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OS AA01

Statement of details of parent law and other
information for an overseas company



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A02 02/08/2012 #220
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A31 21/07/2012 #285
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disclosed under parent law

☒ What this form is NOT for
You cannot use this form for
an alteration of manner
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FRIDAY SATURDAY THURSDAY

Part 1 Corporate company name

Corporate name of overseas company ① Westdeutsche ImmobilienBank AG FC 22944

UK establishment number B R 11475 11475

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Please complete in typescript or in
bold black capitals

All fields are mandatory unless
specified or indicated by *

① This is the name of the company in
its home state

**Part 2 Statement of details of parent law and other
information for an overseas company**

A1 Legislation

Please give the legislation under which the accounts have been prepared and,
if applicable, the legislation under which the accounts have been audited

Legislation ② Section 315a(i) Handelsgesetzbuch (HGB-German commercial code) +

② This means the relevant rules or
legislation which regulates the
preparation and, if applicable, the
audit of accounts

A2 Accounting principles

Accounts Have the accounts been prepared in accordance with a set of generally accepted
accounting principles?

Please tick the appropriate box

☐ No Go to Section A3

☒ Yes Please enter the name of the organisation or other
body which issued those principles below, and then go to Section A3

③ Please insert the name of the
appropriate accounting organisation
or body

Name of organisation or body ③ International Accounting Standards Board (IASB) +

A3 Accounts

Accounts Have the accounts been audited? Please tick the appropriate box

☐ No Go to Section A5

☒ Yes Go to Section A4

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A4 Audited accounts

Audited accounts

Have the accounts been audited in accordance with a set of generally accepted auditing standards?

Please tick the appropriate box

☐ No Go to Part 3 'Signature'

☒ Yes Please enter the name of the organisation or other body which issued those standards below, and then go to Part 3 'Signature'

❶ Please insert the name of the appropriate accounting organisation or body

Name of organisation or body ❶

International Accounting Standards Board (IASB)

A5 Unaudited accounts

Unaudited accounts

Is the company required to have its accounts audited?

Please tick the appropriate box

☐ No

☐ Yes

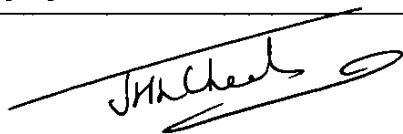
Part 3 Signature

I am signing this form on behalf of the overseas company

Signature

Signature

X



X

This form may be signed by
Director, Secretary, Permanent representative

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Financial Report 2011

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Management Report of the Westdeutsche ImmobilienBank Group

At a Glance

Westdeutsche ImmobilienBank AG (WestImmo)'s business performance in 2011 was dominated by the European Commission decisions affecting WestLB AG (WestLB), including the sale of WestImmo by 30 June 2012 and treatment that in other respects is in line with WestLB's activities. The sale process, which continued throughout the period under review, restricted the Bank's business development in its target markets and had a clearly negative impact on new business opportunities. Against this backdrop, the volume of new business decreased by 74 % to €855 million (2010: €3.3 billion). The majority of the new business related to prolongations.

Despite this development, net interest income stabilised at €219.5 million, only slightly below the prior-year level (-8.1 %). The allowance for losses on loans and advances decreased by 37.7 % to €-42.4 million (previous year: €-68.1 million).

Overall, however, the Bank's results were significantly impacted by the escalation of the European sovereign debt crisis and the related uncertainty on the financial and capital markets. Impairment losses to be recognised by the Bank from the measurement of Greek government bonds led to extraordinary write-downs of €-243.8 million charged to net income from non-current financial assets. Further one-time charges and other negative special factors were also recorded as a result of the sale process and the payments to the savings bank organisation's Guarantee Funds. Profit or loss before tax fell significantly to €-167.2 million as a result of these charges (2010: €99.2 million). After adjustment for current and deferred taxes, the consolidated loss amounted to €-156.6 million (2010: consolidated profit of €94.8 million).

WestLB ended talks with Apollo on 15 December 2011, the bidder with which it had been negotiating exclusively since July 2011. In accordance with the European Commission's decision, WestLB is nevertheless obliged to continue its efforts to sell WestImmo by 30 June 2012. If it is not possible to sell the Bank by then, WestImmo and its assets and liabilities are expected to be transferred to Erste Abwicklungsanstalt (EAA) effective 1 July 2012.

Developments in the sale process for WestImmo

Following the European Commission's decision on state aid dated 12 May 2009 (the "Commission Decision"), WestLB was obliged, among other things, to sell its entire stake in its WestImmo subsidiary in an open, transparent and non-discriminatory bidding process by 31 March 2010. WestLB published the advertisement for the sale on 8 January 2010. Based on the expressions of interest received from banks and financial investors from Germany and abroad, an intensive, multi-level sale process was implemented, during which the bidders were provided with extensive information on WestImmo.

The initial deadline for the sale was extended to 31 December 2010 in accordance with the provisions of the European Commission's decision. After continuing intensive efforts to sell, WestLB announced on 26 October 2010 that a sale of WestImmo could not be considered based on the offers received by that date, which were not acceptable in terms of an overall economic evaluation. In this context, WestLB asked the German federal government, in agreement with its Supervisory Board and its owners, to apply to the European Commission for an extension of the deadline for the ongoing sale process by 31 October 2010. This was submitted to the European Commission on 28 October 2010.

On the basis of another application to extend the deadline – independently of the application referred to above – dated 1 December 2010, the European Commission agreed on 21 December 2010 to extend the deadline for the sale of WestImmo until 15 February 2011. Since at the time, failure to comply with the deadline would have forced WestImmo to stop generating new business, on 31 January 2011 the European Court of Justice temporarily suspended the enforcement of the decision dated 12 May 2009 in conjunction with the resolution by the European Commission dated 21 December 2010, in response to an application by Sparkassenverband Westfalen-Lippe (SVWL). The European Court of Justice rejected SVWL's application on 18 March 2011. The decision by the court did not require any immediate measures to be taken, and in particular there was no need for WestImmo to stop generating new business, as the European Commission considered WestImmo to be part of the restructuring plan for WestLB under discussion. In November 2011, both savings banks associations withdrew their appeals against the decision dated 21 December 2010.

On 23 June 2011, the Bundesanstalt für Finanzmarktstabilisierung (FMSA – Federal Agency for Financial Market Stabilisation), Erste Abwicklungsanstalt (EAA), WestLB's owners and WestLB reached a comprehensive agreement on the restructuring of WestLB ("Framework Agreement"), on the basis of which the federal government notified the European Commission of a final restructuring plan for WestLB on 30 June 2011. Under the agreement, WestLB's savings bank business, including its mid-cap corporate lending business, is to be transferred on 30 June 2012 to a new credit institution (Verbundbank) established and capitalised by the Sparkassen-Finanzgruppe (the Savings Bank Finance Group). WestLB is free to sell additional business units in the period up to 30 June 2012. Business areas that do not form part of the Verbundbank or have not been sold by this date are expected to be transferred to EAA as at 1 July 2012. From this date, WestLB will provide service and portfolio management bank services for the Verbundbank set up by the Sparkassen-Finanzgruppe and for EAA, as well as portfolio services to third parties.

In July 2011, WestLB's Managing Board signed an exclusivity agreement with Apollo and continued ongoing negotiations on the sale of WestImmo with Apollo on an exclusive basis. The negotiations with Apollo focused on WestImmo's Pfandbrief business.

WestLB announced on 15 December 2011 that, in the current market environment and at the proposed terms, a sale of WestImmo to Apollo would entail considerable potential risks and could not be justified in economic terms. The transaction and run-off liability risks would be unacceptable for WestLB and its owners, particularly in light of the significant deterioration in market conditions over the course of 2011. WestLB also believed that Apollo's most recent purchase price offer was not acceptable, particularly in light of the arrangements laid down in the WestLB Framework Agreement.

In a comprehensive decision on WestLB reached on 20 December 2011, the European Commission approved, among other things, the measures set out in the final restructuring plan. It also overturned its decision of 12 May 2009. For WestImmo, this decision by the European Commission means that, if the Bank cannot be sold by 30 June 2012, it is expected to be transferred to EAA by way of either a share or asset deal effective 1 July 2012.

Business and Overall Conditions

WestImmo is a bank that specialises in the financing of commercial real estate in Germany and abroad. It has a Pfandbrief licence and operates in the legal form of an Aktiengesellschaft (German stock corporation). The Bank's registered office is in Mainz in the state of Rhineland-Palatinate. The sole shareholder of WestImmo is WestLB, based in Dusseldorf. A profit and loss transfer agreement has existed between WestImmo and WestLB since 1 January 2007.

The Berlin, Dusseldorf, Hamburg, Mainz, Munster and Munich branches service customers in Germany. International real estate customers are supported by units at the headquarters in Mainz and Munster, as well as locally at the London branch office, at representative offices in Madrid, New York, Paris, Prague and Warsaw, and at the Bank's subsidiary in Tokyo. Most of WestImmo's employees work at the headquarters in Mainz. The second largest location is Munster.

Structure of the WestImmo Group

WestImmo Group comprises Westdeutsche ImmobilienBank AG and its subsidiaries, which are strategic equity investments, real estate joint ventures and other business enterprises related to real estate financing, structured real estate transactions, municipal advisory services and property management. The Group's parent company is Westdeutsche ImmobilienBank AG.

A divestment/exit strategy is still in place for WestImmo's strategic and operational investments. In line with this strategy, WestImmo further reduced the number of its subsidiaries in fiscal year 2011. These requirements also apply to the loan-equivalent equity investments of WestImmo's real estate joint ventures.

The Group's main business consists of the financial services provided by WestImmo and its subsidiary, WIB Real Estate Finance Japan K.K., Tokyo (WIB Japan). The other subsidiaries are not material for the Group's results.

In the period under review, WestImmo was a member of the Sicherungsreserve (Guarantee Fund) of the Landesbanken (Central Savings Banks) in the Deutscher Sparkassen- und Giroverband (DSGV – German Savings Bank and Giro Association), the Reserve Funds of the Rheinischer Sparkassen- und Giroverband (RSGV – Savings Bank and Giro Association of the Rhineland) and the Westfälisch-Lippischer Sparkassen- und Giroverband (SVWL – Savings Bank and Giro Association of Westphalia-Lippe). At the end of 2011, WestImmo reached an agreement with SVWL and RSGV that it would cease to be a member of the respective reserve funds as at 15 December 2011 (SVWL) and 17 January 2012 (RSGV).¹

¹ Please refer to the "Other Risks" chapter for further explanations.

Management

The Managing Board runs the Company's business. In accordance with the Company's Articles of Association, it consists of at least three and no more than five persons. The Managing Board currently has three members:

- Dr. Peter Knopp (Chairman of the Managing Board, Staff Functions, Capital Market Business and Exit Management)
- Claus-Jürgen Cohausz (National and International Market Segments, Origination)
- Rainer Spielmann (Risk Management/Back Office, Asset Quality, Finance and Accounting, Property Value & Research, Investments)

An outline of the remuneration system for the Managing Board may be found in the Corporate Governance Report.

Target Markets, Products and Processes

Markets and products

In addition to Germany, WestImmo's target markets are the European Union member states, the USA and Japan. The main markets in Central and Eastern Europe are Poland and the Czech Republic. In Western Europe, the primary focus is on business in the UK and France.

WestImmo mainly provides financing for office and retail properties, shopping centres, logistics centres, hotels, residential-use properties and management properties. Mixed-use properties and public sector facilities are also financed. The Bank concentrates on financing first-class properties used for commercial purposes in good locations. The forms of financing include advance equity financing and interim construction financing, as well as property loans. The Bank's range of products and services is rounded off by derivatives for hedging interest and exchange rate fluctuations.

Customers

WestImmo's main customer groups are:

- Savings banks and their customers
- Institutional fund companies (real estate mutual and real estate special funds, pension funds)
- Insurance companies
- Real estate companies, residential construction companies
- Internationally operating asset managers
- Developers and private investors whose size and quality of business corresponds to the usual standards of institutional investors
- Middle-market enterprises
- Public sector customers

Lending process

The lending process is a component of WestImmo's conservative risk policy

All the principles of our risk policy are documented in the Bank's Credit Risk Strategy and the Risk Guidelines. As a matter of principle, any departures from these require a separate decision.

In the period under review, WestImmo set up the new Asset Quality unit and integrated this into the organisational workflows of the lending process and risk monitoring. The department was assigned responsibility for preparing ratings for new and existing business and for collateral audits pursuant to the Solvabilitätsverordnung (SolvV – German Solvency Regulation). More detailed information is provided in the Risk Report.

New Business Committee

The quality of the structure, the borrowers and the relevant risk parameters of a transaction are discussed in the New Business Committee. This committee comprises members of the Managing Board as well as the heads of the Front Office, Back Office and Property Valuation & Research departments. At an early stage of a transaction, the Bank can thus give an assessment of the risk and the probable conditions if it decides to become involved. In this way, customers receive a prompt response to their loan application.

Portfolio management

WestImmo manages its loan portfolio proactively with the goal of constantly optimising its risk structure and sustainable profitability. The Portfolio Management department and the Portfolio Management Committee (PMC) are responsible for this. This committee comprises representatives of the Bank's relevant departments and is the starting point for the measures to be implemented by Portfolio Management.

Exit management syndication, arranging, club deals

As part of its exit management, WestImmo places parts of loans – immediately or some time after signing the contract – with other banks or savings banks following loan approval.

Cooperation with the savings banks

The Bank sees itself as a partner of the savings banks who contributes to deepening customer relationships, optimising the risk situation and strengthening the market position of the savings banks.

As a specialist bank for real estate financing, WestImmo makes its real estate know-how and its product range available to S-Finanzgruppe. WestImmo participates in the commercial real estate financing transactions of the savings banks, provided these meet the strategy and guideline requirements.

WestImmo's processing and approval processes are matched to the institutions' requirements. Loan decisions are made based on clear parameters that have been agreed upon with the partners. If required, the savings banks can also make use of the experience and expertise of WestImmo or its networks in property management, property appraisals and property workouts.

Purchasing WestImmo's Pfandbriefe and bearer bonds also gives the savings banks additional means of investing their capital.

Intensive Care/Workout

Exposures where the risk situation has substantially deteriorated based on negative information or where payments are more than 45 days past due are generally transferred to the Intensive Care department. The Bank's aim is to assess the situation at an early stage by employing relevant experts together with the customers and to avoid the risk of losses. If it is not possible to remedy the problem with the exposure or to retransfer it to standard processing, the exposure is transferred to the Workout/Restructuring department after agreeing all the necessary measures.

Refinancing

Refinancing is the responsibility of the Treasury department. The Bank uses registered or bearer secured and unsecured debt instruments. The most important instrument is the mortgage Pfandbrief. These Pfandbriefe are used to refinance loans secured by first mortgages.

WestImmo strives for a mix of mid-sized private placements and large-volume publicly placed benchmark issues.

WestImmo issues unsecured debt instruments mainly in the form of bearer bonds under the Debt Issuance Program (DIP). It is admitted as an issuer on the Frankfurt and Luxembourg stock exchanges.

Regulatory Environment

WestImmo is a universal bank under German law and is subject to the provisions of the *Gesetz über das Kreditwesen* (KWG – German Banking Act), the minimum requirements for risk management (MaRisk), the *Wertpapierhandelsgesetz* (WpHG – German Securities Trading Act) and the standards issued by the Basel Committee on Banking Supervision on the adequacy of banks' own funds (Basel II, and Basel III in the future). The Basel II requirements were transposed into German law by the *Solvabilitätsverordnung* (SolV – German Solvency Regulation) and amendments to the KWG and the *Großkredit- und Millionenkreditverordnung* (GroMiKV – Large Exposures Regulation). The Capital Requirements Directive (CRD III) was adopted by the EU and transposed into national law in July 2010. Implementation was completed by 31 December 2011. On 16 December 2010, the Basel Committee published the detailed text of the Basel III standards. To implement them, the Capital Requirements Directive (CRD IV) was adopted at European level. Transposition into national law is to be completed by the end of 2012, allowing Basel III to be introduced on a step-by-step basis starting on 1 January 2013.

Compliance with the regulatory requirements is monitored by the Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin – Federal Financial Supervisory Authority) and the Deutsche Bundesbank.

WIB Japan is licensed in Japan as a moneylender, a particular form of institution under Japanese law. Supervision is the responsibility of the Tokyo Metropolitan Government Office. The London branch of the Bank is registered in the UK and is regulated by the Financial Services Authority (FSA). The representative office in America is licensed in the State of New York and the Federal Reserve Bank (Fed) is the supervisory authority responsible for it. The remaining European representative offices have been registered with their local supervisory authorities but are exclusively subject to German supervision.

The Bank issues Pfandbriefe in accordance with the provisions of the *Pfandbriefgesetz* (PfandBG – German Pfandbrief Act), which comprehensively defines standards of stability and security for this investment product. Based on the regulatory requirements, the Bank maintains a cover register of all the assets used as cover.

Advanced Internal Ratings-Based Approach (AIRBA) and credit risk model

The Bank has been using the Advanced Internal Ratings-Based Approach (AIRBA) in accordance with the *Solvabilitätsverordnung* (SolvV – German Solvency Regulation) since 1 January 2008 in order to determine its regulatory capital requirements. Before being approved, these were subjected to extensive examination by the BaFin and the Deutsche Bundesbank. The Bank uses internally developed rating procedures that are regularly reviewed based on standardised procedures to ensure that they are suitable, and are adjusted if required, for real estate financing in all customer and product segments.

As part of the Bank's LGD (loss given default) concept, losses are estimated for all relevant types of collateral. These loss estimates are based mainly on the Bank's own historical data and experience. In order to validate and compare loss estimates, the Bank is actively involved in a joint LGD project set up by the Association of German Pfandbrief Banks.

To measure a "credit value at risk" (CVaR) and the resulting economic capital requirements, WestImmo is closely integrated in the methods and approaches used by WestLB. In connection with this, WestLB has been using its own credit portfolio model developed on the basis of Moody's KMV since January 2008.

Basel III

In September 2010, the Basel Committee for Banking Supervision (BCBS) adopted new standards for capital requirements and leverage ratios, and new liquidity standards for banks. On 16 December 2010, the Basel Committee published the detailed text of the standards. The new standards will be implemented at European and national level within the short term. There will be significant consequences for comparably more capital-intensive commercial real estate financing.

The requirements in relation to the amount and quality of own funds are being gradually increased. At an unchanged minimum requirement of 8%, the core capital ratio will be increased, starting in 2013, from 4% to 6% by 2015. The goal is to back 75% instead of (to date) 50% of the overall capital ratio by regulatory core capital (Tier 1). 75% of this (and no longer 50% as under Basel II) will be attributable to core Tier 1 capital (share capital, capital reserves and retained earnings). In addition, a capital conservation buffer of 2.5% has to be established by the end of 2018 and an anti-cyclical capital buffer of 0–2.5% by 1 January 2019, causing the overall capital ratio to then rise to 10.5–13%.

The leverage ratio stipulates that the ratio of Tier 1 capital to total loans (non-risk-weighted assets) must be at least 3%. This ratio will be integrated into Pillar 1 (capital requirements) of Basel III at the beginning of 2018 following a four-year observation period.

Two additional minimum supervisory requirements were established as part of the implementation of higher liquidity standards. The liquidity coverage ratio (LCR) aims to ensure that the highly liquid liquidity reserve can absorb a massive cash outflow for a period of 30 days in a stress scenario. The aim of the net stable funding ratio (NSFR) is to ensure solid refinancing in the long term. The LCR is expected to apply from the beginning of 2015 and the NSFR from 2018. From today's perspective, the Bank will be able to meet the stricter requirements that will gradually take effect. WestImmo will track the application of the rules and will ensure that the necessary adjustment measures are implemented in good time.

Restrukturierungsgesetz (RStruktG – German Bank Restructuring Act)

The *Restrukturierungsgesetz* (RStruktG – German Bank Restructuring Act) entered into force in Germany at the end of 2010/beginning of 2011. The goal of this legislation is to ensure the ability to cope with the insolvency risk of a systematically important financial institution without jeopardising the stability of the financial system. It governs the orderly resolution of banks, the establishment of a restructuring fund and the extension of the limitation period for management liability under stock corporation law. The restructuring fund for banks will be financed by contributions from the financial sector (bank levy) in accordance with the *Restrukturierungsfondsgesetz* (ReStruktFG – German Restructuring Fund Act) in conjunction with the *Restrukturierungsfonds-Verordnung* (ReStruktFV – German Restructuring Fund Regulation) and will be administered by the Bundesanstalt für Finanzmarktstabilisierung (FMSA – German Federal Agency for Financial Market Stabilisation). The precise bank levy payable by individual institutions will be determined annually and will be based on the size of their business, their risk orientation and how interconnected they are with the rest of the financial system. With regard to systemic risk, the levy is based primarily on total assets and the volume of derivatives. The reasonableness limit is 20 % of annual net income (in accordance with the HGB) and 50 % of the average annual net income for the last three years. Years in which a loss is recorded have a value of zero. The minimum amount is 5 % of the regular annual contribution. The FMSA collects the levy annually.

WestImmo's annual contribution to the restructuring fund for fiscal year 2011 was set at €3.3 million.

Strategy

WestImmo's goal is to achieve an attractive return on equity with risks that can be controlled at all times, and to ensure there is always a sufficient level of equity and liquidity. The target cost/income ratio is 40 %. The Bank's corporate strategy is aimed at growing profitably within the scope of this positioning on a sustainable basis.

WestImmo systematically focuses on its core competencies – commercial real estate financing in Germany and abroad. Its aim is risk-appropriate income generation. The Bank is successively cutting back business areas that lie outside these core activities. WestImmo is one of the largest commercial real estate finance providers in its core market, Germany. The Bank is striving to continue its positive cooperation with partners here.

As part of its international positioning and to diversify its portfolio, WestImmo enters into commercial real estate financing transactions in its established target markets – Europe, North America and Japan. It has been present in these markets for many years now, is well positioned there and has extensive knowledge of and experience in these markets. In its new business activities, the Bank concentrates primarily on financing transactions that are eligible for use as cover funds, the majority of which are refinanced using Pfandbriefe.

By proactively managing its loan portfolio on an ongoing basis, WestImmo strives to constantly optimise the balance between return and risk. It continually enhances the structures and processes for this.

Senior lending and syndication are integral elements of the Bank's strategic focus, with a particular emphasis on its arranger and agent role in new business and club deals.

The expected transfer of WestImmo to EEA effective 1 July 2012 by way of either a share or asset deal will have a significant impact on WestImmo's strategy in the current fiscal year. Further details can be found under "Outlook" in the section entitled "Strategy in 2012".

Corporate management

The Managing Board manages the overall bank to take account of all significant risks and opportunities, and with the aim of ensuring sustainable, profitable growth. Both quantitative key figures and qualitative performance indicators are important for achieving this.

Key management indicators

As part of the management information system (MIS), the Managing Board is regularly informed about developments at the Bank based on key indicators and parameters. These include the loan portfolio, the volume of new business, profit or loss before tax, the core capital ratio, return on equity, the cost/income ratio and liquidity over one, six and twelve months.

Based on the key figures, the various performance indicators are measured to determine if they lie within their defined target corridors. Measures are defined and put into practice in the event of variances. If necessary, relevant key figures are also reported at shorter intervals. Liquidity planning and management are based on the information stored in the portfolio management systems. Cash flows and cash flow plans are derived from this information. The Bank also uses information from the liquidity gap analysis for its strategic liquidity planning.

Human Resources

In addition to business management factors, the qualifications and commitment of its employees are decisive for WestImmo. The Bank has a broad-based professional development programme that enhances their expertise. It also supports management with a range of targeted continuing professional development opportunities and team-building within the Bank.

Market Environment 2011

Economic environment

After a period of recovery in 2010, the global economy faced significant headwinds in 2011. The year was dominated in particular by the escalation of the European sovereign debt crisis, which had a massive impact on the entire financial sector, as well as uncertainty surrounding the future development of the US economy. The dynamic growth of the emerging economies also slowed. The Chinese economy weakened over the course of the year to 9.3 % (2010: 10.4 %), mainly as a result of the central bank's restrictive monetary and lending policy. Deliveries of goods to China and the emerging South and East Asian economies declined.

Global output declined year-on-year as a result of these developments. According to calculations by the IMF, global economic output increased by 4 % in 2011, after 5.1 % in the previous year.

The European economy was severely affected by the sovereign-debt crisis. According to Eurostat, the 27 member states of the European Union recorded a 1.6 % decrease in real GDP growth (2010: 2.0 %). In France, the economy grew by 1.6 % (2010: 1.4 %). At 0.9 %, growth in the United Kingdom was significantly below the prior-year level (2.1 %).

Germany fared much better than many other European countries. The economy grew by 3 % in full year 2011 (2010: 3.6 %), however, a significant decline was recorded in the fourth quarter. This is expected to continue over the course of 2012. Growth was primarily driven by exports. German companies profited from increased demand in the USA, Japan and Eastern Europe, among other markets. The labour market continued to develop positively in line with the overall economy and proved to be an important pillar for consumer spending. According to estimates by the German Federal Statistical Office, inflation rose to 2.3 % over the course of the year, heavily influenced by sharp price increases for household energy, fuel and food.

The United States struggled with economic problems in the first half of 2011 in particular but did not, as some had feared, slip into recession. Rating agency Standard & Poor's (S&P) downgraded the country's credit rating from the top-rated AAA to AA+ on 5 August 2011, shortly after Congress had reached an agreement to raise the debt ceiling. Although Moody's and Fitch reaffirmed their ratings, the downgrade led to massive sell-offs around the world, further exacerbating the volatility on the financial and capital markets. The US economy picked up in the third quarter of 2011 following relatively weak growth in the first half of the year. Consumer spending increased and unemployment fell to its lowest level in over two years. However, real GDP slid to 1.8 % for full-year 2011, after growth of 3 % in the previous year.

In Japan, real GDP initially contracted by 0.9 % quarter on quarter in the first half of 2011 as a result of the catastrophic earthquake and tsunami but stabilised over the following months. This was reflected in particular in the normalisation of production, an upturn in domestic demand and lower unemployment. For the year as a whole, however, Japan recorded a -0.8 % decrease in real GDP (2010: 4.5 %). It is not yet clear whether the country will be successful in initiating a long-term turnaround.

Impact of the European debt crisis on the financial markets

The escalation of the European sovereign debt crisis and increased uncertainty surrounding its future course had a lasting impact on activities on the financial markets over the course of the year. Ireland, Portugal, Spain and Italy experienced major problems in managing their budget deficits, while the Greek crisis escalated. After an extensive three-year aid package worth €110 billion was approved for Greece in 2010, a review of the targets in the first half of 2011 revealed that Greek debt levels are unlikely to stabilise. Rating agency S&P downgraded Greece to a rating of CCC in June 2011. An imminent Greek default was initially averted by the approval of a second aid package totalling €109 billion at a summit of the eurozone heads of state and government held in Brussels on 21 July 2011. However, the agreements made clear that, going forward, the remaining eurozone states and the IMF will not be supporting Greece on their own, rather, private creditors should also make a contribution. This was to be achieved either via a bond swap or by investors replacing existing bonds as they mature by subscribing for new ones. In their 2011 half-yearly financial statements, institutions charged impairment losses on all outstanding bonds that mature before 2020 and that could be covered by the swap/reinvestment measures.

The accord was further tightened at the summit of the eurozone heads of state and government on 26 October 2011 with the aim of lowering debt from 160 % to 120 % of GDP by 2020. Under the agreements, at least 50 % of the country's debt is to be waived to restore Greek debt sustainability. A voluntary bond exchange with a nominal haircut of 50 % on Greek debt was to be introduced at the beginning of 2012. By the end of 2011, however, no final decision had been made as to the total amount to be written down. Please refer to the Report on Post-balance Sheet Date Events. Furthermore, the largest European banks are to increase their risk reserves and raise their equity position to 9 % of core capital by June 2012. This recapitalisation is expected to be met primarily by the capital markets and shareholders, and only thereafter by national funds or the European Financial Stability Facility (EFSF). The eurozone summit also resolved to increase the efficiency of the EFSF.

At the beginning of 2011, Portugal followed in the footsteps of Greece and Ireland and applied for extensive financial aid under the European rescue fund. On 16 May 2011, eurozone finance ministers agreed a €78 billion aid package for the next three years. The impact of the sovereign debt crisis on Italy also emerged over the course of 2011. After Greece, Italy has the highest debt level of all eurozone countries at 120 % of GDP. The Italian parliament approved a €24 billion austerity package in May 2010, followed by further cuts totalling €54 billion in September 2011. To help build confidence on the financial markets, Italy agreed to let the IMF monitor implementation of austerity measures at the G20 summit in Cannes in October 2011.

The escalation of the sovereign debt crisis led to massive uncertainty and a significant increase in volatility on the financial and capital markets, particularly in interest and exchange rates. Credit spreads on securities, particularly on government bonds from affected eurozone countries, increased significantly. At the same time, there was a drop in issuing activity and the interbank market deteriorated. The European Central Bank (ECB) resolved extensive stabilisation measures to lessen the impact on the financial system and inject liquidity into financial institutions. In August and October, it conducted longer-term refinancing operations and provided liquidity in US dollars. Finally, the ECB launched a second, €40 billion purchase programme for covered bonds in October. The programme was first introduced in May 2009 with a volume of €60 billion. In November and December 2011, it reversed the interest rate increases introduced at the beginning of the year and cut key interest rates to a record low of 1%. On 8 December 2011, the ECB announced two long-term tenders for mid-December 2011 and the end of February 2012, both with a maturity of 36 months and a one-year repayment option. It also purchased bonds from problem countries, in particular Italy and Spain.

Markets for commercial real estate

The initial upturn in the global economy following the 2009 crisis triggered demand for space in many commercial real estate markets, albeit with a delay, and generated slight growth in rental prices and investor interest, particularly in prime locations. A positive rental growth rate and increasing demand for space were recorded very early in the Asian markets, with the exception of Japan. Any more positive development in Japan was weighed down by the consequences of the devastating earthquake. In North America, increases in demand for office space and in rents were more restrained due to the slower than expected economic recovery.

Although economic trends have a delayed effect on the rental markets, the rental cycle has already peaked for medium locations in many major cities. Demand and the number of new leases at secondary locations remained weak as a result of the macroeconomic environment.

Overall, property values recovered in almost all of WestImmo's markets within the reporting period. This in turn means that, for an unchanged loan volume, the loan-to-value ratios decline and the regulatory capital requirements under Basel II are therefore also reduced.

A positive trend was also seen in the investment market. The global commercial real estate investment volume in 2011 was around 28% higher than in 2010, at €310 billion, according to estimates by various estate agents.

In Europe, the commercial real estate investment volume amounted to approximately €124 billion, around 20% higher than the figure for 2010. In Asia, commercial properties worth around €69 billion changed owner. The figure for the USA was €117 billion. Although investment in Europe in 2011 focused on office properties, increased interest in retail properties towards the end of the year had a noticeable effect on overall results.

Germany

The situation on the German commercial real estate market is predominantly positive. As usual, the German real estate market proved to be stable during the global downturn. However, the period of growth in real estate markets that followed this was again restrained, partly due to the high proportion of exports in economic output.

Overall, rental markets in Germany proved to be comparatively robust. Prime rents for office space rose by 3.5 %, a considerable increase by German standards, although trends varied from region to region. While they rose in Berlin, Düsseldorf and Munich, rents remained unchanged in Cologne and Frankfurt. At the end of 2011, approximately 9.5 % of space was vacant in major German office centres according to estate agents, which further impacted the price structures in peripheral locations. Compared with the prime locations, rents and returns in peripheral areas remained under pressure and the rental growth potential there was significantly lower than in the prime segment.

The commercial real estate investment volume was up 22 % year-on-year at €23.5 billion. This development was driven by the positive trend at two prime locations in particular – Munich and Frankfurt. Net initial yields for office properties in major German cities rose by an average of 100 basis points since the beginning of the crisis on the real estate market in mid-2007 and declined by a further 10 basis points in 2011, following a more significant drop in 2010.

Net initial yields for first-class retail properties in prime locations remained roughly on a level with the previous year in 2011. Retail rents increased by an average of 3 % in prime locations. This can also be attributed to the short supply of AAA-rated properties in good locations.

United Kingdom

Even before the United Kingdom had officially recovered from the recession in 2010, demand on the office real estate market increased again. This was primarily focused on London. The rental cycle in the British capital city was the first European office market to bottom out in the middle of 2009. Since then, positive rental price growth has again been recorded in the prime segment, growing by a further 13 % in 2011. From mid-2009 to the end of 2010, average yields declined by around 150 basis points after previously rising by around 200 basis points in the two crisis years. The transaction volume for commercial real estate in the UK market amounted to approximately €38 billion in 2011, roughly on a level with the previous year. With a transaction volume of €18.3 billion, London was the most active market for investments in commercial real estate worldwide in 2011. The situation is very different on the markets outside the British capital city – in many small regional markets, there was still no sign of a recovery in the office markets due to a lack of stimulus from the local economy and government.

France

After London, Paris was the second office real estate market in Europe to bottom out. The relatively high vacancy rates for office spaces were further reduced over the course of 2011. Rental price growth in the prime segment declined from 7 % in 2010 to 3 %. Prime yields for office properties dropped by 100 basis points by the end of 2011 due to the positive market situation and investor demand. They had increased by 225 basis points during the crisis. Returns in the less volatile secondary locations rose slightly, while effective rents decreased.

Spain

Trends on the Spanish market continued to reflect the difficult macroeconomic situation. Falling demand for office space saw the average vacancy level to increase to 11.5 % in Madrid and 14 % in Barcelona, and significantly higher in some submarkets. Since the beginning of the crisis, prime office rents have dropped by 37 %. A further, albeit more moderate decline is expected in 2012.

Prime yields for office properties increased by around 50 basis points in 2011 as a result of the uncertainty surrounding the debt crisis. These increased by around 235 basis points in the period before the crisis to the end of 2009 and have since fallen by 50 basis points. Disposable incomes fell sharply due to the high unemployment rate, causing substantial setbacks in retail sales. There will be an excess supply of residential properties on the market for a long time and it will only begin to normalise in a number of years. Overall, the Spanish construction industry and the real estate market are not expected to recover in the short term.

Central and Eastern Europe

Trends on the real estate markets in Central and Eastern Europe are lagging behind those in Western European markets with a delay of around six months. In countries where real estate prices increased sharply during the boom phase, the correction of rents and yields was correspondingly sharp. In contrast, in Poland, whose economy was among the most stable in the European Union in 2009 and 2010, losses were comparatively moderate. Strong domestic demand supported retailers despite the fall in the zloty. The Polish currency has since restabilised.

The registered investment volume in commercial real estate in Central and Eastern Europe reached almost €10 billion in 2011, making it a comparatively strong year. Around three-quarters of the transaction volume in Central and Eastern Europe was generated in Poland and Russia. In Warsaw, net initial yields for prime office properties increased by 175 basis points between 2007 and 2009, before dropping again by 100 basis points as at the end of 2011.

USA

In the USA, the national vacancy rate for office space was 16 % at the end of 2011, although there was a general decline in vacancy rates. However, the recovery has not yet taken hold everywhere – technology hubs in particular and, more recently, financial centres have profited from increased rental activity. Prime rents increased by an average of 6 % in 2011. Secondary locations have not yet seen any direct recovery. Initial yields for prime office properties declined by an average of 50 basis points in 2011.

Asia

The Japanese real estate market was hit by the global financial and economic crisis after a significant delay compared with the markets in Europe and North America. Following a decline in prime office rents of 33 % in Tokyo, the rental cycle here bottomed out in 2010. However, the consequences of the earthquake in March 2011 prevented the market from recovering and led to a delay. At 7.5 % in Tokyo and 11 % in Osaka, the vacancy rate was relatively high by Japanese standards. This caused properties that did not fall into the prime segment due to their location or features to continue to be affected by declining rents, while the situation for high-quality properties in prime locations improved. Investors were actively looking for investment properties again in 2011, even shortly after the earthquake, which caused prime yields to remain stable.

Markets for commercial real estate financing

The market environment for commercial real estate financing was marked by two diverging trends in 2011. Germany initially recorded a positive trend in the first half of the year in line with its macro-economic development. However, financing activities continued to focus on high-value real estate in central locations (core properties). Competition in this segment increased significantly in both Germany and on the international markets.

Insurance companies and pension funds contributed to the tougher competition in the core segment, as they are also increasingly operating as finance providers for AAA-rated properties in prime cities with low loan-to-value ratios. Insurance companies' activities are set to increase with the introduction of Solvency II, the new supervisory and capital adequacy regime for the insurance industry. By contrast, financing for value-added or opportunistic investments could only be secured with difficulty or at significantly higher terms.

Loan offerings continued to diminish, particularly in the second half of the year, as several providers withdrew either partially or fully from commercial real estate financing over the course of the year, or focused their activities on specific regional markets. This was compounded by the fact that banks' refinancing opportunities had also become more difficult with the escalation of the sovereign debt crisis.

Loan to value ratios again declined somewhat as against the first half of the previous year and were between 60 % and 75 %, independent of asset class, location and quality of the property. Obtaining offers for large-volume, more complex financing remained difficult. The effects of the sovereign debt crisis and strict regulatory requirements (Basel III) also led to increased capital requirements for investors.

In Germany, the savings banks and cooperative banks in particular were very present in the commercial real estate financing segment with simple loan structures. Generally, the difficult refinancing situation on the capital markets enabled especially these institutions with a strong deposit business to expand their activities.

The situation in most continental European countries and the United Kingdom was also marked by restraint on the part of foreign and, increasingly, domestic banks. Market developments were dominated by the influence of the sovereign debt crisis and limited liquidity, which led to a reduced willingness of banks to lend in these countries.

The USA, on the other hand, saw signs of improvement in comparison to the previous year. Positive trends were observed in the New York, Washington, Seattle and Boston submarkets in particular. In the first two quarters, commercial real estate financing continued to be dominated by insurance companies – who were able to offer large volumes of long-term financing at attractive conditions – while the second half of the year saw an increase in the activities of major banks, as well as a large number of smaller banks. These had used the previous months to carry out necessary restructurings and streamline their balance sheets. German institutions also increasingly reappeared on the US market. In the course of the year, Japan struggled above all with the fallout from the devastating earthquake. Domestic national banks dominated the banking market as foreign institutions increasingly withdrew.

Exit and refinancing markets

In the first half of 2011, issuing activities initially continued to normalise and the capital markets saw further recovery from the massive collapses of 2008 and 2009. However, the situation changed dramatically in the summer months with the escalation of the European sovereign debt crisis. Tremendous uncertainty, triggered in particular by news of a possible Greek default, Italian debt levels and the downgrading of that country's credit rating, as well as concerns about the stability of the euro, led to considerable nervousness on the money and financial markets. As a result, several refinancing markets did not reopen after the summer break. Most banks were unable to raise unsecured funding, or only with great difficulty. By contrast, the conditions for secured refinancing with high standards of quality and security were more favourable. However, here, too, sales were moderate overall and focused mainly on the first quarter. The ECB's second purchase programme for covered bonds, which was launched in October with a volume of €40 billion, had not yet led to a revival of the market by the end of the year. It is only expected to take effect in 2012.

The positive trend on the commercial mortgage backed security (CMBS) market that was seen in the United States and the United Kingdom in 2010 continued in 2011, nevertheless, no return to pre-financial crisis levels for CMBSs is to be expected in the medium term. The first CMBS transactions originated in Europe were launched on the UK market in mid-2011 with a volume of GBP 300 million. Further transactions were in progress but were suspended due to the escalation of the sovereign debt crisis in 2011.

At a European level, discussion continued on the creation of a quality standard for European securitisations based on the "Deutscher Verbriefungsstandard" (German securitisation standard) certification developed by True Sale International GmbH (TSI). This may create positive momentum on the securitisation market in future.

Development of WestImmo in 2011

Summary by the Management Board on the development of WestImmo in 2011

The decision of the European Commission on 12 May 2009 obliging WestLB to sell WestImmo set clear restrictions on WestImmo's ability to achieve strategic goals and implement its business strategy in 2011. The sale process, which continued throughout the period under review, together with the difficult refinancing situation on the capital markets caused by this meant that the Bank had to significantly reduce its new business and limit activities in its core markets.

The results for full year 2011 remained well below expectations due to impairment losses on Greek government bonds and other special factors, including the impact of the sale process and settlement payments to the reserve funds of the SVWL and RSGV.

Particularly notable was the stabilisation of net interest income at a solid €219.5 million (previous year €238.9 million), despite the significant decrease in new business. The allowance for losses on loans and advances decreased by around 37.7 % to €-42.4 million (2010: €-68.1 million). For the most part, earnings were negatively affected by the above-mentioned special factors and one-time charges, rather than the Bank's core business. The Managing Board believes that interest income and the development of the allowance for losses on loans and advances are indications of the quality of the loan portfolio.

Business performance

New business and loan portfolio

WestImmo generated a new business volume of €855 million in fiscal year 2011, which corresponds to a year-on-year decline of 74 % (2010: €3.3 billion). Of this figure, 81 % (2010: 25 %) related to prolongations.

The majority of the new business (54 %) related to the sales region of Europe excluding Germany (2010: 52 %). With a share of 32 % (2010: 22 %), Germany was again the most important individual market in the business with investors. The USA/Canada sales region accounted for 9 % (2010: 19 %) and 5 % (2010: 7 %) was attributable to Asia.

The Bank's restrictive new business policy as a result of the sale saw the commercial customer loan portfolio (excluding public sector borrowers and banks) including loan guarantees and outstanding disbursement commitments decline to €14.5 (previous year: €16.9 billion) as at 31 December 2011. Information on the structure of the portfolio may be found in the Risk Report.

Business performance on the markets

Business with investors in Europe, North America and Asia

WestImmo maintained its presence in all of its target markets in continental Europe, the United Kingdom, North America and Asia. However, it adopted an extremely cautious approach in all markets as a result of the ongoing sale process. New business activities at the locations mainly focused on restructuring and prolonging existing loans. In its new business activities, WestImmo concentrated primarily on transactions that are eligible for use as cover funds, the majority of which are refinanced using Pfandbriefe. The financing of the "Altmarkt-Galerie" for Deutsche EuroShop AG is particularly worthy of mention in this context. Located in the centre of Dresden, this property is one of the most successful European shopping centres with 75,000 sq. m. of retail space following expansion. As arranger, WestImmo provided a total of €112 million together with a national consortium comprising six savings banks and offered the customer an innovative combination of Pfandbrief refinancing and unsecured funding. In this way, savings banks were able to ideally complement their regionally oriented loan portfolio with a tranche appropriate to the size of the respective bank.

Germany savings banks

Cooperation in the period under review concentrated primarily on supporting savings banks by structuring new applications, providing tailored analyses and placing loan components as part of club deals. This generated additional business and income for the S-Finanzgruppe. Savings banks value WestImmo as a partner, in particular its specialised expertise and many years of experience in commercial real estate financing.

Germany real estate joint ventures

WestImmo has not initiated any new joint venture financing since 2010. In 2011, it continued to focus on further developing and consolidating existing projects and on generating income from sales or partial sales.

Exit management syndication, arranging, club deals

Club deals proved to be an important component of WestImmo's business model. As was the case in previous years, the Bank played a leading role in several arrangements, confirming the trust and reputation that WestImmo has won among its customers and on the market for syndications and club deals.

WestImmo arranged loans amounting to just under €675 million as part of club deals, of which over 60 % were passed on to syndication partners. From a regional point of view, the focus was on financing for customers from Germany or properties there, which represented a share of 71 %. 16 % of the arranged loans related to the rest of Europe and 13 % to the USA. WestImmo was increasingly able in 2011 to implement pre-closing arrangements and, therefore, to acquire syndication partners for new loans to be provided.

WestImmo also successfully implemented its strategic goal of further expanding exit management via the savings bank sector. Savings banks accounted for 40 % of the syndication result, while central savings banks and Pfandbrief banks took 37 % and international institutions made up 23 %.

This positive trend demonstrates the growing importance of club deals with savings banks in Germany. Over the past few years, WestImmo has succeeded in gaining a competitive advantage in this important segment thanks to its partnership-based, innovative approach.

In the course of the year, the Bank initiated new business relations with numerous savings banks. A total of eleven savings banks in Northern, Western, Eastern and Southern Germany took part in financing deals amounting to over €165 million arranged by WestImmo. In the syndicated loans business, there were active business relations with savings banks from nine German federal states at the end of 2011. WestImmo functioned as an arranger and lead manager in each case. Outside of the savings bank sector, it also succeeded in placing German club deals on the European banking market.

Refinancing

WestImmo's issuing volume amounted to €3 billion in 2011 (2010 €2.3 billion). Of this figure, €0.2 billion (2010 €1.7 billion) related to mortgage Pfandbriefe. Unsecured securities accounted for €2.8 billion (2010 €0.6 billion).

Rating

S&P downgraded WestImmo's financial institution rating by two notches to BBB- (outlook negative) on 8 December 2011. As a result, its rating for mortgage and public sector Pfandbriefe was also lowered by two notches to AA on 19 December 2011 in accordance with S&P's ratings system.

Earnings performance

The Group's earnings performance was primarily shaped by the strong decline in new business, the reduction in portfolios as a result of discontinued business, impairment losses on Greek government bonds and other special factors, which are described in more detail in the following. Net interest income declined from around €238.9 million in 2010 to €219.5 million due to the significant decrease in new business. The change in net fee and provision income was strongly influenced by the lack of new business, falling by around 68.8% to 3.5 million (2010 €11.2 million). Administrative expenses decreased by 4.1% year-on-year to €85.8 million (2010 €89.5 million), mainly as a result of reduced employee expenses and depreciation and write-downs of property and equipment.

At €57.8 million, net trading income for 2011 was up significantly on the prior-year figure (€-5.6 million). The main reasons for this were measurement effects from trading portfolios and portfolios designated at fair value through profit or loss resulting from market-related adjustments to valuation parameters. Net income from non-current financial assets amounted to €-283.2 million (2010 €4.6 million). Among other things, this was negatively affected by the loss on the sale of AfS debt instruments (€-28.1 million), and above all by impairment losses to be recognised on the measurement of Greek government bonds (€-243.8 million).

The allowance for losses on loans and advances contracted significantly to €-42.4 million (2010 €-68.1 million), highlighting the high quality of WestImmo's loan portfolio. Adequate account was taken of all credit risks from the real estate lending business of WestImmo and the WIB Real Estate Finance Japan K.K. subsidiary that were identifiable at the end of 2011 in the form of specific valuation allowances, portfolio-based valuation allowances and provisions for credit risks.

The change in net other operating income and expenses in the amount of €-36.6 million (2010 €7.7 million) was impacted in particular by special factors in connection with payments to the SVWL and RSGV deposit protection funds as part of WestImmo's exit from the funds, which reduced revenue by €42.5 million in 2011. In addition, this figure is mainly characterised by expenses for the bank levy and material expenses of €13.3 million (previous year €9.7 million) for construction projects at consolidated subsidiaries.

At €-167.2 million, WestImmo's profit or loss before tax was well below the prior-year figure (2010 €99.2 million) as a result of the material factors described above. The consolidated net loss for 2011 amounted to €-156.6 million, following a net profit of €94.8 million in 2010.

Financial position and net assets

WestImmo's return on equity (RoE) was –16.8 % at the end of 2011, after 10.2 % in 2010. The cost/income ratio increased slightly to 35.1 % (2010: 34.7 %). It is therefore clearly below WestImmo's target corridor of a maximum of 40 %.

Objectives of financial management

The objective of WestImmo's financial management is always to have a sufficient level of own funds and liquidity in order to ensure long-term stability. Based on a conservative risk strategy, the goal is to enter into refinancing at maturities that are generally matched. Accordingly, the structures of the residual maturities of the respective assets and liabilities largely correspond to each other. A detailed breakdown of residual maturities of receivables and liabilities may be found in the Notes, and more details of liquidity risks are presented in the Risk Report.

Changes in own funds and the overall/core capital ratio

The overall capital ratio was 9.9 % as at 31 December 2011 (2010: 9.6 %). The core capital (Tier 1) ratio was 8.9 % as at the balance sheet date (2010: 8.0 %). As a result of the existing liquidity on the one hand and the corresponding equity on the other, the Bank met the regulatory requirements of the Bundesbank and the BaFin at all times.

Reported equity amounted to €874.0 million (2010: €855.0 million). This was mainly a result of the €46.1 million increase in retained earnings to €217.3 million.

Lending business portfolio

The volume of loans and advances to banks decreased in the reporting period from €880.5 million to €821.5 million. Loans and advances to customers fell from €20,375.2 million in the previous year to €17,958.2 million due to the lower level of new business.

Financial and hedging instruments

The portfolio of financial assets held for trading increased by €294.8 million to €1,425.6 million, while the portfolio of financial liabilities held for trading increased by €327.4 million to €1,317.6 million. The fair values of derivative hedging instruments amounted to €322.6 million (assets) and €267.2 million (liabilities), whereby the positive fair values increased by €128.9 million and the negative fair values increased by €5.6 million. The liabilities recognised for fair value changes of hedged items in portfolio hedges of interest rate risk decreased by €0.2 million to €0.5 million in the reporting period. Changes in financial and hedging instruments were influenced by the issue volume and market volatility. Assets recognised at fair value under the fair value option decreased by 32.6 % to €218.7 million, while liabilities fell by 71 % to €2,083.6 million.

Employees

As at the end of 2011, 420 people were employed by WestImmo Group, of whom 44 (10.5 %) were at the Bank's foreign locations. The total number of employees decreased by approximately 11 % year-on-year (2010: 474). The decline is due in particular to the ongoing sale process in 2011.

WestImmo offers various models for flexible working hours to improve the work-life balance. Of the 186 women and 234 men that were employed by WestImmo or a Group company as at the reporting date, 70 work under part-time contracts.

Qualification and professional development

WestImmo again offered its employees a broad range of internal and external continuing professional development opportunities in 2011. Many internal seminars were also led by WestImmo employees in 2011.

WestImmo's social commitment

As part of WestImmo's Corporate Social Responsibility programme, the Bank mainly supports community projects or activities in the form of donations. For the first time, employees were directly called upon in the period under review to personally contribute to the Corporate Social Responsibility concept.

Japan donation

After the extent of the catastrophic earthquake in Japan on 11 March 2011 and its direct consequences became clear, it was obvious that the country could not overcome this huge disaster without external assistance. That is why the Managing Board of WestImmo resolved together with partner CARE Deutschland-Luxemburg e.V. in the same month to ask WestImmo employees to help with a fund-raising campaign. Many of them responded to the appeal immediately. More than €4,300 was raised in just under six weeks. WestImmo's Managing Board increased this to a total of €10,000. CARE Japan, and in particular the severely affected Iwate Prefecture, was financially and personally supported by WestImmo's donation.

German Bone Marrow Donor Centre (DKMS) – sign-up campaigns at the Mainz and Munster locations
For many leukaemia patients, a stem cell transplant is their only chance of survival, but one in five cannot find a suitable donor. To help these people, the Managing Board of WestImmo decided to give the 2011 Christmas donation in the amount of €10,000 to DKMS. In addition, WestImmo employees were invited to register themselves with DKMS as potential donors. Sign-up campaigns took place on-site at the Mainz and Munster locations. 72 employees responded to this appeal, registering as potential stem cell donors and giving samples for tissue typing.

MAGENZA Foundation

Every year, WestImmo donates €2,500 to the MAGENZA Foundation for Jewish Life in Mainz and will continue to do so until further notice. The objective of the donation is to support Jewish life in Mainz and to ensure that the new synagogue in Mainz's New Town is preserved for the future.

Commitment to associations

As well as being a member and taking part in the activities of the Association of German Pfandbrief Banks (VDP) and the Association of German Public Banks (VÖB), WestImmo is a founding member of the ZIA Zentraler Immobilienausschuss e.V. This association combines and represents the interests of the real estate industry at a national and international level. WestImmo sees its membership as being important for supporting and helping to shape measures at the level of the association that relate to economic, legal, political, or tax-related issues in the real estate industry. WestImmo supports the further development of real estate research, among other things through targeted sponsorship measures and its project-related, scientific cooperation with the EBS Real Estate Management Institute Wiesbaden of the EBS International University.

Risk Report

Risk is managed and monitored at Group level and covers the Group companies as well as the Bank.

Risk management and end-to-end controls

Risk management at WestImmo is an integral part of the Bank's strategic and operational end-to-end management and is closely integrated with the WestLB Group's risk management and monitoring activities. The Bank's return targets are reviewed on a regular basis as part of its risk tolerance concept, taking into account its risk-bearing capacity and risk strategy. The aim of the Bank is to closely integrate and coordinate all areas involved in the lending process with a view to ensuring a uniform risk culture, identifying and reporting risks as early as possible and taking steps to counter them in good time.

Organisational separation of functions and risk categories

Risk monitoring is functionally and organisationally separate from risk management. However, Credit Management and Risk Management are integrated into the relevant management processes at an early stage to permit coordination of the risk parameters and methods.

Risk categories/types	Departments/business areas/companies responsible	
	for risk management	for risk monitoring
Counterparty Credit Risk		
– Credit and property risks (individual and portfolio level)	Front Office areas, Syndication, Portfolio Management and Securitisation	Credit Management, Risk Management, Property Valuation & Research, Asset Quality
– Investment and project risk	Group companies' equity investments and real estate joint ventures	Board Administrative Staff/Group Development/Organisation/IT/ Administration, Credit Management, Risk Management and Property Valuation & Research
– Counterparty and country risk	Treasury	Credit Management, Risk Management and Accounting
Market/Liquidity Risk	Treasury	Risk Management and Accounting
Operational Risk	Business areas, Group companies and equity investments	Risk Management, Legal, Personnel, Board Administrative Staff/Group Development/Organisation/IT/ Administration, and Compliance/Money Laundering
Business Risks	Business areas, Group companies and equity investments	Supervisory bodies, Board Administrative Staff/Group Development and Risk Management

Counterparty credit risk is managed by Credit Management, Risk Management, Property Valuation & Research and the new Asset Quality unit, which was set up during the year under review. Credit Management is responsible for approving new business, and for continuously monitoring and managing individual exposures. The Asset Quality department was assigned central responsibility for preparing ratings, including ensuring ratings consistency and collateral audits pursuant to the Solvabilitätsverordnung (SolvV – German Solvency Regulation), during the lending process. Risk Management ensures that risks are monitored at portfolio level and is also responsible for managing individual high-risk exposures and non-accrual loans as part of the separation of functions on the Back Office side. These functions are concentrated in the Intensive Care/Workouts/Restructuring segment at Risk Management. Property and location appraisals and market valuations are performed by Property Valuation & Research or commissioned from external appraisers and subsequently reviewed for reasonableness. All three areas liaise closely and continuously and report to the Bank's Managing Board member responsible for the Back Office. In addition, the Bank has a Group Risk Committee (GRC) that receives quarterly reports on the Bank's overall risk situation, and an Assets/Liabilities Management Committee (ALMC) that assesses market and liquidity risk every two weeks and decides on necessary measures. The GRC consists of members of the Managing Board and the heads of Risk Management, Credit Management, Internal Audit and Board Administrative Staff/Group Development, the members of the ALMC are the members of the Managing Board and the heads of Treasury and Risk Management. A representative from WestLB's Group Treasury attends the meetings of the ALMC every two weeks and a representative from WestLB's Economics Department every month.

The independent Internal Audit department checks the propriety of all the Bank's activities and processes, as well as the effectiveness and appropriateness of its risk management and internal control procedures. It reports directly to the full Managing Board.

Counterparty credit risk

For WestImmo, counterparty credit risk consists primarily of credit and investment risk. Counterparty and country risk play a comparatively minor role due to the credit ratings involved. The main responsibilities of Risk Management, Credit Management and Property Valuation & Research in this context are as follows:

- Establishment of methods and standards, including the development and coordination of the credit risk strategy, which is also agreed with WestLB (Risk Management, Credit Management)
- Implementation of regulatory and strategic requirements within the Bank's lending business at the level of the Bank's structures and workflows, and the implementation of new product processes (Risk Management)
- Second approval and monitoring of, and support for, credit exposures including suitable early warning indicators, as well as property and location appraisals and market valuations (Credit Management, Property Valuation & Research)
- Regular analysis of the loan portfolio and management of individual high-risk exposures and non-accrual loans (Credit Management, Risk Management)

Lending business

The applicable internal and external rules for the Bank's lending business are fully documented

Credit risk strategy and risk policy

The Bank has established a credit risk strategy that is reviewed at least once a year and adjusted if necessary. This must be approved by the Bank's supervisory body and covers planned developments in the Bank's entire lending business.

The aim of the credit risk strategy is to ensure for the long term that the Bank's risk quality reflects its risk-bearing capacity and risk tolerance. As a general rule, a realistic repayment scenario must exist for all loans. This is ensured by appropriate risk and quality standards, in particular in the form of requirements for the rating/loss given default (LGD) and volume of each loan, and for the location and quality of the properties to be financed. Supplementary qualitative and quantitative specifications are grouped together in a risk policy with different requirements applying to different products and regions. The principles for exit management contain explicit provisions on the relevant exit channels. Any divergence from the strategy must be made transparent and specifically approved on a case-by-case basis. The credit risk strategy forms the basis for managing counterparty credit risk (including cluster risk) at the level of specific transactions and portfolios. The maximum "reasonable" level of individual risk is based as a matter of principle on the Bank's risk-bearing capacity.

Acquiring new customers and appraising properties

An integral role in the process of acquiring new customers and transactions is played by the New Business Committee (NBC), which meets at least once a week as well as on an as-needed basis. The Committee agrees the quality and structure of the transaction presented, specifies the future course of action and thus shortens decision-making processes and response times in consultation with the responsible Managing Board members and representatives of all relevant Front and Back Office areas.

Final loan decisions are always preceded by the appraisal of the properties to be mortgaged, preferably by the Property Valuation & Research department or by third-party experts appointed by the department. External appraisals are regularly examined and their reasonableness is reviewed by Property Valuation & Research.

Front and back office approval and procedures following loan approval

All new loans and material changes to existing exposures are submitted to the Bank's relevant decision-making entities, along with the Front Office and Back Office approvals.

The Front Office areas are responsible for coordinating loan and collateral agreements. Following disbursement, responsibility is usually transferred to Credit Management, which, from this point onwards, ensures continued monitoring, including regular valuations of collateral and ongoing processing, in close cooperation with Property Valuation & Research.

Credit risk monitoring and early warning measures

Credit exposures are monitored at least annually on the basis of transparent criteria. The results are systematically documented. If the risk situation of an exposure shows signs of deteriorating, this must be reported to the responsible managers, as well as to Risk Management and the Bank's Internal Audit. Additional integral components of the risk monitoring process are portfolio analysis on an ongoing and event-driven basis – as far as possible using country-specific stress scenarios – direct monitoring of the cash flows relating to specific exposures and monitoring of compliance with contractually agreed risk parameters.

High-risk loans are also entered in a risk file. This serves as an instrument for planning and monitoring the measures needing to be taken in individual cases, supporting risk reporting throughout the Group and as a central information pool.

Problem loans are immediately transferred to the "Intensive Care" function of the Risk Management department. Restructuring concepts and further measures are then examined and, where necessary, implemented in consultation with the relevant loan processing departments.

Valuation of collateral

The values of collateral furnished that are calculated and defined in the lending process are reviewed on a regular basis, but no later than annual credit review, and adjusted where necessary on the basis of an impairment test. Property Valuation & Research either appraises eligible properties itself or arranges appropriate property appraisal contracts. To ensure a uniform standard in these cases, the results are examined internally and/or their reasonableness is reviewed.

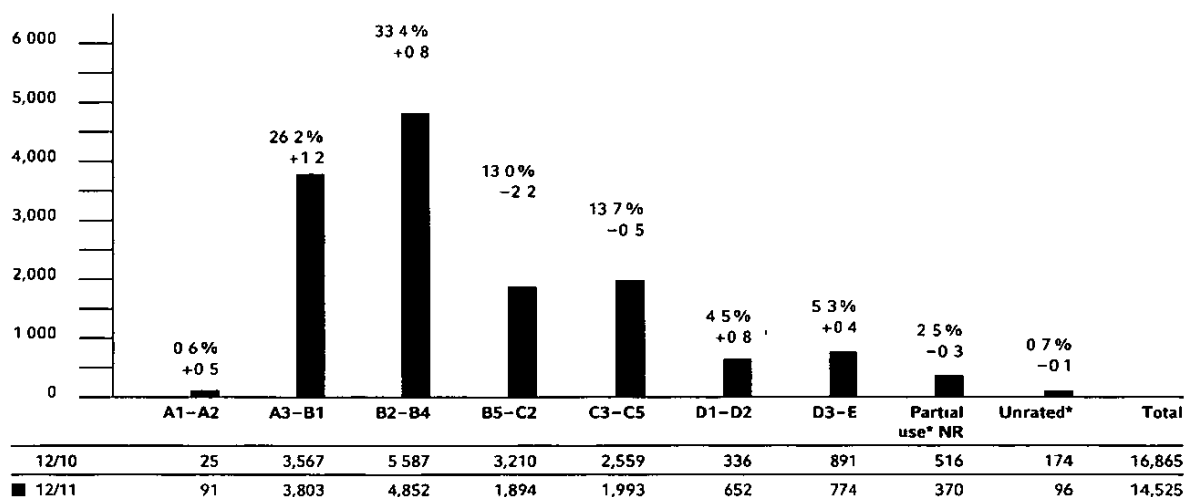
Risk monitoring at portfolio level

Changes in the Bank's credit risk are monitored on the basis of monthly analyses and, where necessary, supplemented with sector- and country-specific subportfolio analyses, including stress scenarios. The results are an integral part of the Bank's regular risk reporting. The commercial customer loan portfolio (i.e. property loans, any current account overdrafts, loan guarantees and outstanding disbursement commitments), not including loans to public sector borrowers and banks, amounted to €14.5 billion as of 31 December 2011, including WIB Japan's portfolio.

This represents a decline in the loan volume of around €2.4 billion or 13.9 % against the previous year (€16.9 billion), in particular due to the Bank's restrictive new business policy in light of its sale.

The following analyses relate to the commercial customer loan portfolio of €14.5 billion as of 31 December 2011.

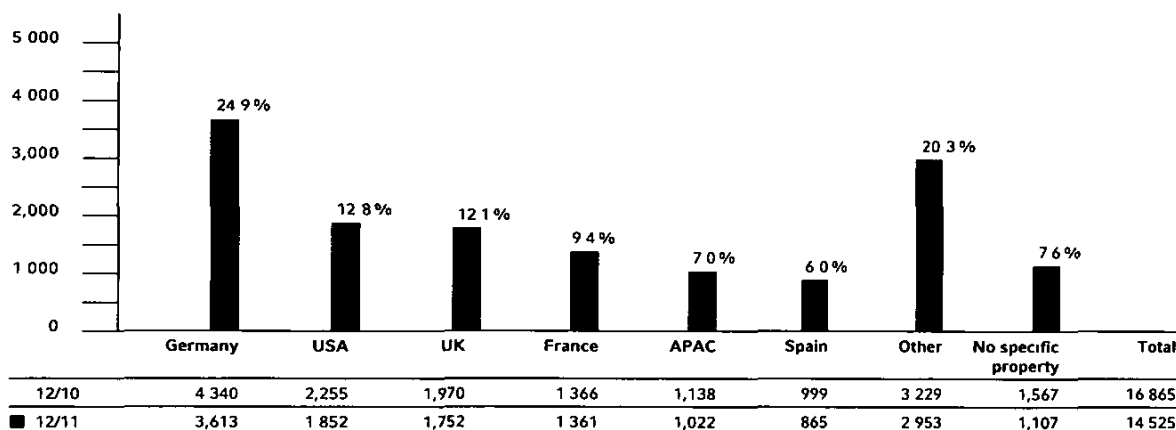
The commercial customer loan portfolio can be broken down into the rating categories given below as at 31 December 2011 (€ million)



At €8.7 billion, 59.6% (previous year 54.4%) of the commercial loans and advances to customers and loan guarantees are allocated to rating categories A1 to B4. Including rating categories B5 to C2 (investment grade segment), 72.6% of the loans have a good to satisfactory risk structure based on the calculated ratings (previous year 73.4%).

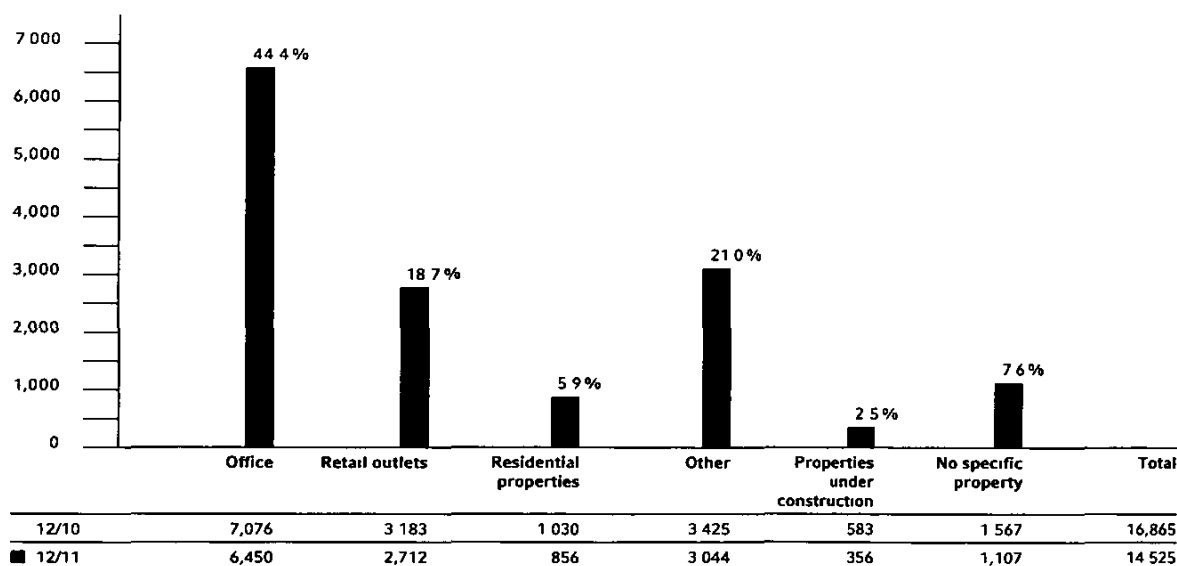
As a matter of principle, the rating procedures are used to classify the risks pertaining to all transactions. The sole exceptions are guarantee lines, agricultural loans and commercial loans below the materiality threshold or that meet other criteria for not being rated. For these, the Bank has opted to apply the "partial use" approach in accordance with the SolvV.

The portfolio is broken down by location as follows (€ million)



24.9% or €3.6 billion (previous year 25.7%) of the portfolio represents loans relating to German properties. The international portfolio is distributed across 21 countries. The largest foreign subportfolios are the USA with 12.8% (previous year 13.4%) or €1.9 billion, ahead of the United Kingdom with 12.1% (previous year 11.7%) or €1.8 billion and France with 9.4% (previous year 8.1%) or €1.4 billion. These are followed by APAC (Japan) (€1.0 billion or 7.0%) and Spain (€0.9 billion or 6.0%). At €3.0 billion or 20.3%, the remaining portfolio reported under "Other" is mainly distributed across various western and eastern European countries. 7.6% of the loans are not secured by mortgages (previous year 9.3%). These primarily comprise loans involving open-ended real estate funds and a relatively small volume of property-related company loans.

The breakdown by property type is as follows (€ million)



At € 6.5 billion or 44.4 % (previous year: 42.0 %), office properties represent the largest subportfolio. The share of retail properties is virtually unchanged year on year at 18.7 % or € 2.7 billion (previous year: 18.9 %). The portfolio of residential property loans (commercial customers) declined by € 174 million or 16.9 % to € 0.9 billion. The portfolio of properties under construction amounted to € 0.4 billion or 2.5 % as at 31 December 2011. These largely comprise retail properties (39.0 %), and offices (38.1 %) and residential properties (7.5 %) that have been prelet or sold in advance.

Changes in the allowance for losses on loans and advances

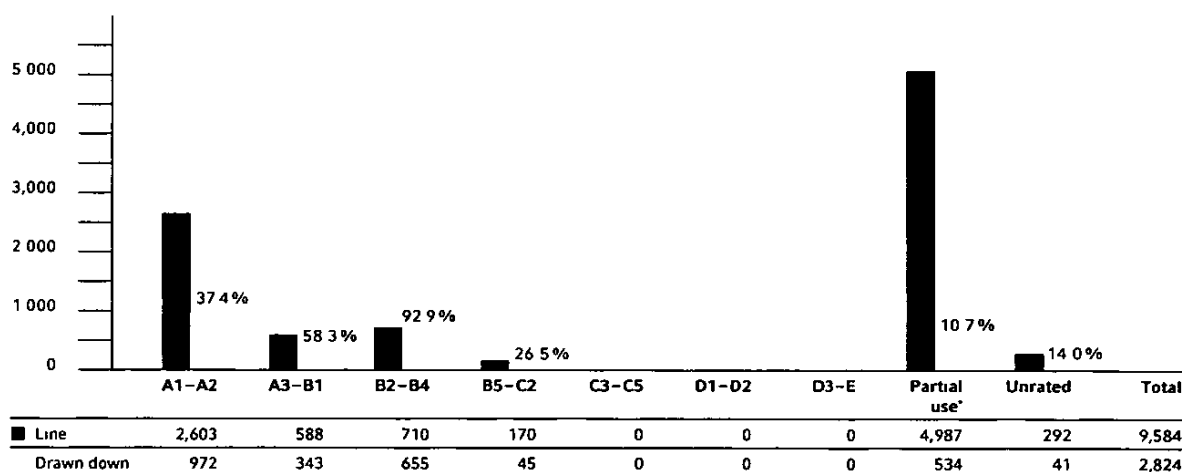
The allowance for losses on loans and advances (specific valuation allowances and provisions) in the Bank's commercial lending business is calculated in principle on a case-by-case basis using impairment tests. To qualify for impairment testing or for a review of actual requirements, loans must exhibit one or more trigger events (e.g. >45 days past due or insolvency).

The allowance for losses on loans and advances deducted from assets in the lending business, including portfolio-based valuation allowances and specific valuation allowances on exposures to project development companies belonging to the Group, declined from € 295.5 million to € 293.0 million (–0.8 %) in the reporting period. Provisions for contingent liabilities of € 1.2 million (previous year: € 2.4 million) were also recognised.

Securities

Investment securities portfolio

Ratings of securities not past due and not impaired (i.e. not including Greek government bonds)



Cases covered by the Bank's non-rating concept.

WestImmo's portfolio of investment securities includes the following bonds issued by GIIPS countries, broken down by maturity (€ million)

Country	Principal amount		Dirty fair value		Clean fair value	
	31 Dec 2011	31 Dec 2010	31 Dec 2011	31 Dec 2010	31 Dec 2011	31 Dec 2010
Greece	235 0	235 0	54 8	144 7	51 4	141 4
2017	50 0	50 0	10 8	29 0	10 1	28 4
2022	100 0	100 0	23 8	64 8	22 7	63 7
2034	40 0	40 0	10 6	26 2	9 6	25 2
2040	45 0	45 0	9 6	24 7	9 0	24 1
Italy	595 0	725 0	530 8	731 4	519 4	717 5
2014	0 0	15 0	0 0	15 7	0 0	15 4
2015	185 0	210 0	182 5	218 5	179 3	214 8
2018	95 0	175 0	87 9	179 2	86 1	175 9
2020	50 0	50 0	45 0	50 3	44 1	49 4
2034	265 0	275 0	215 4	267 7	209 9	262 0
	830 0	960 0	585 6	876 1	570 8	858 9

Greek and Italian bonds are reported as AfS financial instruments in the balance sheet at their dirty fair value

No Portuguese, Irish, or Spanish bonds are held

The levels assigned to the exposure to Greek and Italian government bonds in accordance with IFRS 7 are as follows

	2011	2010
	Dirty fair value	Dirty fair value
Level assigned		
Greece	54 8	144 7
Level I	44 2	144 7
Level II	10 6	0
Level III	0	0
Italian	530 8	731 4
Level I	530 8	731 4
Level II	0	0
Level III	0	0

Measurement

WestImmo uses internal criteria to assess on each reporting date whether there is objective evidence of permanent impairment of the securities. If such evidence exists, the financial assets are subsequently analysed in more detail on a case-by-case basis. Any impairment resulting from this analysis takes the form of a direct write-down of the securities concerned. In the year under review, write-downs of €243.8 million to the lower fair value were charged on bonds issued by the Republic of Greece. No write-down of Italian government bonds was considered necessary as at the reporting date since the bonds are not considered to be permanently impaired given the austerity and restructuring measures introduced by the Republic of Italy.

Investments

The operational management and monitoring of equity investments and Group companies is performed locally by the representatives of the companies in question, reporting to the Board Administrative Staff/Group Development/Organisation/IT/Administration, Credit Management and Risk Management departments. Risk Management is responsible for strategic control at the equity investments and Group companies, including Westdeutsche Immobilien Holding GmbH.

Medium-term plans are drawn up for the strategic investments on an annual basis. In the period under review, the risks arising from strategic investments were again reduced in accordance with business policy. The operational shareholdings primarily manage the remaining projects and report on their development regularly to the responsible bodies at the Bank. The Bank decided some time ago to gradually withdraw completely from performing its own development projects.

Market risk

WestImmo is a non-trading book institution. It accepts market risk under the terms of its Treasury management strategy and market risk strategy, which are defined on the basis of the Bank's business policy and risk-bearing capacity. For WestImmo, market risk mainly consists of interest rate risk. Currency risks are eliminated largely using hedging instruments, and open foreign currency positions are restricted using volume limits.

Risk management is responsible for measuring and monitoring market risk position and for reporting in accordance with MaRisk (the Minimum Requirements for Risk Management). Interest rate risk and currency risk are quantified using a value-at-risk model based on the Monte Carlo simulation process and standard WestLB Group processes and inputs. Daily value-at-risk (VaR) calculations are based on a confidence level of 99% and a holding period of one day. The Treasury department manages interest rate risk primarily on the basis of interest rate sensitivities, which are calculated daily, for reporting purposes these are broken down by maturity band and currency. Where necessary, interest rate risk is hedged using derivatives.

Risk Control calculates the VaR and sensitivities on the basis of the cash flows from all interest-bearing transactions. The Bank is included in the WestLB's Group-wide standard backtesting process, in which hypothetical gains and losses are compared on a daily basis with the values predicted by the VaR model. The appropriateness of the VaR model used is analysed regularly together with WestLB. This analysis did not result in any need for adjustment.

The Bank performs weekly stress test simulations in order to subject predictions concerning expected present value losses to extreme conditions. As required by BaFin Circular 07/2007 and the revised Circular 11/2011, Westimmo calculates the effects of an interest rate shock in the banking book on a weekly basis. These showed that, in the year under review, with the assumed parallel shifts, the potential changes in present values are significantly below the limits defined there.

The Managing Board is informed on a daily basis as to the Bank's risk position as part of the reporting process. Moreover, the Assets/Liabilities Management Committee (ALMC) receives reports every two weeks on the latest market data and risk parameters in the context of the regular Managing Board meetings. The ALMC resolves the Bank's positioning on this basis.

In addition, market risk parameters and limit utilisation figures, together with comments on them, are integrated both in the overall Bank risk report submitted monthly to the Managing Board and in the quarterly report submitted to the supervisory bodies.

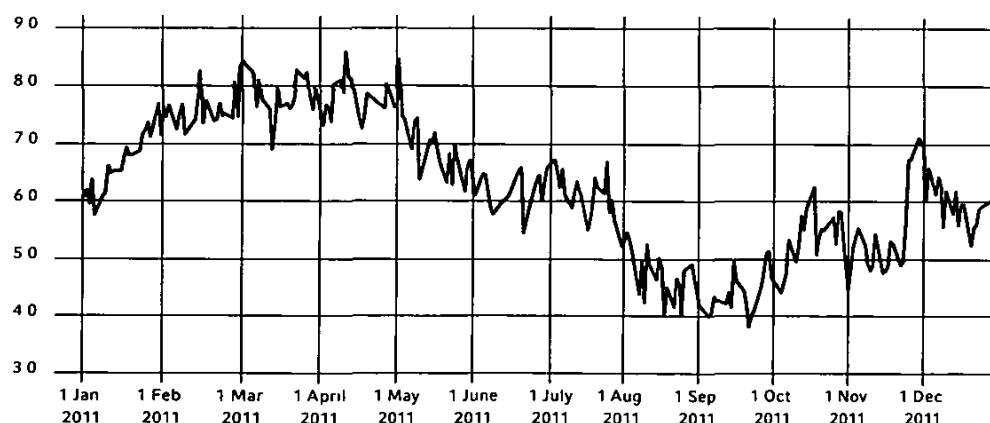
The VaR in 2011 was as follows:

VaR for market risk in € million

VaR 2011			VaR at	
Average	Minimum	Maximum	30 Dec 2011	30 Dec 2010
6.26	3.82	8.61	5.63	5.71

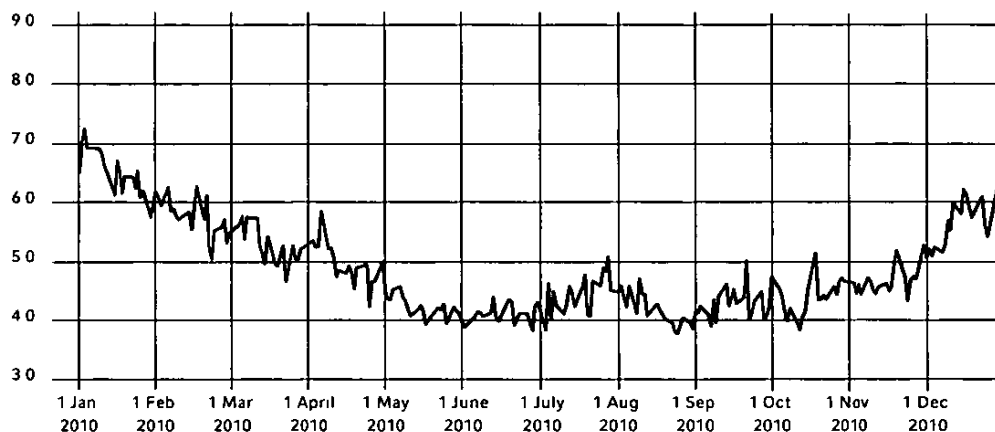
The average utilisation of the VaR limit for interest rate and currency risks was 66.2 % in the year under review. Limit utilisation at the end of the year was 75.0 %.

Changes in VaR in the course of 2011 (€ million)



In comparison to 2011, VaR in the course of 2010 was as follows

Changes in VaR in the course of 2010 (€ million)



Liquidity risk

The Bank defines liquidity risk as the risk of being unable to meet current or future payment obligations or only being able to meet them at unfavourable terms. The primary aim of liquidity risk management is to safeguard the ability to make payments and raise funding at all times. The Bank has documented rules on liquidity risk management, which also cover the steps to be taken to cope with liquidity squeezes.

Short-term and structural liquidity are managed by the Bank's Treasury department in consultation with WestLB's Group Treasury department. Liquidity risk is monitored continuously by Accounting and Risk Management.

Short-term liquidity risk is limited by law in accordance with the *Liquiditätsverordnung* (LiqV – German Liquidity Regulation). In the year under review, the liquidity ratio in accordance with section 2 of the LiqV was an average of 1.89. The supervisory requirements were fulfilled at all times during the fiscal year.

Westimmo calculates and manages its medium-term liquidity requirements using a six-month liquidity forecast. This compares the Bank's aggregate net cash flows with the potentially available unrestricted central bank funding and the potential issuance according to the cover register. A variety of stress assumptions and models are included when calculating the liquidity forecast figures. The six-month liquidity forecast distinguishes between a management scenario and a stress scenario. Its stress test analyses include both internal and general market causes. The six-month liquidity forecast also incorporates both an overview of the liquidity reserve and an overview of one-week and one-month liquidity.

Risk Management uses a liquidity gap analysis to monitor the long-term liquidity situation. This determines any necessary liquidity requirement (deficit or shortfall) or possible liquidity overhang (surplus), as the case may be, on the basis of all incoming and outgoing payments during a rolling twelve-month period. Deficits that arise in this regard are assigned limits and must be countered using suitable measures. From a twelve-month perspective, the structural liquidity overhang increased from € 346 million to € 1,736 million in the past fiscal year. No limits were exceeded during the year under review.

The liquidity summaries form part of the regular reporting to the Managing Board. Strategic decisions in the course of managing liquidity are made during the meetings of the ALMC and, if necessary, on an ad hoc basis.

As a result of the sale process, funds raised in the unsecured segment were restricted mainly to liquidity provided by WestLB, in the secured segment, a limited volume of mortgage Pfandbriefe were issued.

If necessary, the Bank has an adequate portfolio of securities that are eligible for refinancing with the ECB and can cover additional liquidity requirements by pledging these securities for Bundesbank refinancing facilities or in repo transactions.

Operational risk

Operational risk management (ORM) at the Bank aims to avoid/reduce losses from operational risks while taking account of cost-benefit considerations. Together with WestLB, the Bank received approval to use the Advanced Measurement Approach (AMA) as at 1 January 2008. In line with this, the methods and instruments used by the Bank are an integrated part of WestLB's ORM system.

The management of operational risks is decentralised and the responsibility of the individual departments, which are supported in this task by specialist organisational units (Personnel, Legal, Organisation, IT, etc.). Irrespective of this, the Risk Management department specifies centrally the framework for an ORM system that is consistent across the Bank, and monitors whether the related activities are being fully implemented.

In addition to its ongoing documentation of losses and risk indicators, the Bank performed a risk inventory in the first quarter of the period under review. The risks identified here are taken into account by the Bank using appropriate measures.

The Risk Management department reports to the Bank's governing bodies on major operational risk management issues, both on a regular and where necessary on an event-driven basis, and continuously enhances the ORM system in consultation with WestLB.

Business risks

Business risks are managed by the departments and by Group companies and other equity investments on the basis of the strategic instructions issued by the Managing Board and other bodies. Financial Control/Strategic Corporate Planning, which is part of the Board Administrative Staff/Group Development/Organisation/IT/Administration area, is one of the units that monitors business risks. It produces the medium-term planning, provides management information on all parts of the Bank and enhances the management methods used in consultation with WestLB. It also coordinates the establishment and expansion of decentralised control activities within the Bank and the WestImmo Group. Other Bank processes such as new product processes also take account of business risks.

Internal control and risk management system for the Group's financial reporting process

The goal of an accounting-related internal control and risk management system (ICR) is to ensure compliance with accounting standards and provisions as well as the propriety of financial accounting and reporting. WestImmo has implemented an ICR for the Bank's financial reporting process that is suitable for its business activities.

WestImmo's accounting-related ICR mainly comprises guidelines and processes that

- Adequately ensure that transactions are captured and accounted for in full, in a timely manner, correctly and in the period in which they occur, in accordance with the statutory and other provisions, in order to ensure published financial reporting that presents a true and fair view (propriety and reliability of financial accounting and reporting),
- Guarantee the regular and timely provision of accounting data that is relevant for business management purposes to decision makers and executive bodies (internal reporting),
- Adequately ensure that acquisitions and the use or disposal of assets that could have a material effect on accounting are transparent,
- Provide a suitable control and documentation environment (e.g. the separation of functions, adherence to defined levels of approval and authority, compliance with the dual control principle when recording transactions),
- Govern the storage of documents that provide appropriate information on business transactions and the use of assets.

The effectiveness of the accounting-related ICR is monitored continuously. Existing technical and specialist controls are regularly reviewed by the Internal Audit department.

In addition, the financial reporting processes are integrated into the Bank's general operational risk management process in order to avoid errors and misstatements in financial statements as far as possible or to identify them at an early stage, and hence to ensure a true and fair view of the WestImmo Group's net assets, financial position and results of operations.

The Bank's accounting policies are documented in electronic manuals and are available to all departments and subsidiaries. Annual, quarterly and monthly financial statements are prepared according to an agreed schedule and compliance with this is monitored.

New statutory and regulatory requirements are implemented and communicated in a timely manner, depending on their scope and significance for the Bank this can take the form of organisationally independent projects and written instructions, among other things. All departments affected by the issue concerned are included in this process.

The inclusion of staff from Accounting in the relevant risk and management processes ensures that strategic and risk-related developments are also rapidly incorporated into financial and other reporting.

Transactions involving new products and/or special purpose entities (SPEs) undergo a specific new product process (NPP) or SPE process and are coordinated by Risk Management. The front and back offices as well as Accounting are included in these processes.

Overall risk position

The Group's overall risk position was determined from a supervisory perspective in fiscal year 2011 in accordance with the provisions of the SolvV and is as given below.

Overall risk position in accordance with the SolvV

€ million	31 Dec 2010	31 Dec 2011
Capital requirements for		
– Counterparty credit risk	844	738
– Market risk exposures	1	1
– Operational risk	39	39
Total	884	778
Overall capital ratio	9.6%	9.9%

The overall capital ratio amounted to 9.9% as at 31 December 2011 (previous year: 9.6%). The core capital (Tier 1) ratio was 8.9% as at the reporting date (previous year: 8.0%). The requirements of the SolvV were met throughout the year under review.

Westlimmo's overall risk capital (risk tolerance) by risk category

€ million	31 Dec 2010		31 Dec 2011	
	Limit	utilisation	Limit	utilisation
Credit risk capital	276.0*	344.5	380.0	303.5
Investment risk capital	3.6	3.6	5.0	4.3
Market risk capital	80.0	41.3	68.0	43.9
Operational risk capital	23.0	23.0	52.0	52.0
Total risk capital	382.6	412.4	505.0	403.7

* Group limit €276 million – Bank limit of €380 million was resolved as at January 2011.

The sale process imposed as a condition by the EU meant that both the resources made available to WestImmo by the Group and the intragroup management limits were capped

In addition to meeting external capital requirements, the Bank's end-to-end management is based on an economic capital concept. As part of the risk tolerance concept established by the Bank in this connection, the risk-bearing capacity – the ability to absorb any risks that materialise at all times without external assistance – is quantified and limits are assigned. In this way, the risk tolerance, along with and complementary to the statutory capital requirements, limits the maximum potential to accept risks.

On 19 January 2011, the Managing Board resolved to introduce a risk-bearing capacity concept for the Bank that includes a new definition of cover assets. The cover assets consist of liable capital as defined in the Group regulatory report under the SolvV plus outstanding profit participation certificates and Tier II capital up to a residual term to maturity of more than three months, plus 50 % of the expected profit for the year, less the value adjustment offset pursuant to the SolvV, less other business risks and less the net amount of hidden reserves/hidden liabilities in accordance with the HGB.

The Managing Board also derives economic risk capital limits from the risk tolerance for each risk category, compliance with which is monitored on an ongoing basis. Since the beginning of 2008, limit utilisations for credit risk and credit value at risk (CVaR) have been calculated on the basis of a credit portfolio model (KMV-EDF) from Moody's Kealhofer, McQuown and Vasicek. The underlying definition of credit is based on section 19 (1) of the *Kreditwesengesetz* (KWG – German Banking Act) (recognised assets and off-balance sheet transactions entailing counterparty credit risk) in conjunction with section 2 (basis of calculation) and section 4 (identification of the borrower) of the *Groß- und Millionenkreditverordnung* (GroMiKV – German Large Exposures Regulation) before deduction of value adjustments.

The aim of the credit portfolio model used is to integrate the economic capital approach into the Bank's planning and decision-making processes, in particular so as to manage credit risk at portfolio level. Risk is managed here via the definition of risk tolerance and the derivation of limits for credit risks. Credit risk capital is calculated using the exposure at default, probability of default and loss given default, which the Bank – as an AIRBA institution – determines internally. Sector volatility and correlations are also taken into account. The ultimate aim is to achieve a risk weighting function with more extensive determinants to supplement the supervisory requirements that not only allocates risk capital at portfolio level but also allows the individual risk drivers in the portfolio to be determined.

The capital required to cover investment risks from investments made after 31 December 2007 is calculated using a PDE/LGDE approach, which is based on the probability of default on the part of the investee. Calculations are based on the carrying amounts of WestImmo's direct investments. The Bank uses the grandfathering approach in accordance with the SolvV for investments made before 1 January 2008.

Limit utilisation for market risk is calculated using a VaR model based on the Monte Carlo simulation methodology and the WestLB Group's uniform processes and parameters. Calculations are based on the cash flows from all interest-bearing transactions. Utilisation of risk capital for market risk increased in 2011 to €43.9 million as at 31 December 2011.

Loss categories for operational risk are established based on the Basel II business lines and Basel II event categories specified in the SolvV. The VaR values calculated for these loss categories in WestLB's AMA model are aggregated by business line and allocated to the Group units, including WestImmo. Risk capital is derived by making additions or deductions based on the business environment and internal control factors, as well as from an operational risk management assessment using a business unit scorecard.

Other risks

In 2007, WestImmo, as a WestLB Group company, was admitted to the Reservefonds (Reserve Funds) of the Westfälisch-Lippischer Sparkassen- und Giroverband (SVWL – Savings Banks and Giro Association of Westphalia-Lippe) and of the Rheinischer Sparkassen- und Giroverband (RSGV – Savings Banks and Giro Association of the Rhineland).

In 2008, the Reserve Funds Committee resolved to deploy the two reserve funds in the amount of up to €500 million in each case exclusively for the WestLB risk shield.

The SVWL and WestImmo had differing opinions on whether WestImmo formed a single risk unit with WestLB, which had become in need of support, as a result of the profit and loss transfer agreement entered into as at 1 January 2007 and the unrestricted letter of comfort issued by WestLB, and whether WestImmo was consequently also exempted from the need to make payments to the reserve funds in the same way as WestLB. The dispute eventually led to an action being brought by the SVWL before the Administrative Court in Mainz with respect to WestImmo's annual contributions for 2008 and 2009.

After WestImmo also lost its appeal in this dispute to the Higher Administrative Court in Koblenz in a judgement dated 15 June 2011, it entered into negotiations with the SVWL and the RSGV on reaching a settlement with respect to its memberships in the reserve funds. Agreement was reached with the two associations that WestImmo would cease to be a member of the reserve funds as at 15 December 2011 (SVWL) and 17 January 2012 (RSGV). The payments made in return by WestImmo were less than the total amount of €56.6 million disclosed as the total potential payment obligation to the reserve funds in the notes to the 2010 financial statements.

Report on Post-balance Sheet Date Events

At the beginning of January 2012, the new Greek government announced that a haircut on Greek government bonds significantly in excess of the originally proposed figure of 50 % might be necessary to reduce the country's debt levels. The Republic of Greece has now reached agreement with the Institute of International Finance to the effect that private creditors will take a haircut of 53.5 % on the principal amount of the Greek government bonds concerned. In addition, 31.5 % of the principal amount will be exchanged for newly issued Greek government bonds with maturities of between 11 and 30 years and a progressive interest rate. Creditors will receive 15 % of the principal amount in the form of short-dated bonds issued by the European Financial Stability Facility (EFSF). Overall, the conditions provided in the bailout lead to a haircut of around 70 % to 75 % of the principal amount for private creditors.

The Bank is predicting future expenses for restructuring measures in the amount of €26.2 million in connection with WestImmo's future charges caused by the planned transfer to Erste Abwicklungsanstalt (EAA) as at 1 July 2012 and the capacity adjustments that will then be made to the employee structure. The restructuring provision was not recognised retrospectively in the IFRS consolidated financial statements as at 31 December 2011 in accordance with IAS 37.

Klemens Breuer, the member of WestLB's Managing Board who was responsible for the Capital Markets business until 30 January 2012, resigned his WestImmo Supervisory Board mandate at his own request effective as at the same date. On 8 February 2012, Stefan Dreesbach, head of WestLB's Debt Markets department, was elected as the new member of the Supervisory Board of WestImmo.

At its meeting on 1 March 2012, the Supervisory Board of Westdeutsche ImmobilienBank AG (WestImmo) in Mainz selected Claus-Jürgen Cohausz as the Chairman of the Managing Board effective 27 April 2012. Mr Cohausz succeeds Dr Peter Knopp, who will leave the Bank after the annual financial statements are adopted and approved on 26 April 2012. Christiane Wolff was appointed as WestImmo's new Managing Board member.

WestImmo's Supervisory Board also underwent changes. Thomas Groß, WestLB's Chief Financial and Risk Officer, became the Chairman of the Supervisory Board effective 1 March 2012, taking over Mr Hubert Beckmann's position. The Deputy Chairman of the Managing Board of WestLB is now the Deputy Chairman of the Supervisory Board of WestImmo.

Report on Expected Developments

General economic environment

According to the current forecast by the International Monetary Fund (IMF), global economic output will remain stable at the level of 4% in 2012. The emerging economies will play a key role in this, as they are very important for the development of the global economy. China, India and Indonesia are the main growth drivers. 5% growth is expected in the emerging economies. The biggest challenges for these countries that they will have to counteract with relevant fiscal and monetary measures will be inflation, increased volatility of capital inflows and the danger of overheating.

Eurostat is predicting a decline from 1.6% to 0.6% for the 27 countries of the European Union. The situation is not expected to improve in light of the economic situation in the EU countries and the weakening economy in 2012.

The German economy will be unable to escape the European sovereign debt crisis and the global economic trends. However, depending on how the sovereign debt crisis develops, the possibility of the German economy cooling, mainly due to falling exports, together with increased nervousness on the financial markets, cannot be ruled out. Global economic growth will slow down considerably and, according to 2012 forecasts, will only increase by 0.5% compared with 3% in 2011.

The consensus prediction is for 0 % growth in France and 0.5 % in the United Kingdom. A real GDP change of -4.1 % is forecast for Greece, after -5.7 % in 2011. No reliable estimates can be made at present on the extent to which this can be achieved in light of current events. Growth rates will also fall significantly in Italy and Spain, estimated at -1.3 % and -0.4 % respectively.

Forecasts for the USA look more attractive, the consensus growth forecast here is 2.2 %. Japan's economy will probably stabilise further this year and grow by 1.9 %.

Outlook

Markets for commercial real estate

A number of international office rental markets have peaked in the prime segment. German real estate markets, on the other hand, are still showing signs of recovery. However, the uncertainty triggered by the European sovereign debt crisis is preventing strong growth and may lead to corrections in individual markets.

Investors' concentration on prime properties, coupled with tight demand, will lead to yields in the prime segment continuing to decline or level out. The yield spread between prime locations and secondary markets will increase. Individual submarkets and regional office rental markets in all major global cities will take much longer to recover from the slump in demand than prime locations.

Retail properties ensured stronger investor interest in Europe due to the buoyant level of consumption. It can be assumed that this trend will continue in the coming year. However, this depends on how strongly the debt crisis impacts consumers. Countries with declining growth will exhibit fewer opportunities in retail for investors this year.

WestImmo is therefore expecting a mixed picture for the current year. While certain secondary markets will still see corrections, the prime segment is likely to provide good news even though the consequences of the crisis and the uncertainties on several markets will continue to have an impact for longer than anticipated.

Markets for real estate financing

In line with developments in the commercial real estate markets and the European sovereign debt crisis, the competitive environment is likely to experience varied development in 2012. Further growth in the German market – just as in the other European markets – is highly dependent on finding a solution to the sovereign debt crisis and dominates the willingness of banks to lend. It is generally expected that many domestic and foreign institutions will continue to remain restrained.

The fierce competition among banks for core segment projects will also continue in 2012, meaning that margins will remain under pressure. The availability of unsecured finance, loans with complex structures, high loan-to-value ratios and loans for properties outside the core segment will remain low in 2012.

The competitive environment in the USA will probably improve a little, allowing foreign, and particularly German, banks to step up their activities. Consolidation tendencies in Japan will continue and domestic institutions will still dominate competition in the banking market.

Despite the in part continued difficulties in the financial markets, WestImmo is generally expecting the syndication markets to perform positively. The trend shows that there is sufficient liquidity in the market for extremely high-quality transactions at good locations, in stable markets and with professional investors.

A significant volume of CMBS loans will expire in both Europe and the USA in 2012 and 2013. Demand for follow-on loans and restructurings of commercial real estate financing will also be key topics in 2012 in light of the securitisation transactions that are due to mature. Secured finance is experiencing a renaissance of interest thanks to creditors retreating from unsecured finance. It will become more important to provide collateral for new financing and refinancing measures.

Institutional investors' readiness to invest will also be more strongly affected in 2012 by the sovereign debt crisis that continues to smoulder, as well as the upcoming regulations. Regulatory topics such as CRD IV and Solvency II will also affect investors' interests.

Refinancing markets

The market for mortgage Pfandbriefe recorded a revival in the first few weeks of 2012. However, the issuing volume amounted to slightly less than the level in the same period of the previous year. An increase is likely to be expected for the current year. After a cautious start, the ECB's launch of the new covered bonds purchase programme will lift new issues in the primary market in the next few months. In addition, the ECB can make purchases on the secondary market. By contrast, opportunities to raise funds outside the secured segment will remain difficult for the majority of banks.

Even if the ECB's measures help temporarily improve the situation on the financial markets, WestImmo still expects uncertainty in the banking sector to last until the sovereign debt crisis eases for the long term and institutions no longer have to fear further writedowns or losses from government bonds. In addition, banks are still focused on meeting the European banking supervisory authorities' future capital requirements.

Summary by the Management Board on the transfer of WestImmo to EAA

Even at the height of the financial and economic crisis in the years 2007 to 2009, WestImmo was one of the few banks to operate at a profit and to be in a position to grant loans. However, the Bank's continued successful performance was strongly influenced by the sale process imposed by the European Commission from 2010, as well as by the negative effects of the European sovereign debt crisis in 2011. Following the discontinuation of negotiations with Apollo, WestLB remains obliged to sell WestImmo by 30 June 2012 in accordance with the requirements stipulated by the European Commission. The Bank is expected to be transferred to EAA on 1 July 2012 if it cannot be sold by this date. Based on current knowledge, the Managing Board expects the Bank to be transferred to EAA by way of either a share or asset deal. A share deal would enable the Bank to be sold at a later date. In an asset deal (singular succession), assets and liabilities will be transferred to EAA insofar as this is possible. Cover assets and outstanding Pfandbriefe must, however, remain on WestImmo's balance sheet in the case of an asset deal. Under the asset deal model, WestImmo will essentially only function as a sub-servicer for EAA. Independent of the transfer type, the Bank must, however, be allowed to implement the measures required to maintain and manage its cover pool. As yet, no final decisions have been made as to the exact business strategy. Nonetheless, the Bank will continue to generate a reduced level of new business and manage its portfolio, either as a subsidiary of EAA or as its service provider. In this way, there is a possibility that WestImmo will transfer its assets and liabilities to Erste Abwicklungsanstalt by way of singular succession on 1 July 2012, to the extent that this is permitted by law, largely discontinue its current business and limit itself in future to the management of loan and securities portfolios in the service business. There will be no effect on the measurement of assets as the transfer is expected to be implemented outside profit or loss.

Strategy in 2012

WestImmo will continue to focus on its core competency following the transfer to EAA. Based on the information currently available, the Management Board expects that, in the medium term, WestImmo will have to withdraw from several target markets and reduce its resources accordingly. The German business will, however, remain a key focus, alongside selected international markets. The Bank's successful cooperation with the savings banks in the syndication segment is to be continued.

The risk- and earnings-driven management of the loan portfolio will also remain a strategic goal for WestImmo. WestImmo aims to continue driving forward the development and implementation of instruments to efficiently manage, allocate and ease pressure on capital in view of Basel III. The Bank is tracking closely the transposition of the amended rules into national law and the application of the requirements, and will implement the necessary adjustment measures if required.

Expected business performance results of operations, financial position, refinancing

WestImmo plans to enter into new business in its future target markets to the extent required to maintain and manage its cover pool. Whether additional new business can be acquired must be decided in consultation with the EU and any new owner. Independently of this, exposures are still required to meet the Bank's risk/return requirements and the necessary refinancing must be assured. With regard to the future course of the Bank, the Management Board is not publishing any exact quantitative targets for its earnings or new business volume in view of the possible scenarios outlined above. However, taking into account the above assumptions relating to new business, it continues to expect positive net interest income and net fee and commission income, and a positive operating result – despite the reduction in the existing business. It should be noted that, if the existing business is cut back further than expected and net interest income declines at an above-average rate, profitability might only be able to be assured by cutting costs. For more information on the expected restructuring measures, please refer to the Report on Post-balance Sheet Date Events.

The Bank's refinancing in 2012 will continue to be closely linked to the development of its business activities and the resulting funding requirement.

Based on the current risk situation and after adjustments to resources, the Bank expects to generate a positive result in 2012, even if there is a significantly lower level of new business. However, a key condition for this is that the sovereign debt crisis does not continue to escalate and that there are no further or new write-downs on bonds from Greece or Italy.

Opportunities

WestImmo's above-mentioned goals and expectations for fiscal year 2012 are subject to assumptions with regard to certain developments and conditions for the Bank, as well as the relevant market environment. However, actual results and developments may differ considerably from expectations and predictions as forward-looking statements are always subject to risks and uncertainties. If developments prove to be better than forecast, opportunities will arise that could affect the Bank's prospects and its business, results of operations, financial position, risk situation, or net assets more favourably than expected.

A significant opportunity will arise for the Bank if a buyer is found in the near future and WestImmo can be sold in 2012 or 2013. In this case, the assumptions described here with regard to target markets, new business, results of operations, net assets, the refinancing situation and the Bank's strategy would change accordingly and may, under certain circumstances, allow the Bank to continue its successful business activities in selected target markets and to aim for a higher new business volume.

A stronger macroeconomic recovery from the sovereign debt crisis could give an additional boost to the real estate markets and improve WestImmo's business and risk situation. In this context, it is vital for confidence in the functioning and soundness of the financial and capital markets to be restored. If the financial and capital markets recover more quickly, the refinancing situation for real estate finance providers could improve significantly and would affect conditions and business development correspondingly.

Summary by the Managing Board on the prospects for the Group

Although WestImmo has continually proved over the past few years that, even in a difficult environment, its business model works and is viable, the ongoing sale process has significantly restricted the Bank's business development and limited the implementation of its strategy and business model

Based on the information currently available, transferring WestImmo to EAA by way of a share deal would allow the Bank to retain its value and launch a new sale process. Efforts to sell could then be resumed under new direction following the transfer on 1 July 2012. Alternatively, WestImmo could transfer its assets and liabilities to Erste Abwicklungsanstalt by way of singular succession on 1 July 2012, to the extent that this is permitted by law, largely discontinue its current business and limit itself in future to the management of loan and securities portfolios in the service business. There will be no effects in the measurement of assets as the transfer is expected to be implemented outside profit or loss.

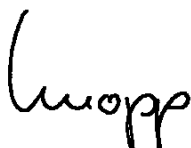
Independently of the possible scenarios, the implementation of which will be determined largely by the owners of the Bank, the EU, the FMSA and the Sonderfonds Finanzmarktstabilisierung (SoFFin – Financial Market Stabilisation Fund), the Managing Board expects that, based on the new business required to manage the cover funds, as well as the Bank's portfolio management and servicer role, WestImmo will continue its business activities as a going concern.

The results of WestImmo Group in 2012 will be highly dependent on the European sovereign debt crisis not spreading to other, larger eurozone economies. Other key factors for the Bank's development and earnings in 2012 will be the functioning of the capital markets and therefore cost-effective refinancing, as well as the continued stabilisation of the real estate markets in which WestImmo is active.

Over the past few years, WestImmo's successful enhancement of its business model, its focus on commercial real estate financing, optimised loan portfolio management and the expansion of its role as arranger and agent in the syndicated loans business laid the foundation for profitable growth. Provided that there are no further repercussions from the European sovereign debt crisis and its effects on the financial and capital markets, and provided the real estate markets continue to stabilise, the Managing Board expects WestImmo to develop positively in 2012 and 2013.

If the existing business is cut back further than expected and net interest income declines at an above-average rate, profitability might only be able to be assured by cutting costs.

Mainz, 12 March 2012



Dr. Peter Knopp



Claus-Jürgen Cohausz



Rainer Spielmann

Consolidated Financial Statements

as at 31 December 2011
in accordance with International Financial
Reporting Standards (IFRSs)

Westdeutsche ImmobilienBank AG

Consolidated Statement of Comprehensive Income

Income statement

	Note	1 1 – 31 12 2011 € million	1 1 – 31 12 2010 € million	Change € million	%
Interest (and similar income)		1,556.2	1,618.3	-62.1	-3.8
Interest (and similar expense)		1,336.7	1,379.4	-42.7	-3.1
Net interest income	(4.1)	219.5	238.9	-19.4	-8.1
Allowance for losses on loans and advances	(4.2)	-42.4	-68.1	25.7	-37.7
Net interest income after allowance for losses on loans and advances		177.1	170.8	6.3	3.7
Fee and commission income		19.5	32.9	-13.4	-40.7
Fee and commission expense		16.0	21.7	-5.7	-26.3
Net fee and commission income	(4.3)	3.5	11.2	-7.7	-68.8
Net trading income	(4.4)	57.8	-5.6	63.4	>-100
Net income from non-current financial assets	(4.5)	-283.2	4.6	-287.8	>-100
Administrative expenses	(4.6)	85.8	89.5	-3.7	-4.1
Net other operating income and expenses	(4.7)	-36.6	7.7	-44.3	>-100
Profit before tax		-167.2	99.2	-266.4	>-100
Current income taxes	(4.8)	4.5	0.2	4.3	>100
Deferred taxes	(4.8)	-15.1	4.2	-19.3	>-100
Consolidated profit for the period		-156.6	94.8	-251.4	>-100
Of which					
– attributable to WestImmo shareholders		-157.1	94.4	-251.5	>-100
– attributable to non controlling interests		0.5	0.4	0.1	25.0

Reconciliation of consolidated profit for the period to total comprehensive income for the period

	Note	2011 € million	2010 € million	2010 € million
			After adjustments in accordance with IAS 8 ¹	Before adjustments in accordance with IAS 8
Consolidated profit for the period		-156.6	94.8	94.8
Other comprehensive income		-27.6	-85.5	-85.5
Change in revaluation reserve (net of deferred taxes)	(6.26)	-28.7	-86.1	-86.1
Unrealised gain or loss on available-for-sale financial assets		-243.5	-125.4	-127.0
Gain on disposal of available-for-sale financial assets transferred to income statement		28.1	-0.8	0.8
Net income from permanent impairment losses or reversals of impairment losses on available-for-sale financial assets transferred to income statement		243.8	0.0	0.0
Deferred taxes relating to change in revaluation reserve		-57.1	40.1	40.1
Change in the currency translation reserve (net of deferred taxes)	(6.26)	-0.1	2.2	2.2
Unrealised currency translation differences		-0.1	2.2	2.2
Currency translation differences transferred to income statement		0.0	0.0	0.0
Deferred taxes relating to change in currency translation reserve		0.0	0.0	0.0
Change in actuarial gains and losses (net of deferred taxes)	(6.26)	1.2	-1.6	-1.6
Actuarial gains and losses		1.7	-3.2	-3.2
Deferred taxes relating to change in actuarial gains and losses		-0.5	1.6	1.6
Total comprehensive income		-184.2	9.3	9.3
Of which				
– attributable to WestImmo shareholders		-184.7	9.0	9.0
– attributable to non controlling interests		0.5	0.3	0.3

¹ Details on the adjustments in accordance with IAS 8 are contained in Note 2.4

The statement of comprehensive income as defined in IAS 1.81 is prepared according to the two statement approach (IAS 1.81b)

A loss on the sale of securities in the amount of €-28.1 million (previous year gain of €0.8 million) and impairment losses of €243.8 million on Greek government bonds (previous year €0.0 million) were transferred from the revaluation reserve before deferred taxes to the income statement in the reporting period

Consolidated Balance Sheet

Assets

	Note	31 Dec 2011 € million	31 Dec 2010 € million	Change € million	%
Cash and balances with central banks	(6 1)	91 7	81 9	9 8	12 0
Loans and advances to banks	(6 2)	821 5	880 5	-59 0	-6 7
Loans and advances to customers	(6 3)	17,958 2	20,375 2	-2,417 0	-11 9
Allowance for losses on loans and advances	(6 5)	-293 0	-295 5	2 5	-0 8
Financial assets held for trading	(6 6)	1,425 6	1 130 8	294 8	26 1
Positive fair values of derivative hedging instruments	(7 4)	322 6	193 7	128 9	66 5
Financial assets designated at fair value through profit or loss	(6 7)	218 7	324 6	-105 9	-32 6
Non-current financial assets	(6 8)	2 253 2	2,596 5	-343 3	-13 2
Property and equipment	(6 10)	2 6	3 3	-0 7	-21 2
Intangible assets	(6 11)	2 1	3 1	-1 0	-32 3
Tax receivables	(6 13)	606 7	481 0	125 7	26 1
Other assets	(6 14)	305 5	101 4	204 1	>100
Non current assets held for sale	(6 15)	0 0	11 4	-11 4	-100 0
Total assets		23,715 4	25,887 9	-2,172 5	-8 4

Equity and Liabilities

	Note	31 Dec 2011 € million	31 Dec 2010 € million	Change € million	%
Deposits from banks	(6 16)	3,246 0	5 319 6	-2 073 6	-39 0
Deposits from customers	(6 17)	6,763 0	6 953 7	-190 7	-2 7
Securitized liabilities	(6 18)	8 134 3	8,196 4	-62 1	-0 8
Financial liabilities held for trading	(6 19)	1 317 6	990 2	327 4	33 1
Negative fair values of derivative hedging instruments	(7 4)	267 2	261 6	5 6	2 1
Liability recognised for fair value changes of hedged items in portfolio hedge of interest rate risk	(6 20)	0 5	0 7	-0 2	-28 6
Financial liabilities designated at fair value through profit or loss	(6 21)	2,083 6	2,243 2	-159 6	-7 1
Provisions	(6 22)	73 4	72 8	0 6	0 8
Tax liabilities	(6 23)	597 6	421 3	176 3	41 8
Other liabilities	(6 24)	63 9	111 5	-47 6	-42 7
Subordinated capital	(6 25)	294 3	460 3	-166 0	-36 1
Non current liabilities associated with non-current assets held for sale	(6 15)	0 0	1 6	-1 6	-100 0
Equity	(6 26)	874 0	855 0	19 0	2 2
- Subscribed capital		400 0	400 0	0 0	0 0
- Capital reserves		443 4	443 4	0 0	0 0
- Retained earnings		217 3	171 2	46 1	26 9
- Revaluation reserve		-191 3	-162 6	-28 7	17 7
- Actuarial gains and losses on pension obligations		3 3	2 1	1 2	57 1
- Currency translation reserve		3 7	3 8	-0 1	-2 6
Total equity		876 4	857 9	18 5	2 2
- Non-controlling interests		-2 4	-2 9	0 5	-17 2
Total equity and liabilities		23,715 4	25,887 9	-2,172 5	-8 4

Changes in Equity

Statement of changes in equity

€ million	Equity attributable to shareholders of the parent company			
	Subscribed capital	Capital reserves	Retained earnings	Revaluation reserve (A/S financial instruments)
Equity as at 1 January 2010	400 0	443 4	137 0	-76 5
Consolidated profit for the period	0 0	0 0	94 4	0 0
Other comprehensive income	0 0	0 0	0 0	-86 1
Total comprehensive income for the period	0 0	0 0	94 4	-86 1
Distribution to shareholders	0 0	0 0	-59 6	0 0
Other changes in equity	0 0	0 0	-0 6	0 0
Equity as at 31 December 2010	400 0	443 4	171 2	-162 6
Consolidated loss	0 0	0 0	-157 1	0 0
Other comprehensive income	0 0	0 0	0 0	-28 7
Total comprehensive income for the period	0 0	0 0	-157 1	-28 7
Changes in basis of consolidation	0 0	0 0	0 0	0 0
Loss absorption by the owner	0 0	0 0	203 2	0 0
Other changes in equity	0 0	0 0	0 0	0 0
Equity as at 31 December 2011	400 0	443 4	217 3	-191 3

Actuarial gains and losses on pension obligations	Currency translation reserve	Total	Non-controlling interests	Total equity
3 6	1 6	909 1	-3 2	905 9
0 0	0 0	94 4	0 4	94 8
-1 5	2 2	-85 4	-0 1	-85 5
-1 5	2 2	9 0	0 3	9 3
0 0	0 0	-59 6	0 0	-59 6
0 0	0 0	-0 6	0 0	-0 6
2 1	3 8	857 9	-2 9	855 0
0 0	0 0	-157 1	0 5	-156 6
1 2	-0 1	-27 6	0 0	-27 6
1 2	-0 1	-184 7	0 5	-184 2
0 0	0 0	0 0	0 0	0 0
0 0	0 0	203 2	0 0	203 2
0 0	0 0	0 0	0 0	0 0
3 3	3 7	876 4	-2 4	874 0

Cash Flow Statement

	2011 € million	2010 € million
Consolidated profit for the period	-156.6	94.8
Adjustments for non-cash items included in profit and reconciliation to cash flow from operating activities		
Depreciation, amortisation, impairment losses and reversals of impairment losses on receivables and additions to provisions for credit risks	45.7	70.9
Depreciation, amortisation and impairment losses net of reversals of impairment losses on		
– Property and equipment	0.9	1.5
– Non-current financial assets	171.4	-19.5
– Intangible assets	1.6	2.0
Change in other non-cash items	-61.6	32.2
Gain on disposal of non-current assets (net)	28.1	-3.7
Other adjustments (primarily income taxes paid, interest received less interest paid and dividends received)	-219.3	-250.8
Subtotal	-189.8	-72.6
Change in working capital after adjustment for non-cash transactions		
Loans and advances to banks	60.5	-188.2
Loans and advances to customers	2,380.1	761.0
Financial assets held for trading	-112.0	-156.7
Financial assets and liabilities designated at fair value through profit or loss	-167.1	147.0
Other operating assets	-119.4	-60.0
Deposits from banks	-2,077.4	-1,204.3
Deposits from customers	-192.5	86.3
Securitised liabilities	-65.3	6.5
Financial liabilities held for trading	327.5	133.3
Other operating liabilities	1.8	46.6
Income taxes paid	0.0	0.1
Interest received	1,538.0	1,616.0
Interest paid	-1,323.1	-1,368.1
Dividends received	3.1	1.2
Cash flows from operating activities	64.4	-251.9
Proceeds from disposal of		
– Property and equipment	0.0	0.0
– Non-current financial assets	317.4	438.0
– Intangible assets	0.4	0.0
Payments to acquire		
– Property and equipment	-0.3	-1.5
– Non-current financial assets	-147.3	-46.2
– Intangible assets	-1.0	-0.7
Proceeds from disposal of consolidated subsidiaries and other business units	0.5	10.0
Cash flows from investing activities	169.7	399.6
Payments to owner and minority shareholders		
– Dividends paid	-59.6	-69.5
Change in cash and cash equivalents from subordinated capital	-166.0	-20.0
Cash flows from financing activities	-225.6	-89.5
Cash and cash equivalents at end of prior period	81.9	22.2
Cash flows from operating activities	64.4	-251.9
Cash flows from investing activities	169.7	399.6
Cash flows from financing activities	-225.6	-89.5
Change in cash and cash equivalents from exchange rate movements	1.3	1.5
Cash and cash equivalents at end of period	91.7	81.9

The cash flow statement shows the composition of and changes in cash and cash equivalents during the fiscal year. Cash flows are classified by operating, investing and financing activities. The cash flow statement for the operating activities was prepared using the indirect method and in accordance with IAS 7.

The reported cash and cash equivalents correspond to the "cash and balances with central banks" balance sheet item (Note 6.1) and only comprise balances with central banks.

Cash flows from operating activities primarily comprise payment transactions (inflows and outflows) relating to receivables and liabilities, portfolios designated at fair value through profit or loss and other assets and liabilities. Interest and dividends received as well as interest and income taxes paid are also reported in cash flows from operating activities.

In addition to proceeds from the disposal of and/or payments to acquire non-current financial assets, property and equipment, and intangible assets, cash flows from investing activities comprise proceeds from the sale of consolidated companies. The Bank's shares in FEN Fachmarktzentrum ehem. Eisstadion Nürnberg GmbH & Co. KG, which was previously included using the equity method, were sold in the fiscal year.

In addition to cash payments to the owner, cash flows from financing activities comprise proceeds from and payments to acquire subordinated capital. In 2011, cash flows from financing activities reflected the cash outflow from the distribution to the owner in the amount of €59.6 million (previous year: €69.5 million).

The decision-usefulness of the cash flow statement for banks must be regarded as low because the cash flow statement does not replace liquidity or financial planning and is not used as a control instrument. Please refer to the disclosures in the Risk Report contained in the Management Report for information on liquidity risk management in the Westdeutsche ImmobilienBank Group.

Notes

1. Basis of presentation

Westdeutsche ImmobilienBank AG (WestImmo) is an *Aktiengesellschaft* (German stock corporation) in accordance with German law, its headquarters are located at Große Bleiche 46, in 55116 Mainz. WestImmo is the centre of competence for real estate finance and structured real estate transactions within the WestLB Group. It is a specialist bank and a wholly owned subsidiary of WestLB AG.

The consolidated financial statements of WestImmo as at 31 December 2011 were prepared in accordance with International Financial Reporting Standards (IFRSs) and the supplementary provisions of German commercial law required to be applied under section 315a (1) of the *Handelsgesetzbuch* (HGB – German Commercial Code) on the basis of Regulation (EC) No. 1606/2002 of the European Parliament and the Council of 19 July 2002 (IAS Regulation). WestImmo only uses the IFRSs endorsed by the EU. It does not elect to apply early standards that have been adopted but are not yet required to be applied.

The standards and interpretations published collectively as the IFRSs by the International Accounting Standards Board (IASB) comprise the International Financial Reporting Standards (IFRSs), International Accounting Standards (IASs) and their Interpretations by the former Standing Interpretations Committee (SIC) and the International Financial Reporting Interpretations Committee (IFRIC).

The consolidated financial statements comprise the consolidated Statement of Comprehensive Income, the consolidated Balance Sheet, the Statement of Changes in Equity, the Cash Flow Statement, the Notes and the Segment Reporting contained in the Notes. The Group Management Report that must also be prepared in accordance with section 315a of the HGB in conjunction with section 315 of the HGB also contains the report on the risks and opportunities of future development (Risk Report). The consolidated financial statements are published by the operator of the electronic *Bundesanzeiger* (German Federal Gazette – www.ebundesanzeiger.de) in accordance with sections 325 and 328 of the HGB.

WestImmo's financial reporting is based on uniform Group accounting policies. The reporting currency of the consolidated financial statements is the euro, and the reporting year is the calendar year.

2 General Accounting Policies

2.1 Accounting pronouncements applied

The consolidated financial statements as at 31 December 2011 are based on the IASB Framework and the following IASs/IFRSs

IAS 1	Presentation of Financial Statements
IAS 2	Inventories
IAS 7	Cash Flow Statements
IAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
IAS 10	Events after the Balance Sheet Date
IAS 11	Construction Contracts
IAS 12	Income Taxes
IAS 16	Property, Plant and Equipment
IAS 17	Leases
IAS 18	Revenue
IAS 19	Employee Benefits
IAS 21	The Effects of Changes in Foreign Exchange Rates
IAS 23	Borrowing Costs
IAS 24	Related Party Disclosures
IAS 27	Consolidated and Separate Financial Statements
IAS 28	Investments in Associates
IAS 31	Interests in Joint Ventures
IAS 32	Financial Instruments: Presentation
IAS 36	Impairment of Assets
IAS 37	Provisions, Contingent Liabilities and Contingent Assets
IAS 38	Intangible Assets
IAS 39	Financial Instruments: Recognition and Measurement
IAS 40	Investment Property
IFRS 3	Business Combinations
IFRS 5	Non-current Assets Held for Sale and Discontinued Operations
IFRS 7	Financial Instruments: Disclosures
IFRS 8	Operating Segments

The following standards were not applied because they are not relevant for Westimmo: IAS 20, 26, 29, 33, 34, 41 and IFRS 1, 2, 4 and 6

The section below provides details of selected amendments to standards or new standards that could have an effect on accounting from today's perspective

On 12 November 2009, the International Accounting Standards Board (IASB) issued IFRS 9, a new standard on the classification and measurement of financial instruments. The publication the completion for the time being of the first stage of the three-stage project to replace IAS 39. On 28 October 2010, the IASB re-issued IFRS 9 *Financial Instruments*. This includes the new provisions governing accounting for financial liabilities and incorporates the provisions for the derecognition of financial assets and liabilities previously contained in IAS 39. The other phases of the IASB's comprehensive project to replace IAS 39 (impairment of financial assets measured at amortised cost and hedge accounting) are currently still in exposure draft status. The "Offsetting Financial Assets and Financial Liabilities" project was completed on 16 December 2011 with amendments to IAS 32 and IFRS 7. On 16 December 2011, the IASB published an amendment to the mandatory effective date and information on transition (amendments to IFRS 9 and IFRS 7) leading to a change in the effective date for IFRS 9

to fiscal years beginning on or after 1 January 2015. Additionally, the simplification options regarding comparative figures and related disclosures were amended in IFRS 7. The new standards is only likely to be adopted by the EU once the entire IFRS 9 standard has been completed. The effects on Westlmmo's accounting practices of the replacement of IAS 39 are currently still being examined.

In May 2011, the IASB published IFRS 10–12 on consolidated financial statements, joint arrangements and the disclosure of interests in other entities. The new standards are required to be applied for fiscal years beginning on or after 1 January 2013. They have not yet been endorsed by the EU. The potential effects on Westlmmo's consolidated financial reporting are currently being examined. IFRS 13 *Fair Value Measurement* was also resolved in May 2011. This standard is also required to be applied for fiscal years beginning on or after 1 January 2013. Endorsement by the EU is still outstanding and is expected for the third quarter of 2012, a quarter earlier than for IFRS 10–12. No material changes to consolidated financial reporting are expected from the entry into force of IFRS 13. The standard-setter published amendments to IFRS 7, IAS 32/IFRS 7, IAS 1, IAS 12, IAS 19, IAS 27 and IAS 28 in the course of 2011. These amendments have yet to be endorsed by the EU. No material effects on Westlmmo's accounting practices are expected.

Annual improvements process 2010

The annual improvements process 2010 made amendments to six standards and one interpretation. The amended IFRS 7 was simplified by removing the requirement for disclosures on the maximum exposure to credit risk and on the carrying amounts of financial assets whose terms have been renegotiated. It also provides for changes in the disclosures describing the collateral and other credit enhancements held by entities. The amended IFRS 7 is required to be applied retrospectively for fiscal years beginning on or after 1 January 2011. Changes were made in the year under review to the presentation and verbal disclosures contained in Note 7.8 "Collateral received for financial instruments" and Note 7.10 "Exposure to default risk from financial instruments".

The amendments to IAS 1 include the abolition of the requirement to present a reconciliation of the beginning and ending balances for all components of other comprehensive income in the statement of changes in equity. The information can now be provided alternatively in the Notes. The amendments are required to be applied retrospectively for fiscal years beginning on or after 1 January 2011. No further adjustments had to be made in the year under review due to the changes in presentation already made in the financial statements for 2010.

Any other new pronouncements by the IASB or the IFRIC not cited separately are not relevant or are not required to be applied at present, they are also unlikely to have a significant effect on future financial statements.

2.2 Changes in presentation and accounting policies

The same accounting policies were applied in preparing the consolidated financial statements and comparative figures for the prior-year period as were applied in the consolidated financial statements as at 31 December 2010, unless any changes were required due to the initial application of standards and interpretations. For details of planned or implemented amendments to existing accounting pronouncements and their effects for the Bank, see Note 2.1 "Accounting pronouncements applied".

Mathematical rounding rules have been applied to the preparation of the amounts presented in these financial statements. In certain cases, this may result in rounding differences affecting amounts presented in more than one table.

To enhance transparency for users of these financial statements, individual sections in the Notes have been regrouped and the changes in presentation described below have been made:

■ Net trading income

For reasons of practicality and to improve presentation, we have combined the line items "Net income/loss from the sale of trading portfolios" and "Net income from the measurement of trading portfolios" in Note 4.4 "Net trading income" into a single line item, "Net income/loss from trading portfolios". In addition, we aggregated the presentation of the line items "Net income/loss from the sale of financial instruments designated as at fair value through profit or loss" and "Net income/loss from the measurement of financial instruments designated as at fair value through profit or loss" into a single line item, "Net income/loss from financial instruments designated as at fair value through profit or loss".

■ Exposure to default risk from financial instruments

The presentation of Note 7.8 "Collateral received for financial instruments" and Note 7.10 "Exposure to default risk from financial instruments" was changed on the basis of the AIP Project 2010.

■ Derivative financial instruments (maturity structure of derivatives)

Currency forwards as at 31 December 2010 were presented on the basis of their fair values (other derivatives). These are now presented in Note 7.3 "Derivative financial instruments" using the gross settlement amount on the basis of undiscounted cash flows (cross-currency swaps, currency forwards). As at 31 December 2010, both the positive and the negative fair values of the currency forwards across all maturity bands amounted to €0.5 million.

2.3 Items accounted for in accordance with IFRS 5

Management decided in October 2009 to sell the agriculture portfolio, which was not regarded as strategic. The agricultural portfolio comprises loans to agricultural companies that were previously part of the Investors segment. €1.8 million of the agricultural portfolio of €12.4 million as at 1 January 2011 was sold in 2011.

Due to the changed economic environment, the conditions for separate presentation in accordance with IFRS 5 were no longer met in the second quarter of 2011. As a result, amounts contained in the "Loans and advances to customers", "Deposits from banks" and "Deposits from customers" balance sheet line items that had previously been reported separately had to be reclassified as at 30 June 2011. There were no effects on profit or loss in the current or previous reporting periods.

There were no items still accounted for in accordance with IFRS 5 as at 31 December 2011.

2.4. Adjustments

The accompanying financial statements include adjustments to prior-year figures as compared with 31 December 2010.

The changes made are described in the following:

- **Reconciliation of consolidated profit for the period to total comprehensive income for the period**
The unrealised gain/loss on available-for-sale financial assets disclosed as at 31 December 2010 increased by €1.6 million due to the incorrect allocation of effects from non-current financial assets. The gain/loss on the sale of available-for-sale financial assets transferred to profit or loss was reduced by a corresponding amount.
- **Allowance for losses on loans and advances**
The presentation of the allowance for losses on loans and advances (Note 6.5) did not previously disclose the allowances for each separate allowance account. The presentation was adjusted accordingly.
- **Collateral received for financial instruments**
Collateral received for financial instruments in connection with derivatives transactions was not included as at 31 December 2010. A correction was made in the amount of €91.1 million.

Furthermore, assets of €106.1 million held as collateral for contingent liabilities in the previous year were not included. A correction was made in the corresponding amount.

■ Collateral transferred for own liabilities

The disclosures on financial assets transferred as collateral were extended in 2011. This resulted in the need for adjustments with regard to the amounts published as at 31 December 2010.

Assigned receivables relating to global loans from KfW in the amount of € 221.0 million were required to be recognised as at 31 December 2010. In this context, deposits from banks also had to be adjusted by € 200.0 million.

Additionally, assigned loan receivables relating to open market transactions with Deutsche Bundesbank in the amount of € 251.4 million and cash collateral transferred in connection with OTC derivatives transactions in the amount of € 423.4 million had to be recognised for the first time as at 31 December 2010. Furthermore, negative fair values of OTC derivatives in the amount of € 357.5 million were backed by cash collateral for OTC derivatives as at 31 December 2010. In addition, the receivables secured by mortgages, public sector loans, bonds, and bank deposit receivables contained in the cover pool were reported as collateral transferred for the first time in fiscal year 2011. The nominal amount of the cover assets as at 31 December 2010 was € 12,701.3 million, while the nominal amount of mortgage and public sector Pfandbriefe outstanding was € 10,573.8 million.

■ Derivative financial instruments (maturity structure of derivatives)

The presentation in the "maturity structure of derivatives" section of Note 7.3 "Derivative financial instruments" of derivatives whose cash flows are settled gross (cross-currency swaps, currency forwards) was amended. Cash inflows and outflows were previously presented as net amounts, but are now shown gross.

■ Related party disclosures

No disclosures on sureties or guarantees issued in respect of equity investments and unconsolidated affiliated companies were made as at 31 December 2010. The correct figure is € 5.0 million.

2.5 Accounting estimates and assumptions

In certain circumstances, the application of IFRSs requires management to make estimates and assumptions, as well as to exercise judgments, that are based on subjective assessments of future developments and inevitably entail forecast uncertainty. Actual future results may differ from estimates even though WestImmo has used available information, historical experience and other assessment factors when making such estimates. This may have a not insignificant effect on the net assets, financial position and results of operations.

Estimates, assumptions and judgments are primarily required in

- Determining the fair value of certain derivatives and other financial instruments, particularly structured financial instruments,
- Measuring the allowance for losses on loans and advances (impairment),
- Calculating deferred taxes,
- Calculating pension and other provisions,

The estimates, assumptions and judgments as well as the underlying assessment factors and estimation techniques are regularly reviewed and compared with actual results. The following estimates had to be adjusted in fiscal year 2011 due to changes in market conditions:

- **Measurement spreads for own liabilities measured at fair value**
The general widening of spreads and the recent downgrading of the Bank by Standard & Poor's make it necessary to increase these spreads. The change in measurement led to a gain of €33.0 million being reported in net trading income.
- **Model reserve for measuring derivative financial instruments on the basis of the Overnight Index Swap (OIS) curve**
As at the reporting date of 31 December 2011, a decision was taken to establish a model reserve for the measurement of derivative financial instruments for which a collateral agreement with the counterparties exists in the context of measurements made on the basis of the Overnight Index Swap discount rate. This model reserve resulted in an expense of €3.8 million being reported in net trading income.
- **Adjustment to the measurement of currency derivatives**
To date, currency derivatives were measured using a risk-free yield curve, in the same way as interest rate derivatives. However, currency derivatives are traded at a premium/discount to the swap rate (currency basis spread). In the past, this did not result in any material effects during measurement. Since the currency basis spread for certain currencies widened significantly in the second half of 2011 in particular, the yield curves used to measure currency derivatives were adjusted accordingly to include premiums/discounts. This adjustment led to a gain of €63.5 million being reported in net trading income at the time the change was made in the second half of the year.

WestImmo believes the parameters used to be appropriate and reasonable.

2.6 Consolidation principles and consolidated Group

Subsidiaries, i.e. companies in which Westlmmo holds more than one half of the voting rights either directly or indirectly or in relation to which it otherwise has the power to govern the financial and operating policies within the meaning of IAS 27 in conjunction with SIC 12, are included in the consolidated Group. The existence and effect of potential voting rights that could be exercised or converted at the balance sheet date are also taken into account in determining whether Westlmmo has control over another company in this sense.

Subsidiaries are initially consolidated from the date on which Westlmmo obtains the power to control the acquiree. A company is deconsolidated as soon as Westlmmo loses the power to control it.

Acquisition accounting uses the purchase method. The cost of the acquiree is eliminated against the Group's share of the acquiree's revalued equity at the acquisition date. This equity is the residual of the acquiree's assets and liabilities measured at fair value at the date of initial consolidation. In subsequent periods, the realised hidden reserves and hidden liabilities are treated in accordance with the applicable Standards. Any excess of cost over the acquirer's share of the acquiree's revalued equity must be reported as goodwill under intangible assets in the balance sheet. Goodwill from associates is reported in non-current financial assets in the balance sheet. Under IAS 36, goodwill is not amortised but is tested for impairment at least once a year in the same way as carrying amounts, on the basis of cash-generating units.

Receivables and liabilities as well as income and expenses from transactions between Group companies are eliminated as part of the consolidation of intercompany balances or the consolidation of income and expenses respectively. Intercompany profits between the consolidated companies are also eliminated.

Subsidiaries whose fiscal year differs from that of Westlmmo are consolidated in accordance with IAS 27/23 taking into account the significant transactions with a different date of up to three months from Westlmmo's reporting date. WIB Real Estate Finance Japan K.K., Tokyo is included in Westlmmo's IFRS consolidated financial statements with a reporting date of 30 November. The different reporting date for the single-entity financial statements of WIB Real Estate Finance Japan K.K., Tokyo was chosen due to country-specific factors.

Associates are included in the consolidated financial statements using the equity method. These companies are reported under non-current financial assets. If a company accounted for using the equity method uses accounting policies other than those of the investor, adjustments are made in a separate account to reflect IFRS Group accounting requirements.

The subsidiaries and associates included in the consolidated financial statements as well as the companies not included due to insignificance can be found in the list of shareholdings.

The minority interest in the equity of subsidiaries that is not attributable to the parent is reported as non-controlling interests in the Group's equity

In accordance with IAS 39, other investees are reported at fair value or, if this cannot be reliably determined, at cost under non-current financial assets

The following subsidiaries and associates were included in WestImmo's consolidated financial statements as at 31 December 2011

Subsidiaries in accordance with IAS 27

Westdeutsche ImmobilienHolding GmbH, Mainz
WestGKA Management Gesellschaft für kommunale Anlagen mbH, Düsseldorf
WestProject & Consult Gesellschaft für Projektentwicklung und Consulting mbH, Düsseldorf
WIB Real Estate Finance Japan K.K., Tokyo, Japan
WMO Erste Entwicklungsgesellschaft mbH & Co. KG, Bonn

Associates accounted for using the equity method

EMG Projekt Gewerbepark Ludwigsfelde/Lowenbruch GmbH, Berlin (EMG GmbH)

The Wire 2008-1 GmbH subsidiary and the FEN Fachmarktzentrum ehem. Eisstadion Nürnberg GmbH & Co. KG joint venture were removed from the basis of consolidation in fiscal year 2011. WIRE 2008-1 GmbH is a special purpose entity that was established in 2008 to refinance real estate loans using securitisation transactions. This special purpose entity is being dissolved following completion of the refinancing transaction as at 22 March 2011. The FEN Fachmarktzentrum ehem. Eisstadion Nürnberg GmbH & Co. KG joint venture, which was previously accounted for in the consolidated financial statements using the equity method and which is domiciled in Berlin, was sold on 5 August 2011.

The following disclosures in accordance with IAS 28/37ff. relate to the associate accounted for using the equity method

EMG GmbH 47.50%	31 Dec 2010 € million	31 Dec 2009 € million
Assets*	7.9	11.2
Liabilities	7.4	11.2
Income	4.5	1.6
Profit for the period	1.4	0.5

* Assets correspond to total assets

There was no cumulative share of losses of companies accounted for using the equity method as at 31 December 2011 (previous year: €0.5 million)

There were no contingencies and commitments resulting from obligations entered into jointly

2.7 Currency translation

Monetary assets and liabilities denominated in foreign currency, non-monetary assets measured at fair value, and open foreign currency cash contracts are translated at the ECB reference rates as at 30 December 2011 (last trading day), open currency forwards are translated at the forward rate at the same date. Non-monetary items measured at cost are recognised at historical exchange rates. Income and expenses denominated in foreign currency were translated at the closing rate valid at the end of the relevant month.

Exchange rate differences are reflected in the income statement, in the case of non-monetary assets, unrealised exchange rate differences form part of the change in the overall fair value and are recognised in the same way.

In the case of subsidiaries and branches that do not prepare their financial statements in euros, balance sheet items are translated at the ECB reference rates as at 30 December 2011. In the case of consolidated subsidiaries, income statement items are translated at the average rate calculated from the ECB reference rates. Equity is translated at the respective historical ECB reference rate.

A currency translation reserve is reported in equity. This reserve contains currency translation differences in accordance with IAS 21 that arose for a foreign subsidiary in the course of consolidation.

2.8 Financial instruments

a) Application of IFRS 7 – Financial Instruments

The disclosure requirements under IFRS 7 enable users of the financial statements to better evaluate the following:

- The significance of financial instruments for the entity's net assets, financial position and performance,
- The nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the reporting date, and how the entity manages those risks.

The disclosures in the Risk Report supplement the descriptions of the type and extent of risks arising from financial instruments in the Notes. In accordance with the Bank's business structure, the categories of financial instruments comprise the balance sheet items as well as financial guarantee contracts and irrevocable loan commitments.

Each financial instrument measured at fair value in the balance sheet is allocated to a particular level in the fair value hierarchy. Moreover, a statement of changes shows the reclassifications between the levels. In addition, maturity analyses are presented for financial instruments.

b) Financial instruments in accordance with IAS 39

The following section explains the categories used in accordance with IAS 39 to measure the Bank's financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Under IAS 39, all assets and liabilities (including all derivative financial instruments) must be recognised in the balance sheet, allocated to one of the following measurement categories and measured in accordance with this classification

- Financial assets and financial liabilities at fair value through profit or loss (FA/FLaFVtPL), broken down into
 - Financial assets and liabilities held for trading (HfT)
 - Financial assets and liabilities designated at fair value through profit or loss upon initial recognition (DuiR)
- Loans and receivables (LaR)
- Held-to-maturity (HtM) financial assets
- Available-for-sale (AFS) financial assets
- Financial liabilities measured at amortised cost (FLAC)

Financial assets and liabilities held for trading (FA/FLaFVtPL – HfT)

Financial instruments on both the assets and liabilities side may be classified as held for trading (HfT). All hedging derivatives that are used in internal risk management but do not qualify for hedge accounting in accordance with IAS 39 are reported at their positive or negative fair values under financial assets and liabilities held for trading. In addition, loans subject to syndication requirements are reported under financial assets held for trading.

Financial assets and liabilities held for trading are measured at fair value, measurement gains or losses are recognised in the income statement. Where available, (quoted) market prices are used for measurement. If (quoted) market prices do not exist or cannot be reliably determined, the fair values are determined on the basis of recognised valuation techniques.

All income components from HfT assets and liabilities resulting from measurement are reported in net trading income. Current interest and interest-related measurement components such as the amortisation of upfront payments and pull-to-par effects are presented in net interest income. All other interest-related measurement components are reported in net trading income. Fee and commission income and expense related to HfT assets and liabilities are reported in net fee and commission income.

Financial assets and liabilities designated at fair value through profit or loss (FA/FLaFVtPL – DuIR)

Financial assets and financial liabilities designated upon initial recognition at fair value through profit or loss are measured at fair value

The fair value option allows any financial instrument to be designated upon initial recognition at fair value through profit or loss (DuIR) provided certain criteria are met. The decision to use the fair value option must be taken irrevocably on initial recognition of the financial instrument.

The fair value option may generally be used in accordance with IAS 39 in the case of the following

- Material recognition or measurement inconsistencies resulting from mixed model accounting in accordance with IAS 39
- Groups of financial assets and/or liabilities that are managed together on a portfolio basis and whose performance is evaluated on a fair value basis as part of risk management and internal reporting
- Structured financial instruments that contain embedded derivatives that must be separated

In WestImmo's case, the fair value option is primarily used to avoid or significantly reduce measurement inconsistencies

Financial instruments designated at fair value through profit or loss are initially measured and also subsequently measured at fair value. Where available, (quoted) market prices are used for measurement. Insofar as (quoted) market prices do not exist or cannot be reliably determined, the fair values are determined on the basis of recognised valuation techniques.

Measurement gains or losses on financial instruments designated at fair value through profit or loss are reported in net trading income. However, current interest and dividends on these financial instruments are recognised in net interest income. In the balance sheet, these instruments are reported in "financial assets designated at fair value through profit or loss" or "financial liabilities designated at fair value through profit or loss".

An internal method based on rating changes is used to determine changes in value due to changes in credit quality.

Loans and receivables (LaR)

Loans and receivables are non-derivative financial instruments with fixed or determinable payments, provided that there is no active market for them on initial recognition.

Financial instruments classified as LaR are reported in the "loans and advances to banks" and "loans and advances to customers" balance sheet items, they are carried at amortised cost unless they are the hedged items in a recognised micro fair value hedge. Premiums and discounts are amortised over their term in proportion to the effective interest rate and recognised in net interest income. The allowance for losses on loans and advances is reported separately. Any reversals of impairment losses are recognised by adjusting the allowance for losses on loans and advances.

Held-to-maturity (HtM) financial assets

Non-derivative financial assets with fixed or determinable payments and fixed terms may be classified as HtM provided that the holder has the positive intention and ability to hold the assets until maturity. WestImmo does not use the HtM category.

Available-for-sale (AfS) financial assets and investment property

The AfS category comprises all non-derivative financial assets that have not been allocated to any of the above-mentioned categories. AfS financial assets are reported under non-current financial assets.

AfS financial instruments are measured at fair value on initial recognition, including transaction costs. The fair value on initial recognition usually corresponds to the transaction price. AfS financial instruments are subsequently measured at fair value. Investments in equity instruments whose fair value cannot be reliably determined are measured at cost less any permanent impairment.

Measurement gains or losses are taken directly to a separate equity item (revaluation reserve) after adjustment for deferred taxes. If the financial asset is sold, the cumulative measurement gain or loss reported in the revaluation reserve is reversed and the total measurement gain or loss from the sale recognised in net income from non-current financial assets.

Permanent impairment, gains or losses on disposal and from assets that have fallen due are recognised directly in net income from non-current financial assets. If the reasons for impairment no longer apply, the impairment loss on interest rate products is reversed through profit or loss up to a maximum of amortised cost. Any amount in excess of this must be recognised in the revaluation reserve. By contrast, reversals of impairment losses on equity instruments measured at fair value are taken directly to equity. If a negative revaluation reserve has already been established prior to impairment losses being charged, this must be recognised in the income statement. Premiums or discounts are amortised to profit or loss over their term using the effective interest method and recognised in net interest income.

Shares and other non-fixed-income securities are reported under non-current financial assets. The "shares and other non-fixed-income securities" item comprises units in investment funds and debt-to-equity swaps.

In addition, other investees (comprising the shares in affiliated unconsolidated companies) and investment properties acquired as a result of the realisation of collateral are reported under non-current financial assets. In accordance with IAS 40, investment property is measured at cost at the acquisition date, including any directly attributable transaction costs. Fair values are subsequently calculated using the *Ertragswertverfahren* (income approach) on the basis of annually updated appraisals by real estate experts. Income and expenses from investment property are recognised in net income from non-current financial assets.

Financial liabilities measured at amortised cost (FLAC)

This category comprises all financial liabilities that are neither held for trading nor accounted for as financial liabilities designated at fair value through profit or loss

These liabilities are carried at amortised cost unless they are the hedged items in a recognised micro fair value hedge. Premiums or discounts are amortised to profit or loss over their term using the effective interest method and reported in net interest income

c) Embedded derivatives

IAS 39 also governs the accounting treatment of derivatives that are embedded in primary financial instruments or related to these (embedded derivatives). These structures are also referred to as hybrid financial instruments

Under IAS 39, embedded derivatives must be recognised at fair value provided that they are derivatives within the meaning of IAS 39 and their economic characteristics and risks are not closely related to those of the host contract. To this end, either the entire hybrid financial instrument must be recognised at fair value in profit or loss (classification as HFT or use of the fair value option), or the derivative must be separated from the host contract and recognised separately as a stand-alone derivative at fair value (separation requirement)

In the event of separation, the embedded derivative is regarded as part of the trading portfolio, while the host contract is accounted for in accordance with the requirements for the relevant category of financial instrument

If the economic characteristics and risks of the embedded derivative are closely related to those of the host contract, the derivative is not separated and the hybrid financial instrument is recognised in accordance with the general requirements

Embedded derivatives at WestImmo take the form of call and put options under structured issues. An assessment as to whether an embedded derivative exists is made on initial recognition of a financial instrument. A fresh assessment is made in the event of significant changes to the contract

d) Repurchase agreements and securities lending

Repurchase (repo) agreements and reverse repo agreements are combinations of spot purchases or sales of securities and a simultaneous forward sale or repurchase with the same counterparty. Securities purchased with a commitment to sell (reverse repo agreements) and securities sold with a commitment to repurchase (repo agreements) are usually regarded as collateralised financial transactions

Securities sold under repo agreements (spot sale) continue to be included in the existing category in the securities portfolio in Westlmmo's consolidated balance sheet, as the substantial risks and rewards incidental to ownership (primarily market risk) have not been transferred. The cash contribution received under the repo agreement, including accrued interest, is recognised as a liability.

Under reverse repo agreements, a corresponding receivable is recognised including accrued interest. The securities purchased under reverse repo agreements (spot purchase), on which the cash transaction is based, are not recognised in the balance sheet.

Securities lending transactions are accounted for in the same way as securities purchased or sold under repo agreements and reverse repo agreements. Loaned securities continue to be included in the securities portfolio, borrowed securities, however, are not recognised in the balance sheet. Cash collateral provided by Westlmmo for securities repurchase agreements is reported as a receivable and cash collateral received as a liability.

The securities are measured and any gains or losses are reported in accordance with the classification under IAS 39.

At present, Westlmmo has exclusively entered into securities repurchase agreements.

Securities repurchase agreements are entered into as a matter of principle using standardised master agreements. Under these standard master agreements, transferred securities may be resold or repledged by the recipient during the term. Only when returning the transferred securities must the recipient of the securities warrant that the rights evidenced by them are free of any third-party rights. The transferor is entitled to all interest payments on the securities.

e) Hedge accounting

Westlmmo uses fair value hedge accounting on an individual transaction basis (micro hedges) to hedge interest rate risk relating to fixed-interest loans, available-for-sale fixed-income securities and fixed-interest liabilities. Certain requirements must be met in order to account for hedges in accordance with IAS 39, these requirements mean that hedge accounting may not be used for all economic hedging relationships. Portfolio hedge accounting was discontinued in November 2008 and the corresponding transactions were transferred to micro hedge accounting where possible. The remaining fair value changes to be amortised to profit or loss of hedged liability items that were previously allocated to portfolio fair value hedge accounting are reduced over the residual lives of the items. The amounts are recognised in the "liability recognised for fair value changes of hedged items in portfolio hedge of interest rate risk" item.

The relationship between the hedging instrument(s) and the hedged item(s), the entity's risk management objectives and strategies for undertaking the hedge and the methods used to measure the effectiveness of the hedging relationship are documented at the time of designation. In compliance with the established hedging strategy, an assessment is made at each balance sheet date as to whether the designated hedges are highly effective at offsetting the changes in the value of the hedged items. A hedge is only regarded as highly effective if the ratio of the fair value changes in the hedged item to

the fair value changes in the hedging instrument is within a range of 80 % to 125 %. A presumption is made as to the hedge's effectiveness both when the hedge is entered into and in subsequent periods (prospective effectiveness test). In addition, a retrospective effectiveness test is used to demonstrate effectiveness in past periods.

If hedging instruments are used to hedge interest rate risk from fixed-interest assets and liabilities under hedge accounting in accordance with IAS 39, they are reported separately at fair value in the balance sheet under "positive fair values of derivative hedging instruments" or "negative fair values of derivative hedging instruments", as appropriate. Derivatives that do not qualify for hedge accounting in accordance with IAS 39 remain in the balance sheet under "financial assets held for trading" or "financial liabilities held for trading".

In the case of fair value hedges, changes in the fair value of the hedging derivative and the hedged item relating to the hedged risk are recognised in net interest income and largely offset each other. In the case of micro hedges, the carrying amounts of the hedged items that are recognised at amortised cost without hedge accounting are adjusted in the amount of the changes in fair value relating to the hedged risk. Hedge accounting is discontinued in the following cases:

- The hedging instrument falls due or is sold, terminated, or exercised
- The hedged item matures, is sold, or is repaid early
- De-designation
- The hedge no longer meets the necessary criteria under IAS 39, in particular the effectiveness criteria

In the case of micro hedges, if a hedge is terminated without the disposal of the hedged item, the adjustment of the carrying amount of an interest-bearing hedged item that was made during the hedge is amortised to net interest income over the remaining term.

f) Valuation allowances and provisions for credit risks

WestImmo reflects identifiable risks in the lending business by recognising specific, collective and portfolio-based valuation allowances for loans and advances to customers and banks classified as LaR, and by recognising provisions. This ensures that all identifiable credit risks are covered. Valuation allowances are reported as a separate item on the asset side after loans and advances. Risks arising from contingent liabilities, irrevocable loan commitments and other financial obligations are recognised on the equity and liabilities side of the balance sheet in the form of provisions. Any specific valuation allowances required to be charged on foreign-currency receivables are also recognised in the relevant currency.

WestImmo uses objective indicators, such as a borrower's financial and economic situation or the fulfilment of interest and principal repayment obligations, to review on a case-by-case basis whether there are signs of credit-related impairment that suggest that the borrower may be unable to meet its payment obligations or may be unable to meet them in full. Loans must exhibit one or more trigger events (e.g. >45 days past due or insolvency) to qualify for impairment testing or for the determination of actual requirements.

The specific valuation allowances are calculated as the difference between the carrying amount of the receivable and the present value of estimated future cash flows in the form of interest and principal repayments, cash flows from restructuring discounted at the original effective interest rate, and the discounted expected proceeds from the liquidation of collateral. Future developments with regard to the amount and the expected timing of the cash flows are reflected at the next measurement date by adjusting the corresponding cash flows and valuation allowances. Both the recognition of and the change in a valuation allowance are recognised in profit or loss.

If a borrower's financial position improves to the extent that the reasons for the valuation allowance no longer apply, the reversal of the valuation allowance is recognised in profit or loss up to the amount of amortised cost.

Unrecoverable receivables are charged to the specific valuation allowance or directly to the income statement. Non-performing loans are written down directly if they are clearly unrecoverable. Recoveries on loans previously written off are also reported in the allowance for losses on loans and advances.

In the case of carrying amounts for which the contract terms were renegotiated, the present value at the balance sheet date is calculated on the basis of the renegotiated expected cash flows and discounted using the original effective interest rate.

In portfolio-based analysis, collective valuation allowances are recognised for homogeneous subportfolios of loans that are not individually assessed for impairment. In the case of potential risks associated with business that is not individually assessed for impairment and for which no collective valuation allowances are recognised, a portfolio-based valuation allowance is also calculated for homogeneous subportfolios in accordance with IAS 39.

g) Accounting for the acquisition and disposal of financial assets and liabilities

WestImmo recognises the acquisition of financial assets either at the trade date or at the settlement date, depending on the item in question. Cash transactions are accounted for at the settlement date regardless of their classification, while derivative transactions are generally recognised at the trade date.

In accordance with the disposal requirements in IAS 39, financial assets are derecognised if the contractual rights under these assets expire, are exercised, or are transferred in full or almost in full. A particularly important factor relating to derecognition due to a transfer is that the risks and rewards associated with the assets are passed on in full or almost in full. If this is not the case, the assets transferred are not derecognised. In the case of transactions in which WestImmo neither transfers (almost) in full nor retains the risks and rewards incidental to owning the financial assets, the assets are derecognised if control has been transferred. If WestImmo retains control, the financial assets must be recognised to the extent of the Bank's continuing involvement. This is the extent to which WestImmo is exposed to changes in the value of the transferred assets.

Financial liabilities are derecognised if the contractual obligations are settled or repaid or have expired. Repurchased own bonds are deducted from the corresponding liabilities.

h) Securitisation

WestImmo securitises various assets from its lending business. This can either take the form of synthetic securitisations or true sales. The WestImmo transactions active in 2011 are true sale transactions, one of these transactions was partially terminated in 2011.

The assets remaining on the balance sheet for the transaction in existence as at 31 December 2011 are recognised in accordance with IAS 39.

2.9 Property and equipment

Owner-occupied land and buildings reported as property and equipment as well as office and operating equipment are recognised at cost, less straight-line depreciation according to the expected useful life of the assets. Impairment losses are charged in the case of permanent impairment.

Property and equipment are depreciated over the following periods:

	Expected useful life in years
Land and buildings	7 – 40
Office and operating equipment	3 – 25

2.10 Intangible assets

Intangible assets mainly comprise purchased or internally developed software. Purchased intangible assets are initially measured at cost. Internally developed software is recognised at cost provided that the recognition criteria set out in IAS 38 are met. The capitalised costs primarily include expenses for internal and third parties involved in development. Intangible assets are amortised using the straight-line method over their expected useful life of three to five years and are reported in the income statement under administrative expenses. There are no indefinite-lived intangible assets. Write-downs are charged if a future benefit is no longer expected.

2.11 Other assets

The other assets item primarily comprises the business activities of subsidiaries. These include inventories recognised and measured in accordance with IAS 2, trade receivables, and finished goods and work in progress. Inventories are measured at cost.

The assets from long-term construction contracts (work in progress) are measured at cost less cumulative depreciation, amortisation and impairment losses. In addition to the expenses for unfinished contracts and the cost of purchased services, own work in progress is recognised on the basis of internal cost accounting.

Borrowing costs are included in the calculation of total cost when determining production cost.

WestImmo uses this balance sheet item to report properties acquired as a result of the liquidation of collateral provided that this took place as part of a short-term exit strategy, if an exit strategy takes into account fair value increases that result in the acquisition having the characteristics of an investment in accordance with IAS 40, the acquisition is reported as investment property under non-current financial assets.

In the case of short-term exit strategies, properties are measured at cost less impairment. The effect of the rescue acquisitions on the income statement, which is reported in other assets, is reflected in net other operating income and expenses.

2 12. Income taxes

Income taxes are recognised and measured in accordance with IAS 12. Current tax receivables or payables are calculated using the tax rates enacted at the time of reimbursement by or payment to the tax authorities.

Deferred taxes are calculated using the balance sheet method for all temporary differences between the tax base of assets and liabilities and their carrying amounts in the IFRS balance sheet. Deferred tax assets and liabilities are only offset if the requirements for set-off are met. Deferred taxes on unused tax loss carryforwards are only recognised if it is probable that the loss carryforward is expected to be used in future. This is not the case with WestImmo's tax loss carryforwards relating to the period prior to the consolidated tax group. Deferred taxes are measured and recognised in profit or loss or directly in equity using the expected tax rates. Current tax receivables and payables and deferred tax assets and liabilities are reported under the separate "tax receivables" and "tax liabilities" items.

Management's assessment of the recoverability of deferred tax assets is decisive for determining any impairment losses in relation to such assets. This depends on whether future taxable profits will be generated during the periods in which tax measurement differences will reverse and tax loss carryforwards can be utilised. The probability of deferred tax liabilities reversing and future taxable profits are taken into account.

2 13 Provisions for pensions and similar obligations

In accounting for pensions in accordance with IAS 19, WestImmo elects to recognise changes in the measurement of pension obligations in other comprehensive income

All changes in value in the period that are recognised in profit or loss or in other comprehensive income are presented in the statement of comprehensive income

Independent actuaries calculate the present values of obligations under defined benefit pension plans using the projected unit credit method in accordance with IAS 19, taking into account expected future salary and pension increases

Changes in the calculation parameters and unexpected changes in the group of beneficiaries result in actuarial gains or losses that are recognised in other comprehensive income

2 14 Other provisions

In accordance with IAS 37, other provisions are recognised for liabilities of uncertain timing or amount. Such provisions are recognised where the WestImmo Group has a present obligation (legal or constructive) as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

2 15 Subordinated capital

This item comprises subordinated liabilities and outstanding profit participation certificates. Subordinated capital is recognised at amortised cost. Premiums or discounts are amortised to profit or loss over their term using the effective interest method and reported in net interest income.

3. Specific Accounting Policies

3.1 Issuing activities

In the period under review, WestImmo was engaged in issuing activities for mortgage and public sector Pfandbriefe, bearer debt securities and borrower's note loans with a total issuing volume of € 3.0 billion (previous year: € 2.3 billion).

3.2. Financial guarantee contracts

Under IAS 39, a financial guarantee contract is a contract that requires the issuer of the guarantee to make specified payments to reimburse the holder of the guarantee for a loss it incurs because a specified debtor fails to make payment when due under the original or modified terms of a debt instrument.

At the inception of a contract, the financial guarantee contract is measured at fair value by the issuer of the guarantee. Fair value comprises the present value of expected payments and the offsetting present value of future premiums.

The financial guarantee contract is subsequently measured in accordance with IAS 37, which requires a provision to be recognised for the losses expected to result from settlement of the obligation. If the holder of the guarantee pays the premium in advance, the amount initially recognised is adjusted for amortisation of the premium received, to the extent that the net carrying amount is higher than a provision required to be recognised under IAS 37.

3.3 Leasing business

Under IAS 17, leases must be accounted for as operating leases or finance leases. An operating lease exists if the lessor retains substantially all the risks and rewards incidental to beneficial ownership of the leased asset. A finance lease exists if substantially all the risks and rewards pass to the lessee.

WestImmo only acts as a lessee under operating leases. The assets underlying these operating leases are primarily limited to owner-occupied buildings, office and operating equipment, and business vehicles.

The lease instalments paid under operating leases are recognised as administrative expenses.

3.4 Employee remuneration plans

There are no employee remuneration plans in accordance with IFRS 2.

4. Statement of Comprehensive Income Disclosures

4.1 Net interest income

	2011 € million	2010 € million
Interest income from		
– lending and money market operations	722.7	792.2
– bonds and other fixed income securities	77.7	77.1
– trading derivatives & HFT syndications	557.2	575.3
– derivatives included in hedge accounting	193.2	169.4
– other transactions	3.8	4.6
Interest income	1,554.6	1,618.6
Current income from		
– other investees	1.4	–0.3
– investments in associates	0.2	0.0
Current income	1.6	–0.3
Interest expense from		
– deposits	434.7	458.2
– securitised liabilities	192.2	204.4
– subordinated capital	20.8	26.8
– trading derivatives	489.3	513.8
– derivatives included in hedge accounting	193.4	170.6
– other transactions	3.3	1.5
Interest expense	1,333.7	1,375.3
Profit/loss from hedges (hedge accounting)	–3.0	–4.1
Net interest income	219.5	238.9

The profit/loss from hedges (IAS 39) is composed of the following items

	2011 € million	2010 € million
Profit from hedging derivatives	55.6	–35.2
– of which from micro fair value hedge accounting	55.6	–35.2
Loss from hedged items	–58.6	31.1
– of which from micro fair value hedge accounting	–58.6	31.1
Total	–3.0	–4.1

The profit/loss from hedges includes measurement gains and losses on effective hedging relationships under micro fair value hedge accounting. Interest income and expense from hedging derivatives that qualify for hedge accounting in accordance with IAS 39 are also reported in net interest income.

4 2. Allowance for losses on loans and advances

	2011 € million	2010 € million
Additions		
- Impairments of receivables	-123.4	-151.9
- Provisions for credit risks	-0.1	-22.2
Reversals		
- Impairments of receivables	74.8	79.0
- Provisions for credit risks	1.3	25.7
Recoveries on loans previously written-off	3.3	2.8
Reversals of impairment losses on loan receivables	2.3	0.7
Direct write-downs of receivables	-0.6	-2.2
Total	-42.4	-68.1

€-0.1 million was added to the allowance for collective valuation allowances recognised for homogeneous subportfolios (previous year €0.0 million). Reversals of collective valuation allowances amounted to €0.5 million (previous year €7.1 million). An addition of €-23.8 million (previous year €-39.3 million) and a reversal of €35.2 million (previous year €7.8 million) were recognised for the portfolio-based valuation allowance.

4 3 Net fee and commission income

	2011 € million	2010 € million
Lending business	7.0	12.0
Securities and custody business	-0.4	0.1
Guarantees	-2.1	-1.7
Other	-1.0	0.8
Total	3.5	11.2

Net fee and commission income comprises fee and commission income of €19.5 million (previous year €32.9 million) and fee and commission expense of €16.0 million (previous year €21.7 million).

The reduction in net fee and commission income is mainly attributable to the decline in new business.

4.4. Net trading income

	2011 € million	2010 € million
Net income/loss from trading portfolios	169.7	15.4
Foreign exchange gain	1.4	1.5
Net income/loss from financial instruments designated as at fair value through profit or loss	-113.3	-22.5
Total	57.8	-5.6

The presentation was adjusted compared with the previous year (see Note 2.2 "Changes in presentation and accounting policies").

The change in net trading income in the year under review was materially affected by a number of extraordinary factors.

These are largely due to changes in the assumptions and estimates underlying measurement policies that were made in order to ensure market conformity

A remeasurement gain of €35.6 million resulted from the substantial expansion in the currency base for currency derivatives. An additional measurement gain in the amount of €33.0 million was due to the increase in the credit spreads for own issues measured at fair value

Details of all changes made to the measurement policies are presented in Note 2.5 "Accounting estimates and assumptions"

4.5 Net income from non-current financial assets

	2011 € million	2010 € million
Net income/loss from sale of AFS financial assets	-28.1	2.5
Net income/loss from remeasurement of AFS financial assets	-249.8	-9.5
Net income/loss from equity investments and unconsolidated affiliated companies	-5.1	4.6
Net income/loss from sale of equity-accounted investments	-0.2	5.8
Net income/loss from investment property	0.0	1.2
Total	-283.2	4.6

The net loss from the sale of AFS financial assets relates primarily to losses on the sale of bonds. The net loss from the remeasurement of AFS financial assets contains impairment losses of €243.8 million on Greek government bonds (previous year: €0.0 million).

The net loss from the sale of equity investments and unconsolidated affiliated companies primarily relates to expenses from additions to and reversals of provisions for equity investments totalling €2.7 million (previous year: €4.6 million) and expenses of €1.6 million (previous year: €0.3 million) from a profit and loss transfer agreement with a subsidiary.

4.6 Administrative expenses

	2011 € million	2010 € million
Employee expenses		
- Wages and salaries	37.7	41.1
- Social security contributions	4.2	4.7
- Expenses for pensions and other employee benefits	3.5	2.2
Other administrative expenses	37.9	38.0
Depreciation and amortisation of property and equipment, software and intangible assets	2.5	3.5
Administrative expenses	85.8	89.5

Other administrative expenses include payments from noncancellable operating leases amounting to €6.4 million (previous year: €6.4 million). Details of minimum lease payments in the coming fiscal years can be found in Note 8.5 "Other financial obligations".

4.7 Net other operating income and expenses

	2011 € million	2010 € million
Other operating income		
– Income from the reversal of provisions	7.8	1.0
– Miscellaneous	21.7	57.3
Total other operating income	29.5	58.3
Other operating expenses		
– Miscellaneous	66.1	50.6
Total other operating expenses	66.1	50.6
Net other operating income and expenses	-36.6	7.7

The “income from the reversal of provisions” item primarily includes income from the reversal of the provision for restructuring in the private customers area in the amount of €4.9 million (previous year €0.0 million).

Other operating expenses include income in accordance with IAS 2 (Inventories) in the amount of €4.4 million (previous year €11.2 million). Miscellaneous other operating expenses mainly comprise expenses in connection with the settlement payment to be made to the SVWL and RSGV reserve funds and the recognition of provisions for contributions to deposit protection schemes in the amount of €45.0 million (previous year €13.1 million), bank levy expenses of €3.3 million (previous year €0.0 million) and materials expenses of €13.3 million (previous year €9.7 million) relating to construction projects at consolidated subsidiaries. See Note 8.4 “Deposit protection” for details of contributions to deposit protection schemes.

The prior-year figures were dominated by income (€28.4 million) and expenses (€18.6 million) from a variety of sources relating to the transfer of assets to the EAA.

4.8 Income taxes

	2011 € million	2010 € million
Current income taxes	4.5	0.2
Deferred taxes	-15.1	4.2
Total	-10.6	4.4

The current taxes of €4.5 million recorded in the year under review (previous year €0.2 million) consisted of additions to provisions relating to external audits and current taxes for the operating facility in London and the subsidiary in Japan.

The tax income incurred in connection with deferred taxes (previous year: tax expense) results from the origination or reversal of temporary differences.

The following table shows the reconciliation from the expected to the reported tax expense

	2011 € million	2010 € million
Profit before tax	-167.2	99.2
Applicable tax rate (in %)	30	30
Expected income tax expense	-50.2	29.8
Effect of different tax rates in the case of deferred taxes recognised in profit or loss	-6.2	1.1
Effect of prior-period taxes recognised in the fiscal year	1.1	1.7
Effect of change in tax rate	1.8	-0.3
Effect of non deductible operating expenses	0.2	2.9
Effect of tax free income	-0.1	-1.2
Permanent effects relating to the balance sheet	-9.3	11.8
Effect of income taxed at different rates	0.9	-0.1
Effect of write downs/adjustments of carrying amounts	37.1	0.5
Effect of transfers of basis of measurement	14.1	-42.3
Other effects	0.0	0.5
Income taxes	-10.6	4.4

The rounded income tax rate of 30.0 % applicable for the year under review (previous year 30.0 %) is composed of the 15.0 % corporation tax rate currently valid in Germany (previous year 15.0 %), the solidarity surcharge levied at 5.5 % (previous year 5.5 %) of the corporation tax and the effective trade tax rate of 15.4 % for current taxes (previous year 15.4 %)

The effect of write-downs/adjustments of carrying amounts comprises the effects of the reduction in deferred tax assets due to impairment losses in the current fiscal year. Management's assessment of the recoverability of deferred tax assets is decisive for determining any impairment losses in relation to such assets. This depends on whether future taxable profits will be generated during the periods in which tax measurement differences will reverse and tax loss carryforwards can be utilised. The probability of deferred tax liabilities reversing and future taxable profits are taken into account.

Loss carryforwards	Corporation tax € million	Trade tax € million
2006–2011	48.1	48.2

These loss carryforwards relate to the period prior to the consolidated tax group and were adjusted in accordance with the ongoing external audits of the WestImmo tax group for the years 2002–2005 and 2006–2008.

5. Segment Reporting

5.1 Operating segment reporting

The WestImmo Group forecasts and manages its results at department level. The portfolios, results and resources of the individual departments are combined into the segments that represent the WestImmo Group's areas of business and activity.

Segment reporting was prepared in accordance with IFRS 8. The segments are recognised on the basis of the Westdeutsche ImmobilienBank Group's internal management system and reflect the business strategy and market presence of the departments and the functional cooperation between the organisational units. The internal management system uses consolidated figures from the Bank's external financial reporting. No adjustments are made.

The allowance for losses on loans and advances includes additions to and reversals of impairment losses on receivables, provisions for credit risks and direct write-offs of receivables, as well as recoveries on loans previously written off.

Administrative expenses include employee and non-employee expenses. As part of internal allocation, administrative expenses are distributed across the other business areas on the basis of actual costs, depending on their origin.

There were no measurement differences compared with the consolidated balance sheet and the consolidated income statement.

Segments in the Group

<u>Investors</u>	<u>Equity investments</u>	<u>Private customers</u>
Loans national/international Real estate joint ventures	Equity investments department	Private residential construction
<u>Services</u>	<u>Treasury</u>	
Central departments Income and expenses not directly attributable	Group refinancing Management of liquidity and interest rate risk Derivatives for real estate customers	

The following tables show the contribution by the individual segments to consolidated profit (profit before tax) for fiscal years 2011 and 2010.

Consolidated income statement (IFRS)	Investors ⁴ € million	Private customers € million	Treasury € million	Equity investments € million	Services € million	Group € million
Net interest income ¹						
2011	175.1	16.2	27.9	0.1	0.0	219.3
2010	193.4	20.7	26.4	-1.6	0.0	238.9
Allowance for losses on loans and advances						
2011	-42.0	-0.2	0.0	0.1	-0.3	-42.4
2010	-80.6	12.4	0.0	0.1	0.0	-68.1
Net fee and commission income						
2011	14.6	-9.9	-0.9	0.1	-0.4	3.5
2010	25.8	-15.1	-0.1	0.1	0.5	11.2
Net trading income						
2011	0.0	0.0	57.8	0.0	0.0	57.8
2010	0.0	0.0	-5.6	0.0	0.0	-5.6
Net income from non-current financial assets						
2011	-0.8	0.0	-270.9	-11.5	0.0	-283.2
2010	1.9	0.0	2.1	0.6	0.0	4.6
Administrative expenses ²						
2011	-33.4	-2.8	-1.7	-2.6	-42.8	-83.3
2010	-37.6	-2.9	-1.5	-4.2	-39.8	-86.0
Depreciation and amortisation						
2011	-0.2	0.0	0.0	0.0	-2.3	-2.5
2010	-0.3	0.0	0.0	0.0	-3.2	-3.5
Net other operating income and expenses						
2011	0.8	7.7	0.0	3.5	-48.6	-36.6
2010	-8.2	-1.7	21.6	8.3	-12.3	7.7
Profit before tax						
2011	114.1	11.0	-187.8	-10.3	-94.4	-167.4
2010	94.4	13.4	42.9	3.3	-54.8	99.2
Income taxes ³						
2011	0.0	0.0	0.0	0.0	0.0	10.6
2010	0.0	0.0	0.0	0.0	0.0	-4.4
Share of profit or loss of equity accounted investments						
2011	0.2	0.0	0.0	0.0	0.0	0.2
2010	0.0	0.0	0.0	0.0	0.0	0.0
Profit after tax						
2011	114.3	11.0	-187.8	-10.3	-94.4	-156.6
2010	94.4	13.4	42.9	3.3	-54.8	94.8
Carrying amount of equity accounted investments						
2011	0.6	0.0	0.0	0.0	0.0	0.6
2010	1.0	0.0	0.0	0.0	0.0	1.0
Segment assets						
2011	15,125.1	3,025.8	4,826.7	126.4	611.4	23,715.4
2010	17,213.4	3,353.8	4,695.0	138.3	487.4	25,887.9
Segment liabilities						
2011	436.6	142.1	21,475.8	115.9	671.0	22,841.4
2010	396.2	147.4	23,889.1	106.1	494.1	25,032.9
Allocated capital						
2011	708.5	0.4	111.6	1.1	43.9	865.5
2010	773.1	0.4	111.3	1.2	0.0	886.0
ROE in % ⁴						
2011	16.1	>100.0	~	~	~	-16.8
2010	12.2	>100.0	~	~	~	10.2
CIR in % ⁵						
2011	17.6	20.0	~	~	~	35.1
2010	18.0	73.7	~	~	~	34.7

The cost/income ratio (CIR) and return on equity (RoE) for the Equity Investments segment were not disclosed, as they do not provide decision-useful information

¹ Net interest income (excl. share of profit or loss of equity-accounted investments)

² Administrative expenses (excl. depreciation and amortisation)

³ Income taxes (incl. deferred taxes)

⁴ Return on equity (RoE) corresponds to the ratio of profit before tax (before addition to reserves) to the average of the relevant equity components

⁵ The cost/income ratio (CIR) corresponds to the ratio of administrative expenses to total income (before the allowance for losses on loans and advances)

⁶ The Investors segment includes the agricultural portfolio

5 2. Regional segment reporting

The regional segment reporting shows the breakdown of the Group's key portfolio and earnings figures by region as at 31 December 2011 and 31 December 2010. The various components of the Group's segment reporting are allocated to regions by the domicile of the branches and subsidiaries that report the portfolios or by the domicile of the respective representative office.

by region	EU € million	EU excluding DE € million	DE € million	America € million	APAC € million	Group € million
Profit before tax *						
2011	-202.3	41.7	-244.0	41.0	-6.1	-167.4
2010	91.2	47.9	43.3	28.3	-20.3	99.2
Segment assets						
2011	20,815.5	6,678.6	14,136.9	1,910.4	989.5	23,715.4
2010	22,265.4	7,576.0	14,689.4	2,406.4	1,216.1	25,887.9

* Profit before tax (net of share of profit or loss of equity accounted investments)

6. Balance Sheet Disclosures

6.1 Cash and balances with central banks

	31 Dec 2011 € million	31 Dec 2010 € million
Balances with central banks	91.7	81.9
Total	91.7	81.9

6 2 Loans and advances to banks

	31 Dec 2011 € million	31 Dec 2010 € million
Loans and advances to banks		
- Loans	204.1	263.9
- Other receivables	617.4	616.6
Total	821.5	880.5
Of which		
- banks in Germany	584.1	603.1
- banks abroad	237.4	277.4

6.3 Loans and advances to customers

By counterparty	31 Dec 2011 € million	31 Dec 2010 € million
Loans and advances to customers		
– Corporate customers	12,728.3	14,442.5
– Public sector entities	1,118.6	1,325.3
– Private customers	4,111.3	4,607.4
Total	17,958.2	20,375.2
On which		
– customers in Germany	9,543.2	9,067.5
– customers abroad	8,415.0	11,307.7

By transaction type	31 Dec 2011 € million	31 Dec 2010 € million
Loans and advances to customers		
– Loans	17,958.2	20,375.2
Total	17,958.2	20,375.2
Of which		
– municipal loans	1,118.6	1,325.3
– loans secured by mortgages	10,331.2	10,690.9

6.4 Loan volume

	31 Dec 2011 € million	31 Dec 2010 € million
Loans to banks		
– Loans and receivables (LaR)	746.6	721.5
– Financial assets designated at fair value through profit or loss (FAaFVtPL)	64.1	119.9
Loans to customers		
– Loans and receivables (LaR)	17,958.2	20,375.2
– Financial assets designated at fair value through profit or loss (FAaFVtPL)	101.3	151.5
Contingent liabilities	591.1	807.3
Loan volume before allowance for losses on loans and advances	19,461.3	22,175.4
Allowance for losses on loans and advances/provisions	–294.2	–297.9
Loan volume after allowance for losses on loans and advances	19,167.1	21,877.5

The loan volume is composed of loans to banks, loans to customers and contingent liabilities. In contrast to loans and advances, the loan volume does not include money market transactions.

6.5 Allowance for losses on loans and advances/ Provisions for contingent liabilities

The allowance for losses on loans and advances reported in the balance sheet is composed of the following items

	31 Dec 2011 € million	31 Dec 2010 € million
Allowance for losses on loans and advances	293.0	295.5
Provisions for contingent liabilities	1.2	2.4
Total	294.2	297.9

The following table shows the valuation allowances for loans and advances to customers that are classified as LaR

	31 Dec 2011 € million	31 Dec 2010 € million
Specific valuation allowances*	248.2	239.5
Collective valuation allowances	0.6	0.4
Portfolio-based valuation allowances	44.2	55.6
Total	293.0	295.5

*Of which for loans and advances abroad €148.6 million (previous year: €153.8 million)

The allowance for losses on loans and advances changed as follows in the year under review and in the previous year

€ million Component	Opening balance at 1 Jan 2011	Additions	Reversals	Unwinding	Exchange rate changes	Utilisation	Reclassi- fications	Closing balance at 31 Dec 2011
Specific valuation allowances	239.5	99.5	-39.1	-12.2	6.0	-45.5	0.0	248.2
Collective valuation allowances								
– Agriculture	0.4	0.0	-0.5	0.0	0.0	-0.4	1.0	0.5
Collective valuation allowances								
– Private residential construction	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.1
Total collective valuation allowances	0.4	0.1	-0.5	0.0	0.0	-0.4	1.0	0.6
Portfolio-based valuation allowances	55.6	23.8	-35.2	0.0	0.0	0.0	0.0	44.2
Provisions for contingent liabilities	2.4	0.1	-1.3	0.0	0.0	0.0	0.0	1.2
Total	297.9	123.5	-76.1	-12.2	6.0	-45.9	1.0	294.2

€ million Component	Opening balance at 1 Jan 2010	Additions	Reversals	Unwinding	Exchange rate changes	Utilisation	Reclassi- fications	Closing balance at 31 Dec 2010
Specific valuation allowances	238.8	112.6	-64.1	-13.8	6.5	-40.5	0.0	239.5
Collective valuation allowances								
– Agriculture	1.9	0.0	-0.6	0.0	0.0	0.0	-0.9	0.4
Collective valuation allowances								
– Private residential construction	0.0	0.0	-6.5	0.0	0.0	-1.3	7.8	0.0
Total collective valuation allowances	1.9	0.0	-7.1	0.0	0.0	-1.3	6.9	0.4
Portfolio-based valuation allowances	21.9	39.3	-7.8	0.0	0.4	0.0	1.8	55.6
Provisions for contingent liabilities	3.1	22.2	-25.7	0.0	0.4	-0.1	2.5	2.4
Total	265.7	174.1	-104.7	-13.8	7.3	-41.9	11.2	297.9

The presentation was adjusted compared with the previous year (see Note 2.4 "Adjustments")

6.6 Financial assets held for trading

	31 Dec 2011 € million	31 Dec 2010 € million
Positive fair values from derivative financial instruments	1,249.1	950.5
Other financial assets held for trading	176.5	180.3
Total	1,425.6	1,130.8

Financial assets held for trading mainly comprise positive fair values from derivative financial instruments that do not qualify for hedge accounting in accordance with IAS 39. Other financial assets held for trading comprise loans subject to syndication requirements.

6.7. Financial assets designated at fair value through profit or loss

	31 Dec 2011 € million	31 Dec 2010 € million
Loans and advances to customers	101.3	151.5
Loans and advances to banks	64.1	119.9
Bonds and other fixed-income securities		
– Bonds and notes	53.3	53.2
Of which		
– publicly traded	53.3	53.2
– issued by public issuers	53.3	53.2
Total	218.7	324.6

Disclosures on the maximum exposure to credit risk for financial assets designated at fair value through profit or loss

	31 Dec 2011 € million	31 Dec 2010 € million
Maximum potential default amount for financial assets designated at fair value through profit or loss	218.7	324.6

Financial assets are those of prime-rated counterparties. Credit derivatives were not entered into to reduce credit risks relating to financial assets designated at fair value through profit or loss.

As in the previous year, there were no changes in the year under review in the value of loans and receivables designated at fair value through profit or loss attributable to changes in credit risk.

6.8. Non-current financial assets

	31 Dec 2011 € million	31 Dec 2010 € million
AtFS non-current financial assets		
– Bonds and other fixed-income securities	2,216.3	2,563.9
– Shares and other non-fixed income securities	19.1	18.9
– Other investees	16.3	11.8
Shares in companies accounted for using the equity method	0.6	1.0
Investment Property	0.9	0.9
Total	2,253.2	2,596.5

The “bonds and other fixed-income securities” item exclusively comprises marketable securities. €2,216.1 million of this amount is listed (previous year: €2,563.8 million).

€14.8 million (previous year: €10.1 million) of the “other investees” item relates to shares in affiliated companies.

6.9 Statement of changes in non-current financial assets

The following table shows the changes in certain non-current financial assets in fiscal years 2011 and 2010

€ million	Other investees	Shares in companies accounted for using the equity method	Investment property	Total
Historical cost				
Balance at 1 Jan. 2011	67.9	2.1	2.7	72.7
Additions during fiscal year	7.4	0.2	0.0	7.6
Disposals during fiscal year	-2.5	-0.6	0.0	-3.1
Reclassifications/changes in consolidated Group	0.0	0.0	0.0	0.0
Exchange differences	0.3	0.0	0.0	0.3
Balance at 31 Dec. 2011	73.1	1.7	2.7	77.5
Fair value changes/impairment				
Balance at 1 Jan. 2011	-56.1	-1.1	-1.8	-59.0
Change in revaluation reserve	4.4	0.0	0.0	4.4
Amortization during fiscal year	-7.4	0.0	0.0	-7.4
Of which				
- Impairments	-7.4	0.0	0.0	-7.4
Reversals of impairment during fiscal year	0.0	0.0	0.0	0.0
Disposals during fiscal year	2.3	0.0	0.0	2.3
Reclassifications/changes in consolidated Group	0.0	0.0	0.0	0.0
Balance at 31 Dec. 2011	-56.8	-1.1	-1.8	-59.7
Carrying amount at 31 Dec. 2011	16.3	0.6	0.9	17.8
Historical cost				
Balance at 1 Jan. 2010	48.7	2.1	4.6	55.4
Additions during fiscal year	19.2	0.0	0.0	19.2
Disposals during fiscal year	0.0	0.0	-1.9	-1.9
Reclassifications/changes in consolidated Group	0.0	0.0	0.0	0.0
Balance at 31 Dec. 2010	67.9	2.1	2.7	72.7
Fair value changes/impairment				
Balance at 1 Jan. 2010	-45.4	-1.1	-1.8	-48.3
Change in revaluation reserve	0.0	0.0	0.0	0.0
Amortization during fiscal year	-10.7	0.0	0.0	-10.7
Of which				
- Impairments	-10.7	0.0	0.0	-10.7
Reversals of impairment during fiscal year	0.0	0.0	0.0	0.0
Disposals during fiscal year	0.0	0.0	0.0	0.0
Reclassifications/changes in consolidated Group	0.0	0.0	0.0	0.0
Balance at 31 Dec. 2010	-56.1	-1.1	-1.8	-59.0
Carrying amount at 31 Dec. 2010	11.8	1.0	0.9	13.7

Impairment losses of €7.4 million (previous year: €10.7 million) were recognised at other investees in the year under review, €7.1 million (previous year: €9.4 million) of these related to LIFE Value companies

6.10. Property and equipment

	31 Dec 2011 € million	31 Dec 2010 € million
Land and buildings	1 0	1 2
Office and operating equipment	1 6	2 1
Total	2 6	3 3

6 11 Intangible assets

	31 Dec 2011 € million	31 Dec 2010 € million
Software		
– Internally generated	0 1	0 2
– Purchased	2 0	2 9
Total	2 1	3 1

Internally generated software is capitalised if the criteria defined in IAS 38 are met. Intangible assets are amortised over a period of three to five years.

6 12 Statement of changes in non-current assets (property and equipment and intangible assets)

The following table shows the changes in property and equipment and intangible assets in fiscal years 2011 and 2010

€ million	Property and equipment		Intangible assets	
	Land and buildings	Office and operating equipment	Internally generated	Purchased
Historical cost				
Balance at 1 Jan 2011	3 2	12 5	1 2	27 5
Additions during fiscal year	0 0	0 2	0 0	1 0
Disposals during fiscal year	0 0	-1 0	0 0	-0 4
Exchange differences	0 0	0 0	0 0	0 0
Balance at 31 Dec 2011	3 2	11 7	1 2	28 1
Amortization				
Balance at 1 Jan 2011	-2 0	-10 4	-1 0	-24 6
Amortization during fiscal year	-0 2	-0 7	-0 1	-1 5
Reversals of impairment during fiscal year	0 0	0 0	0 0	0 0
Disposals during fiscal year	0 0	1 0	0 0	0 0
Exchange differences	0 0	0 0	0 0	0 0
Balance at 31 Dec 2011	-2 2	-10 1	-1 1	-26 1
Carrying amount at 31 Dec 2011	1 0	1 6	0 1	2 0

€ million	Property and equipment		Intangible assets	
	Land and buildings	Office and operating equipment	Internally generated	Purchased
Historical cost				
Balance at 1 Jan 2010	2 9	13 6	1 2	26 8
Additions during fiscal year	0 3	1 2	0 0	0 7
Disposals during fiscal year	0 0	-2 3	0 0	0 0
Exchange differences	0 0	0 0	0 0	0 0
Balance at 31 Dec 2010	3 2	12 5	1 2	27 5
Amortization				
Balance at 1 Jan 2010	-1 9	-11 4	-0 9	-22 8
Amortization during fiscal year	-0 1	-1 3	-0 1	-1 8
Reversals of impairment during fiscal year	0 0	0 0	0 0	0 0
Disposals during fiscal year	0 0	2 3	0 0	0 0
Exchange differences	0 0	0 0	0 0	0 0
Balance at 31 Dec 2010	-2 0	-10 4	-1 0	-24 6
Carrying amount at 31 Dec 2010	1 2	2 1	0 2	2 9

6.13 Tax receivables

	31 Dec 2011 € million	31 Dec 2010 € million
Current tax receivables	0.2	2.5
Deferred tax assets	606.5	478.5
Total	606.7	481.0

Current tax receivables relate to taxes paid by WestImmo that are still to be credited

Deferred tax assets were recognised for the following balance sheet items

	31 Dec 2011 € million	31 Dec 2010 € million
Financial assets and liabilities held for trading	359.8	164.1
Non-current financial assets	19.3	78.4
Pension provisions	2.8	3.0
Other provisions	0.4	1.5
Other balance sheet items	224.2	231.5
Of which		
– derivative hedging instruments (fair value hedges)	75.3	176.6
Total	606.5	478.5

Deferred taxes were calculated using the 15.0% corporation tax rate (previous year 15.0%), the solidarity surcharge levied at 5.5% (previous year 5.5%) of the corporation tax and the effective trade tax rate of 15.4% (previous year 15.4%). Minor differences in the trade tax rate resulted from the different rates levied by local authorities.

In the fiscal year under review, €571 million in tax receivables (previous year €401 million) was charged to the revaluation reserves in respect of deferred taxes, while €0.5 million (previous year €1.7 million) was recognised for changes in deferred taxes for actuarial gains and losses on pension obligations.

6.14 Other assets

	31 Dec 2011 € million	31 Dec 2010 € million
Prepaid expenses	1.0	0.9
Other assets		
– Inventories	54.4	46.2
– Trade receivables	24.9	38.1
– Miscellaneous other assets	225.2	16.2
Total	305.5	101.4

Other assets as at 31 December 2011 increased by €204.1 million year-on-year. This was due mainly to the absorption of the loss on WestImmo's single-entity financial statements by WestLB (€203.2 million, previous year other liabilities of €59.6 million). Prepaid expenses relate primarily to interest prepayments from syndicated loans. Miscellaneous other assets largely comprise rescue acquisitions.

Borrowing costs amounting to €0.9 million (previous year: €0.7 million) were capitalised in the period under review. The interest rates for the capitalised borrowing costs were between 1.69% and 3.35% in 2011, and between 1.02% and 2.08% in 2010.

6.15. Non-current assets held for sale and liabilities associated with non-current assets held for sale (IFRS 5)

	31 Dec 2011 € million	31 Dec 2010 € million
Non-current assets held for sale		
– Loans and advances to customers	0.0	12.4
– Allowance for losses on loans and advances	0.0	–1.0
Total	0.0	11.4
Non-current liabilities associated with non-current assets held for sale		
– deposits from banks	0.0	1.4
– deposits from customers	0.0	0.2
Total	0.0	1.6

In the previous year, non-current assets held for sale and liabilities associated with non-current assets held for sale in accordance with IFRS 5 were attributable to the agricultural portfolio held for sale. Please refer to Note 2.3 for information on the presentation of items accounted for in accordance with IFRS 5.

6.16. Deposits from banks

	31 Dec 2011 € million	31 Dec 2010 € million
Deposits from domestic banks	3,173.0	5,297.1
Deposits from foreign banks	73.0	22.5
Total	3,246.0	5,319.6

6.17. Deposits from customers

	31 Dec 2011 € million	31 Dec 2010 € million
Corporate customers	6,599.8	6,832.7
Public sector entities	160.5	120.9
Private customers	2.7	0.1
Total	6,763.0	6,953.7
Of which		
– customers in Germany	6,676.8	6,787.7
– customers abroad	86.2	166.0

6.18. Securitised liabilities

	31 Dec 2011 € million	31 Dec 2010 € million
Negative fair values of derivative financial instruments	8,134.3	8,196.4
Total	8,134.3	8,196.4

6.19 Financial liabilities held for trading

	31 Dec 2011 € million	31 Dec 2010 Mio €
Negative fair values of derivative financial instruments	1,317.6	990.2
Total	1,317.6	990.2

Financial liabilities held for trading exclusively comprise negative fair values from derivative financial instruments that do not qualify for hedge accounting in accordance with IAS 39 (economic hedging relationships)

6.20. Liability recognised for fair value changes of hedged items in portfolio hedge

	31 Dec 2011 € million	31 Dec 2010 € million
Liability recognised for fair value changes of hedged items in portfolio hedge	0.5	0.7

This balance sheet item contains the fair value changes to be amortised to profit or loss of hedged liability items that were previously allocated to portfolio fair value hedge accounting. Portfolio hedge accounting was discontinued in November 2008.

6.21 Financial liabilities designated at fair value through profit or loss

	31 Dec 2011 € million	31 Dec 2010 € million
Deposits from banks	74.5	84.4
Deposits from customers	2,009.1	1,959.0
Securitised liabilities	0.0	199.8
Financial liabilities designated at fair value through profit or loss	2,083.6	2,243.2

Additional disclosures on financial liabilities designated at fair value through profit or loss

	31 Dec 2011 € million	31 Dec 2010 € million
Difference between carrying amounts and agreed settlement amounts on maturity of financial liabilities designated as at fair value through profit or loss	187.0	83.4
Expenses in the period from credit risk-related changes in value of financial liabilities designated at fair value through profit or loss	33.0	-0.4
Cumulative net income/loss from credit risk-related changes in value of financial liabilities designated at fair value through profit or loss	35.9	2.9

A credit risk-related change of €33.0 million (previous year: €-0.4 million) was recorded in the value of liabilities designated at fair value that are categorised as financial liabilities measured at amortised cost (FLAC), apart from the effects attributable to market conditions, such as changes in market interest rates and the widening of credit spreads observed on the market. As in the previous year, market-related changes in the credit spread of own liabilities designated at fair value did not result in any effects in the period under review.

6.22 Provisions

Presented by type of provision

	31 Dec 2011 € million	31 Dec 2010 € million
Provisions for pensions and similar obligations	25.9	25.9
Provisions for credit risks	1.2	2.4
Provisions for employee expenses	4.0	5.1
Restructuring provisions	2.6	7.9
Provisions for investment risks	9.0	6.4
Other provisions	30.7	25.1
Total	73.4	72.8

Provisions for investment risks chiefly comprise provisions for project risks at unconsolidated subsidiaries and investees

The increase in other provisions is mainly attributable to additions to provisions for contributions to the deposit protection funds

The majority of the Bank's current and former employees are covered by defined benefit pension plans that provide for old age pensions as well as surviving dependent and permanent disability benefits. The benefits to be provided are usually based on the employee's length of service and remuneration. Pension obligations are financed by recognising provisions.

The following calculation parameters and assumptions were used to determine the present value of obligations:

	31 Dec 2011 in %	31 Dec 2010 in %
Discount rate	5.50	5.30
Salary trend	2.50	2.50
Pension trend	2.00	2.00
Staff turnover rate	3.00	3.00

The following amounts were recognised in the balance sheet for defined benefit pension obligations:

	31 Dec 2011 € million	31 Dec 2010 € million
Present value of obligations funded by provisions	25.9	25.9
Net obligation reported in the balance sheet	25.9	25.9

The changes in the present value of pension obligations and in plan assets, including the relevant calculation parameters, were as follows

	2011 € million	2010 € million
Changes in present value of obligations		
Present value of obligations at 1 Jan	25.9	21.3
Current services cost	1.3	0.9
Interest cost	1.3	1.3
Pension payments from provisions	-0.9	-0.8
Actuarial gains and losses	-1.7	3.2
Present value of obligations at 31 Dec	25.9	25.9

The cost of defined benefit pension plans recognised in administrative or interest expenses in the income statement and other pension expenses are composed of the following items

	2011 € million	2010 € million
Current service cost	-1.3	-0.9
Interest cost	-1.3	-1.3
Total	-2.6	-2.2

The following overview shows the changes in the present value of obligations, plan assets, the net obligation reported in the balance sheet and actuarial gains (-) and losses (+) for the year under review as well as the four previous reporting periods

	31 Dec 2011 € million	31 Dec 2010 € million	31 Dec 2009 € million	31 Dec 2008 € million	31 Dec 2007 € million
Present value of obligations	25.9	25.9	21.3	20.3	21.5
Plan assets	0.0	0.0	0.0	1.2	1.3
Net obligation reported	25.9	25.9	21.3	19.1	20.2
Actuarial gains and losses	-1.7	3.2	-0.7	-2.9	-5.6

Other provisions changed as follows in fiscal year 2011

€ million	Provisions for credit risks	Provisions for employee expenses	Restructuring provisions	Provisions for investment risks activities	Other provisions	Total
Balance at 1 Jan 2011	2.4	5.1	7.9	6.4	25.1	46.9
Additions	0.1	3.2	0.0	4.5	22.1	29.9
Reversals	-1.3	-1.5	-4.9	-1.8	-1.3	-10.8
Other reclassifications	0.0	0.0	0.0	0.0	0.6	0.6
Utilisation	0.0	-2.8	-0.4	0.0	-15.8	-19.0
Effect of the time value of money	0.0	0.0	0.0	-0.1	0.0	-0.1
Balance at 31 Dec 2011	1.2	4.0	2.6	9.0	30.7	47.5

Provisions for employee expenses comprise provisions for bonuses. Other provisions relate mainly to provisions for litigation risks, jubilee provisions and leases.

The expected maturities in accordance with IAS 37.85 are a maximum of two years for provisions for litigation costs, a maximum of five years for provisions for equity investments and a maximum of three years for provisions for employee expenses. Provisions for pensions and similar obligations have an average duration of 15 years. All other provisions are due within one year.

6.23 Tax liabilities

	31 Dec 2011 € million	31 Dec 2010 € million
Current tax payables	8.5	2.8
Deferred tax liabilities	589.1	418.5
Total	597.6	421.3

Current tax payables are attributable to the recognition of provisions relating to external audits and the Japanese subsidiary.

Deferred tax liabilities were recognised in connection with the following items:

	31 Dec 2011 € million	31 Dec 2010 € million
Financial assets and liabilities held for trading	359.8	210.8
Non-current financial assets	48.2	57.3
Other balance sheet items	181.1	150.4
Of which:		
– derivative hedging instruments (fair value hedges)	81.6	87.9
Total	589.1	418.5

6.24 Other liabilities

	31 Dec 2011 € million	31 Dec 2010 € million
Deferred income	1.4	2.2
Liabilities from profit/loss transfer agreements	0.0	59.6
Miscellaneous liabilities		
– Trade payables	37.9	43.2
– Other miscellaneous liabilities	24.6	6.5
Total	63.9	111.5

Miscellaneous liabilities are primarily attributable to obligations relating to advance payments received by subsidiaries (€37.9 million, previous year: €31.9 million). Other miscellaneous liabilities relate to prepaid expenses (€7.4 million, previous year: €3.9 million), tax liabilities (€1.8 million, previous year: €2.2 million), absorption of the loss of an unconsolidated subsidiary (€1.6 million, previous year: €0.3 million) and various individual items with an average volume of under €2.0 million.

6.25. Subordinated capital

	31 Dec 2011 € million	31 Dec 2010 € million
Subordinated liabilities	234.0	229.1
Pro rata interest on subordinated liabilities	6.0	5.6
Profit participation certificates outstanding	51.0	210.9
Pro rata interest on profit participation certificates outstanding	3.3	14.7
Total	294.3	460.3

The following subordinated liability accounts for more than 10.0 % of all subordinated liabilities

Currency	Carrying amount € million	Notional value € million	Interest rate	Maturity
EUR	126.5	125.0	4.8	2003–2013

There is no early repayment obligation. The conversion of these funds into capital or another form of debt is neither agreed nor planned.

The subordinated liabilities issued by WestImmo comply with the requirements of section 10 (5a) of the *Kreditwesengesetz* (KWG – German Banking Act). Subordinated liabilities with a notional value of €211.8 million have a residual maturity of less than two years, which means that only 40 % are reported as own funds as defined by the German Banking Act. No extraordinary call rights have been agreed. Interest expenses of €11.5 million (previous year: €11.7 million) relating to subordinated liabilities were incurred in the year under review.

The original maturities of the subordinated liabilities are between 10 and 15 years (average: 13 years).

The following profit participation certificates account for more than 10.0 % of all profit participation certificates outstanding:

Currency	Carrying amount € million	Notional value € million	Interest rate	Maturity
EUR	26.7	25.0	6.85	2001–2012
EUR	11.7	11.0	6.19	2001–2012
EUR	10.7	10.0	6.17	2001–2012

Profit participation certificates with a notional value of €51.0 million are due in less than two years. These are therefore no longer reported as own funds within the meaning of the German Banking Act.

Interest expenses of €9.3 million (previous year: €15.1 million) relating to profit participation certificates outstanding were incurred in the year under review.

6.26. Equity

The subscribed capital of WestImmo as at 31 December 2011 amounted to €400.0 million (previous year: €400.0 million). It is composed of 4.0 million registered shares. The notional interest in the share capital is €100.00 per no-par value share. All shares carry the same voting rights. WestLB AG, Düsseldorf, is the sole shareholder, with a 100.0 % interest.

Equity is composed of the following items

	2011 Mio €	2010 Mio €
Subscribed capital	400 0	400 0
Capital reserves	443 4	443 4
Retained earnings	217 3	171 2
Revaluation reserve (after deferred taxes)	-191 3	-162 6
Actuarial gains and losses on pension obligations (after deferred taxes)	3 3	2 1
Currency translation reserve	3 7	3 8
Total equity	876 4	857 9
Non-controlling interests	-2 4	-2 9
Total after minority interest	874.0	855 0

The capital reserves contain additional capital contributions by the sole shareholder WestLB AG. Unrealised gains and losses on the remeasurement of AfS financial instruments in the amount of €-208.1 million (previous year: €-236.4 million) are reported in the revaluation reserve as at 31 December 2011. The change in the revaluation reserve relates to the deterioration of credit spreads, in particular for bonds issued by PIIGS countries, as well as the transfer of negative changes in value to the income statement. The revaluation reserve before deferred taxes decreased by €243.5 million in the period under review (previous year: €125.4 million) as a result of changes in fair value. Unrealised losses of €243.8 million (previous year: €0.0 million) were transferred to the income statement due to the recognition of impairment losses on bonds issued by the Republic of Greece. In addition, the loss on the sale of available-for-sale financial assets (€-28.1 million, previous year: gain of €0.8 million) was transferred to the income statement.

Offsetting effects from deferred taxes for the revaluation reserve amounting to €16.8 million (previous year: €73.8 million) were only recognised proportionately after valuation allowances on excess deferred tax assets as at 31 December 2011. Actuarial gains and losses on pension obligations in the amount of €4.8 million (previous year: €3.1 million) are reported as at 31 December 2011. Offsetting effects from deferred taxes for actuarial gains and losses amounting to €-1.5 million (previous year: €-1.0 million) were recognised as at 31 December 2011.

Capital management is governed by legal and company-specific requirements. WestImmo's capital requirements are subject to the provisions of the German Banking Act and the *Solvabilitätsverordnung* (SolvV – German Solvency Regulation), which require banks to hold capital covering at least 8 % of their risk-weighted assets. A bank's capital (own funds) includes its share capital, general reserves, the fund for general banking risks in accordance with section 340 g of the HGB, as well as Tier II capital in the form of free contingency reserves in accordance with section 340 f of the HGB and subordinated liabilities, less any deductible items. WestImmo's subordinated liabilities included in the regulatory capital meet the requirements for eligibility pursuant to the German Banking Act.

During the year under review, WestImmo's capital adequacy was consistently well in excess of the figure stipulated by law, amounting to 12.5 % as at 31 December 2011 (annual low: 12.3 %, annual high: 13.3 %).

Starting with the minimum regulatory capital requirements and taking into account the strategic capital requirements defined by the Bank with a total capital ratio of at least 9.5 %, the Bank's short-term and medium-term capital requirements are planned as part of the annual budgeting process and adjusted as required. The Board Administrative Staff/Controlling and Treasury departments are responsible for managing the Bank's capital requirements. These requirements are monitored continuously as part of the regular reporting to the Bank's governing bodies.

Please refer to the Risk Report contained in the Management Report for information on risk management within the framework of WestLB AG's uniform Group risk tolerance process and on economic capital as a standard measure of the overall bank risk with the relevant risk types.

Retained earnings are composed of the following items:

	31 Dec. 2011 € million	31.12.2010 € million
Reserves provided for by the articles of association	11.7	11.7
Other retained earnings	205.6	159.5
Total	217.3	171.2

Other retained earnings contain the Group's retained profits including cumulative amounts from consolidation adjustments recognised in profit or loss and taken directly to equity, as well as measurement effects from the transition to IFRSs at 1 January 2005 that were reported for the first time in accordance with IFRSs.

The consolidated loss for the period will be appropriated as follows:

	2011 € million	2010 € million	Change € million	%
Consolidated loss/consolidated profit	-156.6	94.8	-251.4	>-100
Profits (-)/losses (+) attributable to non-controlling interests	-0.5	-0.4	-0.1	25.0
Loss absorption by the owner (+)/ Distribution to the shareholder (-)	203.2	-59.6	262.8	>100
Retained earnings	46.1	34.8	11.3	32.5

In fiscal year 2007, a profit/loss transfer agreement was entered into between the shareholder WestLB AG and WestImmo. On the basis of this agreement, WestLB AG absorbed the accounting losses amounting to €203.2 million incurred by WestImmo in the year under review. €59.6 million was transferred from WestImmo to WestLB AG in the previous year. This corresponded to a dividend of €14.90 per share.

The appropriations to reserves provided for by the articles of association were discontinued following conclusion of the profit/loss transfer agreement. Profits and losses attributable to non-controlling interests relate to non-controlling interests in the profit and loss for the period of fully consolidated subsidiaries.

Please refer to the disclosures on the Statement of Changes in Equity for more information on equity transaction data.

7. Financial Instruments Reporting

7.1 Income components of selected financial instruments

Interest income and interest expense calculated using the effective interest method for financial instruments that are classified in accordance with IAS 39 9 and are not measured at fair value through profit or loss can be broken down as follows

	2011 € million	2010 € million
Interest income from		
– loans and receivables (LaR)	710.3	773.7
– Available for Sale Financial Assets (AFS)	78.6	76.2
Total	788.9	849.9
Interest expense from		
– financial liabilities measured at amortised cost (FLAC)	560.1	562.2
Total	560.1	562.2

Interest income of €12.2 million was recognised for impaired financial assets (previous year €13.8 million)

In the year under review, €19.2 million (previous year €32.5 million) of the total of €19.5 million fee and commission income (previous year €32.9 million) related to financial assets not measured at fair value through profit or loss. As in the previous year, fee and commission expense amounting to €16.0 million (previous year €21.7 million) is attributable in full to financial assets and financial liabilities not measured at fair value through profit or loss.

The following table of carrying amounts within the meaning of IFRS 7.8 shows net gains and net losses on financial assets and financial liabilities classified in accordance with IAS 39 9 (IFRS 7.20 (a))

	2011 Carrying amounts € million	2011 Net gains/losses recognised in profit or loss € million	2010 Carrying amounts € million	2010 Net gains/losses recognised in profit or loss € million
Financial assets				
Financial assets held for trading (HFT)	1,425.6	409.3	1,130.8	268.8
Financial assets designated as at fair value through profit or loss (DuiR)	218.7	–4.3	324.6	–7.5
Loans and receivables (LaR)	18,486.7	–40.9	20,960.2	–66.6
Available for-sale financial assets (AFS)	2,251.7	–277.8	2,594.6	–6.9
Financial liabilities				
Financial liabilities held for trading (HFT)	1,317.6	–239.7	990.2	–253.5
Financial liabilities designated as at fair value through profit or loss (DuiR)	2,083.6	–109.0	2,243.2	–15.1
Other financial liabilities (FLAC)	18,437.6	0.0	20,930.0	0.0

No interest income or interest expense and no current income or expense is included in the presentation of net gains and net losses on financial instruments. The presentation above does not include measurement results from hedging derivatives and hedged items that are accounted for using hedge accounting in accordance with IAS 39. These are reported separately in the Notes. Please see the presentation of the profit/loss from hedges in accordance with IAS 39 contained in Note 4.1 "Net interest income". Net gains and net losses include fair value changes recognised in profit or loss, disposal gains and losses, as well as impairment losses and reversals of impairment losses recognised in profit or loss. Please see Note 4.2 "Allowance for losses on loans and advances" and Note 4.5 "Net loss from non-current financial assets" for details of the impairment losses charged on loans and receivables (LaR) and available-for-sale financial assets (AfS) in the 2011 fiscal year. In the year under review, this item includes earnings contributions of €1.4 million from foreign currency translation (previous year €1.5 million).

7.2. Fair value of financial instruments

In accordance with IAS 39, fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

If there is an active market, WestImmo estimates the fair value of financial instruments using market prices or other price quotations. This applies principally to exchange-traded securities and derivatives and to exchange-traded debt instruments. WestImmo calculates the fair value of the majority of OTC derivatives and unlisted financial instruments for which no quoted prices in active markets are available using standard discounted cash flow or other valuation techniques using data based on quoted market prices. In the case of a small number of financial instruments, fair value cannot be estimated directly using quoted market prices or indirectly using valuation techniques supported by observable market prices or other price quotations. In such cases, fair value is estimated using realistic estimates and assumptions based on market conditions.

All valuation techniques are rigorously examined before they are used as a basis for financial reporting. The techniques used are also tested regularly over time.

WestImmo is satisfied that the fair values both of financial instruments measured at fair value and of financial instruments accounted for at amortised cost, for which fair value serves merely as a comparative measure, are appropriate and correspond to the underlying economic circumstances.

	Fair value		Carrying amount		Difference	
	31 Dec 2011 € million	31 Dec 2010 € million	31 Dec 2011 € million	31 Dec 2010 € million	31 Dec 2011 € million	31 Dec 2010 € million
Assets						
Cash and balances with central banks	91 7	81 9	91 7	81 9	0 0	0 0
Loans and advances to banks	827 3	888 6	821 5	880 5	5 8	8 1
Loans and advances to customers	18,118 9	20,553 7	17 665 2	20,079 7	453 7	474 0
Loans and advances to customers (IFRS 5)	0 0	11 9	0 0	11 4	0 0	0 5
Financial assets held for trading	1,425 6	1,130 8	1,425 6	1,130 8	0 0	0 0
Positive fair values of derivative hedging instruments	322 6	193 7	322 6	193 7	0 0	0 0
Financial assets designated at fair value through profit or loss	218 7	324 6	218 7	324 6	0 0	0 0
Non-current financial assets	2,251 7	2,594 6	2,251 7	2 594 6	0 0	0 0
Total	23,256 5	25,779 8	22,797 0	25,297 2	459 5	482 6
Liabilities						
Deposits from banks	3,260 4	5 355 3	3 246 0	5,319 6	14 4	35 7
Deposits from banks (IFRS 5)	0 0	1 4	0 0	1 4	0 0	0 0
Deposits from customers	7,003 9	7,103 7	6 763 0	6,953 7	240 9	150 0
Deposits from customers (IFRS 5)	0 0	0 2	0 0	0 2	0 0	0 0
Securitised liabilities	8,124 8	8,223 8	8,134 3	8,196 4	-9 5	27 4
Financial liabilities held for trading	1,317 6	990 2	1,317 6	990 2	0 0	0 0
Negative fair values of derivative hedging instruments	267 2	261 6	267 2	261 6	0 0	0 0
Liability recognised for fair value changes of hedged items in portfolio hedge of interest rate risk	0 5	0 7	0 5	0 7	0 0	0 0
Financial liabilities designated at fair value through profit or loss	2,083 6	2,243 2	2,083 6	2,243 2	0 0	0 0
Subordinated capital	301 2	472 3	294 3	460 3	6 9	12 0
Total	22,359 2	24,652 4	22,106 5	24,427 3	252 7	225 1

The net difference between the carrying amounts and full fair values of all items as at 31 December 2011 amounted to a positive €206.8 million (unrealised positive fair value increment or "hidden reserve"), previous year: hidden reserve of €257.5 million

Effects of day-one gains and losses on the income statement

WestImmo estimates the fair value of financial instruments that are not traded in an active market using established valuation techniques and methods on the basis of observable, independent market data. As a rule, the best evidence of fair value at initial recognition is the transaction price. Any difference between the transaction price and the value calculated using a technique must be recognised in the income statement. Differences between the transaction price and the valuation at the initial trade date arise primarily as a result of intraday market fluctuations between the time of the transaction and the time at which the market data are collected. As a rule, differences between the transaction price and the fair values estimated on the basis of market data are insignificant and balance out statistically. Day-one gains and losses do not have a significant effect on the income statement.

7.3 Derivative financial instruments

Derivative financial instruments are financial instruments whose value is derived from changes in the value of one or more underlying assets (underlyings). As a rule, the underlying is an interest rate, a commodity price, an index, equity, or bond price, or an exchange rate.

Derivatives can be entered into as contracts on an exchange with standardised notional amounts and settlement dates, or OTC (over the counter) with individually agreed notional amounts, terms and prices (OTC derivatives).

WestImmo enters into the following types of derivative transactions in the course of its business activities:

■ Interest rate forward transactions

Interest rate swaps, interest rate options, swaptions, interest rate caps, interest rate floors, interest rate collars

■ Currency forward transactions

Currency forwards, currency swaps

■ Combined interest rate and currency forward transactions

Cross-currency swaps

The notional amount denotes the contract volume traded by the Group. It serves as a basis for determining the change in the fair value of the derivative and as a reference parameter for the mutually agreed cash settlements (e.g. interest payments from interest rate swaps), but does not represent any recognisable asset or liability. Derivatives are carried at their positive or negative fair values in the balance sheet. The fair values correspond to the costs that the Group or the counterparty would incur to replace the transactions.

The Group uses derivatives for hedging purposes. The derivatives entered into for hedging purposes are mainly used to manage and limit interest rate, currency and other price risks. Due to the provisions of IAS 39, the economic hedging relationships cannot be recognised in full in the IFRS consolidated financial statements either by using hedge accounting or by applying the fair value option.

Hedging derivatives for which hedge accounting under IAS 39 is used are reported in the "positive fair values of derivative hedging instruments" and "negative fair values of derivative hedging instruments" balance sheet items, and all others are reported as "financial assets held for trading" or "financial liabilities held for trading". Changes in the fair value of derivatives are recognised in net trading income. In the case of derivatives that qualify for hedge accounting in accordance with IAS 39, the fair value changes attributable to the hedged risk are recognised in net interest income (profit/loss from hedges). As at 31 December 2011, recognised hedging relationships under IAS 39 consisted almost exclusively of interest rate swaps with a notional amount of €7,108.5 million (previous year: €8,060.1 million) that were reported in positive fair values of derivative hedging instruments (€4,567.6 million, previous year: €4,381.8 million) and negative fair values of derivative hedging instruments (€2,540.9 million, previous year: €3,678.3 million).

The portfolio of derivative financial instruments is composed of the following items

Presentation of volumes at reporting date

€ million	Notional amounts		Positive fair values		Negative fair values	
	31 Dec 2011	31 Dec 2010	31 Dec 2011	31 Dec 2010	31 Dec 2011	31 Dec 2010
Interest rate products						
Interest rate swaps	25,121.6	28,712.3	1,537.4	1,088.4	1,053.8	896.2
Interest rate options	1,201.7	1,591.6	6.3	8.0	328.0	235.9
– Calls	(115.0)	(159.6)	(6.3)	(8.0)	(0.0)	(0.0)
– Puts	(1,086.7)	(1,432.0)	(0.0)	(0.0)	(328.0)	(235.9)
Caps, floors	594.3	1,558.8	2.6	5.1	2.6	5.1
Interest rate products total	26,917.6	31,862.7	1,546.3	1,101.5	1,384.4	1,137.2
Currency products						
Currency forwards	3,124.6	5,154.7	18.5	39.1	98.6	92.3
Currency swaps	3,295.2	165.1	4.6	2.4	82.7	3.9
Currency products total	6,419.8	5,319.8	23.1	41.5	181.3	96.2
Cross-currency products						
Cross currency swaps	83.3	81.5	2.3	1.2	19.1	18.4
Cross-currency products total	83.3	81.5	2.3	1.2	19.1	18.4
Derivative transactions total	33,420.7	37,264.0	1,571.7	1,144.2	1,584.8	1,251.8

Derivative transactions – Counterparty structure

€ million	Notional amounts		Positive fair values		Negative fair values	
	31 Dec 2011	31 Dec 2010	31 Dec 2011	31 Dec 2010	31 Dec 2011	31 Dec 2010
OECD banks	27,445.2	30,821.5	1,150.1	812.1	1,544.9	1,216.7
Customers (incl. exchange-traded contracts)	5,237.6	5,602.4	362.8	284.7	17.0	10.9
Public sector entities	737.9	840.1	58.8	47.4	22.9	24.2
Total	33,420.7	37,264.0	1,571.7	1,144.2	1,584.8	1,251.8

Derivative transactions (notional amounts) – Maturity structure

Notional amounts € million	Interest rate products		Currency products		Cross-currency products	
	31 Dec 2011	31 Dec 2010	31 Dec 2011	31 Dec 2010	31 Dec 2011	31 Dec 2010
up to 3 months	595.0	1,094.6	2,140.6	4,632.4	5.9	0.0
3 months to 1 year	3,019.5	4,035.5	1,298.2	480.0	64.2	0.0
1 to 5 years	14,115.2	15,311.6	2,578.7	103.7	0.0	68.0
more than 5 years	9,187.9	11,421.0	402.3	103.7	13.2	13.5
Total	26,917.6	31,862.7	6,419.8	5,319.8	83.3	81.5

Maturity structure of derivatives 2011

€ million	Payable on demand	up to 3 months	3 months to 1 year	1 to 5 years	more than 5 years
Positive fair values					
Possible inflow (+)/outflow (-) of funds from derivative financial instruments					
Gross settlement amount on the basis of undiscounted cash flows					
(cross-currency swaps, currency forwards)	0 0	13 8	2 9	1 2	0 7
- of which inflow	0 0	656 0	46 2	391 6	178 3
- of which outflow	0 0	-642 2	-43 3	-390 4	-177 6
Net settlement amount on the basis of undiscounted cash flows (swaps) - inflow	0 0	78 9	172 1	909 5	635 6
Net settlement amount on the basis of fair values (other derivatives) - inflow	0 0	0 0	0 0	7 3	1 6
Negative fair values					
Possible inflow (+)/outflow (-) of funds from derivative financial instruments					
Gross settlement amount on the basis of undiscounted cash flows					
(cross-currency swaps, currency forwards)	0 0	-55 1	-62 8	-110 4	-8 3
- of which inflow	0 0	1 669 9	1 371 2	2,245 3	247 0
- of which outflow	0 0	-1,725 0	-1,434 0	-2 355 7	-255 3
Net settlement amount on the basis of undiscounted cash flows (swaps) - outflow	0 0	-50 8	-173 7	-683 8	-217 9
Net settlement amount on the basis of fair values (other derivatives) - outflow	0 0	-4 5	-12 0	-224 1	-90 0

Maturity structure of derivatives 2010

€ million	Payable on demand	up to 3 months	3 months to 1 year	1 to 5 years	more than 5 years
Positive fair values					
Possible inflow (+)/outflow (-) of funds from derivative financial instruments					
Gross settlement amount on the basis of undiscounted cash flows					
(cross-currency swaps, currency forwards)	0 0	28 1	7 4	6 8	2 0
- of which inflow	0 0	1,566 1	454 0	136 5	60 8
- of which outflow	0 0	-1,538 0	-446 6	-129 7	-58 8
Net settlement amount on the basis of undiscounted cash flows (swaps) - inflow	0 0	110 3	243 4	626 7	307 8
Net settlement amount on the basis of fair values (other derivatives) - inflow	0 0	0 0	2 5	8 0	2 5
Negative fair values					
Possible inflow (+)/outflow (-) of funds from derivative financial instruments					
Gross settlement amount on the basis of undiscounted cash flows					
(cross-currency swaps, currency forwards)	0 0	-84 3	-2 6	-23 6	-1 8
- of which inflow	0 0	2,953 4	32 6	170 7	58 8
- of which outflow	0 0	-3 037 7	-35 0	-194 3	-60 6
Net settlement amount on the basis of undiscounted cash flows (swaps) - outflow	0 0	-82 4	-217 7	-537 2	-121 3
Net settlement amount on the basis of fair values (other derivatives) - outflow	0 0	-0 9	-9 6	-84 8	-145 7

The presentation of the maturity structure of derivatives was adjusted compared with the previous year (see Note 2.2 "Changes in presentation and accounting policies")

Details of the changes made to the prior-year figures are presented in Note 2.4 “Adjustments”

The maturities given assume that the Bank will continue the transaction up to the contractually agreed end (or the exercise date in the case of options)

In addition to payments for the fixed swap leg, the figures presented that are based on undiscounted cash flows (swaps) include the net amount of the cash flows for the variable part calculated for the future by creating a forward. Actual future fixings may differ substantially from the forwards calculated as at 31 December 2011 and hence lead to completely different net cash flows. This can mean that a transaction that is reported in the “positive fair values” item at the balance sheet date switches to the “negative fair values” item and back again several times in the period up to its maturity.

The transactions listed that are based on fair values (other derivatives) are options whose fair value at the exercise date was presented as at 31 December 2011. These payments will only occur if the fair value of these options does not change over time.

7.4 Fair values of derivative hedging instruments

	31 Dec 2011 € million	31 Dec 2010 € million
Positive fair values from micro fair value hedge accounting	322.6	193.7
Negative fair values from micro fair value hedge accounting	267.2	261.6

This item comprises positive and negative fair values of derivatives that are deployed for hedging and qualify for use in hedge accounting in accordance with IAS 39. The Bank almost exclusively uses interest rate swaps as hedging instruments.

7.5 Fair value hierarchy

In accordance with IFRS 7.27B, the level of the measurement hierarchy at which the fair value was determined – graded by the relevance of the inputs – must be disclosed using quantitative information for each class of financial instrument that is recognised in the balance sheet at fair value. This enables the significance of the input to be assessed in relation to the fair value in its entirety.

- Level 1 – quoted price in an active market for the instrument in question
- Level 2 – quoted price in an active market for similar assets or liabilities or other valuation techniques for which significant inputs are based on observable market data
- Level 3 – valuation techniques for which significant inputs are not based on observable market data

The financial instruments measured at fair value at WestImmo are primarily in Levels 1–2. Details of the financial instruments that were allocated to Level 3 can be found in Note 7.7 “Reconciliation of Level 3 financial instruments”

Material changes in the procedure used to determine the fair values of certain derivative financial instruments were made in fiscal year 2011. Details of the changes to the procedures are presented in Note 2.5 “Accounting estimates and assumptions”

31 Dec 2011	Level 1 € million	Level 2 € million	Level 3 € million	Total € million
Balance sheet item				
Financial assets held for trading (non-derivative)	0 0	0 0	176 5	176 5
Financial assets held for trading (derivative)	0 0	1 248 6	0 5	1,249 1
Positive fair values of derivative hedging instruments	0 0	322 6	0 0	322 6
Financial assets designated at fair value through profit or loss	53 3	165 4	0 0	218 7
Available-for-sale financial assets	1,143 3	1,033 7	74 7	2,251 7
Total	1 196,6	2,770 3	251 7	4,218,6
Financial liabilities held for trading (derivative)	0 0	1,317 6	0 0	1,317 6
Negative fair values of derivative hedging instruments	0 0	267 2	0 0	267 2
Financial liabilities designated at fair value through profit or loss	0 0	2,083 6	0 0	2,083 6
Total	0 0	3,668 4	0 0	3,668 4

31 Dec 2010	Level 1 € million	Level 2 € million	Level 3 € million	Total € million
Balance sheet item				
Financial assets held for trading (non-derivative)	0 0	0 0	180 3	180 3
Financial assets held for trading (derivative)	0 0	949 6	0 9	950 5
Positive fair values of derivative hedging instruments	0 0	193 7	0 0	193 7
Financial assets designated at fair value through profit or loss	53 2	271 4	0 0	324 6
Available-for sale financial assets	2,259 7	260 1	74 8	2 594 6
Total	2,312 9	1,674 8	256 0	4,243 7
Financial liabilities held for trading (derivative)	0 0	990 2	0 0	990 2
Negative fair values of derivative hedging instruments	0 0	261 6	0 0	261 6
Financial liabilities designated at fair value through profit or loss	199 8	2,043 4	0 0	2,243 2
Total	199 8	3,295 2	0 0	3,495 0

7.6 Reclassifications of financial instruments accounted for at fair value between Level 1 and Level 2

The following financial instruments accounted for at fair value were transferred out of Level 1 into Level 2 during the fiscal year. The main reasons for the reclassifications were the deterioration in the availability of observable market prices as well as the enhancement of the Bank's internal processes for assigning financial instruments to specific levels. No reclassifications from Level 2 to Level 1 were required in the fiscal year.

Balance sheet item	Reclassification from Level 1 to Level 2 31 Dec 2011 € million
Available for-sale financial assets	819.8
Total	819.8

Balance sheet item	Reclassification from Level 1 to Level 2 31 Dec 2010 € million
Available for-sale financial assets	221.6
Total	221.6

7.7. Reconciliation of Level 3 financial instruments

Information in accordance with IFRS 7 27B

€ million	FV as at 1 Jan 2011	Purchase	Additions from Level 1	Additions from Level 1
Balance sheet item				
Financial assets held for trading	181.2	0.0	0.0	0.0
Positive fair values of derivative hedging instruments	0.0	0.0	0.0	0.0
Financial assets designated at fair value through profit or loss	0.0	0.0	0.0	0.0
Available-for-sale financial assets	74.8	0.3	0.0	0.0
Total	256.0	0.3	0.0	0.0

€ million	FV as at 1 Jan 2010	Purchase	Additions from Level 1	Additions from Level 2
Balance sheet item				
Financial assets held for trading	187.0	8.1	0.0	1.5
Positive fair values of derivative hedging instruments	0.0	0.0	0.0	0.0
Financial assets designated at fair value through profit or loss	0.0	0.0	0.0	0.0
Available-for-sale financial assets	15.4	13.0	44.0	2.4
Total	202.4	21.1	44.0	3.9

¹ Financial assets held for trading include closed-out amounts of €-4.9 million

² Financial assets include closed out amounts of €0.3 million

³ Financial assets include closed out amounts of €0.1 million

The financial instruments reported under Level 3 comprise loans subject to syndication requirements and derivative financial instruments that are reported under financial assets held for trading, and the bonds, all other investees and fund units in a closed-end real estate fund that are reported under available-for-sale financial assets

The units in the closed-end real estate fund are measured by the fund management company using the net asset value concept. The sale of fund units in the short term is contractually prohibited.

We reduced/increased the spreads used in the interest rate sensitivity analysis for loans to be syndicated, derivative financial instruments and bonds by 10 % and 20 % respectively (previous year +/-1 bp). This resulted in fair value changes of +€92 thousand/-€183 thousand (previous year: €12 thousand). The fair value of the units in the closed-end real estate fund is determined by the fund management company on the basis of the fund assets. A sensitivity analysis is therefore not possible here.

Disposals due to sales and closed-out transactions	Disposals to Level 1	Disposals to Level 2	Gains (+) and losses (-) recognised in other comprehensive income	Gains (+) and losses (-) recognised in the income statement	FV as at 31 Dec 2011
-4 9 ¹	0 0	0 0	2 0	-1 3	177 0
0 0	0 0	0 0	0 0	0 0	0 0
0 0	0 0	0 0	0 0	0 0	0 0
-7 9 ²	0 0	0 0	7 5	0 0	74 7
-12 8	0 0	0 0	9 5	-1 3	251 7

Disposals due to sales and closed-out transactions	Disposals to Level 1	Disposals to Level 2	Gains (+) and losses (-) recognised in other comprehensive income	Gains (+) and losses (-) recognised in the income statement	FV as at 31 Dec 2010
-7 3	0 0	0 0	0 0	-8 1	181 2
0 0	0 0	0 0	0 0	0 0	0 0
0 0	0 0	0 0	0 0	0 0	0 0
0 0 ³	0 0	0 0	0 0	0 0	74 8
-7 3	0 0	0 0	0 0	-8 1	256 0

All the fair value changes recognised in the statement of other comprehensive income are attributable to financial instruments that were contained in the Bank's portfolio at the balance sheet date

The fair value changes amounting to €1 3 million reported in 2011 (previous year €8 1 million) are reflected in net trading income

7.8 Collateral received for financial instruments

WestImmo was provided with the following assets as collateral for loans and advances to customers, loans and advances to banks, financial assets held for trading, positive fair values from derivative financial instruments and contingent liabilities. Collateral is reported at fair value.

Loans and advances to customers and to banks	31 Dec 2011 € million	31 Dec 2010 € million
Assets held as collateral		
Financial collateral	67.0	81.3
Other collateral	4.9	1.8
Real estate collateral	11,386.9	12,358.6
Assignments	757.4	882.7
EAA guarantee	3,002.2	3,337.8
Total	15,218.4	16,662.2

Financial assets held for trading (non-derivatives)	31 Dec 2011 € million	31 Dec 2010 € million
Assets held as collateral		
Financial collateral	23.4	23.5
Real estate collateral	142.8	146.3
Assignments	0.5	0.0
Total	166.7	169.8

Financial assets held for trading (derivatives) and positive fair values from derivative hedging instruments (collateral derivatives)	31 Dec 2011 € million	31 Dec 2010 € million
Assets held as collateral		
Financial collateral	165.0	91.1
Total	165.0	91.1

Contingent liabilities	31 Dec 2011 € million	31 Dec 2010 € million
Assets held as collateral		
EAA guarantee	88.4	106.1
Total	88.4	106.1

Details of the changes made to the prior-year figures are presented in Note 2.4 "Adjustments".

Collateral is liquidated in accordance with the contractual conditions following an event of default (EoD) or comparable event (credit event).

As at the reporting date, assets from the liquidation of collateral with a carrying amount of €28.0 million (previous year €28.2 million) were recognised in the balance sheet. These comprised firstly debt-to-equity swaps in the amount of €14.2 million (previous year €9.4 million) reported under the "available-for-sale financial assets" item and secondly rescue acquisitions in the amount of €13.8 million (previous year €14.7 million) reported under the "investment property" and "other assets" items. WestImmo intends in principle to sell all these assets, even if they cannot easily be liquidated. In addition, receivables from Erste Abwicklungsanstalt (EAA) resulting from the guarantee utilisation in the amount of €4.1 million were recognised in the previous year.

The EAA guarantee in the amount of €3.0 billion (previous year €3.3 billion) resulted from the transfer of risk assets to the EAA in fiscal year 2010.

There is no loan collateral that can be sold or liquidated without the collateral provider being in default.

7.9 Collateral transferred for own liabilities

Assets were transferred as collateral for the following liabilities:

	31 Dec 2011 € million	31 Dec 2010 € million
Deposits from banks	761.3	2,080.9
Deposits from customers	0.0	87.2
Negative fair values of derivatives	355.9	357.5
Total	1,117.2	2,525.6

The following assets were transferred as collateral for own liabilities:

	31 Dec 2011 € million	31 Dec 2010 € million
Carrying amounts of securities furnished as collateral for		
– Securities repurchase agreements	589.5	1,140.7
– Participation in clearing systems and stock exchange facilities	16.7	0.0
– Open market transactions with Deutsche Bundesbank	355.8	1,297.1
Carrying amounts of loan receivables for		
– KfW global loans	228.6	221.0
– Open market transactions with Deutsche Bundesbank	381.6	251.4
Total	1,572.2	2,910.2

On 31 December 2011, securities with a carrying amount of €355.8 million (previous year €1,297.1 million) had been deposited and loan receivables in the amount of €381.6 million (previous year €251.4 million) had been assigned as security for participating in open market transactions with Deutsche Bundesbank. This includes repurchased own issues amounting to €261.9 million (previous year €430.8 million). Repurchased issues do not meet the recognition criteria for financial assets and are therefore reported by the Bank as the repayment of securitised liabilities. There were no open market transactions as at the reporting date.

No cash collateral was furnished for securities repurchase agreements in the year under review (previous year € 17.6 million), while cash collateral of € 527.6 million (previous year € 423.4 million) was furnished for OTC derivatives transactions. In addition, the Bank's cover pool contains receivables secured by mortgages, public sector receivables, bonds and bank deposit receivables. Cover assets amounted to € 11,579.7 million as at 31 December 2011 (previous year € 12,701.3 million), while mortgage and public sector Pfandbriefe amounted to € 9,101.8 million (previous year € 10,573.8 million).

Collateral for own liabilities and contingent liabilities is furnished at market terms and conditions.

Details of the changes made to the prior-year figures are presented in Note 2.4 "Adjustments".

710. Exposure to default risk from financial instruments

The maximum exposure to default risk from financial instruments – without taking into account any collateral or other arrangements that reduce the risk – corresponds to the carrying amount of the financial instruments. The carrying amount of loans and advances to customers is represented net of the allowance for losses on loans and advances.

	Gross default risk exposure 31 Dec 2011 € million	Collateral 31 Dec 2011 € million	Net default risk exposure 31 Dec 2011 € million
Cash and balances with central banks	91.7	0.0	91.7
Loans and advances to banks	821.5		
Loans and advances to customers	17,665.2		
Subtotal	18,486.7	15,218.4	3,268.3
Financial assets held for trading	1,425.6		
Positive fair values of derivative hedging instruments	322.6		
Subtotal	1,748.2	331.7	1,416.5
Financial assets designated at fair value through profit or loss	218.7	0.0	218.7
Non-current financial assets	2,253.2	0.0	2,253.2
Contingent liabilities from guarantees	591.1	88.4	502.7
Other commitments (irrevocable loan commitments)	151.7	0.0	151.7

	Gross default risk exposure 31 Dec 2010 € million	Collateral 31 Dec 2010 € million	Net default risk exposure 31 Dec 2010 € million
Cash and balances with central banks	81.9	0.0	81.9
Loans and advances to banks	880.5		
Loans and advances to customers	20,079.7		
Subtotal	20,960.2	16,662.2	4,298.0
Financial assets held for trading	1,130.8		
Positive fair values of derivative hedging instruments	193.7		
Subtotal	1,324.5	260.9	1,063.6
Financial assets designated at fair value through profit or loss	324.6	0.0	324.6
Non-current financial assets	2,596.5	0.0	2,596.5
Contingent liabilities from guarantees	807.3	106.1	701.2
Other commitments (irrevocable loan commitments)	508.4	0.0	508.4

The presentation was adjusted compared with the previous year (see Note 2.2 "Changes in presentation and accounting policies").

See Note 7.8 "Collateral received for financial instruments" for details of the collateral. Details of the changes made to the prior-year figures are presented in Note 2.4 "Adjustments"

A large proportion of the collateral received for loans and advances to customers and loans and advances to banks is attributable to loans and advances to customers

A large proportion of the collateral received for financial assets held for trading and positive fair values from derivative financial instruments is attributable to financial assets held for trading

7.11 Loan volume exposed to default risk

The loan volume exposed to default risk in the lending business for which payments are past due by more than 90 days and for which the terms have been revised is shown in the following table. The terms were revised as part of restructuring measures for exposures for which the Bank expects an improvement in the risk situation

	31 Dec 2011 € million	31 Dec 2010 € million
Carrying amount of lending business (LaR) with payments past due but not impaired	29.0	30.6
Of which		
– loans past due over 90 to 180 days	3.5	5.2
– loans past due over 180 days to 1 year	4.4	6.1
– loans past due over 1 year	21.1	19.3
Carrying amount of lending business (LaR) with adjusted terms	3.2	7.3
Total	32.2	37.9

Loan volume exposed to default risk of the IFRS 5 portfolio	31 Dec 2011 € million	31 Dec 2010 € million
Carrying amount of lending business (LaR) with payments past due but not impaired	0.0	0.1
Of which		
– loans past due over 180 days to 1 year	0.0	0.1
Total	0.0	0.1

For continuing operations, financial assets with a carrying amount of €651.8 million (previous year €609.9 million) were written down for impairment for credit-related reasons. Within non-current assets held for sale, financial assets with a carrying amount of €0.0 million (previous year €2.2 million) were written down for impairment for credit-related reasons

7.12 Contingencies and commitments

Contingencies and commitments are potential future liabilities and obligations of the Group resulting from the lending business and from limited-term lines of credit extended to customers but not yet drawn down

	31 Dec 2011 € million	31 Dec 2010 € million
Contingent liabilities		
– from guarantees and warranty agreements	591.1	807.3
Other commitments		
– irrevocable loan commitments	151.7	508.4

Recognised provisions take adequate account of contingent liabilities in connection with risks related to the lending business (Note 6.5)

In accordance with IAS 37.91, the disclosures as defined in IAS 37.86 are not made for reasons of practicability

7.13 Letter of comfort

WestImmo had issued an unlimited letter of comfort, which was rescinded as at 30 November 2010, in favour of its affiliate WIB Real Estate Finance Japan K.K.

By way of a letter dated 31 January 2011, WestImmo had issued a declaration to assume any credit default risk for WIB Real Estate Finance Japan K.K.'s credit portfolio existing as at 30 November 2010

The declaration was rescinded by way of a letter from WestImmo dated 7 December 2011

7.14. Maturity structure

The maturity structure is presented on the basis of IFRS 7.39

In the maturity structure, financial assets and liabilities held for trading exclusively comprise non-derivative financial instruments

Please see Note 7.3 "Derivative financial instruments" for information on maturities relating to derivative financial instruments

The undiscounted future repayment and interest cash flows from assets (excluding other investees, investments in associates and investments in subsidiaries) and liabilities are broken down as follows

Residual maturities as at 31 Dec 2011	Payable on demand € million	up to 3 months € million	3 months to 1 year € million	1 to 5 years € million	more than 5 years € million
Cash and balances with central banks	91 7	0 0	0 0	0 0	0 0
Loans and advances to banks	548 9	100 2	22 4	88 4	79 1
Loans and advances to customers	49 9	1,452 1	3,247 8	10,942 0	4 228 5
Financial assets held for trading	0 0	1 1	4 1	49 5	162 3
Financial assets designated at fair value through profit or loss	0 0	22 4	87 0	113 8	0 0
Non-current financial assets	0 0	47 3	218 1	1 686 2	1,187 4
Total	690 5	1,623 1	3,579 4	12,879 9	5,657 3
Deposits from banks	133 3	946 4	456 3	1,616 4	296 6
Deposits from customers	134 9	312 5	567 0	3,628 2	3,462 3
Securitized liabilities	0 0	310 0	3,075 9	4,574 6	649 3
Financial liabilities designated at fair value through profit or loss	0 0	22 2	53 0	693 0	2,619 6
Subordinated capital	0 0	3 8	93 4	200 9	17 1
Total	268 2	1,594 9	4,245 6	10,713 1	7,044 9

Residual maturities as at 31 Dec 2010	Payable on demand € million	up to 3 months € million	3 months to 1 year € million	1 to 5 years € million	more than 5 years € million
Cash and balances with central banks	81 9	0 0	0 0	0 0	0 0
Loans and advances to banks	593 9	61 9	45 8	126 0	82 8
Loans and advances to customers	82 3	1 660 1	2,839 9	13,161 5	5,417 3
Financial assets held for trading	0 0	0 9	3 3	57 4	174 7
Financial assets designated at fair value through profit or loss	0 0	28 7	83 0	223 1	0 0
Non-current financial assets	0 0	52 8	219 5	1,951 9	1,250 8
Total	758 1	1,804 4	3,191 5	15,519 9	6,925 6
Deposits from banks	69 3	2,052 8	1,026 7	1,895 9	609 4
Deposits from customers	169 2	367 7	897 0	3,133 5	3 929 3
Securitized liabilities	0 0	542 8	1,449 7	6 169 3	741 4
Financial liabilities designated at fair value through profit or loss	0 0	21 3	301 1	656 3	2 789 2
Subordinated capital	0 0	3 8	188 7	289 0	0 0
Total	238 5	2,988 4	3,863 2	12,144 0	8,069 3

Residual maturities as at 31 Dec 2011	Payable on demand € million	up to 3 months € million	3 months to 1 year € million	1 to 5 years € million	more than 5 years € million
Potential outflow of liquidity from					
Financial guarantee contracts	591 1	0 0	0 0	0 0	0 0
Irrevocable loan commitments	0 0	27 3	124 4	0 0	0 0

Residual maturities as at 31 Dec 2010	Payable on demand € million	up to 3 months € million	3 months to 1 year € million	1 to 5 years € million	more than 5 years € million
Potential outflow of liquidity from					
Financial guarantee contracts	807 3	0 0	0 0	0 0	0 0
Irrevocable loan commitments	0 0	184 3	324 1	0 0	0 0

Financial guarantee contracts are reported in the "payable on demand" maturity band in the amount of the full contractually agreed capital because the timing and precise amount of the claim cannot be determined. However, the Bank assumes that the financial guarantee contracts will not be called in full in the short term.

The maturity structure of irrevocable loan commitments is based on a forecast by the Credit department.

7.15 Securities repurchase agreements

Payments received under securities repurchase agreements are reported in the following items in the balance sheet:

	31 Dec. 2011 € million	31 Dec. 2010 € million
Borrowers under securities repurchase agreements (repos)		
Deposits from banks	561.3	1,180.7
Deposits from customers	0.0	87.3
Total	561.3	1,268.0

No securities repurchase agreements with related parties existed as at the reporting date (previous year: €94.1 million).

7.16. Securities lending transactions

As in the previous year, the Bank had no securities lending transactions in its portfolio as at the balance sheet date.

8. Supplementary Disclosures

8.1. Trust activities

Trust assets relate exclusively to trustee loans to customers. In such cases, the Bank acts in its own name for third-party account. The trust assets are offset by trustee liabilities in the same amount.

The following table shows the volume of off-balance-sheet trust activities.

	31 Dec. 2011 € million	31 Dec. 2010 € million
Loans and advances to customers	13.8	18.4
Trust assets	13.8	18.4
Deposits from banks	11.3	13.8
Deposits from customers	2.5	4.6
Trustee liabilities	13.8	18.4

In the fiscal year, fee and commission expense of €0.1 million (previous year: €0.2 million) and fee and commission income of €0.2 million (previous year: €0.3 million) was recognised in connection with the management of the above-mentioned trust activities.

8.2. Managed assets

	31 Dec. 2011 € million	31 Dec. 2010 € million
Loans and advances to customers	0.6	0.9
Total	0.6	0.9

Managed assets relate solely to loans and advances to customers. The loans are extended in the name and for the account of third parties.

In the fiscal year, fee and commission expense of €0.0 million (previous year: €0.1 million) and fee and commission income of €0.0 million (previous year: €0.1 million) was recognised in connection with the management of the above-mentioned assets.

8.3. Subordinated assets

	31 Dec. 2011 € million	31 Dec. 2010 € million
Loans and advances to customers		
– Private customers	0.6	0.6
Total	0.6	0.6

The “private customers” item reported here does not relate to transactions designated for sale.

8.4 Deposit protection

WestImmo was affiliated with the Guarantee Fund of the Central Savings Banks/Central Giro Institutions in the Deutscher Sparkassen- und Giroverband (DSGV – German Savings Bank Association). The Bank had an additional funding requirement of €25.8 million (previous year: €114.5 million) at the balance sheet date.

WestImmo was also a member of the Reservefonds (Reserve Fund) of the Rheinischer Sparkassen- und Giroverband (RSGV – Savings Banks and Giro Association of the Rhineland) with a share of 4.875 %. The fund comprises cash funds of €250.0 million and an additional funding requirement in the same amount. In addition, the Bank was a member of the Reserve Fund of the Westfälisch-Lippischer Sparkassen- und Giroverband (SVWL – Savings Bank and Giro Association of Westphalia-Lippe) during the fiscal year.

After WestImmo lost its appeal to the Higher Administrative Court in Koblenz over a dispute regarding the payment of annual contributions to the SVWL in a judgement dated 15 June 2011, it entered into negotiations with the SVWL and the RSGV on reaching a settlement with respect to its memberships in the reserve funds. Agreement was reached with the two associations that WestImmo would cease to be a member of the reserve funds. The payments made in return by WestImmo were less than the total amount disclosed last year as the total potential payment obligation to the reserve funds.

As agreed, WestImmo ceased to be a member of the respective reserve funds on payment of the settlement amounts. It left the SVWL Reserve Fund on 15 December 2011 and the RSGV Reserve Fund on 17 January 2012.

8.5. Other financial obligations

The WestImmo Group has other financial obligations of €61.9 million (previous year: €63.5 million) from non-cancellable operating leases in which WestImmo or its subsidiaries act exclusively as the lessee. It also has other obligations under rental and service agreements. The following minimum lease payments under non-cancellable operating leases are due in the coming years:

	31 Dec 2011 € million	31 Dec 2010 € million
Minimum lease payments		
– up to 1 year	6.4	6.4
– 1 to 5 years	23.4	24.5
– more than 5 years	17.8	23.3
Total	47.6	54.2

The following payments will arise from rental and service agreements in the coming years

	31 Dec 2011 € million	31 Dec 2010 € million
Other obligations		
– up to 1 year	8.8	7.1
– 1 to 5 years	5.2	2.2
– more than 5 years	0.3	0.0
Total	14.3	9.3

Annual rental and leasing obligations amount to €7.7 million (previous year €8.0 million), of which €0.2 million (previous year €0.4 million) is owed to affiliated unconsolidated companies. The agreements have a remaining term of up to 10 years.

Subleases generated proceeds of €0.3 million (previous year €0.3 million). Significant leases with side agreements have not been entered into, with the exception of an option to purchase a property used by the Group at the end of the agreed lease period, at the earliest in 2015.

8.6 Related party disclosures

Transactions with associates, joint ventures and other investees are shown in the following tables

	31 Dec 2011 € million	31 Dec 2010 € million
Loans and advances to customers		
– affiliated unconsolidated companies	16.8	15.2
– associates, joint ventures and other investees	39.4	45.2
Non-current financial assets		
– affiliated unconsolidated companies	14.8	0.6
– associates, joint ventures and other investees	1.5	1.6
	31 Dec 2011 € million	31 Dec 2010 € million
Deposits from customers		
– affiliated unconsolidated companies	16.2	0.6
– associates, joint ventures and other investees	3.8	4.7

Guarantees and/or sureties extended to affiliated unconsolidated companies, associates, joint ventures and other investees existed in the amount of €3.7 million (previous year €5.0 million).

Transactions with the owner WestLB are as follows

	31 Dec 2011 € million	31 Dec 2010 € million
Loans and advances to banks	36.3	17.6
Financial assets held for trading	401.1	269.3
Total	437.4	286.9

	31 Dec 2011 € million	31 Dec 2010 € million
Deposits from banks	924.4	651.0
Securitised liabilities	3,012.5	2,086.0
Financial liabilities held for trading	329.1	240.9
Contingent liabilities	132.4	221.2
Total	4,398.4	3,199.1

Deposits from banks include cash collateral furnished by WestLB amounting to € 165.0 million (previous year: € 190.0 million)

The above loans and advances, non-current financial assets and liabilities to related parties mainly comprise intragroup financing transactions

Related party transactions are carried out at arm's length conditions

8.7 Remuneration of governing body members

	31 Dec 2011 € million	31 Dec 2010 € million
Aggregate remuneration of the Managing Board	1.3	1.7
Of which		
– fixed salary	1.2	1.1
– performance-related	0.1	0.6
Aggregate remuneration of former Managing Board member and their surviving dependents	0.3	0.3
Pension provisions for former Managing Board members and their surviving dependents	4.5	5.2

The members of the Supervisory Board received remuneration amounting to € 0.1 million (previous year: € 0.3 million)

8.8 Loans to governing body members

The members of the Managing Board have been granted loans amounting to € 0.1 million (previous year: € 0.2 million). The terms of the loans end in fiscal year 2022 at the latest. The nominal rates of interest range from 3.96 % to 4.8 %. There are no loans to members of the Supervisory Board (previous year: € 0.1 million).

No contingent liabilities were entered into in favour of governing body members in either 2011 or 2010.

8 9 Auditors' fees

The following fees for the auditors of the consolidated financial statements were recognised as an expense under the "other administrative expenses" item in the year under review

	31 Dec 2011 € million	31 Dec 2010 € million
Financial statement audits	0.9	0.9
Other assurance and valuation services	0.2	0.3
Tax advisory services	0.0	0.0
Other services	0.0	0.0
Total	1.1	1.2

8 10. Number of staff

The following table shows the average number of employees during the year

	male	female	Total 2011	Total 2010
German Group companies/branches	214	173	387	420
Foreign Group companies/branches	24	22	46	57
Total	238	195	433	477

Nine (previous year: eight) of these staff were employed by proportionately consolidated companies

There were no vocational or similar trainees in either 2011 or 2010

8 11 Date of approval of the consolidated financial statements for publication

The accompanying consolidated financial statements were signed by the Managing Board on 12 March 2012 and released to the Supervisory Board

8.12. Members of the Supervisory Board and the Managing Board

Supervisory Board

Hubert Beckmann

Chairman

Deputy Chairman of the Managing Board

WestLB AG

Dr Hans-Jürgen Niehaus

Deputy Chairman (until 31 March 2011)

Member of the Managing Board

WestLB AG

Thomas Groß

Deputy Chairman (from 18 November 2011)

Member of the Managing Board

WestLB AG

Raimund Bar

Chairman of the Staff Council

Westdeutsche ImmobilienBank AG

Klemens Breuer

Member of the Managing Board (from 4 May 2011)

WestLB AG

Michael Breuer

President

Savings Banks and Giro Association of the Rhineland

Dr Rolf Gerlach

President

Savings Banks and Giro Association of Westphalia-Lippe

Gerhard Heilgenberg

Senior Principal

Finance Ministry of the State of North Rhine-Westphalia

Hendrik Hering

Chairman of the SPD Parliamentary Party

in the Rhineland-Palatinate State Parliament

Peter Minhorst

Head of Group Development

WestLB AG

Managing Board

Dr. Peter Knopp

Chairman of the Managing Board

Claus-Jürgen Cohausz

Member of the Managing Board

Member of the Managing Board for the Front Office

Rainer Spielmann

Member of the Managing Board

**Member of the Managing Board for Credit Management,
Risk Management, Finance and Accounting**

8 13. Appointments of Managing Board members to statutory supervisory bodies

No members of the Managing Board held offices in accordance with section 340a (4) no 1 of the HGB

8 14 Appointments of employees and legal representatives to statutory supervisory bodies

The following employees and legal representatives hold the following offices or exercise the following functions at the companies listed below

Family name	First name(s)	Name and legal form of	Office/Function	Private or Bank appointment
Adler	Marcus	Allvaris GmbH	Management	Bank
Adler	Marcus	WestProject & Consult Gesellschaft für Projektentwicklung und Consulting mbH	Management	Bank
Adler	Marcus	Westdeutsche ImmobilienHolding GmbH	Management	Bank
Adler	Marcus	West Zwanzig GmbH	Management	Bank
Bar	Raimund	Westdeutsche ImmobilienBank AG	Supervisory Board	Bank
Bar	Raimund	WestLB AG	Supervisory Board	Bank
Bergmann	Michael	UFW-Greven Unabhängige Freie Wähler e V	President	Private
Cohausz	Claus-Jürgen	Deutsch-Britische Industrie- und Handelskammer	Hesse Regional Committee	Bank
Figgen	Frank	Stadt Hamm	Rat	Private
Figgen	Frank	HAMTEC GmbH-Technologiezentrum Grunderzentrum für Unternehmen in Hamm	Shareholders' Meeting	Private
Figgen	Frank	Lippeverband	Shareholders' Meeting	Private
Fohrmann	Andreas	Fischerinsel Beteiligungs GmbH	Management	Bank
Fohrmann	Andreas	WMO Entwicklungsgesellschaft mbH	Management	Bank
Ghaemmaghami	Mike	WIB Real Estate Finance Japan K K	Management	Bank
Girke	Christian	West Zwanzig GmbH	Management	Bank
Lukas	Friedrich	Wohnungsverein 1893 eG Munster	Supervisory Board	Private
Mathies	Sascha	Montelucia Phoenix Inc	Vice-President	Bank
Menke	Ulrich	Allvaris GmbH	Management	Bank
Menke	Ulrich	WestProject & Consult Gesellschaft für Projektentwicklung und Consulting mbH	Management	Bank
Menke	Ulrich	WIP Westdeutsche Immobilien Portfolio Management GmbH	Management	Bank
Plagemann	Thomas	Fischerinsel Beteiligungs GmbH	Management	Bank
Santen	Anne	Gewerbegebiet Munster Loddeneheide mbH	Management	Bank
Santen	Anne	Projektentw Ges Gartenstadt Wildau	Management	Bank
Santen	Anne	Rothegrund II mbH	Management	Bank
Santen	Anne	Projektgesellschaft Klosterberg mbH	Management	Bank
Schweikert	Ludwig	WPW Immobilienentwicklungsgesellschaft Nr 1 mbH i L	Liquidator (former Managing Director	Bank
Stuemcke	Achim	Montelucia Phoenix Inc	President	Bank
Stone	Julie	First Class Solutions (UK) Ltd	Director	Private
Weber	Martin	Westdeutsche ImmobilienHolding GmbH	Management	Bank

8.15 Events after the balance sheet date

Since WestImmo has not been sold to date, WestLB AG is required by the European Commission either to dispose of WestImmo by 30 June 2012 or to transfer it to Erste Abwicklungsanstalt (EAA). Future restructuring expenses of €26.2 million are to be expected in connection with the probable transfer of WestImmo to EAA and the restructuring likely to occur in this context. The restructuring provision was not recognised retrospectively as at 31 December 2011 in the consolidated financial statements in accordance with IFRSs since the conditions of IAS 37 were not met.

At the beginning of January 2012, the new Greek government announced that a haircut on Greek government bonds significantly in excess of the originally proposed figure of 50 % might be necessary to reduce the country's debt levels. The Republic of Greece has now reached agreement with the Institute of International Finance to the effect that private creditors will take a haircut of 53.5 % of the principal amount of the Greek government bonds concerned. In addition, 31.5 % of the principal amount will be exchanged for newly issued Greek government bonds with maturities of between 11 and 30 years and a progressive interest rate. Creditors will receive 15 % of the principal amount in the form of short-dated bonds issued by the European Financial Stability Facility (EFSF). Overall, the conditions provided for in the bailout lead to a haircut of around 70 % to 75 % of the principal amount for private creditors.

8.16 List of shareholdings

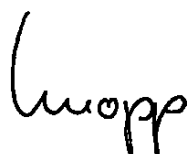
WestImmo directly or indirectly holds at least 20 percent of the shares of the following companies (as at 31 December 2011)

No	Name/town or city	Equity interest in %	voting power if different	Equity in € thousands	Profit/loss in € thousands
I Companies included in the consolidated financial statements					
a	Subsidiaries in accordance with IAS 27				
1	Westdeutsche Immobilien Holding GmbH, Mainz ⁴	94.60		5,539	0
2	WestGkA Management Gesellschaft für kommunale Anlagen mbH, Düsseldorf ⁴	89.87	95.00	1,128	0
3	WestProject & Consult Gesellschaft für Projektentwicklung und Consulting mbH, Düsseldorf ⁴	94.60	100.00	1,559	0
4	WIB Real Estate Finance Japan K.K. Tokyo, Japan ⁴	100.00		43,750	-2,918
5	WMO Erste Entwicklungsgesellschaft mbH & Co. KG, Bonn ⁴	47.54	50.25	5,608	954
b	Associates accounted for using the equity method				
6	EMG Projekt Gewerbepark Ludwigsfelde/Lowenbruch GmbH Berlin ³	47.50		451	1,355
II Companies not included in the consolidated financial statements					
a	Unconsolidated subsidiaries				
7	Allvaris GmbH, Düsseldorf ³	94.92	100.00	867	126
8	BfP Beteiligungsgesellschaft für Projekte mbH Düsseldorf ³	75.68	80.00	25	0
9	Fischerinsel Beteiligungs-GmbH, Mainz ³	100.00		19	-2
10	Fischerinsel Vermietungs-GmbH & Co. KG, Mainz ³	100.00		1,387	-535
11	GkA Gesellschaft für kommunale Anlagen mbH, Düsseldorf ³	89.87	100.00	163	-12
12	GkA Grundstücksgesellschaft Hilden mbH Hilden ³	43.14	60.00	59	0
13	Infrastrukturentwicklungsgesellschaft Hilden mbH, Hilden ³	46.73	52.00	125	43
14	LIFE VALUE Construction GmbH Düsseldorf ³	89.87	100.00	628	77
15	LIFE VALUE GmbH & Co. Building 1 KG, Düsseldorf ³	82.72	100.00	-5	-5
16	LIFE VALUE GmbH & Co. LivingLofts KG, Düsseldorf ³	82.72	100.00	-14	-14
17	LIFE VALUE GmbH & Co. Loft 1 KG Düsseldorf ³	82.72	100.00	-9	-9
18	LIFE VALUE GmbH & Co. Palace 1 KG Düsseldorf ³	82.72	100.00	-11	-11
19	LIFE VALUE GmbH & Co. 10 Broome KG, Düsseldorf ³	82.72	100.00	-44	-854
20	LIFE VALUE GmbH & Co. 11/14 Centre KG Düsseldorf ³	82.72	100.00	-260	-624
21	LIFE VALUE GmbH & Co. 6 Houston KG Düsseldorf ³	82.72	100.00	27	-640
22	LIFE VALUE GmbH & Co. 7/8 Prince KG, Düsseldorf ³	82.72	100.00	213	-2,085
23	LIFE VALUE GmbH & Co. 9 Spring KG, Düsseldorf ³	82.72	100.00	-43	-954
24	LIFE VALUE Properties GmbH, Düsseldorf ³	82.78	100.00	194	20
25	Montelucia Phoenix Inc., Dover, USA ⁶	100.00		9,451	101
26	PM Portfolio Management GmbH Düsseldorf ³	94.92	100.00	17	0
27	Projekt Carree am Bahnhof GmbH & Co. Bürozentrum KG, Bad Homburg ²	45.83	51.00	-	-
28	Projekt Carree am Bahnhof Verwaltungs-GmbH, Bad Homburg ²	45.83	51.00	-	-
29	Projektentwicklungsgesellschaft Gartenstadt Wildau Rothegrund II mbH, Wildau ³	94.00		-6,214	-32
30	Projektgesellschaft Klosterberg mbH, Münster ³	94.00		-520	-20
31	West Zwanzig GmbH, Mainz ³	100.00		25	0
32	WIP Westdeutsche Immobilien Portfolio Management GmbH Düsseldorf ³	100.00		614	3
33	WMO Entwicklungsgesellschaft mbH Bonn ³	47.54	100.00	32	1

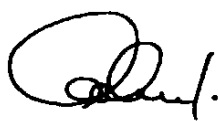
No	Name/town or city	Equity interest in %	voting power if different	Equity in € thousands	Profit/loss in € thousands
b Joint Venture					
34	Frankonia Eurobau Max-Viertel GmbH Nettetal ⁵	25 00		3 240	51
35	GID Gesellschaft für Innenstadtentwicklung in Duisburg mbH Hamburg ³	45 00		-3	-1
36	Grundstücksentwicklungsgesellschaft Krohnstieg-Süd mbH, Bremen ³	45 00		-2 792	150
37	Objektgesellschaft KAP am Sudkar mbH i L., Köln ¹	25 00		-	-
c Associates					
38	Entwicklungsgesellschaft Wohnpark Unna-Süd mbH, Unna ³	33 33		426	-31
39	GML Gewerbepark Munster-Loddenheide GmbH, Munster ³	33 33		13,869	658
40	Projekt Zeppelin Center Friedrichshafen Verwaltungs GmbH i L. Bonndorf ¹	25 00		-	-
41	Reschop Carre Hattingen GmbH, Dusseldorf ³	40 00		-1,789	-724
42	Reschop Carré Marketing GmbH, Dusseldorf ³	40 00		26	10
43	StadtGalerie Witten GmbH, Dusseldorf ³	40 00		-899	59
44	StadtGalerie Witten Marketing GmbH, Dusseldorf ³	40 00		-9	-34
45	WPW Immobilienentwicklungsgesellschaft Nr. 1 GmbH i L. Trier ¹	33 33		-	-

¹Insolvency proceedings opened²Insolvency proceedings opened³Only available data relates to 31 December 2010⁴Preliminary 2011 financial statements⁵Only available data relates to 31 December 2009⁶Only available data relates to 31 March 2010

Mainz, 12 March 2012



Dr. Peter Knopp



Claus-Jürgen Cohausz



Rainer Spielmann

The audit opinion reproduced below is an English translation of the original German audit opinion
The original German relates solely to the original German annual/consolidated financial statements
and management report of the group

Audit opinion

We have audited the consolidated financial statements prepared by Westdeutsche ImmobilienBank AG, Mainz, comprising the income statement, the statement of comprehensive income, the balance sheet, the statement of changes in equity, the cash flow statement and the notes to the financial statements, and the management report for the fiscal year from 1 January 2011 to 31 December 2011. The preparation of the consolidated financial statements and the group management report in accordance with IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to Sec. 315a (1) HGB [“Handelsgesetzbuch” German Commercial Code] is the responsibility of the Company’s management. Our responsibility is to express an opinion on the consolidated financial statements and the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with Sec. 317 HGB [“Handelsgesetzbuch” German Commercial Code] and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and the group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRSs as adopted by the EU, the additional requirements of German commercial law pursuant to Sec. 315a (1) HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group’s position and suitably presents the opportunities and risks of future development.

Without qualifying this opinion, we point out to the following discovered specific characteristic. As described in the group management report in the sections "Summary by the Management Board on the transfer of WestImmo to EAA" and "Summary by the Managing Board on the prospects for the Group", there is a possibility that Westdeutsche ImmobilienBank AG will transfer its assets and liabilities to Erste Abwicklungsanstalt by way of singular succession as at 1 July 2012, to the extent that this is permitted by law, that it will largely discontinue its existing business and limit itself in future to the administration of loan and securities portfolios in the service business. This would have no effect on the measurement of assets as the transfer is expected to be implemented outside profit or loss.

Dusseldorf, 13 March 2012

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

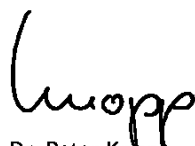
Werthmann
Wirtschaftsprüfer
(German Public Auditor)

Hunkel
Wirtschaftsprüfer
(German Public Auditor)

Responsibility Statement

To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the group, and the group management report includes a fair review of the development and performance of the business and the position of the group, together with a description of the material opportunities and risks associated with the expected development of the group in the coming fiscal year

Mainz, 12 March 2012



Dr. Peter Knopp



Claus-Jürgen Cohausz



Rainer Spielmann

Report of the Supervisory Board

For banks, the 2011 economic landscape was largely shaped by the escalation of the European sovereign debt crisis and its impact on the financial markets over the course of the year. Refinancing opportunities became more difficult as a result of the uncertainty in the second half of the year in particular. The market environment for commercial real estate financing was characterised by restraint on the part of investors, especially in the last six months of the year, while the USA recorded more positive trends. Despite the economy again weakening overall, the economic recovery seen in 2010 continued to have a positive effect on the commercial real estate markets.

For Westdeutsche ImmobilienBank AG (WestImmo), fiscal year 2011 was dominated by the implementation of the European Commission's decision on state aid dated 12 May 2009, according to which WestLB AG was obliged to sell its stake in WestImmo. Efforts to sell had already begun in 2010, which led to intensive sales negotiations with Apollo Investment Management (Apollo) in the second half of 2011. However, WestLB AG decided to terminate the transaction in December 2011 as it did not appear justifiable economically or in terms of risk considerations. According to the decision approving state aid dated 20 December 2011, WestImmo is to be transferred to Erste Abwicklungsanstalt (EAA) if it is not sold by 30 June 2012.

WestImmo's new business activities decreased significantly in the past fiscal year due to the ongoing sale process and the limited financing opportunities caused by this. However, the Bank benefited from its solid business model and generated virtually stable results from its loan portfolio. Positive earnings growth over the past few years was negatively impacted by impairment losses on government bonds and other special factors and led to a loss, which was absorbed by WestLB in accordance with the existing profit and loss transfer agreement.

The Managing Board and employees worked untiringly in the past fiscal year, demonstrating commitment and a forward-looking approach under what were exceptional circumstances. The Supervisory Board would like to thank them all for their hard work. It extends its thanks to the Staff Council for the constructive working relationship.

Cooperation between the Managing Board and the Supervisory Board

In the past year, the Supervisory Board discharged its duties under the law and the bylaws, and oversaw and advised the Managing Board in its management of the Bank. The Managing Board and the Supervisory Board were involved in a continuous and comprehensive exchange of information with regard to the ongoing sale process for WestImmo. The Supervisory Board also examined the business performance and the risk situation in detail. A further focus was the impact of the escalating European sovereign debt crisis. The Managing Board informed the Supervisory Board on both a regular and an ad hoc basis in writing and verbally of relevant issues concerning business development, the risk position and risk management, business strategy and planning, as well as of significant events and transactions. Ensuring the flow of information is perceived as a responsibility affecting both boards and is defined in greater detail in these bodies' bylaws. Above and beyond this, the Chairman of the Managing Board and the Chairman of the Supervisory Board in particular are in constant contact and discuss current issues and developments.

In view of the sale situation, the Supervisory Board and its committees had a particular obligation in the past fiscal year to support the work of the Managing Board in an advisory capacity, obtain information about current developments in a timely manner and make the necessary decisions

Supervisory Board Meetings

The Supervisory Board held a total of ten meetings in the fiscal year under review

The meetings on 27 January and 14 February 2011 were convened to present current developments in the bidding process in connection with the sale process, as well as the status of talks between WestLB AG and the European Commission. In addition, the Managing Board reported on the preliminary annual results and new business growth over the past fiscal year at the first meeting of the year. At the meeting on 3 March 2011, the business performance as at 31 December 2010 was presented in detail, and refinancing and liquidity planning were discussed at length. The Supervisory Board resolved to bring forward the examination of the annual financial statements

The 2010 financial statements were discussed, adopted and approved in the meeting on 31 March 2011. The Supervisory Board proposed to the Annual General Meeting that Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Eschborn, be appointed as auditors of the annual financial statements for fiscal year 2011. The meeting took note of the Bank's business strategy, which is reviewed on an annual basis. The Managing Board reported on the impact of the devastating earthquake on the properties financed by the Bank in Japan and the annual meeting with supervisory authorities

On 4 May 2011, the Managing Board provided the Supervisory Board with reports on the business performance as at 31 March, in particular the development of the liquidity and personnel situation, as well as the performance of European government bonds in the Bank's securities portfolio. Other topics included the effects of the situation in Japan and the state of affairs regarding additional payment obligations to the reserve funds of the Sparkassenverband Westfalen-Lippe and the Rheinischer Sparkassen- und Giroverband. The presidents of the two associations, who are represented on the Supervisory Board, did not participate in discussion on the reserve funds to avoid conflicts of interest. Reporting on the sale project continued. The Supervisory Board resolved to extend the credit risk strategy and the risk policy, and took note of the 2010 Annual Report and the reporting on the Remuneration Report for 2011

The meeting on 25 August 2011 focused on the business performance as at 30 June 2011 and the Half-yearly Financial Report. The Supervisory Board was brought up to date on the liquidity situation, the reserve funds and the sale process. A further extraordinary meeting on the continuing sale process was held by the Supervisory Board on 28 September 2011

At the meeting on 18 November 2011, the Managing Board explained in detail the earnings position as at 30 September 2011 and its extrapolation to the end of the year, presenting factors negatively affecting earnings. Other key issues were again the sale process, as well as the development of the liquidity and personnel situation. The Managing Board provided information about the decision regarding additional payment obligations to the reserve funds. The Supervisory Board approved the credit and liquidity risk strategy, which had been revised as scheduled. A capital increase in WIB Japan Real Estate Finance K.K. was resolved in November by circulating written documents

At its extraordinary meeting on 14 December 2011, the Supervisory Board was informed of WestLB AG's impending decision not to continue the sale process with Apollo. The implementation of European Commission's requirements will now focus on a transfer to Erste Abwicklungsanstalt. Finally, the meeting addressed the expected year-end results and the settlement reached with regard to the reserve funds.

Changes in the composition of the Supervisory Board

Dr. Hans-Jürgen Niehaus resigned from the Supervisory Board effective 31 March 2011. Klemens Breuer was elected to the Supervisory Board by way of a resolution of the Annual General Meeting dated 4 May 2010 and, accordingly, assumed the chairmanship of the Audit Committee and joined the Bank's Main Committee and Risk Committee as a member. Mr. Breuer resigned his Supervisory Board mandate on his departure from WestLB AG on 30 January 2012. In his place, the Annual General Meeting elected Stefan Dreesbach as a member of the Supervisory Board on 8 February 2012. The Supervisory Board elected Thomas Groß as the Deputy Chairman on 18 November 2011.

The Supervisory Board would like to thank Dr. Niehaus and Mr. Breuer for their support. Special thanks go to Dr. Niehaus for his many years of dedicated service to the Bank on its supervisory bodies.

Hubert Beckmann handed over the Chair of the Supervisory Board to Thomas Groß at his own request effective 1 March 2012 and became Deputy Chairman of the full Supervisory Board and Chairman of the Audit Committee. Accordingly, Mr. Groß assumed chairmanship of the Main Committee. The Supervisory Board would like to thank Mr. Beckmann for his dedicated work as Chairman of the Board.

The Supervisory Board appointed Christiane Wolff to the Managing Board of WestImmo effective 1 March 2012. Dr. Peter Knopp will leave the Managing Board effective 27 April 2012. The Supervisory Board has appointed Claus-Jürgen Cohausz as Chairman of the Managing Board from this date. The Supervisory Board would like to thank Dr. Peter Knopp for his great commitment, particularly in connection with the complex sale process.

Committees

The Supervisory Board has established three expert committees: the Risk Committee, the Audit Committee and the Main Committee. The chairs of the expert committees reported regularly to the Supervisory Board on the committees' work.

The Risk Committee held four meetings in the fiscal year under review, at each of which it discussed in detail the overall bank risk, risk management and the risk situation in relation to the individual risk types (credit, market, liquidity and operational risk). It repeatedly discussed liquidity resources and the performance of European government bonds in the securities portfolio. The Risk Committee also discussed the application of Basel II and the effects of the application of Basel III, the implementation of new supervisory provisions, as well as the completion of follow-up work from external audits and the audit of loans as part of the audit of the annual financial statements. It took note of the credit and liquidity risk strategy, which had been revised as scheduled, the enhancement of the risk-bearing capacity concept, as well as analyses of loan subportfolios. At the same time, the Risk Committee is the highest decision-making authority for loan approvals and decided on the loan exposures presented to it by the Managing Board by circulating written documents.

The Audit Committee held three meetings in the year under review. At its first meeting on 31 May 2011, it addressed in detail the annual financial statements and consolidated financial statements, including the management reports, as at 31 December 2010 and the audit reports prepared by the auditors. It adopted the related preparatory resolutions and recommendations for the Supervisory Board. The following two meetings focused on external audits and the audit of the annual financial statements. The Committee was also regularly informed of the audit findings by the Internal Audit Department.

The Main Committee met once in the year under review, on 3 March 2011, when it dealt mainly with Managing Board issues. Managing Board issues were also discussed by the full Supervisory Board at four meetings over the course of the year, as well as at a meeting convened for this purpose on 20 May 2011.

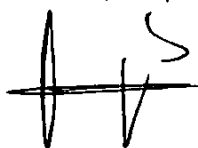
Annual/consolidated financial statements 2011

As appointed by the Annual General Meeting and engaged by the Supervisory Board, Ernst & Young GmbH, Eschborn, audited the annual financial statements as at 31 December 2011, including the management report, and the consolidated financial statements as at 31 December 2011, including the Group management report. Following their audits, the auditors issued unqualified audit opinions with explanatory remarks on each set of financial statements, including the management reports, with regard to the conditions imposed by the EU on the sale of the Bank. The annual financial statements were prepared in accordance with the accounting principles laid down in the *Handelsgesetzbuch* (HGB – German Commercial Code) and the consolidated financial statements were prepared in accordance with the International Financial Reporting Standards (IASs/IFRSs).

At its meeting on 26 April 2012, the Audit Committee took note of the prepared financial statements and the management reports as well as the audit reports. Following discussion of the audit reports with the auditors and subsequent discussion with the Managing Board, the Audit Committee raised no objections and recommended that the Supervisory Board adopt the annual financial statements and approve the consolidated financial statements.

At its subsequent meeting, the Supervisory Board took note of the prepared financial statements and the management reports, the unqualified audit opinions with explanatory remarks and the audit reports. These documents were made available to Supervisory Board members in good time. The Chairman of the Audit Committee provided the meeting with detailed information on the results of its preceding examination. The auditor was present at the Supervisory Board meeting. Following its examination and discussion, the Supervisory Board adopted the annual financial statements as at 31 December 2011 and approved the consolidated financial statements as at 31 December 2011.

Mainz, 26 April 2012

A handwritten signature in black ink, consisting of a stylized 'T' and 'G' with a horizontal line through them, and a large 'S' to the right.

Thomas Groß

Chairman of the Supervisory Board

Corporate Governance at Westdeutsche ImmobilienBank AG

WestImmo is committed to ensuring trust-based and sustainable corporate management for customers and business partners, as well as other stakeholders. This is why the Company has voluntarily adopted the recommendations and suggestions of the German Corporate Governance Code (the Code). The current version of the Code dated 26 May 2010 serves as the benchmark for WestImmo's actions. The Government Commission on the German Corporate Governance Code did not make any changes to the Code in 2011.

Annual General Meeting

The Supervisory and Managing Boards provide information on the adopted financial statements and the management report, on the approved consolidated financial statements and Group management report as well as on the implementation of the Code at the Annual General Meeting. In addition, the Supervisory Board reports on its activities in the past fiscal year.

In particular, the Annual General Meeting resolves the election of Supervisory Board members and the auditors, and approves the actions of the governing bodies. It is not required to decide on the appropriation of net profit due to the existing profit and loss transfer agreement with WestLB AG.

WestImmo has issued 4,000,000 no-par value registered shares each conveying one voting right, which are all held by WestLB AG. Representatives from WestLB AG's Managing Board and two second-level managers are represented on WestImmo's Supervisory Board. This ensures open and transparent communication with the shareholder. The Managing Board and the Supervisory Board believe that certain recommendations of the Code do not offer any substantial added value due to the concrete ownership structure, for example, the Bank dispenses with the publication of convening documents for third parties, their electronic transmission and the broadcasting of the Annual General Meeting on the Internet, as well as the publication of a financial calendar. The convening of the Annual General Meeting is addressed exclusively to the sole shareholder.

Cooperation between the Managing Board and the Supervisory Board

The Managing Board and the Supervisory Board work together closely and in an open dialogue in the interests of the Company, the employees and the shareholder. The Managing Board coordinates the strategic approach with the Supervisory Board and regularly reports to it on the status of its implementation. Fundamental decisions and measures affecting the net assets, financial position and results of operations are made with the involvement of the Supervisory Board. The basis for the cooperation is stipulated in the Articles of Association and the governing bodies' bylaws. The Chairman of the Managing Board and the Chairman of the Supervisory Board regularly exchange information.

Managing Board

The Managing Board consists of two members and a Chairman. The areas of responsibility are governed separately on the basis of the authorisation in the Managing Board's bylaws.

The Managing Board is directly responsible for corporate management. It develops the strategic approach with a view to the Company's best interests and to a sustainable increase in enterprise value and agrees this approach with the Supervisory Board. It also ensures compliance with legal provisions and the Group's internal policies. Appropriate risk management and risk control are of particular significance in the Company's internal policies, please refer to the Risk Report in this respect.

Supervisory Board

The Supervisory Board consists of nine members in accordance with the Articles of Association. No co-determination rights need to be taken into account by the Annual General Meeting for the election of Supervisory Board members. In order to promote cooperation between the Company and the Staff Council, the sole shareholder appointed the Chairman of WestImmo's Staff Council to the Supervisory Board. The Supervisory Board has established three expert committees: the Main Committee, the Audit Committee and the Risk Committee. The respective committee chairmen report regularly to the Supervisory Board on the work of the committees.

Directors' dealings (conflicts of interest)

Managing Board or Supervisory Board members do not directly or indirectly hold shares of WestImmo or related financial instruments. This means that there are no transactions subject to mandatory reporting in accordance with either the recommendations of the Code or with section 15a of the WpHG.

Transparency and accounting

WestImmo publishes its consolidated financial statements and the Management Report of the Group in an Annual Report. It also publishes condensed half-yearly financial statements and a condensed Interim Management Report in accordance with International Financial Reporting Standards (IFRSs). As WestImmo is not a listed company, it does not publish half-yearly financial statements within the accelerated timeframe and does not prepare quarterly reports. The Bank reports each quarter to the shareholder using a predefined reporting package.

Before recommending the auditors for election, the Supervisory Board obtains a statement of independence from the auditors and issues the engagement letter once the Annual General Meeting has reached a decision. The Supervisory Board agrees with the auditors that they will immediately report any findings and issues that emerge during the audit and that are material for the tasks of the Supervisory Board.

Remuneration Report

The delegated Supervisory Board members ensure that the shareholder of WestImmo is represented in the bodies that deal with remuneration issues. This guarantees complete transparency and the full flow of information to the shareholder. WestImmo considers the cumulative disclosure of remuneration by third parties to be sufficient in order to judge the appropriateness of the remuneration. Certain disclosures on remuneration must also be made in the notes to the consolidated financial statements. These are presented in Notes 8.7 (Remuneration of executive body members) and 8.8 (Loans to governing body members) to the consolidated financial statements.

Remuneration of the Managing Board

In accordance with the statutory requirements laid down in the *Gesetz zur Angemessenheit der Vorstandsvergütung* (VorstAG – German Act on the Appropriateness of Executive Board Remuneration), the Supervisory Board determines the salaries and other remuneration components, including pension commitments. Corresponding contracts of service have been concluded with the members of the Managing Board. These include both fixed remuneration and variable remuneration components based on sustainable corporate development in the form of year-end remuneration.

The fixed, non-performance-related basic remuneration is paid as a monthly salary. This is reviewed at the latest when contracts are extended. The Supervisory Board deals with Managing Board issues every year. The fixed benefits include non-cash remuneration components on a customary scale.

Pension provisions for former Managing Board members decreased by € 700 thousand compared with fiscal year 2010 to € 4.5 million.

Remuneration of the Supervisory Board

Following the end of the fiscal year, the Supervisory Board members receive appropriate non-performance-related remuneration, which is resolved by the Annual General Meeting. The formal commitment issued by WestLB AG to the Bundesanstalt für Finanzmarktstabilisierung (FMSA – German Federal Agency for Financial Market Stabilisation) on 18 December 2009 in accordance with the *Finanzmarktstabilisierungsfondsgesetz* (FMStFG – Act on the Establishment of a Financial Market Stabilisation Fund) is also taken into account.

Declaration of Conformity 2011

The Managing Board and Supervisory Board of WestImmo declare in accordance with section 161 of the AktG that the recommendations of the Government Commission on the German Corporate Governance Code (the Code) in the version dated 26 May 2010 were and are complied with, with the following exceptions:

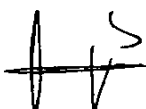
- Because of its shareholder structure comprising only a single shareholder, the Bank departs from the recommendations in sections 2.3.1 and 2.3.2 of the Code with regard to Annual General Meeting formalities insofar as it does not publish any documents on the Company's website or send any documents by electronic means. In addition, the Bank does not enable shareholders to participate in Annual General Meetings by postal vote (section 2.3.3) or to follow the Annual General Meetings via modern communication media (section 2.3.4), nor does it publish a financial calendar (section 6.7).
- To ensure maximum flexibility as recommended in section 4.2.1 of the Code, the Bank does not allocate fixed responsibilities among Managing Board members in the bylaws. The areas of responsibility are governed by a schedule of responsibilities.
- The Bank observes diversity criteria when filling management positions (section 4.1.5) and in the composition of the Managing Board (section 5.1.2). Women are given appropriate consideration in the appointment process. However, the Bank does not set specific targets for this (section 5.4.1).

- The Bank partly departs from the recommendations in sections 4 2 3 and 4 2 4 of the Code, as detailed in the Remuneration Report. In particular, the Bank does not comply with the recommendation to publish the total remuneration of each of the members of the Managing Board or Supervisory Board, divided into fixed and variable remuneration components. This is because the sole shareholder is represented on the bodies that deal with issues relating to remuneration and this fulfils the purpose behind the recommendation. In the interests of ensuring that the Supervisory Board acts as a supervisory body, the Bank also does not comply with the recommendation in section 5 4 6 in that the members of the Supervisory Board only receive non-performance-related remuneration.
- In accordance with section 5 3 3 of the Code, the Supervisory Board is supposed to form a nomination committee, which proposes suitable candidates to the Supervisory Board to recommend to the Annual General Meeting for election. Because of its shareholder structure, no such committee has been formed and the composition of the Supervisory Board is discussed by the full Supervisory Board.
- The Bank departs from the recommendation in section 5 3 3 with regard to its shareholder structure. The full Supervisory Board discusses and resolves the composition of the Supervisory Board.
- The Bank does not observe the age restrictions for members of the Managing Board and other bodies recommended in sections 5 1 2 and 5 4 1, as it sees no suitable quality advantages in having a maximum age.
- A takeover offer for the Bank was received in 2011 in connection with a sale process. The statement by the Managing Board and Supervisory Board under section 3 7 was not issued to the Annual General Meeting, as sales negotiations were conducted by the sole shareholder, WestLB AG, and the Annual General Meeting was therefore fully informed of the situation.
- The Bank publishes consolidated financial statements and half-yearly financial reports. The Bank does not comply with the recommendations for interim management statements to third parties in accordance with section 7 1 1 of the Code or with the recommendation on the publication of half-yearly financial statements within an accelerated timeframe in accordance with section 7 1 2 of the Code due to its group membership. For this reason, section 7 1 3 (stock option plans and similar incentive systems) is also not relevant to the Bank.

The Declarations of Conformity and the Corporate Governance Reports are available on the Bank's website at www.westimmo.com in the Investor Relations portal, under "Corporate Governance".

Mainz, 26 April 2012

For the Supervisory Board



Thomas Groß
Chairman of the Supervisory Board

For the Managing Board



Dr. Peter Knopp
Chairman of the Managing Board

Names · Locations

Westdeutsche ImmobilienBank AG

Members of the Managing Board, Managing Directors and Branch Managers

Members of the Managing Board

Dr Peter Knopp
Chairman
(until 26 April 2012)

Claus-Jürgen Cohausz
(Chairman from 27 April 2012)

Rainer Spielmann

Christiane Wolff
(from 16 March 2012)

Dr Mike Ghaemmaghami
Managing Director
Asia-Pacific

Mounir Hamrouni
Branch Manager
Paris

Emil Kajer
Branch Manager
Prague

Thomas Kreimer
Managing Director
Savings Banks

Managing Directors and Branch Managers

National and International Investors

Thomas Brand
Managing Director
Berlin

Andrew S. Cooper
Managing Director
North America

Werner Doetsch
Managing Director
Rhine-Main/Special Financing

Heribert Eisenburger
Managing Director
North Rhine-Westphalia/Benelux

Ulrich Lindhaus
Managing Director
Southern Germany

Lee Mays
Branch Manager
Madrid

Oliver Pleiner
Managing Director
Northern Germany

Maciej Tuszyński
Branch Manager
Warsaw

Norbert Wilms
Branch Manager
UK/London Branch

Information correct as of March 2012

Heads of Central Departments

Gerhard Bappert
Risk Management/Equity Investments

Elvira Dettweiler-Scholz
Human Resources

Hartmut Eisermann
Credit Management

Uwe Engler
Balance and Accounting

Frank Heid
Board Administrative Staff/
Group Development/
Orga/IT/Services

Heinrich Hunecke
Legal

Tobias Ilgen
Treasury

Piet Kok
Property Valuation & Research

Thomas Plagemann
Real Estate Joint Ventures

Francisco Vázquez Gómez
Internal Audit

Martin Weber
Retail Banking

Subsidiaries

Manager

Addresses

Dr Mike Ghaemmaghami
WIB Real Estate Finance Japan K K

WIB Real Estate
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Imprint

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Conception and Creation
Agentur ZEITFENSTER, Krefeld

Production
pom point of media GmbH, Willich

Print
Woeste Druck, Essen

Photo
Wertheim Village (page 28)
Source SaarLB

Mainz, April 2012

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