

# Disclosure Report

of WestLB AG Group

Pursuant to the German Solvency Regulation (SolvV)

as of December 31, 2010



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## Preliminary Remarks

As a result of the revised framework for the “International Convergence of Capital Measurement and Capital Standards” introduced in 2004 by the Basel Committee on Banking Supervision (BCBS), amendments to the German Banking Act (KWG) and the new German Solvency Regulation (SolvV) came into force in Germany in response to the corresponding EU guidelines on January 1, 2007. The newly formulated requirements codified by the BCBS in Basel II were implemented at EU level with a package of reforms to the Capital Requirements Directive (CRD) commonly referred to as CRD II. As required by the amending directives making up CRD II, the changes were then implemented into national law in the form of the German CRD II Implementation Act and German CRD II Amending Regulation, which took effect as of December 31, 2010. The present disclosure report of WestLB AG Group incorporates these revised rules.

WestLB AG received supervisory approval to use the Advanced Internal Ratings Based Approach (AIRB) to manage and measure its counterparty credit risk and the Advanced Measurement Approach (AMA) to calculate its operational risk in the spring of 2008.

By publishing this disclosure report, which contains the required quantitative and qualitative information, WestLB AG is satisfying its disclosure obligations pursuant to § 26a of the German Banking Act (KWG) in conjunction with §§ 319–337 in Part 5 “Disclosure” of the German Solvency Regulation (SolvV).

The presentation of quantitative information in the present disclosure report follows the illustrative examples used by the “Specialist sub-committee on disclosure requirements” of the Deutsche Bundesbank, which recommends disclosure in tabular format.

By and large, the quantitative information which is published here is based on the WestLB AG Group’s Pillar I SolvV report as of December 31, 2010, which takes into account WestLB AG’s result for the year.

The quantitative information on market price risk required of institutions applying internal risk measurement models, which is directed at the disclosure of potential changes in value pursuant to § 330 (3) of the German Solvency Regulation (SolvV), as well as the quantitative information on interest rate risk in the banking book pursuant to § 333 (2) of the German Solvency Regulation (SolvV), is made available in the annual report. All other quantitative information related to Pillar III requirements is provided in the disclosure report.

The description of the risk management process required under § 322 of the German Solvency Regulation (SolvV) is given in the annual report, as are the general definitions relating to counterparty credit risk pursuant to § 327 (1) No. 1 of the German Solvency Regulation (SolvV) and qualitative description of the methodology used for determining the capital charge for operational risk pursuant to § 331 (2) of the German Solvency Regulation (SolvV). Any other qualitative information which is not published here as well as general information about Erste Abwicklungsanstalt is accessible in the corresponding sections of the WestLB Group Annual Report.

## 1 Scope of Consolidation

The quantitative information subject to disclosure under the German Solvency Regulation (SolvV) is that which pertains to the regulatory consolidated group as defined in § 10a of the German Banking Act (KWG). WestLB AG is a licensed credit institution in Germany with its registered office in Düsseldorf. It serves as the superordinated enterprise of the WestLB AG Group within the meaning of the German Banking Act (KWG).

The matrix below shows the companies accounted for in the IFRS consolidated financial statements of the WestLB Group as well as their regulatory treatment pursuant to § 10a of the German Banking Act (KWG). It also lists those companies outside the scope of consolidation for IFRS purposes which are required to be consolidated into the regulatory consolidated group either fully or on a pro rata basis pursuant to § 10a of the German Banking Act (KWG).

A complete inventory of shareholdings pursuant to § 313 (2) and § 340a (4) No. 2 of the German Commercial Code (HGB) is published in the WestLB Group Annual Report.

The companies have been classified according to the definitions given in § 1 of the German Banking Act (KWG). The companies with “no KWG categorisation” are special purpose entities which do not meet the criteria for treatment as subsidiaries pursuant to the German Commercial Code (HGB) and, therefore, are not to be included in the regulatory consolidated group. The category “other” includes ancillary banking services enterprises.

The book values of 62 participating interests were deducted from own funds. The deductions for nine of these participating interests were undertaken in accordance with § 10 (6) Sentence 1 No. 1 of the German Banking Act (KWG). The remaining 53 participating interests were exempted from inclusion in regulatory consolidation pursuant to § 31 of the German Banking Act (KWG).

None of the institutions which were exempted from regulatory consolidation and which were deducted from own funds had any capital deficiencies as of the reporting date.

Information about risk-weighted participating interests is provided in Chapter 3.6 of this report.

As of the reporting date, there were no restrictions or other significant impediments to the transfer of funds or liable capital within the WestLB AG Group within the meaning of § 323 (1) No. 3 of the German Solvency Regulation (SolvV).

WestLB AG Group did not make use of the so-called “waiver rule” pursuant to § 2a of the German Banking Act (KWG), which allows the replacement of supervision on a solo basis with group supervision for affiliated institutions having their registered office in Germany when certain conditions are met.

Figure 1: Consolidation Matrix

	Regulatory Treatment			Consolidation pursuant to IFRS	
	Consolidation pursuant to KWG full	Deduction method pro rata	Risk-weighted interest	full	at equity
<b>Credit institutions</b>					
Banco WestLB do Brasil S.A.	x			x	
Bank WestLB Vostok (ZAO)	x			x	
readybank ag	x			x	
Westdeutsche ImmobilienBank AG	x			x	
WestLB AG (superordinated enterprise)	x			x	
WestLB do Brasil Cayman Ltd.	x			x	
WIB Real Estate Finance Japan K.K.	x			x	
<b>Financial services institutions</b>					
Methuselah Life Markets Ltd.	x				
Universal Factoring GmbH	x			x	
WestLB Finance Curaçao N.V.	x			x	
WestLB Securities Inc.	x			x	
<b>Financial enterprises</b>					
Compagnie Belge de la WestLB	x				
Dusskapital Acht Beteiligungsgesellschaft mbH	x				
European Policy Exchange Ltd.	x				
GLB GmbH & Co. OHG		x			
KA Deutschland Beteiligungs KG	x				
Montelucia Phoenix Inc.	x				
West Merchant Limited	x			x	
Westdeutsche ImmobilienHolding GmbH	x			x	
West-ISH-Beteiligungsgesellschaft mbH	x				
WestFonds Immobilien-Anlagegesellschaft mbH	x				
WestLB do Brasil Participacoes Representacoes e Negocios Ltda.	x				
WestLB Europa Holding GmbH	x			x	
WestLB Europe (UK) Holdings Ltd.	x			x	
WestLB Fund Investments Ltd.			x	x	
WestLB Life Markets GmbH	x				
WestLB Mellon Asset Management Holdings Ltd.			x		x
WestLB New York Capital Investment Ltd.	x			x	
WestLB Servicios S.A.	x				
WestLB U.K. Ltd.	x			x	
WestLeasing Westdeutsche Leasing Holding GmbH	x				
WestUBG Westdeutsche Unternehmens-Beteiligungsges. mbH	x				
West Zwanzig GmbH	x				
<b>Other</b>					
EMG Projekt Gewerbepark Ludwigsfelde/Löwenbruch GmbH			x		x
FEN Fachmarktzentrum ehemaliges Eisstadion Nürnberg GmbH & Co. KG			x		x
GOD Grundstücksverwaltungsgesellschaft & Co. KG	x			x	
GOH Grundstücksverwaltungsgesellschaft & Co. KG	x			x	
WestGKA Management Gesellschaft für kommunale Anlagen mbH			x	x	
WestLB Property Services Ltd.	x				
WestLB Securities Pacific Ltd.			x	x	
WestProject & Consult Gesellschaft für Projektentwicklung und Consulting mbH			x	x	
WMO Erste Entwicklungsgesellschaft mbH & Co. KG			x	x	
<b>No KWG categorisation</b>					
Compass Securitisation Ltd.				x	
Compass Securitization LLC				x	
WIRE 2008-1 GmbH				x	

The names and principal lines of business of the significant subsidiaries of WestLB AG are presented below:

[Banco WestLB do Brasil S.A. Group](#) and [Bank WestLB Vostok \(ZAO\)](#) are commercial banks offering a wide range of banking services in their regional markets. These include tailor-made and innovative financing solutions in the areas of structured commodity finance, working capital finance as well as project and export finance. They also engage in trading activities with their clients, for example foreign exchange transactions and money market transactions.

[readybank ag](#) specialises in consumer credit and retail financing.

[Westdeutsche ImmobilienBank AG Group](#) is the centre of competence for all real estate financing activities of the WestLB Group.

## 2 Own Funds Structure and Adequacy of Own Funds

The information on own funds structure and adequacy of own funds pursuant to § 324 and § 325 of the German Solvency Regulation (SolvV) is provided in the following chapter.

### 2.1 Individual Capital Components and Deductions

WestLB AG Group's own funds recognised for regulatory purposes under the German Solvency Regulation (SolvV) consist of the modified available capital pursuant to § 10 (1d) of the German Banking Act (KWG), which for solvency purposes is the total of core capital and supplementary capital. WestLB AG Group did not have any Tier III capital as of December 31, 2010 (after taking into account WestLB AG's result for the year).

The consolidation of own funds is done on the basis of aggregation pursuant to § 10a (6) of the German Banking Act (KWG). The own funds items and components included in the aggregation pursuant to § 10a (6) of the German Banking Act (KWG) consist of the core capital and supplementary capital attributable to WestLB AG and its subordinated enterprises.

#### Core Capital

The core capital of the WestLB AG Group consists of the paid-in capital and disclosed reserves as well as

- other capital as defined in § 10 (2a) No. 8 of the German Banking Act (KWG)
- miscellaneous capital as defined in § 10 (4) of the German Banking Act (KWG)
- special item for general bank risks pursuant to § 340g of the German Commercial Code (HGB)

taking into account the following deductions:

- deductions from participating interests and EL comparison
- deductions for intangible assets
- asset-side balancing item pursuant to § 10a (6) Sentences 9 and 10 of the German Banking Act (KWG)

The nature and terms of the key components of core capital are explained below.

#### Other Capital as Defined in § 10 (2a) No. 8 of the German Banking Act (KWG)

Pursuant to the agreement of December 12, 2009 concerning the silent participation, the Special Fund Financial Market Stabilisation (SoFFin) paid WestLB AG the first tranche of its silent contribution in the amount of € 672.4 million on December 23, 2009. The first tranche participated in the 2009 loss pro rata temporis. In 2010, SoFFin's silent contribution to capital was increased through payment of the second and third tranche by a total of

€ 2,327.6 million. SoFFin's silent contribution to capital of € 2,999.3 million was recognised as other capital within the meaning of § 10 (2a) No. 8 of the German Banking Act (KWG) on December 31, 2010 and will be considered common equity under the rules making up Basel III until expiration of the grandfathering period for public-sector capital injections, which is currently set for 2018.

#### Miscellaneous Capital as Defined in § 10 (4) of the German Banking Act (KWG)

Miscellaneous capital is generated through the issuance of preferred shares via a WestLB AG subsidiary domiciled in Jersey. The shares have an indefinite term and pay a fixed non-cumulative, profit-linked dividend which is increased by a contractually stipulated margin over LIBOR after ten years. Pursuant to § 10 (4) of the German Banking Act (KWG), the issuance is to be treated as core capital with repayment incentives (step-up from 6-month EURIBOR plus 1.25% to 2.25% starting December 15, 2010) at the Group level. Upon implementation of the current version of Basel III into national law, this stock will no longer qualify as miscellaneous capital.

In addition, WestLB AG placed two capital issuances in May 2005, one in the amount of US\$ 300 million and the other in the amount of € 240 million, with private investors subscribing for over 50% of both. This silent contribution to capital qualifies as miscellaneous capital without repayment incentives. These issues would no longer be treated as common equity under the current version of Basel III. A phase-out of 10% per year is still being considered as part of the discussions on implementation of Basel III at the European and national levels.

#### Special Item for General Bank Risks Pursuant to § 340g of the German Commercial Code (HGB)

This item, which amounts to € 47 million, is attributable to exposures of subordinated enterprises of WestLB AG.

#### Deductions from Participating Interests and Expected Loss (EL) Comparison

These are the pro rata deductions to be taken pursuant to § 10 (6) of the German Banking Act (KWG) for the book values of the participating interests which were not included in the regulatory consolidated group as well as one shortfall attributable to a comparison between allowances/provisions and expected losses within the meaning of § 10 (6a) No. 1 of the German Banking Act (KWG) (EL comparison), half of which is to be deducted from core and supplementary capital.

## Supplementary Capital

The supplementary capital of the WestLB AG Group consists of the following items:

- capital as defined in § 10 (5) of the German Banking Act (KWG) (formerly profit participation capital)
- free contingency reserves pursuant to § 340f of the German Commercial Code (HGB)
- long-term subordinated liabilities

taking into account the following deductions:

- deductions from participating interests and EL comparison
- asset-side balancing item pursuant to § 10a (6) Sentences 9 and 10 of the German Banking Act (KWG)

The nature and terms of the key components of supplementary capital are explained below.

### Capital as Defined in § 10 (5) of the German Banking Act (KWG)

The profit participation capital issued by WestLB AG cannot be terminated by either party. The terms of the profit participation rights include a provision under which participation in losses is linked to the reporting of a loss on the balance sheet and not to the reporting of a net loss in the income statement. In the event of bankruptcy or liquidation, profit participation rights will not be repaid until all unsubordinated claims have been satisfied. As structured, the profit participation certificates satisfy the eligibility requirements for inclusion in the WestLB AG Group's liable capital pursuant to § 10 (5) of the German Banking Act (KWG).

### Free Contingency Reserves Pursuant to § 340f of the German Commercial Code (HGB)

This item relates predominantly to the contingency reserves set aside by WestLB AG.

### Long-Term Subordinated Liabilities

Long-term subordinated liabilities were issued in the form of uncertificated promissory notes as well as certificated bearer and registered bonds paying fixed and variable rates of interest. The original maturities are at least five years. There can be no early repayment obligation on the subordinated liabilities. In the event of bankruptcy or liquidation, subordinated liabilities will not be repaid until all unsubordinated claims have been satisfied. As structured, the subordinated liabilities satisfy the eligibility requirements for inclusion in the WestLB AG Group's liable capital pursuant to § 10 (5a) of the German Banking Act (KWG).

The following table shows WestLB AG Group's own funds recognised for regulatory purposes as of the December 31, 2010 reporting date, taking into account WestLB AG's result for the year.

Figure 2: Own Funds Structure

€ millions	Dec. 31, 2010 After WestLB AG's result for the year	Dec. 31, 2009 After WestLB AG's result for the year
Paid-in capital, disclosed reserves (including consolidation items) and asset-side balancing items	1,561	3,820
Capital contributions of silent partners	–	1,113
Other capital as defined in § 10 (2a) No. 8 KWG	2,999	–
Hybrid capital	–	869
Miscellaneous capital as defined in § 10 (4) KWG	1,310	–
For information only:		
Including miscellaneous capital repayment incentives	869	–
Special item for general bank risks pursuant to § 340g HGB	47	54
Deductions pursuant to § 10 (2a) Sentence 2 No. 2 KWG (intangible assets)	– 53	– 62
Deductions pursuant to § 10 (2a) Sentence 2 No. 6 KWG (unconsolidated participating interests, EL comparison)	– 336	– 460
For information only:		
Including shortfalls and expected losses for IRBA exposures recognised in core capital pursuant to § 10 (6a) Nos. 1 and 2 KWG	– 218	– 204
<b>Core capital for solvency purposes (§10 [2a] KWG)</b>	<b>5,528</b>	<b>5,334</b>
<b>Supplementary capital for solvency purposes (§ 10 [2b] KWG)</b>	<b>2,193</b>	<b>2,217</b>
For information only:		
Including shortfalls and expected losses for IRBA exposures recognised in supplementary capital pursuant to § 10 (6a) Nos. 1 and 2 KWG	– 218	– 204
<b>Modified available capital pursuant to § 10 (1d) Sentence 1 KWG</b>	<b>7,721</b>	<b>7,551</b>

In application of the German CRD II Implementation Act, the capital contributions of silent partners are now reported in the items Other Capital and Miscellaneous Capital without a Repayment Incentive. Hybrid capital is now shown under Other Capital (here with a repayment incentive).

WestLB AG Group's volume of own funds increased during the reporting period, predominantly because of a decrease in the volume of deductions within the framework of the EL comparison and the amounts deducted pursuant to § 10 (6) Sentence 1 No. 1 of the German Banking Act (KWG) for equity investments transferred to Erste Abwicklungsanstalt as well as because of further effects from changes in the accounting for various subsidiaries. The carrying values of various subordinated enterprises were written down. The fact that these enterprises made the same contribution to own funds as in the previous year, but had reduced carrying values, produced positive consolidation effects. These effects are only temporary and will be neutralised upon the planned sale or other disposal of these subsidiaries.

The ineligibility of some profit participation rights and subordinated liabilities for continued inclusion in the regulatory capital was the dominant adverse effect on own funds.

There was an increase in the capital contributions of silent partners, which are now reported as Other Capital, due to payment of the second and third tranche of SoFFin's silent participation in the aggregate amount of € 2,327.6 million. Conversely, the share capital and reserves were reduced by € 2,465.0 million in conjunction with the transfer of portfolios to Erste Abwicklungsanstalt.

## 2.2 Adequacy of Own Funds

WestLB AG Group's total capital requirements amounted to € 3,884 million as of the December 31, 2010 reporting date.

Both WestLB AG and the WestLB AG Group met their minimum capital requirements in full at all times in 2010.

### 2.2.1 Capital Requirements

Since WestLB AG calculates its total capital charge for counterparty credit risks pursuant to the AIRB approach and its capital charge for operational risk according to the AMA, it must fulfill the own funds requirements concerned on a solo basis as well as at Group level by virtue of the transitional provisions stipulated in § 339 (3)–(5) of the German Solvency Regulation (SolvV) (so-called floor calculation).

Both WestLB AG and the WestLB AG Group fulfilled these requirements completely at all times in the reporting year.

The regulatory capital requirements as of December 31, 2010 for the risk types relevant to banking supervisors are broken down in the following table.

Figure 3: Capital Requirements

€ millions	Dec. 31, 2010	Dec. 31, 2009
<b>Counterparty credit risk</b>		
<b>CRSA</b>		
Central governments	3	23
Regional governments and local authorities	31	15
Other public-sector entities	1	6
International organisations	0	0
Institutions	8	81
Multilateral development banks	1	0
Corporates	225	358
Exposures secured by real estate property	1	34
Retail business	59	93
Exposures in the form of collective investment undertakings (CIU)	–	1
Equity exposures	15	38
Other items	42	43
Past due items	13	56
<b>Total CRSA</b>	<b>399</b>	<b>748</b>
<b>AIRB</b>		
Central governments	39	119
Institutions	376	534
Corporates	2,417	3,202
Retail business*	0	35
Other non credit-obligation assets	4	4
<b>Total AIRB</b>	<b>2,836</b>	<b>3,894</b>
<b>Securitisations</b>		
CRSA	–	8
AIRB	213	1,454
<b>Total securitisations</b>	<b>213</b>	<b>1,462</b>
<b>Total counterparty credit risk</b>	<b>3,448</b>	<b>6,104</b>
<b>Market price risk</b>		
Standardised approach	34	76
Internal model approach	88	136
<b>Total market price risk</b>	<b>122</b>	<b>212</b>
<b>Operational risk</b>		
AMA	314	311
<b>Total capital requirements</b>	<b>3,884</b>	<b>6,627</b>

\* Sub-portfolio consisting of AIRB exposures secured by real estate collateral

## 2.2.2 Total Capital Ratios and Core Capital Ratios

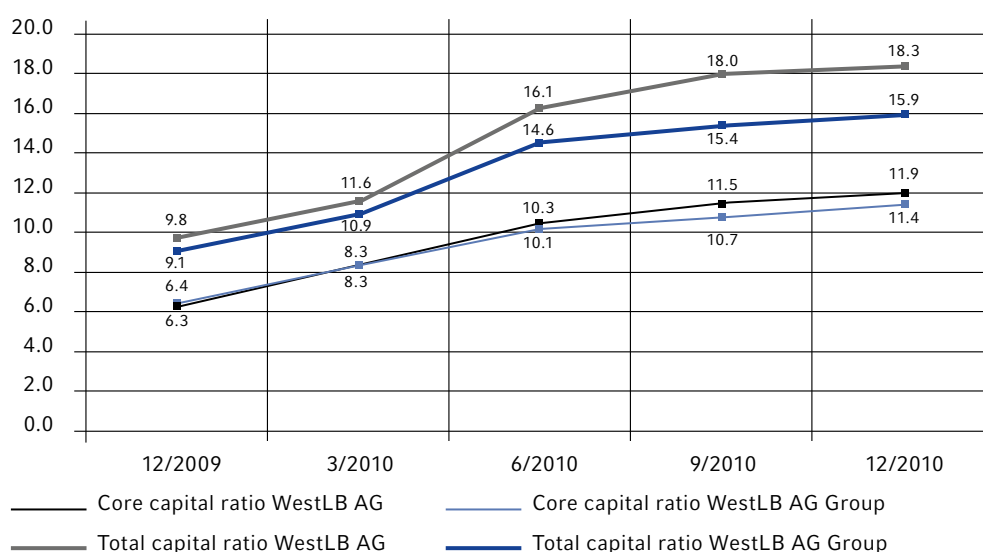
Taking into account WestLB AG's result for the year, the ratio of capital requirements to total own funds and to core capital was well above the required minimum stipulated by supervisors as of the December 31, 2010 reporting date for both the WestLB AG Group and WestLB AG. A list containing the WestLB AG Group's ratios and the ratios of WestLB AG's significant subsidiaries is given below. The latter are presented on a solo basis and in accordance with the local requirements for calculating own funds; intragroup consolidation effects have not been recognised.

Figure 4: Capital Ratios

in %	Total Capital Ratio	Core Capital Ratio
WestLB AG Group (after WestLB AG's result for the year)	15.9	11.4
WestLB AG (superordinated enterprise) (after WestLB AG's result for the year)	18.3	11.9
Westdeutsche ImmobilienBank AG	10.6	8.8
readybank ag	9.6	7.0
Bank WestLB Vostok (ZAO)	31.8	29.2
Banco WestLB do Brasil S.A.	36.7	36.5

The figure below shows the positive trend over the 2010 reporting year in the total capital ratio and core capital ratio of both WestLB AG Group and WestLB AG.

Figure 5: Change in Capital Ratios during 2010



in %

## 3 Disclosures by Risk Type

### 3.1 General Disclosure Obligations for Counterparty Credit Risk

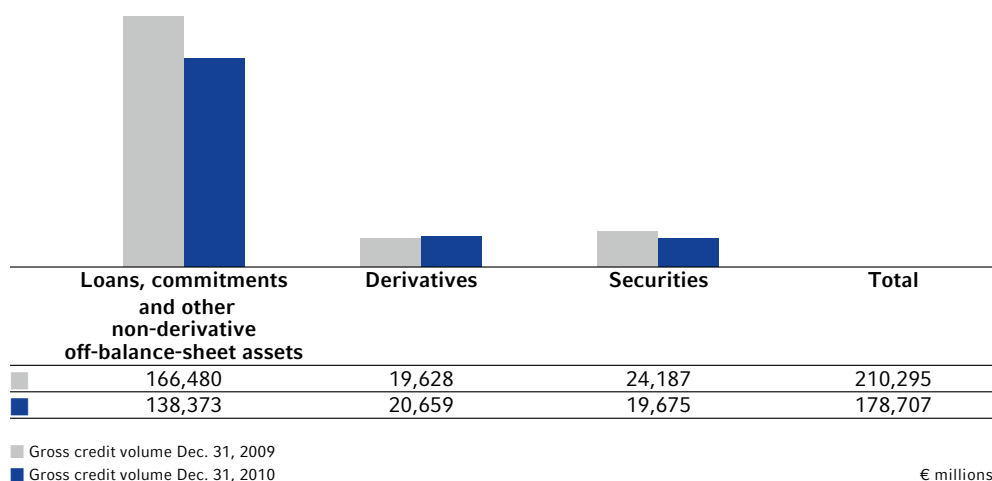
The following chapters contain the general presentation of the counterparty credit risk pursuant to § 327 (2) of the German Solvency Regulation (SolvV). The amount and distribution of counterparty credit risks in the WestLB AG Group are discussed.

#### 3.1.1 Total Amount of Exposures by Exposure Type

The following tables show the € 178,707 million in total exposures (gross credit volume) broken down by type of exposure as well as by region, industry and contractual residual maturity. The figures for gross credit volume are based on the assessment basis as defined in the German Solvency Regulation (SolvV) (specifically § 48 SolvV for CRSA exposures and § 100 SolvV for AIRB exposures) prior to accounting deductions and credit risk mitigation. For derivative exposures, the credit equivalent amount is used as the assessment basis pursuant to § 17 in conjunction with §§ 18 et seq. of the German Solvency Regulation (SolvV). The credit equivalent amount is determined by the addition of an add-on for potential future increases in replacement costs to the positive market values after netting and collateral.

By definition, equity and securitisation exposures are not included in the gross credit volume reported here, but instead addressed separately in Chapters 3.6 and 3.7, respectively. The gross credit volume is distinct from the exposures at default discussed in Chapter 3.4.4, which are based on the gross credit volume after allowances, eligible collateral instruments and credit conversion factors.

Figure 6: Gross Credit Volume Comparison



The gross credit volume decreased over the course of 2010 from € 210,295 million to € 178,707 million. This is attributable to the transfer of portfolios to Erste Abwicklungsanstalt as well as downsizing of the traditional lending and equity investment businesses.

Figure 7: Gross Credit Volume by Region

€ millions	Loans, commitments and other non-derivative off-balance-sheet assets	Derivatives	Securities	Total
Germany	67,346	10,360	14,685	92,391
Industrialised nations Europe*	38,685	6,894	3,145	48,724
Industrialised nations America	12,044	2,680	1,156	15,880
Industrialised nations Asia	5,121	328	306	5,755
Eastern Europe	6,917	164	65	7,146
Other regions**	8,260	233	318	8,811
<b>Total</b>	<b>138,373</b>	<b>20,659</b>	<b>19,675</b>	<b>178,707</b>

\* without Germany

\*\* Middle East and Africa, emerging markets America, emerging markets Asia

The breakdown of gross credit volume by region reveals that the focus of the lending business is on Germany and the other industrialised nations of Europe.

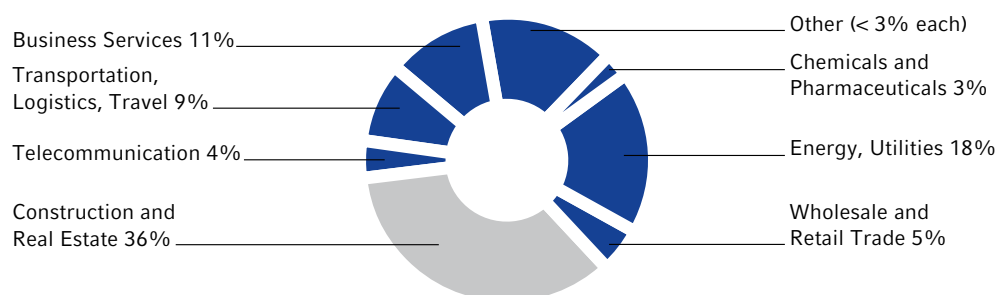
The industry classification shown in Figures 8–10 corresponds to the sector breakdown used for internal purposes.

Figure 8: Gross Credit Volume by Industry

€ millions	Loans, commitments and other non-derivative off-balance-sheet assets	Derivatives	Securities	Total
Financial sector	53,868	13,024	3,217	70,109
Industry and services	61,585	2,984	984	65,553
Public sector	20,111	4,088	15,440	39,639
Other	2,809	563	34	3,406
<b>Total</b>	<b>138,373</b>	<b>20,659</b>	<b>19,675</b>	<b>178,707</b>

As the figure shows, the financial sector and industry and services are the largest sectors in terms of credit volume. The latter consists of several sub-sectors. The figure below shows the percentage each sub-sector accounts for in the gross credit volume of the industry and services sector.

Figure 9: Breakdown of Industry and Services by Sub-Sector



Westdeutsche ImmobilienBank AG is responsible for most of the commitments (around 75%) in the largest sub-sector, construction and real estate. This graph is based on the gross credit volume generated in the individual sub-sectors of industry and services, which is shown below.

Figure 10: Gross Credit Volume of Industry and Services Sector

€ millions	Loans, commitments and other non-derivative off-balance-sheet assets	Derivatives	Securities	Total
Automotive industry	1,243	67	47	1,357
Chemicals and pharmaceuticals	1,926	44	–	1,970
Energy, utilities	10,453	1,031	17	11,501
Wholesale and retail trade	2,981	47	10	3,038
Manufacture of computer, electronic and optical equipment	1,114	16	46	1,176
Construction and real estate	22,827	520	122	23,469
Food and beverage	648	21	15	684
Machine building	1,027	20	–	1,047
Paper, printing and publishing	422	11	–	433
Personal services	1,875	12	–	1,887
Other industrial sectors	1,391	49	0	1,440
Steel and metal processing	1,821	84	–	1,905
Telecommunication	2,285	180	356	2,821
Transportation, logistics, travel	5,209	277	117	5,603
Business services	6,363	605	254	7,222
<b>Total</b>	<b>61,585</b>	<b>2,984</b>	<b>984</b>	<b>65,553</b>

Figure 11 shows the gross credit volume by contractual residual maturity.

Figure 11: Gross Credit Volume by Contractual Residual Maturity

€ millions	Loans, commitments and other non-derivative off-balance-sheet assets	Derivatives	Securities	Total
Short-term (less than 1 year)	66,673	1,114	3,734	71,521
Medium-term (1 to 5 years)	43,063	12,952	12,921	68,936
Long-term (more than 5 years)	28,637	6,593	3,020	38,250
<b>Total</b>	<b>138,373</b>	<b>20,659</b>	<b>19,675</b>	<b>178,707</b>

### 3.1.2 Information on Risk Provisioning

The following tables show impaired and past due exposures broken down by industry and region along with the respective balances for, as well as the net allocations to and reversals of, individual value adjustments (IVA), general value adjustments (GVA) and provisions. The direct write-offs and revenues on written-off exposures are also broken down.

The presentation of risk provisioning is based on the regulatory consolidated group, with the relevant amounts determined on the basis of HGB accounting principles or, where foreign subordinated enterprises were involved, local GAAP, which is consistent with the approach for determining own funds for regulatory purposes. It is not currently possible to present an accurate breakdown of general value adjustments by industry and region.

Figure 12: Impaired and Past Due Exposures by Region

€ millions	Exposures		Ending balances			Net allocations to/ reversals of IVA, GVA and provisions	Direct write-offs	Revenues on written-off exposures
	Impaired	Past due	IVA	GVA	Provisions			
Germany	684	38	379	–	29	2	22	8
Industrialised nations Europe*	552	9	202	–	13	58	–	0
Industrialised nations America	130	2	48	–	–	37	2	0
Industrialised nations Asia	128	–	54	–	–	25	7	0
Eastern Europe	18	–	3	–	–	–3	0	–
Other regions**	156	12	86	110	0	–4	0	1
<b>Total</b>	<b>1,668</b>	<b>61</b>	<b>772</b>	<b>110</b>	<b>42</b>	<b>115</b>	<b>31</b>	<b>9</b>

\* without Germany

\*\* Middle East and Africa, emerging markets America, emerging markets Asia, not classifiable

Figure 13: Impaired and Past Due Exposures by Industry

€ millions	Exposures		Ending balances			Net allocations to/ reversals of IVA, GVA and provisions	Direct write-offs	Revenues on written-off exposures
	Impaired	Past due	IVA	GVA	Provisions			
Financial sector	222	2	102	–	0	– 19	7	0
Industry and services	1,352	59	623	–	41	145	11	5
Public sector	5	–	5	–	1	– 3	–	–
Other*	89	0	42	110	0	– 8	13	4
<b>Total</b>	<b>1,668</b>	<b>61</b>	<b>772</b>	<b>110</b>	<b>42</b>	<b>115</b>	<b>31</b>	<b>9</b>

\* including not classifiable

The following table shows the progress of value adjustments and provisions for 2010 without any regional or industry classification.

Figure 14: Progress of Value Adjustments and Provisions

€ millions	Opening balance (Jan. 1, 2010)	Allocations	Reversals	Utilised	Changes based on exchange rates and other factors*	Ending balance (Dec. 31, 2010)
Individual value adjustments	1,685	317	167	103	– 960	772
Provisions	65	48	60	4	– 7	42
General value adjustments	152	1	24	1	– 18	110
<b>Total</b>	<b>1,902</b>	<b>366</b>	<b>251</b>	<b>108</b>	<b>– 985</b>	<b>924</b>

\* including spin-off effects to Erste Abwicklungsanstalt

### 3.2 Derivative Counterparty Credit Risk Exposures

The counterparty credit risk from derivative transactions is presented as the credit equivalent amount, which is calculated by the WestLB AG Group using the marking-to-market method pursuant to §§ 18 et seq. of the German Solvency Regulation (SolvV). In order to determine the credit equivalent amount, the add-on for potential future increases in replacement costs is added to the positive market values after netting and collateral. The term “available netting arrangements” refers to netting agreements which lead to a reduction in the positive market values and add-on. WestLB AG uses close-out netting exclusively. Novation netting, which involves the creation of a new obligation from existing commitments, is not used.

The positive market values shown in Figure 15 are the positive market values of derivative counterparty credit risk exposures in the banking and trading books before and after making use of available netting arrangements and collateral (pursuant to § 154 (1) No. 2 of the German Solvency Regulation (SolvV)), broken down by contract type. Because some of the netting arrangements encompass derivative products from different risk categories, it is not possible to present an accurate breakdown of available netting arrangements by risk type.

Figure 15: Positive Market Values of Derivative Counterparty Credit Risk Exposures

€ millions	Positive market values before netting and collateral arrangements	Available netting arrangements	Eligible collateral	Market values after netting and collateral arrangements
Interest rate risk	34,970	–	–	–
Exchange rate risk	2,628	–	–	–
Interest rate/exchange rate risk	2,951	–	–	–
Products based on share prices and other prices	1,954	–	424	–
Credit derivatives	1,095	–	–	–
<b>Total</b>	<b>43,598</b>	<b>31,987</b>	<b>424</b>	<b>11,187</b>

WestLB AG Group's counterparty credit risk exposures from derivatives (credit equivalent amounts) amounted to € 20,659 million as of December 31, 2010, calculated using the marking-to-market method. This amount is shown in the presentation of the gross credit volume in Chapter 3.1.

The notional value of WestLB AG's credit derivative hedges was € 1,129 million as of December 31, 2010.

The table below shows the notional value of the credit derivatives in the WestLB AG Group's trading book as of December 31, 2010. The exposures reported under "bought" are those for which the WestLB AG Group functions as the protection buyer; with those reported under "sold", the Group is the protection seller.

Figure 16: Breakdown of Credit Derivatives in the Trading Book

€ millions	For own portfolio	
	Bought	Sold
Credit Default Swaps	26,901	26,805
Total Return Swaps	–	–
Credit Linked Notes	–	6
<b>Total</b>	<b>26,901</b>	<b>26,811</b>

### 3.3 Information on CRSA Exposures

For credit assessments of CRSA exposures, WestLB AG works in cooperation with the leading rating agencies, Fitch Ratings, Moody's Investors Service, Standard & Poor's and Dominion Bond Rating Service (DBRS).

WestLB AG does not factor in the country classifications of export credit agencies. The external ratings comprise ratings for issuers and issues.

The procedure for assigning external ratings to CRSA exposures is as follows: If there is only one rating for a CRSA exposure, it is used to calculate the risk weight. If there are two applicable external ratings, the one which results in the higher risk weight is used.

From a purely technical standpoint, transactions are assigned to the CRSA or AIRB approach during the preparations for regulatory reporting on the basis of itemised decision tables. The subsequent determination of the corresponding exposure class is generally based on the internal rating system used and the industry of the borrower or protection seller, with the reporting software pulling the exposure class from WestLB AG's IT systems for further processing.

Pursuant to § 328 of the German Solvency Regulation (SolvV), the table below shows the CRSA exposures as position values before and after the application of credit risk mitigation techniques as of December 31, 2010 and broken down by the risk weights assigned using external ratings or a flat weighting. In the case of unfunded credit protection, the lower risk weight attributable to the protection provider replaces the higher risk weight originally assigned to the exposure (so-called principle of the "guarantor substitution").

Figure 17: Volume of Counterparty Credit Risk in CRSA Portfolios by Risk Class

Risk weight	Position values before credit risk mitigation € millions	Position values after credit risk mitigation € millions
0%	49,554	39,411
20%	2,138	1,935
35%	16	17
50%	412	432
75%	988	988
100%	7,507	3,512
150%	111	89
Other risk weights	0	0
<b>Total</b>	<b>60,726</b>	<b>46,384</b>

With respect to the disclosures required pursuant to § 329 of the German Solvency Regulation (SolvV), there were no AIRB exposures for which the simple risk weight for specialised lending exposures or simple AIRB risk weight for equity claims had to be used.

## 3.4 Information on AIRB Exposures

WestLB AG has been submitting its internal rating systems for intensive review by banking supervisors since 2005 and was one of the first institutions to receive approval to start using the AIRB approach at the earliest possible date of January 1, 2008.

Since that time, the Bank has been using its own estimates of the parameters probability of default (PD), loss given default (LGD) and AIRB conversion factor in a variety of ways, including for internal management as a rating process, lending decisions, determining and steering limits for economic capital as well as for calculating risk-weighted exposure amounts for regulatory purposes.

### 3.4.1 Overview of the Rating Systems

The rating systems employed by the WestLB AG Group assign borrowers and specialised lending exposures to a master scale which is broken down by probability of default. The following tables list the rating systems approved as of December 31, 2010.

Figure 18: List of the WestLB AG Group's Approved Rating Systems, Part 1

#### Client-Based Rating Systems for Use with the AIRB Approach

Banks
DSGV StandardRating* (in the joint lending business with savings banks)
DSGV Kundenscoring** ("customer scoring")
Corporates
Funds
Regional and local authorities
Investments banks and brokers/dealers
Leasing companies
Life and property insurance companies
Central governments and central banks
Open-ended real estate funds
Retail investors

#### Transaction-Based Rating Systems for Use with the AIRB Approach

Leveraged finance
Project finance energy and infrastructure
Commercial properties

\* In cooperation with Sparkassen Rating und Risikosysteme GmbH

\*\* Discontinuation of DSGV Kundenscoring for private building finance as of March 2011

The systems banking supervisors reviewed and approved for the WestLB AG Group's use in the case of securitisations are shown in Figure 19. WestLB AG Group uses two methods to calculate its capital charges for securitisation positions: the Internal Assessment Approach (IAA) and the Supervisory Formula Approach (SFA), with specific rating systems designated for IAA use and specific systems applicable to securitised portfolios designated for SFA use.

With the exception of the DSGVO StandardRating and DSGVO Kundenscoring used in the Verbund business, all approved systems were developed independently by the WestLB AG Group. In some cases the Bank cooperates with Landesbank Rheinland-Pfalz.

Figure 19: List of the WestLB AG Group's Approved Rating Systems, Part 2

#### Internal Rating Systems for Securitisations (IAA)

Receivables from equipment leasing
Trade receivables
Consumer credit receivables
Credit card receivables

#### AIRB Rating Systems for Securitised Portfolios (SFA)

Receivables from equipment leasing
Consumer credit receivables
Trade receivables
Receivables from life insurance policies
Healthcare receivables

### 3.4.2 Internal Process for Determining Ratings

Borrowers and transactions are assigned to rating systems on the basis of clearly defined criteria which specify the unique characteristics and features that a customer or transaction must possess in order to be assessed by a particular rating system.

Which LGD model to apply generally depends on the rating system used. Estimates are made on a fully automated basis and take into account debtor-specific and transaction-specific attributes as well as collateral arrangements, the latter of which are factored in as part of risk mitigation techniques. The AIRB conversion factor is determined predominantly on the basis of the product (loans, securities, guarantees etc.).

After borrowers and transactions are assigned to a rating system, the system generates a rating for use in the credit approval process as well as for routine monitoring purposes. In the event of significant developments, the rating is updated during the year. The rating process is consistent across all exposure classes and relies on the use of an appropriate IT system which ensures application of the four-eyes principle and the back office's release of the ratings returned by the system.

The rating systems WestLB AG employs to determine the probability of default are divided into a historically focused component which is supported by balance sheet figures and macroeconomic data as well as a forward-looking component which considers factors such as management, strengths, weaknesses and the economic climate. Whenever relevant,

allowances are made for potential support, such as that from owners or the government. In the case of project finance, additional adjustments are made to reflect specific quantifiable risk indicators and risk-mitigating factors. All models take into account transfer risk, which is the risk that borrowers will be prevented by the governments of their countries, e.g. through a moratorium or exchange restrictions, from servicing their foreign-currency debt.

The rating models combine the risk factors into a score which, depending on the individual system's calibration, is linked with a certain probability of default. Rating systems are calibrated primarily on the basis of WestLB AG's default experience. In the case of low-default portfolios, this experience is supplemented by ratings and long-term default rates from external credit assessment institutions. Borrowers/transactions are clearly assigned to a rating class on the basis of the resulting probability of default. A master scale with 21 non-default classes with sufficient diversification in terms of covering the low-risk and higher-risk spectrums serves as the uniform scale for all rating systems. Once approved, a rating is accessible from any of WestLB AG's relevant systems and available for steering purposes.

In order to precisely capture dependence structures, whilst at the same time enhancing the efficiency of internal work processes, the concept of rating units is used in situations where two or more debtors are so closely interconnected legally or economically that default by one of them simultaneously leads to the default of the other(s).

The information, including all risk factors, pertinent to assessing credit commitments as well as improving the rating systems is recorded and archived in IT systems. This ensures the availability of a complete rating history for every customer of WestLB AG.

In addition to the internal rating for customers, external rating information available from external credit assessment institutions is also provided. External ratings are supplied by the external credit assessment institutions and updated in the Bank's systems daily. They are used for determining the capital charges for CRSA exposure classes and securitisation exposures to which the Rating Based Approach (RBA) is applied, provide a benchmark for validating the internal rating systems and serve as an alternative for portfolio management purposes if no internal ratings are available.

A transaction-specific LGD is forecasted based on models using information about the borrower, the type of credit (e.g. loan, guarantee, bond, priority etc.) and the provision of collateral. The assignment of borrowers and transactions to individual LGD models resembles their assignment to specific rating systems for determining the probability of default. Statistically based, product group-specific AIRB conversion factors are used to forecast the exposure at default (EaD).

WestLB AG started the development of its models back in mid-2003, creating a database with which to archive credit defaults. Once the empirical information on credit defaults up to the end of 2005 was entered, this database began serving as the starting point for the statistical analysis of historical losses given default. Significant improvements have been made to the database over the past few years. With the capability to pull the majority of the data from various other systems of WestLB AG via multiple interfaces, the database can now capture and archive new cases of default with minimal manual effort. WestLB AG uses externally available information in addition to this internal data, particularly in the case of low-default portfolios.

The process for determining the loss given default, unlike the probability of default, does not require manual assessment on the part of an analyst. Centrally integrated into the IT systems, the model receives the requisite information from the customer database, account management systems, the collateral database and the rating database.

### 3.4.3 Oversight of the Rating Systems

A credit risk control unit is in charge of making sure the rating systems work, reviewing their performance on an annual basis and further developing their underlying methodology. This unit, which submits regular reports on the results of its validation and calibration analyses directly to the Global Risk Committee (GRC), is part of the Credit & Group Risk Control business unit, which is organisationally separate from and operates independently of the employees who are responsible for credit analysis and credit decisions. The Credit & Group Risk Control business unit also works to ensure that rating systems are applied consistently worldwide. All changes in the rating systems are approved by WestLB AG's GRC.

### 3.4.4 Quantitative Information on AIRB Portfolios

The exposures at default (EaD) shown in the following tables represent the AIRB exposure values determined pursuant to § 99 of the German Solvency Regulation (SolvV), i.e. after allowances for credit risk mitigation techniques and conversion factors. The risk exposures secured by unfunded credit protection are assigned to the exposure class of the protection provider. Only AIRB exposures are listed. Exposures of the exposure class "other non credit-obligation assets" are not captured here because they do not entail any creditworthiness-induced risks.

Figure 20: Credit Exposure by PD Class

			Central Governments	Institutions	Corporates	Retail Business*	Total
Investment Grade	PD Class 0% ≤ 0.845%	EaD					
		€ millions	8,842	38,250	36,595	5	83,692
		Ø LGD in %	11.14	23.29	30.21	12.78	25.03
		Ø PD in %	0.01	0.08	0.31	0.24	0.18
		Ø RW in %	3.61	11.22	35.32	8.27	20.95
Non-Investment Grade	PD Class 0.845% < 100%	EaD					
		€ millions	249	2,778	16,387	3	19,417
		Ø LGD in %	8.58	7.82	34.57	6.54	30.41
		Ø PD in %	1.78	1.25	3.07	3.24	2.79
		Ø RW in %	66.38	14.83	97.82	14.94	85.53
Default	PD Class 100%	EaD					
		€ millions	1	42	1,570	0	1,613
		Ø LGD in %	100.00	71.58	49.34	0.03	49.94
		Ø PD in %	100.00	100.00	100.00	100.00	100.00
		Ø RW in %	0.00	1.14	79.50	0.10	77.40
Total		EaD					
		€ millions	9,092	41,070	54,552	8	104,722
		Ø LGD in %	11.08	22.29	32.07	10.44	26.41
		Ø PD in %	0.07	0.26	4.01	1.37	2.20
		Ø RW in %	5.33	11.45	55.37	10.77	33.79

\* Sub-portfolio consisting of AIRB exposures secured by real estate collateral

As in the previous year, the predominant portion of the credit exposure (approx. 80% measured in EaD) is attributable to the PD class “investment grade”. The following table, which breaks down this PD class, confirms that the lending business is focused on counterparties with very good credit quality.

Figure 21: Credit Exposure of the PD Class “Investment Grade”

			Central Governments	Institutions	Corporates	Retail Business*	Total	
Investment Grade	PD Class 0% ≤ 0.025%	EaD						
		€ millions	7,870	9,041	237	–	17,148	
		Ø LGD in %	9.94	28.18	47.06	–	20.07	
		Ø PD in %	0.00	0.01	0.01	–	0.01	
			Ø RW in %	1.58	11.16	22.08	–	6.91
	PD Class 0.025% ≤ 0.14%	EaD						
		€ millions	761	25,811	13,401	2	39,975	
		Ø LGD in %	13.43	21.12	26.63	0.00	22.82	
		Ø PD in %	0.04	0.07	0.07	0.08	0.07	
			Ø RW in %	10.20	8.76	15.51	0.00	11.05
	PD Class 0.14% ≤ 0.845%	EaD						
		€ millions	211	3,398	22,957	3	26,569	
Ø LGD in %		47.50	26.80	32.13	21.30	31.57		
Ø PD in %		0.30	0.32	0.46	0.34	0.44		
		Ø RW in %	55.40	30.10	47.02	13.78	44.92	
Total		EaD						
		€ millions	8,842	38,250	36,595	5	83,692	
		Ø LGD in %	11.14	23.29	30.21	12.78	25.03	
		Ø PD in %	0.01	0.08	0.31	0.24	0.18	
		Ø RW in %	3.61	11.22	35.32	8.27	20.95	

\* Sub-portfolio consisting of AIRB exposures secured by real estate collateral

WestLB AG determines the conversion factor for the undrawn line of certain product types using its own estimation methods. In making its estimates, it refers to its own history, which has been expanded continually since 1998 and undergoes continuous quality testing. Based on the results of the 2009 validation, there are currently five internally developed models which have been tested and approved by BaFin. The models are validated and improved annually. Weighting the undrawn line with the conversion factor yields the AIRB exposure value (EaD) of the credit commitment. The average weighting factor (CCF) per exposure class in the AIRB portfolio for credit commitments is shown in Figure 22.

Figure 22: Credit Commitments and Weighted EaD

	Total credit commitments € millions	Total EaD credit commitments € millions	Commitment-weighted average EaD € millions	Average CCF in %
Central governments	545	324	43	59.45
Institutions	757	375	40	49.54
Corporates	15,810	7,263	33	45.94
Retail business*	0	0	0	100.00
<b>Total</b>	<b>17,112</b>	<b>7,962</b>	<b>34</b>	<b>46.53</b>

\* Sub-portfolio consisting of AIRB exposures secured by real estate collateral

Figure 23 shows a comparison of the expected loss (EL) in the traditional loan business with the actual losses sustained in 2008 to 2010 pursuant to § 335 (2) No. 6 of the German Solvency Regulation (SolvV). The actual loss equals direct write-offs plus the amount of individual value adjustments and provisions utilised less any revenues on written-off receivables and is based on the carrying values pursuant to the German Commercial Code (HGB) or local GAAP, as the case may be.

The improvement from 2009 to 2010 is due to the positive economic trend and to downsizing in connection with the transfer to Erste Abwicklungsanstalt and focusing within traditional lending business.

Figure 23: Estimated Losses and Actual Losses in the Loan Business by AIRB Exposure Class

€ millions	2008		2009		2010	
	Expected Loss	Actual Loss	Expected Loss	Actual Loss	Expected Loss	Actual Loss
Central governments	1	–	1	–	2	–
Institutions	28	25	8	67	5	0
Corporates	264	63	362	222	204	74
Retail business*	4	–	3	0	0	–
<b>Total</b>	<b>297</b>	<b>88</b>	<b>375</b>	<b>289</b>	<b>211</b>	<b>74</b>

\* Sub-portfolio consisting of AIRB exposures secured by real estate collateral

## 3.5 Credit Risk Mitigation Techniques with the CRSA and AIRB Approach

The information provided in the following chapter is based on § 336 of the German Solvency Regulation (SolvV) and clarifies the use of credit risk mitigation instruments in WestLB AG and their volumes as of the reporting date.

### 3.5.1 Strategy and Procedures for Measuring and Administering the Eligible Collateral Used

The principles for the management of credit risks are laid down in WestLB AG's general credit risk strategy. The collateral the Bank takes is used predominantly to manage counterparty credit risks and reduce credit risks. As a rule, preference is given to the most liquid and most stable forms of collateral.

The procedures for measuring and administering collateral are laid down in WestLB AG's organisational guidelines and broken down by type of collateral. The back office assumes responsibility for managing collateral and, in particular, routinely measuring and determining its value.

One of the central components of the Bank's collateral management activities is to ensure that collateral is legally sound, a task which is handled by the Bank's in-house legal department with the aid of standardised agreements, the advice of outside counsel and routine monitoring of the legal situation. Other institutions and an international law firm are asked to assist in this oversight process when foreign jurisdictions are involved.

Recognised collateral is tested for impairment when credit approval decisions are made as well as at regular intervals thereafter. As a rule, the value of collateral is checked on an annual basis, but impairment tests are performed sooner in the case of critical exposures or if the factors relevant to an item's valuation appear to have changed.

External appraisals are used for items of real estate. If necessary, the reliability of these appraisals is tested internally. In the case of real property, use is also made of the market fluctuation concept which was developed by the Zentraler Kreditausschuss (ZKA) for commercial and residential real estate markets and approved by supervisors. The appraisal of company values, which are considered other AIRB physical collateral, is done using cash flow projections specific to each project. The underlying assumptions of the projections are validated through due diligence performed in conjunction with the lending decision.

If a borrower's creditworthiness and the value of the collateral furnished are significantly intertwined (risk of positive correlation), the commitment to that borrower can become undercollateralised. When items of collateral are reviewed for compliance with the Solvency Regulation (SolvV), excessive positive correlations ultimately lead to their disqualification as eligible collateral.

Collateral items are administered in a special IT system which serves as a platform for taking advantage of the opportunities the Solvency Regulation provides to use the capital relief offered by credit risk mitigation techniques.

Internally developed AIRB-compliant LGD models which have been reviewed and certified by banking supervisors are used for recognising collateral when calculating capital requirements. Taking into account the statutory and contractual limitations, a special algorithm is used to ensure that all items of collateral are recognised in a way which maximises capital.

### 3.5.2 Main Types of Recognised Collateral

For the most part, WestLB AG accepts all relevant collateral for credit risk mitigation purposes. The predominant portion of the collateral furnished to the Bank consists of unfunded credit protection, including credit derivatives and credit insurance, as well as financial collateral and company values, which are classified as other physical collateral. When determining whether adequate own funds are available, only those collateral instruments which explicitly meet the requirements of the German Solvency Regulation (SolvV) are used for supervisory purposes. The collateral instruments applied by the WestLB AG Group in its Pillar 1 SolvV report as of December 31, 2010 are shown in Figures 24 and 25.

### 3.5.3 Main Types of Protection Providers/Counterparties with Credit Derivatives

Risks from the acceptance of unfunded credit protection are generally subject to the same credit approval and credit monitoring process as well as related limit-steering instruments as direct counterparty credit risks. Regular reviews are conducted of the major protection providers as well as ratings mix of all protection providers to determine and report on any concentrations. Most of the unfunded credit protection accepted by the Bank consists of credit protection and export guarantees, as well as credit insurance, provided by the public sector and other financial institutions. The protection providers represent a well-balanced ratings mix, with very good and good investment ratings. The counterparties to the credit derivatives recognised are financial institutions with good credit quality.

### 3.5.4 Eligible Collateral Instruments

The following figures, one for each approach, show the eligible collateral instruments pursuant to § 154 of the German Solvency Regulation (SolvV) broken down by exposure class. When eligible unfunded credit protection as defined in § 154 (1) No. 2 of the German Solvency Regulation (SolvV) is used, WestLB AG Group applies the so-called principle of the “guarantor substitution”. The amounts reported for collateralised exposures are based on the collateral instruments’ eligibility as determined for regulatory purposes using the appropriate CCF. Because the presentation is based on § 154 of the German Solvency Regulation (SolvV), the CRSA exposure class “exposures secured by real estate property” is not included.

Figure 24: Total Amount of Collateralised Exposures CRSA

€ millions	Financial Collateral	Guarantees	Credit Derivatives	Life Insurance Policies
<b>CRSA</b>				
Regional governments and local authorities	5,102	–	–	–
Other public-sector entities	14	3	–	–
Institutions	7,070	60	–	–
Multilateral development banks	2,051	–	–	–
Corporates	2,403	1,656	46	2
Retail business	–	1,272	–	–
Past due items	–	13	17	–
Equity exposures	–	9	66	–
<b>Total</b>	<b>16,640</b>	<b>3,013</b>	<b>129</b>	<b>2</b>

When AIRB items as described in § 154 (1) Nos. 1 and 3 of the German Solvency Regulation (SolvV) are used as collateral instruments (financial collateral and other AIRB collateral such as mortgages, assigned receivables etc., respectively) they reduce the LGD. In addition to life insurance policies, which are another form of funded credit protection, these are shown in the table below under financial collateral and other AIRB collateral.

Figure 25: Total Amount of Collateralised Exposures AIRB Approach

€ millions	Financial Collateral	Guarantees	Credit Derivatives	Life Insurance Policies	Other AIRB collateral
<b>AIRB Approach</b>					
Central governments	–	502	227	–	–
Institutions	1,468	195	40	–	–
Corporates	442	6,867	420	120	9,287
Retail business*	–	2,142	–	1	298
<b>Total</b>	<b>1,910</b>	<b>8,231</b>	<b>687</b>	<b>121</b>	<b>9,585</b>

\* Sub-portfolio consisting of AIRB exposures secured by real estate collateral

Around 95% of the other AIRB collateral for the exposure class “corporates” is AIRB real estate collateral within the meaning of § 159 of the German Solvency Regulation (SolvV).

### 3.6 Investments in the Banking Book

Investment exposures which are entered into or acquired for strategic reasons are monitored by the Group Development business unit. Those entered into as part of WestLB AG’s customer business are monitored by the Corporate Finance & Structured Products business unit. Both of these business units assume the front office function with respect to investments in the banking book. Pursuant to the Minimum Requirements for Risk Management (MaRisk), the Credit Analysis & Decision business unit handles the back office function autonomously.

The following remarks and information provided in Figure 26 are limited to disclosures about risk-weighted investments which are neither part of the regulatory consolidated group nor deducted. Information about strategic investments is provided in Chapter 1.

As an AIRB institution, WestLB AG makes use of the option in § 338 (4) of the German Solvency Regulation (SolvV) to calculate its capital requirements for investments in the banking book held prior to January 1, 2008 using the credit risk standardised approach (CRSA). It also treats investments entered into after January 1, 2008 as CRSA exposures pursuant to § 70 No. 9 of the German Solvency Regulation (SolvV). This section of the Solvency Regulation exempts an institution from using the AIRB approach on certain conditions which the WestLB AG Group meets.

Claims held in the form of collective investment undertakings whose underlying exposures are not known and cannot be inferred from the undertaking's investment mandate are to be recognised at the simple risk weight for equity claims (fallback solution) according to § 83 (2) of the German Solvency Regulation (SolvV). However, since the exposures handled pursuant to the fallback solution are subject to all of the rules on "other equity claims" under § 83 (6) of the German Solvency Regulation (SolvV), WestLB AG has grandfathered them pursuant to § 338 (4) of the German Solvency Regulation (SolvV). Thus, these items are assigned to the CRSA exposure class "equity exposures" and given a risk weight of 100%.

Figure 26: Values for Investments

€ millions	Book Value	Fair Value	Stock-Market Price
Credit institutions	10	11	–
Financial enterprises	12	30	–
Financial services institutions	2	2	–
Ancillary banking services enterprises	3	3	–
	<u>total</u>	<u>73</u>	<u>92</u>
Other companies			
	– thereof listed on an exchange	1	2
	<u>total</u>	<u>93</u>	<u>16</u>
Shares/CIUs			
	– thereof listed on an exchange	16	16
<b>Total</b>	<b>193</b>	<b>233</b>	<b>18</b>

WestLB AG Group generated € 77 million in profit from the sale or settlement of investments in the 2010 reporting year. Unrealised gains in the WestLB AG Group totalled € 40 million; this amount is not considered in core or supplementary capital.

### 3.7 Securitisations

The capital requirements for securitisation positions are calculated on the basis of the Rating Based Approach, the Internal Assessment Approach or the Supervisory Formula Approach pursuant to §§ 255 et seq. of the German Solvency Regulation (SolvV).

With respect to the methods used to determine the risk-weighted exposure amounts for securitisations, WestLB AG Group uses the Rating Based Approach (RBA) when credit assessments from external credit assessment institutions or inferred credit assessments are available. When applying the RBA, the risk weights are calculated in accordance with the time horizon of the rating, the granularity of the receivables in the respective reference portfolio as well as the seniority of the securitisation position in question.

As mentioned earlier, WestLB AG received regulatory approval to use the Internal Assessment Approach (IAA) for certain groups of receivables (see Chapter 3.4.1). These rating systems can be used for unrated securitisation positions related to ABCP programmes.

WestLB AG also uses the Supervisory Formula Approach (SFA) to calculate the capital requirements for securitisation positions if access to sufficiently up-to-date information on the composition of the securitised portfolio is available.

WestLB AG works in cooperation with the leading rating agencies: Fitch Ratings, Moody's Investors Service, Standard & Poor's and Dominion Bond Rating Service (DBRS). There is no differentiation based on the type of securitised receivable, so for any one transaction the Bank will consult with the customer to engage one or more of these agencies for the rating process.

The following tables provide the quantitative information which is subject to disclosure pursuant to § 334 (2) of the German Solvency Regulation (SolvV).

Figure 27 shows the total volume, as of December 31, 2010, of securitised positions (underlying assets) for which the WestLB AG Group served as originator and in which interests in the respective securitisation transactions are held. The breakdown by type of securitised position is based on the classification system used by Deutsche Bundesbank.

Figure 27: Total Amount of Securitised Positions

€ millions	<b>Role: Originator</b> <b>Amount of the securitised positions</b>
<b>Traditional</b>	
Type of securitised positions	
Residential mortgages	–
Commercial mortgages	683
Loans to corporates (incl. SME)	–
Securitisation (Resecuritisation)	–
<b>Total</b>	<b>683</b>

There were no securitised positions by the WestLB AG Group as originator (Figure 27) which were impaired or past due as of December 31, 2010. There were also no losses on these exposures in the 2010 reporting year.

As required by § 334 (2) No. 3 of the German Solvency Regulation (SolvV), the following table shows the aggregate amount of securitisation positions retained or purchased, broken down by type of underlying exposure.

Figure 28: Securitisation Positions by Type of Securitised Positions

€ millions	Exposure of the securitisation positions CRSA	Exposure of the securitisation positions* AIRB approach
<b>Type of securitised positions</b>		
Residential mortgages	–	0
Commercial mortgages	–	749
Credit cards receivables	–	568
Leasing receivables	–	1,375
Loans to corporates (incl. SME)	–	30
Other retail business	–	2,205
Trade receivables	–	1,313
Securitisation (Resecuritisation)	–	480
Other risk exposures with various asset classes	–	2,922
<b>Total</b>	–	<b>9,642</b>

\* Including a securitisation position for which no risk-weighted position values are recognised pursuant to § 232 (5) SolvV

The following table shows the aggregate exposures of securitisation positions broken down by risk weight band as well as the related capital requirements compared to the previous year. The decrease in the volume of the securitisation portfolio from € 31.2 billion as of December 31, 2009 to € 9.2 billion as of December 31, 2010 is largely attributable to the transfer of items to Erste Abwicklungsanstalt. In addition, there were smaller effects caused by exchange rate movement and the use of new rating methods.

Figure 29: Capital Requirements for Securitisation Positions by Risk Weight Band

Risk weight band	Dec. 31, 2010	Dec. 31, 2009	Dec. 31, 2010		Dec. 31, 2009	
	Exposure of the securitisation positions*	Exposure of the securitisation positions*	Capital requirement		Capital requirement	
in %	€ millions	€ millions	CRSA € millions	AIRB approach € millions	CRSA € millions	AIRB approach € millions
≤ 10	4,308	6,642	–	27	–	42
> 10 ≤ 20	2,805	17,469	–	35	–	266
> 20 ≤ 35	972	3,145	–	26	–	92
> 35 ≤ 50	123	212	–	5	–	9
> 50 ≤ 75	603	1,149	–	33	–	61
> 75 ≤ 100	211	699	–	18	–	56
> 100 ≤ 150	27	15	–	3	–	1
> 150 ≤ 250	–	234	–	–	–	38
> 250 ≤ 650	131	729	–	35	–	242
> 650 < 1,250	–	1	–	–	–	0
1,250	56	891	–	32	8	647
<b>Total</b>	<b>9,237</b>	<b>31,184</b>	<b>–</b>	<b>213</b>	<b>8</b>	<b>1,454</b>

\* Excluding a securitisation position for which no risk-weighted position values are recognised pursuant to § 232 (5) SolvV

### 3.8 Market Price Risk

WestLB AG Group uses both standardised approaches developed by supervisors and internal risk measurement models to calculate market price risk. WestLB AG received supervisory approval in 2005 to use its internal risk measurement model to calculate the capital charges for the general and specific market price risks in its trading book as well as the foreign exchange risks on a solo basis. In determining the value at risk (VaR) for external regulatory purposes, the internal model assumes a confidence interval of 99% and a holding period of ten days. The qualitative and quantitative disclosures associated with the use of internal risk models are made in the WestLB Group Annual Report.

The capital charges for all market price risks of the subordinated enterprises, shown by risk type below, are calculated using the standardised approaches of supervisors, which are laid out in §§ 294–312 of the German Solvency Regulation (SolvV).

Figure 30: Market Price Risks Calculated Using the Standardised Approach

€ millions	Capital Charge
Interest rate risk	10
Equity price risk	–
Foreign exchange risk	24
<b>Total</b>	<b>34</b>

## Glossary

### ABCP Programme

#### Asset Backed Commercial Paper Programme

Commercial paper programme, securitisation programme backed by receivables. The securities issued are usually in the form of commercial paper with an original maturity of one year or less.

### AIRB

#### Advanced Internal Ratings Based

An approach where institutions are allowed to use their own estimates of risk parameters to quantify the risk-weighted values of positions with counterparty credit risk.

### AMA

#### Advanced Measurement Approach

A measurement methodology proposed in Basel II for calculating the capital and reserves required to back operational risks. Under this advanced approach, banks are allowed to calculate their regulatory capital charges for operational risks using their own internal measuring system for operational risks provided the system meets certain quantitative and qualitative minimum requirements. To be endorsed, an AMA must conform to rigorous qualitative and quantitative criteria.

### BaFin

Abbreviation for Bundesanstalt für Finanzdienstleistungsaufsicht, Germany's Federal Financial Supervisory Authority

### BCBS

Abbreviation for Basel Committee on Banking Supervision

### CCF

#### Credit Conversion Factor

Risk parameter under Basel II used to determine the exposure at default (EaD).

### CIU

Abbreviation for Collective Investment Undertakings

### CRD

Abbreviation for Capital Requirements Directive

### CRSA

#### Credit Risk Standardised Approach

Supervisory method for determining the capital requirements for counterparty credit risk using risk weights defined by supervisors (external ratings).

**DSGV**

Abbreviation for Deutscher Sparkassen- und Giroverband, the German Savings Banks and Giro Association

**EaD****Exposure at Default**

The amount of a loan at the time of its default (i.e. less the amounts already paid towards principal).

**EL****Expected Loss**

Measure of the loss per receivable a bank expects to incur when a certain counterparty defaults.

**EURIBOR**

Abbreviation for Euro Interbank Offered Rate

**GAAP**

Abbreviation for Generally Accepted Accounting Principles

**IAA****Internal Assessment Approach**

Internal measurement approach applicable to exposures arising from ABCP programmes.

**LGD****Loss Given Default**

The portion, relative to the total amount of a receivable, which will not be recovered when a debtor defaults. Expressed as a percentage of the outstanding receivable.

**LIBOR**

Abbreviation for London Interbank Offered Rate

**OTC****Over the Counter**

Term for trading financial instruments elsewhere than on an exchange.

**PD****Probability of Default**

Likelihood that a debtor will not be able to repay an outstanding claim at all or in full. PD is one of the central parameters used to determine the expected loss on a receivable and is derived from the result of the rating process.

## RBA

The Rating Based Approach is to be applied to securitisation positions for which an external credit assessment or inferred credit assessment is available.

## RW

### Risk Weight

For certain CRSA exposure classes, the risk weights of credit risk exposures can be determined on the basis of external credit assessments. With certain exceptions, the risk weights for AIRB exposure classes are assigned to a specific rating grade using internal credit assessments. The risk weight to apply to a credit risk exposure reflects, in particular, the likelihood that the borrower will not be able to meet its payment obligations either at all or in full.

## SFA

### Supervisory Formula Approach

The supervisory formula approach is to be applied when no external credit assessment or inferred credit assessment is available for securitisation positions.

## SME

Abbreviation for Small and Medium-sized Enterprises

## SoFFin

Abbreviation for Special Fund Financial Market Stabilisation

## VaR

### Value at Risk

An identifier for a possible loss which may occur within a given period and at a given confidence level if certain assumed changes take place in market parameters. This statistical measurement serves to compare market risks in different portfolios held by the bank.

## ZKA

Abbreviation for Zentraler Kreditausschuss

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The Disclosure Report of WestLB AG Group pursuant to the German Solvency Regulation (SolvV) as of December 31, 2010 is also available in German. In case of doubt the German version shall be binding. The report is available on the Internet at [www.westlb.com/Investor Relations](http://www.westlb.com/InvestorRelations).



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