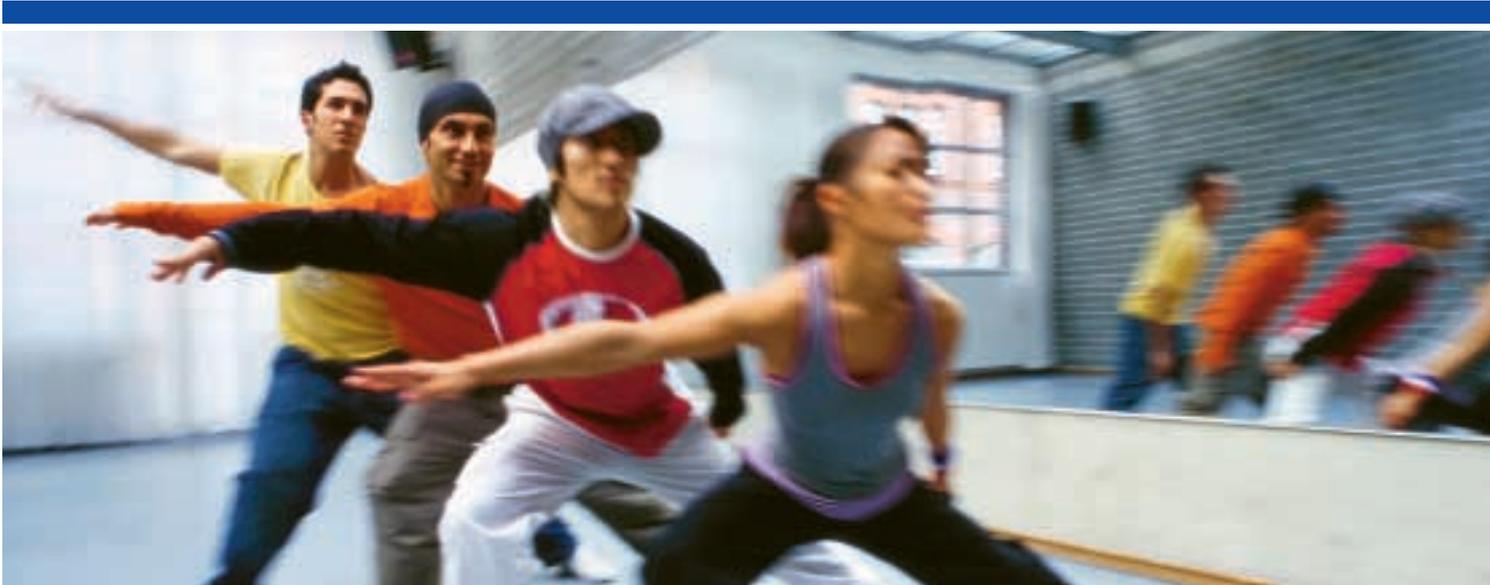


Annual Report 2003



Key Figures

€ millions	2003	2002
Total assets	105,028	101,579
Credit volume	100,397	94,052
Certificated liabilities	49,152	43,212
Equity Capital Pursuant to the German Commercial Code (HGB)	4,919	6,715
Liable capital in accordance with the German Banking Act (KWG)*	6,224	6,198
Net interest income	356	306
Net commission income	11	8
Personnel expenses	73	78
Operating expenses	88	69
Operating profit before risk provisions/result of evaluation	199	164
Operating profit after risk provisions/result of evaluation	- 1,746	97
Net income/Loss for the year	- 1,770	86
Allocation to state housing construction funds	25	63
Withdrawals from capital reserves	1,796	0
Profit	0	21
Principle I ratio in %*	32.5	32.0
Staff	862	760

* before approval of the annual accounts

Ratings

	Fitch Ratings	Moody's	Standard & Poor's
Long-term rating	AAA	Aa2	AA
Short-term rating	F1+	P-1	A-1+
Individual ¹⁾ / Financial Strength ²⁾	C/D ¹⁾	D+ ²⁾	-*
Pfandbrief rating	AAA	-	AAA

* not prepared by Standard & Poor's

Status: April 15, 2004

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Annual Report 2003
NRW.BANK – Well-Positioned for
New Challenges



Introducing NRW.BANK





NRW.BANK is the development bank for the State of North Rhine-Westphalia. Established on August 1, 2002 as Landesbank NRW, it supports its owners – the State of North Rhine-Westphalia (43.2%), the Savings Banks and Giro Associations of the Rhineland and Westphalia-Lippe (each 16.7%) and the Regional Associations of the Rhineland and Westphalia-Lippe (each 11.7%) – with regard to important structural tasks. Operating as a competition-neutral development bank, NRW.BANK uses the full range of financial development products in four areas of competence – Economic Development, Infrastructure Development, Social Housing Promotion and Municipal Finance.

NRW.BANK has a share capital (subscribed capital) of EUR 500 million (December 31, 2003) and holds a full bank licence. It has the legal status of an institution under public law. Its statutory governing bodies are the Guarantors' Meeting, the Supervisory Board and the Managing Board. It employs approximately 860 people at its registered offices in Düsseldorf and Münster.

As a development bank, NRW.BANK will continue to benefit from institutional liability and guarantor liability. Under the "Act on the Reorganisation of Landesbank Nordrhein-Westfalen into the Development Bank of the State of North Rhine-Westphalia and on the Amendment of Other Laws", the Bank's guarantors have also granted an explicit guarantee.

NRW.BANK is a regular member of the Association of Public-Sector Banks (VÖB) and an extraordinary member of the German Savings Banks and Giro Association (DSGV).

Foreword of the Managing Board



The Managing Board of NRW.BANK

(from left):

Ernst Gerlach

Dr. Bernd Lüthje

Dr. Ulrich Schröder

The Bank's biggest and most important goal since its foundation on August 1, 2002 was reached on March 31, 2004. This was the day when the Act on the Reorganisation of Landesbank Nordrhein-Westfalen came into force. It has set the course for our Bank's future as the development bank for the State of North Rhine-Westphalia. The future positioning of the Bank is also reflected in its new name. Landesbank NRW has become NRW.BANK.

Together with our owners and in close coordination with the European Commission, we began to work towards this goal at an early stage. Now we will have to expand



NRW.BANK further – into the central development platform for North Rhine-Westphalia.

Adopted in a broad political consensus by all parties in the North Rhine-Westphalian Parliament, the “Act on the Reorganisation of Landesbank Nordrhein-Westfalen into the Development Bank of the State of North Rhine-Westphalia and on the Amendment of Other Laws” implements the framework for legally independent development banks permissible under EU law. NRW.BANK has been granted the status of a competition-neutral development bank building on the so-called “house bank principle”. In this

capacity, the Bank will continue to benefit from institutional liability and guarantor liability in accordance with the so-called “Verständigung II” reached between the Federal Government and the European Commission on March 1, 2002.

Under the Reorganisation Act, the owners have additionally granted an explicit guarantee. As a consequence of this legally imposed joint and several liability, issues by Landesbank NRW have a solvency weighting of “zero”. This means that banks which provide NRW.BANK with debt capital no longer have to back these claims with liable capital.



NRW.BANK thus benefits from optimum conditions on the funding side, which the Bank will use for an important goal – to ensure effective and efficient economic and structural development in North Rhine-Westphalia.

The new name, NRW.BANK, highlights the difference to the commercially operating Landesbanks. Established under the name of Landesbank Nordrhein-Westfalen on August 1, 2002, the Bank was established from the split-up of the former Westdeutsche Landesbank Girozentrale into two legally independent banks. This split-up led to a separation between the commercial operations (performed by WestLB AG under private law) and the public mission activities (performed by Landesbank NRW under public law). In the context of the parent-subsiary model, WestLB AG became a wholly owned subsidiary of Landesbank NRW.

Due to the timing of the development process that led to the parent-subsiary structure, both Landesbank NRW and WestLB AG were initially subject to the so-called “Verständigung I”, although, at this time, the business activities of Landesbank NRW did not compete directly with those of other banks. “Verständigung I” was reached between the Federal Government and the European Commission on July 17, 2001 and governs the staggered abolition of institutional liability and guarantor liability for Germany’s commercially operating public-law banks. The reason for this was

the European Commission’s demand to abolish the state guarantee system for all Germany’s commercial public-law banks.

The European Commission then opened a second route for non-commercially operating development banks namely the above-mentioned “Verständigung II” of March 1, 2002.

This route has led to a development bank that can take advantage of ideal funding conditions and use its know-how and capital to the benefit of the recipients of development funds in North Rhine-Westphalia.

We are aiming to contribute to North Rhine-Westphalia’s transformation into a modern service and knowledge society and strengthen local companies’ ability to innovate. Our development activities focus on small and medium-sized enterprises. Today NRW.BANK is an indispensable player in the economic development sector, as the Bank, in its capacity as state development institution and state bank, handles the state programmes for all bank groups. In the publicly-assisted housing construction sector, the Bank’s Wfa unit (Wohnungsbauförderungsanstalt (Wfa)) is the only direct provider of development funds in North Rhine-Westphalia. Wfa is involved in some 22 per cent of all homes built in North Rhine-Westphalia.

We will continue to expand this market and the leadership which NRW.BANK already enjoys in many areas.



We will do this in our four areas of competence:

- Economic Development
- Infrastructure Development
- Social Housing Promotion
- Municipal Finance

We have also aligned our organisational structure with the new framework in which we operate. INVESTITIONS-BANK NRW (IB) has been integrated into the Economic Development and Infrastructure Finance units. These units are responsible for product development and product management with customers, manage the development programmes and provide advice to their clients, mainly the state ministries. The economic development activities focus on the individual companies, while the Infrastructure Finance unit promotes structures in which companies participate such as the environment, education and social affairs.

North Rhine-Westphalia's local authorities are offered favourable financing solutions.

These units share the same umbrella, the Development Consulting unit, which serves as our bridge into the market. It manages the relationships with the house banks and acts as a compact sales unit – for all financial institutions, across the full product range and all development programmes.

Efficient internal structures, ideal external conditions – NRW.BANK offers cost-efficient management of development programmes and the competent development of new products meeting today's market requirements.

An important goal has been achieved. We would like to thank everybody whose commitment and team spirit contributed to this achievement – especially our employees.

New goals lie ahead. We look forward to working towards them together with you.



Ernst Gerlach



*Dr. Bernd Lühje
Chairman of the Managing Board*



Dr. Ulrich Schröder

Report of the Supervisory Board



In accordance with its legal and statutory tasks, the Supervisory Board held five meetings in fiscal 2003. The Committees composed of the members of the Supervisory Board – which were complemented by a new Building Committee – held thirteen meetings.

The Supervisory Board received regular reports about the situation of the company and major business transactions.

Transactions requiring the Supervisory Board's approval were discussed and agreed by the latter. Important business policy matters were addressed in detail.

PwC Deutsche Revision Wirtschaftsprüfungsgesellschaft carried out the audit of the financial statements for 2003 and the statement of financial condition of Landesbank NRW. The financial statements received the auditor's unqualified audit opinion. The Supervisory Board and the Audit Committee formed from among its members discussed in detail the reports of the external auditors on the results of their audit. Following the final result of the audit, they raised no objections.

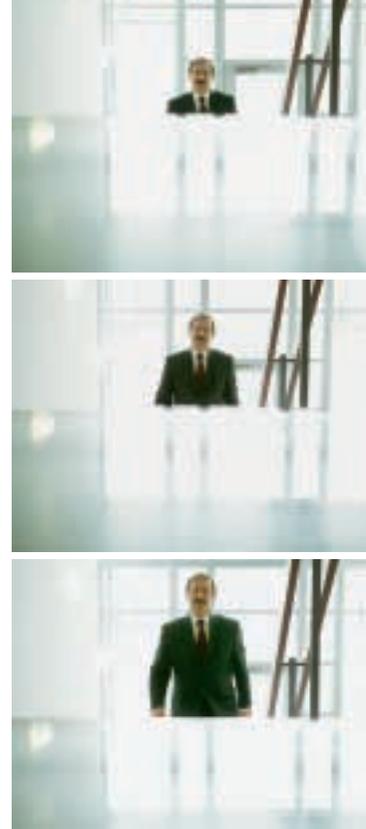
The Supervisory Board approved the financial statements of Landesbank NRW prepared by the Managing Board at its meeting on May 10, 2004 and proposes that the Guarantors' Meeting approve the financial statements for fiscal year 2003.

The Supervisory Board has taken notice of the consolidated financial statements and the Group Statement of Financial Condition of Landesbank NRW.

Düsseldorf/Münster,
May 10, 2004

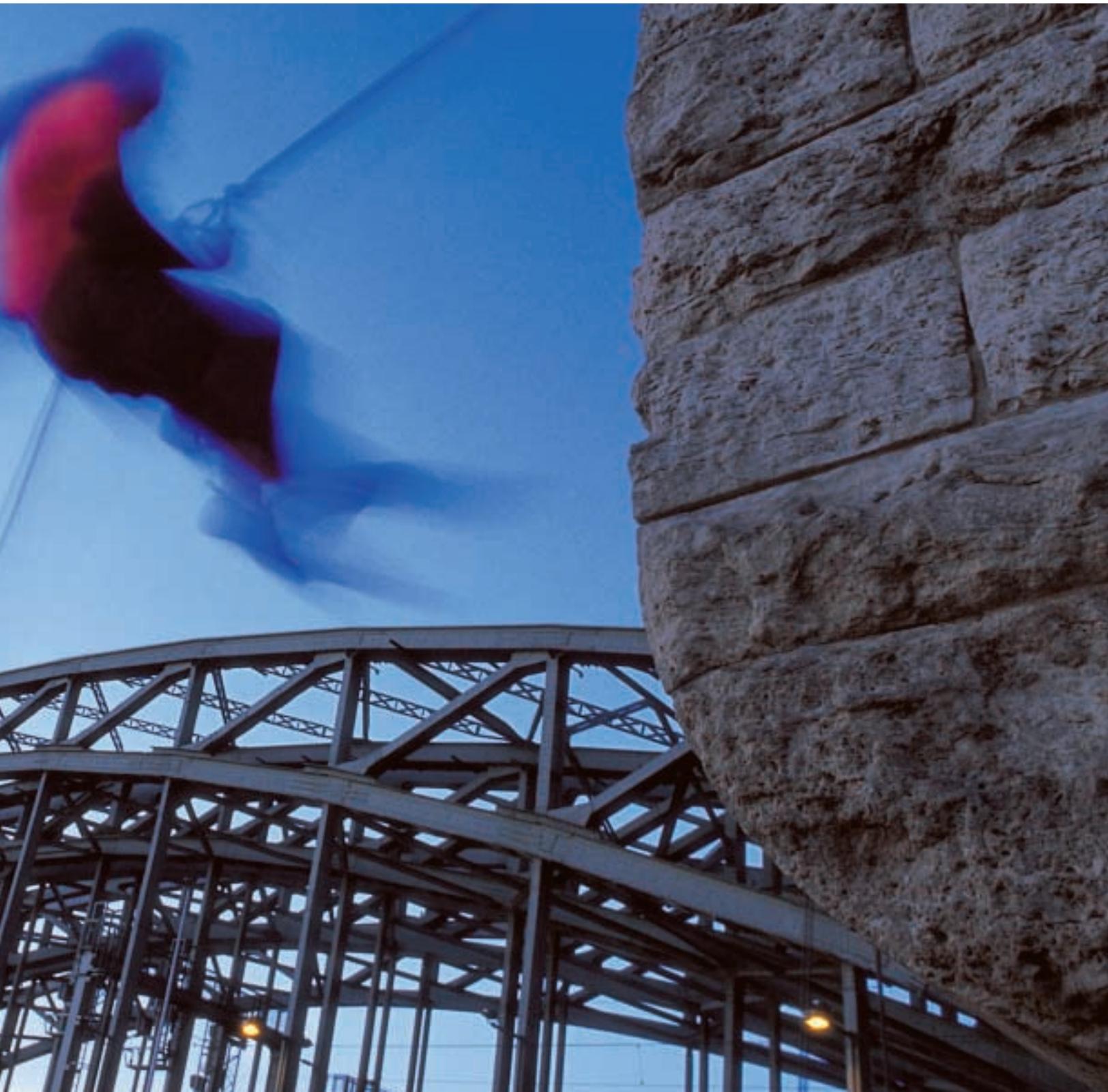


Harald Schartau
Chairman of the Supervisory Board



New Perspectives for the State and Its People: NRW.BANK





Customised Economic Development for the SME Sector





NRW.BANK supports the North Rhine-Westphalian economy in many ways. The focus of the Bank's activities is on medium-sized companies, as they are of primary importance for the federal state's economic structure. However, access to equity capital has increasingly emerged as a limiting factor for medium-sized companies' growth. This is where NRW.BANK comes in. The Bank's Economic Development and Equity Investment units are ideally placed to leverage the full range of development and equity financing tools.

INVESTITIONS-BANK NRW

In the context of the reorganisation, the former INVESTITIONS-BANK NRW (IB) was integrated into NRW.BANK's new Economic Development and Infrastructure Finance units with effect from April 1, 2004. NRW.BANK aims to make optimum use of public financing aid for North Rhine-Westphalia's economy and environment and to refine them in accordance with changing requirements. The Bank's Economic Development unit administers North Rhine-Westphalia's major development programmes, most of which are channelled through local banks. These programmes include Regional Economic Development, Business Start-up and Growth Financing and the Promotion of Environmental Protection. The Economic Development unit also pools the federal programmes of the KfW banking group (KfW) for the savings banks in North Rhine-Westphalia and Brandenburg. The unit also performs management and consulting tasks for individual projects on behalf of the State of North Rhine-Westphalia.

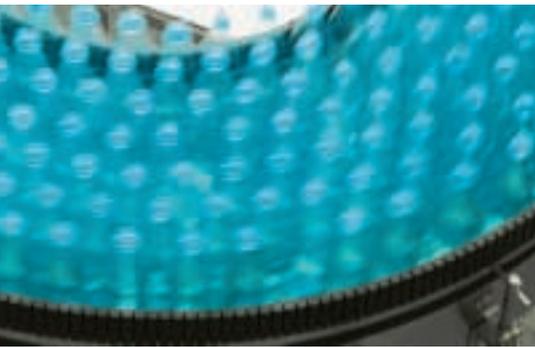
Development Business on the Increase

At € 3.1 billion, new business in the units representing the former IB was up 9% on the previous year despite the unfavourable economic environment. At just under 48,000 (+25%), the number of new credit commitments reached the 1999 record level. € 2.9 billion were accounted for by low-interest loans and € 242 million by subsidies. At € 17.6 billion, the loan portfolio remained steady at the previous year's level. Of the total, € 15.7 billion were accounted for by own loans and € 1.9 billion by trustee loans.

Changing Development Scene

Typical development instruments include subsidies, i.e. non-repayable grants and interest-subsidised loans. Subsidies are characterised by a particularly high development intensity and are therefore linked to special development conditions. They are primarily used for regional economic development, which focuses on structurally weak regions in North Rhine-Westphalia.

With public budget funds becoming increasingly scarce, extensive development using subsidies is gradually becoming impossible. Loans are therefore gaining in importance. Recent developments in the markets have shown, however, that traditional loan finance is no longer sufficient, especially for medium-sized companies.



Promoting sustainability

Lightweight thirst-quenchers – Römerwall products such as Rheinfels Quelle, Römerwall and Burgwallbronn mineral waters and Sinalco lemonade are bottled in environmentally friendly PET bottles. The company's production and bottling facilities were no longer sufficient to handle the booming sales. To finance the construction of a new production hall and warehouse as well as a new bottling plant, the company obtained a grant under the Regional Business Promotion Programme as well as a development loan from the state's IW environmental programme. This investment will help the Hövelmann company, which will celebrate its 100th anniversary together with the Sinalco brand in 2005, to expand its position in the market, while at the same time benefiting contractors and suppliers in the region.

This must be seen against the background of the historically very low equity ratios of Germany's small and medium-sized companies. These disadvantages have been aggravated by the weak economy and the fundamental changes in the financing environment.

For this reason, financing solutions comprising equity elements have been gaining in importance. Loans which include a release from liability are particularly interesting in this context. The unique factor about this type of financing is that the recipient of the development funds does not need to provide any collateral and that banks value these loans like equity capital.

NRW.BANK believes that such releases from liability provide a fast and effective contribution to improved SME funding. Together with the North Rhine-Westphalian Ministry of Labour and Economics (MWA), NRW.BANK has therefore developed promotion products for the SME sector which have a positive effect on companies' equity structures. Under the North Rhine-Westphalian "Business Start-up and Growth Financing" programme and the "Objective 2 Programme NRW (2000–2006)" of NRW and the EU, subordinated long-term bullet loans are made available at attractive terms. The special feature of these loans is that the borrower's relationship bank is fully released from liability. Most of the credit risk is borne by the State of North Rhine-Westphalia. Due to the subordination and the long term, the loan qualifies as equity. The financing scope is enlarged and existing collateral can be used to secure

other debt capital. Ultimately, the subordinated loan also has a positive effect on the rating, as it strengthens the company's economic equity.

Improving SME Access to Loans in North Rhine-Westphalia

On behalf of the North Rhine-Westphalian Finance Ministry, NRW.BANK, together with the KfW banking group and WestLB AG, has examined banks' use of asset backed securities (ABS). For this purpose, a product enabling active loan portfolio management has been devised. The reduction of existing industry concentrations and risk clusters within a bank's loan portfolio creates new lending possibilities. Apart from general questions on loan trading and securitisation, the market analysis, which covered 23 banks, also examined the feasibility aspect. Overall response to the product idea was positive. Loan trading and securitisation were of particular importance under risk aspects. Together with KfW and WestLB AG, NRW.BANK will develop an implementation strategy by next year.

Well-Founded Development Advice

In addition to processing development programmes, NRW.BANK offers well-founded development advice. This includes special customer events, mailing campaigns, in-house training, seminars and personal advice. The Bank's consultants have excellent contacts to local authorities, banks, chambers of industry and commerce, chambers of handicraft and economic development institutions. NRW.BANK's development advice builds an important



bridge between the decision-makers of development programmes and the recipients of the development funds.

Direct advice provided to new business start-ups and existing companies increased sharply in 2003. Demand for advice on complex investment projects remained high.

Employee Participation Project Office

The participation of employees as shareholders or partners is another element in the Bank's range of services for medium-sized companies. Back in September 2001, an internal project office entitled "Employee Participation" was set up on behalf of the Ministry of Labour and Economics of North Rhine-Westphalia as part of the latter's "Income of the Future" initiative. Co-financed by the European Social Fund, the project office seeks to create awareness of employee participation models by way of information events, counselling sessions and coordination services. These efforts are designed to identify potential solutions and to remove obstacles to implementation.

The project office has since presented the initiative at some 50 events, most of which were organised in conjunction with chambers of trade and industry and industry associations. Some 1,500 interested parties – mostly representing medium-sized companies from NRW – have sought information from the project office. Approximately 140 companies have taken up the offer of a free initial counselling session. The initiative has already resulted in 15 companies instituting an employee participation scheme.

The first phase of the project was concluded at year-end 2003. Interest in employee participation schemes on the part of medium-sized companies rose significantly in the two preceding years. At the beginning of 2004, the Ministry of Labour and Economics instructed NRW.BANK to continue this activity for another two years. Amongst other things, this project will focus on the question of how employee participation schemes can help solve the (equity) financing problems encountered by medium-sized companies.

A spring 2003 survey conducted by the project office identified substantial potential in this regard; the 200 or more companies which had already implemented an employee participation scheme were found to have an above-average equity capital ratio. This shows that appropriately designed employee participation schemes can make a significant contribution to company funding.





Promoting growth

When demand grows, it is time to create new jobs and tap into new sources of revenues by way of swift investment. This approach was taken in 2003 by Cologne-based Dr. Velte Golf GmbH & Co KG. The company raised a subordinated loan under the state's "Start-up and Growth Financing" programme to add a clubhouse and restaurant to its golf course. The company's relationship bank was fully released from liability.



While other federal states such as Bavaria, Baden-Württemberg and the Saarland have also been promoting employee participation schemes, no other federal state has offered medium-sized companies such a comprehensive and effective range of services as North Rhine-Westphalia.

Kapitalbeteiligungsgesellschaft NRW

On instruction by the state government, NRW.BANK raised its interest in Kapitalbeteiligungsgesellschaft für die mittelständische Wirtschaft in Nordrhein-Westfalen mbH (KBG) to 77%. The purpose of this company is to help ease medium-sized companies' equity capital problems. NRW.BANK's increased interest will enable KBG to expand its field of activity and to provide medium-sized companies with up to € 1 million in equity capital.

Environmental Promotion

Environmental promotion is an important element in the state's development and promotion activities. Handling environ-

mental promotion on behalf of the state government, NRW.BANK is committed to the principle of sustainability. Under the Ecological and Sustainable Water Management Initiative, municipal and private-sector water protection measures are supported by way of loans carrying attractive interest rates. Subsidies are available for innovative private-sector projects. On the municipal side, eligible projects include sewage modernisation, new construction and conversions, the expansion or improvement of sewage treatment facilities, cost-efficient provision of sewage systems as well as rain water collection facilities. The programme is funded from the sewage charge levied by the state environment ministry. The state's interest subsidies are combined with refinancing funds from KfW to form so-called liquidity pools supporting loans with long maturities and very favourable interest rates. As a special incentive, the State of North Rhine-Westphalia offers further improved lending terms for municipalities which are willing to bring forward planned investments or improvements.



Equity Investments

The Equity Investments unit develops equity capital solutions for all phases of a company's life-cycle. Depending on a company's individual needs, available solutions include equity investments, mezzanine financing as well as strategic advice and support in matters related to equity capital. NRW.BANK's services in this regard focus on established medium-sized companies as well as on young companies which are innovative and growth-oriented. Working in partnership with the state, investee companies, investment companies, venture capital companies and financial institutions in North Rhine-Westphalia, NRW.BANK seeks to devise equity capital solutions which integrate these partners as co-investors. The overriding goal is to activate and further develop the equity capital market in the state.

Complementing the services already on offer from other sources in North Rhine-Westphalia, the Bank's expertise and products help close gaps in this form of company funding, which continues to gain in importance.

Mittelstandsfonds NRW

On behalf of the State of North Rhine-Westphalia, NRW.BANK is currently devising the "Mittelstandsfonds NRW", a fund designed to support medium-sized companies mainly by way of mezzanine financing in the range between € 1 million and € 7 million. The target group is mainly comprised of established medium-sized companies which seek to optimally exploit their growth potential. The fund is planned to be launched in the second half of 2004.

The Equity Capital Market in NRW

Working in conjunction with the Centre for European Economic Research (ZEW), NRW.BANK has prepared a comprehensive study on the North Rhine-Westphalian equity capital market. This study provides the first-ever presentation of the demand and supply structures in the North Rhine-Westphalian equity capital market. With regard to venture capital, the study notes that the investment volumes offered in individual cases remain clearly below the volumes sought by the investee companies. The lack of suitable syndication conduits was identified as an additional obstacle to venture capital funding.



Promoting well-being

Based in Dorsten, Injoy Prisma Sports Freizeit-anlagen GmbH expanded its gym and leisure centre through the addition of a 500 square-metre wellness area. Given that Dorsten is part of NRW's designated "Ziel 2" development region, the project was eligible for funding under the "Objective 2 Programme

NRW (2000–2006)". The loan structure was particularly advantageous in that a state guarantee fully released the local relationship bank from liability.



The coming into force of the Basle II regulations may result in a further reduction in equity capital available to medium-sized companies. Given that these rules will force banks to align their lending policies with borrowers' individual risk profiles, their coming into force will lead to increased demand for equity capital on the part of medium-sized companies. The results of the study provide NRW.BANK with a sound basis for the further development, refinement and deployment of its equity financing products and services.

Advice

NRW.BANK offers comprehensive advice on all issues related to equity financing for medium-sized companies, innovative growth companies, the State of North Rhine-Westphalia and municipal companies. In its first year of business, NRW.BANK advised and supported a number of companies at different stages of their development. These advisory activities focused on the preparation and review of business plans, crisis support, management coaching and plausibility checks of start-up plans.

Equity Interests Held on Behalf of the State

NRW.BANK currently holds 26 interests on behalf of the State of North Rhine-Westphalia. Valued at approximately € 150 million, these interests are managed with a view to maintaining and enhancing the value of the portfolio.

Outlook

Going forward, NRW.BANK will work with the State of North Rhine-Westphalia to complement, expand and improve the range of development and promotion services particularly for small and medium-sized companies, focusing in particular on such equity-enhancing instruments as subordinated loans, participation capital and instruments releasing borrowers' relationship banks from liability. The portfolio of equity finance products will also be expanded. NRW.BANK aims to make its range of financing services for medium-sized companies more transparent, more well-known and more accessible.



Blueprint for Growth – Infrastructure Development

Through its Infrastructure Promotion and Equity Investments activities, NRW.BANK promotes and finances investments in North Rhine-Westphalia's infrastructure, including streets, canals, other traffic and transportation structures, energy and water supply, educational facilities, hospitals, IT and telecommunication projects. These activities are conducted in partnership with local authorities as well as with state government agencies, for example in the case of privatisations and the financing of structural projects in North Rhine-Westphalia. NRW.BANK prepares economic feasibility studies which take into account all available state promotion and development programmes. The Bank then develops equity and debt finance solutions based on these studies. NRW.BANK is unique in North Rhine-Westphalia in that it can offer all requisite services and products from a single source.

Equity and Debt Capital Solutions for Structural Projects

Our Infrastructure Promotion and Equity Investments units work together with, or alongside, other financial institutions in providing and structuring debt or equity-based finance for structural development projects.

Debt-based products include classical financing instruments such as forfaiting, project finance or structured corporate finance. One focus is on supporting public private partnership (PPP) models in the construction and civil engineering sectors.



With regard to equity-based finance, NRW.BANK offers financing solutions aligned with the respective structures of the infrastructure projects as well as advice on issues related to privatisation and PPP models. The latter have steadily gained in importance.

Trend towards Public Private Partnership Models

A modern, well-functioning infrastructure is a vital prerequisite for the economic success of a region. The coming decades will see a continued need for substantial investment in Germany's infrastructure.



Promoting innovation

Space for ideas – the BioMedizinZentrumDortmund (BMZ) offers start-ups and growth companies the possibility to rent lab and lab equipment so that they can contribute to economic progress in North Rhine-Westphalia. Located in the vicinity of Max-Planck-Institut für Molekulare Physiologie, the centre is designed to accelerate the transfer of R&D results in the fields of biotechnology and micro texture technology to the commercial sector. This has created a substantial basis for the development of advanced new technologies and new products in Dortmund. The BMZ received a grant under the Regional Infrastructure Programme.



In recent years, the federal government and its counterparts at state level have increasingly shown interest in alternative financing models involving the private sector. Public private partnership models have emerged as a possible approach to taking some of the strain off public-sector budgets.

Under a PPP model, specific services previously provided by the public sector are transferred to the private sector, which assumes responsibility both for the initial construction and the future operation of a public asset. Under such a model, the private-sector operator is responsible for the construction, the financing and the operation within the framework of previously agreed targets and profit levels.

For obvious reasons, the public sector expects a PPP model to result in lower costs compared to a budget-financed project. Accordingly, the cost advantages achieved through the private sector operator's more efficient project planning and implementation must not be absorbed by high financing costs. It follows that successful PPP models require a balanced distribution of risks between both parties.

The State of North Rhine-Westphalia has installed a task force for the development of PPP models. Attached to the state ministry of finance, this task force is developing a PPP strategy for North Rhine-Westphalia. The task force pools PPP expertise, advises public-sector authorities interested in developing such innovative business models and identifies suitable pilot projects.

This expectation is borne out by a recent study by the Deutsches Institut für Urbanistik, according to which local authorities will have to invest approximately € 686 billion by the year 2009. In North Rhine-Westphalia, too, infrastructure investment helps secure the future of the economy.

However, strained public budgets have increasingly become a limiting factor to infrastructure investment. This situation calls for innovative ways of procuring funds through intelligent financing solutions which are helpful in mastering the challenges that lie ahead.



Promoting infrastructure

200 acres of land at the heart of Europe - the former site of the Krupp-Hoesch iron works in Duisburg-Rheinhausen is being converted into an estate for European logistics companies. A substantial subsidy was funded from state, federal and EU promotion funding sources within the Regional Infrastructure Programme, which also allows for the promotion of such large-scale projects.

Advice and Finance

NRW.BANK will gladly become involved at the very early stages of a project, offering comprehensive advice on general strategy, on managing the bidding process and on optimising the structure of the project contract. NRW.BANK seeks to build bridges between the public sector and the private sector by ensuring the best possible distribution of risks between the two sides.

At the same time, NRW.BANK supports the state in all PPP-related issues and is instrumental in drafting guidelines designed to balance the public and private interests. In doing so, NRW.BANK contributes towards North Rhine-Westphalia's goal of becoming the leading German state in terms of PPP methodology and application.

NRW.BANK also partners with state and local government when it comes to implementing privatisation programmes. Government agencies in North Rhine-Westphalia can avail themselves of the Bank's comprehensive financing expertise.





“Regional Business Promotion”

The State of North Rhine-Westphalia’s “Regional Business Promotion” programme is administered by NRW.BANK’s Infrastructure Financing unit. The purpose of this programme is to provide investment grants for infrastructure measures in eligible regions of North Rhine-Westphalia. In 2003, the former INVESTITIONS-BANK NRW committed € 129 million in funds to local authorities and their umbrella organisations as well as to non-profit entities. Many of these grants went towards major projects, including a technology centre in Westphalia which received a grant for the construction of a biomedical centre designed to facilitate the foundation of biomedical start-up companies.

Outlook

The coming years will see NRW.BANK structure an increasing number of PPP transactions in North-Rhine Westphalia. The PPP task force attached to the North Rhine-Westphalian Finance Ministry has already identified several pilot projects which are to be implemented successively. These include the PPP-based construction and operation of a correctional centre as well as a number of municipal projects such as the refurbishment of schools and administrative buildings.

Social Responsibility in the Housing Market – Housing Promotion



NRW.BANK 's Wohnungsbauförderungsanstalt (Wfa) unit is a key instrument of North Rhine-Westphalia's housing policy. The objective of social housing promotion is to provide low-interest loans enabling low-income households to become homeowners and to ensure an appropriate



housing supply to this section of the population. Acting on behalf of the state government, Wfa administers the public promotion programmes for the housing sector. This includes the disbursement and management of loans, subsidies and guarantees. In addition, Wfa prepares regular reports on current developments in the North Rhine-Westphalian housing markets. These reports are based on Wfa's constant monitoring of these markets.

Administration of Promotion Programmes

In 2003, promotion funds were committed to new construction projects involving a total of 15,057 new residential units as well as to investments in existing housing stock involving 1,576 flats. While the record level of the past year was not quite matched, the number of newly constructed residential units was 12% higher than originally planned.

The promotion of owner-occupied housing was particularly successful, rising to 10,937 units, i.e. by 22% compared to the previous year. It is worth noting that new construction and first-time purchases of owner-occupied housing rose by 15% to 8,113 units. This special trend was driven above all by the public debate surrounding the scaling down or phasing out of the home ownership subsidy, resulting in many grant recipients bringing their property purchases forward in order to remain eligible for the more favourable 2003 subsidy terms.

The promotion of purchases of existing residences also showed a significant upward trend, with the number of residences involved rising to 2,824, up 48% compared to the previous year. This trend is mainly the result of the coming into force of the German Housing Promotion Act (WoFG) in 2002 and the resulting state-level regulations adopted by North Rhine-Westphalia, which eliminated the distinction previously made between purchases of existing residential property and purchases/construction of new residential property.

In contrast, promotion commitments to developers of rented flats and housing associations declined by 38% to 3,521, while improvement and refurbishing activities were down 23% to 1,576 units.

All told, more than € 1 billion in funds were committed under the various promotion programmes, which was only 2.1% below the previous year's level. The total investment volume triggered by these promotion funds amounts to approximately € 2.9 billion.

Promoting quality of life

A sense of togetherness – families and single-parent households, singles and pensioners all live together in the multi-generational house in downtown Hückelhoven. Architektur Galerie Greven, a local firm of architects, created 116 residential units in three wings enclosing an interior yard. The residential units are designed to accommodate tenants of all ages. The green interior yard serves both as a children's playground and as a communal meeting place.





Promoting self-determination

Barrier-free living – this newly-built residence in Wetter comprises 10 completely barrier-free flats which allow pensioners to live self-determined lives while benefiting from communal living at the same time. Communal spaces as well as underground parking are also provided. Planned by the architect Ralf Hippenstiel, the residence was built by Wohnstättengenossenschaft Wetter eG.

Development of State Housing Assets

Promotion funds in excess of € 1.1 billion were disbursed under the 2003 programmes and the previous years' programmes. At the same time, Wfa received € 1.1 billion in interest payments, principal repayments and administrative cost contributions. At year-end, Wfa's portfolio comprised just under 400,000 loan accounts representing a total loan volume of € 24,538 million, which was € 66 million below the level at year-end 2002. The value of the state housing assets rose by 2% to € 17,969 million. The balance sheet total remained almost steady at € 21.7 billion.

Monitoring the Housing Market

For several years Wfa has successfully monitored the housing market both at the state level and at the municipal level. In addition to the state-wide report, Wfa this year presented in-depth analyses of three selected regions, namely Paderborn, the Eastern Ruhr and Düsseldorf and the Lower Rhine. The results of these sample studies revealed a number of significant differences both between and within these regions. The study thus highlighted the need for a differentiated view to be taken of individual regions and municipalities when it comes to drafting housing policy and taking investment decisions for the North Rhine-Westphalian housing market.

2003 also saw the launch of a trial project entitled "Regionale Wohnungsmarktbeobachtung östliches Ruhrgebiet" ("Monitoring of the Housing Market in the Eastern Ruhr"). This project aims to provide a clearer view of the ongoing convergence between the individual municipalities in the Eastern Ruhr region and their implications for the housing market. Benefiting from Wfa's organisational support and expertise, the 20 municipalities are expected to publish their first regional housing market report in autumn 2004.

At year-end 2003, five new members of the "Initiativkreis Kommunale Wohnungsmarktbeobachtung" presented their first local housing market monitoring reports. This presentation was preceded by a year-long phase during which the five municipalities benefited from expert support provided by Wfa.

Advice and Services

Being the centre of competence for the North Rhine-Westphalian housing market, Wfa is ideally placed to provide a wide range of expert services. Wfa advises the Ministry of Urban Development and Housing, Culture and Sport on the development and design of promotion tasks and processes, while at the same time organising seminars and workshops



for the government agencies and financial institutions in charge of funding approval. Extensive advice is provided on a wide range of housing promotion-related issues. Within the framework of the municipal housing market monitoring, municipalities are supported in the development and implementation of their local monitoring resources and methodologies.

Wfa regularly publishes literature on current trends in the North Rhine-Westphalian housing markets as well as in the funded and rent-controlled housing stock.

In addition to these traditional service channels, Wfa has developed a web-based "Interactive Housing Promotion Advisor". Prospective homebuyers can go to NRW.BANK's website to check their

eligibility for an owner-occupied housing grant and even obtain a first (non-committal) indication of the likely level of funding available to them.

Outlook

The 2004 housing promotion programme will be funded with approximately € 1 billion, i.e. on par with the previous year's level. The changing patterns of demand as well as the different developments between regions may lead to shifts between the funding segments (rented vs. owner-occupied, newly-built vs. existing stock). In response to the demographic development, an additional funding option has been created to allow for the promotion of new forms of living for the elderly as well as for people requiring long-term care.



Partnering with Local Authorities – Municipal Finance



Promoting local improvements

NRW.BANK supports the Emscher and Lippe river management associations in the completion of their mission, which includes sewage treatment, flood protection and river maintenance. In 2003 loans amounting to € 106 million were raised to fund the modernisation of sewage plants. This way NRW.BANK made a significant contribution to keeping the state's inland waterways clean and restoring their natural beauty. These activities also help to raise the recreational value of the tributaries to the Emscher.

NRW.BANK's remit includes supporting the funding and debt issuance efforts of the municipalities in North Rhine-Westphalia. This task is handled by the Bank's Capital Markets unit.

An Important Player in the Municipal Finance Market

The Bank already had a strong presence in the area of state and municipal finance in 2003, i.e. one year prior to its foundation as a development institution. Accounting for approximately € 35 billion or roughly one third of total assets, German state and municipal loans represented a substantial field of business for the Bank. Including the indirect municipal finance activities handled through the local savings banks, this figure even rises to € 45 billion.

2003 also saw NRW.BANK establish itself as an important player in direct municipal finance. As a result, significant parts of the interest rate adjustments were held within the portfolio during the course of the year. At the same time, direct loans extended to German municipalities rose to a volume of € 11 billion.

NRW.BANK's share of the German municipal finance market continued to expand as the year progressed, benefiting from cooperation with banks, savings banks and other intermediaries as well as from NRW.BANK's presence on "ekommunen", a web-based platform.



Innovative Solutions

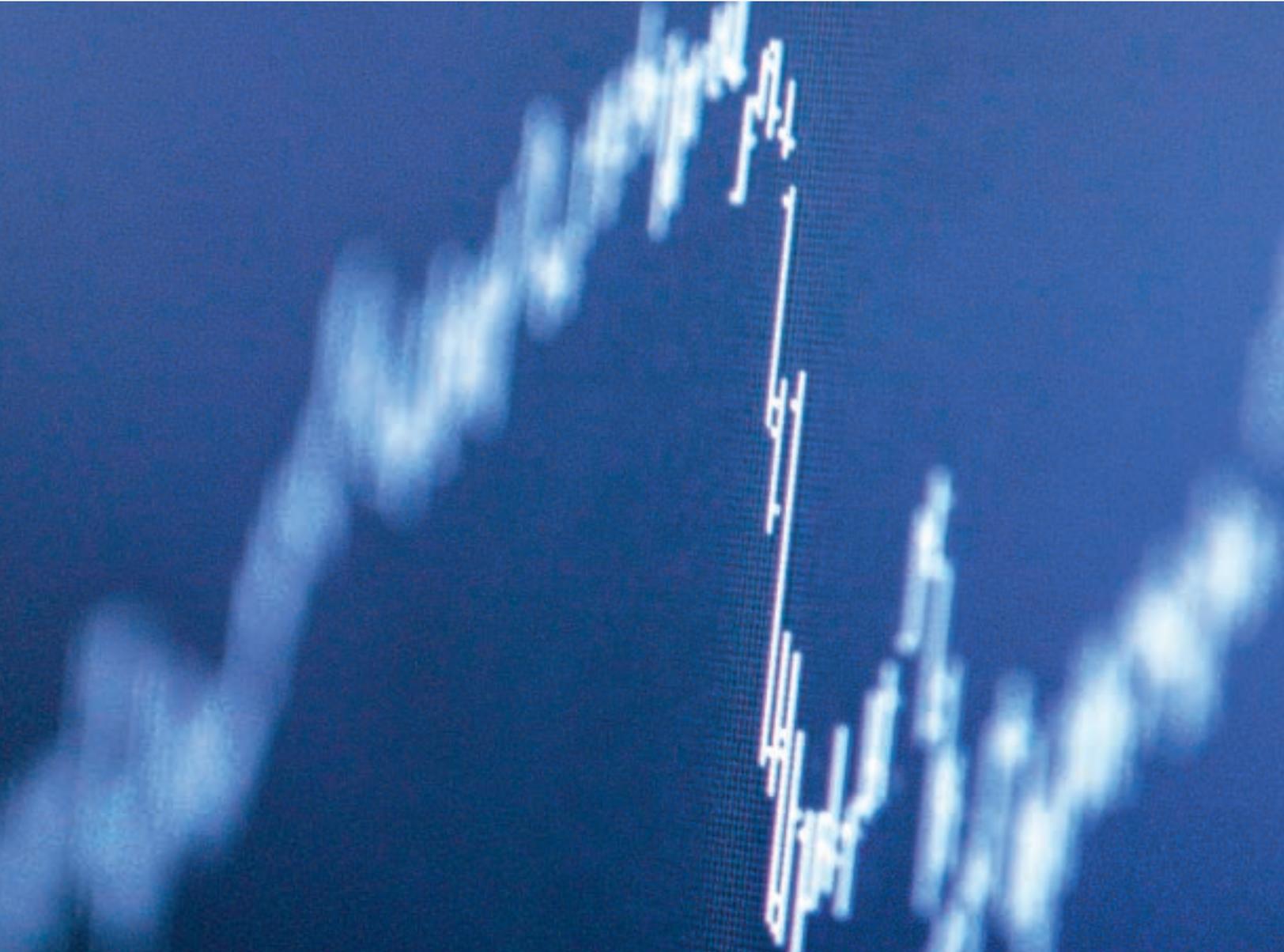
Integration with the Capital Markets unit allows for a fast, market-driven and flexible response to incoming inquiries. In 2003 the Bank leveraged a combination of fixed and variable structures to make inroads into the derivatives markets. NRW.BANK's activities are instrumental in further developing the German municipal finance market. This is also apparent from the increasing number of capital market-oriented quotations for municipal financing instruments. Apart from the actual financing, NRW.BANK offers support in all issues related to liquidity and interest rate management both with regard to new issues and existing debt programmes.

Outlook

The state and municipal finance business is of strategic importance for NRW.BANK, whose direct municipal finance activities focus on North Rhine-Westphalian municipalities. In addition, NRW.BANK traditionally serves the financing needs of the federal government and other state governments in Germany.



Capital Market Expertise – Treasury





The remit of the Capital Markets unit also includes asset/liability management, funding and Treasury, which handle the cash management of the Bank and ensure compliance with the regulatory Principle II and minimum reserve requirements. The Treasury unit is also in charge of managing the portfolio of NRW.BANK.

Success in Public-Sector Pfandbrief Business

In 2003 NRW.BANK funded its operations primarily through the issue of covered bonds. The Bank exclusively issued public-sector Pfandbriefe and was highly successful in this segment of the capital market. These securities continue to enjoy great popularity among investors, particularly due to their inherent security. Public-sector Pfandbriefe are at least 100% collateralised by receivables from municipalities or other regional governments. The excellent quality of NRW.BANK's public-sector Pfandbriefe is confirmed by the AAA ratings assigned by the rating agencies.

NRW.BANK capitalised on the favourable capital market environment by issuing four Jumbo Pfandbriefe. At the same time, the bulk of the issues continued to be accounted for by traditional Pfandbriefe characterised by lower volumes and more flexible structures. NRW.BANK's management of its outstanding issues ensures an appropriate liquidity in the market at all times.

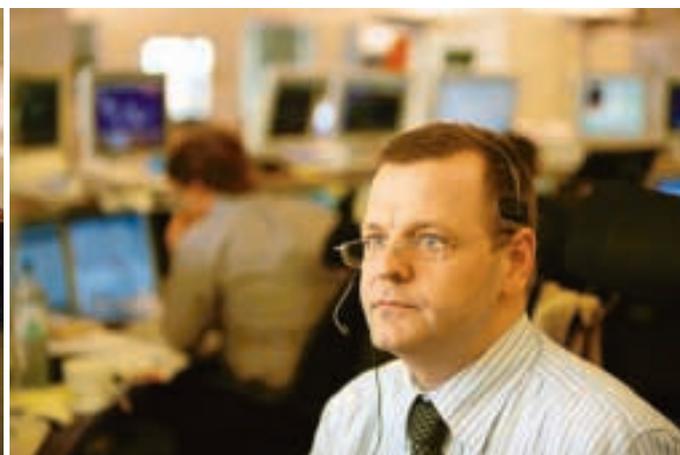
Bearer Bonds and Registered Securities

In addition the Bank increasingly issued uncovered debentures which are not secured by an underlying asset pool but are instead guaranteed by the issuer. 2003 saw NRW.BANK attract new investors and diversify its issuance into other currencies, as was illustrated by a SF 500 million issue.

NRW.BANK also issued registered securities and Schuldscheindarlehen both in covered and uncovered form.

In 2003 NRW.BANK's gross issuance volume amounted to € 31.5 billion and the average maturity was slightly over 4 years. The total issuance breaks down into 14% Jumbo Pfandbriefe, 33% traditional Pfandbriefe and 16% bearer bonds. Secured registered bonds and unsecured bonds amounted to 14% and 23%, respectively. NRW.BANK's total outstanding issuance amounts to a good € 80 billion.

The capital market portfolio makes a substantial contribution to supporting NRW.BANK's development mission in North Rhine-Westphalia.

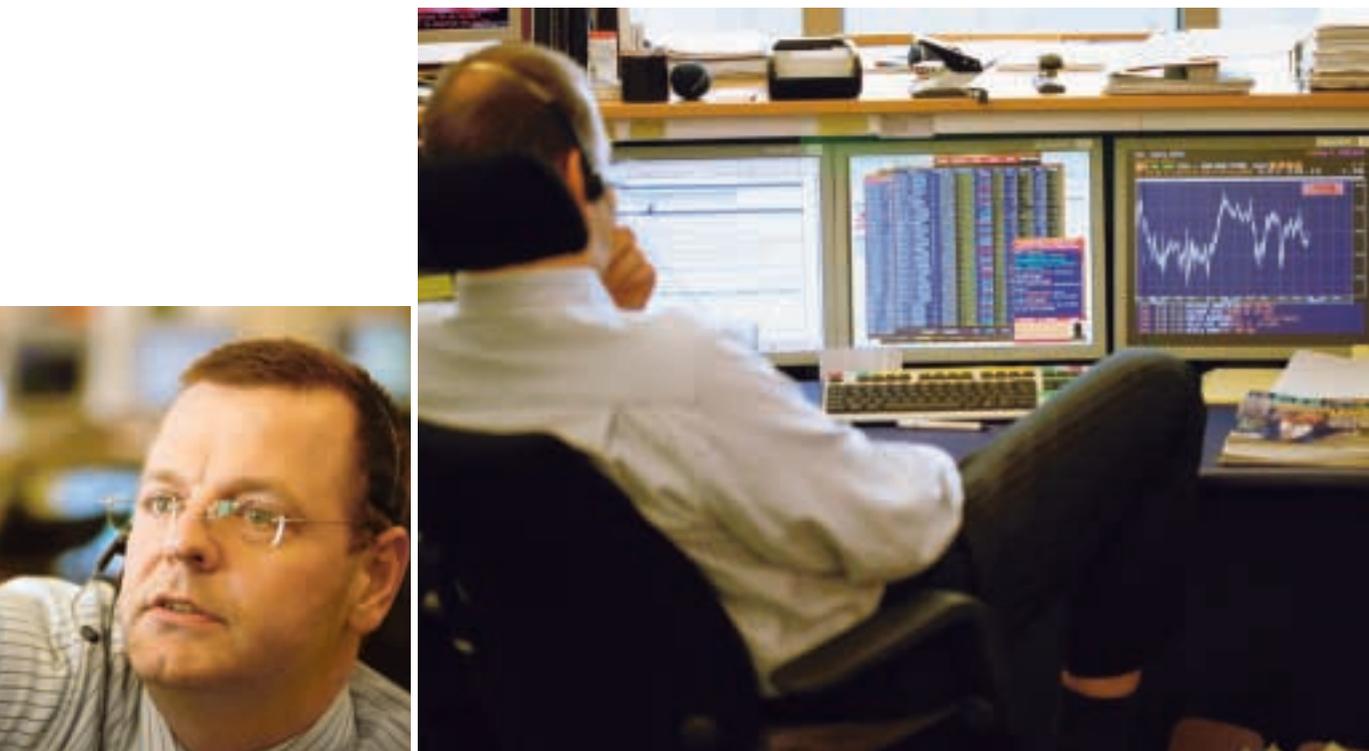


Outlook

2004 will see a significant change in NRW.BANK's funding activities. The newly acquired status of a development bank dictates a shift away from Pfandbrief issuance, given that the guarantors' explicit guarantee facilitates the issuance of unsecured bonds. This guarantee provides the basis for a solvency weighting of "zero", meaning that financial institutions are not required to back their claims against NRW.BANK with liable capital.

The Investor Relations department set up in 2003 plays a key role in communicating these new developments to the financial

markets. The objective is to establish NRW.BANK as a brand in the minds of new groups of investors in order to secure favourable funding conditions for NRW.BANK on a sustainable basis.

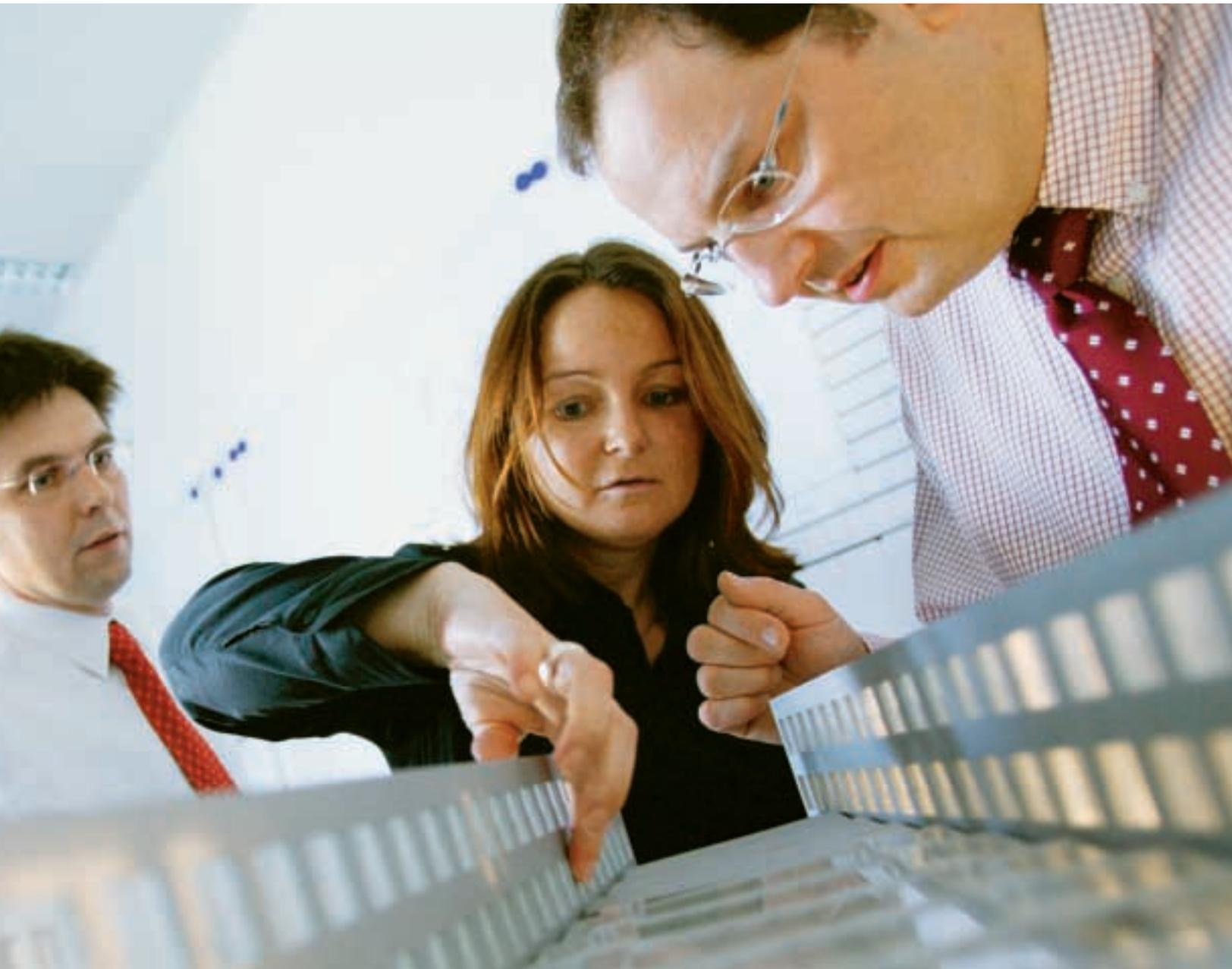


Steering a New Course





Planning and Shaping the Future – Internal Services





NRW.BANK's internal services are in charge of shaping and performing all internal processes while at the same time ensuring compliance with statutory and legal requirements. The year 2003 confronted many internal service units with comprehensive projects such as the Bank's evolution into a development bank under the "Verständigung II" agreement as well as the planning of the buildings and facilities for the dual head offices in Düsseldorf and Münster.

The following chapter offers some insight into the activities of several internal service units.

Finance/Controlling/Bank Taxation

Following the successful implementation of all accounting-specific and regulatory functions, 2003 saw the unit concentrate on conceptual and project-related issues. In particular, the unit led the Bank's IAS/IFRS project and was involved in the Basle II/ minimum lending requirements (MaK) projects as well as in the project dealing with the replacement of the securities settlement system. The IAS/IFRS project, in particular, required effective cooperation with numerous other units in order to prepare specific accounting concepts for all units affected. Thanks to this effort, the Bank will be able to comply with the IAS/IFRS requirements both in terms of accounting practice and in terms of its technical systems on schedule, i.e. from 2005 onwards.

Risk Controlling

Efficient and forward-looking risk controlling is a key function at NRW.BANK.

The unit is in charge of managing the Bank's entire risk potential which is broken down by business units and risk types.

Risks are controlled through the allocation and monitoring of risk limits, the ongoing analysis of the Bank's risk positions and the implementation of the risk management guidelines and recommendations issued by supervisory authorities. Risk positions are subject to daily reappraisal particularly in the case of counterparty default risks and market price risks. The underlying assumptions are regularly reviewed and adjusted in the light of market developments.

All risk management functions report to the same member of the Managing Board. This organisational set-up facilitates the networking of all risk information and allows for an early response to any changes in the relevant risk profiles. Working in close conjunction with the Credit Management unit and the other units of NRW.BANK, the Risk Controlling unit constantly works on the further development of unified systems for risk analysis and risk limit management. The Risk Controlling unit also plays an important role in the introduction of new products, developing risk measurement processes, accounting procedures and risk management processes in conjunction with the respective units. All such new processes are subject to approval by the Risk Controlling unit before they are deployed and integrated into the existing risk limit structures.



The Risk Controlling unit is in charge of ensuring the implementation of the requirements under Basle II as well as under MaK (minimum requirements to be met by financial institutions).

The Back Office monitors the operating business primarily with regard to the timely settlement of capital market transactions while at the same time being responsible for compliance with all relevant supervisory requirements. The Back Office sees itself as a central platform serving internal and external customers across the entire settlement process.

Credit Management

Credit Management is an independent risk assessment unit attached to the back office. 2003 saw the unit work on such projects as the implementation of requirements under Basle II and MaK. The latter, in particular, serve to limit the credit risks and are therefore reflected in appropriate organisational structures of the lending business, in the use of risk classification processes and in the identification, management and monitoring of risks in the credit business. Due to the high quality of its risk appraisals, the Credit Management unit plays an important role as a link between the market units and the Risk Controlling unit.

Internal Audit

The key task of this unit is to audit all operational and business processes within NRW.BANK. Building on its cross-disciplinary expertise as well as on its independent status within the organisation, the unit also supported a number of significant projects and commented on various banking-related issues during 2003. In mid-2003, the unit introduced an IT tool which automates the documentation of audit findings, providing a continuous Bank-wide overview of the progress made in the rectification of such findings.

Legal/Compliance/Anti-Money Laundering

This unit advises the Bank's owners, the Managing Board and the individual units of the Bank in legal issues of every type. The Compliance Office, anti-money laundering and Data protection also fall within its remit. Essential tasks in 2003 included advising an legislation in connection with the restructuring of NRW.BANK into the State of North Rhine-Westphalia's development bank, as part of which the Bank's legal framework was aligned with the requirements defined in the "Verständigung II" agreement. The unit was also instrumental in the drafting of the new institutional charter of NRW.BANK which came into force on March 31, 2004, concurrently with the "Act on the Reorganisation of Landesbank Nordrhein-Westfalen



into the Development Bank of the State of North Rhine-Westphalia and on the Amendment of Other Laws”.

Office of the Managing Board

This unit supports the work of the Managing Board. Essential tasks in 2003 included the conceptual planning in the context of the implementation of the “Verständigung II” agreement. Working in close conjunction with the Legal unit, the Executive Services unit assisted in the restructuring of the Bank. The Marketing unit developed the Bank’s new name and led the implementation at the operational level. The unit is also in charge of the ongoing development of NRW.BANK’s website (www.nrwbank.de) into a sales channel. The Press and Communications unit is in charge of communicating all related changes both internally and externally.

IT, Organisation and Internal Services

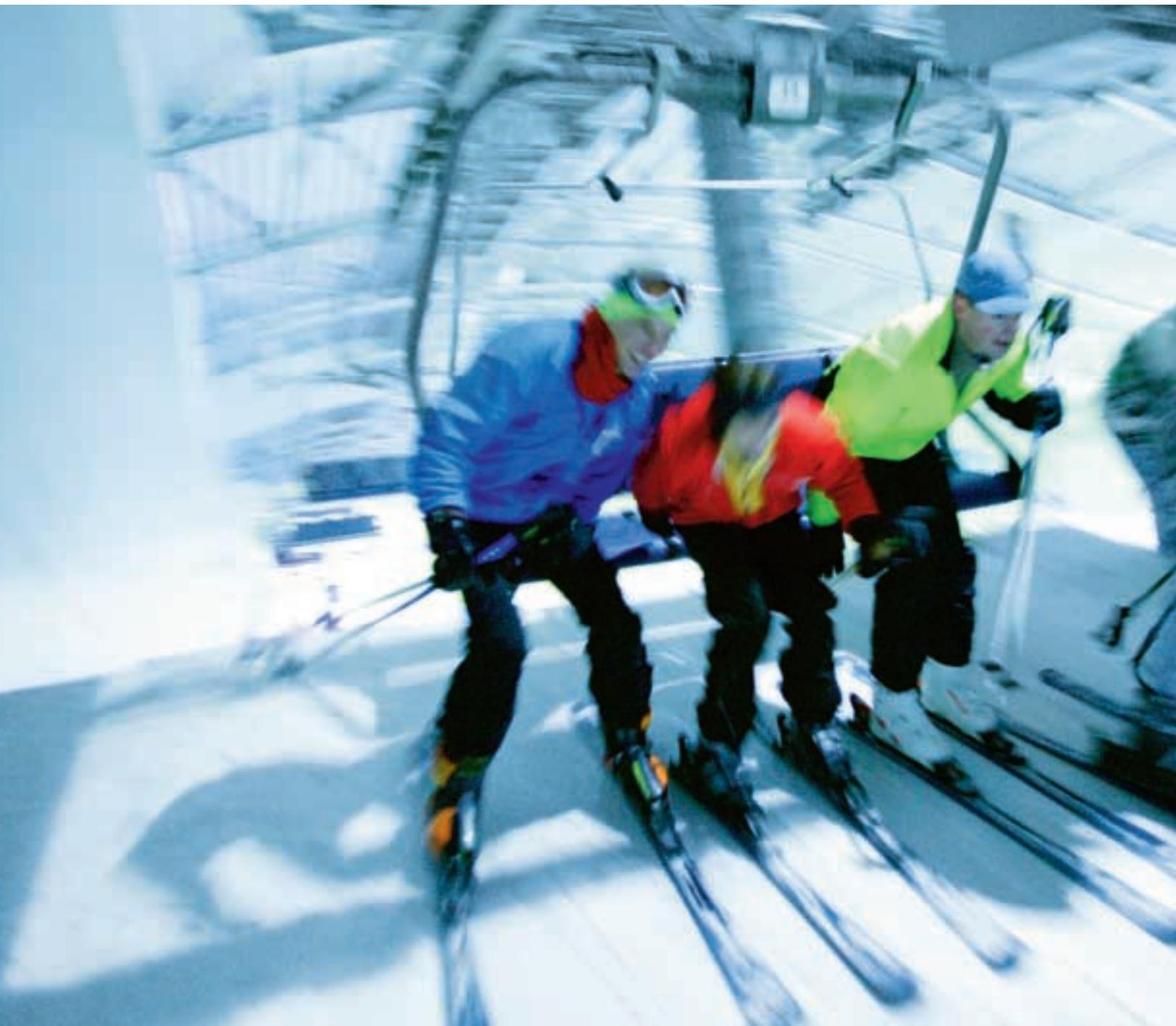
In the course of last year, NRW.BANK reviewed the organisational structures taken over from the former Westdeutsche Landesbank Girozentrale at the time of incorporation on August 1, 2002. During 2003 these structures were aligned with the objectives and requirements of a development bank. These changes centred around the question of how the sales structures could be optimised while at the same time ensuring more extensive advice and support for the Bank’s clients. The new organisational structure implemented on April 1, 2004 was devised in close conjunction with the Managing Board and the units handling the development and promotion activities.

To operate efficiently, a bank needs efficient structures. Short lines of communication as well as direct contacts between employees are an important prerequisite for such structures. The Bank’s dual head offices in Düsseldorf and Münster are currently spread over three buildings. It has therefore been decided to pool the Düsseldorf and Münster offices into a single building each. In 2003 the Bank selected the locations for these centralised head offices. In Düsseldorf, NRW.BANK will be the sole tenant of the building which has still to be constructed; the move is scheduled for 2006. The building in Münster has still to be refurbished and will be ready for occupation from 2006. An internal project structure has been instituted to monitor and manage these property projects.

While the IT systems taken over from the former Westdeutsche Landesbank Girozentrale largely cover NRW.BANK’s business needs, they are too comprehensive and expensive for a compact development bank such as NRW.BANK. In 2003 the Bank adopted an IT strategy which will reduce the complexity of its IT environment, entailing a medium to long-term reduction in IT expenses. At the same time, the new IT structure takes the new legal requirements under IAS/IFRS and Basle II into account.

Substantial savings were already initiated in 2003 through insourcing of previously outsourced services, newly tendered contracts and changes of suppliers as well as through the internal optimisation of processes at NRW.BANK.

Performance and Responsibility – Staff Report



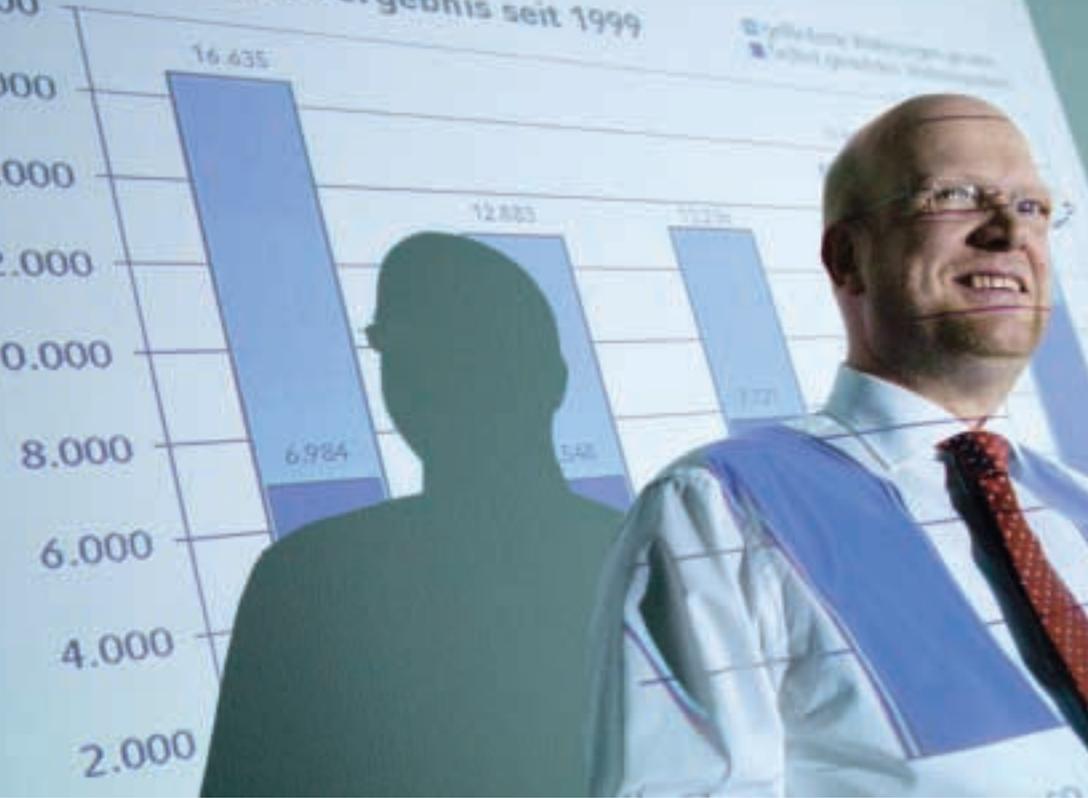


The transformation of NRW.BANK into the State of North Rhine-Westphalia's development bank entails a number of changes both in terms of its organisational structure and its human resources management. The most important objective is to promote employees' performance and their readiness to assume responsibilities. A number of important prerequisites were put in place in 2003.

Going forward, NRW.BANK will reward its employees' dedication and commitment more individually by way of a transparent, performance-oriented and flexible remuneration system both at the collectively agreed and at the individually agreed level.

A newly introduced working time model called EVA (a German acronym for "self-managed working time") has eliminated the need for central recording and administration. Responsibility for working time-related issues now lies directly with the employees themselves and their superiors.

2004 will see the introduction of the "flexible staffing structure" at the collectively agreed level. This new staffing structure is designed to strengthen executive responsibility and promote employees' performance orientation. It facilitates the alignment of individual positions with organisational, environmental and product-related changes, enabling not only a swifter and more flexible response to such changes but also a compensation



which more appropriately reflects the nature of the tasks involved in a given position as well as the employee's actual performance.

Qualification and Development

NRW.BANK sees the transformation into a development bank as well as the resulting changes within the organisation and its human resources as an opportunity for the personal and professional development of its workforce. The Bank's employees benefit from professional qualification measures as well as from training measures specifically devised to prepare them for changes in their working environment. The development and promotion of junior staff is also included in this range of activities.

These and other measures have been compiled into an overall human resources development concept which will be specified in more detail in the course of 2004.

Promotion of Women

The Promotion Plan for Women adopted in 2003 aims to strengthen equal opportunities and to achieve a balanced distribution of

women across all salary levels, management tiers and age brackets. The plan provides for appropriate use of equal opportunity appointment policies and personnel development tools. In addition, the Bank maintains a number of "family-friendly" programmes designed to help employees reconcile the demands of working life and family life. These include flexible working time arrangements and supporting child care services.

Developing Junior Staff

NRW.BANK's first intake of trainees and apprentices began their traineeships in Düsseldorf on September 1, 2003. Seven young people are being trained as office communication specialists in the field of banking and as "Betriebswirt BA" specialists. The latter career path is part of an integrated course combining practical in-house training with college attendance. 2004 will see the launch of the same courses in Münster as well as the addition of IT apprenticeships.



Two university graduates are currently completing a trainee programme which enables them to familiarise themselves with NRW.BANK's internal process chains from market, back office and service units. Starting in 2004, this form of qualification will be increasingly offered to internal employees as well.

Staff Numbers

The staffing of NRW.BANK is now largely completed, with the total headcount rising by 102 to 862 during the year under review. 28 IT staff were hired at the Münster office effective January 1, 2004.

The female share in the total workforce is 51%. At the second management level, five female and eight male executives report directly to the Managing Board.

NRW.BANK will continue to hire new employees, attaching great importance to recruiting both experienced specialists and qualified junior employees. The Bank's

recruitment efforts build on its intensive contacts with selected academic chairs in North Rhine-Westphalia and benefit from the use of state-of-the-art communication media.

Acknowledgement

We would like to thank our employees in Düsseldorf and Münster for their special commitment and achievements. Our thanks also extend to the members of the staff council for their constructive cooperation in an atmosphere of mutual trust.

Active employees of Landesbank NRW as at December 31, 2003	
– Düsseldorf	862
– Münster	576
– Male/female staff (in %)	286
	49/51

Annual Accounts 2003





Management Report

of Landesbank Nordrhein-Westfalen at December 31, 2003

Landesbank NRW: The Infrastructure and Economic Development Bank of the State of North Rhine-Westphalia

On March 31, 2004, Landesbank Nordrhein-Westfalen will become NRW.BANK. The name change reflects the Bank's ongoing transformation into a non-competitively-oriented infrastructure and economic development bank for the State of North Rhine-Westphalia.

With the owners' cooperation, and in close concert with the European Commission, the Managing Board has worked to make the most of the terms allowed under European law for legally autonomous banks that support economic development. The groundwork for this evolution has been laid out in the "Act to Restructure Landesbank Nordrhein-Westfalen as the Economic Development Bank of the State of North Rhine-Westphalia, and to Amend other Laws" (the "Restructuring Act", or Umstrukturierungsgesetz), which was adopted on its second reading in the lower house of the North Rhine-Westphalian state legislature on March 11, 2004.

NRW.BANK will have the legal status of an infrastructure and economic development bank that does not engage in competition. It will work through borrower's banks, and retain institutional and guarantor liability under what is known as "Understanding II"

of March 1, 2002, between the Federal Republic of Germany and the European Commission. It will also have an explicit refinancing guarantee under § 4 (3) of the new Act. Consequently, securities issued by NRW.BANK will have a solvency weighting of zero, meaning that NRW.BANK's creditor banks do not have to back their lendings to it with liable equity. NRW.BANK will employ the resulting refinancing advantages for the benefit of recipients of assistance in North Rhine-Westphalia.

The new name NRW.BANK highlights the distinction against competitively oriented state banks in the Landesbank form. The Bank was established as Landesbank Nordrhein-Westfalen when the former Westdeutsche Landesbank Girozentrale was split up into two legally independent financial institutions on August 1, 2002. The new structure draws a clear line between the commercial business (WestLB AG, which operates under private law) and public sector operations (Landesbank NRW, which operates under public law). Under a parent-subsidiary model, WestLB AG became a wholly owned subsidiary of Landesbank NRW. Landesbank NRW has its registered offices in Düsseldorf and Münster.

Landesbank NRW's guarantors (owners) are the State of North Rhine-Westphalia (43.2%), the Savings Banks and Giro Associations of the Rhineland and of Westphalia-Lippe

(16.7% each) and the Regional Associations of the Rhineland and Westphalia-Lippe (11.7% each).

The parent-subsidiary model developed by Westdeutsche Landesbank Girozentrale in autumn 2001 took account of what is known as “Understanding I”, reached between the Federal Republic of Germany and the European Commission on July 17, 2001. That understanding covers the gradual elimination of institutional and guarantor liability for public-sector banks that engage in commercial business in Germany. The Commission had insisted that the traditional liability system must be eliminated for such banks if they compete.

Understanding I stipulates that banks can still be structured as public-law banks. But institutional and guarantor liability will be eliminated after a transition period that ends on July 18, 2005. The new liability structures will be more akin to the relationship between a private shareholder and a corporation organised under private law.

The rules and transitional periods set forth in Understanding I 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, this means that there will be no changes for liabilities assumed before July 18, 2001 (i.e. these claims are grandfathered in).

Institutional liability and guarantor liability will remain in effect in their present form during the transitional period 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 no later than December 31, 2015.

Because of the timing of the process for developing the parent-subsidiary structure, originally Landesbank NRW and WestLB AG were both subject to Understanding I, even though at that point Landesbank NRW’s articles and bylaws already forbade it from competing directly with other banks.

In a later agreement from March 1, 2002 – the “Understanding II” already mentioned above – the Commission established rules for legally independent banks that do not engage in competition and whose business focuses on infrastructure and economic development. The traditional liability mechanisms remain in place for these banks. The advantages the banks reap from these guarantees must be used solely for defined developmental measures. In the case of NRW.BANK, these fall within the

Bank's core competencies of sustainable economic development, infrastructure development, development of publicly funded housing, and public-sector financing. Additionally, these duties must be specified by law no later than March 31, 2004. Among the lines of business transferred to Landesbank NRW as part of the division of WestLB GZ, private real-estate financing is a competitive business. NRW.BANK will have to shed this operation by July 18, 2005. The portfolio in question is valued at roughly € 2 billion. Moreover, NRW.BANK will no longer be able to issue mortgage bonds (Pfandbriefe). The Bank is reviewing whether any other operations must be terminated or spun off, and to what extent.

Landesbank NRW is already an indispensable player in the region's economic development. As a bank for regional economic development and a state bank, it handles the local programmes for all banking groups. Slightly less than 40% of the federal support provided through the KfW bank group goes to North Rhine-Westphalia. Here Landesbank NRW performs its assigned duties as a central savings bank. In housing construction, the Wohnungsbauförderungsanstalt (Wfa) business unit is the only direct provider of state support in North Rhine-Westphalia. Wfa is involved with some 22% of all residential units completed in North Rhine-Westphalia.

Economic Climate

Despite signs of impending improvement, economic conditions in Germany were generally sluggish in 2003. Real gross domestic product (GDP) decreased for the first time since 1993 – albeit only slightly, by 0.1%. Unemployment gained 0.7 percentage points, to average 10.5% for the year. The primary causes behind the situation were adverse conditions external to the economy itself. Foreign trade was slowed by anxieties about the war in Iraq, and by the rising euro. Nor did domestic demand furnish any new impetus for the economy. Disposable income rose only slightly, while German households remained intent on saving, not least because of nagging doubts about the future of the country's social insurance systems. Business's expectations were also gloomy, and capital expenditures receded further.

Beginning in mid-2003 – for the first time in three years – there were increasing signs of a revival in economic activity. The foreign-trade crises of the first half were past, exports accelerated – especially thanks to strong demand from the U.S. – and business confidence indicators began pointing upwards. The financial markets saw a recovery as well. Stock indexes rose. Monetary policy remained on an expansive footing, supporting the recovery process.

Economic Development in

North Rhine-Westphalia

North Rhine-Westphalia, the largest federal state in Germany, went through comparable changes. According to preliminary reports from the State Office for Data Processing and Statistics, real GDP dropped 0.4%.

Downturns in manufacturing, in construction, and in mining and quarrying were responsible for the state's persistent economic slump.

Power and water utilities countered this trend by growing in real terms. The service sector had a stabilising effect.

Employment was also down in the state, by 1.1%, to approximately 8.2 million individuals. Most of the decline was in manufacturing. Nor was the service sector able to maintain its upward trend of previous years. This, the state's strongest economic sector in terms of numbers of individuals, remained steady at the previous year's level, with 5.9 million people employed. Unemployment in the state was up 0.8 percentage points, to an average of 10.0% for the year.

Development Lending in

North Rhine-Westphalia

The public development loan business in North Rhine-Westphalia expanded again against the previous year. Total development lending, at € 6.5 billion, was roughly 23% above the 2002 level. The development loan sector continued to evolve. As public budgets remained mired in difficulties, government

subsidies represented a shrinking percentage of total development funds. Conventional loan financing did expand, but borrowers' banks are more concerned about risk than they once were, especially when financing small and medium enterprises (SMEs).

Consequently, there was an expansion in financing that includes an equity component and a liability exemption for these banks. The reviving economy will not affect this trend for a good while longer. SMEs, many of which are undercapitalised, are having problems getting advance financing for new orders amid the current economic conditions. The anticipated effects of Basle II on banks' risk policies also make it more difficult to borrow – which many companies with ratings poorer than 3 already find high. The change in the public lending environment was also evident in loan consultation services: direct consulting picked up for those going into business for themselves and for companies, in part because the private-sector lending environment remained rather tight. Demand for consulting on complex capital expenditure projects remained high.

Development in the Housing Market

In the German housing market, debate about the homeowner's tax subsidy led owners to act early if they had plans for owner-occupied residential property. Housing completions in 2003 declined an estimated 8%, to 265,000 units. The number of building permits was up 8% for the year, to 297,000. There is at least a

year's time lag before a building permit is reflected in the completion statistics. The building permits from 2003 will not show up in the figures for completions until 2004. Some 280,000 units are expected to be completed.

The debate about the homeowner's subsidy caused the housing market to pick up in North Rhine-Westphalia as well, as owners took action early before conditions changed. Building permits were up 2.9% in 2003, to 57,900. Housing completions declined in 2003 as they did on the national scale, by 3.6% to 53,100 units.

As in past years, housing development with public funding was an important support for the generally weak construction industry in North Rhine-Westphalia during 2003. New records were set in support for owner-occupied housing: at roughly 11,000 units, the number of units receiving assistance was up 21.8% from the year before. The results for rental units, by contrast, were down. This market saw anticipative effects in 2002, in part because of the debate at that time about changing the tax treatment of these properties, and in part because of the elimination of support provided under

the principle that rent increases were permitted only in order to cover costs. As expected, development lending in 2003 was considerably less as a consequence. In all, the state housing construction programme provided € 955 million (2002: € 959 million).

Capital Markets

The capital markets saw high volatility and substantially smaller credit spreads during the year, a reflection of extensive uncertainty about the market. This was one of the main reasons why investor demand for public-sector Pfandbriefe was strong, since they offer such high levels of security. Demand was further supported by attractive yields, higher than those for government bonds. But the consequence was that the interest premium on Pfandbriefe narrowed substantially compared to swaps and government bonds – likewise as a result of strong demand. In public-sector financing, local governments had an increasing need to borrow. At the same time, the number of lenders to the public sector shrank because of changes in legal form, a shortage of refinancing options, and dwindling margins. The spreads widened moderately as a consequence.

Business at Landesbank NRW

Fiscal 2003 was again dominated by the process of setting up Landesbank NRW. The Bank pushed ahead with its technical and organisational build-up. At the same time, it had to make the necessary preparations to position itself strategically as an infrastructure and economic development bank within the terms of Understanding II. Despite these challenges operating income before risk provisions gained about one-fifth, to reach € 199.2 million. A loss at WestLB AG that the Bank was unable to influence resulted in a write-down of WestLB's carrying value, in accordance with an outside appraisal under German accounting standard IDW RS

HFA 10. Consequently, Landesbank NRW showed no distributable net income for the year under report.

Because of the timing of the Bank's founding, administrative expenses were not reported for all of fiscal 2002, but only for the period from August through December. Consequently, the figures given below for administrative expenses, operating income and net income for the year are not entirely comparable with the year before.

At December 31, 2003, total assets were € 105.0 billion, a gain of 3.4% from 2002. Total loans (credit volume) gained 6.7%, to € 100.4 billion.

Credit Volume

	Dec. 31, 2002	Dec. 31, 2003	Change	
	€ millions	€ millions	€ millions	in %
Due from banks	40,225.2	37,627.4	- 2,597.8	- 6.5
Due from customers	27,119.0	28,027.0	908.0	3.3
Contingent liabilities	672.0	1,116.1	444.1	66.1
Irrevocable loan commitments	1,845.6	2,220.8	375.2	20.3
Credit Volume narrowly defined	69,861.8	68,991.3	- 870.5	- 1.2
Amounts for derivatives (credit risk equivalents)	266.0	378.0	112.0	42.1
Notes and other interest-bearing securities	23,394.8	30,441.1	7,046.3	30.1
Equity investments	85.6	105.4	19.8	23.1
Other assets	443.8	480.9	37.1	8.4
Credit Volume broadly defined	94,052.0	100,396.7	6,344.7	6.7

Off-balance-sheet derivatives increased 34.1%, to € 64,075 million. Credit risk equivalents as per banking regulations were only € 378.0 million.

Economic Development and Assistance for Housing Construction

In housing construction, the Wohnungsbauförderungsanstalt Nordrhein-Westfalen (Wfa) business unit is the key financing instrument for state housing policy in North Rhine-Westphalia. Wfa helps finance state-of-the-art homes through low-interest loans and guarantees, primarily for low-income households. It supports the construction and purchase of owner-occupied housing, and the creation of rental or cooperative housing. It also subsidises projects to modernise and improve the energy efficiency of existing properties. In fiscal 2003, loans for projects financed by the Wfa had a nominal value of € 20.7 billion. Assistance again focused on financial support for building and buying owner-occupied housing. Loans in this sector reached levels that had not been seen since the mid-1980s, as the debate about changing the homeowner's tax subsidy led many households to act early so as to make sure they would still be able to receive the old subsidy levels. Funding of € 1.0 billion was promised for Wfa-backed projects, triggering a total investment of € 2.9 billion. Out of the Wfa funds promised in 2003 – and from loans approved in previous years – just under

€ 1.1 billion was paid out to beneficiaries during the year under review. This represents a gain of 17% from the year before in loan funds drawn. Support for owner-occupied housing was lively during the year, gaining 21.8% to reach 10,937 units. A growing portion of this figure was for purchases of existing housing stock. Here the number of units receiving assistance, at 2,824, was up 48.0% from 2002. By contrast, loans for rental housing were sluggish. In all, the residential construction programme provided support for 15,057 units, a slight decrease of 2.1% from the year before. There was appreciably less activity in modernisations, improvements and additions during the year. The number of renovated units was down slightly less than a quarter, to 1,576.

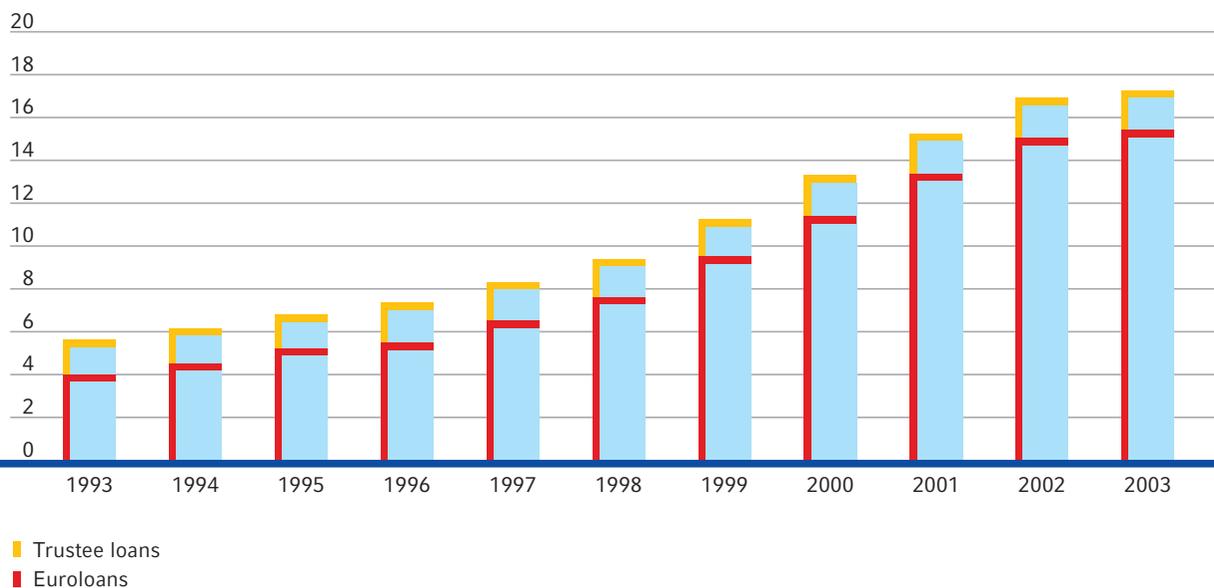
INVESTITIONS-BANK NRW (IB) business unit carries out assistance programmes for the State of North Rhine-Westphalia, the German Federal Government and the European Union, in the form of grants, Euroloans and "trustee" loans under public programmes in which the Bank itself does not assume the lending risk. IB also provides advice for beneficiaries and intermediaries about their projects. In handling these lending programmes, IB works with all banks, savings banks and credit unions, without influencing competition, in what is known as the "borrower's bank" method, under which it enables the borrower's bank to extend a lower-interest-rate loan.

During the year, the IB business unit did € 3.1 billion in new business, a 9% gain from the 2002 figure. New transactions were particularly dynamic in federal support for home-ownership, which is managed through IB. No doubt the debate about changing the homeowner's subsidy played an important role here. By contrast, although support for SMEs and technology still accounts for some 40% of the total loan portfolio, the slack economy caused new business in this segment to drop 16% against the year before.

Tight government budgets also caused trustee loans for development to taper off appreciably, as government entities cut back available funds significantly in their efforts to economise. Despite strong new business, the total portfolio of assistance loans grew only slightly, from € 17.3 billion to € 17.6 billion. An important contributing factor here was historically low interest rates, which led borrowers to pay back more loans ahead of schedule.

Development of promotion business of INVESTITIONS-BANK NRW

€ billions



Equity Investments

The Equity Investments business unit oversees the investments Landesbank NRW holds by public mandate. It also develops borrowing and equity solutions for every phase of a company's development. During the year, Landesbank NRW expanded its stake in Kapitalbeteiligungsgesellschaft für die mittelständische Wirtschaft in Nordrhein-Westfalen mbH. It also acquired a silent interest in Ströer Out-of-Home Media AG.

Refinancing

Landesbank NRW is an important player in the capital markets. It is one of Europe's leaders in issuing public-sector Pfandbriefe. Major international investors, such as mutual funds, central banks and insurance companies, are buying increasing amounts of securities from German Landesbanks. Here they take advantage of the Landesbanks' active market support, which benefits both

the securities themselves and their prices. In refinancing operations, the Bank profits from its good ratings with Fitch, Moody's and Standard & Poor's.

In 2003, Landesbank NRW's issues totalled € 32.0 billion. Redemptions came to € 21.8 billion. Of the new issues, 60% were public-sector Pfandbriefe. These included four jumbo bonds (Jumbopfandbriefe) with a combined volume of € 4.5 billion. One-quarter of the issued securities were borrower's note loans. The Bank also operated in the foreign-exchange market, and sold some structured issues to investors as private placements.

The aggregate total for outstanding securities is € 68.8 billion, a 10.0% gain from the previous year's figure. As before, the bulk was in public-sector Pfandbriefe. For market support, the Bank bought back about its own issues with a volume of € 7 billion.

A summary of current ratings (status: march 2004)

	Fitch Ratings	Moody's	Standard & Poor's
Long-term rating	AAA	Aa2	AA
Short-term rating	F1+	P-1	A-1+
Individual ¹⁾ /Financial strength ²⁾	C/D ¹⁾	D+ ²⁾	-*
Pfandbrief rating	AAA	n.r.	AAA

* not offered by S&P

In-House Services

Landesbank NRW has appointed several interdepartmental project teams to begin the processing today for the regulatory requirements of tomorrow, and to continue evolving its technical and organisational structures. The main focuses here were the upcoming transition to reporting under International Financial Reporting Standards (IFRS) and International Accounting Standards (IAS), and preparations for the new equity requirements under the latest Basle Capital Accord (Basle II). The Bank is on the right track for further technical and organisational modifications. Many services that had to be outsourced while the Bank was still getting established are now handled in-house. At year's end, of the roughly 180 original service agreements with outside providers – mainly WestLB AG – only about 120 were still in effect. The Bank also made progress in reconfiguring the IT infrastructure it inherited from Westdeutsche Landesbank Girozentrale to better suit its own needs. The earlier system was unable to provide the breadth and depth of programming requirements that an international bank typically needs. Landesbank NRW will now be transitioning its IT environment to SAP-based systems.

Personnel

Ever-expanding regulatory requirements and the increasing complexity of banking products make ongoing staff training and continuing education a must. The Bank sets

a particularly high priority on encouraging its employees' development, both personally and professionally. It offers a wide range of seminars, tailored to specific needs, along with programmes to earn advanced professional qualifications. The next generation of management is systematically assigned to gradually take over their future duties at the Bank.

The Bank's first crop of vocational trainees began their course of studies on September 1, 2003. The seven young people are preparing for certification as businesspeople in office communications (specialising in banking), and for bank-specific jobs in in-house training programmes as part of a degree in business administration. The Bank also offers a special trainee programme for university graduates, to acquaint them with the various operations and processes of a bank.

At December 31, 2003, the Landesbank's staff had grown to 862 (+ 13.4%).

Revenues – Net Interest Income and Net Commission Income

The Bank's chief source of revenue is interest income. The net figure for the year was € 355.8 million, 16.4% above the 2002 figure. Wfa contributed half of this amount, € 178.9 million. But the gain in net interest income was driven mainly by the Capital Markets business unit, which profited from the upswing in money-market interest rates during the year.

Commission income is not as important a source of revenue for a development bank as for other banks. This, too, is the case at Landesbank NRW. The figure was up just under one-third, to € 10.7 million, mainly as a result of higher income on credit

derivatives. There were gains both in the trust and administration business and in non-recurring administrative cost contributions for processing development loan applications. Moreover, lower costs for securities administration reduced expenses.

Statement of Income

	2002*	Dec. 31, 2003	Change	
	€ millions	€ millions	€ millions	in %
Net interest income	305.6	355.8	50.2	16.4
Net commission income	8.3	10.7	2.4	28.9
Other operating expenses/income, net	- 3.5	- 6.6	- 3.1	> - 100
Administrative expenses	- 146.8	- 160.7	13.9	9.5
- Personnel expenses	- 77.7	- 72.6	- 5.1	- 6.6
- Operating expenditure	- 69.1	- 88.1	19.0	27.5
Operating income before risk provisions/ revaluation adjustments	163.6	199.2	35.6	21.8
Risk provisions/revaluation adjustments	- 66.7	- 1,945.6	1,878.9	> 100
Operating income after risk provisions/ revaluation adjustments	96.9	- 1,746.4	- 1,843.3	> - 100
Extraordinary income/expense	- 6.4	- 6.2	- 0.2	- 3.1
Net income for the year before taxes	90.5	- 1,752.6	- 1,843.1	> - 100
Taxes on income and revenues	- 4.2	- 17.6	13.4	> 100
Net income for the year after taxes	86.3	- 1,770.1	- 1,856.4	> - 100
Allocation to reserve per articles and bylaws	- 2.4	0	2.4	> 100
Withdrawals from capital reserves	0	1,795.5	1,795.5	> 100
Allocation to state housing construction funds	- 63.1	- 25.4	- 37.7	- 59.7
Distributable net income	20.8	0	- 20.8	> - 100

* Previous year's figures have been adjusted

Other Operating Expenses/Income

Other operating expenses came to € – 6.6 million, an appreciable deterioration from 2002. Most of the change resulted from higher allocations to provisions for assistance to WestLB AG employees who have either a contractual entitlement or a future right to disability, retirement or survivors' pensions under civil service regulations. These pension commitments were transferred by law to Landesbank NRW when it was split off from its predecessor. Such a large allocation (around € 20 million) is expected to be a non-recurring expense. It arose when the calculation parameters were adjusted for current changes in costs in the healthcare sector.

Administrative Expenses

Administrative expenses increased 9.5%, to € 160.7 million. They were influenced by two contrary effects during the year. The above-average 27.5% rise in operating expense, to € 88.1 million, had an adverse impact. But here it must be borne in mind that because the Bank was founded in the course of 2002, only a fraction of the usual operating expense was incurred that year, and thus the present rise gives an exaggerated impression of the actual change. The operating expense was affected by

the large number of projects that were inaugurated and pursued during the year, for example in preparation for Basle II or for reporting under IFRS/IAS. These efforts were even more expensive because the necessary work could not begin until after the Bank had been established, and thus only a very short time was available to prepare for the new requirements. There were also a number of outside services that must be viewed in association with the Bank's becoming established. In this regard, the foundation process kept costs high in 2003.

Personnel expenses were down 6.6% during the year, to € 72.6 million. This decline resulted from a steep drop in requirements for allocations to pension and assistance provisions, especially in the Wfa business unit. That decrease more than made up for the increase in staff size and higher payroll costs. Expenses for wages and salaries came to € 52.1 million. Social-security contributions, pensions and assistance came to € 20.5 million.

The cost-income ratio (CIR) for the year was 44.7%. It is the Bank's declared goal to improve this ratio substantially, and to make even more efficient use of its resources in the future.

Risk provisions/revaluation adjustments

	2002	2003	Change
	€ millions	€ millions	€ millions
Adjustment on lending operations	- 43.4	- 121.2	- 77.8
Adjustment on equity investments	- 0.1	- 1,795.7	- 1,795.6
Adjustment on securities	- 23.2	6.3	+ 29.5
Fund for general bank risks	0	- 35.0	- 35.0
Total	- 66.7	- 1,945.6	- 1,878.9

Under its public mandate, Landesbank NRW grants development loans, and can assume risks where legal requirements and internal guidelines impede business banks from making a commitment. Risk provisions and revaluation adjustments came to € - 1.9 billion.

The deterioration was caused primarily by the write-down of nearly € 1.8 billion on the carrying value of the Bank's interest in WestLB AG.

Wfa was mainly responsible for the higher allocations to risk provisioning in the lending business. The charges pertained primarily to investors in rental housing construction who found themselves in financial difficulties. Net allocations at Wfa rose from the prior year's € 39.9 million to € 102.4 million. Based on a conservative evaluation of the loans extended, the Bank has adequately covered all discernible and latent risks using individual and global allowances.

The net allocation for revaluation adjustments on securities came to € 6.3 million (2002: € - 23.2 million). Losses resulted again this year from special redemptions on Landesbank issues that were retired as part of market support measures. However, gains on the sale of securities more than made up for these losses.

The fund for general bank risks was endowed this year for the first time, at € 35.0 million.

Operating Income

Although operating income grew by a fifth, to € 199.2 million, the write-down on WestLB AG reduced the figure after risk provisioning and revaluation adjustments to € - 1.7 billion. After the extraordinary expense of € - 6.2 million that includes the restructuring charges for Wfa, and after income taxes of € 17.6 million, the net loss for the year is € 1,770.1 million. Pursuant to § 17 of the German Housing Promotion

Act (WBFG) in conjunction with § 27 of Landesbank NRW's articles and bylaws, € 25.4 million is being allocated to state housing construction funds. After withdrawals from capital reserves, the resulting net distributable income is zero.

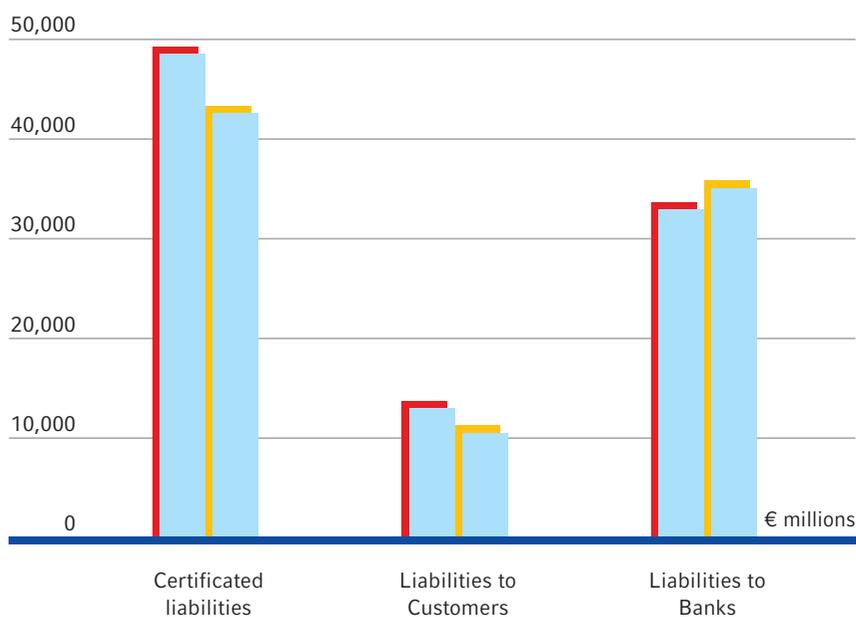
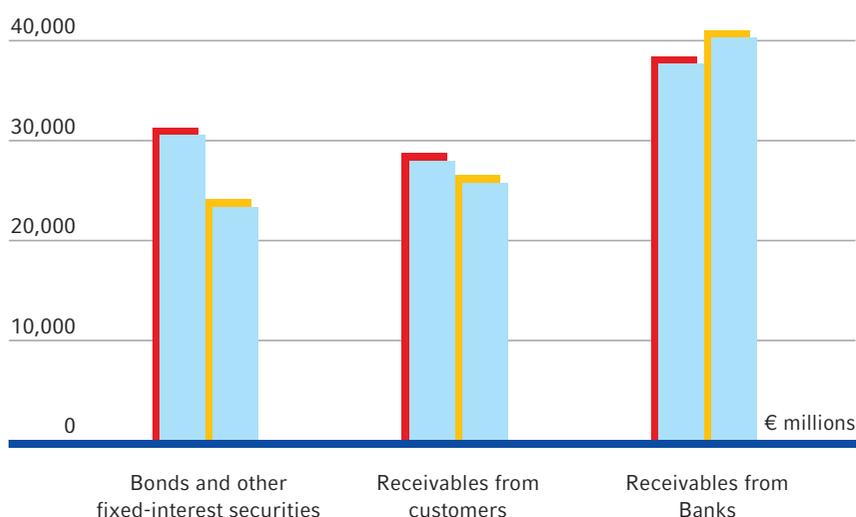
Volume

Total assets increased 3.4%, to € 105.0 billion. The expansion was largely driven by growth in fixed-income securities, which were up 30.1% to € 30.4 billion and now account for more than one-quarter of total assets. The growth resulted from setting up a guarantee fund that the Bank needs in order to issue public-sector Pfandbriefe. Receivables from customers were up slightly, by 3.3%, to € 28.0 billion. The gain resulted mainly from the acquisition of notes, which are included under this balance sheet item. Receivables from banks were down slightly, by 6.5%, to € 37.6 billion.

The item of € 3.6 billion for equity investments in affiliated companies (2002: € 5.3 billion) includes shares in WestLB AG, with a carrying value of € 3.4 billion (2002: € 5.2 billion). WestLB AG's large loss – for the second year in a row – necessitated a write-down of nearly € 1.8 billion on that bank's carrying value.

On the equity and liabilities side, refinancing via certificated liabilities expanded 13.7%, to € 49.2 billion. Together with non-negotiable instruments among the payables to banks and customers in the amount of € 27.3 billion,

Development of selective balance sheet items



■ Dec. 31, 2003

■ Dec. 31, 2002

Landesbank NRW issues are covered primarily by public-sector loans (€ 54.2 billion), mortgage-backed loans (€ 1.6 billion) and securities (€ 21.5 billion).

The Bank obtained refinancing of € 12.4 billion (+ 7.5%) from customers. Liabilities to banks were reduced 5.4 % to € 33.9 billion.

Equity Capital

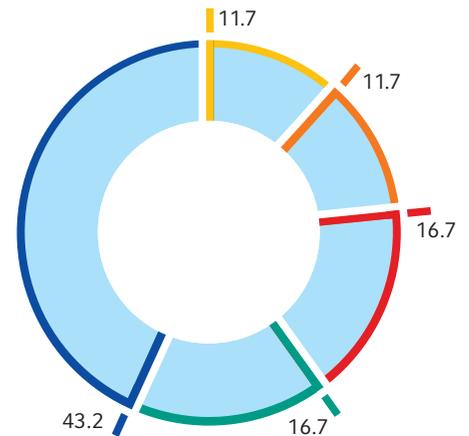
Equity capital (excluding profit) for 2003 was € 4,919.0 million, and was pulled down by revaluation adjustments. This figure includes reserves of € 2.4 million stipulated in the articles and bylaws, and a capital

reserve of € 4,416.6 million (2002: € 6,212.1 million). The reduction in the latter since 2002 is the consequence of the write-down on West LB AG.

The Bank increased subordinated liabilities by € 25.0 million, to € 349.6 million at the reporting date. Of these, securities worth a total of € 249.6 million have remaining maturities of less than two years. Profit participation capital remained unchanged at € 250.0 million. Prior to adoption of the balance sheet, liable capital in accordance with the German Banking Act (KWG) was € 6,223.8 million.

Landesbank NRW's owners shares of subscribed capital

As before, the guarantors participating in Landesbank NRW's subscribed capital of € 500 million are:



- Regional Association of Westphalia-Lippe
- Regional Association of the Rhineland
- Savings Banks and Giro Association of Westphalia-Lippe
- Savings Banks and Giro Association of the Rhineland
- State of North Rhine-Westphalia

Capital ratios

	Dec. 31, 2002	Dec. 31, 2003*
	in %	in %
Landesbank NRW – Single entity		
– Principle I ratio – Total figure	32.0	32.5
– Core capital ratio	29.6	30.0
Landesbank NRW – Group		
– Principle I ratio – Total figure	10.5	12.7
– Core capital ratio	6.3	8.6

* Prior to withdrawal from capital reserves

After adoption of the balance sheet and the requisite write-down of the carrying value of WestLB AG, Landesbank NRW as a single entity would have a core capital ratio of approximately 23% and a Principle I ratio total of approximately 26% at December 31, 2003.

Risk Report

Assuming risks is a natural part of the banking business. Managing these risks adequately is crucial to a bank's business success. For that reason, Landesbank NRW systematically refined and expanded its risk management and risk controlling again in 2003. In the lending business, it refined its use of rating systems with an eye to the changes resulting from the regulatory Minimum Requirements for Lending Operations (MaK) and the new capital requirements of the Basle Committee on Banking Supervision (Basle II for short).

Risks from Banking Operations

Landesbank NRW defines risk in accordance with the sector-specific standards Nos. 5–10 of the German Accounting Standards Board (Deutscher Standardisierungsrat, DSR). It distinguishes among the following categories of risk in its analyses and processes:

- counterparty default risk (including country risk)
- market price risk
- liquidity risk
- participation risk
- operational/other risk

Counterparty default risk refers to the threat of loss or lower profits due to default by a counterparty. Market price risk refers to the risk of unfavourable moves in the value of the Bank's portfolio caused by price-determining market parameters like interest rates, index performance, exchange rates, stock prices, and so on. Liquidity risk refers

to the risk that a shortage of liquid funds or market disruptions might render Landesbank NRW unable to meet its payment obligations on time, or allow it to meet them only by incurring a loss. Participation risk is the risk that losses may result from making equity available to third parties. In accordance with the now generally accepted definition from the Basle Committee on Banking Supervision, Landesbank NRW defines its operational risk as "the risk of loss resulting from inadequate or failed internal processes, people, and systems, or from external events".

Risk Strategy

Landesbank NRW's risk strategy is attuned to the Bank's core lines of business (market segments): economic development, public-sector financing and treasury, special lending and equity investments. Wohnungsbau-förderungsanstalt has been integrated in compliance with the special provisions under § 19 and § 21 of the German Housing Promotion Act (WBFVG), which govern the state's special liability for the Wfa's obligations. The Managing Board adopted a credit risk strategy for 2003. This strategy was expanded at the beginning of 2004 into a comprehensive risk strategy taking account of market price risks and operating risks. To a large degree, this strategy has already been brought into compliance with the MaK, which are to go into effect on June 30, 2004.

The Managing Board of Landesbank NRW sets risk policy annually and reviews it on an ongoing basis. Most risks the Bank assumes are counterparty default risks, and in this regard it pursues a conservative risk policy so as to preserve its good risk structure. Risk policy reviews also examine the Bank's maximum willingness to incur risk – in other words, its maximum loss limit. There are also limits for various loan types, sectors, maturities, rating categories, size categories and geographical distribution.

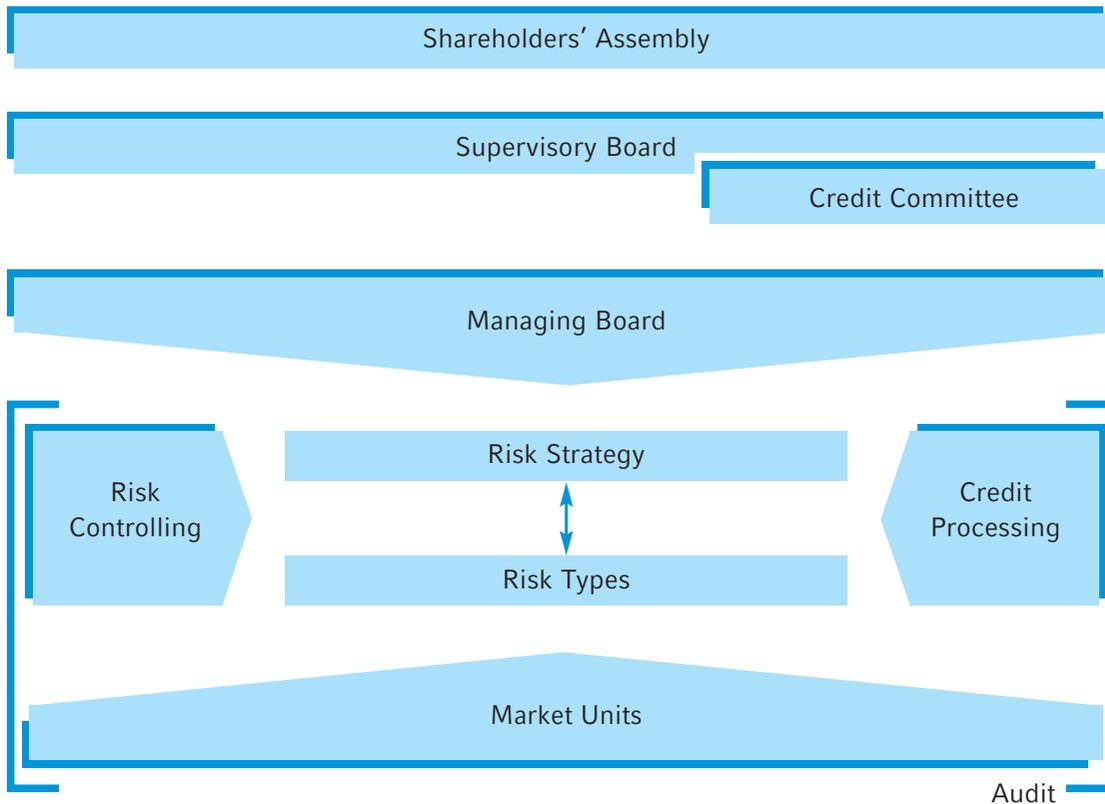
Organisation of Risk Management

The Managing Board bears the overall responsibility for managing risk at Landesbank NRW. The Supervisory Board monitors the Managing Board's management performance. The Credit Committee, a committee of the Supervisory Board, receives quarterly reports on the Bank's credit risk exposure. To take due account of the strategic importance of risk control, the Credit Committee is evolving into a Risk Committee.

The Guarantors' Meeting decides on such matters as the principles of business policy and risk policy.

In keeping with the Minimum Requirements for Engagement in Trading Operations (MaH) and the MaK, the units that supervise risks (Risk Controlling and Credit Management) are functionally independent from front-office units, up to the level of the Managing Board.

Risk Monitoring



The front-office units enter into a variety of risks in the course of their operations, and are responsible for managing these risks themselves at the operations level. In doing so, they must conform to a corporate system of limits and guidelines that is monitored and refined by the Risk Controlling and Credit Management units. These two units report directly to the relevant member of

the Managing Board. The separation of functions between front-office and back-office up to the level of the Managing Board, as required by the MaK, was implemented in 2003. Large portions of the remaining requirements that banks will have to meet by 2004 or 2005, as the case may be, were already met during 2003 as part of the interdepartmental Basle II/MaK project.

Credit Management is responsible for approving individual credit decisions, including the rating of the commitment. It is also responsible for regularly monitoring loans.

Risk Controlling is responsible for risk measurement methods, processes and procedures, along with daily measurement and monitoring of risks and limits throughout the Bank, as well as non-commercial valuation under the MaH. This unit also defines, approves and monitors country limits and prepares suggestions on portfolio management for the Managing Board.

Internal Auditing regularly reviews risk strategy, risk structure and risk management for adequacy and effectiveness. In its capacity as an independent supervisory body, Internal Auditing reports directly to the Managing Board on the results of its tests and analyses.

Risk Management Process

The Bank's risk management process is comprehensively documented and made accessible to all the Bank's business units. It comprises the following main components:

- **Early risk recognition** is intended to detect developments that could adversely affect the Bank's business relations, commitments and processes either now or in future. It embraces all the Bank's business units and all risk categories. In counterparty default risks, it is concerned mainly with jeopardised loan repayments or potential nonperformance of obligations under loan transactions.

In market price risks, it deals with market movements that would reduce the value of the portfolio. If such changes occur, the risk must be re-analysed and reappraised. In recognising risk, Landesbank NRW applies an extensive range of measuring techniques, sensitivity analyses, scenario and stress computations, and portfolio analyses.

- In **risk analysis**, Landesbank NRW employs mathematical models in line with the current market standard. The model computations are supplemented with comprehensive re-checks and further analyses. Counterparty default risks are analysed on the basis of detailed, meaningful documentation. For its relevant client groups, the Bank applies internal rating procedures which it supplements with analyses and the credit ratings from major rating agencies (Moody's, Standard & Poor's, Fitch Ratings).
- **Risk management** is handled within approved limits and predefined guidelines on responsibility. The entities in charge of risk management are the operating units themselves – Capital Markets, INVESTITIONS-BANK NRW, Wfa, Special Lending and Equity Investments – which conduct their risk management on the basis of established regulations. As an overall bound for risk management above and beyond the various risk categories, Landesbank NRW regularly checks to make sure that its exposure remains within a maximum loss limit.

During the year under review, procedures for introducing new products were extended to include all credit products. These expanded procedures ensure that the Bank's operations comply with its internal risk assessments, and that ample data is available about the Bank's exposure at all times.

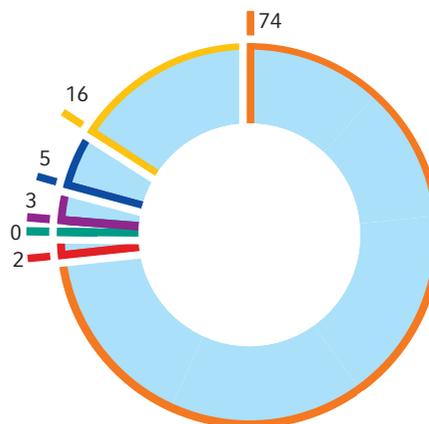
- For purposes of **risk communication**, the Managing Board is informed about the Bank's current counterparty default and market price risks daily. Of particular importance are any limits or rules that may have been exceeded.

The Managing Board also receives a detailed monthly report on the Bank's overall risk position, including an analysis of the rating categories, sector weightings, volume categories and maturities applicable to the Bank's portfolios. Any market changes within the period under review are also analysed.

Counterparty Default Risk

Landesbank NRW's policy on risk is to maintain the sound risk structure that is already in place. For that reason, Landesbank NRW limits its credit exposure mainly to first-rate counterparties.

Breakdown of the Bank's credit exposure as at December 31, 2003 (in %)



- Economic development
- Public-sector financing and treasury
- Real estate finance
- Special financing
- Equity investments
- Wohnungsbauförderungsanstalt (Wfa)

Credit exposure by line of business

	2002	2003
	€ millions	€ millions
Public-sector financing and treasury*	70,816	77,238
Economic development	15,459	16,398
Real estate finance	2,485	2,121
Special financing	0	272
Equity investments**	5,344	3,568
Wohnungsbauförderungsanstalt (Wfa)***	5,722	5,727
Total	99,826	105,324

* Capital market products are marked to market. All other commitments are carried at their remaining principal balances plus payout obligations.

** Including WestLB AG

*** Net present value

Each credit decision is based on a loan application file that contains an estimate of the exposure risk of the associated commitment. As a rule, the application must be approved by two officers, one representing the front office and one representing the back office, before the credit line can be set up. The Managing Board decides in the event of a disagreement. For loans above a certain volume, the Managing Board must generally also approve the commitment. The Managing Board is answerable to the Credit Committee and the Supervisory Board. A credit monitoring file is prepared at least once a year on every substantial commitment. Commitments with higher exposure risk receive especially close scrutiny and support.

When measuring and monitoring counterparty default risks, the Bank distinguishes among credit, issuer, money market and derivative lines. In the case of derivative lines, the replacement value depends on market price movements. For that reason, the Bank also takes potential replacement costs into account when dealing in derivatives.

Landesbank NRW's portfolio currently stands at € 105,324 million; the Wfa's operations account for € 5,727 million in assets (respective values from 2002: € 99,826 million and € 5,722 million). The Wfa's portfolio is secured not only by Wfa's assets, but also under the provisions of § 19 and § 21 of the German Housing Promotion Act (WBFG). Of Landesbank

NRW's remaining assets, over 90% comprise loans to debtors that are internally rated as very good to satisfactory, or are loans secured under the Public-Sector Pfandbriefe Act (ÖPG) or the Mortgage Banking Act (Hypothekbankgesetz). The

percentage of commitments to borrowers with weak credit scores is less than 1% of the total loan exposure. The majority of loans are to central, regional or local authorities and public-law banks in Germany.

Breakdown of Landesbank NRW's credit exposure by rating at December 31, 2003

Risk Category/Type of Transaction	Commitment	Percentage	2002
	€ millions	in %	€ millions
1/Secured	67,624	64.2	72,706
2	21,134	20.1	2,026
3	2,598	2.5	1,165
3/4	1,425	1.4	877
4	218	0.2	87
4/5	0	0.0	0
5	1	0.0	0
6	0	0.0	0
Unrated*	908	0.8	9,414
Real estate finance	2,121	2.0	2,485
Equity investments**	3,568	3.4	5,344
Wfa***	5,727	5.4	5,722
Total	105,324	100.0	99,826

* The majority of commitments for which no internal rating is available are for public-sector debtors.

** Including WestLB AG

*** Net present value

Legend for internal risk categories

Risk Category 1 Very good credit risk

Risk Category 2 Good credit risk

Risk Category 3 Satisfactory credit risk

Risk Category 3/4 Satisfactory to adequate credit risk

Risk Category 4 Adequate credit risk

Risk Category 4/5 Adequate credit risk, with reservations

Risk Category 5 Poor credit risk

Risk Category 6 Very poor credit risk

Landesbank NRW currently engages in derivative transactions with only a few select partners. The derivatives serve as microhedges for specific transactions or as macrohedges for overall exposure exclusively in Landesbank NRW's proprietary business. To reduce credit risks, the Bank has entered into standardised netting and collateral agreements. The volume of interest-rate derivatives stood at € 64,075 million as of year-end 2003 (2002: € 47,797 million). The average during 2003 was € 54,129 million (2002: € 42,698.0 million).

Defaults, Allowances for Doubtful Accounts and Problem Loans

Outside of Wfa commitments, Landesbank NRW has placed € 64.6 million in loans (2002: € 49.8 million) under closer scrutiny, for which the aggregate amounts in arrears are € 4.1 million (2002: € 2.8 million). Some of these loans are secured. Specific allowances and provisions total € 8.2 million (2002: € 2.8 million). In the case of Wfa, whose portfolio is secured under § 19 and § 21 of the German Housing Promotion Act (WBFVG), loans in the amount of € 533.1 million (2002: € 487 million) have been placed under closer watch. The amount in arrears is € 44.2 million (2002: € 36.5 million). Allowances for specific accounts and doubtful debt provisions total € 227.7 million (2002: 156.3 million).

Total risk provisioning in the lending business for 2003 was € 121,2 million (2002: € 43.4 million).

Basle II

Mindful of the new Basle Capital Accord (Basle II), in 2002 the Bank initiated the Bank-wide Basle II/MaK Project to coordinate the implementation of these new rules and regulations. The project completed its preliminary study on schedule in mid-2003, and identified the necessary methodological, organisational and procedural adjustments on the basis of the current Basle II discussion paper. Now the necessary adjustments and modifications within the Bank are under way as part of the main body of the project.

Landesbank NRW will implement the new regulatory requirements in its business strategy and risk structure. It will take the standardised approach in its weighting of counterparty default risks.

As part of its credit risk management, the Bank is expanding its internal credit rating system to include all relevant customer groups, so as to ensure adequate support for the credit decision-making process. The Bank's own internal risk evaluation goes beyond the planned application of the standardised approach under Basle II.

Country Risk

A country risk exists if the Bank approves or provides a loan to a borrower located outside Germany, and there is no collateralisation of a type that enables the credit risk to be categorised as a domestic risk.

At the suggestion of Risk Controlling, the Managing Board specifies a country limit for each country of relevance. For each country with no transfer risk – i.e. the member states of the European Monetary Union (not including the Federal Republic of Germany) – the Management establishes what is known as a country “cap”. The individual country limits and country caps are the upper limit for business activities with and within the country concerned.

As it did in 2002, Landesbank NRW conducts more than 99% of its business in countries within the euro area (including INVESTITIONS-BANK NRW and Wfa); 88% of its business (2002: 92%) is in Germany alone. At the reporting date, 1% of the Bank’s commitments entailed transfer risks. As a result, country risk is not a major factor for the Bank.

Market Price Risk

The Bank exposes itself to interest-rate risks only on a limited basis. Depending on its assessment of the interest-rate or market

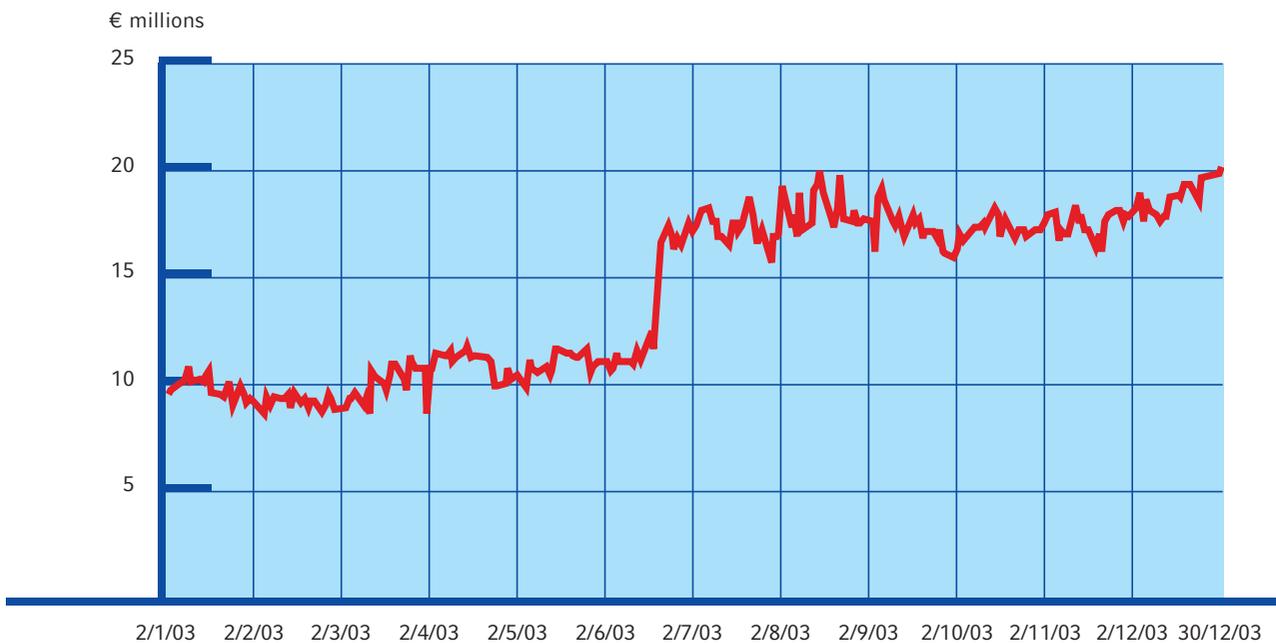
situation at hand, it will make lendings without matching funds or issue mortgage paper without matching lending transactions, as a rule of thumb doing so when the margins are positive or when the market situation has changed. The resulting assets and liabilities with matching maturities are maintained in the investment portfolio.

The Bank has assumed no stock risks thus far; at the moment it assumes foreign exchange risks only to a very limited degree. For internal purposes, value-at-risk calculations at Landesbank NRW assume a holding period of one day and a confidence level of 95%. The historical period observed consists of 250 days. The holding period is limited to one day because portfolio risks (particularly mismatches) can be hedged with derivative instruments within one day, and because the portfolio is under active portfolio management.

Interest-rate risks are subject to limits defined by the Managing Board which apply both to individual portfolios and to the portfolios in the aggregate. A separate limit is used to monitor mismatches in the investment portfolio. The following graph shows Landesbank NRW’s aggregate value at risk over the course of 2003.

Overview of Interest-Rate Risks

Value-at-risk movement from Jan. 1 to Dec. 31, 2003



The substantial increase in exposure in mid-June is the result of a planned new release on methods, not an abrupt increase in risk itself.

The value at risk fluctuated between € 8.3 million and € 19.6 million (2002 average: € 9.9 million). Average exposure for the second half was € 17.1 million.

The value-at-risk calculations are supplemented by monthly stress tests. The stress scenarios prescribed by the regulatory authorities indicated an average exposure of approximately € 15 million in 2003 (always under the worst case scenarios).

Regular back testing ensures the quality of the risk model.

Liquidity Risk

The Capital Markets unit is in charge of the Bank's liquidity management, which is founded on continuous analyses of incoming and outgoing cash flows. Short-term liquidity is managed using daily reports of the next three days' net cash flows. Similarly, medium-term liquidity is managed using daily analyses of cash flows for the next six months. The Bank has access to all money-market and capital-market products for this purpose. The Bank also has a sizeable portfolio of available-for-sale securities and securities that can be deposited with the

European Central Bank, which put it in a position to generate substantial amounts of cash on short notice.

Capital Markets is in charge of monitoring the Bank's compliance with the liquidity requirements set forth in the German Banking Act (KWG). In fiscal 2003, the Bank's liquidity ratio was above the 1.0 regulatory minimum at all times (end of December: 1.3).

Participation Risks

Landesbank NRW's portfolio of equity investments falls into three groups. Strategic investments are held by public mandate, or to support the Bank's own business. In equity financing, the Bank furnishes equity to North-Rhine Westphalian firms as part of its mission as an infrastructure and economic development bank. The Bank's

investment in WestLB AG occupies a special position; it is the consequence of the split-up of WestLB under the parent-subsidiary model.

Normally, from Landesbank NRW's viewpoint, counterparty default risks – i.e. (partial) failures of the held companies – must be taken into consideration and managed in association with equity investments; so must market price risks resulting from the refinancing of these investments. Both types of risk can be evaluated adequately only if the risks are monitored and (where possible) managed at the level of the equity holding itself.

As of December 31, 2003, the total carrying value of strategic equity investments and equity financing was € 169.6 million (2002: € 148.7 million). The largest equity investments are shown below.

Book value	Dec. 31, 2002	Dec. 31, 2003
	€ millions	€ millions
InvestitionsBank des Landes Brandenburg (ILB)	51.1	51.1
LEG Landesentwicklungsgesellschaft NRW GmbH	32.3	32.3
Westdeutsche Lotterie-Gruppe	25.6	25.6
Westdeutsche Spielbanken-Gruppe	37.5	37.5
Ströer Out-of-Home Media AG	0.0	20.0
Others	2.2	3.1
Total	148.7	169.6

The carrying value of the equity holding in WestLB AG is € 3,400 million (2002: € 5,195.5 million). Because of the size of this investment, WestLB AG represents a cluster risk within Landesbank NRW, and is therefore reported and discussed separately.

Risk Management for Equity Investments

Normally, risks resulting from equity investments are covered by the Risk Management process as described above. The Equity Investments business unit recognises and manages risks specific to a given investment at the time of its acquisition and as long as it is held, as part of the chain of procedures. The foundation for later risk recognition and control is laid during the contract negotiations prior to the acquisition – for example, by including regular reporting requirements or specifying that certain matters will be subject to the Bank's consent. The risks in question are primarily strategic, such as the given company's strategic orientation. But depending on the company, there may also be market price risks, operating risks and counterparty default risks.

The Managing Board and the Bank's other governing bodies receive reports on the entire portfolio of equity investments three to four times a year. The timing depends on the various bodies' meeting schedules. The Equity Investments unit is in constant contact with the affiliates in which the investments are held, and thus becomes aware of changes promptly. If major

developments occur, the Bank's decision-makers are notified on an ad hoc basis. Equity investments whose current situation calls for closer attention are put on a watch list. One company is on this list at present. If problems arise, reporting may be stepped up to as often as once a month. Controlling of the investment can be adapted to changing circumstances with similar speed. Additionally, each year a "short report" is produced that analyses the most recent annual financial statements, offers strategic projections, and calculates profitability. The short report not only informs the Managing Board in detail about developments in equity investments, but also serves to meet the requirements of § 18 of the German Banking Act. In addition, the portfolio is analysed regularly for cluster risks, in terms of both segments and size categories.

New or expanded equity investments must be approved by the full Managing Board and approved by the Guarantors' Meeting. Risk is assessed in a due diligence process that takes account of business, legal and tax risks. For larger investments, this is done in consultation with an outside accounting and auditing company. On the basis of the written evaluation of the results of the due diligence process, the Equity Investments unit prepares an investment recommendation for the Managing Board. This recommendation is reviewed by the Credit Management unit, which adds its own independent vote on the proposal. The Bank meets MaK requirements through this procedure.

Strategic Investments

In the case of WestLB AG, Landesbank NRW performs its duties as a shareholder within the WestLB AG shareholders' meeting. Landesbank NRW's articles and bylaws stipulate that all decisions made at WestLB AG shareholders' meetings must be approved by Landesbank NRW's guarantors.

In 2003, WestLB's operating income before risk provisions and revaluation adjustments was up € 30.2 million from the year before, to € 414.2 million. Thus operations remained stable year-on-year. The loss of € – 2,320 on the year was primarily a consequence of the sharply increased item of € – 2,364.6 million for risk provisioning and revaluation adjustments. This risk provisioning (€ 1,495.1 more than in 2002) and the exceptional audits by the Federal Financial Supervisory Authority (BaFin) lead the WestLB AG management to believe that adjustments have now been taken for all major risks.

The losses of the past two years have lowered the core capital ratio. At present, Landesbank NRW's guarantors are in negotiations about a capital increase for WestLB AG.

For some of the other strategic equity investments, the counterparty default risk is limited either directly or indirectly by a strong involvement of public funding. Apart from holding management positions within the affiliated company, public entities also reduce counterparty default risk by such

measures as directly or indirectly furnishing indemnity bonds. In the case of LEG Landesentwicklungsgesellschaft NRW GmbH, public-sector entities actually hold a majority. In equity investments in gaming operations, the Bank is the sole shareholder, but representatives from the state are included in the managing bodies because it is the state that grants the concession. This ensures that the shareholder's business interests can be coordinated with the state's regulatory interests at an early stage – a critical factor in promptly recognising potential conflicts of interest that might otherwise jeopardise the companies' concessions. Strategic risks may exist if management or shareholders fail to recognise material trends in pertinent lines of business on time, or misjudge them, resulting in disadvantageous decisions about basic principles. Such matters cannot be measured or managed with quantitative methods. For that reason, strategy workshops are held at least once a year among the company, the shareholders and the state as granter of the concession.

Equity Financing

The risk-limiting measures taken at the time of new commitments include limiting the amount of individual commitments and, if applicable, syndicating portions of the commitment. Additionally, the equity investment agreements may include requirements that the borrower must obtain Landesbank NRW's consent for certain transactions.

The equity financing business is still becoming established. In 2003, the Bank acquired a dormant interest in Ströer Out-of-Home Media AG. This involvement is developing as planned, in terms of expected future earnings.

Operating Risks/Other Risks

Landesbank NRW monitors operating risks and continuously expands its existing monitoring systems and procedures.

As part of its project activities, the Bank has taken a significant step forward in watching operating risk systematically, Bank-wide. Landesbank NRW has developed a comprehensive management concept for operating risks. Among the major components of the approach are recognising risk events and loss events, conducting structured self-assessments, and monitoring risk indicators. Uniform categorisation is a prerequisite for being able to pool and compare results from these procedures. In this the Bank follows the Basle "event type categories".

The results of the first self-assessments were used to conduct an extensive risk inventory of the Bank's operating risks. The results of that study are still being analysed. Additionally, operating risks were integrated as an explicit component of the process for introducing new products, which will be expanded to the lending business.

A comprehensive, customised strategy already exists for analysing and reporting operating risks at Wfa.

Landesbank NRW procures its IT services, as well as many other internal services, through service agreements, chiefly with WestLB AG and WestLB AG's subsidiaries. Such arrangements are gradually being pared back, as Landesbank NRW takes charge of these services itself. In 2003 the Bank re-insourced services from a considerable number of service agreements with WestLB AG. The operating risks associated with such services are managed by the providers and then monitored internally by Landesbank NRW.

Landesbank NRW intends to use the Basic Indicator Approach in determining the capital to hold for its operating risks under Basle II. This figure is calculated as a fixed percentage of average gross revenues.

Landesbank NRW minimises its legal risks from transactions by using standardised contracts. When special questions of law arise, the Bank seeks the advice of outside legal counsel. There are currently no significant proceedings pending which involve the Bank.

Overall Risk Assessment

Landesbank NRW's risk structure is characterised by counterparty default risks, and by an issuer structure with almost exclusively good to very good credit standing. Commitments involving risk from assistance for housing construction are guaranteed by the state, under the terms of § 19 and § 21 of the German Housing Promotion Act (WBFG).

The risk situation is continuously monitored and analysed in detail, within the maximum loss limit set by the Bank.

A project was initiated in 2003 to refine methods for analysing the amount of risk the Bank can assume. It is to be implemented and applied in practical management by the second quarter of 2004.

Landesbank NRW's equity ratio, referred to the activities of the Banking group, was 12.7% at year-end (2002: 10.5%).

Continuous improvement and expansion of risk management in all key risk areas ensures that Landesbank NRW will retain the ability to recognise any adverse developments early enough to take appropriate countermeasures.

Outlook

The economy can be expected to recover only slowly in 2004. As in 2003, domestic demand will remain weak for the time being. Any impetus will come primarily from the reviving world economy. Gross domestic product will increase barely 2%. Unemployment will stagnate at a high 10.6%, though the situation will improve slowly in the second half.

During 2005, consumer spending is expected to revive further, and companies will be more willing to make capital expenditures. Gross domestic product will remain at a level similar to 2004, or grow slightly.

The reviving world economy is generating a moderate rise in returns on the capital market. The phase of key lending rate cuts is coming to an end. The American Federal Reserve and the European Central Bank have already signalled this to the capital markets. Changes in money-market rates will affect yields. However, movement will be substantially less dynamic than in earlier cycles, and there will be a considerable transatlantic gradient. The low risk of inflation is a particularly strong indicator

of this development. In Europe, the sharp rise of the euro will provide additional relief. Yields on 10-year government bonds are not likely to stay above 4.75% for any extended time.

The stock markets will be buoyed by the improving overall economic prospects. Additionally, companies have been able to improve their profitability on a sustainable basis by restructuring. The projected increase in yields on the bond market is not substantial enough to dampen the mood. It will not have adverse effects. Hence there is much to argue that the three-year bear market is over, with prospects for further price gains.

The Bank expects expansion to be moderate in 2004. Total assets will grow about 3% each for this year and next. Operating income for 2004 will match the 2003 level. Gains in net interest income and net commission income will be slightly lower than in 2003, but lower costs will improve the picture all the same. Since the Bank's staff expansion will then be complete, personnel expenses will rise only slightly. Administrative expenses will recede somewhat under rigorous cost management, combined with the expiration of service contracts with WestLB AG that helped Landesbank NRW get established. The investment interest in WestLB AG could also have a substantial effect on the Bank's net income – in both a negative and a positive sense. Preserving the proportional

interests of Landesbank NRW's guarantors, and subject to the conditions precedent that the Restructuring Act (Umstrukturierungsgesetz) must take effect and that the guarantors must service the resulting new shares of WestLB AG, the Managing Board has decided to increase the capital stock by € 33 million out of authorised capital, in the form of a contribution in kind, to € 533 million. The Guarantors' Meeting of March 3, 2004, approved the associated amendment of the articles and bylaws. The conditionally authorised capital will consequently be reduced by the same amount.

The Bank expects that new business in economic development will expand slightly. The incipient economic revival leads the Bank to assume that capital spending will increase, with a consequent rise in demand for development funds. The reconception of the state's programme for Financing New Companies and Growth (GuW), currently being prepared in cooperation with the KfW's banking group, will lend further impetus. Additionally, since the beginning of 2004 the Bank has handled the development loans of the Landwirtschaftliche Rentenbank on behalf of the savings banks in North Rhine-Westphalia and Brandenburg.

In the promotion of home-ownership, the reduction in the homeowner's subsidy and the early action homeowners took in previous years will presumably keep growth slight. The housing stock modernisation programme

adopted by the federal government in spring 2003 will provide positive momentum. All in all, the amount of development funding disbursed for this purpose is expected to remain unchanged, since high repayment levels are also expected.

In financing for equity investments, the Bank will expand its range of equity financing options for small and medium enterprises in North Rhine-Westphalia, consistently with the EU's requirements for aid and in accordance with Understanding II. To this end, the Bank is planning to set up an "SME Fund" with € 75 million in resources. It is to be used to finance equity solutions for SMEs in North Rhine-Westphalia within individual limits of 1 to 7 million €, primarily in the form of mezzanine capital. This is a mixed form of financing that may include characteristics of both equity and borrowings. Depending on its structuring, mezzanine capital may be equity – for example, a silent interest or equity represented by participation certificates – or debt, such as a subordinated loan. Mezzanine capital is a flexible financing tool that falls part way between equity and debt in terms of reporting.

In infrastructure financing, NRW.BANK expects that transactions in North Rhine-Westphalia will gain substantially in the next few years. The PPP Task Force of the NRW Ministry of Finance has already identified a number of pilot projects that are gradually to be implemented. Several municipal projects will be carried out

to upgrade and restore schools and administrative buildings. NRW.BANK will contribute its expertise to private-public partnerships in North Rhine-Westphalia.

Refinancing activities will be brought into line with the requirements of an infrastructure and economic development bank during 2004. As part of Understanding II regarding development banks, the Bank will benefit from institutional and guarantor liability beyond 2005. And the Bank's guarantors will furnish it with an explicit refinancing guarantee for its liabilities. The Bank will apply the advantages resulting from these tools entirely without influencing competition, within the development business. In this connection, the range of uncovered bonds will expand substantially. Depending on how the market performs, investors will also be offered bonds denominated in foreign currencies. To expand the product range further and enable the Bank to meet investor needs flexibly, a Debt Issuance programme and a short-maturity Commercial Paper programme are planned for the first half of the year. For the year as a whole, total new issues are likely to remain at the level of the previous year.

In order to be able to invest directly in WestLB AG, Landesbank NRW's guarantors reached an agreement on a direct investment option that was also incorporated into the Bank Redefining Act (Neuregelungsgesetz). The direct investment option gives the

Savings Banks and Giro Associations, as well as the Regional Associations, the right to withdraw as Landesbank NRW guarantors by transferring their rights and obligations to Landesbank NRW. If they exercise this option, the guarantors will receive a stake in the equity capital of WestLB AG equivalent to the value of their guarantorship in Landesbank NRW. In that case, Landesbank NRW's stake in WestLB AG would be reduced accordingly to 50.002%. In an effort to set forth the specific details of this statutory provision, the guarantors entered into an agreement among themselves on December 12, 2001, which stipulates the terms and conditions of the change in their participations. This agreement became part of a framework agreement executed between the guarantors and Landesbank NRW on December 11, 2002.

If the option is exercised in full, the State of North Rhine-Westphalia will be the sole owner of Landesbank NRW. The consequence will be a disproportionate reduction of Landesbank NRW's equity capital. This would have a lasting adverse effect on Landesbank NRW's earnings. To date, one guarantor has indicated an intention to exercise the option.

Strategic Orientation

The Restructuring Act (Umstrukturierungsgesetz) that will take effect on March 31, 2004, establishes the legal framework for the further expansion of NRW.BANK as the main development platform for the State of North Rhine-Westphalia. The Act clearly describes NRW.BANK's duties:

To provide financing

- for safeguarding and improving the small and medium enterprise infrastructure of the economy, especially by providing funding to help establish or stabilise such businesses
- for the promotion of public housing
- as risk capital
- for construction development in cities and smaller municipalities
- as funding for central, regional and local authorities
- for infrastructure development
- for agricultural and forestry programmes, and for programmes in rural areas
- for programmes to support environmental protection, technology and innovation
- for social, cultural and scientific programmes
- for projects in the public interest

NRW.BANK will also act even more extensively than before as an advisor and initiator for development programmes, and will remain the market leader in furnishing lending support for structural policy operations in North Rhine-Westphalia.

This clearly defined course as the infrastructure and economic development bank for the State of North Rhine-Westphalia will entail an even sharper focus on the state government as a client. The NRW.BANK's new location in Düsseldorf demonstrates its proximity to the state's operations. Plans call for the Bank to move in 2006 from

its current three buildings to a new single building on Kavalleriestraße, near the lower house of the state's legislature. NRW.BANK is the sole lessee of the building complex.

A potential solution for accommodating the entire staff in a single centralised building is also shaping up for the Münster location. NRW.BANK is in negotiations with WestLB AG to acquire significant properties in Münster (Friedrichstraße, Warendorfer Straße, Elisabethstraße). This would make it possible to combine staff in one building, instead of the current three locations.

Balance Sheet

of Landesbank Nordrhein-Westfalen as at December 31, 2003

Assets	see Notes No.	€	€	€	31. 12. 2002 € thousands
Cash					
a) cash on hand				--	(–)
b) balances with central banks			43,115,590.24		(–)
including:					
with Deutsche Bundesbank			43,115,590.24 €		
				43,115,590.24	165
Receivables from banks					
	1, 20				
a) payable on demand			614,460,564.97		(838,444)
b) other			37,012,962,491.75		(39,386,805)
				37,627,423,056.72	40,225,249
Receivables from customers					
	2, 3, 20			28,027,040,080.20	27,118,998
thereof:					
secured by mortgages			1,590,607,453.69 €		
loans to public authorities and entities under public law			22,116,986,660.38 €		
Bonds and other interest-bearing securities					
	4, 20, 22				
a) money market instruments					
aa) of public institutions			--		(50,600)
thereof:					
eligible as collateral for Deutsche Bundesbank advances			-- €		(50,600)
b) bonds and notes					
ba) of public institutions			19,645,010,464.04		(12,223,888)
thereof:					
eligible as collateral for Deutsche Bundesbank advances			18,228,648,329.12 €		
bb) of other issuers			10,686,516,485.54		(10,880,461)
thereof:					
eligible as collateral for Deutsche Bundesbank advances			10,346,445,193.02 €	30,331,526,949.58	(23,104,349)
c) bonds issued by the Bank			109,578,031.91		(239,825)
principal amount			103,869,000.00 €	30,441,104,981.49	23,394,774
				96,138,683,708.65	90,739,186
			To be carried forward:		

Liabilities	see Notes No.	€	€	31. 12. 2002 € thousands
Liabilities to banks	11, 20, 23			
a) payable on demand		33,363,819.37		(23,843)
b) with agreed maturity or period of notice		<u>33,847,149,152.95</u>		(35,774,931)
				33,880,512,972.32
Liabilities to customers	12			
a) other liabilities				
aa) payable on demand		84,053,428.10		(63,643)
ab) with agreed maturity or period of notice		<u>12,268,942,158.33</u>		(11,424,256)
			<u>12,352,995,586.43</u>	(11,487,899)
				12,352,995,586.43
Certificated liabilities	13, 20, 25			
a) bonds and notes issued by the Bank			<u>49,151,948,805.36</u>	(43,212,157)
				49,151,948,805.36
Trust liabilities	14			
thereof:				
trust loans 2,691,208,155.70 €				2,721,215
				2,691,208,155.70
Other liabilities	15			
				74,661,878.53
Deferred items	16, 20			
				519,219,015.99
Provisions	17			
a) for pensions and similar obligations		592,695,047.82		(541,523)
b) tax reserve		10,410,087.68		(3,943)
c) other		<u>200,770,445.61</u>		(169,925)
				803,875,581.11
Subordinated liabilities	18			
thereof:				
due in less than two years 249,561,567.22 €				324,562
				349,561,567.22
			To be carried forward:	
			99,823,983,562.66	94,593,512

Balance Sheet

of Landesbank Nordrhein-Westfalen as at December 31, 2003

Assets	see Notes No.	€	€	31. 12. 2002 € thousands
			To be carried forward:	96,138,683,708.65
Equity investments in non-affiliated companies	5			105,378,917.03
thereof:				85,640
equity investments in banks		52,989,508.98 €		
Equity investments in affiliated companies	5			3,464,241,662.12
thereof:				5,258,622
banks		3,400,000,000.00 €		
Trust assets	6			2,691,208,155.70
thereof:				2,721,215
trust loans		2,691,208,155.70 €		
Tangible fixed assets	8			11,187,241.31
				2,918
Other assets	7			478,763,150.44
				443,803
Deferred items	9, 20			2,138,564,556.33
				2,327,475
Total assets	20			105,028,027,391.58
				101,578,859

Liabilities	see Notes No.	€	€	31. 12. 2002 € thousands
			To be carried forward:	94,593,512
Capital with participation rights	18			250,021,729.86
thereof:				250,022
due in less than two years		--	€	
Fund for general banking risks				35,000,000.00
Equity capital	19			
a) subscribed capital		500,000,000.00		(500,000)
b) capital reserves		4,416,622,099.06		(6,212,125)
thereof:				
special reserves pertaining to the Wohnungsbauförderungsanstalt		3,016,622,099.06	€	
c) reserves from retained earnings				
ca) reserves required by Landesbank NRW's statutes		2,400,000.00		(2,400)
d) profit for the year			--	(20,800)
				4,919,022,099.06
				6,735,325
Total liabilities	20			105,028,027,391.58
				101,578,859
Contingent liabilities	21			
liabilities from guarantees and indemnity agreements				1,116,142,998.69
				671,985
Other commitments	21			
irrevocable credit commitments				2,220,833,157.60
				1,845,640
Administered funds				243,915,555.23
				282,153

Profit and Loss Account

of Landesbank Nordrhein-Westfalen for the Period January 1 – December 31, 2003

	see Notes No.	€	€	1.1.–31.12. 2002 € thousands
Interest income from				
a) lending and money market transactions		3,336,131,591.70		(3,479,386)
b) interest-bearing securities and book-entry securities		<u>1,238,812,350.20</u>		(1,046,954)
			4,574,943,941.90	(4,526,340)
Interest expenses			<u>4,234,060,260.30</u>	(4,240,229)
				340,883,681.60
				286,111
Income from				
a) equity investments in non-affiliated companies			2,538,237.72	(3,879)
b) equity investments in affiliated companies			<u>9,997,382.58</u>	(12,658)
				12,535,620.30
				16,537
Income from profit pooling, profit transfer and partial profit transfer agreements				2,395,021.17
				2,950
Commission income	26		17,782,289.43	(14,500)
Commission expenses			<u>7,041,147.38</u>	(6,234)
				10,741,142.05
				8,266
Other operating income	27			14,188,281.82
				4,010
General administrative expenses				
a) personnel expenses				
aa) wages and salaries	28		52,075,609.62	(45,912)
ab) Social security contributions and expenses for pensions and other employee benefits			<u>20,509,999.06</u>	(31,778)
thereof:			72,585,608.68	(77,690)
for pensions 14,304,738.40 €				(26,455)
b) other administrative expenses			<u>86,569,481.48</u>	(68,093)
				159,155,090.16
				145,783
Depreciation and value adjustments on intangible and tangible fixed assets				1,584,503.84
				951
Other operating expenses	27			20,773,706.45
				7,432
Write-downs and value adjustments on loans and certain securities as well as allocations to loan loss provisions				338,524,507.54
thereof:				
Transfer to fund for general banking risks 35,000,000.00 €				(–)
			To be carried forward:	– 139,294,061.05
				15,262

	see Notes No.	€	€	1.1.-31.12. 2002 € thousands	
			To be carried forward:	- 139,294,061.05	15,262
Depreciation and value adjustments on investments, shares in affiliated companies and securities treated as tangible fixed assets	29			1,607,060,874.20	-
Income from revaluation of equity investments in non-affiliated companies, equity investments in affiliated companies and securities treated as tangible fixed assets				-.	81,707
Result from normal operations				- 1,746,354,935.25	96,969
Extraordinary expenses	28		6,195,841.95		(6,443)
Extraordinary result				- 6,195,841.95	- 6,443
Taxes on income and revenues			17,554,541.16		(4,195)
Other taxes not shown under other operating expenses			500.81		(77)
				17,555,041.97	4,272
Result of the year				- 1,770,105,819.17	86,254
Allocation to capital of Wohnungsbauförderungsanstalt NRW				25,397,095.70	63,054
Transfer from capital reserves	30			1,795,502,914.87	-
Allocations of net income to reserves from retained earnings					
a) reserves required by Landesbank NRW's statutes			-.		(2,400)
				-.	2,400
Profit for the year				-.	20,800

Notes

to the Landesbank Nordrhein-Westfalen Annual Accounts at December 31, 2003

Preparation of Landesbank NRW's Annual Accounts

The annual accounts of Landesbank Nordrhein-Westfalen (Landesbank NRW) were prepared in accordance with the provisions of the German Commercial Code (HGB) and the Ordinance Regarding Accounting for Banks (RechKredV). Information that may appear either in the balance sheet or the Notes is included in the Notes. Amounts in the Notes and Statement of Financial Condition are given in € millions.

In accordance with § 4 of its articles and bylaws, Landesbank NRW transferred the registered capital and reserves of the Wohnungsbauförderungsanstalt Nordrhein-Westfalen (Wfa), as well as the state housing promotion assets, to the special reserves pertaining to the Wohnungsbauförderungsanstalt. Wfa's profit of € 25.4 million (2002: € 63.1 million) is to be allocated to the state housing promotion assets pursuant to § 17 of the German Housing Promotion Act (WBFG) in conjunction with § 27 of Landesbank NRW's articles and bylaws.

Wfa's assets and liabilities are included in the respective items of Landesbank NRW's annual accounts. Claims and liabilities as well as income and expenses between Landesbank NRW and Wfa are netted. Wfa's profit/loss for the year is included in Landesbank NRW's results and is allocated to the state housing promotion assets as mandated by law.

Accounting and Valuation Methods

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

Claims are reported at their amortised cost less any 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 generally 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. Non-interest-bearing loans to employees are reported at their amortised cost in accordance with tax regulations. The non-interest or low-interest-bearing loans of the Wohnungsbauförderungsanstalt (Wfa) are carried at their net present value. Zero-coupon bonds are carried as liabilities at their issue price plus interest accrued as of the reporting 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. Value adjustments were deducted from assets. Non-performing loans were written off.

Securities held in the liquidity reserve and hedging transactions assigned thereto are valued strictly at the lower of cost or market.

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 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.

The valuation results of derivative transactions, which are carried in the investment portfolio as microhedges for specific transactions or as macrohedges for the Bank's overall exposure to interest-rate risks (almost exclusively euro interest-rate swaps), are not recorded.

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 anticipated losses from open positions. 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). On the basis of an expert opinion about a decision of the German Federal Tax Court (Bundesfinanzhof), a provision was again allocated in fiscal 2003 for additional benefits guaranteed to pensioners and current employees when they retire.

There are provisions for general bank risks pursuant to § 340 f of the German Commercial Code (HGB). Allocations were made to these provisions in the year under review.

In addition, a fund for general bank risks was established in accordance with § 340 g of the German Commercial Code.

Foreign currency amounts have been translated in accordance with § 340 (h) of the German Commercial Code (HGB) and statement BFA 3/95 of the Banking Committee of the IDW. Assets and liabilities denominated in foreign currencies were translated using the reference rate of the European System of Central Banks (ESCB) effective on December 30, 2003.

Balance Sheet

Claims on Banks (1)

Breakdown by Maturity	Dec. 31, 2003	Dec. 31, 2002
	€ millions	€ millions
Payable on demand	614.5	838.4
With residual maturities of		
– up to 3 months	3,849.4	4,792.6
– between 3 months and 1 year	3,353.4	3,517.9
– between 1 and 5 years	17,557.3	17,732.4
– more than 5 years	12,252.8	13,343.9
Total claims on banks	37,627.4	40,225.2

Claims on other banks include claims on affiliated companies in the amount of € 3,597.1 million (2002: € 4,500.8 million) and claims on companies in which equity investments are held in the amount of € 2,549.6 million (2002: € 3,991.9 million).

Claims on Customers (2)

Breakdown by Maturity	Dec. 31, 2003	Dec. 31, 2002
	€ millions	€ millions
With residual maturities of		
– up to 3 months	949.2	1,175.9
– between 3 months and 1 year	2,278.0	1,609.9
– between 1 year and 5 years	9,861.5	8,819.1
– more than 5 years	14,938.3	15,514.1
Total claims on customers	28,027.0	27,119.0
including		
– claims with indefinite maturities	13.4	7.5
– loans of the Wohnungsbauförderungsanstalt	4,746.1	4,615.8

Claims on customers include claims on affiliated companies in the amount of € 11.6 million (2002: € 11.3 million) and claims on companies in which equity investments are held in the amount of € 130.1 million (2002: 139.2 million).

Claims Secured by Mortgages (3)

Breakdown by Maturity	Dec. 31, 2003	Dec. 31, 2002
	€ millions	€ millions
Residual maturities of claims on customers		
– up to 3 months	19.5	18.1
– between 3 months and 1 year	50.0	55.2
– between 1 year and 5 years	262.5	292.2
– more than 5 years	1,258.6	1,442.3
Total claims secured by mortgages	1,590.6	1,807.8

Bonds and Other Interest-Bearing Securities (4)

Marketability	Dec. 31, 2003	Dec. 31, 2002
	€ millions	€ millions
Bonds and other interest-bearing securities		
– listed on a stock exchange	26,542.6	18,334.4
– not listed on a stock exchange	3,898.5	5,060.4
Total bonds and other interest-bearing securities	30,441.1	23,394.8
including:		
amounts that will become due by December 31 of the following fiscal year	3,677.6	3,742.0

Bonds and other interest-bearing securities include € 124.9 million in securities of affiliated companies (2002: € 0 million) and € 1,173.1 million in securities of companies in which equity investments are held (2002: € 1,536.4 million).

Of the total bonds and other interest-bearing securities, € 105.8 million (2002: 422.9 million) is held as part of the liquidity reserve and € 30,335.3 million (2002: € 22,971.9 million) is held in the investment portfolio.

At December 31, 2003, Landesbank NRW carried € 5,440.7 million (2002: € 110.9 million) in financial assets on its books that were funded at a fixed rate and valued as fixed assets.

Equity Investments in Affiliated and Non-Affiliated Companies (5)

Landesbank NRW holds € 105.4 million (2002: € 85.6 million) in equity investments in non-affiliated companies and € 3,464.2 million (2002: € 5,258.6 million) in equity investments in affiliated companies, € 3,400.0 million (2002: € 5,195.5 million) of which is certificated as marketable securities. None of the securities held are listed on a stock exchange.

The itemised list of Landesbank NRW's holdings pursuant to § 285 No. 11 of the German Commercial Code (HGB) has been deposited with the Local Courts in Düsseldorf and Münster.

Affiliated and non-affiliated companies in which Landesbank NRW holds a substantial interest:

Company	Interest	Book Value	Book Value
		Dec. 31, 2003	Dec. 31, 2002
	%	€ millions	€ millions
Banks			
WestLB AG	100.0	3,400.0	5,195.5
InvestitionsBank des Landes Brandenburg (ILB)	50.0	51.1	51.1
Other Companies			
Westdeutsche Lotterie GmbH & Co. OHG	100.0	25.5	25.5
Westdeutsche Spielbanken GmbH & Co. KG	100.0	25.6	25.6
Westdeutsche Spielcasino Service GmbH	100.0	6.8	6.8
LEG Landesentwicklungsgesellschaft NRW GmbH	22.3	32.3	32.3
Ströer Out-of-Home Media AG	–	20.0	–

Landesbank NRW is the general partner of Westdeutsche Lotterie GmbH & Co. OHG, Münster.

Trust Assets (6)

Breakdown by asset type	Dec. 31, 2003	Dec. 31, 2002
	€ millions	€ millions
Claims on banks	200.2	226.2
Claims on customers	2,491.0	2,494.9
Bonds and notes	0.0	0.1
Total trust assets	2,691.2	2,721.2

Other Assets (7)

This position, totalling € 478.8 million (2002: € 443.8 million), includes the following major components:

	Dec. 31, 2003	Dec. 31, 2002
	€ millions	€ millions
Claims on WestLB AG for reimbursement of pension obligations	453.6	413.5
Claims from profit and loss pooling agreements with companies in which equity investments are held	13.9	16.4
Land and buildings acquired as part of bail-out transactions	4.2	2.5
Refund claims for corporate income tax and investment income tax withheld on investment income and dividends	1.1	1.7
Paid premiums for options	1.8	2.6
Offsetting items with WestLB AG	0.9	4.9

Fixed Assets (8)

Schedule of Fixed Assets	Acquisition Cost/Cost of Production	Additions	Retirements	Depreciation	Net Book Value	Depreciation in the Fiscal Year
	Jan. 1, 2003			Total		
	€ millions	€ millions	€ millions	€ millions	€ millions	€ millions
Bonds and other interest-bearing securities forming part of fixed assets	22,518.8				29,726.4	0.0
Equity investments in affiliated companies	5,258.7				3,464.2	1,795.5
Equity investments in non-affiliated companies	85.6				105.4	0.0
Office equipment	3.6	9.9	0.6	1.7	11.2	1.6
		Net change pursuant to § 34 (3) sentence 2 RechKredV: € 5,432.9 million				

Deferred Items (9)

Breakdown of deferred items	Dec. 31, 2003	Dec. 31, 2002
	€ millions	€ millions
Discounts from underwriting business	218.4	260.1
Discounts from liabilities	187.3	210.4
Prepayment from discount of promotion activities	1,658.9	1,847.3
Pre-paid swap fees	73.1	0.0
Other	0.8	9.7
Total deferred items	2,138.5	2,327.5

Pledged Assets (10)

Of the assets shown, € 3,267.2 million was pledged as part of genuine repurchase transactions.

Liabilities to Banks (11)

Breakdown by maturity	Dec. 31, 2003	Dec. 31, 2002
	€ millions	€ millions
Payable on demand	33.4	23.9
With residual maturities of:		
– up to 3 months	8,469.1	9,262.8
– between 3 months and 1 year	3,734.7	4,582.8
– between 1 year and 5 years	8,420.8	8,437.6
– more than 5 years	13,222.5	13,491.7
Total liabilities to banks	33,880.5	35,798.8

Liabilities to banks include liabilities of € 6,722.3 million (2002: € 13,398.8 million) to affiliated companies and € 163.9 million (2002: € 108.6 million) to companies in which equity investments are held.

Liabilities to Customers (12)

Breakdown by maturity	Dec. 31, 2003	Dec. 31, 2002
	€ millions	€ millions
Payable on demand	84.1	63.6
With residual maturities of:		
– up to 3 months	461.3	535.0
– between 3 months and 1 year	369.2	359.8
– between 1 year and 5 years	2,889.9	3,117.9
– more than 5 years	8,548.5	7,411.6
Total liabilities to customers	12,353.0	11,487.9

Certificated Liabilities (13)

Of the € 49,151.9 million (2002: € 43,212.2 million) in notes issued, € 11,786.8 million (2002: € 9,953.7 million) is due in the following year. There are no certificated liabilities to affiliated companies (2002: € 801.5 million).

Trust Liabilities (14)

Breakdown according to balance sheet items:	Dec. 31, 2003	Dec. 31, 2002
	€ millions	€ millions
Liabilities to banks	131.4	158.4
Liabilities to customers	1,717.5	1,676.8
Other Liabilities	842.3	886.0
Total trust liabilities	2,691.2	2,721.2

Other Liabilities (15)

This position, totalling € 74.7 million (2002: € 63.5 million), includes the following major components:

	Dec. 31, 2003	Dec. 31, 2002
	€ millions	€ millions
Interest to be paid on existing profit participation rights and subordinated liabilities once the annual accounts are approved	37.0	37.0
Funds from the State of North Rhine-Westphalia that have not yet been disbursed	21.4	10.7
Offsetting items from valuation of foreign currencies	10.4	
Variation margin	1.6	
Premiums on swaptions	0.9	
Taxes	0.9	4.5

Deferred Items (16)

Breakdown of deferred items	Dec. 31, 2003	Dec. 31, 2002
	€ millions	€ millions
Premiums from own bonds issued	129.8	66.9
Swap fees received in advance	317.4	107.0
Refinancing adjustments pertaining to Wfa	63.7	88.0
Other	8.3	8.1
Total deferred items	519.2	270.0

Provisions (17)

The provision for pensions includes € 453,6 million (2002: € 413.5 million) in pension obligations to employees of WestLB AG who have claims for or are entitled to a pension under the laws relating to civil servants. Under Art. 1 § 4 (1) Sentence 4 of the Bank Redefining Act, these obligations passed from Westdeutsche Landesbank Girozentrale to Landesbank NRW. Landesbank NRW is entitled to reimbursement from WestLB AG in the same amount. The entitlement itself will be adjusted each year according to actual needs.

This also includes € 149.0 million (2002: € 135.4 million) for additional benefits.

Subordinated Liabilities and Profit Participation Rights (18)

Of the subordinated liabilities of € 349.6 million (2002: € 324.6 million), the subordinated bearer bond in the amount of € 236.8 million (due 2004; interest rate 7%) issued by Westdeutsche Landesbank Girozentrale in 1993 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 subordinated liabilities, an amount valued at € 249.6 million (2002: € 249.6 million) have a residual maturity of less than 2 years. The original maturities range between 11 and 25 years.

The amount of subordinated liabilities increased by € 25 million (2002: € 75 million) in fiscal 2003 because of new issues. Taking these new issues into account, subordinated liabilities and profit participation rights closed the year at € 599.6 million (2002: € 574.6 million).

Capital with participation rights remained unchanged at € 250.0 million.

Interest expense of € 23.1 million (2002: € 19.1 million) was incurred for subordinated liabilities.

There are no subordinated liabilities to affiliated companies.

Subordinated liabilities carried by Landesbank NRW comply with the requirements of § 10 (5 a) of the German Banking Act (KWG); a right to terminate without notice has not been agreed.

Capital and Reserves (19)

At December 31, 2003, Landesbank NRW had a subscribed capital of € 500.0 million. The reserves totalled € 4,419.0 million (2002: € 6,214.5 million).

Landesbank NRW's capital and reserves comprise the following:

	Dec. 31, 2003	Dec. 31, 2002
	€ millions	€ millions
Equity Capital pursuant to Commercial Code		
Subscribed capital	500.0	500.0
Capital reserves	4,416.6	6,212.1
including:		
Special reserves pertaining to Wohnungsbauförderung	(3,016.6)	(3,016.6)
Reserves from retained earnings		
– pursuant to articles and bylaws	2.4	2.4
– other	0.0	0.0
Total	4,919.0	6,714.5

Once the annual accounts are approved, the regulatory capital and reserves of Landesbank NRW under § 10 of the German Banking Act (KWG) will amount to € 4,477.1 million (2002: € 6,200.5 million).

Foreign Currency Assets/Foreign Currency Liabilities (20)

At year-end, Landesbank NRW had foreign currency assets valued at € 136.4 million (2002: € 4.0 million) and foreign currency liabilities valued at € 352.4 million (2002: € 4.0 million).

Contingent Liabilities and Other Commitments (21)

The contingent liabilities of € 1,116.1 million (2002: € 672.0 million) stem from the current lending business and from liquidity lines.

Of the € 2,220.8 million (2002: € 1,845.6 million) in irrevocable credit commitments, € 1,806.0 million (2002: € 1,793.7 million) were for commitments made in connection with the Wohnungsbauförderungsanstalt.

Assets Used as Collateral (22)

Bonds and notes totalling € 4,096.6 million (2002: € 518.6 million) were pledged to Deutsche Bundesbank as collateral for loans. In addition, securities with a par value of € 50.0 million (2002: € 50.0 million) were deposited as collateral for forward contracts with EUREX (euroexchange, electronic futures exchanges). In addition, securities in the amount of € 325.0 million were pledged as collateral in connection with repo transactions.

Collateral for Own Liabilities (23)

There is € 9,788.0 million (2002: € 8,498.6 million) in collateral for Landesbank NRW's liabilities to banks.

Other Financial Obligations (24)

The annual long-term lease obligations amount to € 1.8 million.

Cover (25)

All issues of Landesbank NRW requiring cover were covered in accordance with the statutory provisions and the articles and bylaws of Landesbank NRW.

At December 31, 2003, the details of Landesbank NRW's cover were as follows:

Cover	Dec. 31, 2003	Dec. 31, 2002
	€ millions	€ millions
Mortgage-backed bonds	609.3	1,404.2
Assets used for covering purposes		
– claims on banks	0.0	0.9
– claims on customers	1,577.2	1,793.6
Excess cover	967.9	390.3
Bonds of public authorities and entities under public law	70,253.2	66,006.6
Assets used for covering purposes		
– claims on banks	32,644.5	33,269.6
– claims on customers	21,552.9	20,702.2
– bonds and notes	21,457.5	20,568.5
Excess cover	5,401.7	8,533.7

Statement of Income

Services Rendered for Third Parties (26)

The net commission income includes € 9.4 million (2002: € 9.3 million) resulting from the administration of loans and subsidies held in trust.

Other Operating Income and Expenses (27)

The principal contribution towards other operating income is made up of € 1.1 million (2002: € 1.5 million) in cash payments and payments from settlements involving the improper use of public housing and € 6.4 million (2002: € 0.7 million) in income from reversal of other provisions.

Other operating expenses include € 20.4 million (2002: € 6.6 million) in allocations towards the reserve for additional benefits established for the employees of WestLB AG.

Extraordinary Expenses (28)

This item includes € 6.2 million (2002: € 6.4 million) in wages and salaries that arose in connection with the release of employees at the Wohnungsbauförderungsanstalt from active duty. The comparable number for the prior year (€ 6.4 million) was derived from general administrative expenses (personnel expenses).

Write-Downs on Investments, Shares of Affiliated Companies and Securities Treated as Assets (29)

The write-down on the book value of WestLB AG in the amount of € 1,795.5 million compares with income from investment securities of € 188.5 million.

Withdrawals from Capital Reserves (30)

The amount of € 1,795.5 million was withdrawn from the capital reserves. This amount corresponds to the write-down on the book value of WestLB AG.

Miscellaneous

Other Obligations

Landesbank NRW has other obligations pursuant to Art. 1 § 3 Sentence 1 of the Bank Redefining Act.

Landesbank NRW is liable for InvestitionsBank des Landes Brandenburg (ILB) in the amount of three times its capital contribution.

Deposit Insurance

As resolved by the members of the German Savings Banks and Giro Association (DSGV) on November 28, 2002, with retroactive effect as of January 1, 2002, Landesbank NRW was accepted as a member into the security reserves of the Landesbanken/Girozentralen. These security reserves constitute protection for contributing banks within the meaning of § 12 of the German Deposit Protection and Investor Compensation Act (Einlagensicherungs- und Anlageentschädigungsgesetz, 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 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 and are linked by rules and regulations that provide for offsetting in cases where coverage is claimed (so-called overflow agreements).

Forward Transactions

The total nominal value of derivative transactions was € 64,075 million (2002: € 47,797 million) and was spread out over the following interest-rate and currency-linked products:

Derivative Transactions – Volume

	Nominal Values		Credit Risks Equivalents		Replacement Costs	
	Dec. 31, 2003 € millions	Dec. 31, 2002 € millions	Dec. 31, 2003 € millions	Dec. 31, 2002 € millions	Dec. 31, 2003 € millions	Dec. 31, 2002 € millions
Interest-rate risks						
Interest-rate swaps	53,574	46,027	364	263	1,219	995
Swaptions						
– bought	128	39	–	–	1	–
– sold	1,636	1,168	–	–	–	–
Caps, Floors	719	231	1	–	–	–
Stock market contracts	7,081	–	–	–	–	–
Other Forward rate agreements	512	332	7	3	9	8
Total interest-rate risks	63,650	47,797	372	266	1,229	1,003
Currency risks						
Interest rate/currency swap						
Currency swap	425	–	6	–	8	–
Total currency risks	425	–	6	–	8	–
Total	64,075	47,797	378	266	1,237	1,003

The average total nominal value of the derivative and other forward transactions that Landesbank NRW entered into between January 1 and December 31, 2003 was € 54,129 million (2002: € 42,698 million).

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 percentage add-on are included when calculating the credit risk equivalents for all derivatives. There is no netting for the purpose of calculating average credit risk equivalents.

Close-out netting is used to calculate the credit risk equivalents for banking regulatory purposes. As a result, the average credit risk equivalents declined by approx. 78.6% (2002: 88.9%). One of the principal causes of the decline was the large concentration within interest-rate derivatives of transactions entered into with WestLB AG as the counterparty; Landesbank NRW and WestLB AG have a netting agreement.

The breakdown of derivative transactions by counterparty is as follows:

Derivatives – Classification of Counterparties

	Nominal Values		Credit Risks Equivalents		Replacement Costs	
	Dec. 31, 2003	Dec. 31, 2002	Dec. 31, 2003	Dec. 31, 2002	Dec. 31, 2003	Dec. 31, 2002
	€ millions	€ millions	€ millions	€ millions	€ millions	€ millions
OECD banks	53,390	47,715	371	265	1,227	1,002
Non-OECD banks	–	–	–	–	–	–
Customers (incl. stock market contracts)	10,652	82	7	1	10	1
Public-sector entities	33	–	–	–	–	–
Total	64,075	47,797	378	266	1,237	1,003

The interest-rate derivatives are used as microhedges for specific transactions or as macrohedges for overall exposure exclusively in Landesbank NRW's proprietary business. The result is captured in net interest income.

The interest-rate contracts are spread across the entire spectrum of maturities, with approx. 38% (2002: 38%) having a residual maturity of more than five years.

Derivatives - Classification by Maturity

Nominal values	Interest-rate risks		Currency risks	
	Dec. 31, 2003	Dec. 31, 2002	Dec. 31, 2003	Dec. 31, 2002
	€ millions	€ millions	€ millions	€ millions
Residual maturity				
– up to 3 months	5,560	8,267	–	–
– 3 months to 1 year	11,912	7,757	–	–
– 1 to 5 years	22,132	13,532	321	–
– more than 5 years	24,046	18,241	104	–
Total	63,650	47,797	425	–

The volume of credit derivatives where Landesbank NRW is the guarantee (buyer) amounted to € 1,025.4 million (previous year: € 1,157.9 million) at December 31, 2003. Those where Landesbank NRW is the guarantor (seller) amounted to € 900 million (2002: € 500 million) and have been included in contingent liabilities.

Number of Employees

On average, Landesbank NRW employed 433 (previous year: 331) female staff and 431 (2002: 355) male staff in 2003, with a total staff of 862 at year end.

Remuneration

The total remuneration paid to members of the Managing Board was € 1.6 million (2002: € 0.8 million) in 2003. That paid to members of the Supervisory Board was € 0.3 million (2002: € 0.3 million). The Advisory Boards of INVESTITIONS-BANK NRW received € 0.1 million (2002: € 0.1 million) for their work.

Loans

The members of the Managing Board and Supervisory Board received advances and loans totalling € 4.7 million (2002: € 5.1 million).

Disclosure pursuant to § 340 a (4) of the German Commercial Code (HGB) of Seats Held

Seats held by members of the Managing Board

Dr. Bernd Lüthje

LEG Landesentwicklungsgesellschaft
NRW GmbH
WestLB AG

Ernst Gerlach

Bremer Spielcasino GmbH & Co. KG
Casino Duisburg GmbH & Co. KG
Georgsmarienhütte GmbH
InvestitionsBank des Landes Brandenburg
LEG Landesentwicklungsgesellschaft
NRW GmbH
Mannesmannröhren-Werke AG
Westdeutsche Lotterie GmbH & Co. OHG
Westdeutsche Spielbanken GmbH & Co. KG

Dr. Ulrich Schröder

InvestitionsBank des Landes Brandenburg
ProHealth AG (from May 26, 2003)
WestLB Systems GmbH
(until December 31, 2003)

Seats held by employees

Rainer Hofmann

Aachener Siedlungs- und
Wohnungsgesellschaft mbH
Deutsche Wohnungsgesellschaft mbH
(DEWOG)
Ruhr-Lippe Wohnungsgesellschaft mbH

Guarantors' Meeting/Supervisory Board/Managing Board

Guarantors' Meeting

Chairman and Deputy Chairmen

Harald Schartau, Chairman

Minister of Economics and Labour of
North Rhine-Westphalia, Düsseldorf

Jochen Dieckmann, MdL

Deputy Chairman

Minister of Finance of
North Rhine-Westphalia, Düsseldorf

Udo Molsberger

Deputy Chairman

Regional Director of the Regional
Association of the Rhineland, Cologne

Wolfgang Schäfer

Deputy Chairman

Regional Director of the Regional
Association of Westphalia-Lippe, Münster

Dr. Karlheinz Bentele

Deputy Chairman

President
of the Savings Banks and Giro Association
of the Rhineland, Düsseldorf

Dr. Rolf Gerlach

Deputy Chairman

President
of the Savings Banks and Giro Association
of Westphalia-Lippe, Münster

Members Appointed by the Guarantors' Meeting

Dr. Josef Fischer

Under Secretary
Ministry of Economics and Labour of
North Rhine-Westphalia, Düsseldorf

Dr. Thomas Griese

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

Jörg Hennerkes

Under Secretary
Ministry of Transport, Energy and State
Planning of North Rhine-Westphalia,
Düsseldorf

Bernd Kiesow

Senior Principal
Ministry of Finance of
North Rhine-Westphalia, Düsseldorf

Wolfram Kuschke

Minister
Head of the State Chancellery of
North Rhine-Westphalia, Düsseldorf

Manfred Morgenstern

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

Winfried Schittges, MdL

Chairman of the Regional Assembly of the Rhineland, Cologne

Dr. Wolfgang Kirsch

District Administrator
Chairman of the Regional Assembly of Westphalia-Lippe, Warendorf

Michael Kranz

Chairman of the Managing Board of Sparkasse Bonn, Bonn

Dr. Hans-Christian Vollert

District Administrator of the Viersen District, Viersen

Dr. Norbert Emmerich

Chairman of the Managing Board of Sparkasse Münsterland Ost, Münster

Hans Pixa

District Administrator of the Coesfeld District, Coesfeld

Permanent Representatives of the Chairman and Deputy Chairmen of the Guarantors' Meeting

Maria Huesmann-Kaiser

Department Head
Ministry of Economics and Labour of North Rhine-Westphalia, Düsseldorf

Angelika Marienfeld

(until March 25, 2003)
Assistant Secretary
Ministry of Finance of North Rhine-Westphalia, Düsseldorf

Gerhard Heilgenberg

(from March 26, 2003)
Section Head
Ministry of Finance of North Rhine-Westphalia, Düsseldorf

Karl Bechtel

(until April 30, 2003)
Regional Councillor
Regional Association of the Rhineland, Cologne

Harry Voigtsberger

(from May 1, 2003)
Regional Councillor
Regional Association of the Rhineland, Cologne

Dr. Hans-Ulrich Predeick

Regional Councillor
Regional Association of Westphalia-Lippe, Münster

Heinz Biesenbach

Association Director
Savings Banks and Giro Association of the Rhineland, Düsseldorf

Dr. Klaus Wienberg

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

Supervisory Board

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

Dr. Rolf Gerlach
Deputy Chairman
President of the Savings Banks and Giro
Association of Westphalia-Lippe, Münster

Members Appointed by the Guarantors' Meeting

Walter Haas
Chairman, DGB District NRW,
Düsseldorf

Dr. Helmut Linssen, MdL
First Vice President of the State Assembly
of North Rhine-Westphalia, Düsseldorf

Edgar Moron, MdL
Chairman of the SPD Parliamentary Group,
Düsseldorf

Dr. Michael Vesper
Minister of Urban Development
and Housing, Culture and Sport of
North Rhine-Westphalia, Düsseldorf

Paul Heidrich
Chairman of the CDU,
Regional Assembly of the Rhineland,
Mülheim an der Ruhr

Dr. Berthold Tillmann
Lord Mayor of the City of Münster,
Münster

Dieter Pützhofen
Lord Mayor of the City of Krefeld,
Krefeld

Hans Pixa
District Administrator of the Coesfeld District,
Coesfeld

Representatives of the Bank's Staff

Martin Bösenberg
(from January 16, 2003)
Bank employee
Landesbank NRW, Münster

Fred Eicke

Vice President
Landesbank NRW, Düsseldorf

Christian Gnegel

(from January 16, 2003)
Bank officer
Landesbank NRW, Münster

Hannelore Heger-Golletz

Bank employee
Landesbank NRW, Münster

Gerd-Uwe Löschmann

(until January 15, 2003)
Prokurist
WestLB AG, Düsseldorf

Manfred Matthewes

(until January 15, 2003)
Bank officer
WestLB AG, Düsseldorf

Franz-Georg Schröermeyer

Secretary, Financial Services
ver.di Vereinte
Dienstleistungsgewerkschaft, Münster
Regional Office, Münster

Christiane Stascheit

Deputy Director
ver.di Vereinte
Dienstleistungsgewerkschaft, Düsseldorf
Regional Office, Düsseldorf

Michael Tellmann

(from January 16, 2003)
Bank officer
Landesbank NRW, Düsseldorf

Elisabeth Weber

(until January 15, 2003)
Bank officer
WestLB AG, Düsseldorf

**Permanent Representatives of the
Chairman and Deputy Chairmen of the
Supervisory Board****Maria Huesmann-Kaiser**

Department Head
Ministry of Economics and Labour of
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(until March 25, 2003)
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Ministry of Finance of
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Heinz Biesenbach
Association Director
Savings Banks and Giro Association of the
Rhineland, Düsseldorf

Dr. Klaus Wienberg
Association Director
Savings Banks and Giro Association of
Westphalia-Lippe, Münster

Managing Board

Dr. Bernd Lüthje (Chairman)
Ernst Gerlach
Dr. Ulrich Schröder

Düsseldorf, March 26, 2004

Landesbank NRW

The Managing Board
Dr. Lüthje, Gerlach, Dr. Schröder

Auditor's Opinion

We have audited the annual financial statements, together with the bookkeeping system, and the management report of the Company Landesbank NRW, Düsseldorf/ Münster, for the business year from January 1, 2003 to December 31, 2003. The maintenance of the books and records and the preparation of the annual financial statements and management report in accordance with German commercial law and supplementary provisions in the articles of incorporation are the responsibility of the Company's management. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, and the management report based on our audit.

We conducted our audit of the annual financial statements in accordance with § 317 HGB ("Handelsgesetzbuch": "German Commercial Code") and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer in Deutschland (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the annual financial statements in accordance with German principles of proper accounting and in the management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Company and evaluations of possible misstatements are taken into account in

the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the books and records, the annual financial statements and the management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the annual financial statements and management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, the annual financial statements give a true and fair view of the net assets, financial position and results of operations of the Company in accordance with German principles of proper accounting. On the whole the management report provides a suitable understanding of the Company's position and suitably presents the risks of future development.

Düsseldorf, April 2, 2004

PwC Deutsche Revision
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

(Peters)
Wirtschaftsprüfer
(German Public
Auditor)

(ppa. Meteling)
Wirtschaftsprüfer
(German Public
Auditor)



Glossary

Approval Authorities

According to section 3 of the Federal Housing Promotion Act, social housing promotion is performed at state level and each state government has to define its own approval procedures. By way of section 2 of the North Rhine-Westphalian State Housing Promotion Act, responsibility for the approval of social housing promotion funds has been assigned to the various local governments (for towns with populations over 60,000) and district governments. These communities have so-called approval authorities which are entitled to commit promotion funds on behalf of Wohnungsbauförderungsanstalt NRW (Wfa). Based on these commitments under public law, Wfa then extends private-law loans to the recipients of the promotion funds.

Backtesting

Backtesting is a statistical process for validating the accuracy of a → VaR model. The values forecast by the VaR model are compared with the actual changes in value of a given portfolio. In a so-called “clean backtesting” process, this retrospective analysis is performed on a “frozen” portfolio (i.e. on a like-for-like basis).

Basle II

Under the Basle II regulations scheduled to take effect in 2007 (with similar frameworks to be introduced on an EU level), international banks will be required to align their capital backing of credit risks with the actual and specific risks incurred (in contrast to current capital backing rules, which rather generalise these risks). The required amount of capital backing will largely depend on a borrower’s

internal and/or external rating. (→ Standard approach → IRB approach). Collateral provided by the borrower is to be taken into account more specifically. Operational risks will have to be backed with equity capital as well.

CIR

Cost Income Ratio

This ratio captures a financial institution’s administrative expenses as a percentage of interest income, commission income and other operating income.

Confidence Level

Defines the probability of a potential loss actually remaining in the range defined as → VaR.

Country Cap

A limit on the volume of Landesbank’s business within the eurozone.

Credit Committee

The Supervisory Board has delegated a number of its members to the Credit Committee, which decides on the approval of loans to members of the Bank’s boards under section 15 of the German Banking Act. The Credit Committee receives regular reports on the development of the Bank’s loan portfolio from the Managing Board.

Credit Risk Equivalents

Credit risk equivalents are calculated using the market valuation method, taking into account the potential cost of purchasing the required securities based on a current valuation plus an add-on to reflect a potential future increase in the risk.

Derivative Instruments

Derived from underlying values such as stocks, interest rates and indices, these instruments include swaps, options and futures which are traded on stock exchanges or in over-the-counter markets.

Employee Participation

Based on a voluntary agreement between a company and its employees, the latter can participate in the capital of the company. This participation can be of a permanent or temporary nature and requires a formal agreement.

Equity Capital

- Liabile equity capital (acc. to section 10 of the German Banking Act)
The sum total of core capital and supplementary capital subject to certain discounts.
- Commercial equity capital (acc. to section 2 of the German RechKredV)
The sum total of subscribed capital, capital reserves, profit reserves and net profit.

Event Type Categories

A range of clearly defined events for measuring operational risks under
→ Basle II regulations.

Explicit Funding Guarantee

This statutory guarantee means that the owners of a bank are jointly and severally obliged to cover a bank's funding (refinancing) requirements. All existing and future issues of a bank covered by such a guarantee benefit from a "zero solvency weighting" on their creditors' books.

Guarantor Liability

Enacted by way of a law or a directive, "Guarantor Liability" is a direct guarantee extended by a public law entity (state, municipality or institution under public law) to the creditors of a German public-law bank. It obliges the guarantors to indemnify the creditors in case of an insolvency or liquidation of the bank. This guarantee is not deemed to be a general principle of German law but needs to be legally instituted in each specific case.

Guarantors' Meeting

The guarantors of NRW.BANK represent the interests of the Bank's owners. The tasks and responsibilities of the Guarantors' Meeting are defined in the institutional charter of NRW.BANK, which can be viewed at www.nrwbank.de.

IAS/IFRS

The *International Accounting Standards* and the *International Financial Accounting Standards* were drafted by an international professional body in order to facilitate global comparability of annual accounts. Accounts prepared to IAS are designed to provide investors with relevant information on companies' assets, finances and profitability as well as changes thereof over time. Section 292 of the German Commercial Code defines the possible application of IAS on group accounts.

IFRS

According to a decision by the International Accounting Standards Board, all new publications relating to accounting standards will use the wording

“International Financial Reporting Standards” instead of → IAS. All current, previously published and revised standards will continue to use the wording *“International Accounting Standards”* (IAS).

Institutional Liability

Institutional Liability (*“Anstaltslast”*) denotes the state’s obligation to keep a German public-sector institution functioning and solvent at all times. As such, Institutional Liability constitutes a guarantee which is unlimited both in terms of its amount and of its duration. It is deemed to be a general principle of German law.

IRB Approach

Internal Ratings Based Approach

(alternative: → standard approach)

Calculation of the credit risk based on a bank’s own credit risk model and its internal rating system. Certain parameters have been standardised. (→ Basle II allows for two methods: the IRB approach and the advanced IRB approach.) Banks’ internal systems are subject to supervisory approval.

Macro Hedge

These transactions are used by banks as a global hedge of all open risk positions (→ micro hedge). The purpose of hedging is to compensate for risks.

MaH

The *“Minimum Requirements for the Performance of Trading Transactions”* have been defined by Germany’s banking supervisory authority. They define the

functional and organisational frameworks which financial institutions need to have in place. The term *“trading transactions”* is defined more widely than in section 340c para. 1 of the German Commercial Code.

MaIR

The *“Minimum Requirements of Financial Institutions’ Internal Auditing Activities”* have been defined by BaFin, the regulator supervising Germany’s financial services sector. These rules govern the organisation and performance of banks’ internal audit functions. According to these rules, each financial institution must have in place a functional internal audit department which, acting independently on behalf of the managing board, monitors the operational and business processes within the financial institution, its risk management and risk controlling activities as well as its internal control system. The rules also define the principles underlying internal auditing, the performance of audits, the outsourcing of auditing tasks and group auditing.

MaK

Minimum Requirements for Lending Operations

Functional and organisational regulations for the conduct of the lending business.

Micro Hedge

These transactions are used by Banks to hedge individual open risk positions (→ macro hedge).

Mezzanine Financing

Mezzanine capital is a hybrid form of capital combining characteristics of both debt capital and equity capital. Mezzanine financing structures can be flexibly designed as sources of economic capital and as equity capital at the same time. Typical equity-type mezzanine structures include the German "typische/atypische Stille Beteiligung", participation certificates, convertible bonds as well as capital injections which enable investors to benefit from an increase in the company's value.

Netting Agreement

Two parties can agree to "net" their mutual claims and receivables under certain circumstances. A legally binding netting agreement may result in a reduction of the counterparty risk (reduced from the full amount to the net amount); credit risks may be involved in cross-border transactions. In the case of derivatives transactions, netting agreements may lead to reduced capital backing requirements (e.g. under Principle I according to the German Banking Act).

Objective 2 Programme NRW (2000–2006)

Running from 2000 to 2006, this NRW-EU programme is designed to promote economic and social redevelopment in structurally challenged regions of North Rhine-Westphalia.

Portfolio

The entirety of a bank's holdings or parts thereof grouped by types of investment (bonds, shares, derivatives etc.) or types of risk (e.g. interest rate risks).

PPP

Public Private Partnership

A long-term agreement between a public-sector entity and a private-sector contractor/operator aimed at providing certain tasks which were previously provided by the public sector. The agreement should be designed to allocate the project risks in a balanced manner between the two sides. As such, PPP models are a hybrid form of procurement ranging somewhere between traditional procurement and full-fledged privatisation.

Rating

Both tradable securities and their issuers are rated according to standardised parameters. As such, a rating represents an opinion on the issuer's future ability and willingness to pay interest and repay the principal of the debt instrument in a timely and complete manner.

Risk Tolerance

A bank's risk tolerance is defined by its capability to absorb risks (e.g. by way of its equity or subordinated equity capital). Depending on its risk appetite, a bank will usually define an upper limit of value to be put at risk at any given time.

Scenario Analysis

A scenario analysis is performed to predict the future development of a given entity assuming changing scenarios but inherently consistent framework conditions.

Sensitivity Analysis

A method used to gauge a portfolio's response to variations in individual risk factors (e.g. interest rates).

Standard Approach

The standard approach serves to determine the credit risk and the operational risks (→ Basle II).

- Credit risks are assessed using risk classes (external ratings), taking into account fixed weightings (0% -150%). Alternative → IRB approach.
- Operational risks are assessed based on the average annual gross earnings of a given business unit (assuming eight units) in the past three years. A fixed percentage (12%-18%) is assumed for these earnings.
- Other quantification procedures: basis indicator approach and internal measurement approach.

State Housing Assets

The assets of Wohnungsbauförderungsanstalt NRW (Wfa) are booked as a special reserve of NRW.BANK (the so called state housing assets). Given that these housing assets are subject to a variety of federal and state laws (federal housing promotion act, state housing promotion act) and housing-specific regulations, they may only be used to fund and finance activities directly related to Wfa's housing-related mission in the state of North Rhine-Westphalia.

Stress Tests

Stress testing is performed in order to model the effects of extreme market fluctuations. As such, stress testing complements the → VaR analysis and is therefore mandatory under banking supervision rules.

Supervisory Board

The Supervisory Board supervises the activities of the Managing Board. Its tasks are defined in the institutional charter of NRW.BANK, which can be viewed at www.nrwbank.de. The Supervisory Board is entitled to form committees comprised of its members in addition to the committees already formed (Executive Committee, Audit Committee, Credit Committee, Construction Committee).

Upper Loss Limit

→ Risk tolerance

VaR

Value-at-risk

A risk quantification method. VaR quantifies the amount of a future loss which will not be exceeded in a given period, subject to a given → confidence level.

Verständigung I Agreement

An agreement reached between the European Commission and the Federal Republic of Germany on July 17, 2001. According to this agreement, the public-law banks engaged in commercial business will no longer benefit from the state guarantees known as → Institutional Liability and Guarantor Liability after July 18, 2005.

Verständigung II Agreement

According to a second agreement (the so-called "Verständigung II") reached between the European Commission and the Federal Republic of Germany on March 1, 2002, → Institutional Liability, → Guarantor Liability and similar state guarantees and tax privileges will continue to be available for development banks whose activities are

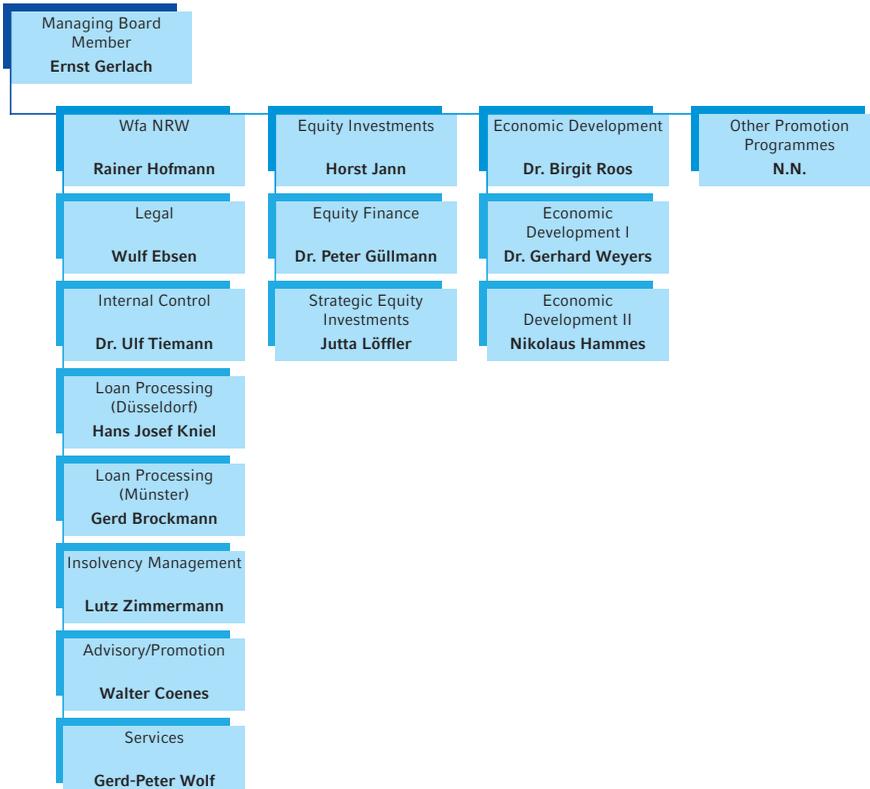
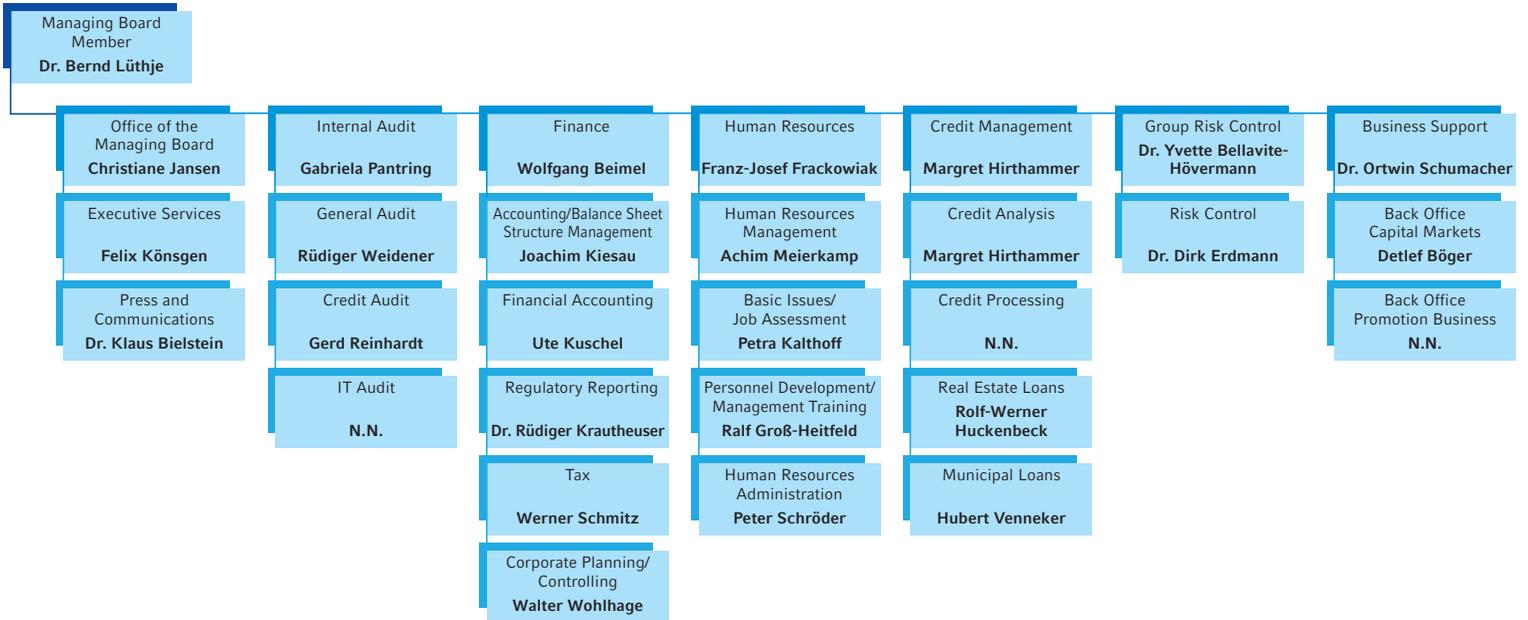
confined to bona-fide development and promotion (e.g. SME promotion, technology promotion, environmental promotion). These banks must not compete with private-sector banks and their public development and promotion missions must be clearly documented in their charters and guidelines. All requisite implementation measures must be completed no later than March 31, 2004.

Zero Solvency Rating

Debt capital made available to NRW.BANK by financial institutions need not be backed with equity capital on their balance sheets.



Organisation Chart of NRW.BANK





Status: April 15, 2004

All appointments are preliminary pending the consent of the staff council

NRW.BANK

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