

Disclosure Report in Accordance with the German Solvency Regulation

as of December 31, 2010.

Contents.

| | | |
|----|--|----|
| 1 | Fundamentals | 3 |
| 2 | Risk Management (section 322 SolvV) | 4 |
| 3 | Scope (section 323 SolvV) | 5 |
| 4 | Equity (sections 324 and 325 SolvV) | 8 |
| 5 | General Counterparty Risk (section 327 SolvV) | 16 |
| 6 | Counterparty Risk in the CRS Approach (section 328 SolvV) | 23 |
| 7 | Counterparty Risk in the IRB Approach (section 335 SolvV) | 25 |
| 8 | Credit Risk Minimization Techniques (section 336 SolvV) | 36 |
| 9 | Derivative Counterparty Risks (section 326 SolvV) | 40 |
| 10 | Securitizations (section 334 SolvV) | 44 |
| 11 | Investments in the Banking Book (section 332 SolvV) | 50 |
| 12 | Market Price Risk (section 330 SolvV) | 53 |
| 13 | Interest Rate Risk in the Banking Book (section 333 SolvV) | 58 |
| 14 | Operational Risk (section 331 SolvV) | 60 |
| | Glossary | 61 |
| | Index of Tables | 64 |

1 Fundamentals.

The Basel Committee on Banking Supervision has defined internationally applicable standards for the capital adequacy of banks and the associated disclosure requirements in the Basel capital standards recommendation (Basel II) which are translated into national law primarily in the German Solvency Regulation (SolV). The aim of these disclosure requirements is to increase transparency with regard to the bank's own processes for capital and risk measurement and to improve market discipline. By means of the implementation of Capital Requirement Directive II (CRD II) in German law as of December 31, 2010, the requirements for disclosure of equity, own risk models and credit reduction methods have been expanded.

Landesbank Baden-Württemberg (LBBW) applies the Internal Ratings-based Approach (basic IRB approach) approved by the German Federal Financial Supervisory Authority (BaFin) for establishing capital backing for counterparty risk from the main receivables classes. Capital backing for general interest rate risk, general equity price risk and associated option price risks are determined on the basis of an internal market price risk model also approved by the supervisory authorities.

LBBW prepares the Disclosure Report in aggregate form at Group level in its role as a parent company. In terms of qualitative disclosures, LBBW utilizes the opportunity to refer to other disclosure reports, to the extent that the information therein has already been disclosed in the context of other publicity requirements.

The Disclosure Report is published on the internet as an independent report alongside the annual financial statements and management report for LBBW in accordance with HGB accounting standards and the annual report for the LBBW Group in accordance with IFRS, which also includes the risk report. By publishing the Financial Stability Forum report, LBBW also addresses the key disclosure recommendations from the Financial Stability Forum (FSF).

2 Risk Management.

(section 322 SolvV)

The risk management system is determined by the Board of Managing Directors and the Supervisory Board in the risk strategies consistent with business strategy.

Corporate policy and risk strategy guidelines for risk management are regulated via risk principles in the Group risk strategy and via the formulation of business strategy objectives and auxiliary risk strategy conditions, which applies Group-wide and across all risk categories. Processes, business strategies and earnings targets are also stipulated for the front and back office divisions using a combined top-down/bottom-up process in the specific risk strategies.

The LBBW Group's credit risk strategy and credit regulations deal with all provisions for dealing with lending business in a responsible and risk-oriented way. Similarly, they also provide a risk-adequate framework for dealing with the market dynamic in a flexible and customer-oriented manner. Credit decisions are made in a system of graded competencies which are regulated in the Bank's decision-making systems.

The market price risk strategy documents the market price risk-specific strategic specifications in the LBBW Group. It describes the activities which involve market price risks and the underlying strategies for all relevant organizational units and material subsidiaries, as well as specifying in particular an aware and controlled

way of dealing with these risks in order to use the opportunities involved strategically. Interest rate risks are managed at the LBBW Group as part of market price risks.

The objective of the OpRisk strategy is to establish the LBBW Group's basic policy for dealing with operational risks in an appropriate and responsible way. It defines, for all business activities, the necessary basic conditions for a uniform system throughout the Group for identifying, assessing, managing, monitoring and communicating about operational risks.

In general, the LBBW Group ensures that risk strategies are created and developed properly through appropriate structural and procedural regulations. These are documented in the organization guidelines of the divisions and the subsidiaries.

Detailed information on the structure and organization of risk management, the management information system and the main features of hedging/minimizing risks, as well as the strategies and processes for the credit, market price and operational risk strategies, can be found in the LBBW Group's Risk Report. A detailed presentation is therefore not made here.

3 Scope.

(section 323 SolvV)

Unless otherwise indicated, all disclosures in this report relate to the regulatory scope of consolidation of the LBBW Group in accordance with KWG as at the reporting date December 31, 2010. This largely corresponds to the scope of consolidation in line with IFRS accounting standards.

Differences from the IFRS scope of consolidation do arise with regard to the following aspects:

- Special purpose vehicles (SPVs) that are controlled by LBBW in line with the criteria of SIC 12 (Standing Interpretations Committee) are consolidated in accordance with IFRS, but are not included in the regulatory scope of consolidation as they do not meet the requirements for classification as a subsidiary in accordance with section 1 (7) KWG or they carry out business activities that do not trigger a consolidation obligation in accordance with KWG. The equity requirements arising from the risks of special-purpose vehicles are determined for regulatory purposes at the LBBW Group by means of the financial relationship of LBBW to these SPVs.
- Companies outside the financial sector are also consolidated in the IFRS consolidated financial statements if it is possible to exercise control in accordance with IFRS. However, these companies do not form part of the regulatory scope of consolidation.
- Conversely, companies which do not meet the consolidation criteria in accordance with IFRS or are not consolidated due to being of minor significance are also included in the scope of consolidation in accordance with KWG.

The option in line with section 2a KWG, whereby individual institutions can be excluded if organizational and procedural conditions of certain regulations for equity funding and reportability at an institution level are fulfilled (waiver regulation), is not used within the LBBW Group.

There are no limitations or other significant obstacles to carrying forward funds or liable equity capital to be taken into account in the LBBW Group.

As at the reporting date of December 31, 2010, there were no subsidiaries within the LBBW Group that were not included in consolidation in accordance with section 10a KWG but were deducted from the liable equity capital.

In the following table, the main companies included in the regulatory scope of consolidation are classified according to the type of business and its regulatory treatment and are shown alongside their classification in the scope of consolidation under IFRS. Both scopes of consolidation also include a large number of smaller companies, which are not listed due to their low materiality. These companies have been classified in line with the definitions in section 1 KWG.

| Description | Name | Regulatory treatment | | | Consolidation in accordance with accounting standard | |
|--|--|----------------------|----------------|------------------|--|--------------------|
| | | Consolidation | | | Full | Measured at equity |
| | | Full | Pro-portionate | Deduction method | | |
| Banks | Landesbank Baden-Württemberg | X | | | | X |
| | LBBW Bank CZ a.s. | X | | | | X |
| | LBBW Immobilien GmbH | X | | | | X |
| | LBBW Luxemburg S. A. | X | | | | X |
| | LBBW México | X | | | | |
| | MKB Mittelrheinische Bank GmbH | X | | | | X |
| | Vorarlberger Landes- und Hypothekenbank AG | | | X | | X |
| Financial services institutions | ALVG Anlagenvermietung GmbH | X | | | | X |
| | LHI Leasing GmbH | X | | | | X |
| | MDL Mitteldeutsche Leasing GmbH | X | | | | |
| | SüdFactoring GmbH | X | | | | X |
| | SüdLeasing GmbH | X | | | | X |
| Investment companies | LBBW Asset Management Investmentgesellschaft mbH | X | | | | X |
| Financial enterprises | BW Capital Markets Inc. | X | | | | |
| | BWK GmbH Unternehmensbeteiligungsgesellschaft | | X | | | X |
| | CFH Beteiligungsgesellschaft mbH | X | | | | X |
| | Dresden Fonds GmbH | X | | | | |
| | Hypo SüdLeasing GmbH | X | | | | |
| | LBBW Asset Management (Ireland) plc | X | | | | X |
| | LBBW Dublin Management GmbH | X | | | | X |
| | LBBW Equity Partners GmbH & Co. KG | X | | | | |
| | LBBW Pensionsmanagement GmbH | X | | | | |
| | LBBW Venture Capital GmbH | X | | | | |
| | LRP Capital GmbH | X | | | | X |
| | SL Financial Services Corporation | X | | | | |
| | Süd KB Unternehmensbeteiligungsgesellschaft mbH | X | | | | X |
| | SüdImmobilien GmbH | X | | | | |
| | Süd-Kapitalbeteiligungs-Gesellschaft mbH | X | | | | X |
| | SüdLeasing España E.F.C.S.A. | X | | | | |

| Description | Name | Regulatory treatment | | | Consolidation in accordance with accounting standard | |
|--|--|----------------------|---------------|------------------|--|--------------------|
| | | Consolidation | | | Full | Measured at equity |
| | | Full | Proportionate | Deduction method | | |
| Providers of related banking services | Financial ServiceS GmbH | X | | | | |
| | LBBW Grundstücksverwaltungsgesellschaft mbH & Co. KG Objekt Am Hauptbahnhof Stuttgart | X | | | | |
| | LBBW Grundstücksverwaltungsgesellschaft mbH & Co. KG Objekt am Pariser Platz Stuttgart | X | | | | X |
| | LG Grundstücksanlagen-Gesellschaft mbH & Co. KG - Immobilienverwaltung - | X | | | | |
| | Stuttgarter Aufbau Bau- und Verwaltungs-Gesellschaft mbH | X | | | | |
| Other companies | Baden-Württemberg L-Finance N.V. | | | | X | X |
| | Landesbank Baden-Württemberg Capital Markets plc | | | | X | X |

Figure 1: Regulatory scope of consolidation (section 323 [1] no. 2 SolV).

4 Equity.

(sections 324 and 325 SolvV)

Equity structure

to the regulatory scope of consolidation of LBBW as of December 31, 2010.

The following table shows combined equity as defined in accordance with section 10a KWG. Disclosures relate

| EUR million | |
|---|---------------|
| Paid-in capital | 2 584 |
| Capital reserves and other retained reserves | 7 176 |
| Special reserves for general banking risks in accordance with section 340g HGB | 480 |
| Other Tier 1 capital components | 4 371 |
| of which | |
| other capital in accordance with section 10 (4) KWG | 177 |
| other capital in accordance with section 10 (2a) no. 10 in conjunction with section 64m KWG | 3 735 |
| Deduction items in accordance with section 10 (2a) clause 2 KWG | - 195 |
| Deduction items in accordance with section 10 (6) and (6a) KWG | - 666 |
| Total Tier 1 capital in accordance with section 10 (2a) KWG | 13 750 |
| Total Tier 2 capital before capital withdrawal items in accordance with section 10 (2b) KWG | 4 961 |
| Deduction items from Tier 2 capital in accordance with section 10 (6) and (6a) KWG | - 666 |
| Retained Tier 3 capital in accordance with section 10 (2c) KWG | 470 |
| Total of Tier 2 capital in accordance with section 10 (2b) KWG and retained Tier 3 capital in accordance with section 10 (2c) KWG | 4 765 |
| Total of modified available equity in accordance with section 10 (1d) KWG and retained Tier 3 capital in accordance with section 10 (2c) KWG | 18 515 |
| of which | |
| Value adjustment deficits and expected loss amounts for IRBA items in accordance with section 10 (6a) nos. 1 and 2 KWG | 19 |

Figure 2: Regulatory equity (section 324 [2] SolvV).

The LBBW Group's Tier 1 capital consists of paid-in capital, capital reserves and other retained reserves, reserves for general banking risks in accordance with section 340g HGB and other Tier 1 capital components. The other Tier 1 capital components include silent partners' contributions and, to a lesser extent, Tier 1 capital components from consolidated subsidiaries.

A contract on contributions made by silent partners fulfills the requirements for other capital as per section 10 (4) KWG without exception. The other contracts are subject to portfolio protection in line with section 64 m in conjunction with section 10 (2a) no. 10 KWG. None of the contractual conditions of silent partners'

contributions includes a step-up clause or other repayment incentives.

Most silent partners' contributions are provided with a permanent duration. The owners of LBBW in turn hold the majority of these. There is an option to terminate these after ten years in accordance with the individual contracts, but this can only be exercised subject to the approval of BaFin. Some of the permanent capital contributions are denominated in foreign currency (USD 500 million). Temporary capital contributions by silent partners are held by insurance companies and savings banks. The original duration of these contracts is between 10 and 30 years.

Depending on the original issuing bank, silent partners' contributions participate in the net loss or accumulated loss by reducing silent partners' contributions commensurate to the proportion of other equity components contributing to the loss in the respective fiscal year. In the event of insolvency or liquidation, capital contributions by silent partners are repaid only after all non-subordinated liabilities are satisfied.

Hybrid capital in the form of preference shares also counts towards Tier 1 capital. These were issued by two foreign subsidiaries and are available to the LBBW Group as Tier 1 capital. Preference shares have an indefinite duration and feature a step-up clause which, depending on the respective issue, was or will be used after ten years. After ten years, LBBW has the right to terminate, which must also be approved by BaFin. The terms of these securities satisfy the requirements of the Basel Committee on Banking Supervision.

Intangible assets fully deductible from the Tier 1 capital, the carrying amounts of the investments (half of which is to be deducted) and other capital from unconsolidated banks and financial enterprises are included in deductible items in accordance with section 10 (2a) KWG. Expected loss amounts from investment items in the IRB approach, as well as pre-settlement risks in accordance with section 10 (6a) KWG, are also included.

The Tier 2 capital of LBBW includes liabilities arising from profit participation rights which meet the requirements for capital of section 10 (5) KWG, as well as longer-term subordinated liabilities.

Depending on the original issuing bank, profit participation rights participate in the net loss or accumulated loss by reducing capital generated by profit participation certificates commensurate with the

proportion of other equity components contributing to the loss in the respective fiscal year. In the event of insolvency or liquidation, profit participation rights are repaid only after all non-subordinated creditors and subordinated liabilities are satisfied. The original duration of the participation certificates structured as bearer instruments or registered securities is between 10 and 30 years.

In the case of insolvency or liquidation, longer-term subordinated liabilities are repaid only after all non-subordinated creditors have been satisfied. In contrast with profit participation rights, these do not play a part in any net loss for the year or accumulated loss. The original duration of longer-term subordinated liabilities structured as bearer instruments or registered securities is between 10 and 40 years.

The Tier 3 funds of LBBW consist of short-term subordinated liabilities. In contrast with longer-term subordinated liabilities, principal and interest payments do not have to be made on these if this were to cause the equity of the Bank or the banking group to no longer fulfill the respective applicable legal requirements in accordance with sections 10 and 10a KWG. Short-term subordinated liabilities are also structured as bearer instruments and registered securities. The original duration is between two and four years. In the two years prior to maturity, profit participation certificates and longer-term subordinated liabilities that have a Tier 3 clause are also recognized as Tier 3 capital.

Modified liable capital in line with section 10 (1d) KWG is calculated by finding the difference between the total expected loss amounts, consisting of all IRB approach items for the central governments, banks and corporate businesses receivables classes, and the allowance for losses recognized for these items, consisting of valuation adjustments and provisions.

If there is a valuation allowance surplus, this may be recognized as Tier 2 capital. Conversely, if there is a valuation allowance deficit, this is to be deducted equally from Tier 1 and Tier 2 capital, together with the expected loss amounts for investments under the IRB approach.

At the reporting date of December 31, 2010, there was a valuation allowance surplus, which was recognized in equity for regulatory purposes for the first time when the balance sheet was established in April 2010. In accordance with SolvV, only loan loss provisions which were included in the annual financial statements are recognized in the comparison.

Furthermore, pre-settlement risks in the context of trading book securities, foreign currency and raw materials transactions must be recognized as capital withdrawal items if the consideration has still not been paid five business days after maturity.

Presentation of key changes in the 2010 fiscal year

A net loss for the year was reported for the first time in the 2009 fiscal year, which led to silent partners' contributions and profit participation rights participating in the loss for the first time by means of a capital reduction. The net income for the 2010 fiscal year according to HGB is being used for partial replenishment in accordance with the contractual conditions of silent partners' contributions and profit participation rights.

Internal equity management

Capital management at LBBW is designed to ensure solid capitalization within the LBBW Group. In order to guarantee adequate capital from various perspectives, the Bank analyzes capital ratios and structures both from the perspective of regulatory capital requirements and that of economic capital.

LBBW's capital management system is embedded in the overall bank management process, strategies, rules, monitoring mechanisms and organizational structures of the LBBW Group.

In this process, the Asset Liability Committee, newly established at the end of 2010, prepares decisions for the Board of Managing Directors and supports it in ensuring the adequacy of the LBBW Group's capital resources, structure and target figures. Resolutions are then passed by the Board of Managing Directors as a whole. The previous Capital Committee was incorporated into the Asset Liability Committee.

Regulatory management

The regulatory equity management of the LBBW Group is based on the KWG requirements and the relevant capital adequacy requirements (SolvV) stipulated by the supervisory authorities.

Internal targets for the capital ratio (ratio of Tier 1 capital to risk positions¹) and the overall capital ratio (ratio of equity to risk positions¹) are defined for the regulatory equity management of the LBBW Group. Actual developments, forecast accounts and scenario calculations for the planning period are currently monitored in order to ensure that these solvency ratios are always observed. Stress tests are also carried out on a regular basis in order to analyze the impact of extreme situations.

Regulatory capital allocation is carried out during the planning process integrated on an annual basis (with a five-year planning horizon) and is monitored regularly by the Group's Board of Managing Directors.

Economic management

LBBW ensures risk-bearing capacity by means of a Group-wide compilation of risks across all major risk categories and subsidiaries and the comparison of this with the capital required for economic purposes (aggregate risk cover).

At LBBW, aggregate risk cover (corresponds to risk coverage potential as per MaRisk) denotes the equity restricted according to economic criteria which is

available for the coverage of unexpected potential losses. In addition to equity (as per IFRS including revaluation reserves), subordinated debt, realized gains and losses (IFRS) and hidden liabilities are considered components of aggregate risk cover.

Economic capital is calculated as a uniform risk measure at the highest level. In contrast with the capital stipulated by regulatory bodies, this represents the capital backing required from LBBW's point of view for economic purposes, calculated using the Bank's own risk models. LBBW's economic capital is in principle expressed by value-at-risk (VaR) at a confidence level of 99.95% and with a holding period of one year.

The upper risk limit for economic capital represents the upper limit for all significant quantifiable risks throughout the Group. The following are currently quantified as the key risk categories in calculating the economic capital at LBBW:

- credit risks
(including counterparty and country risks)
- market price risks
- operational risks
- real estate risks
- development risks
- investment risks

The liquidity risks are managed separately from the economic capital approach.

¹ Total capital charges for counterparty, market price and operational risks

The upper risk limit reflects LBBW's maximum willingness to take risks and was set well below the total resources available to cover risks in line with the conservative risk policy. Economic capital limits for the various risk categories are derived from this, whereby a buffer is provided for other risks that are not directly quantifiable:

- strategic risks
- business performance risks
- reputation risks
- pension risks
- own credit risks
- model risks
- viability risks
- fund placement risks

and for risks arising from unforeseeable stress situations.

There is a defined escalation process for high utilization of limits and for exceeding limits.

Capital requirements

Equity requirements for counterparty risks are reported in accordance with the receivables classes specified for the credit risk standard approach (CRSA) or those specified for the internal ratings-based approach (IRB approach).

In the case of capital backing for securitization transactions, a distinction is also drawn between CRSA and IRB securitizations.

The equity requirements for investments which were acquired before January 1, 2008 are exempt from the application of the IRB approach in accordance with section 338 (4) SolvV (grandfathering regulation) until December 31, 2017, and may continue to be reported in the CRS approach with a risk weight of 100%.

The equity requirements for market price risks relating to the general interest rate risk and share risk as well as the associated option price risks of the LBBW Bank are calculated using the internal model approved by BaFin. Other market price risks are calculated according to the standard procedure.

Capital backing for operational risks is calculated using the standard approach.

The following table summarizes regulatory capital backing in terms of regulation-relevant risk types (counterparty risk, market price risk and operational risks).

| EUR million | Equity requirements |
|---|---------------------|
| 1 Counterparty risks | |
| 1.1 Credit risk standard approach (CRSA) | |
| Central governments | 0 |
| Regional governments and local authorities | 10 |
| Other public-sector | 6 |
| Multilateral development banks | 0 |
| International organizations | 0 |
| Banks | 31 |
| Covered bonds issued by banks | 0 |
| Corporates | 1 583 |
| Bulk business | 573 |
| Items collateralized by real estate | 237 |
| Investment units | 1 |
| Other items | 118 |
| Past-due items | 136 |
| Total CRSA | 2 695 |
| 1.2 Internal ratings-based approach (IRB approach) | |
| Central governments | 181 |
| Banks | 745 |
| Corporates | 3 605 |
| Bulk business | 0 |
| of which secured with real estate liens | 0 |
| of which qualified, revolving | 0 |
| of which other | 0 |
| Other assets not relating to credit | 171 |
| Total IRB approach | 4 702 |

| EUR million | Equity requirements |
|---|---------------------|
| 1.3 Securitizations | |
| Securitizations under CRSA | 339 |
| Securitizations under IRB approach | 517 |
| Total securitizations | 856 |
| 1.4 Risks from investment items | |
| Investments under IRB approach | 228 |
| of which model-driven | 0 |
| of which PD/LGD approach | 61 |
| of which simple risk-weighting approach | 167 |
| of which listed | 6 |
| of which not listed but sufficiently diversified | 101 |
| of which other | 60 |
| Investments under CRSA | 81 |
| of which interests held with method continuation/grandfathering | 37 |
| Total investments | 309 |
| Total counterparty risks | 8 562 |
| 2 Market price risks | |
| Standard procedure | 494 |
| Approach in accordance with internal model | 164 |
| Total market price risks | 658 |
| 3 Operational risks | |
| Basic indicator approach | 0 |
| Standard approach | 437 |
| Advanced measurement approach | 0 |
| Total operational risks | 437 |
| Total equity requirements | 9657 |

Figure 3: Equity requirements (section 325 [2] no. 1 to 4 Solv).

Capital ratios

The following table shows the regulatory capital ratios for the LBBW Group, the LBBW Bank and the consolidated significant subsidiary banks. The ratios were calculated in accordance with the provisions of SolvV.

| in % | Overall capital ratio | Capital ratio |
|----------------------|-----------------------|---------------|
| LBBW Group | 15.3 | 11.4 |
| LBBW Bank | 17.7 | 12.9 |
| LBBW Bank CZ a.s. | 14.2 | 14.2 |
| LBBW Luxemburg S. A. | 17.2 | 16.9 |
| MKB Institut | 14.7 | 7.4 |

Figure 4: Capital ratios (section 325 [2] no. 5 SolvV).

The capital ratios for the LBBW Bank and the subsidiary banks are determined on the basis of the respective bank reporting, whereas the corresponding capital ratios for the LBBW Group are derived from consolidated reporting.

5 General Counterparty Risk.

(section 327 SolvV)

The following quantitative information on general reporting requirements for counterparty risk is disclosed on the basis of the management approach. This means that LBBW Group's risk situation is reported based on this data, according to which internal risk management and internal reporting to the Board of Managing Directors and the executive bodies are carried out. The internal view of risk differs in some cases from the balance sheet reporting and regulatory approach. Key reasons for differences between the figures used for internal management and for external financial reporting are different bases of consolidation and the definition of the loan volume as »exposure« (utilization/fair values plus open external commitments).

As well as LBBW, the following subsidiaries relevant in terms of counterparty risk are included in the scope of consolidation for internal reporting purposes:

- LBBW Luxembourg S. A.
 - SüdLeasing Gruppe
- LBBW Securities LLC was sold in 2010.

This basis of consolidation is reviewed at least annually and is adjusted to reflect current developments as needed.

Breakdown of credit volume by region, industry and residual term

The following tables (5 to 7) show the main credit risk exposure categories of the LBBW Group, broken down by region, industry and residual term¹. The »Derivative financial instruments« column includes, in particular, the nominal volume of credit derivatives (CDS sell protection, single names and baskets).

From a full-year perspective, the credit volume² was reduced by EUR 42 billion to EUR 470 billion. The

decline mainly affected securities and expressed the targeted reduction in capital market business (see figure 5). Correspondingly, the sharpest drops took place among private banks, other banks and financial service providers when broken down by industry category (see figure 6). The above-average decline in volumes abroad also shows the focus on the defined core markets.

The following table shows the credit volume, broken down according to region and type of loan.³

| EUR million | | | | |
|----------------|--|---------------|----------------------------------|----------------|
| Regions | Loans, commitments and other non-derivative off-balance sheet assets | Securities | Derivative financial instruments | Total |
| Germany | 205 167 | 54 631 | 26 494 | 286 293 |
| Western Europe | 44 016 | 27 152 | 58 972 | 130 140 |
| Eastern Europe | 3 665 | 753 | 2 819 | 7 236 |
| Asia/Pacific | 4 074 | 1 086 | 2 362 | 7 522 |
| North America | 16 323 | 6 768 | 10 829 | 33 920 |
| Latin America | 2 446 | 1 878 | 99 | 4 423 |
| Africa | 79 | 74 | 69 | 222 |
| Other | 64 | 192 | 87 | 343 |
| Total | 275 834 | 92 536 | 101 730 | 470 099 |

Figure 5: Credit volume by region (section 327 [2] no. 1 and 2 SolvV).

¹ Rounding differences of +/- one unit may arise in the tables due to computational reasons.

² The credit volume is shown below, not considering credit risk reduction methods.

³ In order to maintain consistency with presentation elsewhere, in this report division by region is based on the domicile principle and is thus alternative to the allocation using the country of domicile principle in accordance with the country limit system as mentioned in the annual report.

The following table shows the credit volume, broken down according to internal risk-oriented industry category and type of loan.

| EUR million | | | | |
|--|--|---------------|----------------------------------|----------------|
| Industries | Loans, commitments and other non-derivative off-balance sheet assets | Securities | Derivative financial instruments | Total |
| Financial institutions | 113 485 | 60 545 | 54 982 | 229 012 |
| Savings banks + state banks (Landesbanken) | 61 446 | 27 371 | 3 024 | 91 841 |
| Private banks | 14 816 | 16 930 | 43 499 | 75 245 |
| Other banks | 11 518 | 6 269 | 5 645 | 23 432 |
| Financial services (excluding banks and insurance companies) | 25 706 | 9 975 | 2 813 | 38 495 |
| Companies | 104 250 | 6 489 | 23 433 | 134 172 |
| Automotive | 11 982 | 431 | 3 482 | 15 895 |
| Construction | 7 729 | 241 | 699 | 8 669 |
| Cross-industry services for companies | 4 078 | 93 | 224 | 4 395 |
| Commercial real estate | 20 654 | 1 198 | 510 | 22 362 |
| Healthcare | 4 226 | 51 | 250 | 4 527 |
| Food industry and other non-cyclical consumer goods | 4 581 | 193 | 1 448 | 6 222 |
| Telecommunications | 1 692 | 748 | 2 640 | 5 080 |
| Transport and logistics | 5 449 | 492 | 695 | 6 635 |
| Insurance companies | 2 229 | 804 | 2 866 | 5 899 |
| Utilities | 6 251 | 491 | 2 000 | 8 743 |
| Other broadly diversified industries | 35 380 | 1 748 | 8 619 | 45 746 |
| Public sector | 37 227 | 25 501 | 23 163 | 85 891 |
| Employed private individuals | 20 871 | 0 | 152 | 21 023 |
| Total | 275 834 | 92 536 | 101 730 | 470 099 |

Figure 6: Credit volume by industry (section 327 [2] no. 1 and 3 Solv).

The »Other broadly diversified industries« category groups together industries with a share of less than 3% in the credit volume in comparison with companies.

The following table shows the credit volume, broken down according to contractual residual term and type of loan.

| EUR million | | | | |
|----------------|--|---------------|----------------------------------|----------------|
| Residual term | Loans, commitments and other non-derivative off-balance sheet assets | Securities | Derivative financial instruments | Total |
| Due on demand | 36 509 | 0 | 0 | 36 509 |
| < 1 year | 62 131 | 27 509 | 12 250 | 101 890 |
| Up to 5 years | 74 762 | 50 321 | 59 303 | 184 386 |
| > 5 years | 95 849 | 13 371 | 30 176 | 139 396 |
| No information | 6 583 | 1 335 | 0 | 7 918 |
| Total | 275 834 | 92 536 | 101 730 | 470 099 |

Figure 7: Credit volume by residual term (section 327 [2] no. 1 and 4 SolvV).

Definitions of loan loss provisions

Information on procedures applied in the recognition of loan loss provisions is disclosed in the »Credit risks« chapter in the Risk Report within the Group Management Report and in the »Allowance for Losses on Loans and Advances« chapter in the Notes to the Consolidated Financial Statements.

LBBW distinguishes between two types of commitment where there has been a default on payment:

A transaction is defined as »past-due to a significant extent« when the committed credit facility (including a minimum limit) is exceeded. This is the case when there are arrears in the form of unpaid interest or principal and other receivables for more than five days.

A transaction is considered »in default« when

- a valuation allowance has been set up (this is the case when there is an objective indication of an impairment)
- a default rating was given in accordance with section 125 SolvV

and the above criteria are not cancelled out by a current recovery report.

Defaulting and past-due loans by region and industry

The following tables show defaulting and past-due loans and the reporting date balances for loan loss provisions and changes therein during the 2010 fiscal year.¹

The following table shows loans in default and past due, broken down by region.

| EUR million | | | | | |
|----------------|---|--|--------------------------------|-------------------------------|------------|
| Regions | Total utilization from loans in default and past due (with valuation allowance requirement) | Past-due loans (without valuation allowance requirement) | Individual valuation allowance | Portfolio valuation allowance | Provisions |
| Germany | 4 587 | 30 | 2 195 | 154 | 90 |
| Western Europe | 1 371 | 1 | 682 | 35 | 5 |
| Eastern Europe | 182 | 1 | 71 | 11 | 1 |
| Asia/Pacific | 103 | 0 | 41 | 18 | 1 |
| North America | 1 111 | 0 | 375 | 38 | 8 |
| Latin America | 105 | 0 | 55 | 6 | 0 |
| Africa | 2 | 0 | 0 | 0 | 0 |
| Other | 0 | 0 | 13 | -7 | 18 |
| Total | 7 460 | 32 | 3 433 | 254 | 123 |

Figure 8: Loans in default and past due, broken down by region (section 327 [2] no. 5 Solv).

¹ Rounding differences of +/- one unit may arise in the following tables for computational reasons.

The following table shows loans in default and past due, broken down by internal risk-oriented industry category.

| EUR million | | | | | | | | | |
|--|---|--|---------------------------------|--------------------------------|------------|---|--------------------|--|--|
| Industries | Total utilization from loans in default and past due (with valuation allowance requirement) | Past-due loans (without valuation allowance requirement) | Individual valuation allowances | Portfolio valuation allowances | Provisions | Net additions/ reversals of specific/ portfolio allowances/ provisions/ unwinding | Direct write-downs | Recoveries on loans previously written off | Direct write-downs/ reversals on investment securities |
| Financial institutions | 1 168 | 0 | 685 | 42 | 2 | -26 | 7 | 0 | -10 |
| Savings banks + state banks (Landesbanken) | 0 | 0 | 1 | 0 | 0 | 0 | 0 | 0 | 0 |
| Private banks | 553 | 0 | 432 | 6 | 0 | -39 | 0 | 0 | 0 |
| Other banks | 215 | 0 | 8 | 16 | 1 | 4 | 0 | 0 | 0 |
| Financial services (excluding banks and insurance companies) | 400 | 0 | 245 | 19 | 1 | 9 | 7 | 0 | -10 |
| Companies | 5 879 | 24 | 2 593 | 174 | 118 | 401 | 41 | 11 | -34 |
| Automotive | 633 | 1 | 323 | 19 | 12 | -121 | 1 | 0 | 0 |
| Construction | 633 | 5 | 305 | 16 | 18 | 57 | 2 | 0 | 0 |
| Cross-industry services for companies | 299 | 2 | 188 | 7 | 1 | 102 | 4 | 0 | 0 |
| Commercial real estate | 2 308 | 1 | 673 | 45 | 22 | 247 | 7 | 0 | -1 |
| Healthcare | 123 | 1 | 63 | 5 | 0 | -2 | 1 | 0 | 0 |
| Food industry and other non-cyclical consumer goods | 62 | 0 | 27 | 3 | 1 | 10 | 0 | 0 | 0 |
| Telecommunications | 36 | 0 | 30 | 1 | 1 | 2 | 1 | 0 | 0 |
| Transport and logistics | 170 | 4 | 92 | 12 | 1 | 6 | 2 | 1 | 0 |
| Insurance companies | 29 | 0 | 7 | 2 | 13 | 6 | 0 | 0 | 1 |
| Utilities | 32 | 0 | 21 | 5 | 1 | 2 | 0 | 0 | 0 |
| Other broadly diversified industries | 1 555 | 11 | 864 | 59 | 48 | 92 | 23 | 10 | -33 |
| Public sector | 5 | 3 | 3 | 1 | 0 | -4 | 0 | 0 | 0 |
| Employed private individuals | 409 | 5 | 152 | 38 | 3 | -19 | 14 | 1 | 0 |
| Total | 7 460 | 32 | 3 433 | 254 | 123 | 351 | 62 | 12 | -44 |

Figure 9: Loans in default and past due, broken down by industry (section 327 [2] no. 5 Solv).

Development of loan loss provisions on loans and advances

The following table shows the change in loan loss provisions in the 2010 fiscal year.

| EUR million | | | | | | |
|---------------------------------|-------------------------------|--------------|-------------------------|-------------|--|--------------------------------|
| | Opening value Jan. 1, 2010 | Additions | Reversals/ unwinding | Utilization | Exchange rate-related and other changes | Closing value Dec. 31, 2010 |
| Individual valuation allowances | 3 458 | 1 218 | 732 | 538 | 26 | 3 433 |
| Portfolio valuation allowances | 369 | 173 | 286 | 1 | 0 | 254 |
| Provisions | 199 | 56 | 77 | 56 | 1 | 123 |
| Total | 4 026 | 1 446 | 1 095 | 595 | 27 | 3 810 |

Figure 10: Development of loan loss provisions on loans and advances (section 327 [2] no. 6 SolvV).

The portfolio of allowances for losses on loans and advances was reduced year-on-year by EUR 216 million. This was the result of the marked increase in utilization (this was EUR 147 million on December 31, 2009) and of the significant drop in additions.

There is a difference between the risk costs recognized in the annual financial statements under IFRS (risk provisioning for loans and advances) and the net amount

from additions and reversals recognized in the table above. This results from reversals from unwinding (discounting interest income for one year in accordance with IFRS) which are included in this Disclosure Report in the »Reversals« column but are not included in the risk costs pursuant to IFRS. In addition, there is differing recognition for the whole development of risk provisioning due to the fact that the scope of consolidation is not the same (see page 16).

6 Counterparty Risk in the CRS Approach.

(section 328 SolvV)

In order to calculate regulatory equity requirements according to the credit risk standard approach, only external credit rating assessments from the following ratings agencies are consulted:

- Standard & Poor's Ratings Services
- Moody's Investors Service
- Fitch Ratings Ltd.
- Euler Hermes Rating GmbH

These are applied on a standardized basis for all relevant CRSA receivables classes.

If a position-based external rating does not exist for a receivable in CRSA, this is considered unrated. For items that do not have a rating (with the exception of those for which there is an effective short-term credit rating assessment in accordance with section 45 (1) SolvV), the Bank must assign an effective credit rating assessment by means of comparative receivables.

Under section 45 (2) SolvV, comparative receivables are receivables which must be assigned to a CRSA item from the same obligor and for which there is a usable issue rating from a ratings agency nominated by the Bank. The grade of the comparative receivable must be taken into account when deriving the credit rating assessment to be used.

In LBBW, potential further (comparative) receivables from the same obligor which have a usable issue rating are calculated mechanically using customer-related information. Using the stipulated selection criteria, the reporting software will then allocate a rating to the previously unrated receivable, if available.

Total position values under the CRS approach and IRB approach position values calculated using the simple risk-weighting method

The following table shows position values by risk-weighting based on external ratings or fixed regulatory flat-rate weighting.

For the CRS approach, position values are presented before and after credit risk minimization effects from collateral. Due to financial collateral, there may be both a change within the risk weight classes and a decrease in the volume of the position values.

IRB approach positions with a fixed risk weight are also reported in the table. These are position values for investments, for items secured with real estate liens and for special-purpose finance. Accordingly, items in the investments receivables class in accordance with section 98 SolvV which are not traded on the stock exchange and are part of a sufficiently diversified portfolio are reported with a risk weight of 190%. Investments traded on the stock exchange are recognized with a risk weight of 290% and all other investments with a risk weight of 370%. If an item secured with real estate liens in accordance with section 85 (5) SolvV is reported, this is given the alternative risk weight of 50%. In the case of special-purpose finance in accordance with section 97 SolvV, these are recognized at risk weights of between 0% and 115% or of 250%, depending on the remaining term and risk weight class.

| EUR million | | | |
|-------------------|--|---|---|
| Risk weight | Total position values before credit risk minimization under CRSA | Total position values after credit risk minimization under CRSA | IRB approach (invest- ments, items secured by real estate liens and special-purpose finance) |
| 0% | 83 332 | 94 906 | 169 |
| 10% | 2 | 2 | |
| 20% | 3 195 | 3 306 | |
| 35% | 7 369 | 7 397 | |
| 50% | 1 002 | 1 126 | 1 526 |
| 70% | 0 | 314 | 195 |
| 75% | 10 083 | 9 553 | |
| 90% | | | 520 |
| 100% | 44 228 | 21 501 | |
| 115% | | | 256 |
| 150% | 1 435 | 1 324 | |
| 190% | | | 665 |
| 200% | 0 | 0 | |
| 250% | | | 27 |
| 290% | | | 25 |
| 350% | 0 | 0 | |
| 370% | | | 203 |
| 1 250% | 25 | 0 | |
| Capital deduction | 116 | 116 | |
| Total | 150 788 | 139 545 | 3 586 |

Figure 11: Total position values under the CRS approach and IRB approach position values subject to the simple risk-weighting method (section 328 (2) and section 329 Solv).

7 Counterparty Risk in the IRB Approach.

(section 335 SolvV)

Since January 1, 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
- Savings bank real estate rating
- German Savings Bank Association Joint Liability Scheme
- Savings bank standard rating
- Specific special rating classes
- IAA procedure for measuring securitizations

For all other portfolios of the LBBW Bank and all other companies included in the regulatory scope of consolidation of the LBBW Group which do not yet use the IRB approach, the transition regulation is used, i. e. temporarily handling these in line with the CRS approach.

By 2012, all materially significant portfolios and subsidiaries will be handled in line with the IRB approach. There is an approved implementation plan for the transition of these portfolios to the IRB approach for both the LBBW Group and the LBBW Bank.

LBBW applies the regulation on portfolio business eligible for exceptions in accordance with section 68 (3) SolvV for private building finance entered into before November 1, 2006, and the option of portfolio protection for investments in accordance with section 338 (4) SolvV. Accordingly, capital backing for these positions is calculated in line with the regulations of the CRS approach.

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 these procedures consists of the valuation of quantitative and qualitative factors and is supplemented by the inclusion of liability relationships. Finally, transferals and warning signals are included in the rating result.
- Simulation-based rating procedures
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 cash flow 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 macroeconomic scenarios (e. g. interest and exchange rates) if relevant.

The following table gives a detailed overview of the various rating procedures.

| Business area | Subgroup | Rating/ assessment procedure | Methodology |
|--|---|--|---|
| Private and investment customers | Private loans | For liabilities > EUR 500 thousand (of which unsecured > EUR 250 thousand): basic RKV | Expert-based procedure |
| | Employed natural persons with private construction finance | Claim scoring for construction finance Portfolio scoring for construction finance | Scorecard |
| Corporate customers | Basic customers | Savings bank standard rating plus customer compact rating (CCR) (liability between EUR 50 thousand and EUR 250 thousand) | Scorecard |
| | Business customers | | |
| | Corporate customers | | |
| | Corporate customers/ key accounts | Rating for corporates | Scorecard |
| | Non-profit organizations | Basic RKV | Expert-based procedure |
| Project and special-purpose finance | National commercial real estate | Savings bank real estate rating | Simulation-based calculation |
| | International commercial real estate | Rating for international commercial real estate (ICRE), (if necessary, RKV for special purpose finance) | Simulation-based calculation |
| | Open-ended real estate funds | Rating for open-ended real estate funds | Scorecard |
| | Aircraft finance | Airlines: rating for corporates | Scorecard |
| | | SPC: rating for aircraft finance (if necessary, RKV for special purpose finance) | Simulation-based calculation Scorecard |
| | Other project finance | Rating for project finance (if necessary, RKV for special purpose finance) | Simulation-based calculation Scorecard |
| | SPC real estate leasing | Rating for leasing refinancing | Simulation-based calculation |
| | Leveraged finance | Rating for leveraged finance | Scorecard |

| Business area | Subgroup | Rating/ assessment procedure | Methodology |
|------------------------|---|---|------------------------------|
| Wholesale | Banks | Rating for banks | Scorecard |
| | | Rating for German Savings Bank Association Joint Liability Scheme | Simulation-based calculation |
| | Insurance companies | Rating for insurance companies | Scorecard |
| | Leasing companies | Rating for leasing companies | Scorecard |
| | Securitization items against own ABCP programs | Internal classification procedure for securitizations for ABCP program Weinberg | Simulation-based calculation |
| | Synthetic CDO securitization tranches | If no external rating available: CDO shadow rating | Simulation-based calculation |
| | Securitization items of SEALINK structure | RKV SEALINK | Simulation-based calculation |
| | Other securitization transactions | RKV for ABS | Simulation-based calculation |
| | National government units/ public sector loans | Rating inheritance | n/a |
| | International government units | Rating for international government units | Scorecard |
| | Municipal corporations (KNU) | Savings banks standard rating | Scorecard |
| | | Corporates rating Basic RKV | Expert-based procedure |
| | Sovereigns & transfer risks | Rating for country and transfer risks | Scorecard |
| | Government supported enterprises (GSE) | RKV for government supported enterprises | Scorecard |
| Hedge funds | Hedge funds RKV | Scorecard | |
| Corporate items | Holding/group structures | Basic RKV | Expert-based procedure |
| | Strategic investments | Suitable rating in each case (bank investments with bank rating etc.), provided there is no reason to forgo a rating. Otherwise basic RKV | Subject to procedure |
| Expert-based procedure | | | |

Figure 12: Internal rating procedures of LBBW (section 335 [1] no. 2a SolvV).

All rating procedures produce a result in terms of a one-year probability of default in the local currency (local currency PD). The transfer risk which is sometimes present is taken into account in foreign currency (foreign currency PD). Using the master scale used uniformly within the Savings Banks Finance Group,

these probabilities of default are translated into a rating class. The master scale differentiates between a total of 18 rating classes, the first of which is divided into eight further subclasses. Rating classes 16 to 18 are default classes.

| Creditworthiness classes | Investment grade | LBBW rating master scale | Default probability (in %) |
|--------------------------|--------------------------|--------------------------|----------------------------|
| | | 1(AAAA) | 0.00 |
| | | 1(AAA) | 0.01 |
| | | 1(AA+) | 0.02 |
| | | 1(AA) | 0.03 |
| | | 1(AA-) | 0.04 |
| | | 1(A+) | 0.05 |
| | | 1(A) | 0.07 |
| | | 1(A-) | 0.09 |
| | | 2 | 0.12 |
| | | 3 | 0.17 |
| | | 4 | 0.26 |
| | | 5 | 0.39 |
| | Speculative grade | 6 | 0.59 |
| | | 7 | 0.88 |
| | | 8 | 1.32 |
| | | 9 | 1.98 |
| | | 10 | 2.96 |
| | | 11 | 4.44 |
| | | 12 | 6.67 |
| | | 13 | 10.00 |
| | | 14 | 15.00 |
| | | 15 | 20.00 |
| | Default classes | 16 | 100.00 |
| | | 17 | 100.00 |
| | | 18 | 100.00 |

Figure 13: LBBW rating master scale (section 335 [1] no. 2a SolvV).

Further use of internal estimates

The internal rating procedures of LBBW are key instruments in the credit process and credit risk management. As a component of the credit application and the foundation for calculating competency levels, the rating results are incorporated into the lending process. The rating results are also used to determine the credit risk strategy, define support intensity and calculate the standard risk costs.

The ratings form a basis for the overall bank management instruments of portfolio management, capital allocation, stress tests and risk-bearing capacity and influence the calculation of impairment in line with IFRS.

Control mechanisms for the rating systems

Within LBBW, responsibility for the rating systems lies with the credit risk controlling department, which operates independently of front office and back office up to the Board of Managing Directors level. Credit risk controlling plays the role of the counterparty risk monitoring unit and is responsible in particular for the design, selection, introduction, ongoing monitoring and performance of rating systems.

The majority of rating procedures at LBBW were developed in joint projects, further work on which was put on a new legal and organizational basis by forming Sparkassen Rating und Risikosysteme GmbH, Berlin (SR) and RSU Rating Service Unit GmbH & Co. KG, Munich (RSU). SR is responsible for processes for commercial savings banks customers (corporate and business clients, retail clients and commercial real estate finance). All other jointly developed processes are

regularly maintained and developed further as appropriate by RSU. LBBW's employees support these activities.

The rating systems of LBBW are subject to a regular update process, the central element of which is conducted under the guidance of RSU or SR (this activity was outsourced in line with section 25a KWG and presented accordingly). The database consists of the pooled data of RSU (pooled data for Landesbanken) and SR (pooled data from Landesbanken and savings banks).

The core element of the maintenance process is the annual validation, the central task of which is back-testing, benchmarking and checking the model design and data quality. The results are presented to a working group responsible for independently reviewing the validation and ensuring the consistency of the methods used for all processes in all modules. In validation, the rating procedure and its parameter estimates are either confirmed or adjusted and optimized as necessary. Before introducing modified procedures, LBBW performs a test to ensure representativeness. In turn, this ensures that the rating procedures are also accurate and valid for the LBBW portfolio and can therefore be applied without restriction. In addition, the correct use of rating systems is checked by rating controlling at LBBW.

Process of allocating positions or obligors to rating classes or risk pools

The receivable classes are calculated at a system level located downstream from the operating posting systems. Each transaction included in an IRB approach portfolio is allocated to a receivable class. Allocation is usually based on the rating procedure used. If a clear allocation using the rating procedure is not possible, receivables classes are distinguished further on the basis of additional information, such as customer group allocation or transaction-specific information such as collateral. The rating procedures used for each class of receivable and their scope are described below. Allocation is an essential element of capital backing.

Central governments receivables class

Country and transfer risks are measured using a special rating procedure at LBBW. The key points are the economic situation, the political environment and the domestic and foreign economic trends of the respective territory. The rating procedure for country and transfer risk is used to classify receivables from obligors assigned to the »central governments« IRB approach receivables class in line with section 74 SolvV.

Banks receivables class

The rating procedure for banks classifies all obligors which are assigned to the »banks« IRB approach receivables class in line with section 75 SolvV. The aim of rating procedures for banks is to measure their global risks of default. In terms of content, their use is limited to rating items that mostly perform typical banking transactions (material interpretation of the term »bank«). Thus, bank holdings, home

savings and loan associations, state finance agencies, financial and finance companies and financial service providers should also be rated with the banks module regardless of their legal form if they mostly perform typical banking transactions. Similarly, institutions that do not have a banking license but effectively mostly perform typical banking activities are rated using the rating procedure for banks. Furthermore, only rating items that are subject to regulation and therefore operate in a regulated environment are rated.

Corporates receivables class

The rating systems for corporate clients classify obligors assigned to the »corporates« IRB approach receivables class in line with section 80 SolvV. A substantial portion of this portfolio is subject to the corporates rating. Large German customers with consolidated sales of more than EUR 100 million and all international corporate clients are rated using the corporates rating. German borrowers with sales of less than EUR 100 million are rated with the savings bank standard rating and can be classified as corporates under certain conditions. Also, banks assessed with the rating procedure for insurance companies are also assigned to the corporates receivables class. The aim of the insurance company ratings is to measure the risks of default for insurance companies. In this context, »insurance companies« also include companies that generate most of their income from typical insurance transactions, which also includes bancassurance providers.

**Corporates receivables class:
special-purpose finance subclass**

The rating systems for special-purpose finance clients classify obligors also assigned to the »corporates« IRB approach receivables class in line with section 81 SolvV. They are a subclass of the corporates receivables class.

Ratings for project finance are usually based on the cash flow or the user/recipient of the project results. Compared with other special-purpose finance, project finance is distinguished by the fact that cash flows are generated from a narrowly defined activity and not several business concepts in parallel.

Real estate loan business where the loan is served only from income in the form of rental, lease or disposal proceeds arising from the financed item is also assigned to the special-purpose finance subclass. The rating procedure developed for this is based on the total international commercial real estate finance business if the property being financed is located abroad.

The scope of the rating procedure for aircraft financing includes both financing of a special-purpose vehicle (SPV) and direct loans to airlines relating to the financed item (direct loan relating to item, known as virtual SPV). All financing in the scope of the rating procedure for aircraft financing belongs to the special-purpose finance receivables class.

Investments receivables class

Investments are processed in a special organizational unit. Depending on the type of investment, the same rating procedures can be used as for the above receivables classes. System allocations and product numbers

ensure that these can be clearly identified and thus assigned to the above receivables classes or the investments receivables class. In addition, some investments are handled using the standard approach in the context of grandfathering (portfolio protection) (see »Capital requirements«, page 12).

Bulk business receivables class

Receivables due to LBBW which are assigned to bulk business are not yet handled in line with the IRB approach.

LBBW applies the regulation on portfolio business eligible for exceptions for private building finance. LBBW is targeting authorization to use self-estimated loss ratios (IRB Retail).

Position values by probability of default classes in the IRB approach

The following table shows the following key figures, based on the receivables classes recognized in the IRB approach – central governments, banks, corporates and investments – and broken down by risk class:

- the total position values and the position values for unutilized credit commitments
- the position values weighted with average probabilities of default (PDs)
- the position values weighted with average risk weights
- the total position values weighted with risk weights

| EUR million | | | | | |
|--|-----------------|---|------|---------------|--|
| Receivables class | Position values | | Ø PD | Ø Risk weight | Position value weighted with risk weight |
| | | of which outstanding credit commitments | | | |
| PD classes 1 [(AAAA) - (A-)] | | | | | |
| 0.000% to ≤ 0.101% | | | | | |
| Central governments | 61 379 | 1 710 | 0.01 | 2.53 | 1 552 |
| Banks | 46 541 | 109 | 0.05 | 11.49 | 5 346 |
| Corporates | 18 424 | 1 849 | 0.06 | 18.69 | 3 444 |
| of which small and medium-sized enterprises (SMEs) | 1 396 | 38 | 0.07 | 16.02 | 224 |
| of which special-purpose finance | 2 956 | 93 | 0.05 | 20.66 | 611 |
| of which purchased receivables | 0 | 0 | 0.00 | 0.00 | 0 |
| Investments | 125 | 0 | 0.09 | 76.62 | 96 |
| Total | 126 469 | 3 668 | | | 10 438 |
| PD classes 2 - 5 | | | | | |
| > 0.101% to ≤ 0.477% | | | | | |
| Central governments | 1 907 | 0 | 0.16 | 32.22 | 615 |
| Banks | 8 607 | 18 | 0.14 | 32.79 | 2 822 |
| Corporates | 29 860 | 5 128 | 0.23 | 44.41 | 13 260 |
| of which small and medium-sized enterprises (SMEs) | 1 803 | 162 | 0.24 | 36.85 | 664 |
| of which special-purpose finance | 4 902 | 162 | 0.23 | 44.93 | 2 203 |
| of which purchased receivables | 0 | 0 | 0.00 | 0.00 | 0 |
| Investments | 339 | 0 | 0.36 | 181.71 | 616 |
| Total | 40 713 | 5 146 | | | 17 313 |
| PD classes 6 - 10 | | | | | |
| > 0.477% to ≤ 3.628% | | | | | |
| Central governments | 133 | 0 | 1.14 | 70.72 | 94 |
| Banks | 1 306 | 3 | 1.00 | 75.34 | 984 |
| Corporates | 17 774 | 1 373 | 1.41 | 95.52 | 16 979 |
| of which small and medium-sized enterprises (SMEs) | 2 464 | 134 | 1.40 | 84.73 | 2 088 |
| of which special-purpose finance | 4 558 | 182 | 1.52 | 102.67 | 4 680 |
| of which purchased receivables | 0 | 0 | 0.00 | 0.00 | 0 |
| Investments | 23 | 0 | 1.18 | 220.59 | 51 |
| Total | 19 236 | 1 376 | | | 18 108 |

| EUR million | | | | | |
|--|-----------------|---|--------|---------------|--|
| Receivables class | Position values | | Ø PD | Ø Risk weight | Position value weighted with risk weight |
| | | of which outstanding credit commitments | | | |
| PD classes 11 - 15 | | | | | |
| > 3.628% to ≤ 99.99% | | | | | |
| Central governments | 1 | 0 | 16.26 | 239.28 | 2 |
| Banks | 74 | 3 | 12.26 | 214.93 | 160 |
| Corporates | 5 314 | 150 | 9.57 | 181.43 | 9 640 |
| of which small and medium-sized enterprises (SMEs) | 793 | 9 | 7.27 | 137.87 | 1 094 |
| of which special-purpose finance | 2 473 | 63 | 9.44 | 188.00 | 4 649 |
| of which purchased receivables | 0 | 0 | 0.00 | 0.00 | 0 |
| Investments | 1 | 0 | 10.00 | 470.60 | 4 |
| Total | 5 390 | 153 | | | 9 806 |
| PD classes 16 - 18 | | | | | |
| 100% (default) | | | | | |
| Central governments | 41 | 0 | 100.00 | - | 0 |
| Banks | 589 | 0 | 100.00 | - | 0 |
| Corporates | 4 644 | 62 | 100.00 | - | 0 |
| of which small and medium-sized enterprises (SMEs) | 394 | 12 | 100.00 | - | 0 |
| of which special-purpose finance | 1 260 | 37 | 100.00 | - | 0 |
| of which purchased receivables | 0 | 0 | 100.00 | - | 0 |
| Investments | 16 | 0 | 100.00 | - | 0 |
| Total | 5 290 | 62 | | | 0 |
| Total | | | | | |
| Central governments | 63 462 | 1 710 | 0.08 | 3.57 | 2 263 |
| Banks | 57 116 | 133 | 1.13 | 16.30 | 9 312 |
| Corporates | 76 015 | 8 562 | 7.21 | 56.99 | 43 324 |
| of which small and medium-sized enterprises (SMEs) | 6 850 | 354 | 7.17 | 59.41 | 4 070 |
| of which special-purpose finance | 16 149 | 538 | 9.76 | 75.19 | 12 142 |
| of which purchased receivables | 0 | 0 | 0.00 | 0.00 | 0 |
| Investments | 504 | 0 | 3.51 | 152.18 | 767 |
| Total | 197 097 | 10 405 | | | 55 665 |

Figure 14: Total credit volume by credit rating assessment (not including Retail) in the IRB approach (section 335 [2] no. 1, 2a and 2c Solv).

Actual losses on loans and advances

The following table shows actual losses on loans and advances reported in accordance with SolvV using the IRB approach (including banking book securities and derivatives, but not including securitizations as these

form a separate receivables class within SolvV, and including derivatives). Actual losses are defined as the total of direct write-downs and additions and reversals of individual valuation allowances/provisions less recoveries on loans previously written off.

| EUR million | | | |
|--|--|------------------------------------|--------------|
| Receivables classes | Actual losses on loans and advances (including securities and derivatives) | | Changes |
| | From Jan. 1, 2010 to Dec. 31, 2010 | From Jan. 1, 2009 to Dec. 31, 2009 | |
| Central governments | 11 | 18 | - 7 |
| Banks | 12 | 308 | - 296 |
| Corporates | 460 | 796 | - 336 |
| Investments | 15 | 175 | - 160 |
| Bulk business | 0 | 0 | 0 |
| of which qualified, revolving | 0 | 0 | 0 |
| of which residential real estate loans | 0 | 0 | 0 |
| of which other | 0 | 0 | 0 |
| Total | 498 | 1 297 | - 799 |

Figure 15: Actual losses on loans and advances (section 335 [2] no. 4 and 5 SolvV).

The effects of the financial and economic crisis on the loss history diminished considerably in 2010. The number of loan defaults, particularly in the banks and corporates receivables classes, fell sharply. In comparison with the average over many years, default rates were at only a slightly increased level.

Expected losses and actual losses on traditional loans and advances

The following table compares the expected and actual losses for transactions reported under the IRB approach in accordance with SolvV in the 2010 reporting year. The information relates only to the traditional lending business (not including banking-book securities, securitizations or derivatives) for the respective receivables classes in the IRB approach.

Actual losses are defined as the total of direct write-downs and additions, and reversals of individual valuation allowances/provisions less recoveries on loans previously written off. Expected losses are calculated in line with the provisions of the IRB approach and include only those lending transactions which were classed as performing (probability of default (PD) lower than 100%) as at January 1, 2010.

The ongoing new rating of customers for whose transactions capital backing has previously been calculated in line with the requirements of the CRS due to a lack of internal rating results in reclassification of the transactions from the CRS using the IRB approach. This produces an increase in both expected and actual losses for transactions reported using the IRB approach. Rating classifications that have changed since the previous year continue to influence expected losses.

Furthermore, comparability with the figures from 2008 is only possible to a limited extent, as these did not include the transactions of the former Landesbank Sachsen AG and the former Landesbank Rheinland-Pfalz which came about during the course of 2008. These figures also do not include transactions which were rated for the first time in 2008.

| EUR million | | | | | | | |
|--|---------------------------------------|------------------|---------------------------------------|------------------|---------------------------------------|------------------|--|
| Losses on traditional loans and advances (not including banking book securities or derivatives) | | | | | | | |
| Receivables classes | From Jan. 1, 2010 to Dec. 31, 2010 | | From Jan. 1, 2009 to Dec. 31, 2009 | | From Jan. 1, 2008 to Dec. 31, 2008 | | |
| | Expected losses (EL) | Actual losses | Expected losses (EL) | Actual losses | Expected losses (EL) | Actual losses | |
| Central governments | 1 | 0 | 1 | 9 | 0 | 0 | |
| Banks | 15 | 1 | 21 | 23 | 12 | 10 | |
| Corporates | 441 | 443 | 294 | 263 | 107 | 120 | |
| Investments | 1 | 3 | 3 | 2 | 1 | 0 | |
| Bulk business | 0 | 0 | 0 | 0 | 0 | 0 | |
| of which qualified, revolving | 0 | 0 | 0 | 0 | 0 | 0 | |
| of which residential real estate loans | 0 | 0 | 0 | 0 | 0 | 0 | |
| of which other | 0 | 0 | 0 | 0 | 0 | 0 | |
| Total | 458 | 447 | 319 | 297 | 120 | 130 | |

Figure 16: Expected losses and actual losses on traditional loans and advances (section 335 [2] no. 6 SolvV).

8 Credit Risk Minimization Techniques.

(section 336 SolvV)

Process of controlling and recognizing credit risk minimization techniques

Control is effected in line with the specifications in the regulations of the Bank on the types of collateral permitted and the carrying amounts. In order to include collateral in the calculation of capital adequacy, LBBW has implemented the regulatory requirements in collateral management.

Presentation of the main types of collateral

Taking costs and benefits into consideration, all types of collateral can be used to reduce credit risk, though fungible collateral with sustained value is preferred.

Collateral primarily includes traditional forms of collateral, such as real estate liens, guarantees, sureties, securities, pledges, assignments, and transfers of title of property. LBBW aims to achieve risk-adequate collateralization depending on the type of product, intended use, maturity and repayment terms.

At present, the following collateral is considered to reduce weighting in the context of the SolvV:

- guarantees, particularly warranties and sureties
- real estate secured by real estate liens (already included in the receivables classification where relevant)
- registered liens (aircraft)
- securities
- life insurances
- cash contributions (in own or third-party custody)
- export credit insurances

At LBBW, guarantees/warranties from domestic and foreign local government units and banks and guarantees from state export credit insurers are of particular significance. These are usually guarantors with investment grade credit ratings.

In addition to conventional collateral for loans and advances, for regulatory purposes LBBW also utilizes various risk-reducing hedging instruments for trading and capital market business. It mainly uses:

- financial collateral for securities
- admissible guarantees and credit derivatives
- netting agreements for derivatives plus collateral agreements (in accordance with section 9)

Credit derivatives are mainly concluded with banks that have very good credit ratings overall.

The main hedging instruments used at LBBW are also used for regulatory purposes as they satisfy the requirements of admissible credit risk-reducing techniques.

The subsidiaries of LBBW do not apply any risk minimization techniques that go beyond those of the LBBW Bank.

Measuring and managing the collateral used

Credit collateral is entered in the collateral management system (SIM) with all relevant information and updated on an ongoing basis. The internal processes and systems in place ensure that collateral is only used for weighting if it meets all the requirements of SolvV.

The procedures for measuring and managing the collateral eligible under SolvV are compiled in the Bank's regulations. Collateral is measured on the basis of appraisals prepared by recognized experts or on the basis of conservative, internal principles, or – in the case of guarantees – on the basis of the guarantor's credit rating assessment.

Values are calculated and carrying amounts are reviewed by the back office divisions.

Collateral is measured and checked on its acceptance and usually at least once per year during the term of the credit. Regardless of this, collateral is checked for impairment immediately if negative information becomes known. If there is a significant positive correlation between the value of an item of collateral and the borrower providing the collateral, the calculated collateral value is of no significance for the credit decision.

The decision as to whether or not the transaction can be concluded without measurable collateral is made in line with the assignment of approval authorities.

In order to minimize legal risks, the legal department has developed a large number of its own contract forms and sample contracts or approved them for use by the business areas of LBBW after examining them. Legal enforceability is ensured at all times and general legal conditions are monitored on an ongoing basis.

Credit derivatives with a hedging effect are essentially charged as guarantees for regulatory purposes. The procedure for recognizing a credit derivative as collateral is set out accordingly in the internal provisions. One exception to charging credit derivatives as guarantees is balance sheet forms of credit derivative; for example, own issues in credit linked notes as the protection purchaser, which are charged as cash hedging, i. e. as financial collateral.

Management of concentration risks in the credit and collateral portfolio

In measuring the risk arising from collateral, LBBW distinguishes between collateral in conventional lending business and collateral in trading business. Concentrations of collateral in capital market business are limited by a restrictive collateral policy. Individual and portfolio risks (e. g. those in relation to repo and securities lending transactions) are regularly monitored by means of a steering committee within trading. Guarantees and credit derivatives are concluded with counterparties with strong credit ratings and are charged at the corresponding individual limits. Concentrations of collateral in the case of OTC derivatives are prevented by only accepting cash collateral or first class government bonds. In addition, timely measurement of collateral contributes to risk limitation.

The collateral portfolio of LBBW in the conventional lending business is broken down into personal collateral, balances and securities, as well as real estate as the main protection instrument. Options exist for evaluating real estate, e. g. according to region or type of use. The collateral portfolio is regularly presented in management reporting and includes LBBW's largest collateral providers.

**Total amount of secured position values
(not including securitization)**

The following table shows the position values by CRSA receivables classes secured by financial collateral, life insurances or guarantees (including warranties and credit derivatives).

| EUR million | | | |
|---------------------------------------|----------------------|-----------------|---------------|
| Receivables classes | Financial collateral | Life insurances | Guarantees |
| Central governments | 0 | 0 | 1 |
| Regional governments | 0 | 0 | 0 |
| Other public sector | 4 | 0 | 25 |
| Multilateral development banks | 0 | 0 | 0 |
| International organizations | 0 | 0 | 0 |
| Banks | 3 728 | 0 | 40 |
| Covered bonds issued by banks | 0 | 0 | 0 |
| Corporates | 7 387 | 202 | 13 636 |
| Bulk business | 202 | 221 | 82 |
| Items collateralized with real estate | 0 | 0 | 0 |
| Investment units | 0 | 0 | 0 |
| Investments | 0 | 0 | 0 |
| Other items | 25 | 0 | 0 |
| Past-due items | 2 | 9 | 6 |
| Total | 11 348 | 432 | 13 790 |

Figure 17: Total amount of the secured position values using the CRS approach (not including securitization) (section 336 no. 2 SolvV).

The following table shows the position values by receivables classes by the IRB approach secured by financial collateral, other/physical collateral, life insurances or guarantees (including warranties and credit derivatives).

| EUR million | | | | |
|--|----------------------|-------------------------------|-----------------|--------------|
| Receivables classes | Financial collateral | Other/ physical collateral | Life insurances | Guarantees |
| Central governments | 770 | 0 | 0 | 378 |
| Banks | 22 094 | 1 | 0 | 2 260 |
| Corporates | 4 792 | 8 756 | 207 | 5 491 |
| Bulk business | 0 | 0 | 0 | 0 |
| of which qualified, revolving | 0 | 0 | 0 | 0 |
| of which residential real estate loans | 0 | 0 | 0 | 0 |
| of which other | 0 | 0 | 0 | 0 |
| Investments | 0 | 0 | 0 | 0 |
| of which simple risk weight approach | 0 | 0 | 0 | 0 |
| of which model-controlled | 0 | 0 | 0 | 0 |
| of which PD/LGD approach | 0 | 0 | 0 | 0 |
| Other assets not dependent on credit | 0 | 0 | 0 | 0 |
| Total | 27 656 | 8 757 | 207 | 8 129 |

Figure 18: Total amount of the secured position values using the IRB approach (not including securitization) (section 336 no. 2 SolvV).

9 Derivative Counterparty Risks.

(section 326 SolvV)

Capital allocation on the basis of economic capital

LBBW does not carry out specific capital allocation or separate limiting for default risks as regards counterparties with derivative items. This is carried out in line with the generally applicable processes for limiting counterparty risks – see section 4 »Economic capital management«.

Risk reduction measures

At LBBW, risk reduction measures in connection with derivative counterparty risk positions are applied through the conclusion of master netting agreements and the hedging of OTC derivatives.

The procedure for concluding and managing master agreements for OTC derivative netting and collateral agreements is stipulated in the internal regulations of the Bank and the working instructions of the responsible back office. Netting for OTC derivatives has been used for equity and interest rate derivatives since 2002, since 2004 for currency derivatives and since 2009 for credit derivatives.

Furthermore, derivative transactions are concluded with savings bank customers via an intermediary procedure, which are guaranteed by the intermediary savings bank.

Impact of a rating downgrade on the collateral amount

In the majority of cases, the agreements concluded do not provide for an increase in collateral in the event of an LBBW rating downgrade. However, a gradual increase in collateral is provided for in the event of a downgrade of LBBW for some individual counterparties.

Loan loss allowances

Credit risks for derivative transactions are recognized by means of a counterparty valuation adjustment used in addition to the market valuations. This applies both for HGB and for IFRS.

Correlation between market price risks and credit risks

Market price risks and credit or counterparty risks are pooled using economic capital within the Group-wide economic capital limit.

The economic capital of the various risk categories is aggregated taking correlations into account. Assumption of correlations between market price risks and credit risks is based on an independently validated, conservative expert estimate.

Derivative counterparty risk positions, netting positions and collateral

The following table shows the derivative counterparty risk positions in the form of the positive market values (corresponds to the potential replacement costs before add-on in accordance with section 19 SolvV) before and after charging derivative netting positions and collateral, broken down by types of contract.

| EUR million | | | | |
|-------------------------|--|-----------------------|---------------------|---|
| Contract types | Positive replacement costs before netting and collateral | Netting opportunities | Eligible collateral | Positive replacement costs after netting and collateral |
| Interest rate contracts | 38 197 | | | |
| Currency contracts | 6 320 | | | |
| Share/index contracts | 833 | | | |
| Credit derivatives | 925 | | | |
| Commodity contracts | 118 | | | |
| Other contracts | 4 | | | |
| Total | 46 397 | 39 423 | 1 726 | 5 248 |

Figure 19: Positive replacement costs before and after charging netting agreements and collateral (section 326 [2] SolvV).

Unlike in the annual report, here transactions are classified according to the definition of market risk positions in SolvV.

The following table shows the creditable counterparty default risk for derivative default risk positions in the form of the position value after credit risk minimization (conversion factor [CCF] generally not taken into consideration for derivatives) for the respective method used. LBBW uses the market measurement method for this.

| EUR million | | | | |
|-------------------------------------|-----------------|---------------------------|-----------------|----------------|
| | Duration method | Market measurement method | Standard method | Internal model |
| Counterparty default risk positions | 0 | 18 010 | 0 | 0 |

Figure 20: Counterparty default risk (section 326 [2] SolvV).

The following table shows the nominal value of credit derivatives eligible for regulatory purposes which are used for hedging purposes.

| EUR million | |
|---------------------------------------|------------------------|
| | Nominal value of hedge |
| Credit derivatives (protection buyer) | 1 505 |

Figure 21: Nominal value of credit derivatives for hedging purposes (section 326 [2] SolvV).

The following table shows the nominal values of the credit derivatives bought and sold for LBBW's own credit portfolio, broken down by type of credit derivative. Credit derivatives from brokering activities were not used by LBBW in 2010.

| EUR million | | |
|----------------------|---|---------------|
| Contract types | Nominal value from utilization for own credit portfolio | |
| | Bought | Sold |
| Credit default swaps | 28 227 | 49 581 |
| Total return swaps | 1 341 | 1 900 |
| Credit linked note | 72 | 273 |
| Other | 0 | 0 |
| Total | 29 640 | 51 754 |

Figure 22: Nominal value of credit derivatives by type of use (section 326 [2] SolvV).

Unlike in the annual report, here transactions are classified according to the definition of market risk positions in SolvV.

10 Securitizations.

(section 334 SolvV)

LBBW acts on the financial markets as an investor, sponsor and originator of securitization positions.

LBBW acts as a sponsor and/or arranger of securitization programs in the context of customer transactions, offering the customers innovative, capital market-oriented financing alternatives. Furthermore, LBBW primarily played the role of investor for securitization in the credit substitute business.

As an **investor**, LBBW is predominantly involved with the following types of product: residential mortgage-backed securities (RMBS), collateralized debt/loan obligations (CDO/CLO), commercial mortgage-backed securities (CMBS) and other asset-backed securities (ABS). In addition, LBBW also invests in synthetic CDOs, where firstly in the context of relative value strategies protection is bought and sold on different parts of the capital structure, and secondly, from a risk/return point of view, investments are made in selected parts of the capital structure.

The securitization positions in which LBBW invests are generally rated by at least one or usually two recognized rating agencies (Standard & Poor's, Moody's or Fitch Ratings) and mostly have a good to first-class rating.

LBBW did not enter into any significant new business as an investor in the area of securitizations in 2010. It has been decided that the credit substitute business will be scaled back as part of the restructuring of LBBW. This decision will lead to further gradual shrinking of the portfolio of securitized products in the next few years.

However, in its role as **sponsor and/or arranger** of customer transactions, LBBW still even has the high net worth SMEs in Germany on its side in 2010 thanks to new financing solutions. For this reason, this securitization segment is not impacted by the reduction plans and is to be expanded further as part of the new target customer orientation. In connection with this, the Weinberg ABCP program sponsored by LBBW was fundamentally streamlined and modernized in 2010 so as to meet future requirements.

As part of its securitization programs, LBBW provides the appropriate special-purpose entities with liquidity facilities and/or refinancing facilities, as well as swap lines if necessary, in addition to its role as a service provider.

These securitization items, for which LBBW maintains risk-weighted securitization values in its role as sponsor and/or arranger, are predominantly rated using the internal classification procedure (IAA). If LBBW has also acquired commercial papers for its securitization program, these are rated by two recognized rating agencies (Fitch and Moody's).

As an **originator**, LBBW has been actively involved with the ABS transactions »Entry« (borrower note loan securitization), »Prime« (securitization of mezzanine profit participation rights under the name SmartMezzanine) and »S-Fix« (securitization of corporate loans) since 2006. LBBW's functions here also included service provider (for Entry and S-Fix only), loan provider (for Prime only) and swap counterparty (in all cases) in 2010. Due to the financial market crisis, acquisition services for the Entry and Prime securitization programs were suspended at the end of 2008. No more new assets were generated for placement purposes.

The S-Fix tranches were assumed in full by LBBW, whereby the senior tranche can be submitted to the Bundesbank as collateral for the purposes of ECB repo transactions. The senior and mezzanine tranches are rated by rating agency Moody's.

In connection with the Prime securitization transaction, LBBW also continues to hold risk-weighted securitization securities in its role as originator. Some of these positions are rated by the Standard & Poor's rating agency and some remain unrated.

Presentation of the procedures for determining position values

With the exception of retail underlying tranches, true sale investor positions are recognized as securitization positions in the IRB approach. Retail underlying tranches (such as residential construction loans or credit cards) are recognized as CRSA securitization positions.

In the IRB approach, the Bank almost exclusively uses the rating-based approach for its investment portfolio and only uses the derived credit rating assessment. In the CRSA approach, the relevant paragraphs are applied for CRSA securitization items.

The majority of investments is classified as high quality and granular and almost exclusively had at least one rating from a recognized rating agency on acquisition. If there is no available external rating, the Bank uses the regulatory formula approach. Synthetic investor positions are also predominantly classified using this approach. In the case of unrated CRSA securitization positions, section 243 (2) SolV (risk concentration rate) is used.

The liquidity lines and swaps provided as part of the ABCP program are measured using the internal

classification procedure (IAA). LBBW developed and introduced appropriate models for the measurement of trading receivables, interest-bearing receivables and ABS bonds for this purpose in 2008.

If LBBW purchases commercial papers (CP) from its own ABCP program, these are classified as overlapping positions. This means that the risk positions are already covered by the liquidity lines, meaning that no further capital backing is necessary. In originator activities, risk transfers are demonstrated in line with section 232 SolV.

Accounting policies for securitizations

In its role as an originator for Entry and Prime securitization transactions, LBBW acquired promissory note receivables and profit participation certificates up to autumn 2008 as part of a regulated process and initially took these onto its own balance sheet. Receivables generated in this way were already sold on to the Entry and Prime SPVs at the end of 2006. By performing true sale transactions, LBBW ensures that it retains neither the rights nor obligations. Therefore, under HGB (IDW RS HFA 8) and IFRS 39.20a, assets are no longer recognized on the LBBW balance sheet. However, assets which are still generated after this time and are not securitized are still recognized on the LBBW balance sheet as corresponding receivable items.

By way of contrast, in the case of the S-Fix securitization transaction, an economic risk transfer did not take place in accordance with HGB (IDW RS HFA 8) and IFRS 39.20a, as LBBW still holds all securitization tranches. The assets in question are therefore still recognized on the balance sheet. However, the ABS tranches acquired and the corresponding liabilities are deducted from the IFRS consolidated balance sheet due to the consolidation of the SPV.

The securitization products acquired as an investor (mainly ABS, CDO/CLO, RMBS, CMBS) are usually investment book portfolios. At the time of their acquisitions the products are assigned to the held for trading, fair value option, available for sale or loans and receivables categories under IAS 39.9 in line with their documented purpose and measured accordingly (for more information on IFRS accounting see also item 8 in the notes »Financial instruments«). Under HGB, acquired securitization products are classified as securities measured in the trading portfolio, the liquidity reserve and the portfolio as non-current assets (for information on HGB accounting see also the notes to the 2010 LBBW separate financial statements, »Accounting policies«).

HGB accounting

Trading portfolio securities are measured in line with the strict principle of lower of cost or market and write-downs are reversed as required. Gains and losses on remeasurement and realization are shown under net income from the trading portfolio. Current gains and losses are shown under net interest income.

Liquidity reserve securities are measured in line with the strict principle of lower of cost or market and write-downs are reversed as required. Gains and losses on remeasurement and realization are shown under amortization and write-downs and income from reversals of write-downs on specific securities. Current gains and losses are included in net interest income.

Securities treated as non-current assets are measured in line with the moderated principle of lower of cost or market and write-downs are reversed as required. Gains and losses on remeasurement and realization are shown under amortization and write-downs and income from reversals of write-downs on securities treated as non-current assets. Current gains and losses are included in net interest income.

IFRS accounting

Financial instruments classified as held for trading or using the fair value option are measured at fair value. Gains and losses on remeasurement and realized gains and losses are recognized under net trading income or net income from fair value option financial instruments. Current gains and losses are reported under net interest income.

Financial instruments assigned to the available for sale category are measured at fair value. Gains and losses on remeasurement are reported in equity (revaluation surplus). In the event of impairment or disposal, gains and losses on remeasurement are reported in income under net income from investment securities. Current gains and losses are shown under net interest income.

Financial instruments assigned to the loans and receivables category are measured at amortized cost. In the event of impairment, the amount is recognized in the income statement. Current gains and losses are reported under net interest income.

In assessing whether securitization products include separable, embedded derivatives or synthetic structures, LBBW distinguishes between

- non-separable cash structures, in which the backing receivables and/or securities are solely in the portfolio of the SPV issuing the securitization products and
- separable synthetic structures, where the credit risk of a portfolio of assets is mainly transferred by way of a derivative to an SPV that is not the direct owner of the portfolio.

In synthetic structures, the embedded derivatives are measured separately from the respective host contract if the securitization product as a whole has not already been assigned to the fair value option. Combinations of cash structures and synthetic structures are treated as synthetic structures for accounting purposes.

At present, LBBW predominantly uses indicative prices provided by external market data providers in fair value measurement. For some securitization products, models are used for measurement purposes.

Risk shield

In view of the turbulence on the financial markets, the LBBW Group has arranged risk protection with the state of Baden-Württemberg in the form of a guarantee structure to hedge against losses on securities at risk that has been in effect since June 30, 2009. A guarantee of EUR 12.7 billion was granted to LBBW to hedge for losses on reference assets of the securitization portfolio and loans issued by LBBW to the Irish special-purpose entity Sealink Funding (Sealink). The risk shield from the state of Baden-Württemberg and a capital injection of EUR 5.0 billion from the owners were approved by the European Commission on December 15, 2009.

A partial amount of the guarantee amounting to EUR 6.7 billion serves to secure the securitization portfolio (guarantee portfolio) with a currently outstanding nominal volume of EUR 13.4 billion (as of December 31, 2010). LBBW bears the first loss on the guarantee portfolio up to an amount of EUR 1.9 billion, which were already fully recognized on the balance

sheet in the 2009 fiscal year. All further losses will initially be absorbed by the guarantee. If further losses occur after the guarantee has been utilized in full, these in turn are borne by LBBW.

The remaining EUR 6.0 billion of the guarantee relates to a loan granted by LBBW to the special-purpose entity Sealink.

Total amount of securitized receivables

The total amount of receivables in the corporates receivables class effectively securitized by LBBW in its role as originator (including promissory note receivables and profit participation certificates) amounts to EUR 312 million.

These are securitized receivables which have been transferred to the Entry and Prime special-purpose vehicles on the balance sheet and in full. By performing true sale transactions, LBBW ensures that it retains neither the rights nor obligations. Synthetic securitizations without a transfer of receivables were not carried out.

As regards the total amount of securitized receivables for which LBBW acts as originator, EUR 42.1 million is attributable to securitized receivable amounts defined as in default (subject to rating) or past due. The recovery rate for this is 14.22%. As some of the receivables classified as in default are still contractually service interest and repayments (if not bullet maturity), further recovery revenues are still expected up until the receivables become due (mainly in 2011).

The provisions of SolvV apply for the information provided in Figures 23 and 24. These may differ from the presentation for securitization positions shown in other reports. A detailed classification took place within the balance sheet items in 2010.

the Bank as originator and securitization positions in connection with third-party receivables (sponsor/investor). Retained and purchased securitization positions are broken down according to the underlying SolvV approach and the type of securitized receivable.

The following table comprises both retained securitization positions from own receivables securitized by

| EUR million | Position values under CRSA | Position values under IRB approach |
|--|----------------------------|------------------------------------|
| Securitization positions | | |
| Receivables from residential construction loans | 2 565 | 935 |
| Receivables from total or partial commercial real estate loans | 198 | 87 |
| Receivables from corporates (including SMEs) | 268 | 305 |
| Receivables from own and purchased lease receivables | 53 | 43 |
| Receivables from car financing (excluding leasing) | 59 | 11 |
| Receivables from other retail business (e. g. credit cards, student loans) | 297 | 1 |
| Receivables from CDO and ABS | 286 | 1 322 |
| Credit improvement measures | 252 | 258 |
| Guarantee portfolio | 0 | 13 455 |
| Other balance sheet items | 40 | 0 |
| Total balance sheet items | 4 018 | 16 417 |
| Liquidity facilities | 0 | 2 085 |
| Derivatives | 0 | 14 |
| Positions specifically for synthetic transactions | 0 | 156 |
| Other non-balance sheet items | 0 | 0 |
| Total non-balance sheet items | 0 | 2 255 |
| Total | 4 018 | 18 672 |

Figure 23: Total amount of retained or purchased securitization positions (section 334 [2] no. 3 SolvV).

The guarantee portfolio includes securities from various types of securitization positions.

The following table shows the respective position values and capital backing for securitizations, broken down by risk-weighting bands, for the CRS and IRB approach.

| EUR million | | | | |
|-----------------------------------|-----------------|--------------------|-----------------|--------------------|
| Risk-weighting bands | CRSA | | IRB approach | |
| | Position values | Equity requirement | Position values | Equity requirement |
| < 10% | 0 | 0 | 16 203 | 52 |
| > 10% ≤ 20% | 3 475 | 56 | 1 039 | 15 |
| > 20% ≤ 50% | 171 | 7 | 780 | 23 |
| > 50% ≤ 100% | 104 | 8 | 66 | 3 |
| > 100% ≤ 650% | 0 | 0 | 69 | 9 |
| > 650% ≤ 1 250%/capital deduction | 268 | 268 | 515 | 415 |
| Total | 4 018 | 339 | 18 672 | 517 |

Figure 24: Total amount and equity requirements for retained or purchased securitization positions according to risk-weighting bands (section 334 [2] no. 4 SolvV).

11 Investments in the Banking Book.

(section 332 SolvV)

LBBW distinguishes between its own strategic investment business and its commercial investment business. In line with risk and return considerations, the former serves to help the Bank achieve its operating policy, thus strengthening the market position of LBBW in terms of target customers and key products. By outsourcing market, staff and operating functions from subsidiaries and equity holdings, this allows for the ideal utilization of market potential. On the other hand, as an independent business area, the commercial investment business provides a range of products/services, particularly for the small and medium-sized customers of LBBW, and includes credit-equivalent or credit-substituting commitments aimed at generating risk-adequate margins.

The same profitability requirements generally apply for LBBW's own strategic investment business and its commercial investment business as for its front office divisions.

In addition to the equity investments that are consolidated for regulatory purposes or deducted from liable equity capital (see section 3 Scope, Figure 1), LBBW also has further investments in its banking book with capital backing in the context of the IRB or CRS approach (grandfathering regulation).

On the date of acquisition, the investments – if not consolidated and not deducted from liable equity capital – are measured at cost in line with IFRS provisions and subsequently at fair value. For listed companies, the respective market price as of the balance sheet date is used for valuation. For non-listed companies, the fair value is calculated on the basis of available multi-year planning with the help of an earnings power model in line with the provisions of the Institut der Wirtschaftsprüfer (IDW). In special cases, valuations are made using alternative procedures based on real estate, portfolio or transaction values. In the event that no valuation procedure can be used in an individual case, then this is valued at amortized cost.

For regulatory purposes, LBBW distinguishes when using the IRB approach between investment positions which are part of a portfolio managed in terms of probability of default (PD/LGD method) and those handled using the simple risk weighting method. Investment positions that were already held before January 1, 2008, are handled in line with CSR in the context of grandfathering (portfolio protection) (see »Capital requirements«, page 12).

Carrying amounts of investment instruments in the banking book

The following table is broken down by type of investment item and the extent to which they can be traded for investment items which are not consolidated and are not deducted from liable equity capital and shows both the balance sheet value and the fair value. For listed companies the fair value is the stock market value. If a fair value has not been calculated for internal or external purposes, then the carrying amount is used.

| EUR million | | | |
|---|--|--------------|--------------------|
| Groups of investment instruments | Carrying amount in accordance with HGB | Fair value | Stock market value |
| Investments in banks | 99 | 127 | 0 |
| of which exchange-traded | 0 | 0 | 0 |
| of which not exchange-traded, but part of a sufficiently diversified investment portfolio | 99 | 127 | |
| Investments in financial services institutions | 0 | 0 | 0 |
| of which exchange-traded | 0 | 0 | 0 |
| of which not exchange-traded, but part of a sufficiently diversified investment portfolio | 0 | 0 | |
| Investments in other companies | 713 | 834 | 357 |
| of which exchange-traded | 305 | 357 | 357 |
| of which not exchange-traded, but part of a sufficiently diversified investment portfolio | 408 | 477 | |
| Subsidiaries – banks | 8 | 8 | 0 |
| of which exchange-traded | 0 | 0 | 0 |
| of which not exchange-traded, but part of a sufficiently diversified investment portfolio | 8 | 8 | |
| Subsidiaries – financial services institutions | 0 | 0 | 0 |
| of which exchange-traded | 0 | 0 | 0 |
| of which not exchange-traded, but part of a sufficiently diversified investment portfolio | 0 | 0 | |
| Subsidiaries – other companies | 252 | 288 | 4 |
| of which exchange-traded | 4 | 4 | 4 |
| of which not exchange-traded, but part of a sufficiently diversified investment portfolio | 248 | 284 | |
| Total | 1 072 | 1 257 | 361 |

Figure 25: Carrying amounts of investment instruments in the banking book (section 332 no. 2 SolvV).

The following table reports realized and unrealized gains and losses from banking book investment business for the reporting period and in accordance with IFRS accounting.

| EUR million | |
|--|------------|
| Realized gains and losses from sales and settlement | 72 |
| Unrealized gains and losses from investment instruments | 185 |
| of which amounts recognized: | 0 |
| in Tier 1 capital | 0 |
| in Tier 2 capital | 0 |

Figure 26: Realized and unrealized gains/losses from investment positions (section 332 no. 2 Solv).

12 Market Price Risk.

(section 330 SolvV)

LBBW defines market price risks as potential losses resulting from unfavorable changes in market prices. This includes share prices, interest rates, exchange rates, credit spreads and commodities prices as well as volatility or correlations as market parameters.

The market risk positions of LBBW are measured daily in the Group Risk Control division on a mark-to-market basis. Business results are calculated on the basis of this. Market price risks are quantified using a value-at-risk approach, which is supplemented by sensitivity measurements and stress tests. The risk indicators are accompanied by corresponding portfolio limits, which are used to limit market price risks.

The regulatory requirement to implement a stressed value-at-risk concept and thereby undergo an observation period representing a »period of significant financial stress« resulted from the Basel Committee's revisions to the Basel II market risk framework published in July 2009. Although the implementation and capital backing obligation was deferred to 2011, LBBW put the concept into practice in 2010 and integrated it in overall bank management and the calculation of risk-bearing capacity.

Internal model in accordance with the German Solvency Regulation

At LBBW, the value-at-risk (VaR) from market price risks is calculated at a confidence level of 99% and a holding period of ten days. A 95% confidence level and one-day holding period are applied for internal Bank management purposes. This calculation is based on a procedure involving a traditional Monte Carlo simulation. In most cases, the simulation enables LBBW to not simply estimate market-induced value fluctuations, but to measure them fully, even for complex transactions. Historical time series for the preceding 250 days are equally weighted in covariance estimates. LBBW's market risk model is also used for subsidiaries of the

Group that are integrated in Group-wide standardized management based on the value-at-risk risk indicator.

Capital backing using LBBW's internal risk model is based on the so-called »SolvV portfolio«. This consists of all trading book positions excluding investment funds. Capital backing is undertaken for the general interest rate and share risks as well as the associated option price risks in this portfolio.

At LBBW, market price risks are consistently measured in the trading book and banking book using the same VaR methodology. Trading portfolios and the strategic position of the banking book can be affected by potentially detrimental developments in market interest rates. In addition to parallel shifts and the tilt of yield curves, basis risks that arise due to relative movements of various interest rate markets in relation to each other are included in risk calculations. Basis risks are very strongly dependent on the correlation of the underlying yield curves.

Credit spread risks from securities are measured with the general and issuer-specific risk. For this purpose, the transactions of the trading book and the banking book that are sensitive to creditworthiness are mapped onto rating- and industry-dependent yield curves. This is carried out for all transactions executed through the trading system (in particular fixed-income securities). The issuer-specific risk is calculated using the spread (and the spread volatility) of individual clients.

In the course of the financial market crisis, the credit spread risks have become an important part of LBBW's market price risk. The credit spread risks from all credit derivatives are determined using a multi-index model. The respective credit spreads of the reference debtor are entered into the risk calculation.

Equity risks, along with foreign exchange and commodities risks, are less significant for LBBW than interest rate and spread risks. The former also include risks

from precious metals and currency portfolios, which LBBW only holds to a limited degree.

Backtesting and validation

The VaR value calculated by the risk model represents a statistical forecast of expected portfolio losses from market price risks over the respective time periods. In order to verify the suitability of the model, it is necessary to test the quality of forecasts. This is carried out as part of a regular validation process using various validation and analysis procedures. This can initially be assessed by means of backtesting. In concrete terms, this process involves counting the number of times VaR is exceeded by actual portfolio value changes (called »outliers«) as the result of changes in market data. The SolvV portfolio, which comprises the trading portfolios, for which capital adequacy for general equity and interest rate risks is measured using the internal risk model, did not show any outliers. This means that no additional equity needs to be recognized for model outliers for regulatory purposes.

As well as backtesting, further quantitative validation procedures are used and the risk model is assessed on a qualitative basis. This includes a discussion of the model design, resulting in particular in model risks being identified. Such model risks are examined, e. g. in the area of stochastic risk modeling. The forecast quality of a VaR model also depends on the quality of measurement methods in place within the risk model. Market data ultimately constitutes a key factor in the success of VaR forecasts. This is entered into the measurement models and is thus a key factor in determining the quality of the simulated portfolio measurements. In addition, the future risk conduct (volatility and correlations) for the individual market factors is derived from the price histories for these factors.

Model risks are measured with regard to their materiality and are entered into the release planning for the risk model subject to the need for action. Model changes are carried out according to the model change policy and communicated to the supervisory authorities.

Stress tests

Stress testing is used to examine how the value of the portfolio changes under extreme market conditions. Historical and synthetic (self-defined) scenarios are established in LBBW's risk system. Synthetic scenarios mainly refer to selected market factor groups (such as interest shifts, share shifts) or stress testing of basis risks (e. g. of different yield curves). Historical scenarios have been generated from data analyses of market shocks, with stress tests for the financial crisis having been specifically added to the scenarios in question. These scenarios are applied to the portfolio on a weekly basis together with the specified market data changes, and changes in present value are reported as the stress test value.

Financial market scenarios are currently of huge importance to LBBW. By means of the »EUR financial market crisis«, »Subprime crisis« and »Lehman crisis« scenarios, the historical market data changes for the financial market crisis of summer 2007 and the start of 2008 as well as the most recent crisis triggered by the insolvency of Lehman Brothers in autumn 2008 are all included in stress testing. In this process, the market data for the observed period were analyzed and implemented in the respective scenario. Particular attention was devoted in 2010 to the development of macro-economic scenarios in which the further course and potential effects of the European sovereign crisis were analyzed.

The most significant stress values for the LBBW Group up to December 31, 2010, are shown in the following table.

| |
|--|
| Euro financial market crisis of summer 2007 |
| 10-day spread increase in bond and CDS sector (Shift in Euro financials yield curves up to +38 bp, CDS spreads up to 260% after mapping allocation, remaining guarantors +5%) |
| Shares +5%, share volatility +5% |
| Credit spread increase 75% |
| Increase of all CDS spreads by 75% |
| Lehman crisis of autumn 2008 |
| 10-day spread increase in bond and CDS sector (Shift in all yield curves up to -313/+358 bp, historic displacement in CDS spreads) |
| Shares -24%, share volatility +40% |

Figure 27: Stress test scenarios (section 330 [2] no. 1 Solv).

Measurement of trading book positions

LBBW measures its trading book positions at market prices which are obtained on a daily basis from sources independent of trading and are quality assured specially or which are supplied by the trading units and examined in Risk Control. Risk Control also has consistent standards and processes to carry out an independent price verification (IPV) process, in which trading prices are monitored on an independent basis.

The providers of market data used include Reuters, Bloomberg, MarkIT and UBS. If the data are not directly observable on the market, then LBBW uses measurement

models which include the parameters derived from market prices. As a result of the prudence principle, measurement provisions for model risks have also been recognized.

Equity requirements for market risk positions

The following table shows the equity requirements for market price risks broken down by the following types of risk:

| EUR million | Equity requirement | |
|---------------------------|--------------------|----------------|
| | Standard method | Internal model |
| Net interest position | 381 | 117 |
| Net share position | 3 | 47 |
| Overall currency position | 104 | 0 |
| Commodities position | 6 | 0 |
| Other risks | 0 | 0 |
| Total | 494 | 164 |

Figure 28: Equity requirements for market risk positions (section 330 [1] and [2] SolvV).

The following table illustrates the composition of the total VaR of the trading book (99%/10 days) by risk type at Bank level:

| EUR million | During the reporting period | | | |
|-------------------------------|--------------------------------|-------------------|------------------|-------------------|
| | VaR at end of reporting period | Highest VaR value | Lowest VaR value | Average VaR value |
| Interest rate risks | 32 | 51 | 21 | 37 |
| Equity risks | 12 | 33 | 11 | 19 |
| Currency risks | 3 | 7 | 1 | 3 |
| LBBW Bank trading book | 43 | 71 | 32 | 52 |

Figure 29: Overview of VaR for portfolios in the trading book (section 330 [3] no. 1 SolvV).

The following chart shows a comparison between the potential risk amounts calculated daily at the close of business with a holding period of one working day and the changes in value of the portfolio calculated at the close of business.

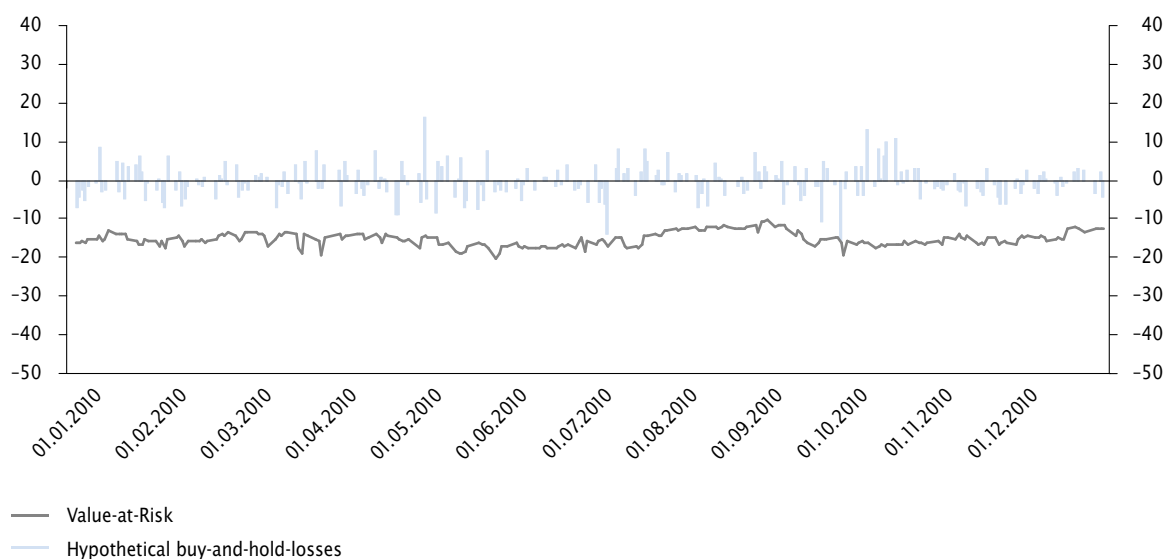


Figure 30: Trading book value-at-risk according to internal model approach and hypothetical buy-and-hold losses (section 330 [3] no. 2 SolvV).

13 Interest Rate Risk in the Banking Book.

(section 333 SolvV)

All new customer commitments are refinanced at matching maturities within a narrow time frame. On the basis of this operating policy strategy at LBBW, further strategic positions are entered into by the Group's Board of Managing Directors which are focused on current market events. These items include risks in the form of cash flow incongruities (structural risks), risks from leveraging interest rate gaps between individual market segments (basic risk) and options risks from financial transactions entered into.

Quantification

All relevant interest-bearing and/or interest-sensitive positions in the banking book are included in measurement in accordance with LBBW's own procedures for measuring interest rate risks. All those related to individual transactions and/or portfolios are measured daily, with margin or retail-oriented business entered in calculations in the form of aggregated items when the portfolio is updated monthly.

For variable interest transactions with retail and corporate customers (particularly deposits), records made on grounds of conduct are taken into account

by using the deposit base theory in connection with the concept of moving averages. Effects from potential early loan repayments are incurred according to the model by means of synthetic options in the context of BaFin interest rate shock calculations.

Interest rate risks are measured daily on the basis of a Monte Carlo simulation. Here, changes in the value of the banking book as a whole or even for individual portfolios are specified for each currency using randomly selected interest rate scenarios. Together with the confidence level, the distribution arising from this serves to determine the VaR (confidence level of 95% and holding period of one trading day). The VaR subsequently reported indicates a potential loss which with 95% probability will not be exceeded within one day of trading.

In addition to daily reporting, further stress and worst-case scenarios are calculated on a weekly basis and made available for further analysis. All scenarios help to show the future effects of extreme events on the financial markets which are not sufficiently presented in the VaR normal impact event on the respective book. Extreme historic market fluctuations and self-defined scenarios are used in this respect.

Interest rate risks in the banking book

From a regulatory viewpoint, the effect of the interest rate shock on the economic value has to be disclosed in the banking book. This involves a parallel shift in the yield curve by +130 basis points (rising interest) upwards and by -190 basis points (falling interest) downwards. In accordance with section 24 (1) no. 14 KWG, a negative change in present value of more than 20% of regulatory equity must be reported to the supervisory authorities. The change in value calculated on a daily basis in the LBBW Group remained below this reportable threshold throughout the 2010 reporting year.

The following table shows the change in net present value, broken down into the main currencies.

| Currency | Change in present value due to interest rate shock | |
|--------------|--|---|
| | Positive interest rate shock + 130 basis points | Negative interest rate shock - 190 basis points |
| CHF | - 5 | 8 |
| EUR | - 375 | 549 |
| GBP | - 2 | 4 |
| JPY | - 9 | 14 |
| USD | 60 | - 88 |
| Total | - 331 | 487 |

Figure 31: Interest rate risks in the banking book (section 333 [1] SolvV).

14 Operational Risk.

(section 331 SolvV)

In accordance with regulatory provisions, operational risks are defined as »the risk of losses arising due to the unsuitability or failure of internal processes and systems, people, or due to external events«. This definition also includes legal risks. Strategic risk and reputation risk do not form part of operational risks.

LBBW has a comprehensive system for the management and controlling of operational risks. In accordance with the dual overall strategy, the decentralized management of operational risks is the responsibility of the specialized divisions. An independent, centralized organizational unit within Group Risk Control is tasked with further developing methods and tools.

One of the main goals of management and control activities is to identify operational risks at an early stage

and to reduce or avoid the resulting losses by implementing the appropriate measures. Various tools are used to identify and assess the risk situation. As well as the internal and external incident database, the risk inventory (self-assessment and scenario analysis) and the analysis of risk indicators, the management of measures also plays an important role in the management of operational risks. An OpVaR model was introduced in 2010 for the Bank's risk-bearing capacity.

For regulatory purposes, the standard approach is used to determine the equity requirement. As at December 31, 2010, the equity requirement totaled EUR 437 million.

More detailed information on operational risks can be found in the Risk Report.

Glossary.

A

ABCP – Asset-Backed Commercial Paper

Tradable securities whose payments of interest and principal are backed by underlying commercial papers (CP). As a rule, they are issued by a special-purpose entity as part of a securitization.

ABS – Asset-Backed Security

Tradable securities whose payments of interest and principal are backed by underlying assets (usually a receivables pool). As a rule, they are issued by a special-purpose entity as part of a securitization.

B

Backtesting

A procedure for monitoring the quality of value-at-risk models. Potential losses estimated using the VaR approach are tested over an extended period retrospectively to see whether they were exceeded significantly more often than might be expected according to the applied confidence level.

C

CCF – Credit Conversion Factor

Indicates the part of the credit commitment that will then be utilized by the borrower relating to the period of one year and an expected default of the currently unutilized facility.

CDO – Collateralised Debt Obligation

ABSs secured with a pool of various securities, particularly loans and other securitized debt instruments.

CDS – Credit Default Swap

Financial instrument for assuming the credit risk from a reference asset (e.g. security or loan). The protection buyer pays a premium to the protection seller and receives a settlement payment or the reference asset if a credit event agreed in advance occurs.

CLN – Credit-Linked Note

Bonds with a repayment amount dependent on certain contractually agreed credit events (e.g. default of reference asset).

CLO – Credit Loan Obligation

Asset-backed security secured by corporate loans.

CMBS – Commercial Mortgage-Backed Security

Financing secured by real estate lien generally issued by a special-purpose vehicle as part of a securitization.

Confidence Level

Probability that a potential loss will not exceed an upper loss limit defined using the value-at-risk method.

CP – Commercial Paper

Short-term, unsecured debt instruments with maturities of up to 270 days issued in the money market by issuers with first-class credit ratings.

CRSA – Credit Risk Standard Approach

Capital backing is determined by means of the allocation of external ratings to risk weights issued on a fixed basis by the supervisory authorities, or, if there are no external ratings, directly with fixed risk weights.

E

EAD – Exposure at Default

Amount of the outstanding receivable at the time of default. Synonym: position value.

EL – Expected Loss

For transactions with capital backing calculated in accordance with the IRB approach, an expected loss must be determined. Calculation takes place using the formula: $EL = EAD * PD * LGD$.

F

Fair Value

The amount for which a financial instrument could be exchanged between knowledgeable, willing parties in an arm's length transaction.

I

IAA – Internal Assessment Approach

This procedure is used for calculating the equity requirements of securitization positions which were issued by ABCP SPVs and have no external rating.

IMM – Internal Model Method

Procedure to determine the regulatory capital charges for market risk positions, based on an internal model approved by BaFin.

IRBA – Internal Rating Based Approach

The calculation of capital backing, approved by the supervisory authorities, using the internal rating-based approach allows banks to estimate for themselves the parameters of credit risks on the basis of procedures approved by BaFin. In the case of the basic IRB approach, the probability of default (PD) is estimated internally, while in the case of the advanced IRB approach, the credit conversion factors (CCF) and loss given at default (LGD) are also estimated internally.

IFRS – International Financial Reporting Standards

IFRS comprise the International Financial Reporting Standards (IFRS) themselves as well as the previous International Accounting Standards (IAS) issued by the International Accounting Standards Board (IASB), as well as the interpretations of the International Financial Reporting Interpretations Committee (IFRIC, previously Standing Interpretations Committee – SIC).

L

LGD – Loss Given at Default

Loss ratio at default of debtor in relation to the amount in default. In the case of the basic IRB approach, the LGDs are specified; in the case of the advanced IRB approach, the LGDs are estimated by the bank itself.

O

OTC – Over the Counter

»Over the counter« designates the trading of financial instruments outside organized exchanges.

P

PD – Probability of Default

Indicates the probability of a debtor defaulting within one year, i. e. being unable to fulfill its obligations.

R

Rating (external)

Standardized credit rating on a security or debtor assigned by independent rating agencies.

RMBS – Residential Mortgage-Backed Security

Financing secured through private residential property generally issued by a special-purpose vehicle as part of a securitization.

S

Securitization

Tranching of counterparty risks as part of a legal transfer of loans and advances and securities, as well as tranching of counterparty risks as part of synthetic transactions (CDS).

SIC – Standing Interpretations Committee

Predecessor committee to the IFRIC (International Financial Reporting Interpretations Committee) in operation since 2001. The purpose of the committee is to publish interpretations of IFRS and IAS accounting standards.

SPV – Special-Purpose Vehicle

SPVs are vehicles formed to fulfill a narrowly and precisely defined business purpose whose managements typically have little or no decision-making authority of their own after the vehicle is formed. In most cases, their business policy defined in the articles of incorporation or similar contractual agreements cannot be modified afterwards. This is referred to as an autopilot mechanism. Normally, special-purpose vehicles have little equity, and as a rule this equity is not contributed by the company for whose benefit the SPV does business (the initiator).

Stress Testing

A method that attempts to model the loss effects of extreme events.

V

VaR – Value-at-Risk

The VaR identifies the maximum possible loss that may occur within a given period and at a given confidence level if certain assumed changes take place in market parameters. This statistical measurement serves to compare market risks in different portfolios held by the LBBW Group.

Volatility

Statistical measurement of price fluctuations of a security or a currency and/or bandwidth of fluctuation of interest rates.

Index of Tables.

| | | |
|------------|---|-------|
| Figure 1: | Regulatory scope of consolidation (section 323 [1] no. 2 SolvV) | 6-7 |
| Figure 2: | Regulatory equity (section 324 [2] SolvV) | 8 |
| Figure 3: | Equity requirements (section 325 [2] no. 1 to 4 SolvV) | 13-14 |
| Figure 4: | Capital ratios (section 325 [2] no. 5 SolvV) | 15 |
| Figure 5: | Credit volume by region (section 327 [2] no. 1 and 2 SolvV) | 17 |
| Figure 6: | Credit volume by industry (section 327 [2] no. 1 and 3 SolvV) | 18 |
| Figure 7: | Credit volume by residual term (section 327 [2] no. 1 and 4 SolvV) | 19 |
| Figure 8: | Loans in default and past due, broken down by region (section 327 [2] no. 5 SolvV) | 20 |
| Figure 9: | Loans in default and past due, broken down by industry (section 327 [2] no. 5 SolvV) | 21 |
| Figure 10: | Development of loan loss provisions on loans and advances (section 327 [2] no. 6 SolvV) | 22 |
| Figure 11: | Total position values under the CRS approach and IRB approach position values subject to the simple risk-weighting method (section 328 [2] and section 329 SolvV) | 24 |
| Figure 12: | Internal rating procedures of LBBW (section 335 [1] no. 2a SolvV) | 26-27 |
| Figure 13: | LBBW rating master scale (section 335 [1] no. 2a SolvV) | 28 |
| Figure 14: | Total credit volume by credit rating assessment (not including Retail) in the IRB approach (section 335 [2] no. 1, 2a and 2c SolvV) | 32-33 |
| Figure 15: | Actual losses on loans and advances (section 335 [2] no. 4 and 5 SolvV) | 34 |
| Figure 16: | Expected losses and actual losses on traditional loans and advances (section 335 [2] no. 6 SolvV) | 35 |
| Figure 17: | Total amount of the secured position values using the CRS approach (not including securitization) (section 336 no. 2 SolvV) | 38 |
| Figure 18: | Total amount of the secured position values using the IRB approach (not including securitization) (section 336 no. 2 SolvV) | 39 |
| Figure 19: | Positive replacement costs before and after charging netting agreements and collateral (section 326 ([2] SolvV) | 41 |
| Figure 20: | Counterparty default risk (section 326 [2] SolvV) | 42 |
| Figure 21: | Nominal value of credit derivatives for hedging purposes (section 326 [2] SolvV) | 42 |
| Figure 22: | Nominal value of credit derivatives by type of use (section 326 [2] SolvV) | 43 |

| | | |
|------------|---|----|
| Figure 23: | Total amount of retained or purchased securitization positions (section 334 [2] no. 3 SolvV) | 48 |
| Figure 24: | Total amount and equity requirements for retained or purchased securitization positions according to risk-weighting bands (section 334 [2] no. 4 SolvV) | 49 |
| Figure 25: | Carrying amounts of investment instruments in the banking book (section 332 no. 2 SolvV) | 51 |
| Figure 26: | Realized and unrealized gains/losses from investment positions (section 332 no. 2 SolvV) | 52 |
| Figure 27: | Stress test scenarios (section 330 [2] no. 1 SolvV) | 55 |
| Figure 28: | Equity requirements for market risk positions (section 330 [1] and [2] SolvV) | 56 |
| Figure 29: | Overview of VaR for portfolios in the trading book (section 330 [3] no. 1 SolvV) | 57 |
| Figure 30: | Trading book value-at-risk according to internal model approach and hypothetical buy-and-hold losses (section 330 [3] no. 2 SolvV) | 57 |
| Figure 31: | Interest rate risks in the banking book (section 333 [1] SolvV) | 59 |

Landesbank Baden-Württemberg

Headquarters

Stuttgart

D-70144 Stuttgart
Am Hauptbahnhof 2
D-70173 Stuttgart
Phone +49 711 127-0
Fax +49 711 127-43544
www.LBBW.de
kontakt@LBBW.de

Karlsruhe

D-76245 Karlsruhe
Ludwig-Erhard-Allee 4
D-76131 Karlsruhe
Phone +49 721 142-0
Fax +49 721 142-23012
www.LBBW.de
kontakt@LBBW.de

Mannheim

P.O. Box 10 03 52
D-68003 Mannheim
Augustaanlage 33
D-68165 Mannheim
Phone +49 621 428-0
Fax +49 621 428-72591
www.LBBW.de
kontakt@LBBW.de

Mainz

D-55098 Mainz
Große Bleiche 54 - 56
D-55116 Mainz
Phone +49 6131 64-37800
Fax +49 6131 64-35701
www.LBBW.de
kontakt@LBBW.de