

# 7 Counterparty risk in the IRB approach.

## (section 335 SolvV)

Since 1 January 2008, LBBW has been granted approval for the basic IRB approach by BaFin for both the Bank and the entire LBBW Group. Since then, regulatory capital backing has been based on the following rating systems in line with the IRB approach:

- banks
- country and transfer risks
- insurance companies
- project finance
- corporates
- international real estate finance
- Sparkassen-Immobilien­geschäftsRating
- DSGV-Haftungsverbund
- Sparkassen-StandardRating
- specific special rating classes
- IAA procedure for measuring securitizations
- leasing
- leveraged finance
- aircraft finance
- international administrative authorities
- funds

For all other portfolios of LBBW (Bank) and all other companies included in the regulatory basis of consolidation of the LBBW Group (with the exception of LBBW Luxemburg S. A.), the CRSA is used. The provisions of the IRB approach are applied to the investment portfolios of all subsidiaries.

By the end of 2014, all materially significant portfolios and subsidiaries will be measured according to the IRB approach. The transition of these portfolios to the IRB approach for both the LBBW Group and LBBW (Bank) is closely assisted and agreed with the German supervisory authorities.

LBBW applies the regulation on portfolio business eligible for exceptions in accordance with section 68 (3) SolvV for private construction financing entered into before 1 November 2006 and the option of portfolio protection for equity investments in accordance with section 338 (4) SolvV. Accordingly, capital backing for these positions is calculated in accordance with the rules applicable to the CRSA.

### Description of the internal rating procedures.

The internal rating procedures of LBBW can basically be divided into two categories:

- Scorecard-based rating procedures  
A scorecard procedure is a standardized valuation procedure. The development of this procedure consists of the valuation of quantitative and qualitative factors and is supplemented by the inclusion of liability relationships. Finally, transferrals and warning signals are included in the rating result.
- Simulation-based rating procedure  
In contrast to a scorecard-based rating procedure, which estimates the probability of default on the basis of the current status of factors, a simulation-based rating generates scenarios for the future net cash development of, for example, a project finance company (SPV). This process analyzes the entire term of the exposure and its structure. In addition, the simulation also includes macro-economic scenarios (e.g. interest and exchange rates) if relevant.