probability breakdowns for potential losses. By calculating the risk contributions of individual commitments or parts of a portfolio, cluster risks, industry risks and country risks can be identified. The consumption of economic capital and anticipated losses are calculated for each borrower with a confidence level of 99.97%.

Use of the credit risk model – in part as an element of global risk-return management – is constantly being expanded and refined. It places WestLB in a position of more accurately forecasting credit risk-related losses and cluster risks, and more efficiently allocating economic capital across the business segments.

There are separate industry committees within CCM that monitor risk changes in the key sectors in which WestLB is committed. The Managing Board and Credit Portfolio Committee are regularly informed about specific industry concentrations and the Group's risk exposure in these industries, and they use this information to manage the Group's portfolios. Given the accumulating acute and latent risks in the telecommunications, aviation and energy sectors in North America, the Managing Board resolved to set industry limits for these sectors in 2002.

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

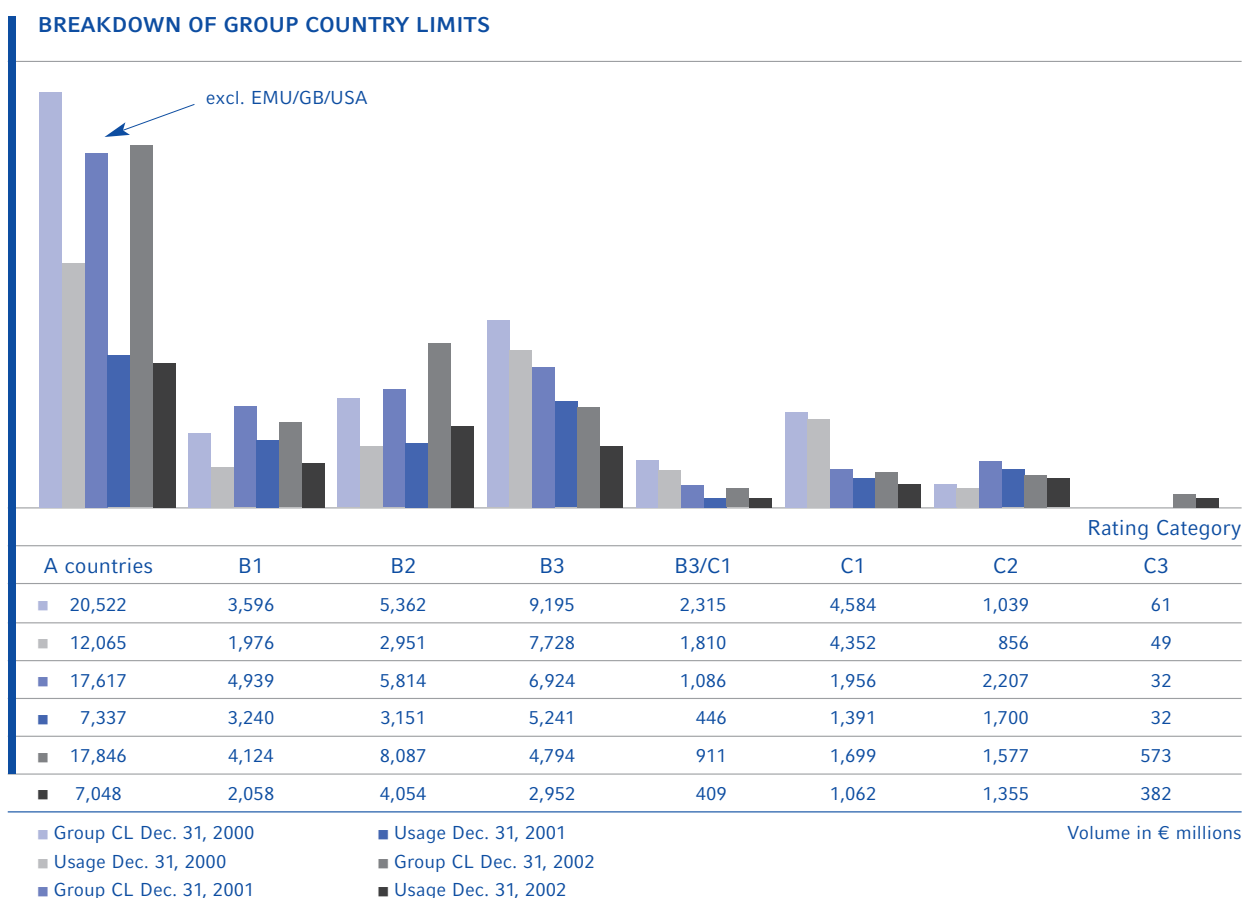
When determining the volumes subject to a country risk, WestLB goes well beyond the classical transfer risk. When assigning risk to a country, the Bank not only takes the borrower's country of residence into account; the country risk of the borrower's ultimate parent company, the providers of collateral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

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

WestLB's Economics Department assigns internal ratings to all relevant countries, which are reviewed at regular intervals. Numerical country limits are determined on the basis of the country rating, the country's size, as reflected in its gross domestic product, as well as the risk-bearing potential of WestLB. Depending on the rating category, the country limits are divided on the basis of fixed ratios into limits for short-term business and limits for long-term business. A distinction between product groups, i.e. the lending business, trade finance and trading business, is also made.

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

The use of individual country limits is managed by the regional client business units. Their country managers work with the individual product areas to determine how much of a country's overall limit is needed and used. The country managers also control the distribution of resources among the various product areas from a risk-return point of view.



The increase in the amount and usage of Group country limit category B2 can be attributed to the improvement in the ratings of South Korea, Poland, Estonia and Botswana. The drop in Argentina's rating led to an increase in the exposure in category C3.

The usage of the Group country limits in rating categories C1, C2 and C3 reflects the commitments that the Bank and its subsidiaries have made in Argentina and Brazil, in particular, and, to a lesser degree, in Turkey. In 2002 the Bank continued its policy of systematically reducing its commitments in countries with poor ratings.

Monitoring and Managing Participation Risks

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 group. The companies of the Banking Group are fully incorporated into the risk and operational management of WestLB.

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

An example of this process is Boullioun Aviation Services Inc. (BAS), which is the parent company of the Boullioun Group, an enterprise active in the aircraft leasing sector. Boullioun has been assigned to the Global Specialised Finance business unit, which manages Boullioun's risks chiefly by determining credit guidelines, accepting supervisory positions and performing decentralised risk controlling for the firm's products and services.

The Boullioun Group performed satisfactorily in 2002, despite the crisis in the aviation industry. Due to its diversified portfolio of clients, the high-quality aircraft in its fleet, as well as minimal idle rates, it managed to post positive results in the year under review. On the basis of its proven business model, the Boullioun Group is also well positioned to face future challenges.

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

To monitor and manage risks, as the Equity Investments business group does, in a way that focuses on the health of the Bank's business is particularly important in the case of participations in companies that are exposed to self-generated risks, e.g. companies that receive private equity. In its private equity business, the Bank uses investment funds to provide equity capital to fast-growing companies. Since some of the funds are still being invested in and the economic situation of growth companies was difficult in the year under review, WestLB increased its risk provisions.

WestLB's asset management activities, which were pooled in WestAM Holding GmbH in 2001, continued to report start-up losses due to the difficult conditions on the financial markets. However, with a rigorous system of cost management and further improvement of its business model thanks to its incorporation as a limited liability company, the company has shown that it has the necessary structures in place to respond flexibly and sufficiently to market changes. As a result, we believe that the company is well positioned for the future.

Liquidity Monitoring and Management

Liquidity management within WestLB is carried out centrally by the Global Financial Markets (GFM) and Capital & Mismatch Management (CMM) units in accordance with the guidelines established by the Bank's Asset & Liability Committee (ALCO), a Managing Board committee whose responsibilities include the structural liquidity mismatch position. While GFM ensures short-term liquidity, CMM is responsible for planning and controlling structural liquidity. In other words, CMM ensures the Bank's compliance with banking regulatory requirements (Principle II) and takes care of its economic liquidity.

The work that goes into determining and planning liquidity requirements is done on the basis of a proprietary information system that was extensively revised in 2002 and now offers the opportunity to simulate the Bank's future liquidity position by applying a variety of scenarios. The information gathered from this system is supplemented by a continuous exchange of information with the relevant business units of the Group, as well as regular meetings of the persons involved in risk management. This ensures that all necessary information is available for the timely procurement and allocation of liquid funds.

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

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

The Group uses customary financial instruments to procure the required liquidity. In addition to borrower's note loans (Schuldscheindarlehen), WestLB issues debentures. As a rule, these issues are standardised tap issues. In addition to the existing debt issuance programme for medium and long-term issues, the Bank has a global CP programme for short-term issues.

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

The Bank holds a large portfolio of highly liquid money market and capital market securities which are suitable for repos and central bank tenders to ensure that there is sufficient liquidity at all times. As a result, WestLB has access to substantial refinancing facilities when it needs them.

In 2002 guidelines on the uniform treatment of legal risks were adopted (e.g. so-called rating downgrade clauses).

For emergencies, the Bank has developed a global liquidity contingency plan that outlines the communications channels, responsibilities, procedures and steps for remedying liquidity bottlenecks.

At December 31, 2002, the Bank's Principle II liquidity ratio was 1.12. The provision of liquidity for WestLB was ensured at all times in 2002.

Business Risks

Changes in the market environment and in the prevailing technological and institutional conditions can trigger fluctuations in business volume and margins. The extent to which such changes pose business risks depends on WestLB's ability to react to changes in external parameters as early as possible. The business risks are reduced if the Bank is flexible enough to adapt its use of resources in the various business units and product lines to current developments.

WestLB is currently working on a process to identify and measure business risks which result from cost structures that cannot be adapted within one year's time to fluctuations in volume and margins.

Operational Risks

Operational risks in the lending business have always been part of the overall management responsibility of an institution. In recent years, however, cases involving major losses and the discussions among regulators spurred by Basel II have increased general interest in the topic of operational risks.

At WestLB, the individual business units are responsible for ensuring that the risk of faulty or undesirable results is kept to a minimum. To assist them in their efforts, the business units are supported by centralised specialist units, which, because they cross business units and product lines, bring shared specialised expertise to bear when it comes to reducing operational risks throughout the Bank. The internal auditing unit plays a key role in this relationship because of its independence. Any corrections it makes are incorporated into a structured follow-up process.

The goal of contingency planning is for business to continue as close to usual as possible during an emergency or to be restored to normal as easily as possible in the event of an interruption. Key components of contingency planning are the ability to assess potential damage when operations cannot go on as normal and to have procedures in place for restarting operations and IT applications.

An integral part of any company's business policy is to securely supply itself with the right information in the right quantities at the right time and to do so with the greatest degree of protection against misuse. Minimising risk on this level is the responsibility of the Chief Information Office (CIO) unit, which handles information security management and decentralised information management (DIM).

Ensuring and increasing data quality are of paramount importance to avoiding errors in business processes and thus reducing operational risk. Accordingly, there is a separate department devoted to this topic at WestLB.

In order to protect WestLB against substantial operational risks, it makes sense on a cost-benefit level for some areas to use insurance as a means of risk transfer. On the Group level, the International Insurance Program provides WestLB with extensive insurance coverage that has been pulled together into one centralised insurance portfolio.

To minimise legal risks, the business units are supported by the Legal Department. The control and support that the Legal Department offers includes reviewing contracts in light of risks, developing standard agreements, as well as keeping abreast of the latest legal developments.

Personnel risks take on many different forms. Service offerings that cover the entire life of employees, from hiring and continuing education to when they leave the Bank, ensure a reduction in personnel risks.

By drawing on the various management and control functions already established for individual aspects of the Bank's overall operational risk, WestLB has been working to create a management system for operational risk since the beginning of 2001. The strategy developed responds to the heterogeneity and hard-to-capture quantitative dimensions of operational risk in two ways:

On the one hand, the necessary structural and procedural framework is determined in close cooperation with the specialist units and areas described above.

On the other hand, in order to establish high standards of risk analysis, management and controlling throughout the Bank, a risk event database, early warning system based on risk indicators and a cause-based self-assessment tool have been developed.

The idea behind this management system is compatible with the qualitative requirements for managing operational risk, at least as far as the current version of the new regulatory rules which are expected to enter into force at the end of 2006 reveals.

Continual Improvement of the Risk Management System

The integrated management of market price, counterparty default, country, participation, liquidity and operational risks has gained in importance. In keeping with this development, the RMS&C unit, Central Credit Management and the regional loan departments were placed under the direction of the Corporate Risk Officer in the Managing Board in 2002.

At the beginning of March 2003, the Managing Board resolved to increase the active loan portfolio management performed by the Credit Portfolio Committee and CCM unit, and to supplement the RMS&C unit's existing management of risks in the trading business with the responsibility for controlling the loan portfolio and operational risks.

The realisation of these measures is taking place in CCM's newly created Portfolio Management unit. The Portfolio Management unit's duties also now include monitoring and managing participation risks independently of the relevant market sector, establishing policies for such risks and incorporating them into Group-wide portfolio management.

RMS&C is also responsible for:

- developing logical and practical methods for measuring risks across all risk categories,
- determining the risk capital needed to support the strategic management of operations,
- using integrated risk reporting as an instrument of efficient risk management throughout the Bank.

Outlook

The weak economy, increasing incidence of bankruptcies and falling stock prices had a major impact on the financial performance of banks in 2002. At the same time, the German banking market is marked by growing consolidation and cost pressure. This is the environment in which WestLB AG will complete its renewed focus on profitability as it looks ahead to the elimination of institutional and guarantor liability in mid-2005. The guiding principle of the measures which the Bank successfully pressed ahead with in 2002 remain the goals of an 18% return on shareholders' equity, a cost-income ratio of 65% and a core capital ratio of 6.5%.

In 2003 the Bank will move ahead with the restructuring measures introduced in the year under review. In addition to reducing its cost basis, this will include the further development of the Bank's strategic orientation in order to further improve structural profitability. The Bank will continue to concentrate on its core competencies in profitable, high-growth businesses, including special finance, equity investments, capital market products and the equities business. Activities which are outside the Bank's strategic focus will be discontinued.

As a first step, WestLB divested itself of its retail operations in the year under review by selling its private banking business and its shares in Westfälische Provinzial-Versicherung. As of January 1, 2003, WestLB also sold WPS-Bank to the two savings banks associations. These measures further enhanced the Bank's image as a focused wholesale bank.

The acquisition of the remaining shares of Westdeutsche ImmobilienBank (WIB) also marks a step in this direction; the owners agreed on the move at the beginning of March. One of the objectives in controlling 100% of WIB's shares is to restructure the WestLB Group's entire real estate business and incorporate it into WIB, which focuses on wholesale business.

The equities business suffered for the second year in a row from the overall weakness of the markets. After reducing the cost basis both here and in the other capital markets business in the year under review, further measures proved necessary because of the persistently poor conditions. In this connection, the Bank has decided to market its core equities business and all M&A services under the WESTLB brand and to concentrate the activities of its subsidiary Panmure U.K. on securing a competitive position in the UK market.

The conclusion of a framework agreement with the savings banks in North Rhine-Westphalia placed WestLB's cooperation with the savings banks on a new footing. Working together with the savings banks, WestLB will further develop its role as the central institution for the savings banks. Select areas in which to strengthen collaboration have already been identified.

On the cost front, the Bank reached an important milestone by reducing costs approx. 12% in the year under review. The systematic management of costs is proving successful. By year-end 2003, the goal of reducing the number of staff by 1,500 will be achieved; 507 jobs were already eliminated in 2002. In addition to the project currently under way to improve the cost-saving potential in the IT area, the Bank has set up a project for limiting other operating expenses. Additional significant cost savings are to be achieved by the end of the year.

Due to the weak state of the economy and the corporate scandals, the Bank incurred extraordinary risks in 2002. Despite the possibility that the uncertainty plaguing the world economy will persist, it appears likely that the worst is over in terms of risks. The Bank has introduced further measures for limiting risk and also made substantial headway in improving the instruments used in its active risk and portfolio management. For example, it improved its risk profile by developing and implementing a consistent credit risk strategy as well as creating a system of active portfolio management to control cluster risks and capital allocation. In addition, the lending business will focus even more on cross-selling opportunities.

After making substantial progress in the year under review in reducing its cost basis and making risk-based adjustments in its loan and equity investment portfolios, the Bank can expect its results to improve in 2003, its second year of restructuring, if there is a revival in the world economy. The structural measures taken as part of the Bank's efforts to refocus will also contribute to an improvement in results. However, if the economic situation remains unfavourable and there are critical developments in certain industries and countries, as the crisis in Iraq could trigger, it is not unlikely that the lending and equity investments business will be hard-hit. Therefore, it is impossible to quantify the results for 2003 reliably. On the whole, the foundation is in place for the Bank to achieve its goals by the end of the transitional period for the liability mechanisms in 2005.

LIABILITIES

	see Notes No.	€	€	WestLB AG 31. 12. 2002 €	WestLB GZ 31. 12. 2001 € thousands
Liabilities to banks	18, 28				
a) payable on demand			14,600,279,532.22		(11,591,239)
b) with agreed maturity or period of notice			90,130,126,988.19		(104,137,677)
c) deposits of Landesbausparkasse			—		(17,566)
				104,730,406,520.41	115,746,482
Liabilities to customers	19, 28, 39				
a) deposits of Landesbausparkasse and saving deposits					
aa) deposits of Landesbausparkasse			—		(6,156,554)
ab) with agreed period of notice of three months		33,001,398.14			(37,825)
ac) with agreed period of notice of more than three months		—			(3,983)
			33,001,398.14		(6,198,362)
b) other liabilities					
ba) payable on demand		13,681,818,355.11			(22,948,846)
bb) with agreed maturity or period of notice		47,493,761,719.48			(58,637,155)
			61,175,580,074.59		(81,586,001)
				61,208,581,472.73	87,784,363
Certificated liabilities	20, 28				
a) bonds and notes issued by the Bank			7,539,915,065.17		(52,888,687)
b) other certificated liabilities			42,183,005,777.—		(38,647,278)
including: money market instruments € 41,609,592,384.33				49,722,920,842.17	91,535,965
Trust liabilities	21, 28			505,939,707.87	3,251,115
including: trust loans € 130,962,707.87					
Other liabilities	22, 28			7,821,123,163.49	7,623,844
Deferred items	23, 28			481,925,008.70	1,065,966
Provisions	25, 28				
a) for pensions and similar obligations			571,993,065.62		(1,229,804)
b) tax reserve			368,903,056.65		(370,174)
c) other			1,035,974,792.15		(1,261,296)
				1,976,870,914.42	2,861,274
Security reserve for the Bausparkasse				—	32,162
Special item with partial reserve character	24			25,316,648.20	61,633
Subordinated liabilities	26, 28			4,977,180,688.10	5,596,802
Profit participation capital	27, 28			2,424,720,197.80	2,675,678
including: due in less than two years € 12,070,491.67					
Fund for general bank risks	27, 28			82,000,000.—	303,000
			To be carried forward:	233,956,985,163.89	318,538,284

WestLB AG Statement of Income

FOR THE PERIOD JANUARY 1 – DECEMBER 31, 2002

	see Notes No.	€	€	WestLB AG 1. 1. – 31. 12. 2002 €	WestLB GZ 1. 1. – 31. 12. 2001 € thousands
Interest from					
a) lending and money market transactions	6,477,410,481.66				(12,944,174)
b) interest-bearing securities and book-entry securities	1,964,933,086.53				(3,783,820)
		8,442,343,568.19			(16,727,994)
Interest paid		7,670,772,215.27		771,571,352.92	(15,195,780)
					(1,532,214)
Current income from					
a) shares and other non-interest-bearing securities		170,931,991.91			(196,225)
b) equity investments in non-affiliated companies		126,077,190.93			(100,657)
c) equity investments in affiliated companies		120,637,138.60		417,646,321.44	(187,071)
					(483,953)
Income from profit pooling, profit transfer and partial profit transfer agreements				97,093,763.27	(109,259)
Commission income		631,506,551.25			(772,178)
Commission paid		192,915,303.19		438,591,248.06	(275,227)
					(496,951)
Net result from trading operations				219,655,909.39	(97,749)
Other operating income				211,112,544.68	(347,987)
Income from the reversal of the special item with partial reserve character				27,166,826.—	(33,046)
General administrative expenses					
a) personnel expenses					
aa) wages and salaries	524,729,704.83				(804,423)
ab) compulsory social security contributions and expenses for pensions and other employee benefits	248,968,606.12				(271,331)
including: for pensions € 150,867,743.05		773,698,310.95			(1,075,754)
b) other administrative expenses		795,991,182.35		1,569,689,493.30	(931,653)
					(2,007,407)
Depreciation and value adjustments on intangible and tangible fixed assets	13			106,389,886.73	(150,655)
Other operating expenses				82,638,865.87	(105,891)
Write-downs and value adjustments on loans and certain securities as well as allocations to loan loss provisions	40			1,930,381,199.42	(671,111)
			To be carried forward:	- 1,506,261,479.56	(166,095)

FOR THE PERIOD JANUARY 1 – DECEMBER 31, 2002

	see Notes No.			WestLB AG	WestLB GZ
		€	€	1. 1. – 31. 12. 2002 €	1. 1. – 31. 12. 2001 € thousands
		To be carried forward:		- 1,506,261,479.56	(166,095)
Income from revaluation of equity investments in non-affiliated companies, equity investments in affiliated companies and securities treated as fixed assets	40			1,113,643,748.53	(267,930)
Expenses from the assumption of losses				79,887,553.04	(71,344)
Profit or loss on ordinary activities				- 472,505,284.07	(362,681)
Extraordinary income				22,553,222.20	(-)
Extraordinary expenses				87,878,718.36	(42,600)
Extraordinary result	50			- 65,325,496.16	(- 42,600)
Taxes on income and revenues	51	59,254,255.73			(62,186)
Other taxes		12,914,964.04		72,169,219.77	(12,051) (74,237)
Net loss for the year				- 610,000,000.—	(245,844)
Allocation to capital of Wohnungsbauförderungsanstalt Wfa				-.—	(83,244)
Withdrawals of net income from reserves from retained earnings					
a) legal reserves			-.—		(-)
b) reserves required by WestLB's articles and bylaws			-.—		(-)
c) other reserves	27	610,000,000.—		610,000,000.—	(-)
Allocations of net income to reserves from retained earnings					
a) legal reserves			-.—		(-)
b) reserves required by WestLB's articles and bylaws			-.—		(21,000)
c) other reserves			-.—	-.—	(70,700) (91,700)
Profit				-.—	(70,900)

Notes to the Annual Accounts

at December 31, 2002

Preparation of Annual Accounts

Pursuant to Article 1 § 8 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, Bank Redefining Act) which went into effect on August 1, 2002, Westdeutsche Landesbank Girozentrale (WestLB GZ) underwent a change in legal form to become a stock corporation. This change took effect with its entry in the commercial registers on August 30, 2002. Since then the institution, now subject to private law, has been operating under the name WestLB AG. Its registered office is in Düsseldorf and Münster.

WestLB AG is a legal entity identical to WestLB GZ. All rights and obligations that the Bank Redefining Act assigned to the former WestLB GZ remain applicable to WestLB AG.

In accordance with Article 1 § 11 of the Bank Redefining Act, the former guarantors of WestLB GZ remain accountable for WestLB AG's obligations in line with the public-law liability mechanisms of institutional and guarantor liability. This liability meets the specifications listed in the Federal Republic of Germany's agreement of July 18, 2001 with the European Commission (see pp. 80, 81).

The purpose of WestLB AG is to conduct banking transactions of all kinds and complementary transactions including the acquisition of equity interests. It has the duties of a municipal bank and a central institution for the savings banks. As a member of the savings banks organisation, its corporate purpose also includes the creation and provision of banking products for savings banks and public-sector clients. WestLB AG has branch offices in Germany and in foreign countries. It is entitled to establish additional branches.

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

WestLB AG will continue to apply the same accounting and valuation principles used by WestLB GZ for its annual accounts at December 31, 2001.

Due to limited comparability following the change in legal form, combined with the concurrent division of assets, the obligation to list prior year results as stated in § 265 (2) of the German Commercial Code (HGB) in conjunction with Statement HFA 5/1988 by the Institute of German Certified Public Accountants (IDW) as amended in 1998 has been met by listing the prior year's results from the annual accounts approved for the year ending December 31, 2001 and by including additional explanations in the Notes.

Additional explanations that arose from the division are depicted – wherever available and relevant – in a three-column format pursuant to the IDW's Statement HFA 5/1988, as amended in 1998. References in the text to prior-year figures are always the prior-year figures from the WestLB GZ annual accounts approved for the year ending December 31, 2001.

Division of Westdeutsche Landesbank Girozentrale

Pursuant to 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, Bank Redefining Act), certain operations and other assets of WestLB GZ defined in the Bank Redefining Act were split off and transferred to Landesbank Nordrhein-Westfalen on August 1, 2002, with the transfers backdated for purposes of commercial and tax law to January 1, 2002 (record date of the division).

The transfers included the assets and liabilities of the Wohnungsbauförderungsanstalt (Wfa) and INVESTITIONS-BANK NRW, which were both legally dependent parts of WestLB GZ prior to the division, as well as WestLB GZ's public mortgage bond (Pfandbrief) business, which included underwriting, insofar as the business was operated under the provisions of the Act on Mortgage Bonds and Similar Debt Securities Issued by Public Credit Institutions (Gesetz über Pfandbriefe und verwandte Schuldverschreibungen öffentlich-rechtlicher Kreditanstalten). The equity capital (€ 500 million) and participations that fell under WestLB GZ's public-sector activities were also transferred to Landesbank NRW.

The division was conducted at book value, with no effect on results. With respect to the three businesses listed above, all legal obligations and claims arising from them were transferred to Landesbank NRW.

Further, the Bank Redefining Act also provided for splitting off the assets and liabilities of Westdeutsche Landesbausparkasse (LBS), until then a legally dependent division of WestLB GZ, to create a new, legally independent public-law institution. This transaction was also backdated to January 1, 2002. Since its inception on August 1, 2002, the new entity has been known as LBS Westdeutsche Landesbausparkasse.

The transfer of assets and liabilities to Landesbank NRW and LBS was based on the closing balance sheets of WestLB GZ and LBS at December 31, 2001. The transfers were transformations under § 1 of the German Transformation Act (Umwandlungsgesetz).

Accounting and Valuation Principles (1)

Assets, liabilities and open positions 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 proportionate amount of interest on a claim or liability at year-end is included with the claim or liability to which it applies. Deferred items resulting from own bonds issued and the lending business are valued according to the proportionate interest method. Bills of exchange, as well as treasury bills and non-interest-bearing treasury bonds, are discounted and shown with the effective discount rate. Non-interest-bearing loans to employees are reported at their outstanding principal balance in accordance with tax regulations. Zero-coupon bonds are carried as liabilities at their issue price plus interest accrued as of the balance sheet date.

Discernible risks in the lending business were adequately covered by individual value adjustments and provisions. A global provision was formed in accordance with tax valuation methods for latent risks from claims and contingent liabilities.

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

Securities held in the investment portfolio (financial assets) are valued at cost. Any difference between the cost and the repayment amount is recognised on a pro rata basis in income. To the extent that securities held in the investment portfolio are carried at values higher than their current market value, these securities are shown separately in the Notes as valued as fixed assets. This information is subject to change over time because of portfolio changes, as well as movements in interest rates and/or market value.

Shares, bonds, derivatives and other trading instruments held by West LB AG 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, 2002 (last trading day for liquid markets); pro rata interest, non-recurring payments, and option premiums are taken into account. The individual results of valuation are combined into Bank-wide macro portfolios, which are broken down into risk categories (interest rates, shares and other price risks) and, within these risk categories, into currencies, classes of shares and other basic instruments. Positive and negative valuation results are netted

within the macro portfolios; if there any positive valuation results, i.e. unrealised gains, remaining, these unrealised gains are netted against realised losses. Any unrealised gains remaining after that are not recognised as income; any remaining unrealised losses are written down and provisions are established. The current results from the trading portfolio (interest income, dividends), as well as refinancing costs, are reported as part of the interest result in the income statement. To the extent they result from trading transactions, price gains and losses, as well as payments obtained and received under forward contracts and other derivative instruments, as well as options, are included in the net income from trading operations. The dividend income from certain 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 are depreciated in accordance with the applicable tax regulations. Low-value assets are written off in full in their year of purchase.

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

The special item with partial reserve character formed in fiscal year 1999 in accordance with § 273 of the German Commercial Code (HGB) to comply with the revaluation requirement stipulated in the 1999/2000/2002 Tax Relief Act was released in line with legal provisions.

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

Translation of Foreign Currencies (2)

Foreign currency amounts have been translated in accordance with § 340 (h) of the German Commercial Code (HGB) and BFA 3/95. Assets and liabilities denominated in foreign currencies, as well as open spot deals, are translated using the ECB reference rates effective on December 30, 2002. Open forward contracts (forward exchange transactions, foreign currency options and foreign currency futures) are carried at the mean forward rate or option premium effective on that day (last trading day for the liquid market). 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 AG's balance sheet, as well as each open position, which is denominated in a foreign currency has been covered by an item that is also denominated in that currency within the meaning of § 340 (h) (2) Sentence 2 of the German Commercial Code (HGB). Therefore, in accordance with § 340 (h) (2) Sentences 1 and 2 of the German Commercial Code (HGB), all expenses and income generated from the translation of foreign currency are captured in the income statement. There was no income that had to be reported separately since the foreign exchange positions open as of the balance sheet date were short-term. The negative result from the valuation of individual open positions has been netted and reported under other liabilities.

Forward Transactions/Derivatives (3)

As part of its business operations, WestLB AG enters into forward contracts and derivatives whose value is based on interest rates, foreign exchange rates and other forward contracts or derivatives. The specific types of forward contracts and derivatives that WestLB AG enters into are as follows:

- **Forward transactions/derivatives based on interest rates**
Interest-rate swaps, interest-rate futures, forward rate agreements (FRAs), interest-rate options (bought and written), issued interest-rate warrants, interest-rate caps, interest-rate floors, interest-rate collars and swaptions.
- **Forward transactions/derivatives based on foreign exchange rates**
Forward exchange transactions, currency options (bought and written), forward exchange contracts, issued currency warrants, currency swaps and interest-currency swaps.
- **Forward transactions/derivatives based on share price risks**
Stock forwards, stock options (bought and written), index forwards, index options (bought and written), issued stock warrants and issued index warrants, and precious metal/commodity forwards, swaps, futures and options.
- **Credit derivatives (bought and written)**
Credit default swaps, total return swaps and credit linked notes.

In fiscal year 2002, the average annual value, in nominal terms, of WestLB AG's derivatives and other forward transactions was € 2,263.4 billion (2001: € 1,850.4 billion).

Due to the low volume, the average volumes were not adjusted to account for effects of the division.

DERIVATIVES – AVERAGE VOLUMES

Jan. 1 – Dec. 31, 2002 € millions	Nominal Values		Credit Risk Equivalents		Replacement Costs	
	WestLB AG 2002	WestLB GZ 2001	WestLB AG 2002	WestLB GZ 2001	WestLB AG 2002	WestLB GZ 2001
Interest-rate risks	1,918,855	1,496,042	9,246	7,007	26,462	18,711
Currency risks	286,582	322,028	4,314	4,978	6,933	8,426
Share and other price risks	15,774	9,558	531	226	598	282
Risks from credit derivatives	42,146	22,770	359	279	409	46
Total derivatives	2,263,357	1,850,398	14,450	12,490	34,402	27,465

The credit risk equivalents and replacement costs are calculated on the basis of the market valuation method in accordance with German banking regulatory requirements. The market value is calculated only for those contracts for which the replacement transaction necessary to regain the previous position in the event of a counterparty default would result in additional expenditure or lower income; profits and losses generated by replacement transactions are not netted. In line with the above-mentioned banking regulatory requirements, a counterparty weighting and add-on for all derivatives are included when calculating the credit risk equivalents. There is no netting for the purpose of calculating average credit risk equivalents.

WestLB AG's credit risk equivalents pursuant to Principle I represent 15.2% (2001: 11.3%) of its total counterparty default risks (weighted risk assets and relevant amount for the counterparty risk of the trading book). Close-out netting is used to calculate the credit risk equivalents for banking regulatory purposes. As a result, the average credit risk equivalents declined by approximately 54.5% (2001: 43.7%).

In nominal terms, the total volume of WestLB AG's forward transactions/derivatives business was € 2,278.6 billion (2001: € 2,064.3 billion) as of the balance sheet date. The emphasis continues to be on interest-rate risks, whose share of the total volume increased to 86.1% (2001: approximately 82.5%).

In addition to the credit derivatives from the trading book listed in the table, there were also credit derivatives in the investment book. The volume of credit derivatives in the investment book where WestLB AG is the guarantee (buyer) amounted to € 1,181.6 million (2001: € 2,087.7 million) at December 31, 2002. Those where WestLB AG is the guarantor (seller) amounted to € 2,011.6 million (2001: € 1,974.7 million) and have been included in contingent liabilities.

The derivative transactions with Landesbank NRW, which were originally internal, but became external after the division, increased the amounts reported at January 1, 2002 (€ 9.8 billion nominally). The majority of these transactions were interest-rate swaps.

DERIVATIVES – VOLUMES –

€ millions	Nominal Values			Credit Risk Equivalents			Replacement Costs		
	WestLB AG Dec 31, 2002	WestLB AG Jan. 1, 2002	WestLB GZ Dec. 31, 2001	WestLB AG Dec 31, 2002	WestLB AG Jan. 1, 2002	WestLB GZ Dec. 31, 2001	WestLB AG Dec 31, 2002	WestLB AG Jan. 1, 2002	WestLB GZ Dec. 31, 2001
Interest-rate risks									
Interest-rate swaps	1,169,145	1,004,013	994,220	10,531	6,639	6,631	31,914	18,183	17,808
FRAs	199,187	110,633	110,633	27	16	16	125	72	72
Interest-rate options, swaptions									
– bought	37,920	43,581	43,577	458	349	349	1,602	1,038	1,038
– written	39,482	40,345	40,238	–	–	–	–	–	–
Stock market contracts	353,633	304,331	304,331	–	–	–	–	–	–
Caps, floors	119,185	121,556	121,536	363	322	322	1,116	986	986
Other interest-rate forward transactions	42,841	87,965	87,965	59	944	944	101	1,796	1,796
Total interest-rate risks	1,961,393	1,712,424	1,702,500	11,438	8,270	8,262	34,858	22,075	21,700
Currency risks									
Forward exchange transactions	114,359	172,743	172,743	1,130	1,443	1,443	3,236	3,583	3,583
Interest-currency swaps/currency swaps	114,499	108,478	108,478	2,750	3,296	3,296	3,183	3,799	3,799
Currency options									
– bought	11,745	20,889	20,889	137	186	186	356	466	466
– written	11,694	19,323	19,323	–	–	–	–	–	–
Stock market contracts	521	1,630	1,630	–	–	–	–	–	–
Total currency risks	252,818	323,063	323,063	4,017	4,925	4,925	6,775	7,848	7,848
Share and other price risks									
Stock forward transactions	11	1	1	–	–	–	–	–	–
Stock options									
– bought	2,769	1,235	1,235	174	67	67	532	106	106
– written	2,552	1,114	1,114	–	–	–	–	–	–
Stock market contracts	6,809	3,918	3,918	–	–	–	–	–	–
Other forward transactions	3,657	2,800	2,800	129	132	132	87	138	138
Total share and other price risks	15,798	9,068	9,068	303	199	199	619	244	244
Credit derivatives									
– bought	22,831	11,763	11,763	390	56	56	405	57	57
– written	25,765	17,915	17,915	–	–	–	–	–	–
Total credit derivative risks	48,596	29,678	29,678	390	56	56	405	57	57
Total Derivatives	2,278,605	2,074,233	2,064,309	16,148	13,450	13,442	42,657	30,224	29,849
Netting effects	–	–	–	8,806	5,883	5,876	–	–	–
Total derivatives after netting	2,278,605	2,074,233	2,064,309	7,342	7,567	7,566	42,657	30,224	29,849

WestLB enters into derivative transactions with top-rated counterparties, mainly domestic and foreign OECD banks.

DERIVATIVES – CLASSIFICATIONS OF COUNTERPARTIES –

€ millions	Nominal Values			Credit Risk Equivalents			Replacement Costs		
	WestLB AG Dec 31, 2002	WestLB AG Jan. 1, 2002	WestLB GZ Dec. 31, 2001	WestLB AG Dec 31, 2002	WestLB AG Jan. 1, 2002	WestLB GZ Dec. 31, 2001	WestLB AG Dec 31, 2002	WestLB AG Jan. 1, 2002	WestLB GZ Dec. 31, 2001
OECD banks	1,494,030	1,339,078	1,329,154	9,079	6,109	6,101	33,170	20,386	20,011
Non-OECD banks	4,691	6,334	6,334	87	76	76	127	104	104
Customers (incl. stock market contracts)	778,528	727,385	727,385	6,958	7,238	7,238	9,258	9,632	9,632
Public-sector entities	1,356	1,436	1,436	24	27	27	102	102	102
Total	2,278,605	2,074,233	2,064,309	16,148	13,450	13,442	42,657	30,224	29,849

Almost all of the derivatives are trading transactions; customer transactions are entered into by the trading units. Contracts for hedging the Bank's own portfolios are reflected in the trading portfolio by way of internal contracts. Most of the currency and stock contracts are short-term. The interest-rate contracts are spread across the entire spectrum of maturities, with some 21% (2001: 22%) having a residual maturity of more than five years.

DERIVATIVES – CLASSIFICATION BY MATURITY – WESTLB AG DEC. 31, 2002

Nominal Values € millions	Interest-Rate Risks	Currency Risks	Share and Other Price Risks	Risks from Credit Derivatives
Residual maturity				
– up to 3 months	635,181	92,804	7,283	9
– up to 1 year	320,172	53,552	5,776	–
– 1 to 5 years	591,771	73,306	2,561	1,683
more than 5 years	414,269	33,156	178	46,904
Total	1,961,393	252,818	15,798	48,596

**DERIVATIVES – CLASSIFICATION BY MATURITY –
WESTLB AG JAN. 1, 2002**

Nominal Values € millions	Interest-Rate Risks	Currency Risks	Share and other Price Risks	Risks from Credit Derivatives
Residual maturity				
– up to 3 months	448,779	131,645	4,699	–
– up to 1 year	353,750	86,378	2,315	27
– 1 to 5 years	529,425	69,151	2,054	7,628
more than 5 years	380,470	35,889	–	22,023
Total	1,712,424	323,063	9,068	29,678

**DERIVATIVES – CLASSIFICATION BY MATURITY –
WESTLB GZ DEC. 31, 2001**

Nominal Values € millions	Interest-Rate Risks	Currency Risks	Share and other Price Risks	Risks from Credit Derivatives
Residual maturity				
– up to 3 months	448,779	131,645	4,699	–
– up to 1 year	353,391	86,378	2,315	27
– 1 to 5 years	527,358	69,151	2,054	7,628
more than 5 years	372,972	35,889	–	22,023
Total	1,702,500	323,063	9,068	29,678

Claims on Banks (4)

	WestLB AG Dec. 31, 2002 € millions		WestLB AG Jan. 1, 2002 € millions		WestLB GZ Dec. 31, 2001 € millions	
	Claims on Affiliated Banks	Claims on Other Banks	Claims on Affiliated Banks	Claims on Other Banks	Claims on Affiliated Banks	Claims on Other Banks
Payable on demand	722.7	8,100.2	437.5	4,048.2	447.8	3,856.3
Breakdown by residual maturity						
– up to 3 months	1,013.4	42,107.5	826.3	44,219.4	1,492.9	42,105.3
– between 3 months and 1 year	283.0	11,120.9	371.4	7,882.7	1,452.8	9,532.8
– between 1 and 5 years	220.2	6,241.5	158.0	7,360.7	8,291.5	14,665.4
– more than 5 years	378.3	2,027.1	366.5	2,800.3	11,133.8	6,825.1
Total	2,617.6	69,597.2	2,159.7	66,311.3	22,818.8	76,984.9
Book value	72,214.8		68,471.0		99,803.7	
including: – LBS loans	–	–	–	–	0.8	–

Claims on other banks include claims on affiliated companies in the amount of € 16,491.9 million (2001: € 6,407.5 million) and claims on companies in which equity investments are held in the amount of € 2,642.3 million (2001: € 8,594.5 million). Claims from leasing transactions amount to € 443.8 million (2001: € 468.4 million).

Claims on Customers (5)

	WestLB AG Dec. 31, 2002 € millions	WestLB AG Jan. 1, 2002 € millions	WestLB GZ Dec. 31, 2001 € millions
Breakdown by residual maturity			
– up to 3 months	34,996.5	42,218.5	43,413.9
– between 3 months and 1 year	15,367.3	15,594.7	17,942.8
– between 1 and 5 years	18,290.1	15,214.3	25,326.5
– more than 5 years	12,469.6	9,912.5	28,328.6
Book value	81,123.5	82,940.0	115,011.8
including:			
– claims with undetermined maturity	1,960.1	N/A	2,084.5
– affiliated companies	5,335.5	N/A	5,966.9
– companies in which equity investments are held	3,878.8	N/A	954.5
– from leasing transactions	1,487.1	N/A	2,785.4
– LBS building loans	–	–	5,719.4
– loans of the Wohnungsbauförderungsanstalt	–	–	3,874.3
– interest and repayment arrears under LBS building loans	–	–	5.4
– LBS building loans allocated, but not yet disbursed			
– allotted	–	–	345.1
– pre- and interim financing	–	–	61.8

Claims Secured by Mortgages (6)

	WestLB AG Dec. 31, 2002 € millions	WestLB AG Jan. 1, 2002 € millions	WestLB GZ Dec. 31, 2001 € millions
Breakdown of claims on customers by residual maturity			
– up to 3 months	195.2	299.4	409.6
– between 3 months and 1 year	136.1	127.7	367.7
– between 1 and 5 years	611.6	667.2	1,795.9
– more than 5 years	1,774.6	2,007.1	4,298.6
Book value	2,717.5	3,101.4	6,871.8
including:			
– LBS building loans	–	–	1,820.9

Bonds and Other Interest-Bearing Securities (7)

	WestLB AG Dec. 31, 2002 € millions	WestLB AG Jan. 1, 2002 € millions	WestLB GZ Dec. 31, 2001 € millions
Bonds and other interest-bearing securities			
Book value	55,217.8	60,507.3	78,626.6
including:			
– amounts that will become due by December 31 of the following fiscal year	17,788.0	14,752.1	16,990.2
Breakdown by product			
– money market instruments	1,854.7	2,607.2	2,607.2
– bonds and notes of public-sector issuers	28,537.0	31,180.7	38,443.4
– bonds and notes of other issuers	24,478.0	25,719.5	36,072.0
– notes issued by the Bank	348.1	999.9	1,504.0
Breakdown by marketability			
– listed on a stock exchange	44,141.7	48,905.9	66,916.8
– not listed on a stock exchange	11,076.1	11,601.4	11,709.8
Breakdown by portfolio			
– trading portfolio	34,812.6	33,145.9	33,145.9
– liquidity reserve	1,884.2	2,451.6	3,727.0
– investment portfolio	18,521.0	24,909.7	41,753.7
Breakdown by Group affiliation			
– securities of affiliated companies	1,352.2	N/A	134.1
– securities of companies in which equity investments are held	301.5	N/A	1,921.7

The € 18.5 billion (2001: € 41.8 billion) in bonds held in the investment portfolio is part of fixed assets. At year-end, € 2.4 billion (2001: € 10.6 billion) of WestLB AG's financial assets had been valued at the modified lower of cost or market value. Of that, € 0.7 billion (2001: € 2.5 billion) consisted of debt obligations acquired in connection with interest-rate swaps (asset swaps), the commercial value of which equals the purchase price entered on the books; € 0.2 billion will become due in the following year.

Shares and Other Non-Interest Bearing Securities (8)

The item includes shares in special funds held by WestLB AG totalling € 2,645.6 million (2001: € 2,596.7 million). The funds themselves consist mainly of listed securities and are included in the investment portfolio.

	WestLB AG Dec. 31, 2002 € millions	WestLB AG Jan. 1, 2002 € millions	WestLB GZ Dec. 31, 2001 € millions
Shares and other non-interest bearing securities			
Book value	3,455.9	3,067.6	3,268.5
Breakdown by marketability			
– marketable securities	796.0	654.8	654.8
– non-marketable securities	2,659.9	2,412.8	2,613.7
Breakdown by marketability			
– listed on a stock exchange	703.2	270.5	270.5
– not listed on a stock exchange	2,752.7	2,797.1	2,998.0
Breakdown by portfolio			
– trading portfolio	499.7	182.8	182.8
– liquidity reserve	19.6	327.6	528.4
– investment portfolio	2,936.6	2,557.2	2,557.3

Equity Investments in Non-Affiliated Companies (9)

	WestLB AG Dec. 31, 2002 € millions	WestLB AG Jan. 1, 2002 € millions	WestLB GZ Dec. 31, 2001 € millions
Equity investments in non-affiliated companies			
Book value	3,012.8	3,295.9	3,383.4
including:			
– banks	692.6	1,621.8	1,676.4
Breakdown by marketability			
– marketable securities	1,540.9	1,505.1	1,505.1
thereof			
– listed on a stock exchange	1,428.0	1,462.5	1,462.5
– not listed on a stock exchange	112.9	42.6	42.6

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

Equity Investments in Affiliated Companies (10)

	WestLB AG Dec. 31, 2002 € millions	WestLB AG Jan. 1, 2002 € millions	WestLB GZ Dec. 31, 2001 € millions
Equity investments in affiliated companies			
Book value	5,704.6	3,879.4	4,038.5
including:			
– in banks	1,356.7	1,013.9	1,045.9
– in financial services institutions	79.9	79.9	79.9
Breakdown by marketability			
– marketable securities thereof	1,744.3	1,393.4	1,425.3
– not listed on a stock exchange	1,744.3	1,393.4	1,425.3

Trust Assets (11)

	WestLB AG Dec. 31, 2002 € millions	WestLB AG Jan. 1, 2002 € millions	WestLB GZ Dec. 31, 2001 € millions
Claims on banks	0.2	0.3	171.8
Claims on customers	130.7	38.0	2,660.0
Bonds and notes	--	--	0.1
Participations in RWI-Fonds	375.0	419.2	419.2
Total	505.9	457.5	3,251.1

Other Assets (12)

The total figure of € 4,770.8 million (2001: € 6,766.2 million) chiefly consists of:

- € 1,448.2 million (2001: 1,011.4 million)
in offsetting entries from the valuation of the trading portfolio (not including
currency transactions)
- – (2001: € 2,390.4 million)
in offsetting entries from currency valuation
- € 1,711.3 million (2001: € 1,614.1 million)
in premiums for options

- € 754.7 million (2001: € 566.5 million)
in 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
- € 503.3 million (2001: € 332.2 million)
in margin payments
- € 123.6 million (2001: € 234.3 million)
in claims from profit and loss pooling agreements with companies in which equity investments are held

Fixed Assets (13)

€ millions	WestLB AG Acquisition Cost/Cost of Production Jan. 1, 2002	Additions	Retire- ments	Total Depre- ciation	Net Book	WestLB GZ	WestLB AG	
					Value Dec. 31, 2002	Net Book Value Dec. 31, 2001	Retirements Due to the Division	Depreciation in the Financial Year
Bonds and other interest-bearing securities forming part of fixed assets	24,939.2	–	6,335.9	82.3	18,521.0	41,753.7	16,844.0	52.8
Shares forming part of fixed assets	2,557.2	387.4	–	8.0	2,936.6	2,557.2	–	8.0
Equity investments in non-affiliated companies	3,384.4	1,439.2	1,059.9	750.9	3,012.8	3,383.4	87.4	662.5
Equity investments in affiliated companies	4,365.7	1,989.6	20.3	630.4	5,704.6	4,038.5	159.1	144.1
Intangible assets	10.2	–	–	4.1	6.1	8.5	–	2.4
Land and buildings	396.2	2.2	286.3	59.7	52.4	197.3	0.6	6.5
Office equipment	700.5	68.9	46.7	477.9	244.8	318.0	34.4	97.5

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

With regard to equity investments in affiliated and non-affiliated companies, the additions and retirements, including the retirements that were the result of the division of WestLB GZ, were due to restructuring of the equity investment portfolio and internal sell-offs Group-wide. Changes of special note include the structure of our stake in RWE AG, the sale of the holdings in the Landesbanks to WestLB Beteiligungsholding and the shares in DekaBank Deutsche Girozentrale to GLB GmbH & Co. OHG.

Land and buildings with a market value of € 140.1 million were transferred to a real estate company with no profit or income tax consequences. Real property with a book value of € 14.7 million (2001: € 157.1 million) is utilised for WestLB AG's own business activities. Land and buildings that the Bank acquires as part of bail-out transactions and carries on the books for more than five years are moved from other assets to fixed assets. The Bank moved land and buildings with a book value of € 24.5 million (2001: € 26.6 million) from other assets into fixed assets in the year under review.

Own Shares (14)

WestLB AG did not hold any of its own shares at December 31, 2002.

Deferred Items (15)

	WestLB AG Dec. 31, 2002 € millions	WestLB AG Jan. 1, 2002 € millions	WestLB GZ Dec. 31, 2001 € millions
Premiums on claims	4.4	0.3	2.0
Discounts from underwriting business	88.4	38.7	379.4
Discounts from liabilities	645.7	552.5	765.5
Other	519.3	625.1	2,654.1
Book value	1,257.8	1,216.6	3,801.0

Subordinated Assets (16)

The following items include subordinated assets:

	WestLB AG Dec. 31, 2002 € millions	WestLB AG Jan. 1, 2002 € millions	WestLB GZ Dec. 31, 2001 € millions
Claims on banks	0.8	297.5	297.5
including:			
– affiliated companies	–	–	–
including:			
– companies in which equity investments are held	–	–	–
Claims on customers	256.4	74.4	74.4
including:			
– affiliated companies	88.6	–	–
including:			
– companies in which equity investments are held	5.3	–	–
Total	257.2	371.9	371.9

Pledged Assets (17)

Of the assets shown, WestLB AG pledged € 49,458.2 million (2001: € 46,435.9 million) under repurchase agreements.

Liabilities to Banks (18)

	WestLB AG Dec. 31, 2002 € millions		WestLB AG Jan. 1, 2002 € millions		WestLB GZ Dec. 31, 2001 € millions	
	Liabilities to Affiliated Banks	Liabilities to Other Banks	Liabilities to Affiliated Banks	Liabilities to Other Banks	Liabilities to Affiliated Banks	Liabilities to Other Banks
Payable on demand	3,952.1	10,648.2	4,311.4	8,518.3	4,313.8	7,277.4
Breakdown by residual maturity:						
– up to 3 months	5,712.5	61,729.9	4,042.9	50,455.5	4,043.0	50,773.3
– between 3 months and 1 year	431.2	14,948.4	88.1	21,021.1	88.1	22,355.3
– between 1 and 5 years	261.9	3,945.6	215.4	4,251.5	218.3	10,316.6
– more than 5 years	164.3	2,936.3	247.9	3,639.3	252.8	16,090.3
Deposits of building and loan association	–	–	–	–	17.6	–
Total	10,522.0	94,208.4	8,905.7	87,885.7	8,933.6	106,812.9
Book value	104,730.4		96,791.4		115,746.5	

Liabilities to banks include liabilities to affiliated companies in the amount of € 8,828.7 million (2001: € 2,440.2 million) and liabilities to companies in which equity investments are held in the amount of € 1,355.8 million (2001: € 2,527.4 million).

Liabilities to Customers (19)

	WestLB AG Dec. 31, 2002 € millions	WestLB AG Jan. 1, 2002 € millions	WestLB GZ Dec. 31, 2001 € millions
Savings deposits and deposits of building and loan associations	33.0	41.8	6,198.4
including: savings deposits with agreed periods of notice of	33.0	41.8	41.8
– up to 3 months	33.0	38.4	38.4
– between 3 months and 1 year	–	2.7	2.7
– between 1 and 5 years	–	0.4	0.4
– more than 5 years	–	0.3	0.3
Deposits of building and loan associations	–	–	6,156.6
Liabilities to customers	61,175.6	70,544.9	81,586.0
including: – payable on demand	13,681.8	22,727.9	22,948.8
with residual maturities of			
– up to 3 months	29,621.3	28,906.5	29,294.1
– between 3 months and 1 year	6,516.1	5,344.5	5,768.0
– between 1 and 5 years	4,464.8	5,478.1	9,092.7
– more than 5 years	6,891.6	8,087.9	14,482.4
Book value	61,208.6	70,586.7	87,784.4
including: – liabilities to affiliated companies	5,366.9	N/A	4,743.5
– liabilities to companies in which equity investments are held	4,243.8	N/A	1,696.3

Certificated Liabilities (20)

	WestLB AG Dec. 31, 2002 € millions	WestLB AG Jan. 1, 2002 € millions	WestLB GZ Dec. 31, 2001 € millions
Bonds issued	7,539.9	7,385.1	52,888.7
including:			
– amounts becoming due before December 31 of the following fiscal year	658.5	693.7	10,036.4
Other certificated liabilities	42,183.0	38,647.2	38,647.3
including those with residual maturities of			
– up to 3 months	23,601.2	22,776.8	22,776.8
– between 3 months and 1 year	17,151.4	15,133.5	15,133.5
– between 1 and 5 years	808.9	317.2	317.2
– more than 5 years	621.5	419.7	419.8
Book value	49,722.9	46,032.3	91,536.0
including:			
– certificated liabilities to affiliated companies	–	N/A	–
– certificated liabilities to companies in which equity investments are held	127.2	N/A	58.4

Trust Liabilities (21)

	WestLB AG Dec. 31, 2002 € millions	WestLB AG Jan. 1, 2002 € millions	WestLB GZ Dec. 31, 2001 € millions
Liabilities to banks	83.8	17.7	202.8
Liabilities to customers	47.1	20.6	1,665.1
RWI certificates	375.0	419.2	419.2
Other liabilities	–	–	964.0
Book value	505.9	457.5	3,251.1

Other Liabilities (22)

The main components of this item, which is € 7,821.1 million (2001: € 7,623.8 million), are:

- € 4,102.7 million (2001: € 4,270.7 million)
in securities delivery obligations
- € 2,251.8 million (2001: € 1,815.9 million)
in premiums from options
- € 413.5 million (2001: –)
in liabilities to Landesbank NRW under pension commitments
- € 273.1 million (2001: –)
in offsetting items from the valuation of currency transactions
- € 157.7 million (2001: € 191.7 million)
in interest to be paid on existing profit participation rights after approval of the annual accounts (tentatively on May 14, 2003)

Deferred Items (23)

	WestLB AG Dec. 31, 2002 € millions	WestLB AG Jan. 1, 2002 € millions	WestLB GZ Dec. 31, 2001 € millions
Premiums from own bonds issued	22.1	9.6	68.7
Other	459.8	789.3	997.3
Book value	481.9	798.9	1,066.0

Special Item with Partial Reserve Character (24)

This item was formed in fiscal year 1999 because the Bank had to comply with the revaluation requirement on participations, loans and securities under the 1999/2000/2002 Tax Relief Act. Pursuant to § 273 of the German Commercial Code (HGB), in conjunction with § 6 (1) and § 52 (16) of the German Income Tax Act (EStG), four-fifths of the written-up amounts were transferred to the special item with partial reserve character. A total of € 27.2 million (2001: € 33.0 million) was released in the 2002 fiscal year.

	WestLB AG Dec. 31, 2002 € millions	WestLB AG Jan. 1, 2002 € millions	WestLB GZ Dec. 31, 2001 € millions
Balance on January 1	52.5	61.6	94.6
Division-related deductions	–	– 9.1	–
Releases	– 27.2	–	– 33.0
Book value	25.3	52.5	61.6

Provisions (25)

Provisions include provisions for deferred taxes in the amount of € 0.9 million (2001: € 6.1 million) related to the business activities of foreign branches. Total provisions amount to € 1,976.9 million (2001: € 2,861.3 million).

WestLB AG	Ending Balance WestLB GZ Dec. 31, 2001 € millions	Division- Related Deductions € millions	Utilised Jan. 1, 2002 € millions	Released € millions	Other Changes € millions	Additions € millions	Ending Balance Dec. 31, 2002 € millions
For the lending business	300.3	– 6.7	– 7.6	– 20.2	– 62.5	273.4	476.7
For pension liabilities	1,229.8	– 703.4	– 51.6	–	– 0.6	97.8	572.0
In the trading business	380.9	–	– 317.8	–	– 63.1	141.5	141.5
Other provisions	950.3	– 119.8	– 358.8	– 16.8	24.3	307.5	786.7
Book value	2,861.3	– 829.9	– 735.8	– 37.0	– 101.9	820.2	1,976.9

Subordinated Liabilities (26)

	WestLB AG Dec. 31, 2002 € millions	WestLB AG Jan. 1, 2002 € millions	WestLB GZ Dec. 31, 2001 € millions
Subordinated liabilities			
Book value	4,977.2	5,347.2	5,596.8
including:			
– due within 2 years	1,064.9	1,017.3	1,017.3
Breakdown by Group affiliation			
– affiliated companies	3,080.2	N/A	3,214.0
– companies in which equity investments are held	–	–	–

Of the subordinated liabilities of € 4,977.2 million (2001: € 5,596.8 million), the junior bond of US\$ 750 million (due 2009; interest rate 6.05%) issued by WestLB's New York Branch exceeds 10% of the total value of all subordinated liabilities. There is no early repayment obligation. There is no existing or planned agreement to convert these funds into capital or another form of debt.

Of the total subordinated liabilities, € 1,064.9 million (2001: € 1,017.3 million) have a residual maturity of less than two years. The original maturities range between 5 and 40 years.

Subordinated liabilities carried by WestLB AG 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.

Capital and Reserves (27)

At December 31, 2002, the subscribed capital of WestLB AG was € 950.5 million. It is divided into 9,505,000 no-par-value shares, each with a theoretical par value of € 100.0. As the sole founder of WestLB AG, Landesbank NRW subscribed to all of WestLB AG's capital. Contributions to this capital have been paid in full using the assets of the former Westdeutsche Landesbank Girozentrale – Anstalt des öffentlichen Rechts.

In the course of creating Landesbank NRW and Landesbausparkasse as separate legal entities, € 500.0 million of subscribed capital and € 225.0 million from retained earnings were transferred. At the same time, the special reserves pertaining to the Wohnungsbauförderungsanstalt were transferred to Landesbank NRW; WestLB AG received € 2,000.0 million in cash capital, € 266.7 million of which represents subscribed capital and € 1,733.3 million of which was placed in capital reserves.

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

WestLB AG has reserves totalling € 3,418.0 million (2001: € 5,207.5 million). € 610.0 million was taken out of retained earnings to cover the net loss for the year. The fund for general bank risks stands at € 82.0 million.

There were no subordinated issues in fiscal year 2002 (compared to € 147.7 million in 2001). Subordinated liabilities and profit participation capital were down € 870.6 million, with € 250.0 million each in subordinated liabilities and profit participation capital being transferred to Landesbank NRW. Altogether, subordinated liabilities and profit participation capital amount to € 7,401.9 million (2001: € 8,272.5 million). Exchange rate fluctuations had a negative impact on capital and reserves, decreasing the total by € 371.0 million (as compared to an increase of € 71.6 million in 2001).

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

WestLB GZ Dec. 31, 2001 € millions	Division-Related Reductions Jan. 1, 2002 € millions	WestLB AG Jan. 1, 2002 € millions	Additions € millions	Other Changes € millions	WestLB AG Dec. 31, 2002 € millions
2,675.7	- 250.0	2,425.7	-	- 1.0	2,424.7

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

Maturity	€ millions
2003	12.1
2004	-.-
2005	92.0
2006	232.1
2007	495.4
2008	225.6
2009	621.6
2010	280.4
2011 – 2020	465.5
Total	2,424.7

WestLB's capital and reserves comprise the following:

	WestLB GZ		Division- Related Deductions	WestLB AG Division- Related Allocations	Other Changes	WestLB AG	
	Dec. 31, 2001 € millions	Dec. 31, 2001 € millions				Dec. 31, 2002 € millions	Dec. 31, 2002 € millions
Subscribed capital	1,183.8		- 500.0	266.7	-	950.5	
Capital reserves	3,318.1		- 3,016.6	1,733.3	-	2,034.8	
including:							
- special reserves pertaining to the Wohnungsbauförderungsanstalt	3,016.6		- 3,016.6	-	-	-	
Reserves from retained earnings	1,889.4		- 345.2	449.0	- 610.0	1,383.2	
- required by WestLB AG's articles and bylaws	529.5		- 120.2	-	-	409.3	
- other	1,359.9		- 225.0	449.0	- 610.0	973.9	
Equity capital pursuant to the German Commercial Code (HGB)		6,391.3	- 3,861.8	2,449.0	- 610.0		4,368.5
Fund for general bank risks	303.0		- 221.0	-	-	82.0	
Subordinated liabilities	5,596.8		- 249.6	-	- 370.0	4,977.2	
including:							
- due within two years	1,017.3		-	-	47.6	1,064.9	
Profit participation capital	2,675.7		- 250.0	-	- 1.0	2,424.7	
including:							
- due within two years	-		-	-	12.1	12.1	
Other capital and reserves		8,575.5	- 720.6	-	- 371.0		7,483.9
Total capital and reserves		14,966.8	- 4,582.4	2,449.0	- 981.0		11,852.4

At January 2, 2003, WestLB AG received silent contributions of € 1,250.0 million. WestLB AG does not have to repay these silent contributions. Instead, they will be converted in five equal annual instalments of € 250.0 million at a rate of 750% into capital and reserves of WestLB AG.

Afterwards, the equity capital of WestLB AG pursuant to the German Commercial Code (HGB) will be approximately € 5.6 billion.

At December 31, 2002, WestLB AG's capital and reserves under § 10 of the German Banking Act (KWG) (after the transfer from retained earnings) amounted to

- € 11,004.9 million before the deduction of short-term subordinated debt (Tier III capital) eligible for inclusion,
- € 10,436.7 million after the deduction of short-term subordinated debt (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.

Liability for Pre-Existing Commitments – Grandfathering (28)

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 AG. This provision is consistent with the agreement reached between the Government of the Federal Republic of Germany and the European Commission on July 18, 2001.

Specifically, this means that

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

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

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

BALANCE SHEET ITEM				
€ millions	Maturity		Maturity	
	incurred prior to July 19, 2001 Payable at any time		incurred after July 19, 2001 Payable by Dec. 31, 2015	
Liabilities to customers	12,691.4		48,117.6	
Liabilities to banks	13,540.2		91,098.2	
Certificated liabilities	5,948.9		43,770.5	
Other liabilities	–		7,747.8	
Subordinated liabilities	4,639.7	36,820.2	337.4	191,071.5
Total			227,891.7	

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

Deposit Insurance (29)

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

The deposit insurance scheme of the German savings banks organisation consists of twelve 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).

Commission Decision on Wfa Integration (30)

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

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

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

The German Federal Government, State of North Rhine-Westphalia and WestLB each filed an appeal against the Commission's decision with the European Court of First Instance (proceedings for annulment).

Regardless of these appeals, WestLB was obligated to implement the Commission's decision.

The method of implementation which WestLB chose involved a non-cash settlement based on WestLB's increase in value, but the Commission did not accept this solution and brought another action against WestLB with the European Court of Justice (proceedings for failure to fulfil an obligation).

A judgement was handed down in the proceedings for failure to fulfil an obligation on December 12, 2002. It was determined that the implementation proposed by WestLB was not sufficient, but that non-cash solutions were, in principle, permissible.

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

On March 6, 2003, the European Court of First Instance overturned the decision made by the Commission on July 8, 1999. It was ruled that the Commission was to bear the costs of the proceedings.

The consequences of this judgement are as follows:

The plaintiffs were completely successful with their petitions to the European Court.

Through the reversal, it is as if the Commission's decision were never made.

As a result, the need to implement the decision also lapses. Accordingly, where the judgement on the proceedings for failure to fulfil an obligation concerns implementation of the Commission's decision, that judgement has been rendered invalid.

The Court overturned the Commission's decision of 1999 because the Commission failed to comply fully with its obligation under European law to substantiate the 12% base rate of return and 1.5% risk premium it alleged should have been the basis of the remuneration for the Wfa capital.

Since both of these parameters 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.

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

Banking Act Ratios (31)

WestLB AG adhered at all times to the ratios relating to own funds and liquidity as defined in §§ 10, 10 (a) and 11 of the German Banking Act (KWG). The recommendations on capital and reserves of the Basle Committee on Banking Supervision were complied with on the basis of national regulations.

Foreign Currency Assets/Foreign Currency Liabilities (32)

At year-end, WestLB AG had foreign currency assets valued at € 103.1 billion (2001: € 118.1 billion) and foreign currency liabilities valued at € 106.4 billion (2001: € 130.6 billion).

Other Commitments (33)

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

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

Disposal Restrictions/Security Provisions (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 € 12,977.0 million (2001: € 13,852.9 million) of its own bonds and securities, as well as those of affiliated companies, as collateral. Accounts receivable totalling € 926.9 million (2001: € 965.0 million) were assigned to secure loans made as part of public credit programmes. In some cases, the Bank's business activities abroad were subject to legal requirements and local practices that required the provision of collateral to public institutions and banks. Compliance with such requirements tied up € 4,872.3 million (2001: € 5,800.8 million) in assets.

Contingent Liabilities (35)

WestLB AG's liability to make additional contributions to the Liquiditätskonsortialbank of which it is a member remained unchanged at € 65.3 million. In 2002, there was no liability to make additional contributions to the security reserves of the Landesbanks/ Girozentralen. The Bank may incur additional obligations with respect to its joint liability for the additional contributions to the Liquiditätskonsortialbank from partners who are members of the German Savings Banks and Giro Association.

At year-end 2002, WestLB AG reported € 9.9 million in indirect pension obligations, an amount which exceeded the cash assets of WestLB GmbH's benefit fund and would have had to be offset by funds from WestLB AG.

Letters of Comfort (36)

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

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

1. Banking Group Subsidiaries

Banco WestLB do Brasil S.A., São Paulo (100%)
Banque Européenne pour l'Amérique Latine (BEAL) S.A., Brussels (100%)
Banque d'Orsay S.A., Paris (100%)
ZAO Westdeutsche Landesbank Vostok, Moscow (100%)
WestAM (USA) Ltd., Addison, Texas (100%)
WestAM Holding GmbH, Düsseldorf (100%)
Westdeutsche ImmobilienBank, Mainz (50%)
WestLB Hungaria Bank Rt., Budapest (100%)
WestLB Ireland plc, Dublin (100%)
Westdeutsche Landesbank Polska S.A., Warsaw (100%)
WestLB (Italia) Finanziaria S.p.A., Milan (100%)
WestLB Asia Pacific Ltd., Singapore (100%)
WestLB Asset Management (Australia) Pty. Ltd., Sydney (51%)
WestLB Asset Management (Japan) Co. Ltd., Tokyo (100%)
WestLB Asset Management (UK) Ltd., London (100%)
WestLB Asset Management (US) LLC, Houston, Texas, – formerly Criterion – (100%)
WestLB Asset Management (USA) LLC, Chicago, Illinois (100%)
WestLB Asset Management Kapitalanlagegesellschaft mbH, Düsseldorf (90%)
WestLB Covered Bond Bank plc, Dublin (100%)
WestLB Europa Holding AG, Düsseldorf (100%)
WestLB Europe (UK) Holdings Ltd., London (100%)
WestLB Fund Investments Ltd., London (100%)
WestLB International S.A., Luxembourg (100%)
WestLB Panmure Ltd., London (100%)
WestLB Panmure Securities Inc., Dover, Delaware (100%)
WestLB Securities Pacific Ltd., Hong Kong (100%)
WestLB UK Ltd., London (100%)

The Letter of Comfort applies to WestLB Asset Management (Australia) Pty. Ltd. irrespective of WestLB AG's investment quota.

2. Other Group Subsidiaries

PE Projektentwicklungsgesellschaft mbH & Co. Büro- und Businesscenter
Leipzig-Park KG, Düsseldorf (90%)
West Merchant Bank Ltd., London (100%)
WestLB France S.A., Paris (100%)
WestLB Europe (UK) Fund Ltd., London (100%)
WestLB Finance (Credits) Ltd., London (100%)
WestLB Finance Curaçao N.V., Willemstad (100%)
WestLB Finance Netherlands B.V., Amsterdam (100%)
WestLB Finance UK plc, London (100%)
WestLB & Panmure Growth Fund GmbH, Düsseldorf (100%)
WestRM – West Risk Markets AG, Zug (100%)

3. Other Equity Investments

West Pensionsfonds AG, Düsseldorf (49.9%)
West Pensionskasse AG, Düsseldorf (49.9%)

Guarantor Liability (37)

Together with its wholly owned subsidiary WestLB Beteiligungsholding GmbH, WestLB AG is a guarantor, to the extent permitted by law, of Landesbank Rheinland-Pfalz, Mainz, Landesbank Schleswig-Holstein, Kiel, Westdeutsche ImmobilienBank, Mainz, and DekaBank Deutsche Girozentrale, Frankfurt/Main.

Corporate Governance Code (38)

In February 2002, the government commission appointed by the German Ministry of Justice presented the German Corporate Governance Code. Following the government commission's example, the Managing Board and Supervisory Board of WestLB AG resolved to implement their own rules of corporate governance as WestLB AG commenced commercial operations in August 2002. As a non-listed company, WestLB AG is assuming a voluntary obligation by adopting its own rules, which to a great extent are based on the provisions of the German Corporate Governance Code that apply to non-listed companies. WestLB AG has published these rules on its homepage.

WestLB AG's Rules of Corporate Governance publicly document its commitment to a responsible system of management and supervision that focuses on an ongoing increase in its overall value. The rules target the relationship between WestLB AG and its shareholders, the duties and responsibilities of the Managing Board and Supervisory Board, as well as the Bank's accounting principles and standards of transparency. The Rules of Corporate Governance are meant to promote and increase the level of trust that current and future customers, shareholders, employees and the public at large have

in WestLB AG, both in Germany and abroad. The Supervisory Board and the Managing Board fully support these rules. They have also been incorporated into the rules adopted by the Supervisory Board of WestLB AG for the conduct of its business.

Since there were only five months between the adoption of WestLB AG's corporate governance rules in August 2002 and the end of the year, not all of the changes required by the Rules of Corporate Governance could be made. Due to these time constraints, as well as the special circumstances surrounding each process involved in establishing the new WestLB AG, deviations from the corporate governance rules will not be discussed here.

Other Financial Obligations (39)

WestLB AG has rental and leasing obligations of € 99.9 million (2001: € 135.0 million), € 31.2 million (2001: € 33.6 million) of which is to affiliated companies and € 3.1 million (2001: € 8.8 million) of which is to companies in which equity investments are held.

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

Risk Provisions (40)

ALLOWANCES FOR SPECIFIC RISKS AND GENERAL LOAN LOSS PROVISIONS (EXCL. RESERVES PURSUANT TO §§ 340 f, g HGB)			
	WestLB AG Dec. 31, 2002 € millions	WestLB AG Jan. 1, 2002 € millions	WestLB GZ Dec. 31, 2001 € millions
Beginning balance	2,410.9	2,184.0	2,316.6
Division-related deductions	- 146.4	-	-
Allocations	1,941.2	914.3	951.0
Write-backs	- 305.8	- 355.0	- 373.2
Depletions	- 229.6	- 501.3	- 507.1
Market value differences/Other changes	- 160.5	22.5	23.6
Ending balance	3,509.8	2,264.5	2,410.9

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

	WestLB AG Dec. 31, 2002 € millions	WestLB AG Jan. 1, 2002 € millions	WestLB GZ Dec. 31, 2001 € millions
Result of provisions	- 816.8	- 380.0	- 403.2
Expenses from loans and securities:	- 1,930.4	- 647.9	- 671.1
– loans	- 1,884.5	- 549.0	- 566.5
– securities	- 45.9	- 98.9	- 104.6
Income from participations and securities:	1,113.6	267.9	267.9
– participations	1,162.1	141.7	141.7
– securities	- 48.5	126.2	126.2

Pursuant to § 340 f (3) of the German Commercial Code (HGB) the income and expenses of WestLB AG resulting from the evaluation of the lending business were offset by write-ups and write-downs on securities held in the liquidity reserve; the net result was a loss of € 1,930.4 million. Similarly, pursuant to § 340 c (2) of the German Commercial Code (HGB), the expenses for participations, shares in affiliated enterprises, as well as securities held in the investment portfolio, were offset by the income amounts for these investments. The net gain was € 1,113.6 million.

Number of Employees (41)

The average number of employees in 2002 was as follows:

Number of employees			WestLB AG	WestLB GZ
	Male	Female	Total 2002	Total 2001
Domestic branches	1,893	1,845	3,738	4,186
Foreign branches	1,316	842	2,158	2,181
Total	3,209	2,687	5,896	6,367

An average of 196 (2001: 194) employees were engaged in apprenticeship training or equivalent training.

Remuneration of the Governing Bodies (42)

The total remuneration paid to WestLB AG's Managing Board in 2002 was € 6.5 million (2001: € 7.3 million); pensions paid to former members of the Managing Board or their survivors amounted to € 3.9 million (2001: € 3.2 million). Remuneration paid to the members of the Supervisory Board amounted to € 0.5 million (2001: € 0.5 million), while that paid to the members of the Guarantors' Meeting amounted to € 0.1 million (2001: € 0.1 million) and that paid to the members of the Advisory Boards was € 0.5 million (2001: € 0.4 million).

There are pension provisions in the amount € 36.2 million (2001: € 30.7 million) for former members of the Managing Board and their survivors.

Loans to Members of the Governing Bodies (43)

The members of the Managing Board of WestLB AG received advances and loans totalling € 0.6 million (2001: € 2.6 million). The members of the Supervisory Board of WestLB AG received advances and loans totalling € 0.4 million.

In 2002 members of the Supervisory Board of WestLB Girozentrale received advances and loans totalling € 1.1 million, while members of the Guarantors' Meeting received advances and loans totalling € 0.2 million and members of the Advisory Boards of WestLB Girozentrale received advances and loans totalling € 0.6 million.

Shareholdings in WestLB AG (44)

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

Shareholdings in Major Corporations (45)

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
AXA Investment Managers Deutschland GmbH, Cologne
Babcock Borsig Aktiengesellschaft, Oberhausen
Coperion Holding GmbH, Constance
Global Trade Finance Priv. Ltd, Mumbai, India
Metro Capital B.V., Venlo-Blerick
Nordex AG, Norderstedt
RW Holding AG, Düsseldorf

In addition to the disclosure pursuant to § 340 a (4) of the German Commercial Code (HGB), the following is a list of subsidiaries which are fully consolidated into the Group annual accounts:

Banque d'Orsay S.A., Paris
Boullioun Aviation Services Inc., Bellevue
GEV Gesellschaft für Energie- und Versorgungswerte mbH, Dortmund
ZAO Westdeutsche Landesbank Vostok, Moscow
WestLB France S.A., Paris
WestLB Hungaria Bank Rt., Budapest
WestLB Ireland plc, Dublin
Westdeutsche Landesbank Polska S.A., Warsaw
WestLeasing Westdeutsche Leasing Holding GmbH, Düsseldorf
WestLB Administration Inc., New York
WestLB Asia Pacific Ltd., Singapore
WestLB Europa Holding AG, Düsseldorf
WestLB Europe (UK) Holdings Ltd., London
WestLB International S.A., Luxembourg
WestLB Panmure Securities Inc., Dover, Delaware
WestLB New York Capital Investment Ltd., Jersey
WestLB Securities Pacific Ltd., Hong Kong
WestLB Systems GmbH, Düsseldorf
WPS WertpapierService Bank AG, Düsseldorf

Shareholdings in Partnerships (46)

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

Darnley Estates Unlimited, Dublin
GLB GmbH & Co. OHG, Frankfurt/Main
Grundstücksgesellschaft am Fürstenwall (GbR), Düsseldorf
Société Civile Immobilière Franco-Allemande (SCIFA), Paris

Seats Held by Members of the Managing Board (47)

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

Jürgen Sengera

AXA Konzern AG
DekaBank Deutsche Girozentrale*
Deutsche Post AG
DHL Worldwide Express B.V.* (until December 2, 2002)
Ford Deutschland Holding GmbH
Ford-Werke AG
INTERSEROH AG (until June 27, 2002)
Landesbank Rheinland-Pfalz Girozentrale*
Landesbank Schleswig-Holstein Girozentrale*
Rockwool International A/S*
Westdeutsche ImmobilienBank*
WestLB Systems GmbH

Dr. Adolf Franke

Bank Austria AG*
Landesbank Rheinland-Pfalz Girozentrale*
Landesbank Schleswig-Holstein Girozentrale*
rhenag Rheinische Energie AG
RWE Gas AG
Westdeutsche ImmobilienBank*
WestLB Systems GmbH

Ernst Gerlach (from April 27 to July 31, 2002)

Georgsmarienhütte GmbH
Mannesmann Röhrenwerke AG

Hans Henning Offen (until August 31, 2002)

Gildemeister AG
Kaufhof Warenhaus AG
RWE Plus AG
ThyssenKrupp Materials AG
Trienekens AG (until July 29, 2002)
TUI AG
WestIntell AG*
WestLB Europa Holding AG (until May 28, 2002)

Dr. Wolf-Albrecht Prautzsch (until July 31, 2002)

Gerry Weber International AG
Hamburgische Landesbank Girozentrale*
Investitionsbank des Landes Brandenburg* (until August 1, 2002)
Landesbank Rheinland-Pfalz Girozentrale*
Landesbank Schleswig-Holstein Girozentrale*
Provinzial Holding Westfalen* (until September 30, 2002)
Provinzial Leben Holding Westfalen* (until September 30, 2002)
RAG Immobilien AG
Rethmann Beteiligungs AG

RWE Power AG
TA Triumph-Adler AG
Viterrra AG
Westdeutsche ImmobilienBank* (until July 31, 2002)
Westfälische Provinzial Feuerversicherung AG (until September 30, 2002)
Westfälische Provinzial Lebensversicherung AG (until September 30, 2002)
Westfalen AG

Dr. Manfred Puffer

Österreichische Bundesfinanzierungsagentur Ges.m.b.H*

Dr. Johannes Ringel

Babcock Borsig AG
Howaldtswerke-Deutsche Werft AG (until August 5, 2002)
Hüttenwerke Krupp Mannesmann GmbH
Investitionsbank des Landes Brandenburg*
Klößner & Co. AG
Nordex AG
Phoenix AG
Rütgers AG
STEAG AG
ThyssenKrupp Stahl AG
WestUBG Westdeutsche Unternehmensbeteiligungs-AG*
WPS WertpapierService Bank AG

Gerhard Roggemann

AXA Lebensversicherung AG
Banca del Gottardo* (until November 27, 2002)
Börse Düsseldorf AG*
Deutsche Börse AG
Fresenius AG
Hapag-Lloyd AG
Solvay Deutschland GmbH
Veba Oel AG (until February 7, 2002)
VHV Autoversicherungs-AG
West Pensionsfonds AG*
West Pensionskasse AG*
WPS WertpapierService Bank AG

Andreas Seibert

INTERSEROH AG
MDK Holdings Ltd.* (until July 17, 2002)
Preussag Energie GmbH
Singapore Aircraft Leasing Enterprise Ltd.*

Robert Restani

Landesbank Rheinland-Pfalz*
Westdeutsche ImmobilienBank*

Seats Held by Employees (48)

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

Bernd Bennemann

Metro Capital B.V.

Wolfgang Richter

LBS Landesbausparkasse Bremen AG

Rainer Schmitz

Deka Investment GmbH

Jürgen Schneider

JT International Germany GmbH

Joachim Voss

Technotrans AG

Manfred Wern

TCI Training & Consulting International AG

Dr. Alexander Winkels

Klöckner & Co. AG

Madaus AG

Schuh-Union AG (until September 30, 2002)

Schmitz-Cargobull AG

Geographic Breakdown of Profit Components (49)

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

€ millions Dec. 31, 2002	Interest Income	Current Income	Commission Income	Net Income from Trading Operations	Other Operating Income
Germany	7,032.3	501.0	241.3	36.7	150.1
Great Britain	6,053.4	12.5	115.8	27.3	47.3
Rest of Europe	466.3	–	36.3	– 1.7	11.3
Far East and Australia	993.4	0.5	29.4	9.7	40.0
USA	2,985.8	0.7	209.0	66.3	– 8.9
Offsets	– 9,088.9	–	– 0.3	81.4	– 28.7
Profit	8,442.3	514.7	631.5	219.7	211.1

The geographic breakdown of income was determined on the basis of the domicile of the branch on whose account the transaction is carried or which was responsible for the transaction. This table includes the profit/loss that was derived from transactions between the regional units, but eliminated in WestLB AG's statement of income.

Extraordinary Result (50)

The extraordinary expenses include the expenses for restructuring measures, particularly in the area of personnel, as well as a contribution to the flood relief campaign sponsored by the German Savings Banks and Giro Association (Deutscher Sparkassen- und Giroverband, DSGV). The sale of the private banking business resulted in extraordinary income.

Taxes on Income and Revenues (51)

The € 59.3 million in taxes on income and revenues was on the result from ordinary activities.

Governing Bodies of WestLB AG (52)

In calendar year 2002 the governing bodies of WestLB included those of Westdeutsche Landesbank Girozentrale, for the period up to July 31, 2002 and August 30, 2002 respectively, as well as those of WestLB AG, from August 1, 2002.

Supervisory Board (until August 30, 2002)

Ernst Schwanhold, Chairman

Minister, Ministry of Economics and Small and Medium-Sized Businesses,
Energy and Transport of North Rhine-Westphalia

Peer Steinbrück, MdL, Deputy Chairman

Minister, Ministry of Finance of the State of North Rhine-Westphalia

Udo Molsberger, Deputy Chairman

Regional Director, Regional Association of the Rhineland

Wolfgang Schäfer, Deputy Chairman

Regional Director, Regional Association of Westphalia-Lippe

Dr. Karlheinz Bentele, Deputy Chairman

President, Savings Banks and Giro Association of the Rhineland

Dr. Rolf Gerlach, Deputy Chairman

President, Savings Banks and Giro Association of Westphalia-Lippe

Walter Haas

Chairman, DGB Regional District NRW

Heinz Kettler

HEINZ KETTLER Metallwarenfabrik GmbH & Co.

Dr. Hermann Krämer

Former member of the Managing Board of VEBA AG

Dr. Helmut Linssen, MdL

First Vice President of the State Assembly of North Rhine-Westphalia

Edgar Moron, MdL

Chairman of the SPD Parliamentary Group of North Rhine-Westphalia

Friedrich Späth

Former Chairman of the Managing Board of Ruhrgas AG

Paul Heidrich

Chairman of the CDU Group, Regional Assembly of the Rhineland

Dr. Berthold Tillmann

Lord Mayor, City of Münster

Hans-Peter Krämer

Chairman of the Managing Board, Kreissparkasse Köln

Dieter Pützhofen

Lord Mayor, City of Krefeld

Rolf Brunswig (until June 30, 2002)

Chairman of the Managing Board, Sparkasse Siegen

Dr. Norbert Emmerich (from July 1, 2002 to August 30, 2002)

Chairman of the Managing Board, Sparkasse Münsterland Ost

Hans Pixa

District Administrator, Coesfeld District

Fred Eicke

Director, WestLB Düsseldorf

Hannelore Heger-Golletz

Bank officer, WestLB Münster

Gerd-Uwe Löschmann

Associate Director, WestLB Düsseldorf

Manfred Matthewes

Bank officer, WestLB Düsseldorf

Manfred Schimpf

Bank officer, WestLB Münster

Hubertus Schreiber

Bank officer, WestLB Münster

Elisabeth Weber

Bank officer, WestLB Düsseldorf

Franz-Georg Schröermeyer

Secretary, Financial Services

ver.di Vereinte Dienstleistungsgewerkschaft, Münster Regional Office

Christiane Stascheit

Deputy Director

ver.di Vereinte Dienstleistungsgewerkschaft, Düsseldorf Regional Office

Dr. Harald Noack

Under Secretary, Ministry of Finance of North Rhine-Westphalia

Dieter Krell

Assistant Secretary

Director of the Central Department of the Ministry of Economics and Small and Medium-Sized Businesses, Energy and Transport of North Rhine-Westphalia

Karl Bechtel

Regional Councillor, Regional Association of the Rhineland

Dr. Hans-Ulrich Predeick

Regional Councillor, Regional Association of Westphalia-Lippe

Heinz Biesenbach

Association Director, Savings Banks and Giro Association of the Rhineland

Dr. Klaus Wienberg

Association Director, Savings Banks and Giro Association of Westphalia-Lippe

Guarantors' Meeting of WestLB Girozentrale (until July 31, 2002)

Georg Wilhelm Adamowitsch, Moderator

Under Secretary, Head of the State Chancellery of North Rhine-Westphalia

Dr. Günter Berg

Assistant Secretary, Ministry of Finance of North Rhine-Westphalia

Dr. Thomas Griese

Under Secretary, Ministry of the Environment and Nature Conservation, Agriculture and Consumer Protection of North Rhine-Westphalia

Jörg Hennerkes

Under Secretary, Ministry of Economics and Small and Medium-Sized Businesses, Energy and Transport of North Rhine-Westphalia

Bernd Kiesow

Senior Principal, Ministry of Finance of North Rhine-Westphalia

Manfred Morgenstern

Under Secretary, Ministry of Urban Development and Housing, Culture and Sport of North Rhine-Westphalia

Cornelia Prüfer-Storcks

Under Secretary, Ministry of Women, Youth, Family and Health of North Rhine-Westphalia

Johannes Winkel

Assistant Secretary, Ministry of the Interior of North Rhine-Westphalia

Winfried Schittges, MdL, Moderator

Chairman, Regional Assembly of the Rhineland

Harry Voigtsberger

Chairman of the SPD Group, Regional Assembly of the Rhineland

Dr. Wolfgang Kirsch, Moderator

District Administrator

Chairman of the CDU Group, Regional Assembly of Westphalia-Lippe

Dieter Gebhard

Chairman of the SPD Group, Regional Assembly of Westphalia-Lippe

Dr. Hans-Christian Vollert, Moderator

District Administrator, Viersen District Administration

Michael Kranz

Chairman of the Managing Board, Sparkasse Bonn

Paul-Gerhard Schmitz

Mayor, City of Gummersbach

Franz-Josef Leikop, Moderator

District Administrator, Hochsauerland District

Dr. Norbert Emmerich (until June 30, 2002)

Chairman of the Managing Board, Sparkasse Münsterland Ost

Josef Strauß (from July 1, 2002 to July 31, 2002)

Chairman of the Managing Board, Sparkasse Wittgenstein

Eckhard Schwerhoff

Mayor, City of Gladbeck

Guarantors' Meeting of WestLB Girozentrale (from August 1, 2002 to August 30, 2002)**Dr. Bernd Lühje**

Chairman of the Managing Board, Landesbank NRW

Ernst Gerlach

Member of the Managing Board, Landesbank NRW

Dr. Ulrich Schröder

Member of the Managing Board, Landesbank NRW

Managing Board of WestLB GZ (until August 30, 2002)

Jürgen Sengera (Chairman)

Hans Henning Offen (Deputy Chairman)

Dr. Wolf-Albrecht Prautzsch (Deputy Chairman until July 31, 2002)

Dr. Adolf Franke

Ernst Gerlach (from April 27, 2002 to July 31, 2002)

Dr. Bernd Lühje (from April 27, 2002 to July 31, 2002)

Dr. Manfred Puffer

Dr. Johannes Ringel

Gerhard Roggemann

Dr. Ulrich Schröder (from April 27, 2002 to July 31, 2002)

Andreas Seibert

Managing Board of WestLB AG (from August 1, 2002)

Jürgen Sengera (Chairman)
Dr. Adolf Franke
Klaus-Michael Geiger (from January 1, 2003)
Dr. Manfred Puffer
Robert Restani (deputy member from December 1, 2002)
Dr. Johannes Ringel
Gerhard Roggemann
Andreas Seibert

Members of the Supervisory Board of WestLB AG (from August 1, 2002)

Dr. Bernd Lühje, Chairman

Chairman of the Managing Board, Landesbank NRW

Gerd-Uwe Löschmann, Deputy Chairman (from September 3, 2002)

Associate Director, WestLB AG, Düsseldorf

Dr. Erich Bauer

Chief Executive Manager, TMD Friction Holding GmbH

Jean-Pascal Beaufret

Chief Financial Officer, Alcatel

Dr. Karlheinz Bentele

President, Savings Banks and Giro Association of the Rhineland

Thorsten Ellwanger (from September 3, 2002)

Associate Director, WestLB AG, Hamburg

Bernd Fiegler (from September 3, 2002)

Deputy State Director

ver.di Vereinte Dienstleistungsgewerkschaft, Regional District of North Rhine-Westphalia

Dr. Rolf Gerlach (from September 2, 2002)

President, Savings Banks and Giro Association of Westphalia-Lippe

Horst-Wolfgang Klophaus (from September 3, 2002)

Manager, WestLB AG, Düsseldorf

Hans-Peter Krämer

Chairman of the Managing Board, Kreissparkasse Köln

Dr. Siegfried Luther

Deputy Chairman of the Managing Board, Bertelsmann AG

Manfred Matthewes (from September 3, 2002)

Bank officer, WestLB AG, Düsseldorf

Hartmut Mehdorn

Chairman of the Managing Board, Deutsche Bahn AG

Udo Molsberger

Regional Director, Regional Association of the Rhineland

Dr. Hans-Ulrich Predeick

Regional Councillor, Regional Association of Westphalia-Lippe

Henning Richerzhagen (from August 1, 2002 to September 2, 2002)

Legal Advisor, Savings Banks and Giro Association of Westphalia-Lippe

Heinz-Günter Sander (from September 3, 2002)

Bank officer, WestLB AG, Düsseldorf

Rainer Schmitz (from September 3, 2002)

Bank Director, WestLB AG, Düsseldorf

Franz-Georg Schröermeyer (from September 3, 2002)

Secretary, Financial Services

ver.di Vereinte Dienstleistungsgewerkschaft, Münster Regional Office

Christiane Stascheit (from September 3, 2002)

Deputy Director

ver.di Vereinte Dienstleistungsgewerkschaft, Düsseldorf Regional Office

Elisabeth Weber (from September 3, 2002)

Bank officer, WestLB AG, Düsseldorf

Düsseldorf/Münster, March 4, 2003/May 8, 2003*

WestLB AG

The Managing Board

Sengera	Dr. Franke	Geiger	Dr. Puffer
Restani	Dr. Ringel	Roggemann	Seibert

* The amendments of May 8, 2003 take into account additional risk provisions made for a lending commitment and the related changes.

Auditor's Opinion

We have audited the amended annual accounts, together with the bookkeeping system, and the amended statement of financial condition prepared by WestLB AG, Düsseldorf/Münster, for the financial year ending December 31, 2002. The bookkeeping and preparation of the annual accounts and the statement of financial condition according to German commercial law regulations and the supplementary provisions contained in the articles and bylaws are the responsibility of the legal representatives of the Bank. It is our task to give an opinion on the annual accounts, together with the bookkeeping system, and the statement of financial condition on the basis of our audit.

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

Our audit resulted in no objections.

In our opinion, the amended 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 amended statement of financial condition adequately reflects the Bank's situation and the risks inherent in its future development.

Düsseldorf, April 9, 2003/May 9, 2003

PwC Deutsche Revision
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Kütter
German Public Accountant

Dr. Dicken
German Public Accountant

WestLB AG Locations

Domestic

WestLB AG

Herzogstraße 15
40217 Düsseldorf
Tel. + 49 211 826-01
Fax + 49 211 826-6119

Friedrichstraße 1
48145 Münster
Tel. + 49 251 412-01
Fax + 49 251 412-2921

Berlin

Unter den Linden 26–30
10117 Berlin
Tel. + 49 30 20189-0
Fax + 49 30 20189-320

Cologne

Ludwigstraße 2
50667 Köln
Tel. + 49 221 2049-01
Fax + 49 221 2049-660

Dortmund

Kampstraße 45
44137 Dortmund
Tel. + 49 231 1814-01
Fax + 49 231 1814-555

Frankfurt

Taunusanlage 3
60329 Frankfurt
Tel. + 49 69 2579-01
Fax + 49 69 2579-315

Munich

Lenbachplatz 2a
80333 München
Tel. + 49 89 55250-40
Fax + 49 89 55250-460

Hamburg

Domstraße 10
20095 Hamburg
Tel. + 49 40 33968-0
Fax + 49 40 33968-201

Foreign

Hong Kong

BA Tower, 36th Floor
12, Harcourt Road Central
Hong Kong
Tel. + 85 2 284202-88
Fax + 85 2 284202-96
| Head: Bruce Fraser

Representative offices in
Peking, Seoul, Taipei

Istanbul

Ebulula Mardin Caddesi
Maya Park Towers
80630 Akatlar Istanbul
Tel. + 90 212 3392500
Fax + 90 212 3522258
| Head: Dr. Peter Weingartz

London

Woolgate Exchange
25 Basinghall Street
EC2V 5HA London
Tel: + 44 20 7020-2000
Fax + 44 20 7020-2002
| Head: Dr. Horst Füllenkemper

Madrid

c/Velázquez, 123
28006 Madrid
Tel. + 34 91 432-8000
Fax + 34 91 432-8051
| Head: N. N.

Milan

Via Canova 36/38/40
20145 Milan
Tel. + 39 02 34974-1
Fax + 39 02 3450-360
| Head: Giorgio Binda

New York

New York Branch
Cayman Island Branch
International Banking Facility
1211, Avenue of the Americas
New York, NY 10036
Tel. + 1 212 852-6000
Fax + 1 212 852-6300
| Head: Moses Dodo

Representative offices in
Chicago, Houston, Los Angeles,
Mexico City

Paris

6, rue Lamennais
75008 Paris
Tel. + 33 1 40 75 75 00
Fax + 33 1 45 63 15 71
| Head: Philippe Bouckaert

Shanghai

12th Floor, Senmao International
Building
101, Yin Cheng East Road
Pudong New Area
Shanghai 200120
Tel. + 86 21 6841-3399
Fax + 86 21 6841-0788
| Head: Jasper Leung

Singapore

3 Temasek Avenue
33-00 Centennial Tower
Singapore 039190
Tel. + 65 333-2388
Fax + 65 333-2399
| Head: Ee-Ngeh Teo

Representative offices in
Bangkok, Jakarta, Mumbai

The addresses, including those of the
representative offices, are available on
the Internet at www.westlb.com

Sydney

Level 29, Westpac Plaza
60 Margaret Street
N.S.W. 2000 Sydney
Tel. + 61 2 9777-9900
Fax + 61 2 9777-9911
| **Head: Günter Richert**

Tokyo

Fukoku Seimei Building, 3F
2-2-2, Uchisaiwai-cho
Chiyoda-ku
100-0011 Tokyo
Tel. + 81 3 5510-6200
Fax + 81 3 5510-6299
| **Heads: Michael Kramer,
Toshiya Oohashi**

Toronto

Suite 1704, Box No. 52
95, Wellington Street West
Ontario M5J 2N7
Toronto
Tel. + 1 416 869-1085
Fax + 1 416 869-0771
| **Head: Alik Kassner**

Further representative offices in
Belgrade, Caracas, Dubai,
Johannesburg, Kiev, Prague,
Santiago de Chile, Zurich

Main Subsidiaries

WestLB Hungaria Bank Rt.

Madách Imre utca. 13–14
1075 Budapest
Tel. + 36 1 268-1680
Fax + 36 1 268-1933

| Management:

Jürgen Philipper, Géza Egyed

WestLB Ireland plc

IFSC House
I.F.S.C., Dublin 1
Tel. + 353 1 612-7100
Fax + 353 1 670-0112

| Management:

Thomas Kaiser

ZAO Bank WestLB Vostok

(formerly: ZAO Westdeutsche
Landesbank Vostok)
Povarskaja ul., 23
Building 4
121069 Moscow
Tel. + 70 95 258-6100
Fax + 70 95 258-6105

| Management: Volker Undorf,

Alexander Afanasiev

WestLB Bank Polska S.A.

(formerly: Westdeutsche
Landesbank Polska S.A.)
ul. Emilii Plater 28
00-688 Warsaw
Tel. + 48 22 6530-500
Fax + 48 22 6530-501

| Management: Bjork Hupfeld,

Tomasz Maciejewski,
Mazcej Stanczuk

WestLB Panmure Ltd.

Woolgate Exchange
25 Basinghall Street
EC2V 5HA London
Tel. + 44 20 7020-4000
Fax + 44 20 7020-4009

| Management:

Tim Linacre

WestLB Panmure Securities Inc.

1211, Avenue of the Americas
New York, NY 10036
Tel. + 1 212 852-6000
Fax + 1 212 852-6300

| Management:

Peter Jensen, John Parker

WestLB Securities S.A. (Pty) Ltd.

2nd Floor Corporate Place
23 Fredman Drive
Sandton 2196
Johannesburg
Tel. + 27 11 884-0410
Fax + 27 11 884-6736

| Management: Chris Kenny

WestLB Securities Australia Ltd.

Level 29, Westpac Plaza
60 Margaret Street
N.S.W. 2000 Sydney
Tel. + 61 2 9777-9977
Fax + 61 2 9777-9975

| Management:

Tony Gamson, Günter Richert

WestLB Securities Pacific Ltd.

Tokyo Branch
Fukoku Seimei Building, 3F
2-2-2, Uchisaiwai-cho
Chiyoda-ku
100-0011 Tokyo
Tel. + 81 3 5510-6300
Fax + 81 3 5510-6399

| Management:

Peter Clermont, Richard Gordon,
Jens Münster, Kurt Lambert

WestLB Asia Pacific Limited

3 Temasek Avenue
33-00 Centennial Tower
Singapore 039190
Tel. + 65 6 333-2388
Fax + 65 6 333-2399

| Management: N.N.

WestAM Holding GmbH

Herzogstraße 15
40217 Düsseldorf
Tel. + 49 211 826-4735
Fax + 49 211 826-7365

I Management Spokesman:

Luke Nunneley

**WestLB Asset Management
Kapitalanlagegesellschaft mbH**

Friedrichstraße 62–80
40217 Düsseldorf
Tel. + 49 211 826-07
Fax + 49 211 826-8750

I Management Spokesman:

Werner Peters

**WestLB Asset Management
(UK) Ltd.**

Woolgate Exchange
25 Basinghall Street
EC 2V 5HA London
Tel. + 44 20 7020-2000
Fax + 44 20 7020-2002

I Management: Alan Conway**WestLB Asset Management
(USA) LLC**

10 South Wacker Drive
Suite 2960
Chicago, IL 60606
Tel. + 1 312 279-9300
Fax + 1 312 575-0222

I Management:

Donald W. Phillips

WestAM (USA) Ltd.

15305 Dallas Parkway
Suite 650
Addison, TX 75001
Tel. + 1 972 866-7880
Fax + 1 972 866-7881

I Management: Reiner Triltsch**WestLB Asset Management
(US) LLC**

Marathon Oil Tower
Suite 2000
5555 San Felipe Boulevard
Houston, TX 77056

Tel. + 1 713 963-5200

Fax + 1 713 963-5235

I Management: Mark Vorbach**WestLB Asset Management
(Japan) Co., Ltd.**

Hibiya Daibiru, 19th Floor
1-2-2, Uchisaiwaicho
Chiyoda-ku
100-0011 Tokyo

Tel. + 81 3 3539-6100

Fax + 81 3 3539-6190

I Management:

Kazuhito Yoshihara

**WestLB Asset Management
(Australia) Pty. Ltd.**

Level 32, Westpac Plaza
60 Margaret Street
N.S.W. 2000 Sydney
Tel. + 61 2 9777-8081

Fax + 61 2 9777-8080

I Management: Greg Vaughan**Banque d'Orsay S.A.**

33, Avenue de Wagram
75017 Paris

Tel. + 33 1 40 55 44 00

Fax + 33 1 40 55 44 10

I Management:

Jean-Paul Malpuech

**WestLB Covered
Bond Bank Ltd.**

IFSC House
I.F.S.C., Dublin 1
Tel. + 353 1 612-7199
Fax + 353 1 670-0112

I Management:

Peter van Dessel

WestLB (France) S.A.

15, Avenue de Friedland
75008 Paris

Tel. + 33 1 40 75 75 00

Fax + 33 1 45 63 80 91

WestLB International S.A.

32–34, Boulevard
Grande-Duchesse Charlotte
2014 Luxembourg

Tel. + 35 2 44741-0

Fax + 35 2 44741-212

I Management:

Franz Ruf, Norbert Lersch,
Dr. Johannes Scheel

Banco WestLB do Brasil S.A.

Av. Engenheiro Luiz
Carlos Berrini, 716
7º/10º andar

04571-000 São Paulo

Tel. + 55 11 5504-9844

Fax + 55 11 5504-9933

I Management: Peter Badura**WestConsult Westdeutsche
Consulting GmbH**

Itterpark 5
407245 Hilden

Tel. + 49 2103 2628-01

Fax + 49 2103 2628-30

I Management:

Rainer Birkendahl

WestKB**Westdeutsche Kapital-
beteiligungsgesellschaft mbH**

Herzogstraße 15
40217 Düsseldorf

Tel. + 49 211 826-01

Fax + 49 211 826-6168

**I Management: Jürgen Germies,
Karlheinz Müller**

WestLB Research GmbH

Elisabethstraße 44–46
40217 Düsseldorf
Tel. + 49 211 826-2203
Fax + 49 211 826-6361

| Management:
Dr. Helmut Henschel

West Pensions Consult GmbH

Herzogstraße 15
40217 Düsseldorf
Tel. + 49 211 826-2691
Fax + 49 211 826-6146

| Management:
Barbara Epe-Lichtenthäler,
Klaus F. Tolksdorf,
Bernhard Stoetzel

**WestKC Westdeutsche
Kommunal Consult GmbH**

Herzogstraße 15
40217 Düsseldorf
Tel. + 49 211 826-5119
Fax + 49 211 826-3597

| Management:
Rainer Jürgenliemk

WestLB Systems GmbH

Völklinger Straße 4
40219 Düsseldorf
Tel. + 49 211 826-03
Fax + 49 211 826-9418

| Management:
Ulrich Wollschläger,
Ferdinand Vogel

**WestEK Westdeutsche
Einkaufskoordination GmbH**

Graf-Adolf-Platz 12
40213 Düsseldorf
Tel. + 49 211 826-8800
Fax + 49 211 826-8810

| Management: Klaus Killinger

WestLB UK Ltd.

Woolgate Exchange
25 Basinghall Street
EC2V 5HA London
Tel. + 44 20 7020-2000
Fax + 44 20 7020-2002

| Management:
Dr. Horst Füllenkemper,
Lothar Dunkel,
Stephen Heyworth

**Boullioun Aviation
Services Inc.**

City Center Building
500 108th Avenue Northeast
25th Floor
Bellevue
Washington 98004-5533
Tel. + 1 425 454-3106
Fax + 1 425 454-31913

| Management:
Robert J. Genise, Dr. Heinz Westen,
John R. Willingham

Westdeutsche ImmobilienBank

Große Bleiche 46
55116 Mainz
Tel. + 49 6131 9280-0
Fax + 49 6131 9280-7200

| Chairman: Jürgen Stinner

Branches in
Cologne, Hamburg, London,
Mannheim, Munich, Münster

Representative offices in
Amsterdam, Madrid,
New York, Paris

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

Chaussée de la Hulpe 166
1170 Brussels
Tel. + 32 2 663-6900
Fax + 32 2 663-6959

| Management: Horst Magiera,
Dr. Hendirk Ernaelsteen

Cooperation Partners**Landesbank Rheinland-Pfalz
Girozentrale**

Große Bleiche 54–56
55098 Mainz
Tel. + 49 6131 13-01
Fax + 49 6131 13-2724

**Landesbank
Schleswig-Holstein
Girozentrale**

after merger with Hamburgische
Landesbank on June 1, 2003:
HSH Nordbank AG
Martensdamm 6
24103 Kiel
Tel. + 49 431 900-01
Fax + 49 431 900-2446

**Banca Carige S.p.A. Cassa
di Risparmio di Genova
e Imperia**

Via Cassa di Risparmio, 15
16123 Genoa
Tel. + 39 010 579-2581
Fax + 39 010 579-4955

Gudme Raaschou

39–41, Kalvebod Brygge
1560 Copenhagen
Tel. + 45 33 4490-00
Fax + 45 33 4490-01

Standard Chartered Plc

WestLB Liaison Office
1, Aldermanbury Square
EC 2V 7SB London
Tel. + 44 20 728073-66
Fax + 44 20 728073-82



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WestLB AG
Herzogstraße 15
40217 Düsseldorf

www.westlb.com