

# Disclosure Report

of WestLB AG Group

Pursuant to the German Solvency Regulation (SolvV)

as of December 31, 2009



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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, 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.

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, 2009, which takes into account WestLB AG’s result for the year.

Any qualitative information which is not published here 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 table 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 of 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 electronic Federal Gazette ([www.ebundesanzeiger.de](http://www.ebundesanzeiger.de)).

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 94 participating interests were deducted from own funds. The deductions for 16 of these participating interests were undertaken in accordance with § 10 (6) Sentence 1 No. 1 of the German Banking Act (KWG). The remaining 78 participating interests were exempted from inclusion in regulatory consolidation pursuant to § 31 of the German Banking Act (KWG).

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.

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

Figure 1: Consolidation Matrix

	Regulatory treatment			Consolidation pursuant to IFRS	
	Consolidation pursuant to KWG	Deduction method	Risk-weighted interest	full	at equity
	full	pro rata			
<b>Credit institutions</b>					
Banco WestLB do Brasil S.A.	x			x	
Bank WestLB Vostok (ZAO)	x			x	
Banque d'Orsay S.A.	x			x	
readybank ag	x			x	
Westdeutsche ImmobilienBank AG	x			x	
WestLB AG (superordinated enterprise)	x			x	
WestLB Bank Polska S.A.	x			x	
WestLB Covered Bond Bank plc	x			x	
WestLB do Brasil Cayman Ltd.	x			x	
WestLB International S.A.	x			x	
WestLB Ireland plc	x			x	
WIB Real Estate Finance Japan K.K.	x			x	
<b>Financial services institutions</b>					
Methuselah Life Markets Ltd.	x				
WestLB Asset Management (US) LLC	x			x	
WestLB Finance Curaçao N.V.	x			x	
WestLB Securities Inc.	x			x	
WestLB Securities Pacific Ltd.	x			x	
<b>Financial enterprises</b>					
Basinghall Commercial Finance Ltd.	x				
Basinghall Finance plc	x				x
Compagnie Belge de la WestLB (CBW) S.A.	x				
Dusskapital Acht Beteiligungsgesellschaft mbH	x				
European Policy Exchange Ltd.	x				
GLB GmbH & Co. OHG		x			
International Leasing Solutions Japan K.K.			x		x
KA Deutschland Beteiligungs KG	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 Lease Finance Limited S.A.R.L.	x				
WestLB Life Markets GmbH	x				
WestLB Mellon Asset Management Holdings Ltd.			x		x
WestLB New York Capital Investment Ltd.	x				x
WestLB Participation One GmbH	x				
WestLB Servicios S.A.	x				
WestLB U.K. Ltd.	x				x
WestLeasing Westdeutsche Leasing Holding GmbH	x				
WestUBG Westdeutsche Unternehmens-Beteiligungsges. mbH	x				
WLB Funding S.A. de C.V., S.O.F.O.M	x				x
<b>Other</b>					
EMG Projekt Gewerbepark Ludwigsfelde/Löwenbruch GmbH				x	x
EPM Assetis GmbH*				x	x
FEN Fachmarktzentrum former Eisstadion Nürnberg GmbH & Co. KG				x	x
Garnet Real Estate LLC	x				
GOD Grundstücksverwaltungsgesellschaft & Co. KG	x				x
GOH Grundstücksverwaltungsgesellschaft & Co. KG	x				x

\* EPM Assetis GmbH was measured at equity as of December 31, 2009 and presented separately under IFRS 5.

	Regulatory treatment			Consolidation pursuant to IFRS		
	Consolidation pursuant to KWG		Deduction method	Risk-weighted interest	Consolidation pursuant to IFRS	
	full	pro rata			full	at equity
WestGkA Management Gesellschaft für kommunale Anlagen mbH				x	x	
WestLB Property Services Ltd.	x					
WestProject & Consult Gesellschaft für Projektentwicklung und Consulting mbH				x	x	
WMO Erste Entwicklungsgesellschaft mbH & Co. KG				x	x	
<b>No KWG categorisation</b>						
Clavis Securities plc						x
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.** is a commercial bank offering a wide range of banking services, including foreign exchange transactions, with special emphasis on the Latin American market.

**Bank WestLB Vostok (ZAO)** offers treasury products as well as payments services and, in addition to the traditional lending business, engages in various trading activities in local financial markets.

**Banque d'Orsay S.A.** performs institutional asset management activities and executes capital-market based stock and bond investments.

**readybank ag** specialises in consumer credit and retail financing.

**Westdeutsche ImmobilienBank AG** is the centre of competence for all of the WestLB Group's real estate activities.

The core business of **WestLB Bank Polska S.A.** is wholesale corporate and investment banking. In addition to offering a wide range of capital market products, it provides comprehensive banking services for local companies, foreign enterprises and public-sector institutional clients.

**WestLB Covered Bond Bank plc** is a wholly owned subsidiary of WestLB AG which specialises in public sector finance for the European market.

**WestLB International S.A.** is a wholly owned subsidiary of WestLB AG focused on providing securities trading and asset management services to retail clients.

## 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, 2009 (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

- capital contributions of silent partners
- hybrid capital
- special item for general bank risks pursuant to § 340 g of the German Commercial Code (HGB)
- deductions from participating interests and EL comparison
- deductions for intangible assets

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

#### Capital Contributions of Silent Partners

WestLB AG placed two issues 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 issues. The Federal Financial Supervisory Authority (BaFin) endorsed the recognition of these contributions as core capital within the meaning of § 10 (4) 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 second tranche of the silent contribution to capital, which totalled € 1.5 billion, was paid on January 4, 2010. The agreement provides for a further increase in the silent contribution of € 827.6 million.

### Hybrid Capital

Hybrid capital is generated through the issuance of preferred stock via a WestLB AG subsidiary domiciled in Jersey. The shares of stock have an indefinite term and pay a fixed noncumulative, profit-linked dividend which is increased by a contractually stipulated margin over LIBOR after ten years. The issue satisfies the requirements of the Basel Committee for Banking Supervision and is recognised as core capital at Group level.

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

This item, which amounts to € 53 million, is attributable to exposures of subordinated enterprises.

### 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 (6 a) No. 1 of the German Banking Act (KWG), 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:

- profit participation capital
- free contingency reserves pursuant to § 340 f of the German Commercial Code (HGB)
- long-term subordinated liabilities
- deductions from participating interests and EL comparison
- asset-side balancing item pursuant to § 10 a (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.

#### Profit Participation Capital

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 § 340 f 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 (5 a) of the German Banking Act (KWG).

The following table shows the own funds recognised for regulatory purposes as of the December 31, 2009 reporting date, taking into account WestLB AG's result for the year. The first column shows the volume of own funds taking into account the second tranche of capital from SoFFin in the amount € 1.5 billion, which was paid on January 4, 2010.

Figure 2: Own Funds Structure

€ millions	Dec. 31, 2009		Dec. 31, 2008
	After WestLB AG's result for the year including SoFFin's € 1.5 billion silent contribution to capital	After WestLB AG's result for the year	
Paid-in capital, disclosed reserves (including consolidation items) and asset-side balancing items	3,820	3,820	4,654
Capital Contributions of silent partners	2,613	1,113	469
Hybrid capital	869	869	869
Special item for general bank risks pursuant to § 340g HGB	54	54	47
Deductions pursuant to § 10 (2a) Sentence 2 No. 2 KWG (intangible assets)	- 62	- 62	- 68
Deductions pursuant to § 10 (2a) Sentence 2 No. 6 KWG (unconsolidated participating interests, EL comparison)	- 460	- 460	- 304
For information only:			
Including shortfalls and expected losses for AIRB exposures recognised in core capital pursuant to § 10 (6a) Nos. 1 and 2 KWG	- 204	- 204	- 53
<b>Core capital for solvency purposes (§10 [2a] KWG)</b>	<b>6,834</b>	<b>5,334</b>	<b>5,667</b>
Liabilities under profit participation rights	231	231	687
Free contingency reserves pursuant to § 340f HGB	50	50	50
Long-term subordinated liabilities	2,470	2,470	2,900
Deductions pursuant to § 10 a (6) Sentence 9 KWG (asset-side balancing item)	- 74	- 74	- 70
Deductions pursuant to § 10 (2a) Sentence 2 No. 6 KWG (unconsolidated participating interests, EL comparison)	- 460	- 460	- 304
For information only:			
Including shortfalls and expected losses for AIRB exposures recognised in supplementary capital pursuant to § 10 (6a) Nos. 1 and 2 KWG	- 204	- 204	- 53
<b>Supplementary capital for solvency purposes (§ 10 [2b] KWG)</b>	<b>2,217</b>	<b>2,217</b>	<b>3,263</b>
<b>Modified available capital pursuant to § 10 (1d) Sentence 1 KWG and eligible Tier III capital pursuant to § 10 (2c) KWG</b>	<b>9,051</b>	<b>7,551</b>	<b>8,930</b>

## 2.2 Adequacy of Own Funds

WestLB AG Group's total capital requirements amounted to € 6,627 million as of the December 31, 2009 reporting date.

WestLB AG and the WestLB AG Group both met their minimum capital requirements completely in 2009.

## 2.2.1 Capital Requirements

The regulatory capital requirements as of December 31, 2009 for the risk types relevant to banking supervisors (counterparty credit risk, market price risk, operational risk) are broken down in the following table.

Figure 3: Capital Requirements

€ millions	Dec. 31, 2009	Dec. 31, 2008*
<b>Counterparty credit risk</b>		
<b>CRSA</b>		
Central governments	23	4
Regional governments and local authorities	15	3
Other public-sector entities	6	0
International organisations	0	0
Institutions	81	88
Multilateral development banks	0	0
Corporates	358	460
Exposures secured by real estate property	34	41
Retail business	93	85
Exposures in the form of collective investment undertakings (CIU)	1	5
Equity exposures	38	92
Other items	43	80
Past due items	56	56
<b>Total CRSA</b>	<b>748</b>	<b>914</b>
<b>AIRB</b>		
Central governments	119	79
Institutions	534	530
Corporates	3,202	3,310
Retail business**	35	47
Other non credit-obligation assets	4	6
<b>Total AIRB</b>	<b>3,894</b>	<b>3,972</b>
<b>Securitisations</b>		
CRSA	8	17
AIRB	1,454	1,560
<b>Total securitisations</b>	<b>1,462</b>	<b>1,578</b>
<b>Total counterparty credit risk</b>	<b>6,104</b>	<b>6,464</b>
<b>Market price risk</b>		
Standardised approach	76	73
Internal model approach	136	201
<b>Total market price risk</b>	<b>212</b>	<b>274</b>
<b>Operational risk</b>		
AMA	311	342
<b>Other risks</b>		
Settlement risk	0	1
<b>Total capital requirements</b>	<b>6,627</b>	<b>7,081</b>

\* The capital requirements from last year's Disclosure Report were rounded accordingly.

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

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 on Group level by virtue of § 339 (3)–(5) of the German Solvency Regulation (SolvV).

## 2.2.2 Total Capital Ratio and Core Capital Ratio

Taking into account WestLB AG's result for the year as well as the second tranche of capital from SoFFin, 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, 2009 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 and including the € 1.5 billion silent contribution to capital)	10.9	8.2
WestLB AG Group (after WestLB AG's result for the year)	9.1	6.4
WestLB AG (superordinated enterprise) (after WestLB AG's result for the year and including the € 1.5 billion silent contribution to capital)	12.0	8.5
WestLB AG (superordinated enterprise) (after WestLB AG's result for the year)	9.8	6.3
Banco WestLB do Brasil S.A.	31.1	31.0
Bank WestLB Vostok (ZAO)	55.5	36.1
Banque d'Orsay S.A.	14.1	8.9
readybank ag	14.0	11.9
Westdeutsche ImmobilienBank AG	11.4	8.8
WestLB Bank Polska S.A.	37.4	36.6
WestLB Covered Bond Bank plc	37.7	37.7
WestLB International S.A.	17.7	9.4

## 3 Disclosures by Risk Type

### 3.1 General Disclosure Obligations for Counterparty Credit Risk

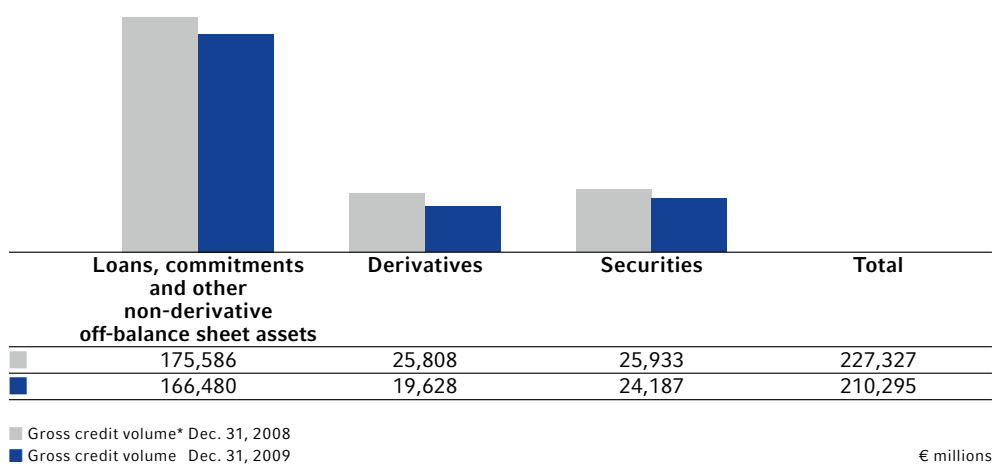
The following chapters contain the general presentation of the counterparty credit risk pursuant to § 327 (2) of the German Solvency Regulation (SolvV).

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

The following tables show the € 210,295 million in total exposures (gross credit volume) for the various types of exposures broken down 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). 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.

Unlike in last year's disclosure report, the exposure class "collective investment undertakings" of subordinated enterprises is included in the tables on gross credit volume.

Figure 5: Gross Credit Volume Comparison



\* Unlike in the 2008 Disclosure Report, the exposure class "collective investment undertakings" of subordinated enterprises is included here.

The gross credit volume decreased over the course of 2009 from € 227,327 million to € 210,295 million. This change was attributable to the decrease in the level of activity in the traditional lending and equity investments businesses, which itself was driven by measures such as the sale of Weberbank, sale of WestLB Hungaria Bank ZRt. as well as the redemption and sale of equity investments in non-affiliated companies, including WestLB Orion and WestLB Europa Holding.

Figure 6: Gross Credit Volume by Region

€ millions	Loans, commitments and other non-derivative off-balance sheet assets	Derivatives	Securities	Total
Germany	70,277	7,425	3,922	81,624
Industrialised nations Europe*	53,869	7,250	16,034	77,153
Industrialised nations America	19,889	4,280	3,273	27,442
Industrialised nations Asia	6,480	264	264	7,008
Eastern Europe	6,504	163	323	6,990
Other regions**	9,461	246	371	10,078
<b>Total</b>	<b>166,480</b>	<b>19,628</b>	<b>24,187</b>	<b>210,295</b>

\* without Germany

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

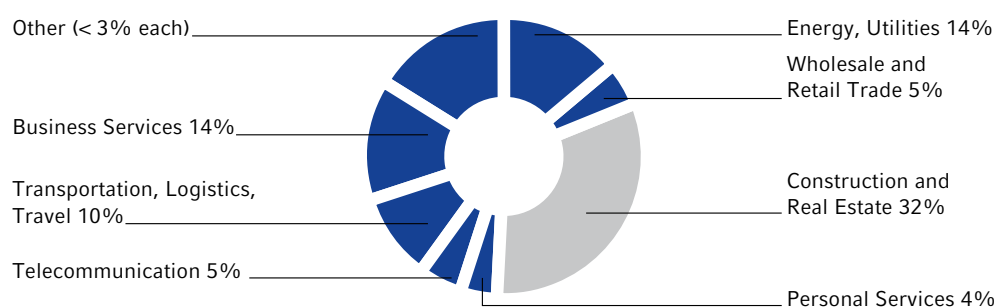
The industry classification shown in Figures 7–10 corresponds to the sector breakdown used for internal purposes.

Figure 7: Gross Credit Volume by Industry

€ millions	Loans, commitments and other non-derivative off-balance sheet assets	Derivatives	Securities	Total
Financial sector	56,939	7,876	8,620	73,435
Industry and services	77,315	3,257	2,600	83,172
Public sector	19,429	1,422	11,316	32,167
Other	12,797	7,073	1,651	21,521
<b>Total</b>	<b>166,480</b>	<b>19,628</b>	<b>24,187</b>	<b>210,295</b>

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

Figure 8: 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 9: Gross Credit Volume of Industry and Services

Industry and Services	Loans, commitments and other non-derivative off-balance sheet assets	Derivatives	Securities	Total
<b>€ millions</b>				
Automotive industry	1,896	135	95	2,126
Chemicals and pharmaceuticals	2,048	389	7	2,444
Energy, utilities	11,071	656	98	11,825
Wholesale and retail trade	3,642	99	58	3,799
Manufacture of computer, electronic and optical equipment	1,473	207	68	1,748
Construction and real estate	26,166	381	277	26,824
Food and beverage	1,024	34	32	1,090
Machinebuilding	1,162	35	23	1,220
Paper, printing and publishing	859	13	13	885
Personal services	3,154	64	25	3,243
Other industrial sectors	1,704	53	68	1,825
Steel and metal processing	2,242	70	10	2,322
Telecommunication	3,475	245	417	4,137
Transportation, logistics, travel	7,228	289	574	8,091
Business services	10,171	587	835	11,593
<b>Total</b>	<b>77,315</b>	<b>3,257</b>	<b>2,600</b>	<b>83,172</b>

The table below shows the gross credit volume by contractual residual maturity. The predominant portion of the gross credit volume is attributable to the medium to long-term maturity ranges.

Figure 10: Gross Credit Volume by Contractual Residual Maturity

	Loans, commitments and other non-derivative off-balance sheet assets	Derivatives	Securities	Total
<b>€ millions</b>				
Short-term (less than 1 year)	14,988	3,838	1,252	20,078
Medium-term (1 to 5 years)	114,405	14,119	12,467	140,991
Long-term (more than 5 years)	37,087	1,671	10,468	49,226
<b>Total</b>	<b>166,480</b>	<b>19,628</b>	<b>24,187</b>	<b>210,295</b>

Since a presentation of netted amounts by residual maturity is not possible with derivative transactions which are included in regulatory close-out netting, the corresponding total amount after netting has been lumped into the maturity range "medium term (1 to 5 years)".

### 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, general value adjustments 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 11: 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-offs exposures
	Impaired	Past due	IVA	GVA	Provisions			
Germany	986	44	469	–	47	88	12	12
Industrialised nations Europe*	846	8	356	–	16	187	21	1
Industrialised nations America	1,047	106	381	–	2	301	6	–
Industrialised nations Asia	421	–	214	–	–	87	0	0
Eastern Europe	46	5	19	–	0	–8	0	–
Other regions**	529	53	246	–	0	–4	6	4
<b>Total</b>	<b>3,875</b>	<b>216</b>	<b>1,685</b>	<b>152</b>	<b>65</b>	<b>651</b>	<b>45</b>	<b>17</b>

\* without Germany

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

Figure 12: 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-offs exposures
	Impaired	Past due	IVA	GVA	Provisions			
Financial sector	639	2	283	–	–	81	0	0
Industry and services	3,136	214	1,329	–	64	675	39	10
Public sector	13	–	11	–	1	–27	–	–
Other	87	–	62	–	0	–78	6	7
<b>Total</b>	<b>3,875</b>	<b>216</b>	<b>1,685</b>	<b>152</b>	<b>65</b>	<b>651</b>	<b>45</b>	<b>17</b>

The following table shows the progress of value adjustments and provisions for 2009 without any regional or industry classification.

Figure 13: Progress of Value Adjustments and Provisions

€ millions	Opening balance (Jan. 1, 2009)	Allocations	Reversals	Utilised	Changes based on exchange rates and other factors	Ending balance (Dec. 31, 2009)
Individual value adjustments	1,290	933	187	348	- 3	1,685
Provisions	55	28	20	0	2	65
General value adjustments	262	6	109	5	- 2	152
<b>Total</b>	<b>1,607</b>	<b>967</b>	<b>316</b>	<b>353</b>	<b>- 3</b>	<b>1,902</b>

### 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 (SolV). In order to determine the credit equivalent amount, the add-on for expected increases in replacement costs is added to the gross positive fair values after netting and collateral. The term "available netting arrangements" refers to netting agreements which lead to a reduction in the gross positive fair values and surcharge. WestLB AG uses close-out netting exclusively. Novation netting, which involves the creation of a new obligation from existing commitments, is not used.

The gross positive fair values shown in Figure 14 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, broken down by contract type. Because netting arrangements span different products, it is not possible to present an accurate breakdown of available netting arrangements by risk type.

Figure 14: Gross Positive Fair Values of Derivative Counterparty Credit Risk Exposures

€ millions	Gross Positive fair values before netting and collateral arrangements	Available netting arrangements	Eligible collateral	Gross Positive fair values after netting and collateral arrangements
Interest rate risk	33,047	-	-	-
Exchange rate risk	2,806	-	-	-
Interest rate/exchange rate risk	2,304	-	-	-
Products based on share prices and other prices	842	-	358	-
Credit derivatives	2,584	-	-	-
<b>Total</b>	<b>41,583</b>	<b>29,381</b>	<b>358</b>	<b>11,844</b>

WestLB AG Group's counterparty credit risk exposures from derivatives (credit equivalent amounts) amounted to € 19,628 million as of December 31, 2009 using the marking-to-market method.

The notional value of WestLB AG's credit derivative hedges was € 415 million as of December 31, 2009.

The table below shows the notional value of the credit derivatives in the WestLB AG Group's trading book as of December 31, 2009. 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. WestLB AG Group uses credit derivatives exclusively for its own portfolio.

Figure 15: Breakdown of Credit Derivatives in the Trading Book

€ millions	For own portfolio	
	Bought	Sold
Credit default swaps	58,908	57,778
Total return swaps	50	50
Credit linked notes	–	6
<b>Total</b>	<b>58,958</b>	<b>57,834</b>

With OTC derivative transactions, WestLB AG enters into agreements on the provision of collateral at the request of customers. These agreements may require an increase in the amount of collateral provided should WestLB AG's rating be downgraded. The impact which a downgrade by one notch to BBB and A-3 (Standard & Poor's) and resulting need to furnish additional collateral would have on WestLB AG's liquidity situation is simulated as part of the "Downgrade Scenario" stress test. Compared to other liquidity risks, the liquidity risk posed by the collateral agreements executed is straightforward.

### 3.3 Information on CRSA Exposures

For credit assessments of CRSA exposures, WestLB AG relies on the ratings provided by the following two external credit assessment institutions:

- Standard & Poor's
- Moody's Investors Service

Both firms have been nominated for all CRSA exposure classes.

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.

With both the AIRB approach and CRSA, the process of assigning transactions and guarantees to exposure classes is done with the help of WestLB AG's IT systems.

Generally speaking, the internal rating system together with the industry of the borrower or protection seller determines the exposure class.

The determination as to whether to apply the AIRB approach or CRSA to a transaction is made during the preparations for regulatory reporting on the basis of itemised decision tables. Once a decision is made, the reporting software pulls the corresponding exposure class from WestLB AG's IT systems.

Pursuant to § 328 of the German Solvency Regulation (SolV), the table below shows the CRSA exposures as position values before and after the application of credit risk mitigation techniques 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"). CRSA securitisation positions are accounted for in Figure 27.

Figure 16: Volume of Counterparty Credit Risk in CRSA Portfolios by Risk Class

Risk weight	Position values before credit risk mitigation	Position values after credit risk mitigation
	€ millions	€ millions
0%	28,663	18,272
20%	3,564	3,817
35%	1,199	1,199
50%	869	755
75%	1,580	1,575
100%	9,509	5,923
150%	463	444
Other risk weights	21	21
<b>Total</b>	<b>45,868</b>	<b>32,006</b>

With respect to the disclosures required pursuant to § 329 of the German Solvency Regulation (SolV), there were no AIRB exposures for which the simple risk weight for specialised lending exposures was used. Likewise, there were no AIRB equity claims for which the 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, lending decisions, determining economic capital and gauging limit utilisation 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, 2009.

Figure 17: 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)
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
Commercial properties

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

Leveraged finance
Project finance energy and infrastructure

\* In cooperation with Sparkassen Rating und Risikosysteme GmbH

The systems banking supervisors reviewed and approved for the WestLB AG Group's use in the case of securitisations are shown in Figure 18. 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 used in the Verbund business, all approved systems were developed independently by the WestLB AG Group. In some cases the Bank cooperates with Rheinland-Pfalz Bank.

Figure 18: 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 and consumer loans
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. The rating process is consistent across all exposure classes and relies on the use of a sophisticated IT system which ensures application of the dual control 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 a workaround for portfolio management purposes if no internal ratings are available.

The models for estimating the loss given default use information about a borrower, the type of credit (e.g., loan, guarantee, bond, priority, etc.) and the provision of collateral to forecast a transaction-specific LGD. 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 human 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, from account management systems, from the collateral database and from 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 a committee of the Managing Board, is part of the Credit & Group Risk Control business unit, but 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 a committee of WestLB AG's Managing Board.

### 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 19: Credit Exposure by PD Class

			Central Governments	Institutions	Corporates	Retail Business*	Total
Investment Grade	PD Class 0% ≤ 0.845%	EaD					
		€ millions	23,902	47,927	42,993	2,486	117,308
		Ø LGD in %	12.11	19.44	29.64	19.99	21.70
		Ø PD in %	0.02	0.11	0.29	0.21	0.16
		Ø RW in %	5.60	12.25	33.80	9.26	18.73
Non-Investment Grade	PD Class 0.845% < 100%	EaD					
		€ millions	193	2,450	25,133	348	28,124
		Ø LGD in %	28.53	13.36	31.42	23.36	29.73
		Ø PD in %	1.78	1.97	4.32	2.99	4.08
		Ø RW in %	79.69	33.22	97.41	47.62	91.08
Default	PD Class 100%	EaD					
		€ millions	1	270	2,647	27	2,945
		Ø LGD in %	99.86	48.92	46.41	37.96	46.58
		Ø PD in %	100.00	100.00	100.00	100.00	100.00
		Ø RW in %	0.00	0.00	38.21	142.88	35.65
Total		EaD					
		€ millions	24,096	50,647	70,773	2,861	148,377
		Ø LGD in %	12.25	19.30	30.90	20.57	23.71
		Ø PD in %	0.04	0.73	5.45	1.49	2.88
		Ø RW in %	6.19	13.20	56.55	15.19	32.78

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

The predominant portion of the credit exposure (approx. 80% measured in EaD) is attributable 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 20: Credit Exposure of the PD Class "Investment Grade"

			Central Governments	Institutions	Corporates	Retail Business*	Total
Investment Grade	PD Class 0% ≤ 0.025%	EaD					
		€ millions	16,941	5,603	449	–	22,993
		Ø LGD in %	9.23	19.36	43.97	–	12.38
		Ø PD in %	0.01	0.01	0.02	–	0.01
		Ø RW in %	1.79	7.76	10.94	–	3.42
	PD Class 0.025% ≤ 0.14%	EaD					
		€ millions	6,601	31,359	17,075	1,238	56,273
		Ø LGD in %	18.82	19.79	23.99	16.14	20.87
		Ø PD in %	0.05	0.07	0.07	0.07	0.07
	PD Class 0.14% ≤ 0.845%	EaD					
		€ millions	360	10,965	25,469	1,248	38,042
		Ø LGD in %	24.58	18.47	33.17	23.80	28.54
		Ø PD in %	0.32	0.25	0.44	0.36	0.38
Total		EaD					
		€ millions	23,902	47,927	42,993	2,486	117,308
		Ø LGD in %	12.11	19.44	29.64	19.99	21.70
		Ø PD in %	0.02	0.11	0.29	0.21	0.16
		Ø RW in %	5.60	12.25	33.80	9.26	18.73

\* 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 2008 validation, there are currently five internally developed models which have already been tested and approved by BaFin. The models are validated and improved annually.

Weighting the undrawn line with a 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 21.

Figure 21: Credit Commitments and Weighted EaD

	Total credit commitments € millions	Total EaD credit commitments € millions	Commitment-weighted average EaD € millions	Average CCF in %
Central governments	2,027	654	31	32.26
Institutions	577	206	20	35.70
Corporates	21,721	8,806	28	40.54
Retail business*	41	41	3	100.00
<b>Total</b>	<b>24,366</b>	<b>9,707</b>	<b>28</b>	<b>39.84</b>

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

In addition, Figure 22 shows, for the first time, a comparison of the expected loss (EL) in the traditional loan business with the actual losses sustained in 2008 and 2009 pursuant to Section 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 increase in the actual loss from € 88 million in 2008 to € 289 million in 2009, a difference of € 201 million, is attributable to the general worsening of conditions in the loan business caused by the financial market crisis.

Figure 22: Estimated Losses and Actual Losses in the Loan Business by AIRB Exposure Class

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

### 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, more particularly, 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 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 performed by knowledgeable, impartial third parties are used for items of real estate as well as aircraft and ships. 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.

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 conformity 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 types of collateral for credit risk mitigation purposes. The predominant portion of the collateral furnished to the Bank consists of unfunded credit protection, including credit derivatives, company values, aircraft and ships, which are classified as other physical collateral, and financial collateral. When determining whether adequate own funds are available, only those protection instruments which explicitly meet the requirements of the German Solvency Regulation (SolvV) are used for supervisory purposes. The protection instruments applied by the WestLB AG Group in its Pillar 1 SolvV report as of December 31, 2009 are shown in Figure 23.

### 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 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 Protection Instruments

Figure 23 shows the eligible protection instruments pursuant to § 154 of the German Solvency Regulation (SolvV) broken down by exposure class. When AIRB items as described in § 154 (1) Nos. 1 and 3 of the German Solvency Regulation (SolvV) are used as protection instruments, they reduce the LGD. These are shown in the table below under financial collateral and other AIRB collateral. When items as described in § 154 (1) No. 2 of the German Solvency Regulation (SolvV) are used, WestLB AG Group applies the so-called principle of the “guarantor substitution”. The Total Amount of Collateralised Exposures table was prepared on the basis of the protection instruments’ eligibility as determined for regulatory purposes. Because of the breakdown by exposure class pursuant to § 154 of the German Solvency Regulation (SolvV), the CRSA exposure class “exposures secured by real estate property” is not included.

Figure 23: Total Amount of Collateralised Exposures

€ millions	Financial collateral § 154 Sentence 1 No. 1 SolvV	Unfunded credit protection § 154 Sentence 1 No. 2 SolvV	Other AIRB collateral § 154 Sentence 1 No. 3 SolvV
<b>CRSA</b>			
Regional governments and local authorities	0	–	–
Other public-sector entities	74	4	–
Institutions	10,618	110	–
Multilateral development banks	1,494	–	–
Corporates	1,682	2,240	–
Retail business	6	–	–
Past due items	0	2	–
<b>Total CRSA</b>	<b>13,874</b>	<b>2,356</b>	<b>–</b>
<b>AIRB</b>			
Central governments	–	535	–
Institutions	294	484	2
Corporates	421	7,054	13,705
Retail business*	–	–	2,220
<b>Total AIRB</b>	<b>715</b>	<b>8,073</b>	<b>15,927</b>
<b>Total</b>	<b>14,589</b>	<b>10,429</b>	<b>15,927</b>

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

### 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 24 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 pursuant to §§ 24–54 of the German Solvency Regulation (SolvV), i.e. 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.

WestLB AG applies the provisions of § 10a (6) Sentence 10 of the German Banking Act (KWG) in one case involving the determination of an asset-side balancing item. In other words, the asset-side balancing item in this case (the amount of which decreases by at least one-tenth each year) is treated as a participating interest in an enterprise outside the Group and counted under SolvV guidelines as a counterparty credit risk exposure belonging to the CRSA exposure class “equity exposures”.

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 in 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%. This year, the table below does not capture the CRSA exposure class “exposures in the form of collective investment undertakings”.

Figure 24: Values for Investments

€ millions	Book value	Fair value	Stock-market price
Credit institutions	10	15	–
Financial enterprises	245	253	–
Financial services institutions	2	0	–
Ancillary banking services enterprises	2	3	–
Other companies	total	62	120
	– thereof listed on an exchange	1	38
Shares	total	152	202
	– thereof listed on an exchange	26	76
<b>Total</b>	<b>473</b>	<b>593</b>	<b>114</b>

WestLB AG generated € 15 million in profit from the sale or settlement of investments in the 2009 reporting year. Unrealised gains in the WestLB AG Group totalled € 120 million; this amount is not considered in core or supplementary capital.

### 3.7 Securitisations

The focus of WestLB AG's securitisation activities is on securitising receivables portfolios for the Bank's customers. From the customer's perspective, securitisation offers them a chance to refinance their businesses at attractive terms, whilst at the same time diversifying their sources of financing. For WestLB AG, the securitisation business is a source of commission income and stable interest income which has an attractive risk-return profile. In particular, the Bank securitises trade receivables for commercial customers as well as receivables under instalment loans and leases for financial institutions (including retail finance companies and leasing companies).

WestLB AG generally assumes the role of arranger in securitisation transactions, underwriting an issuer's senior securities or providing the liquidity backup line in the case of asset backed commercial paper programmes (ABCP programmes). By underwriting the senior tranches of securitisations, WestLB AG is able to offer its customers financing at attractive terms. Their credit rating has little to no bearing on the terms, which enables them to diversify their refinancing. WestLB AG also offers its customers the services of trustee, paying agent, listing agent, account bank and partner for interest rate and currency hedges.

In its capacity as originator, sponsor and investor, WestLB AG provides end-to-end support for securitisations. In the area of structuring transactions, the Bank holds the initial discussions with customers, performs legal and economic due diligence, analyses the portfolio to be securitised and assists with the rating process. WestLB AG completes the securitisation transaction and places the securities with investors. It also purchases securitisation positions for resale and to hold. To hedge the placement risk associated with ABCP programmes, the Bank provides liquidity backup lines and buys paper to hold for its own account.

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.

WestLB AG's investments in securitisation positions, including liquidity facilities, are measured and recognised in accordance with IAS 39. Anticipated risks from undrawn liquidity commitments are accounted for by forming provisions in the amount of the expected loss pursuant to IAS 37, provided a draw is likely and its amount can be reliably estimated. Instruments used to hedge interest rate risks and exchange rate risks are assigned to the trading book as derivatives under IAS 39 and measured at fair value. Funds received by consolidated securitisation vehicles from sources outside of the Group are measured at amortised cost and reported as certificated liabilities.

Whilst the receivables are divested off the balance sheet in a true sale securitisation (or so-called "traditional securitisation"), that is, provided the opportunities and risks arising from the receivables pool are transferred to the purchaser, the items remain on the balance sheet in a synthetic securitisation since the derecognition criteria under IAS 39 have not been met.

The capital requirements for securitisation positions are calculated on the basis of the Credit Risk Standardised Approach pursuant to §§ 238 et seq. of the German Solvency Regulation (SolvV) as well as on the basis of the Internal Ratings-Based Approaches 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 under the AIRB approach, 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 under the AIRB approach if access to sufficiently up-to-date information on the composition of the securitised portfolio is available.

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

Figure 25 shows the total volume of securitised positions (underlying assets) by the WestLB AG Group as originator as of December 31, 2009. The breakdown by type of securitised position is based on the classification system used by Deutsche Bundesbank.

Figure 25: Total Amount of Securitised Positions

€ millions	Role: Originator	
	Amount of the securitised positions	
<b>Traditional</b>		
Type of securitised positions		
Residential mortgages		396
Commercial mortgages		759
Loans to Corporates (incl. SME)		79
Securitisation		22,498
<b>Total</b>		<b>23,732</b>

The following table gives the aggregate amounts of the securitised positions by the WestLB AG Group as originator which were impaired or past due as of December 31, 2009 as well as the losses the WestLB AG Group incurred on these exposures in 2009.

Figure 26: Securitised Positions Which Are Impaired or Past Due and the Losses Realised on Them in 2009

€ millions	Role: Originator	
	Impaired/past due	Loss
<b>Traditional</b>		
Type of securitised positions		
Residential mortgages	43	8
Commercial mortgages	50	2
Loans to Corporates (incl. SME)	–	11
Securitisation	644	59
<b>Total</b>	<b>736</b>	<b>81</b>

As required by § 334 (2) No. 3 of the German Solvency Regulation (SolvV), the aggregate amount of securitisation positions retained or purchased by the institution in its role as originator, sponsor or investor, broken down by type of underlying exposure, is provided in the following table.

Figure 27: 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	8	209
Commercial mortgages	–	1,513
Credit cards receivables	–	1,024
Leasing receivables	–	2,000
Loans to Corporates (incl. SME)	–	537
Other retail business	–	5,247
Trade receivables	–	1,837
Securitisation	–	15,785
Other risk exposures	–	3,478
<b>Total</b>	<b>8</b>	<b>31,631</b>

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

Due to scheduled repayments and active management, the volume of the securitisation portfolio was reduced by approximately € 11.6 billion, from € 43.2 billion as of December 31, 2008 to € 31.6 billion as of December 31, 2009. Nearly one-half of this difference is attributable to the transfer of a portion of the portfolio to Erste Abwicklungsanstalt as well as to the reduction of the ABCP programmes sponsored by WestLB and to other reductions, including the expiration, sale, repayment and voluntary reduction of other securitisation transactions.

The following table shows the aggregate exposures of securitisation positions broken down by risk weight band as well as the related capital charges under the CRSA and AIRB approach, taking into account § 263 of the German Solvency Regulation (SolvV), which enables institutions to cap the capital charge for AIRB securitisation transactions if certain conditions are met.

Figure 28: Capital Charges for Securitisation Positions by Risk Weight Band

Risk weight band in %	Exposure of the securitisation positions* € millions	Capital charge CRSA € millions	Capital charge AIRB approach € millions
≤ 10	6,642	–	42
> 10 ≤ 20	17,469	–	266
> 20 ≤ 35	3,145	–	92
> 35 ≤ 50	212	–	9
> 50 ≤ 75	1,149	–	61
> 75 ≤ 150	699	–	56
> 100 ≤ 150	15	–	1
> 150 ≤ 250	234	–	38
> 250 ≤ 650	729	–	242
> 650 < 1,250	1	–	0
1,250**	891	8	647
<b>Total</b>	<b>31,184</b>	<b>8</b>	<b>1,454</b>

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

\*\* The upper limit pursuant to § 263 SolvV is used in the 1,250% risk weight band.

As required by § 334 (2) No. 6 of the German Solvency Regulation (SolvV), the following table summarises the securitisation activity of the WestLB AG Group in 2009 as well as the losses realised.

Figure 29: Securitisation Activity in 2009

€ millions	Amount of securitised positions	Gains (+)/ Losses (-)
<b>Traditional</b>		
Type of securitised positions		
Commercial mortgages	491	– 1
<b>Total</b>	<b>491</b>	<b>– 1</b>

### 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 bank as well as the foreign exchange risks in its banking book 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 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

<b>€ millions</b>	<b>Capital charge</b>
Interest rate risk	12
Equity price risk	21
Foreign Exchange risk	43
<b>Total</b>	<b>76</b>

### 3.9 Interest Rate Risk in the Banking Book

The interest rate risk in the banking book is monitored and steered as part of market price risk management. As with all market price risks, the interest rate risk in the banking book is calculated using the value-at-risk (VaR) approach. The VaR is determined for a holding period of one trading day and a confidence level of 99%.

The interest rate risk in the banking book is measured daily, with account taken of all relevant exposures monitored through asset liability management, including loans, securities and derivatives. Non-interest-bearing equity components are also taken into account, on the basis of modelled, market-based financing assumptions. In 2008, the Bank introduced a model with option components for capturing and making allowances for the effects of loan prepayments with new business.

In addition to VaR calculations, various historical and parametric stress tests are used to analyse the market price risks in the banking book. One of the most important tests encompasses calculating and monitoring the change in the present value of relevant exposures by applying the shock scenarios defined by BaFin of “plus 130 basis points” and “minus 190 basis points”. In late December 2009, an increase in interest rates by 130 basis points across all currencies would have caused the interest-bearing exposures in the WestLB AG Group’s banking book to lose € 287 million in value. Individual institutions have to notify supervisory authorities if the present value of the relevant exposures in the banking book would decline by more than 20% of regulatory own funds (“outlier criterion”) when applying such a scenario. This threshold had not been reached as of the December 31, 2009 reporting date either.

Figure 31: Interest Rate Risks in the Banking Book

<b>€ millions</b>	<b>Change in income with an interest rate shock of</b>	
	<b>+ 130 bp</b>	<b>- 190 bp</b>
EUR	- 287	+ 431
<b>Total</b>	<b>- 287</b>	<b>+ 431</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

### CCF

#### Credit Conversion Factor

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

### 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). Certain credit risk-reducing instruments can be taken into consideration.

## EL

### Expected Loss

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

## 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. The difference between the total receivable and the loss given default is also known as the recovery amount. LGD is one of the central parameters used to determine the expected loss on a 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 customer will not be able to repay an outstanding claim against it 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.

## 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.

### SME

Abbreviation for Small and Medium-sized Enterprises

### SoFFin

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

Zentraler Kreditausschuss

The ZKA is the joint committee operated by the central associations of the German banking industry.



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The present disclosure report 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](http://www.westlb.com) under "Investor Relations".



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