

## WestLB AG

### **Compensation Report for the 2010 Financial Year**

Publication based on WestLB AG's voluntary undertaking, with reference to the Federal Financial Supervisory Authority's (BaFin's) circular 22/2009 dated 21 December 2009, and the Financial Stability sBoard's (FSB's) "Principles for Sound Compensation Practices", as well as WestLB AG's undertaking to the Federal Agency for Financial Market Stabilisation, dated 18 December 2009, pursuant to the Financial Market Stabilisation Fund Act (FMStFG)

This report meets the requirements of the German Commercial Code (HGB) and International Financial Reporting Standards (IFRS). It takes into account the recommendations of the German Corporate Governance Code as well as the compensation rules of Germany's Regulation Concerning Supervisory Requirements for Remuneration Systems at Institutions (Regulation Governing Remuneration at Institutions, or InstitutsVergV), which has been in force since 13 October 2010.

## **Compensation Report for the 2010 Financial Year**

This Compensation Report covers the compensation of managers and employees of WestLB AG for the 2010 Financial Year<sup>1</sup>.

### **Voluntary undertaking by WestLB to implement FSB standards and the Regulation Governing Remuneration at Institutions**

WestLB AG made a commitment to comply with the “Principles for Sound Compensation Practices” of the G-20 members’ Financial Stability Board as early as December 2009. The compensation system was adjusted in 2009 and further developed in 2010 on the basis of these principles.

The bank has applied the compensation rules of the Regulation Concerning Supervisory Requirements for Remuneration Systems at Institutions (InstitutsVergV) to all of its business activities, both within and outside of Germany. These rules played an especially significant role in the realignment of the bank’s system of deferred compensation.

### **Compensation principles**

WestLB’s compensation philosophy reflects the basic principle of performance and reward. The bank is therefore unequivocally committed to performance-oriented compensation. The implementation of performance-related compensation is based on clear and uniform, fundamental principles, which apply worldwide.

- The bank’s overall performance is the decisive factor in determining the absolute amount of compensation paid; the compensation is based on sustainable corporate earnings.
- As a “scarce commodity”, compensation budgets in particular are invested in those business segments and functions of the company which are most important for the long-term preservation of the business franchise, and for increasing the value of the company.
- Individual performance is rewarded appropriately, and clearly differentiated, depending on the individual performance.
- Both the amount and the structure of the compensation must reflect differences in local market conditions.

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<sup>1</sup> The compensation system resp. compensation for Managing Board members are reported on separately in the 2010 Annual Report and in the electronic Federal Gazette.

These principles also reflect regulatory requirements, and form the basis for a balanced compensation system. This ensures that the objectives of the owners, the bank's management, the staff and the well-being of the company are equally protected. The appropriateness of the compensation is reviewed regularly; in the process, the bank enlists the services of independent, external compensation consultants, in particular by participating in compensation studies of market trends.

### **Composition of the compensation**

The total compensation of managers and employees is composed of a fixed, annual base compensation, social security and fringe benefits, and performance-related variable compensation. This structure applies throughout the bank and is designed to ensure that employees are guided in their work predominantly by their total compensation rather than their variable compensation.

### **Compensation components not linked to performance**

In addition to base compensation, the bank offers its employees, at their various locations, market-linked fringe benefits. As far as the company pension scheme is concerned, WestLB relies on a combination of employer and employee contributions. The bank will continue to provide additional social security and fringe benefits in accordance with statutory taxation and social security regulations, and market norms.

### **Variable, performance-related components of compensation**

At WestLB, variable compensation is performance-based; the amount and structure of the compensation depend on the bank's earnings, the contributions to earnings of individual divisions or business units, and individual performance of employees. At every level at which performance is measured, both quantitative and qualitative indicators are used for evaluating performance. The amount of variable compensation is determined in a discretionary manner, based on the above. WestLB has implemented a comprehensive financial control system, which uses sustainable key performance indicators to monitor the bank and its individual departments. The core control element is the "value creation", which takes into account all cost components (operating, risk-related, and capital costs) appropriately. This satisfies the requirements of the Federal Financial Supervisory Authority (BaFin) and the FSB.

The extent to which the target “value creation” is achieved serves as the basis for measuring the total amount of variable compensation, and how it will be allocated to divisions and business units.

### **Compensation structures and definition of risk takers pursuant to the InstitutsVergV**

In the 2010 Financial Year, WestLB worked to bring the deferred compensation model it introduced in 2009 into compliance with the regulatory requirements of the Regulation Governing Remuneration at Institutions.

Using the categories of the InstitutsVergV and CEBS guidelines, all positions at WestLB AG were reviewed and classified either as risk-taker positions (just under 5% of the total workforce) or as non-risk-taker positions.

A significant portion of the variable compensation granted to all of the employees assigned to the risk-taker group for the respective financial year is subject to the long-term attainment of the targets set for the company or business units over a 3-year period. This arrangement also includes clawback provisions, which enable the bank to prevent payment of the deferred portion in the event of personal misconduct.

### **Governance structure in the area of compensation (Compensation Committee)**

As required by the German Stock Corporation Act (AktG), WestLB AG has set up a two-tiered management body or management structure. This consists of the Supervisory Board, as an independent supervisory body, and the Managing Board, which is responsible for the running bank. In this context, the Managing Board approves the bank’s compensation systems, and ratifies the amount and distribution of the compensation. On behalf of the Managing Board, the appropriateness of the compensation is checked annually by the Human Resources Department, and involves the senior staff, and the entire Managing Board, using a standardised, worldwide procedure.

Moreover, at the beginning of financial year 2010, the Managing Board set up a Compensation Committee. This committee is composed of employees from the front-office areas that initiate business, the bank’s control bodies (e.g. Credit & Group Risk Control, Legal & Compliance, Group Internal Audit) and the Human Resources department.

The Compensation Committee assists with further developing the compensation systems, and monitors the appropriateness of compensation.

In particular, the Compensation Committee is responsible for ensuring that:

- the compensation regulations comply with the business model and regulatory requirements,
- the compensation system is communicated clearly and transparently within WestLB,
- a suitable report on the compensation system is compiled for the Supervisory Board.

The Compensation Committee vigilantly followed the bank's work in 2010 at several meetings and also through action taken outside of meetings. In its report to the Supervisory Board, the Compensation Committee reaffirmed its opinion that the bank is in compliance with all regulatory requirements.

### Disclosure of data on compensation pursuant to the InstitutsVergV

As part of WestLB's restructuring programme, just under 1,800 jobs have been eliminated since the end of 2007. This has made it possible to substantially reduce personnel costs since 2007. In the 2010 Financial Year, the WestLB Group's personnel costs totalled €486 million (2009: €598 million). Compared with 2007 (€823 million), this represents a 41% reduction in personnel costs. The average personnel cost per full-time employee was €104,000 p.a. in 2010, which is around 8% lower than in the previous year.

<b>2010 all employees</b> (excl. Managing Board) € millions	Verbund und Mittelstand	Corporates & Structured Finance	Capital Markets	Corporate Center & Unbundling incl. PEG & Transaction Banking	<b>Total</b>
Total compensation	15,1	84,6	63,7	260,9	<b>424,3</b>
thereof fixed compensation	12,8	58,6	45,2	233,7	<b>350,3</b>
thereof variable compensation	2,3	25,9	18,6	27,2	<b>74,0</b>
Number of employees	186	649	454	3.436	<b>4.725</b>

(WestLB AG Group)

The InstitutsVergV includes regulations on the disclosure of key compensation figures for a select group of individuals, the so-called “risk takers”. The required disclosure for the defined group of employees at WestLB is as follows:

<b>2010 Risk Taker</b> (excl. Managing Board) € millions	Verbund und Mittelstand	Corporates & Structured Finance	Capital Markets	Corporate Center & Unbundling incl. PEG & Transaction Banking	<b>Total</b>
Total compensation	2,6	18,7	18,6	17,2	<b>57,0</b>
thereof fixed compensation	1,6	11,2	9,5	12,3	<b>34,7</b>
thereof variable compensation	0,9	7,5	9,1	4,9	<b>22,3</b>
Number of employees	11	58	58	74	<b>201</b>

**Variable compensation**

thereof immediate cash payment	0,2	1,7	2,2	1,1	<b>5,2</b>
thereof deferred cash payment	0,2	1,7	2,2	0,9	<b>5,0</b>
thereof pro-rated portion with malus component	0,2	1,6	2,2	0,9	<b>4,9</b>
thereof performance-oriented portion based on sustainable value creation	0,2	1,6	2,2	0,9	<b>4,9</b>

(WestLB AG Group)

As regards the 6 new employees hired in 2010 who can be classified as “risk takers”, because of market conditions and the competition for highly qualified staff, the bank provided guarantees (for a maximum period of one year) totalling €900 thousand. These guarantees were approved by the Managing Board, and are linked to the fulfilment of ambitious targets.

As part of the severance agreements reached with “risk takers” (e.g. due to the closure of branches or withdrawal from business segments), severance payments totalling €600 thousand were paid to 37 employees, the largest individual severance payment being €260 thousand.

Duesseldorf, July 2011

WestLB AG