
Separate Financial State-
ments of Landesbank
Baden-Württemberg,
Stuttgart, Karlsruhe,
and Mannheim as of
Dec. 31, 2007

Management Report.

The following information should be read in conjunction with the consolidated financial statements and associated notes. As in the previous year, the consolidated financial statements and the 2007 Management Report were issued with an unqualified auditor's report by PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft.

Business Activities of Landesbank Baden-Württemberg.

As an universal bank and commercial bank operating worldwide, Landesbank Baden-Württemberg (LBBW) provides customers with a full range of modern financial services. LBBW Group's more than 12 300 employees serve customers in 216 branches and offices throughout Germany and in more than 20 locations worldwide. Small- and medium-sized enterprises (SMEs) value the local services offered by LBBW's global network of 18 representative offices and branches in New York, London, Singapore and, since spring 2008, Seoul. The services offered by the international network are further enhanced by subsidiaries abroad and the three German Centres operated by LBBW in Beijing, Mexico City, and Singapore.

The core of the LBBW Group is LBBW itself. In addition to being responsible for the customers of the Group's capital market business, LBBW also handles centralized staff and management functions and all back office activities for the Group. Moreover, LBBW is also responsible for the Group's business throughout Germany and around the world. In its core market, LBBW acts as a central bank to the savings banks.

The LBBW Group serves over one million retail customers in Baden-Württemberg through Baden-Württembergische Bank (BW Bank). BW Bank functions as a savings bank in the territory of the state capital of Stuttgart and otherwise focuses on high-net worth retail and investment clients, as well as health care providers and the self-employed. In southwestern Germany, BW Bank also operates LBBW's corporate customer business specializing in small- and medium-sized companies.

Another LBBW Group company is LRP Landesbank Rheinland-Pfalz (LRP). LRP's core business is serving small- and medium-sized corporate customers and savings banks in Rhineland-Palatinate and adjacent economic areas. BW Bank and LRP specifically draw on the Group's product range and international network to assist their SME clients.

The spectrum of products and services offered by the LBBW Group is supplemented in certain business segments, such as leasing, factoring, asset management, real estate, and equity investment financing, by the offerings of specialized subsidiaries. LBBW's subsidiaries contribute substantially to diversifying the Group's portfolio of products and services while also regularly making a reliable contribution to the Group's earnings.

Economic Environment.

Global Economy.

The year 2007 clearly demonstrated the new distribution of economic strength in the global economy: The emerging markets, especially China, India, and Russia, were the main drivers of the economy despite their downrevised shares of the world's GDP. According to an International Monetary Fund estimate, growth in global GDP rose to 4.9% in 2007 although US growth – based on preliminary figures – appears to have slipped from 2.9% in 2006 to around 2.2% in 2007. This result reflects the effects of the real estate and mortgage market crisis that erupted in the summer. The increasing rate of subprime mortgage defaults led to strong volatility on financial markets. Numerous banks were forced to take substantial write-downs on securitized loans and/or experienced temporary liquidity bottlenecks. Due to a lack of confidence, interbank market participants cut short each other's lines of credit, leading to a rapid rise in money market rates. To avert a systemic crisis, major central banks made large amounts of additional liquidity available. The US Federal Reserve went even further and lowered its key rate five times up to late January 2008 by a total of 225 basis points to 3.0% to cushion any overflow of the financial market crisis to the real economy.

Euroland and Germany.

In Euroland, the ECB stepped back from further tightening, initially planned for September, after rate increases in the first six months of the year. Money market distortions and the resulting liquidity risk for banks prompted the wait even in light of inflation risks, a continued robust economy, and ongoing strong growth in lending. The strength of the euro affected the economy similarly to an interest rate increase. Despite this negative factor and the sharp rise in crude oil prices since the summer, Euroland's GDP appears to have grown considerably in 2007, by 2.7%.

In Germany, the economy was muted at the beginning of the year due to the VAT hike, but the positive underlying trend remained intact. Strong investments and sustained robust German exports were important supports in this regard. Germany's monthly export surplus was stable at an average of EUR 16.5 billion for the year. Particularly notable were the drop in the number of unemployed from 4.7 million (adjusted for seasonal factors) in early 2006 to 3.5 million in December 2007, and the resulting increase in employed persons subject to social insurance contributions by 545 000 individuals in the twelve-month period ended November. According to an estimate by the Statistisches Bundesamt (German Federal Statistical Office), GDP rose by 2.5% in 2007.

Bond Markets.

Performance on international bond markets was divided in 2007. Although market yields were up until mid-year due to the influence of positive economic data and rising key rates in many economies, this was followed by a significant decline in yields. At around 160 basis points, this development was particularly pronounced in the United States, whereas the trend in Euroland was much more subdued. Yields on 10-year German federal government bonds slid by around 70 basis points as they were caught between the ECB's inclination toward another rate increase and a fall in yields on the other side of the Atlantic.

Foreign Currency Markets.

The key development on currency markets in 2007 was the weak dollar. The value of the US dollar dropped by around 10% against the euro. Signals by the ECB that it would remain on course for a rate hike despite the turbulence on financial markets and a constant stream of new write-downs necessary at US banks pushed the euro to an all-time high of nearly USD 1.50 in November. Key drivers of this downturn versus the euro were the narrowing of the interest rate gap between the two currencies and the higher euro key rates anticipated by the market compared to the US dollar. Moreover, the US dollar started to experience pressure against the Japanese yen as well at mid-year due to increasing risk aversion. Its exchange rate declined from around 123 yen to less than 110 yen. The downward trend against the euro that had lasted for years was thus corrected as well. From 169 yen per euro at its height, the Japanese currency appreciated to 163 yen per euro by year-end. Despite the initial increase in the interest rate gap, the British pound's exchange rate against the euro was not affected adversely until late summer, when the financial market crisis spilled over to the UK. The increasing importance of German trade with China will undergo a severe test due to the linking of the renminbi to the US dollar and its resulting decline in value against the euro.

Stock Markets.

Stock market performance was also twofold in 2007. Stock markets were bullish until well into the summer, with Germany's DAX index reaching an all-time high of 8,151 points in mid-July. In contrast to the situation in 2000, this upturn was not driven by naïve expectations of growth, but instead by the vitality of corporate profits. The bull market was even more pronounced in the emerging markets, with Chinese stocks easily doubling their gains to take the top spot as in the previous year. After the summer, however, escalation of the subprime crisis caused the optimistic stock market environment to lose footing. The price of bank stocks in particular dropped well below their levels at the beginning of the year. The DAX, for example, was unable to sustainably surpass the 8000-hurdle. The interest rate cut by the Fed brought some relief, but also exacerbated the long-ignored weakness of the dollar.

The year's winners were manufacturers. With regained competitiveness, Germany's export industry benefited disproportionately large from the strong economic situation in East Asia and raw materials-producing countries.

Banking Industry Performance.

The business performance of the banking industry in 2007 was divided. In the first six months of the year, a favorable market environment and positive economic performance in Germany held out the prospect of a good fiscal year. The second six months, however, were overshadowed by the effects of the turbulence on financial markets. This development was reflected in the second half of the year at credit institutions worldwide in the form of a decline in earnings from capital market business and a rise in write-downs due to losses on securities portfolios.

Developments on the US subprime market caused a crisis in confidence and liquidity in the international financial system. The major US and UK commercial banks, for instance, were forced to take write-downs in the billions. In Germany, the liquidity crisis affected IKB and Landesbank Sachsen Girozentrale in particular. These banks were comparatively heavily invested in off-balance sheet securitization vehicles. The German banking industry in general and LBBW and public-sector banks in particular indicated their willingness to reinforce Germany's financial industry by their commitment in wide-ranging measures to support institutions in trouble.

In structural terms, the German banking market saw little change in 2007. The trend toward consolidation and the resulting decrease in the number of credit institutions continued. The market continued to be typified by intense competition and strong pressure on margins in the retail and corporate customer business.

Key Events During the Fiscal Year.

In 2007, not only the turbulences on international financial markets fuelled the discussion about the structure of German Landesbanken and the opportunities for further consolidation in the Landesbank sector. As the largest German Landesbank, LBBW was a subject of many such discussions.

On August 26/27, 2007, a Foundation Agreement concerning the acquisition of Landesbank Sachsen Aktiengesellschaft (Sachsen LB) by LBBW was signed. This deal marks another step in the expansion of the LBBW Group's core business areas. With the acquisition and integration of Sachsen LB, the Group's business

base will widen further. Moreover, this move will also increase the Group's opportunities for using Saxony as a starting point for expanding into high-growth Eastern European markets.

Factoring Acquisition.

In 2007, the Group's factoring business was given a boost by the acquisition of R-Procedo-Factoring GmbH. Along with the Group's existing subsidiary SüdFactoring and R-Procedo-Factoring located in Stuttgart and Mainz-Kastel respectively, the LBBW Group is now one of Germany's five largest factoring service providers.

Expansion of International Activities.

Outside of Germany, LBBW expanded its range of services provided to the US financial market by adding a new subsidiary: LBBW Securities, LLC with operations headquartered in New York. The company received its broker-dealer license in 2007. Moreover, LBBW's international network now includes a representative office in Indonesia's capital of Jakarta. In October, the lease agreement was initialed for the new German Centre Delhi.Gurgaon. The German Centre is located in the industrial belt of India's capital, Delhi, and will be operated jointly by LBBW and BayernLB. Its doors are scheduled to open in fall 2008.

Streamlining of Group Structures.

In addition to expanding the Group, LBBW continues to highly prioritize improvement of internal structures and cooperation within the Group. In 2007, LBBW consolidated risk control for all risk types throughout the Group into a single unit. Structures in the capital market business were also optimized. The appointment of Hans-Joachim Strüder, a member of LBBW's Board of Managing Directors, to the Board of Managing Directors of LRP as of July 1, 2007 signaled the establishment of uniform management for the capital market business throughout the Group. The Research units of both banks were merged at LBBW as of January 1, 2007.

LBBW's Business Performance.

Results of Operations.

The following is LBBW's income statement:

		2007	2006	change 2006/2007	
	Item	EUR million	EUR million	EUR million	in %
1. Interest income	1,2,3,4	1 827.5	1 874.3	-46.8	-2.5
2. Commission income	5,6	502.6	457.4	45.2	9.9
3. Net income from financial transactions	7	123.9	175.0	-51.1	-29.2
4. Administrative expenses	10,11	-1 239.0	-1 177.3	-61.7	5.2
5. Other operating income/expenses	8,12,25	26.1	10.0	16.1	> 100.0
6. Operating income before risk provision/valuation result		1 241.1	1 339.4	-98.3	-7.3
7. Risk provision/valuation result	9,13,14,15,16,17,18,19	-844.5	-342.2	-502.3	> 100.0
8. Operating income (profit from ordinary activities)		396.6	997.2	-600.6	-60.2
9. Extraordinary income/expenses	21,22,26	-13.9	-18.5	4.6	-24.9
10. Partial profit transfers	27	-214.8	-217.4	2.6	-1.2
11. Net income of the year before tax		167.9	761.3	-593.4	-77.9
12. Tax	24	16.9	-187.3	204.2	> 100.0
13. Net income	28	184.8	574.0	-389.2	-67.8

The contributions to earnings in the third and fourth quarters of the 2007 fiscal year were significantly affected by the market distortions created by the US real estate market crisis, particularly in the lending business. The crisis of confidence responsible for this development, which is still observable on the financial markets currently, is expected to continue at least into middle of the 2008 fiscal year.

Against the backdrop of this assessment, the results of operations of Landesbank Baden-Württemberg as of December 31, 2007 reflect only a snapshot in time affected by market distortions during the period under review. On the whole, these market distortions culminated in strongly negative valuation results from the measurement of LBBW's portfolios of financial instruments as of the reporting date. However, LBBW is not subject to an increased risk of default due to the price fluctuations of these bank and government instruments, which are mostly issued by institutions with excellent credit ratings. The value adjustments recognized essentially reflect price declines in securities by first-rate issuers that

were indirectly caught in the downturn caused by the financial market crisis. LBBW's solid capital backing also enables LBBW to hold the investment securities in its portfolios to maturity. Due to this fact, we expect that the reduced earnings in 2007, which put pressure on our results of operations, will turn to earnings increases in subsequent years when the financial market situation returns to normal.

Nonetheless, in terms of results of operations in the 2007 fiscal year, LBBW was not able to fully escape the effects of the financial market crisis emerging in the third quarter. On the whole, however, the fiscal year closed with positive net income for the year after tax of EUR 184.8 million.

Operating Result Largely Stable Despite Capital Market Turbulence.

Net interest income in the past fiscal year remained stable in spite of unfavorable external factors, declining only slightly by 2.5 %, or EUR - 46.8 million, to EUR 1 827.5 million. Among other things, the year-on-year decline in non-recurring income from the early repayment of funding facilities was evident in this result.

In contrast, LBBW's commission income seamlessly continued its positive performance of the previous year. Compared to the 2006 fiscal year, commission income rose by 9.9 %, or EUR 45.2 million, to EUR 502.6 million. This positive development was marked in particular by the jump in commission income from the lending and trust business, which grew by 40.9 %, or EUR 49.4 million.

Net income from financial transactions amounted to EUR 123.9 million in 2007 in a difficult market environment and was therefore down EUR - 51.1 million, or 29.2 %, compared to the prior year. Whereas net income from foreign exchange transactions fell only slightly below the previous year's figure, the largest decrease was in other market price risk exposures.

The performance of the individual sources of LBBW's income showed that despite the effects of a turbulent financial market environment on the operating result, this trend caused earnings to decline only in certain instances.

Costs up Only Moderately Despite Additional Liabilities.

Administrative expenses increased by 5.2 % (EUR 61.7 million) to EUR - 1 239.0 million. The main reason for this result was a year-on-year increase in other administrative expenses by EUR 72.0 million with a minor decrease in depreciation/amortization expense. In addition to start-up costs for strategy and growth projects undertaken, other factors pushing up costs were the intensive preparations for regulatory requirements, such as Basel II/SolvV, incorporated into multi-year projects and preparations for publication of the consolidated financial statements according to International Financial Reporting Standards (IFRSs) starting with the 2007 fiscal year.

Current personnel expenses at LBBW also rose in the 2007 fiscal year, but the increase, at EUR 18.4 million, was significantly lower than the increase in other administrative expenses. The rise in personnel expenses was mainly due to the investments in human resources associated with the launch of strategy and growth projects, which resulted in an increase in the number of employees by 112. In contrast, personnel expenses were positively influenced by extension of the defined benefit obligation due to longer pension terms as the result of application of the RV-Altersgrenzenanpassungsgesetz (Pension Insurance Retirement Age Adjustment Act), resulting in lower provisions for pensions in the fiscal year. Moreover, this expense item also decreased year-on-year due to the increase in collectively agreed wages for 2007 already fully recognized as an expense in the 2006 fiscal year.

LBBW's cost-income ratio (CIR) is 50.0%, which underscores LBBW's competitive productivity levels.

Net other operating income/expenses not attributable to banking operations amounting to EUR 26.1 million in the fiscal year under review exceeded the previous year's figure of EUR 10.0 million considerably. The key factors here were higher profits from the sale of real estate and higher refund claims in respect of the tax authorities arising from a completed tax audit.

Operating Income and Net Income for the Year Down Due to Financial Market Crisis.

With a stable total of interest and commission income and a decline in net income from financial transactions, a moderate increase in administrative expenses, and a rise in other operating income, operating income before risk provision/valuation result slid by 7.3% (EUR -98.3 million) to EUR 1 241.1 million (2006: EUR 1 339.4 million).

The significant decrease in the risk provision/valuation result was mostly due to declines in the value of securities and derivatives. The market distortions created by the US real estate market crisis led to remeasurement losses on credit derivatives and the ABS portfolio in particular due to the widening of spreads. As a result, the valuation result for securities and currencies deteriorated, totaling EUR -627.2 million. In contrast to the previous year's figure of EUR -157 million, this represents an additional expense of EUR 469.7 million.

In the 2007 fiscal year, measurement of the risk provision for on- and off-balance sheet transactions was brought into line with IFRSs. Specific valuation allowances have been recognized for major or significant loans (loan volume greater than EUR 1 million) for which objective indications of impairment have been identified. The amount is determined using the difference between the carrying amount of the loan and the discounted present value of future expected payments. For non-significant standardized loans (loan volume less than EUR 1 million), the risk provision was determined by structuring homogenous portfolios. The provision for the rest of the loan portfolio (global valuation allowance)

was determined on the basis of historical probabilities of default and loss rates, which include country risk allowances. Compared to the previous year, the risk provision for loans increased by EUR 108.8 million across all portfolios in the 2007 fiscal year.

In view of the change in the risk provision/valuation result item, operating income (profit from ordinary activities) was EUR 396.6 million, which fell short of the high level of the previous year of EUR 997.2 million.

In addition to the decrease in partial profit transfers by EUR 2.6 million to EUR -214.8 million, the extraordinary expenses item was slightly improved from the previous year at EUR -13.9 million.

With net income for the year before tax totaling EUR 167.9 million, LBBW failed to reach the level of the previous year (EUR 761.3 million) by a wide margin due to the effects of the financial market crisis. This income performance was also reflected in net income for the year after tax. Net income for the year after tax totaled EUR 184.8 million compared to the prior-year figure of EUR 574.0 million.

Proposal for the Appropriation of Profits.

As in recent years, LBBW's Owners' Meeting will again propose distributing 6% on LBBW's nominal capital of EUR 1.42 billion.

Net Assets and Financial Position.

Business Volume.

LBBW's volume of business grew by 5.7%, or EUR 23.9 billion, over the previous year to EUR 441.9 billion. This development was exclusively the result of growth in balance sheet items, which were up 6.9%, or EUR 24.4 billion, during the same period. As of December 31, 2007, LBBW's total assets amounted to EUR 378.4 billion.

The nominal volume of derivative transactions far exceeded the previous year's level thanks to an increase of 20.9%, or EUR 310.0 billion, to EUR 1 795.8 billion at the end of the year. More than three-quarters of this increase was the result of the rise in the interest rate derivative volume.

Out of the aggregate derivatives volume, around EUR 1 543.5 billion was attributable to trading portfolios, which corresponds to a share of total assets of 408%. However, trading transactions mostly include closed-out positions from offsetting derivatives. Open positions from trading portfolios are within the stipulated risk limits. The classification as proprietary trading transactions is based on rules handed down by the Board of Managing Directors.

Lending.

Claims on banks fell sharply in the 2007 fiscal year, declining by 8.9%, or EUR 13.3 billion, to EUR 136.9 billion. Of this amount, 24.8%, or EUR 34.0 billion, was attributable to the savings banks in Baden-Württemberg.

Claims on customers grew by 24.2%, or EUR 25.1 billion, to EUR 129.2 billion. The main reason for this development was the increase in repo transactions as the result of LBBW securing the liquidity of the Sachsen LB conduit. Companies and private individuals in Germany made up the most significant customer group measured by volume of LBBW's well-diversified portfolio of loan claims on customers, holding a share of 52.6%. In terms of industries, the largest share of loan claims was accounted for by the service sector (37.2%); followed by steel companies, mechanical engineering firms and auto manufacturers (7.6%); and financial institutions and insurance companies (5.4%). Non-self-employed persons and private individuals accounted for 24.9% of all claims.

LBBW's aggregate loan volume amounted to EUR 329.7 billion as of December 31, 2007, which amounted to an increase of 3.6%, or EUR 11.4 billion, over the previous year's reporting date. The jump was mainly due to increases in claims on customers. LBBW's total loan volume includes bills of exchange, as well as guarantee credits reported below the line and irrevocable loan commitments, in addition to claims on banks and customers.

The volume of bonds and other fixed-interest securities saw a sharp increase. As of the reporting date, this item was up substantially by 19.0%, or EUR 15.7 billion, to EUR 98.4 billion. Among other factors, this increase was due to the assumption of asset-backed commercial papers and commercial papers from Sachsen LB's special-purpose entities (EUR 4.6 billion) and LBBW's own Lake Constance special-purpose entity (EUR 4.0 billion) in connection with the process of securing their liquidity. As in previous years, bonds and debenture bonds are allocated primarily to the liquidity reserve.

Funding.

LBBW strives to achieve a balanced funding structure with minimal liquidity risks. For this reason, funding is obtained primarily from three different sources that were used in varying degrees depending on the performance of the money and capital markets. In the year under review these included liabilities to banks and securitized liabilities, which amounted to EUR 143.0 billion and EUR 115.0 billion respectively at the end of 2007.

Whereas securitized liabilities rose only minimally by 1.5%, or EUR 1.7 billion, and therefore remained near last year's level, liabilities to banks rose sharply by 10.7%, or EUR 13.8 billion, due especially to the funding of the volume growth in securities portfolios carried as assets. Of aggregate liabilities to banks, 12.9% (EUR 18.4 billion) was accounted for by liabilities to Baden-Württemberg's savings banks at the end of the year.

The third pillar of LBBW's funding comprises liabilities to customers, which grew slightly by 7.5 %, or EUR 6.6 billion, to a total of EUR 94.5 billion at year-end.

In addition to unsecured bonds, LBBW also issued mortgage-backed and public-sector Pfandbriefe (covered bonds) on the German capital market, which are reported together in the securitized liabilities item. The target groups for issues placed directly were primarily insurance companies, pension and investment funds, other banks and savings banks, and private customers. In addition, bonds were also issued on the international capital markets.

LBBW issued bonds under a EUR 50 billion EMTN (Euro Medium Term Note) program, a EUR 20 billion euro commercial paper and euro certificate-of-deposit program, as well as an AUD 5 billion MTN (Medium Term Note) program from Stuttgart, London, Singapore, and New York. Moreover, two other issuing programs exist on the US market for MTNs (USD 15 billion) and commercial paper (USD 10 billion). In 2007, Pfandbriefe (covered bonds) in the amount of EUR 6.6 billion, JPY 4.0 billion, and CHF 0.15 billion were issued under the EUR 50 billion EMTN program. In addition, bonds were issued in Stuttgart under a program for issuing standard and derivative bonds.

LBBW's issuing volume at the end of the reporting period totaled EUR 150.0 billion, which represents growth of 2.7%, or EUR 3.9 billion, compared to the previous year. The volume of new issues in 2007 amounted to EUR 119.5 billion, for a decrease of 1.1 %, or EUR 1.4 billion, from the 2006 fiscal year. With a share of 36.1 %, the sale of issues denominated in foreign currencies fell below that of euro-denominated issues. The share of the total issuing volume accounted for by issues denominated in foreign currencies was 28.8% in 2007 (52.4% in 2006). The decline in issues denominated in foreign currencies resulted primarily from the decrease in funding at the London (EUR –6.7 billion) and New York (EUR –26.0 billion) branches.

Equity

As of December 31, 2007, LBBW reported equity on its balance sheet (equity less net retained profits including funds for general banking risks, subordinated liabilities and capital generated by profit participation certificates) of EUR 19 166 million (previous year: EUR 17 978 million). The increase resulted principally from the allocation of EUR 489 million from 2006 net retained profits to revenue reserves and growth in subordinated liabilities by EUR 944 million.

The regulatory ratios of LBBW were as follows as of the end of the year:

	2007	2006	Change 2006/2007	
	EUR million	EUR million	EUR million	in %
Regulatory capital [§ 10 of the KWG (German Banking Act) in conjunction with § 2 Principle I and § 339 (9) SolvV (German Solvency Regulation)]	18 480	17 499	981	5.6
of which Tier 1 capital	12 232	10 175	2 057	20.2
of which Tier 2 capital	5 255	6 935	-1 680	-24.2
of which Tier 3 capital	993	389	604	>100.0
Qualifying items (Principle I)	163 966	144 473	19 493	13.5

	2007	2006	Change	
	%	%	% points	
Total Principle I ratio	11.3	12.1	-0.8	

The capital backing for qualifying items of at least 8% stipulated by Principle I was exceeded at all times in the past fiscal year.

Employees.

The further consolidation of the Group was the main factor driving the work of LBBW's human resources division in 2007. Key milestones were the successful integration of BW Bank and the repositioning of the Group in conjunction with the improvement of structures and the strategic expansion of business segments served by LBBW and BW Bank. Good progress was made in harmonizing working conditions throughout the Group. The major works agreements currently applicable at LBBW Bank have already been transferred to BW Immobilien GmbH and Beteiligungsmanagementgesellschaft mbH. Baden-Württembergische Equity GmbH (BWEquity), SüdFactoring, and SüdLeasing are the subsidiaries next in line to apply these agreements. These harmonization efforts also help make the Group-wide job market more attractive.

In 2007, particular attention was paid to reinforcing and stepping up activity on the internal job market. Nearly 1 300 in-house job advertisements were submitted, for an increase over the previous year of 60%. The importance of the internal job market for human resources planning within the Group will grow further in the future. The reasons for this include demographic change as well as the growing need for adapting the Group more quickly to changing market conditions. Another focus was on developing tools for future-oriented human resources work. Among other things, a new bonus system was introduced, while successor and potential planning and change management support were intensified.

The Group's workforce increased by 304 (+2.5%) from 11,999 employees as of December 31, 2006 to 12 303 employees as of December 31, 2007. Women make up a slight majority of the personnel, accounting for 51.0% of employees. The share of the Group's employees working part-time, including older employees working part-time (Altersteilzeit), was 18.9% (previous year: 19%). At the end of the year, LBBW Bank had 9 322 employees. This represented growth of 112 jobs (+1.2%) compared to the previous year's figure of 9 210.

Socially Responsible Human Resources Plan.

LBBW has succeeded in realizing human resources synergies from the integration of BW Bank into the Group without requiring layoffs. A wide range of measures applicable throughout the Group were developed to make this possible. These included providing employees with opportunities for professional development and obtaining additional qualifications, introducing early retirement measures and part-time work options for older employees (Altersteilzeit), as well as stepping up internal job market activities.

Change Management in the Integration Process.

The change management process for the BW Bank integration project developed to provide professional support to executives continued in 2007 in the form of integration workshops for the second and third management levels. By the end of the year, around 260 individual measures had been implemented. In the current fiscal year, numerous workshops organized by LBBW's in-house management consultants and individual consulting sessions with executives are planned.

Training and Personnel Development.

Trainee Programs.

Recruiting and focused training of college and university graduates as part of our trainee programs continued to be a key element of the strategic development of promising young employees. This is evident in the increase in hiring of trainees by 20.8% (total of 87 employees). LBBW offers young academics a variety of opportunities in all aspects of the Bank's operations. The focus is on placing trainees in the Financial Markets, Retail Customers and Investors, and Corporate Customer divisions. As of December 31, 2007, 147 college and university graduates were participating in LBBW Bank's trainee programs.

Apprenticeships.

LBBW's apprenticeship programs for promising young bank employees enjoy a first-rate reputation in Baden-Württemberg and beyond. In 2007, 7.5% more apprentices were hired than in the previous year. As of December 31, 2007, the Group employed a total of 638 apprentices (2006: 598). Of this total, 463 young people were being trained as banking specialists (Bankkauffrau/-mann) and in additional commercial and other careers. 175 entry-level employees are registered for classes at a Berufssakademie (German institutions of higher education that combine professional classroom and in-company training) as LBBW students. LBBW's training rate of 5.2% is a sign of the Bank's clear, long-term commitment to its own apprenticeship programs.

Personnel Development.

LBBW again considerably increased the number of personnel development measures implemented throughout the Group in 2007. Employees attended a total of 17 787 seminar sessions for an increase of 58%. In the category of specialist/banking seminars, 9 819 sessions were attended. Moreover, sales employees were offered the opportunity to prepare for market challenges by participating in special training initiatives; 3 605 seminar sessions were attended by employees in the Retail Customers and Investors sales departments alone. As in the past, language training continues to be very important (around 1 100 sessions attended).

580 employees participated in courses of study to obtain professional qualifications, some for several semesters. These certification programs mainly comprise banking operations and specialist banking courses, as well as development programs for high-level specialists and executive staff. For executives, there was a special emphasis on the management skills training program. A support program for potential future executives at LBBW was also redesigned. This program takes a focused and structured approach to developing potential future managers and was launched in December 2007 with an initial group of 15 participants.

Introduction of Digital Personnel Files.

In the course of further improvement of human resources processes, digital personnel files were introduced at LBBW in late 2007, initially for employees of LBBW and BW Bank. This will result in significant savings in space and archiving costs, as well as providing opportunities for quick, structured access to this information from any of LBBW's sites.

LBBW's »FlexiWertkonto«.

LBBW was one of the first banks in Germany to offer employees the opportunity to more flexibly structure their career and retirement by introducing a working time account model for employees of LBBW and BW Bank. LBBW's FlexiWertkonto is a modern, attractive human resources tool that in this form is also unique to date in the German banking industry. This tool enables employees to retire earlier without suffering a financial loss despite an increase in the lifetime working hours requirement. Employees can also save a portion of their gross pay separately in this account. The LBBW FlexiWertkonto can be used to finance the period between the date the employee has chosen to leave paid employment and the statutory retirement age. Temporary gaps in employment and sabbaticals, for example to pursue continuing education or care for family members, can also be realized thanks to the LBBW FlexiWertkonto. This account supplements the broad range of various company retirement planning solutions that the LBBW Group offers to employees.

»Frechdax« – LBBW's Day Care Center for Children.

On February 1, 2007, LBBW opened the »Frechdax« day care center for children at LBBW's »Am Hauptbahnhof« office in Stuttgart. The center contributes significantly toward improving our employees' ability to combine work and family. Frechdax offers spots for 25 children along with five drop-in spots. The objective of this initiative is to allow women in particular to continue to work professionally in their previous jobs at LBBW and BW Bank after having children. The system for allotting the day care slots was developed in cooperation with employee representatives.

LBBW Improvement Process.

LBBW's idea management system, which leverages the innovative capabilities of all employees, has ranked highly in the financial services sector for many years. By contributing their suggestions and ideas, employees can participate actively in improving processes and trimming costs, providing even better service to customers, developing new successful products, and minimizing risks. In 2007, employees submitted over 2 500 suggestions, nearly one-third of which were implemented: a very high percentage. The participation rate was also high with 26.3% of the approximately 9 500 employees entitled to participate in the program submitting ideas. The average among banks is a participation rate of only around 12 % and a suggestion acceptance rate of 18%. On the whole, the savings generated by the LBBW improvement process in 2007 amounted to approximately EUR 1.7 million.

Compliance.

In the LBBW Group, compliance is broadly defined as management of the risks arising from adverse effects on the business model, reputation, and success of the Group due to a lack of adherence to laws, regulations, internal standards and guidelines, and as the result of unfulfilled expectations of our owners, customers, employees, and the public.

In order to control this risk, LBBW Bank successfully reorganized compliance activities in 2007 and began to integrate Group subsidiary and branch operations (horizontal compliance responsibility) into the Bank's compliance activities, as well as to further expand LBBW's compliance management system. To this end, internal guidelines and principles are being developed from the statutory requirements and mapped to internal processes. The goal is to implement an end-to-end culture of prevention in which all employees commit to comply with the law and act accordingly, thereby ultimately achieving risk transparency.

Capital Market Compliance.

The EU's Markets in Financial Instruments Directive (MiFID) was implemented in German law on November 1, 2007 by way of the Finanzmarkt-Richtlinie-Umsetzungsgesetz (FRUG - the German MiFID Implementation Act). LBBW has put the conditions in place for timely implementation of the new requirements, and transitional solutions permitted by regulatory authorities are used for remaining projects just in a few cases. The introduction of internal guidelines concerning the management of conflicts of interest has enabled LBBW to identify potential conflicts of interest in the securities business for the benefit of our customers. Organizational measures are taken to ensure that securities services offered are not tainted by conflicts of interest. If these conflicts cannot be eliminated in our customers' best interests, then they are disclosed to customers.

The LBBW Group's compliance officer exercised his duties autonomously and reported regularly to the Board of Managing Directors. In 2007, training sessions were again held to raise awareness among employees concerning the identification of individuals holding insider information and the resulting prohibitions on trading. The employees were kept continually informed about new developments in capital market compliance via the Intranet.

Money Laundering Prevention.

New, complex financial products, a fast pace of innovation in communication and information technologies, and difficult to assess political developments in some countries pose growing challenges for LBBW's efforts to prevent money laundering and fight terrorism financing. The increasingly complex

environment therefore requires continual adaptation of the audit systems. To supplement the innovative, intelligent electronic systems in place, LBBW is increasing its staff of qualified employees. Moreover, the LBBW Group's worldwide operations necessitate application of an adequate compliance with the relevant regulations in countries abroad in addition to high German standards.

A key issue in 2007 was the implementation of the EU's Third Money Laundering Directive. This Directive requires an institution-specific risk-oriented approach that is supported by a detailed analysis of LBBW Bank's risk situation. Instead of systematic procedures, specific duties of care (customer due diligence) are required that address new trends in and types of money laundering and terrorism financing. This due diligence concentrates on the specific risk potential of individual business transactions. As a result, »politically exposed persons« (PEPs) are subject to stricter reviews and must meet increased transparency and integrity standards. These significantly more rigorous requirements applicable to natural persons are supplemented by an obligation to verify the identity of decision-makers and economic beneficiaries and to verify ownership structures in the case of legal entities.

Financial Sanctions/Embargoes.

LBBW Bank's customers and all incoming and outgoing payment transactions are continually reviewed to ensure that the individuals and organizations involved are not included in international sanction lists. The underlying processes were optimized in 2007 so that LBBW can react quickly to the changing statutory environment.

Financial Intelligence Activities.

The banking industry is faced with a general increase in financial crime. All business segments are affected by this trend, but online banking currently appears to be a particular target of criminal activity due to the low personal risk of being caught for this crime. In fighting financial crime, LBBW continues to concentrate on raising awareness among employees and providing information about the *modus operandi* of various groups of perpetrators. By adapting internal processes to plausibility checks, which have again been updated, and by implementing structural changes, LBBW further increased the detection rate of wire transfer frauds and prevented financial losses for our customers and the Bank.

Data Protection.

The data protection level was increased further in 2007. LBBW's data protection activities focused on recommending concrete courses of action and providing assistance to the individual divisions, implementing wide-ranging controls to ensure compliance with statutory data protection regulations, improving the technical infrastructure for integrating data protection into information technologies, and further integrating the Group companies into LBBW's statutory data protection activities. The subjects of audits in this area were a security check of the data center, the structuring of home workstation used for telecommuting to ensure data protection, control and security issues in remote maintenance, and a review of the system of authorizations for accessing employee data stored in the new digital personnel files in line with the Allgemeines Gleichstellungsgesetz (AGG - German Anti-Discrimination Act). In addition, guidelines and rules for preserving customers' and employees' rights to personal privacy were updated. This is reflected in the publication of instructions, guidance, manuals, sample contracts, and checklists, and in training sessions organized.

In conjunction with the IT division, processes were adapted and the technical infrastructure of the reporting database was expanded to enable LBBW to address statutory data protection issues at every phase during projects and IT contracts. Moreover, service providers commissioned by the Group to perform credit card, human resources, and waste disposal services were reviewed to ensure that suitable technical and organizational measures were in place to protect customer data.

Sustainability.

First Sustainability Report.

In 2006, the environmental policies LBBW had pursued for many years were developed into a comprehensive sustainability policy that could be used as a foundation for sustainable management practices. LBBW's first Sustainability Report was published in 2007. As a rule, the Report and LBBW's entire sustainability management system applies to LBBW, BW Bank and the wholly owned subsidiary LBBW Gastro Event GmbH. The Sustainability Report includes the same content as LBBW's environmental reports to date, contains the validated environmental declaration, and additionally covers a broad range of other sustainability issues. LBBW followed internationally recognized criteria in preparing this Report.

Stakeholder Dialogue.

Dialogues with stakeholders are an important sustainability management tool at LBBW. The selection of major stakeholders is made after an intensive issue and stakeholder check. The core statements of the stakeholder dialogue are assessed for relevance to LBBW and also taken into account in the planned revision of LBBW's sustainability policy. In July 2007, customer representatives and representatives of non-governmental organizations (NGOs) and rating agencies met for the first stakeholder dialogue to discuss LBBW's lending business. In September 2007, LBBW held a dialogue on a large number of labor issues with eight employees and two union representatives. Additional stakeholder dialogues are planned for 2008.

2007 Rating Results.

Market and society as a whole require sustainability reporting to be highly transparent. The indicators developed by the Global Reporting Initiative have become established as the benchmark in this regard and are the foundation for LBBW's reporting as well. The requirement for transparency also applies to the documentation of and participation in sustainability ratings by well-known firms such as SiRi Company, oekom research, and vigeo group. These ratings are often commissioned by institutional investors, including churches and pension funds who make their investment decisions based on such ratings.

In 2007, LBBW was awarded 65.6 points out of a possible 100 by SiRi Company, significantly outperforming the industry average of 45.1 points. In addition, LBBW was included by the vigeo group in the »Ethibel Excellence Global Register« and the »Ethibel Pioneer Global Register« in April 2007. These registers include companies exhibiting significantly above-average performance with regard to social responsibility and which are among the best in their sectors. In April 2007, LBBW received an overall rating of C (fifth place out of 12 public-sector and cooperative banks) from oekom research. This result puts LBBW over the minimum threshold for sustainable investments in the financial services industry as specified by oekom.

Certifications.

As a banking group with international operations, LBBW is committed to adhering to the relevant standards, such as the Eco-Management and Audit Scheme (EMAS) and ISO 14001. An internal and an external audit are performed once a year to determine whether the environmental management system meets the relevant requirements. A total of seven central administration buildings have been validated according to EMAS to date. One of these buildings was newly validated in 2007.

New Procurement Standards.

Environmental standards have been in place at LBBW for years to guarantee environmentally friendly procurement of paper, office supplies, furniture, advertising materials, and IT equipment. In 2007, all of these rules were combined into a single Job Instruction to expand the procedures in place to date, which had only included environmental criteria. This Job Instruction also stipulates the evaluation of social criteria for all product categories. Previously, this had only been done when procuring advertising materials. The general sustainability criteria for IT suppliers are listed in the procurement portal on LBBW's Web site. Sustainability criteria specific to product groups or classes of goods are taken into account during tenders.

Sustainability-oriented Investment Products.

In 2007, LBBW launched the »LBBW Nachhaltigkeitsstrategie Zertifikat« (LBBW Sustainability Strategy Certificate). This certificate invests in companies that gain a competitive advantage by balancing economic, environmental, and social goals. The stocks are selected by LBBW Research in conjunction with oekom research.

LBBW Asset Management GmbH and BWInvest launched the »LBBW Global Warming Strategie BWI« equity fund in January 2007. The fund invests in companies that offer products and services that work to counteract global warming or can mitigate its ecological and economic effects. Companies that do not pursue sustainable business strategies are not eligible for inclusion. »LBBW Nachhaltigkeitsstrategie BWI« for institutional investors meets social, cultural, ethical, and environmental criteria in selecting companies to include in the fund. The fund uses a best-in-class approach to invest in companies with above-average sustainability performance. The strict requirements and exclusion criteria are audited by oekom research and reviewed by auditors. Based on the sustainability strategy, asset management also manages and markets several other specialized funds for institutional clients. At the end of 2007, LBBW Asset Management managed a volume of approximately EUR 200 million according to SRI criteria.

Sustainability in Human Resources.

Two examples of sustainability in LBBW's exercise of its responsibility for LBBW employees are the opening of LBBW's day care center for children, called »Frechdax,« and introduction of the FlexiWertkonto option. The Frechdax day care center contributes significantly toward improving our employees' ability to combine work and family. The LBBW FlexiWertkonto is a working time account model aimed at improving employees' work-life balance and making career and retirement planning more flexible.

Risk Report.

Risk-oriented Management of the Bank as a Whole.

The worldwide loss of confidence in securitized credit markets caused by the US real estate market crisis in the second half of 2007 again underscored the necessity of a comprehensive risk management system based on economic principles. LBBW's obligation to implement comprehensive risk management practices and carefully manage the risks inherent in the banking business comes from LBBW's overall responsibility to customers, owners, and employees. Another duty LBBW has as a bank is a responsibility to society: Banks serve as the catalysts for smooth operation of the economic system and hold the key to its stability.

For many years now, LBBW has committed to a conservative risk policy. Transactions can only be entered into within clearly defined limits or competencies, and risks must be in reasonable proportion to risk-bearing capacity and profit potential. LBBW therefore avoids entering into transactions that are deemed to involve incalculable risks. These guidelines form the foundation of LBBW's risk policy and provide a framework for all business activities.

Risk Management System.

LBBW defines risk management as the use of a comprehensive set of tools to deal with risks. These mechanisms include LBBW's organizational structure and processes, risk management and control processes, and internal auditing. The Board of Managing Directors and the Supervisory Board provide the framework for the risk management system by defining risk strategies that are consistent with LBBW's business strategy. The parameters they specify constitute the corporate policy and risk strategy guidelines for risk management. Business strategies and earnings targets are stipulated for the front and back office divisions using a combined top-down/bottom-up process.

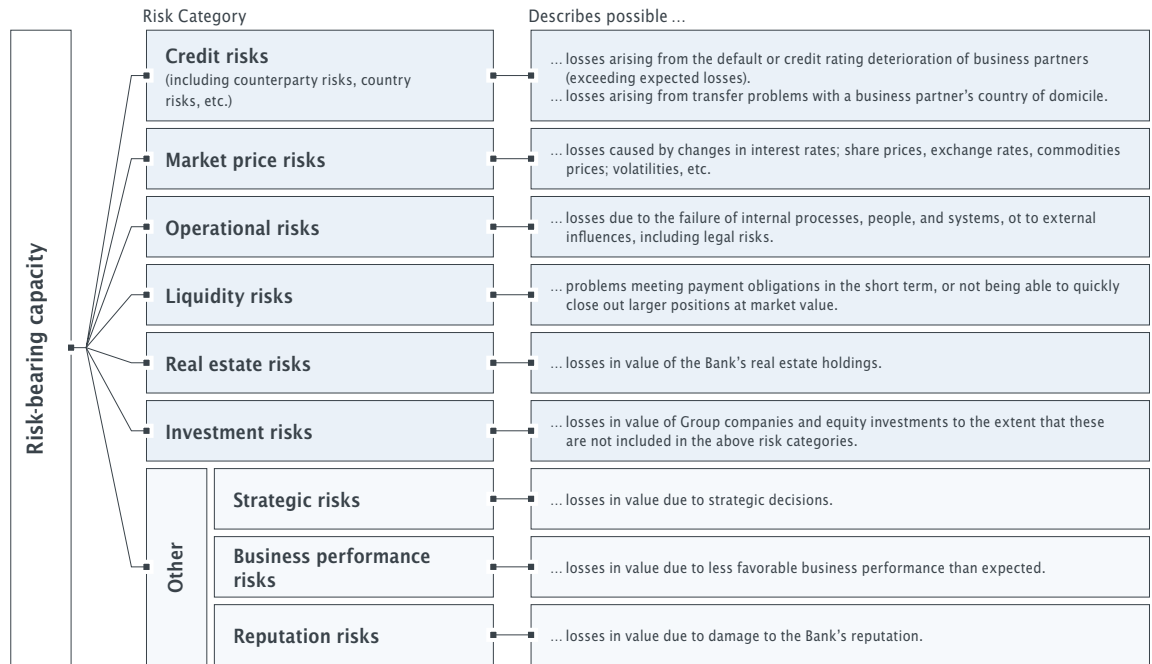
Financial Controlling and Group Risk Control divisions first define the methodology for monthly calculations of aggregate risk cover and calculations of the various risks. Throughout the Group, cumulative risks are compared monthly against the resources available to cover them to monitor LBBW's risk-bearing capacity, i.e., the adequacy of the capital required for business purposes.

LBBW's aggregate risk cover represents LBBW's ability to absorb possible unexpected losses. These resources are broken down into levels based on the various degrees of availability of the funds included in each level. Based on this analysis, the Board of Managing Directors with the approval of the Supervisory Board sets a maximum loss limit, which is the upper limit for all currently quantifiable risks throughout the Group. This threshold 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 of LBBW. Global limits for the various risk categories are derived from this maximum limit for losses. Monthly reporting includes losses already incurred along with risks from potential losses.

Economic capital is calculated for the purpose of uniform limit monitoring and uniform presentation of risk parameters. In contrast to the capital stipulated by regulatory bodies, this represents the capital backing required by LBBW for business purposes that is calculated using risk models. LBBW's economic capital is expressed by value-at-risk (VaR) at a high confidence level (99.95 %) or by a comparable risk measure. The LBBW Group has set up a comprehensive limit system that uniformly monitors all quantifiable risk categories on this basis.

Within the prescribed framework, risk management decisions are made by the departments with portfolio responsibilities or the individual divisions on a decentralized basis; these decisions are the focus of Group Risk Control division's centralized monitoring efforts. The risk control and risk management system set up for this purpose covers all material risks.

Monitoring of Risk-bearing Capacity.



The risk categories included in the overview under »Other« cannot be quantified like the other risk categories. However, LBBW considers these risks to be material and addresses them via risk buffers in the process of monitoring LBBW's risk-bearing capacity. Liquidity risks are managed using procedural rules, and the system for managing these risks is being expanded further. Stress test values that are beyond the scope of the risk calculation are included in the risk buffer.

Risk Management Organization.

The Board of Managing Directors manages and limits Group risk positions either directly or through its committees by setting Group-wide global and volume limits and by board decisions in individual cases. Depending on their nature and the department to which responsibility is assigned, risks are also managed at various levels of the Bank. The required separation of functions is always adhered to in these cases.

The Risk Committee assists the Board of Managing Directors in monitoring LBBW's risk-bearing capacity and global limits, as well as in complying with regulatory requirements (particularly MaRisk – Minimum Requirements for Risk Management). In addition to the control of the limit system, the Risk Committee is responsible for all risks, particularly market price risks, liquidity risks and operational risks. This committee, which meets monthly, is composed of three members of the Board of Managing Directors and the heads of the relevant divisions.

In 2007, LBBW formed the new Group Risk Control division. During this process, the departments in charge of market price risks and credit risks in various divisions were combined into a single division to consolidate responsibility across all risk categories there. The division is also charged with selecting or developing suitable systems and processes for the valuation of positions and for quantifying and monitoring risks.

Credit Risk Management.

The framework for portfolio management of credit risks is determined by credit risk strategy. Risks are measured using methods including credit value-at-risk for which corresponding limits are set up.

Credit risks are managed at the portfolio level in the credit approval process using a hierarchy of responsibilities broken down by loan volume. Within this framework, credit risks are limited according to structural considerations, such as rating or borrower's industry. Country risks (transfer risks) are managed using a country limit system. The relevant country limits are determined in conjunction with the proposal set forth by the Board of Managing Directors' Country Limit Committee.

Managing portfolios of capital market-eligible credit positions is the responsibility of the Credit Capital Markets division. With the help of derivatives of credit indices and portfolio transactions, systematic portfolio risks are hedged, and new positions are entered into as part of risk/return optimization. The development of market neutral strategies at the portfolio level that do not depend heavily on a certain direction of the underlying credit risk premiums (spreads) is a particular focus here. This enables LBBW to greatly minimize market value fluctuations of the credit portfolio.

Risk management at the individual loan level is the duty of the back office divisions. Together with the front office, the back office divisions make decisions within the framework of the credit risk strategy and their hierarchical authority, thereby addressing the various risks of individual transactions. Customer bank accounts are managed, the creditworthiness of borrowers and trading counterparties is analyzed, decisions are made about commitments, and credit lines binding for the Bank as a whole are set up and monitored in the front and back office divisions.

The Group Risk Control division is responsible for monitoring credit risks and country limits using the Bank-wide country limit system. The mathematical-statistical rating procedure developed by this division is the core element in the risk assessment process. The result of this assessment, a rating score, reflects a standardized estimation of a customer's creditworthiness and includes quantitative, as well as qualitative, factors. Operational monitoring of credit risks at the level of individual transactions is assigned in general to the various central and regional back-office departments.

Market Price Risk Management.

Market price risks are managed and monitored using VaR and sensitivities in accordance with defined levels of portfolio responsibility and limit-setting authority.

The Board of Managing Directors has delegated the strategic structuring of market price risk positions in the banking book to its Treasury Management Committee. This committee is composed of two members of LBBW's Board of Managing Directors and one member of BW Bank's Board of Managing Directors, as well as the heads of the relevant divisions. The proposals developed by the Treasury division for strategic positioning are presented for the approval at monthly meetings. The results are reported to the Group's Board of Managing Directors. Interest rate risks from new transactions with customers are largely closed out by the Treasury division in near-real time via offsetting transactions.

The trading divisions are responsible for managing market price risks in the trading book. The trading divisions are home to the Bank's trading and sales units organized in accordance with responsibility for the relevant products:

- The main task assigned to the sales units involves trading transactions with customers, as well as building and maintaining relationships with institutional investors. They do not enter into any risk positions above and beyond these responsibilities.
- The trading units are primarily responsible for the Bank's proprietary trading. In addition, the market price risks arising from transactions entered into by the sales groups that will not be hedged by Treasury are assigned to the trading books. The trading books are maintained by way of hierarchical VaR limits and supplementary operating volume and sensitivity limits. The trading units are assigned responsibility for market price risks and earnings.

The Group Risk Control division calculates business results, market price risk indicators (VaR) and sensitivity parameters for market risk positions daily based on mark-to-market valuations and compares these to the respective portfolio limits. Moreover, the calculation of overall Bank-wide interest rate risks supports the management of assets and liabilities in the Treasury division. LBBW backtests its analyses to ensure the quality of the estimation procedures applied.

Management of Other Risk Categories.

Ensuring an active risk culture in managing **operational risks** is the prerequisite for monitoring and avoiding these risks in the long term.

Minimization of operational risks at LBBW is primarily the responsibility of the affected specialized divisions in close cooperation with the relevant head office divisions (such as IT/Organization and Human Resources). All employees are encouraged to handle operational risks responsibly. The Legal departments in the Group Strategy/Legal division are in charge of identifying and minimizing legal risks. They are supported in this effort by the specialized divisions and staff departments, which also provide them with the relevant information.

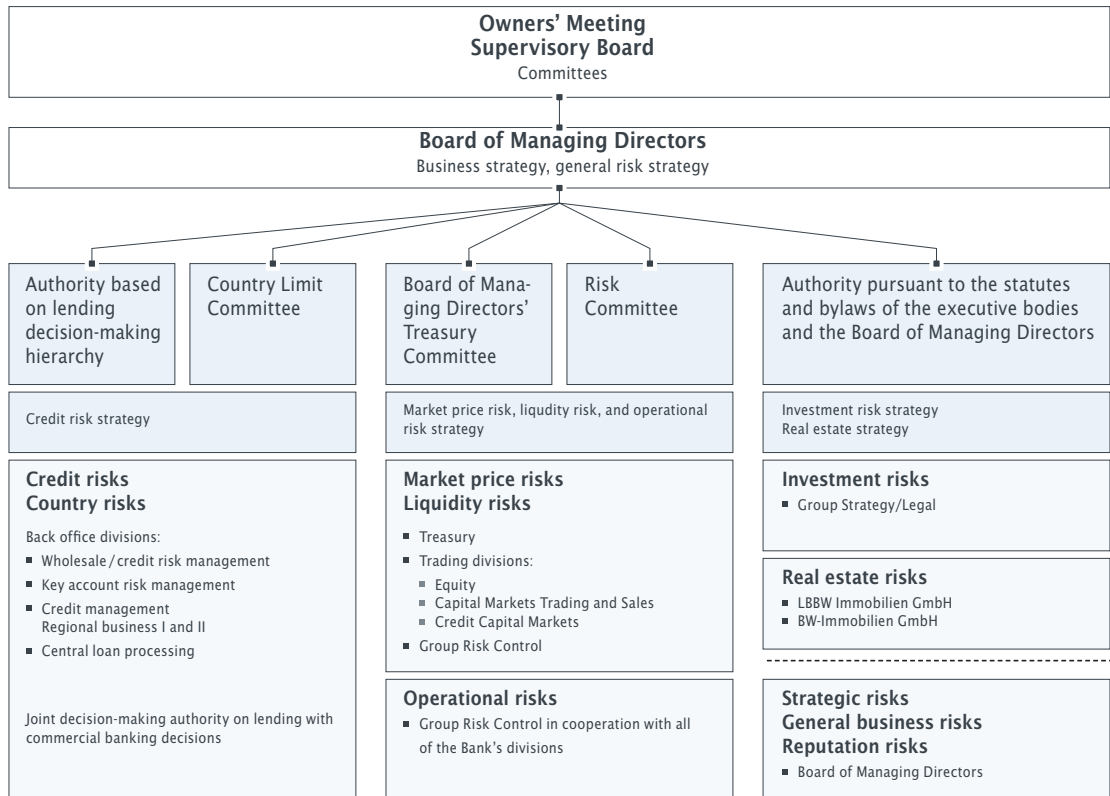
Among other things, Group Risk Control division collects and analyzes incidents of loss centrally to identify operational risks, as well as reviewing existing processes for their susceptibility to these risks and supporting the corresponding risk-prevention process adjustments. The Risk Committee monitors operational risks.

The Treasury division manages **liquidity risk**, which includes, for example, managing long-term funding risk arising from banking book positions. The Group Risk Control division monitors risks and calculates liquidity measures and reports this information to the Risk Committee.

Decisions about the acquisition and sale of **equity investments** and the associated risks are made by LBBW's supervisory bodies or by the Board of Managing Directors, depending on the volume and/or importance of each transaction. The responsibility of the Group Strategy/Legal division is to prepare acquisitions and sales of equity investments and to develop proposals for the strategic positioning of investees. The Group Risk Control division calculates VaR indicators for equity investments.

The LBBW Group's **real estate** portfolio is managed by the subsidiaries LBBW Immobilien GmbH and BW-Immobilien GmbH. The latter company is primarily responsible for the properties that LBBW itself uses in full or in part. The centralized Group Risk Control division also monitors real estate risks.

Risk Management Structure.



Additional Functions.

The Capital Committee was formed in 2006 to ensure the adequacy of the LBBW Group's capital resources, structure, and target figures. The Capital Committee is composed of three members of the Board of Managing Directors and the heads of the relevant divisions.

Back Office Financial Markets, a settlement and control unit, is responsible, among other things, for the quality of the data from trade-related data supply systems utilized in risk measurement processes.

The IT/Organization division must primarily ensure the high functionality of all IT systems.

The Internal Auditing division is a process-independent department that monitors all operations and business workflows, risk management and control, and the Internal Control System (ICS) with the aim of safeguarding LBBW's assets and boosting its operating performance. The Internal Auditing division exercises its duties autonomously. The Board of Managing Directors is informed about the results of audits by way of written audit reports discussed with the audited operating units. Internal Auditing also monitors the resolution of unresolved audit findings and the implementation of recommendations.

Implementation of Regulatory Requirements.

MaRisk.

When the Minimum Requirements for Risk Management, shortened to »MaRisk« in German, were published on December 22, 2005, these rules replaced the existing Minimum Requirements for Trading Activities (MaH), the Minimum Requirements for Lending Activities (MaK), and the Minimum Requirements for Internal Auditing (MaR). These rules are applicable to LBBW in full as of January 1, 2008.

MaRisk made the requirements of § 25a (1) KWG (German Banking Act) more explicit, while also implementing the requirements of Pillar 2 of Basel II in Germany's national law. In contrast to the existing minimum requirements, MaRisk expanded the general regulations concerning risk management and explicitly included requirements regarding liquidity risks, operational risks, and interest rate risks in the banking book. Ultimately, the aim here is to ensure that sufficient internal capital is available to cover key risks. The requirements of MaRisk therefore function as the measuring stick for qualitative banking supervision as part of the supervisory review and evaluation process. LBBW has implemented comprehensive quality assurance measures to ensure compliance with MaRisk requirements.

SolvV (German Solvency Regulation)/Basel II.

LBBW will further converge its capital backing economic risk due to the implementation of the requirements of the Solvabilitätsverordnung (SolvV – German Solvency Regulation) relating to the Internal Ratings-Based Approach (IRBA) and MaRisk. SolvV and MaRisk are the results of the implementation of Basel II in Germany's national law.

The following are among the milestones reached during the course of the activities relating to the SolvV/Basel II Projects:

- A new, forward-looking regulatory reporting solution scalable to Group level was implemented based on a new system architecture.
- Selective rating procedures were implemented for the key business segments that are now an integral part of the process of making lending decisions.
- Technical systems were put into place for comprehensive collateral management, and expanded to cover the requirements of the German Solvency Regulation (SolvV).
- IT-based risk control for operational risks was developed and rolled out at Group level.
- The Minimum Requirements for Risk Management (MaRisk) were rolled out across the Group in accordance with the principle of materiality.

In 2007, LBBW elected to apply the transitional provisions of § 339 (9) SolvV and to continue to apply Principle I to determine capital adequacy. Nonetheless, sample reports according to SolvV were prepared in 2007. Based on these sample reports, LBBW projects significantly reduced minimum regulatory capital requirements from January 1, 2008 onward.

On January 1, 2008, LBBW received approval from the responsible regulatory authority in Germany, the Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin – Federal Financial Supervisory Authority), for applying the Internal Ratings-Based Approach to capital adequacy for counterparty risk. The approval relates to the key rating modules with which the entry threshold is reached. These were audited by the respective regulator, either the BaFin or Deutsche Bundesbank. The standardized approach is used for operational risks. However, the foundation for using an advanced measurement approach at a later date has been put into place.

The preparations for reporting according to § 26a KWG (German Banking Act) have already been made as part of the SolvV Project. The initial disclosure according to § 26a KWG is scheduled for the first quarter of 2009 based on LBBW's figures as of December 31, 2008. In 2008, the SolvV Project will include planning and implementation to ensure the SolvV/MaRisk compliance of the Group after integration of LRP and Sachsen LB.

Risk Management System for Covered Bond (Pfandbrief) Operations.

With the introduction of the Pfandbriefgesetz (PfandBG—German Covered Bond Act) on July 19, 2005, a risk management system must be in place pursuant to § 27 PfandBG to ensure identification, assessment, management, and monitoring of the risks associated with this business segment.

A multi-tiered limit system is in place for monitoring risk. Regular stress tests are conducted with regard to NPV (net present value) overcollateralization. In the event that the fixed limits are reached, a process for then cutting the risk back down has been established. Limit utilization reports are submitted quarterly to the Board of Managing Directors, and the risk management system is reviewed annually.

Credit Risks.

At LBBW, credit risks are defined as possible losses that result from customer claims. In this context, LBBW distinguishes between various types of credit risk.

Borrower and Counterparty Risk.

Borrower and counterparty risk is defined as the risk of deterioration in the credit ratings of LBBW's business partners. The worst case scenario is default. This risk represents the chance that the Bank's partners will not fulfill all of their contractual obligations (payment of interest and repayment of principal) in a timely manner.

Country and Transfer Risk.

Country and transfer risk relate to a situation in which customers abroad who are both willing and able to meet their payment obligations cannot fulfill them due to limitations on currency transfer or other government actions.

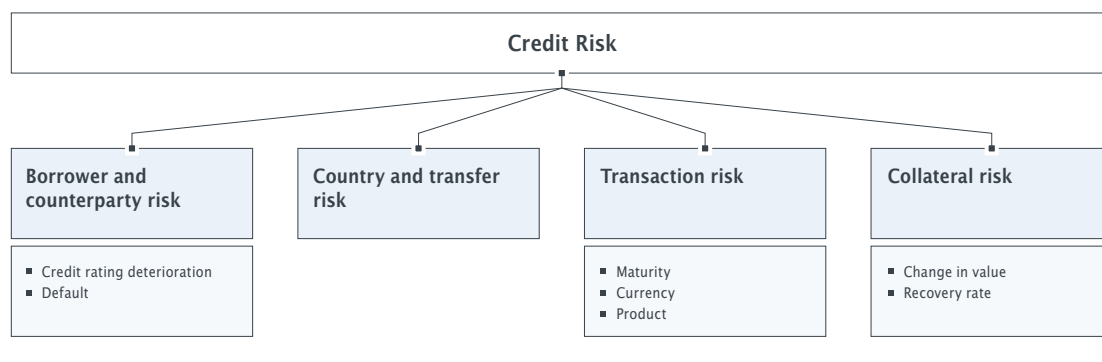
Transaction Risk.

Transaction risks involve possible changes in net repayment amounts due to exchange rate, maturity, or product-specific changes. In addition, transaction risk reflects the costs that would arise upon default by a counterparty to replace the affected transactions.

Collateral Risk.

The valuation of various types of collateral, which serves to reduce credit risk, is based on fair value calculations. The possible (market) value fluctuations of the collateral and the change (in present value) of the recoverable liquidation proceeds constitute collateral risk.

Credit Risk Structure.



Credit Risk Management.

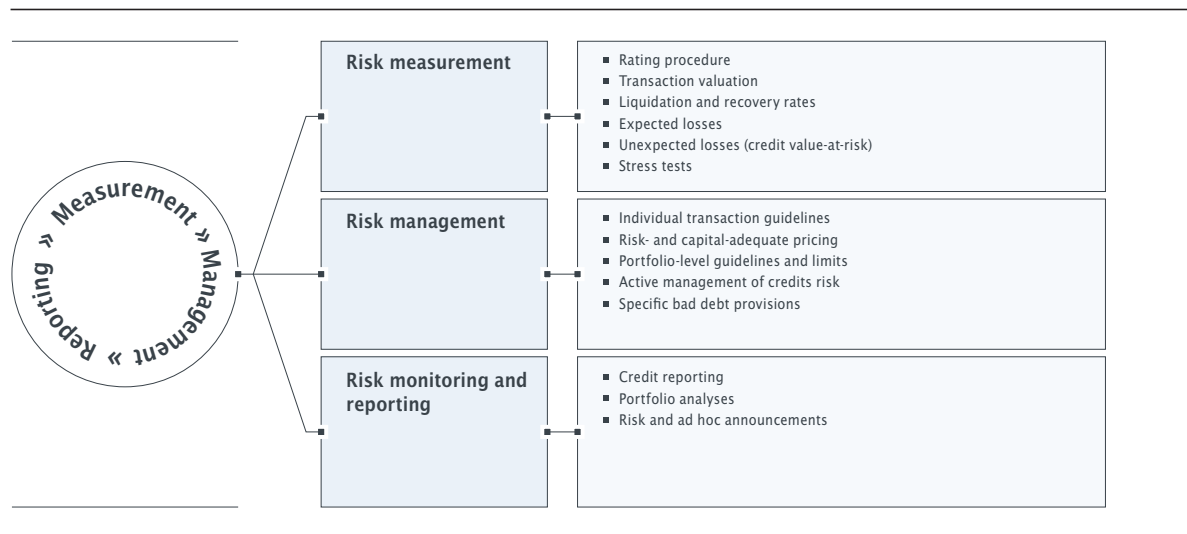
LBBW's lending rules cover all of the information required for responsible and risk-oriented lending practices. At the same time, they provide LBBW with a risk-adequate framework for responding to market changes flexibly and in the interest of the customers.

LBBW's lending business is managed based on the following principles:

- The key factors in lending decisions involve well-founded analysis and careful consideration of the risks associated with borrowers and their markets.
- LBBW's risk classification and rating procedures are vital aspects of evaluating the creditworthiness of borrowers.
- The decision to extend credit depends primarily on the current and future financial capacity of the borrower.
- The amount of each commitment must be appropriate to the size of the borrower and the borrower's risk structure.
- LBBW aims for risk-adequate collateralization depending on the type of product, intended use, maturity, and repayment terms. However, collateral is not a substitute for a poor credit rating.
- There must be an appropriate balance between the risks LBBW enters into and the resulting earnings.
- Risk-adequate support for the product and monitoring and management of the risks associated with the product must be guaranteed.
- No individual commitment is permitted if it were to endanger the stability of LBBW Bank.
- In the event of a pending loan default, a risk provision is set up promptly in the amount of the expected loss.

LBBW manages credit risk in three closely integrated, interactive phases:

Credit Risk Management Structure.



Risk Measurement.

LBBW has access to a variety of tools for measuring credit risk that are subject to continual quality control and updating.

Customer Ratings.

The creditworthiness of existing and new customer accounts is assessed primarily using rating procedures, the aim of which is to estimate the probability of default and determine allocation to a corresponding rating class.

The allocation is based on an analysis of relevant financial conditions. Depending on the customer group, the analysis must, however, also include an assessment of market conditions, product quality, the competitive situation and management, as well as cash flow and forward-looking data. In addition to changes in total debt, account transactions, and industry forecasts, other suitable internal and external sources of information are regularly used to identify heightened default risks or credit rating deterioration at an early stage.

The forecast reliability of the rating systems, which have been used at LBBW for several years now, is reviewed at least annually using actual defaults, and the rating procedures are recalibrated, if necessary. Risk classification procedures are maintained and updated either in-house by LBBW, by a DSGV subsidiary (S-Rating GmbH) or by the Rating Service Unit (RSU), a joint subsidiary of the Landesbanken. As of January 1, 2008, LBBW began using the Internal Ratings-Based Approach (IRBA) to measure capital adequacy for counterparty risks after the rating procedures used by the LBBW Group were audited and approved by the supervisory authorities.

Country Ratings.

Transfer risks are measured at LBBW using a special rating procedure. The key factors in the rating procedure are the economic situation, political environment, and domestic and foreign trade developments in each individual country.

Transaction Valuation.

Depending on the type of loan in question, historical data is used to calculate individual additions and respectively the exposure-at-default. Subsequently, the individual risks calculated at transaction level can, for example, be consolidated by borrower or borrower unit for purposes of calculating total exposure or for portfolio analysis.

Liquidation and Recovery Rates.

Collateral is furnished and netting agreements are signed to reduce credit risk. Collateral data is tracked in the collateral management system (CMS), and information about netting agreements is collected in the limit management system (LMS). Both are updated on an ongoing basis.

The liquidation rate indicates the ratio of the average expected present value of the proceeds from the liquidation of collateral (less liquidation costs) to the market value of the collateral. In contrast, the recovery rate signifies the average expected present value of the proceeds gained through pursuing debt collections, i.e. the amount of the unsecured portion of a receivable repaid. These ratios are calculated based on LBBW's own historical values and those pooled with other Landesbanken.

Expected Losses.

This measurement is used to quantify the average loss that can be expected depending on customer creditworthiness, the transaction structure, the collateral available, and the recovery rate. Expected loss figures can be used to compare various transactions or portfolios and their expected risk costs. This figure is used in preliminary costing at the individual transaction level to determine loan terms and at the portfolio level to compare expected risk potential, perform plausibility checks of projected risk costs, and calculate risk costs.

Unexpected Losses (CVaR).

At LBBW, unexpected loss or credit value-at-risk (CVaR) represents the potential present value loss of a portfolio above its expected loss. CVaR is a statistical value that is not exceeded by losses with a given probability (confidence level) within a time horizon of one year. Concentration risks play a particularly important role in this regard. Industry and volume concentrations in the case of individual borrowers increase portfolio risk, while granularity and diversification reduce this risk. LBBW uses a credit portfolio model based on the modeling of ratings migration to calculate this value. The individual borrowers are assigned default and migration probabilities corresponding to their ratings. These are modeled in such a way that the correlations (for example between rating classes and industries of all borrowers) can be addressed adequately. The credit exposures are subject to mark-to-model valuation; the calculation is based on their present value. The credit portfolio model uses a Monte Carlo simulation approach to calculate risk.

Stress Tests.

In addition to statistical indicators and risk measurement tools, LBBW also increasingly performs stress tests to analyze the effect of economic volatility, market crises, and extreme scenarios on the most important credit risk figures. The difference between this and the statistical tools is that the various scenarios are formulated without taking into account the relevant probability of occurrence. During this process, scenarios are defined based on historical events, as well as theoretical situations including expert estimates. In the future, in addition to sensitivity analyses, scenario analyses will also be

performed in stress tests at LBBW. In the former case, the possible effects of an extreme change in an individual risk factor are measured. These are known as »univariate« tests, e.g., testing deterioration in the customer ratings of all customers using one risk category. In contrast, scenario analyses measure the influence of the combined change in several risk factors. These are called »multivariate« tests, e.g., testing expansion in credit spreads in the event of the deterioration of corporate client ratings due to economic factors by one rating class and reduction of liquidation ratios by 10 %.

Analyzing stress test results by taking into account risk-bearing capacity enables the stability of credit institutions to be tested in various economic cycles and in crisis situations, as well as providing the opportunity to ensure this stability with suitable measures and the provision of suitable risk cover.

Risk Management.

Risks are managed mainly on the basis of the aforementioned measurement tools. LBBW manages risks in individual transactions as well as portfolios. The credit risk strategy is the basis for Group-wide credit risk management at LBBW. The credit risk strategy is updated continually. The objective is to incorporate LBBW's risk tolerance – based on its corporate goals and the expectations of its owners – into concrete plans for action for our lending business. The credit risk strategy is oriented to current overall economic conditions, taking into account the Bank's risk-bearing capacity.

Guidelines for Individual Transactions.

Key elements of individual transaction management are quantitative, risk-return and business segment-specific guidelines as part of LBBW's credit risk strategy. Limits are firstly placed at the individual transaction level based on the general practice of only granting loans to borrowers with a minimum level of creditworthiness. In addition, the loan amount and its term and collateral structure are linked to the customer type and credit rating of the relevant borrower as well as to the risk-bearing capacity of LBBW.

Risk- and Capital-adequate Pricing.

The management of individual transactions in accordance with profitability and risk considerations is a key building block of LBBW's overall bank and credit risk management activities. Whether a transaction will produce an adequate profit on a risk-adjusted basis is a key consideration before business is entered into. At LBBW, the preliminary costing process covers all individual transactions. In addition to the cost requirement margin, the capital range (capital = unexpected loss) and the risk range (expected loss) are taken into account. The results of the preliminary costing calculation are consistently included in the final costing calculation and tracked at both individual customer and profit center/portfolio level.

Guidelines and Limitation at the Portfolio Level.

At the portfolio level, risks are managed in line with the credit risk strategy through quantitative targets for the business fields. These relate mainly to the rating or risk distribution, or expected loss, and also include a risk-return benchmark. The specialization of the front office operations units on special business fields ensures risk-return management with clearly defined responsibility for the relevant portfolios. In order to avoid extreme risks, LBBW applies a multi-dimensional limitation system in which both soft (flexibility in borderline cases) and firm (no room for maneuver) limits are possible depending on risk relevance and LBBW's business policy considerations.

Active Management of Credit Risk.

LBBW uses various active portfolio management methods (such as syndication, individual loan or portfolio transactions, credit default swaps, risk participations, and securitization) in order to meet predefined targets or to optimize the loan portfolio (including profit considerations), and to reduce concentrations of risk.

Intensive Tracking and Restructuring.

LBBW's internal processes aim to identify commitments affected by low credit ratings or deterioration in credit ratings at an early stage. To this end, LBBW's credit risk analysts evaluate information provided by customers, as well as market and internal data. This enables us to start a dialogue with customers to initiate timely measures to mitigate crises or prevent them entirely. The risk management units in conjunction with the front office departments therefore contribute substantially toward securing long-term relationships with customers.

LBBW follows special processes for handling problematic commitments. Depending on the level of risk, these involve either intensive tracking, restructuring, or liquidation. When default risk is heightened, commitments are subject to intensive tracking. This approach can be taken based on fixed criteria (e.g., deterioration in rating, liquidity bottlenecks) or on the assessment of the analysts responsible. As a result, a strategy for improving the risk situation is developed that includes concrete measures for eliminating the existing creditworthiness problems within a reasonable period (generally 12 months) or for reducing the risk for LBBW. The resulting strategy is then discussed with the customer and implemented jointly. To ensure that the implementation of the agreed plan and development of the risk associated with the respective customer are monitored, all cases subject to intensive tracking are reported to the relevant decision-makers in a quarterly watch list.

Restructuring is considered for commitments with insufficient creditworthiness and increased business continuity risk if there is a possibility that a sufficient credit rating can be regained through suitable measures. These cases are processed centrally by specialists with wide-ranging experience in the restructuring and reorganization of companies. The focus here is on the continued existence of the company.

Commitments that can no longer be restructured or companies that are in liquidation or are insolvent are classified as liquidation cases. In these cases, measures are only taken to minimize the losses for LBBW.

As a rule, risk provisions are made when the present value of all recoverable payments (from funds repaid, liquidation of collateral, and collections activities) falls below the amount of the loan receivable. Write-downs are taken on the expected losses calculated in this way. Receivables that are in fact unrecoverable and where all liquidation measures have been exhausted are written off.

Risk Monitoring and Reporting.

Risks are monitored in the LBBW Group similarly to how risks are managed at the individual transaction and portfolio levels. Risks at the individual transaction level are observed as part of regular reviews and continual active monitoring by the responsible risk analysts. In addition, ad hoc reports are also issued to quickly notify the responsible decision-makers about important or extraordinary events/risks. The degree of detail and scope of these analyses and reports are updated continually.

At the portfolio level, all relevant information including extensive analyses and recommendations for possible courses of action are provided to the Group's Board of Managing Directors, the supervisory bodies, and all relevant decision-makers, particularly in the course of quarterly reporting.

There are also other special reports that provide the Board of Managing Directors with a detailed overview of risk developments within the Group. The degree of detail and scope of the analysis in this case also depend on the level of risk of the relevant portfolios. A monitoring list based on ratings and risk volume with detailed statements about the respective commitment strategy and financial development is used to ensure that the Group's Board of Managing Directors is able to more closely track larger and/or more complicated credit risk exposures.

The ongoing monitoring of actual risk costs and deviations from forecast or standard risk costs is very important. To this end, timely reports are issued each month containing risk provision developments and profit center- and individual customer-based information and analyses.

Risk Situation.

Once again, our portfolio quality remains at a high level. In our capital market business, most transactions are entered into with counterparties with investment-grade ratings. Due to the crisis on the financial markets and the resulting widening of spreads, some limited write-downs were necessary, particularly in the case of bonds and credit derivatives.

In the private and corporate client segments, the focus is on customers classified as investment grade or upper non-investment grade. Lower credit rating levels play a smaller role and are monitored more carefully due to the increased risk.

Exposure by Rating and Industry EUR million	Investment grade (AAA- BBB-)*	Upper non- investment grade (BB+-B+)	Non Investment grade (B-C)	Default	Other	Total
Financial institutions	231 089	2 573	297	52	9 103	243 113
Credit institutions	185 492	1 702	81	10	1 598	188 884
Financial services providers	45 597	871	216	41	7 505	54 230
Companies	92 898	17 405	2 565	2 596	17 239	132 702
Energy, utilities	12 364	504	36	8	285	13 197
Food, consumer goods, and durables	2 599	497	90	112	121	3 419
Chemicals, plastics	4 908	726	33	95	112	5 874
Metals, mechanical engineering	5 746	1 623	361	301	409	8 440
Auto manufacturing	7 390	458	71	47	40	8 005
Electrical engineering, communication, IT	3 514	897	39	40	213	4 704
Construction	15 803	4 808	250	839	1 207	22 908
Retail/wholesale	5 759	1 683	184	207	941	8 774
Transportation, logistics	3 112	1 185	458	101	417	5 274
Media, entertainment	2 202	353	97	56	218	2 925
Services	14 857	3 665	422	644	6 450	26 038
Insurance	7 094	30	3	15	696	7 839
Other	7 552	975	520	130	6 130	15 306
Public sector	42 408	70	2	6	141	42 627
Private individuals	3 149	1 437	109	522	15 053	20 270
Total	369 544	21 485	2 972	3 176	41 535	438 712
In percent	84.2%	4.9%	0.7%	0.7%	9.5%	100.0%

* equivalent ratings classes according to S&P

Data is based on internal reporting. A reconciliation to the balance sheet containing consolidated figures is provided in the Group risk report (IFRS). Intra-Group receivables in the amount of EUR18.5 billion are not included.

The core markets for LBBW's retail customer business and business with small- and medium-sized companies are Baden-Württemberg and Rhineland-Palatinate. In addition, LBBW has capital market, key account, and real estate operations worldwide with an emphasis on Europe, North America, and other countries with excellent ratings.

Exposure by Segment and Region EUR million	W. Europe	E. Europe	N. America	Asia-Pacific	Rest of world	Total
Retail customers and investors/savings banks	32 798	11	36	12	10	32 866
Corporate customers	85 065	1 804	7 372	3 806	1 616	99 662
Financial markets	241 442	1 525	33 406	6 421	5 770	288 563
Corporate items	16 986	30	339	126	140	17 620
Total	376 291	3 369	41 153	10 365	7 535	438 712

Data is based on internal reporting. A reconciliation to the balance sheet containing consolidated figures is provided in the Group risk report (IFRS). Intra-Group receivables in the amount of EUR18.5 billion are not included.

The following table illustrates the valuation result.

Valuation result - Lending EUR million	Specific bad debt provisions Dec, 2006	Appro- priation	Reduction	Utilization	Direct write-offs	Profit/loss neutral entries
Credit risks	1 600.4	352.0	189.4	245.1	13.6	53.9
General bad debt provision	182.3					
Country bad debt provision	14.7					
LBBW Bank, total	1 797.4					

Valuation result - Lending EUR million	Risk costs (reported in net profit/loss)	IFRS change (reported in net profit/loss)	Specific bad debt provisions Dec, 2007	in % of total exposure	Exposure
Credit risks	-176.2	4.9	1 459.1	0.33%	438.712
General bad debt provision	-77.6	26.3	297.9		
Country bad debt provision					
LBBW Bank, total	-253.8	31.2	1 757.0		

Market Price Risks.

Market Price Risk Monitoring and Management.

LBBW's market price risks are monitored daily by risk controlling based on a hierarchical limit system. The limits specified for this purpose are set by the Group's Board of Managing Directors. In the case of certain sub-portfolios, this authority was assigned to individual members of the Board of Managing Directors, who then further delegate this authority according to a hierarchical system of responsibilities.

Risk management is handled within the scope of the limit system by the relevant person with portfolio responsibility in the trading units and Treasury division. Key committees involved in the management and monitoring of market price risks are the Board of Managing Directors' Treasury Committee and the Risk Committee.

VaR indicators and sensitivities are used throughout to measure and manage market price risks and monitor the corresponding limits. In addition, stop-loss limits are specified to limit the absolute loss over the period of a year; these amounts are not applied to risk limits.

Utilization of the aforementioned limits is reported daily to the relevant person with portfolio responsibility and the Group's Board of Managing Directors. In addition to daily reports, the Board of Managing Directors also receives more detailed monthly reports about the effects of market price risks on the risk and earnings situation. A more in-depth discussion of LBBW's exposures based on various stress scenarios is also conducted in this forum.

Procedures.

At LBBW, the 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 scenario-based Monte Carlo simulation, an approach that combines precise measurements with efficient calculations. In most cases, the simulation enables LBBW to not simply estimate market-induced value fluctuations, but to measure them fully, even for complex transactions. In addition, the breakdown of potential market developments into scenarios boosts efficiency by reducing the number of portfolio valuations. Historical time series for the preceding 250 days are equally weighted in covariance estimates.

At LBBW, market price risks are consistently modeled 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, both in terms of absolute levels and the shape of the yield curve. These types of developments are included in full in the simulations used in calculating VaR. Moreover, 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. In addition, bond-specific risks and risks arising from credit derivatives are reflected in interest rate risk.

Equity risks, along with foreign exchange and commodities risks, are less significant for LBBW than interest rate risks. The former also include risks from precious metals and currency portfolios, which LBBW only holds to a limited degree.

In addition to market price risks, LBBW also measures and monitors compliance with limits for market liquidity risks. These are special price risks associated with holding portfolios of less liquid securities. More information on this is available in the section on liquidity risks.

The calculations of VaR and sensitivities are supplemented with separate stress scenarios for the trading book and banking book. LBBW uses both self-defined (synthetic) and historical market movements with a focus on modeling particular curve movements and spread changes. All scenarios serve the purpose of modeling extreme events on the financial markets that are not specifically included in VaR to enable LBBW to prepare for the future. The results are presented in the relevant portfolio.

The interest rate shock assumed in BaFin Circular 07/2007 is also calculated regularly for the banking book («Basel II - Interest Rate Shock»). Experience shows that the change in present value as its effects very clearly falls within the thresholds defined there.

Risk Situation.

LBBW remained within the global limit for market price risks at all times during the 2007 fiscal year. The market price risks entered into were therefore fully within LBBW's risk-bearing capacity.

LBBW's market price risks are heavily influenced overall by interest rate risks. The following table illustrates the composition of VaR (99%/10 days) by risk type at the overall Bank level:

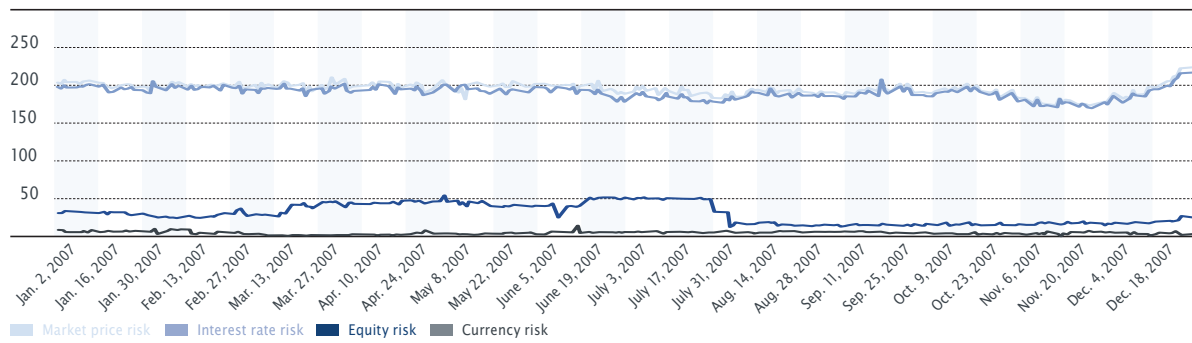
VaR 99%/10 days in EUR million	Average	Maximum	Minimum	Dec. 28, 2007	Dec. 29, 2006
LBBW Bank	194	223	172	207	214
Interest rate risks	189	216	169	206	206
Equity risks	31	55	14	25	33
Currency risks	6	14	2	6	8

The following is the breakdown for the trading positions:

VaR 99%/10 days in EUR million	Average	Maximum	Minimum	Dec. 28, 2007	Dec. 29, 2006
LBBW Bank	26	38	19	25	23
Interest rate risks	21	37	15	20	19
Equity risks	13	27	6	15	7
Currency risks	3	8	0	0	5

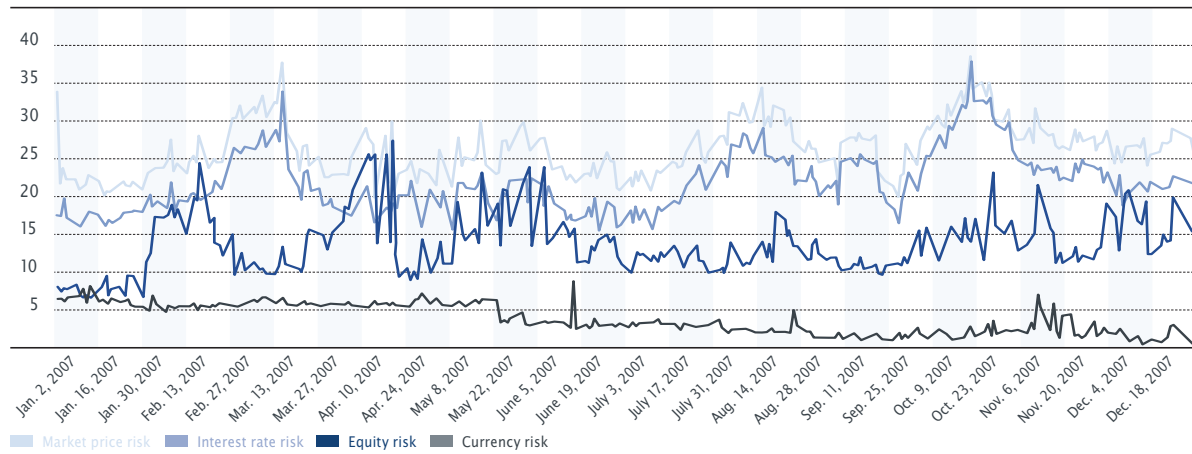
The following charts illustrate LBBW Bank's market price risks over the course of the year:

Risk Performance of LBBW Bank in 2007, EUR million



The heightened risk in the last quarter is primarily due to a rise in volatility resulting from the financial market crisis.

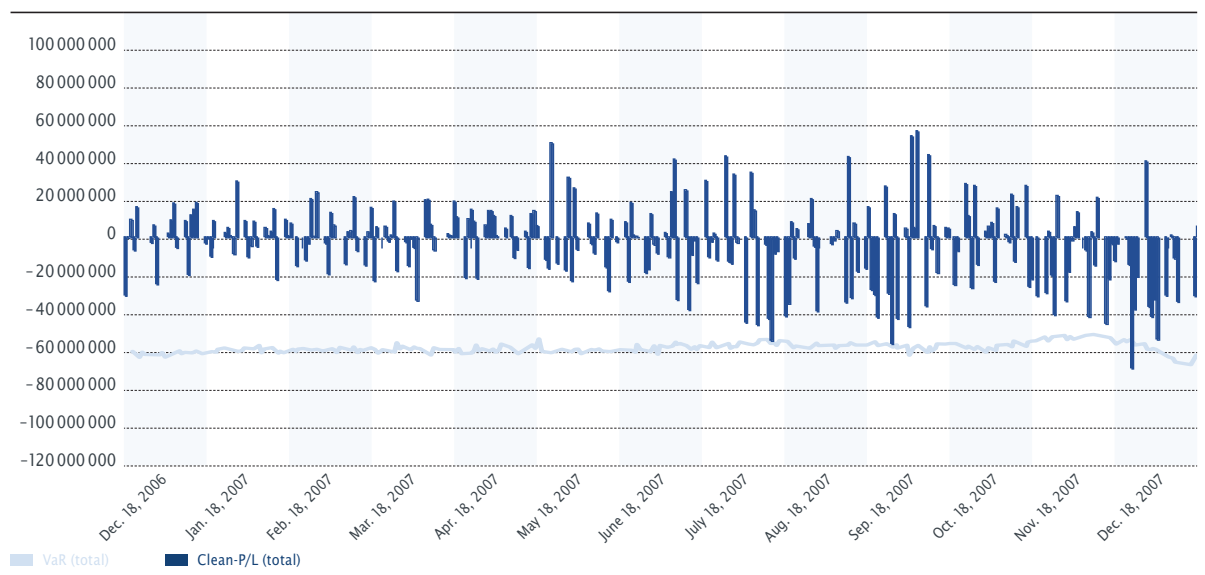
Risk Performance of Trading Positions of LBBW Bank in 2007, EUR million



Backtesting.

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 process is called »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. As of December 31, 2007 (inclusive), backtesting for the preceding 250 trading days indicated three model outliers for LBBW's trading positions and one for LBBW Bank. The model therefore falls within acceptable limits from the regulatory perspective; backtesting does not indicate any weaknesses in the model.

Portfolio backtesting - LBBW Bank for the period from Dec. 18, 2006 - Dec. 28, 2007
VaR parameters: 99% confidence level, 1-day holding period



Further Development of the Risk Model.

The dynamics of the capital markets continually pose new challenges for LBBW's risk model. New types of products are constantly being introduced that must be adequately reflected in the risk model. Before new products are approved for LBBW's trading units, they are subject to a »New Product Process« that ensures that these products are included in LBBW's various systems, such as accounting and risk controlling. If it is not possible to fully integrate the products into the model immediately, a step-by-step approach is taken whereby these products are initially only traded under strict supervision. For certain products, additional special limits are set. This enables LBBW to ensure that uncertainties in modeling are kept within an insignificant range. LBBW itself develops the necessary valuation procedures for the risk model.

In 2007, three releases of the risk model were completed; each release included new products and enhancements of the calculation methodology. This gives LBBW control and, if necessary, enables the Bank to react to variations in product structure. LBBW is aware, however, that the valuation process is subject to limitations. In addition to valuations, the adequacy of risk modeling is also reviewed regularly. If certain markets and risk types become more important in the future, LBBW can flexibly expand the self-developed model.

All types of modeling are simplified compared to reality. LBBW generally addresses this type of »model risk« by setting conservative parameters. In certain cases, valuation haircuts are taken or special limits are set if uncertainties exist with regard to the associated valuation procedures.

Operational Risks.

LBBW defines operational risks (OpRisk) as »risks that arise due to the unsuitability or failure of internal processes, people, or systems, or due to external influences«. This definition also includes legal risks.

At LBBW, this type of risk is mainly the responsibility of the individual divisions and Group companies. The Operational Risk Managers, division management and managing directors throughout LBBW are very important: they support use of operational risk controlling tools, are contacts for their respective employees regarding this issue, and are in close contact with LBBW's centralized OpRisk Controlling unit. To the extent that this is possible and reasonable, the central Group Strategy/Legal division obtains insurance policies to cover potential losses. An independent, centralized department is tasked with developing and implementing the methods and tools used by OpRisk Controlling.

One of the main goals of the operational risk management and control activities is to identify OpRisk at an early stage and to avoid or reduce the resulting losses by implementing the appropriate measures. Key tools for identifying and assessing this type of risk include LBBW's internal and external incident database, the risk inventory for risk potential assessment (self-assessment and scenario analysis), and risk indicators. LBBW is developing a VaR approach to quantify economic capital and integrate this parameter into management of the Bank as a whole. In addition to internal data, calculations include data from the Operational Risk Data Consortium (DakOR).

The centralized OpRisk Controlling unit provides decision-makers with relevant information as part of regular communication concerning risk. The Risk Committee supports the Board of Managing Directors in exercising its supervisory function within the Group. In this forum, incident reports and risk inventory results are discussed along with measures aimed at promoting a sound and safe risk culture at LBBW. LBBW also has a systematic ad hoc reporting process for operational risk.

In the 2007 fiscal year, the centralized OpRisk Controlling unit's main activities included further developing methods for risk potential assessment, networking the tools used, and integrating additional Group companies into the system. Technical support was launched for management and tracking of measures identified from the individual tools used. The requirements were met for application of the standardized approach.

As the information presented in the sections below illustrates, LBBW does not attach a high probability to any operational risks occurring that could endanger its existence. Despite all of the precautionary measures taken, it must be emphasized that operational risks cannot be avoided entirely. Raising the awareness among employees about risk and promoting a healthy risk culture at LBBW remains a key responsibility of the OpRisk Management and Controlling units.

IT Risks.

LBBW continues to comply with international IT security standards and will operate in line with ISO standards 27001 and 27002 in the future. A centralized process was stipulated for IT risk management at LBBW, which includes continually working to raise awareness of risk among employees and regularly analyzing the risk inherent in risk scenarios identified for LBBW's IT systems.

LBBW has set up a special IT crisis response team to ensure that its business operations are maintained and that it can function if IT systems fail; in the event of an emergency, this team will coordinate all activities and provide centralized communications capability, with the savings banks in Baden-Württemberg among others, in accordance with defined procedures. Emergency plans for maintaining operations manually are available in the various departments.

LBBW maintains two independent, geographically separate data centers for testing and production operations. In terms of its mainframes, LBBW has set up a backup operation with data mirroring that provides emergency backup requiring downtime of no more than three hours. A backup system with data mirroring has also been implemented for trading systems. Backup tests are run regularly to verify functionality and to train employees. In addition, backup workstations have been set up for trading and processing trading transactions.

At this time, LBBW does not face any unusual IT risks. LBBW has ensured well-organized IT operations for the future by constantly updating and improving its IT environment.

Personnel Risks.

LBBW's success depends materially on the dedication of its employees, and this idea is anchored in LBBW's mission statement: »We as employees drive the success of the Bank. Thanks to our expertise, knowledge, and commitment.«

The objective of comprehensive personnel risk management is to identify negative trends (risk monitoring) and to evaluate measures suitable for preventing or minimizing risk (risk management).

The Human Resources Department distinguishes between various types of personnel risk for purposes of risk monitoring and management. The goal is to identify bottleneck, resignation, adjustment, and motivation risks early on, and to minimize the resulting costs, such as staff recruitment, termination, and staff turnover expenses. Periodically evaluating and analyzing key personnel indicators, such as turnover rates, absences, or data concerning personnel development measures (particularly management training measures), as well as comparing these indicators across the Group, creates transparency with regard to these risks.

In the risk category of »resignation risk,« for example, employees leaving LBBW are surveyed in writing about their reasons for leaving. This provides these employees with another opportunity to freely express their opinion about LBBW as an employer.

In addition to attracting skilled employees from the external labor market, the Human Resources Division also concentrates on developing and promoting young employees within the company. In order to counter the risk of a lack of high-performance employees (»bottleneck risk«), employee potential is systematically documented and analyzed. The age structure of LBBW's employees is watched particularly closely due to demographic changes, although this does not require any action in the immediate future.

In addition to these traditional indicators, qualitative indicators must be included so that personnel risks are not simply extrapolated from past experience, but can be projected into the future and analyzed. An employee survey is being conducted for the first time to collect valuable information about LBBW's quality and attractiveness as an employer.

LBBW has already implemented a series of measures to counter possible personnel risks. These measures range from legal protection for LBBW to ensuring that employees are qualified to do the tasks assigned to them. Among other things, a target group-oriented specialist training program is held annually. In addition, a dedicated department is responsible for education concerning and monitoring of statutory money laundering and compliance regulations.

No developments that could endanger the existence of LBBW were identified in 2007. In order to ensure that a sufficient number of potential specialists and executive staff continues to be available in the future, LBBW will strengthen its commitment to offering training courses and apprenticeships in 2008.

Legal Risks.

Legal risks comprise the risk of losses due to non-compliance with the framework of rules established by legal regulations and court rulings. These risks arise from a lack of knowledge (including cases where this is unavoidable or the employee is not at fault), insufficiently careful application of the law, or delayed reaction to changes in the general legal framework.

The Legal departments at LBBW are in charge of managing legal risks. In particular, they provide advice on legal matters to the Bank and its German and foreign subsidiaries, branches, and representative offices. In addition, their responsibilities include early identification of legal risks in business units and central divisions, and limiting these in a suitable manner. The National Legal and International Legal departments have themselves developed or examined and approved for use by LBBW's business areas a variety of contract forms and sample contracts in order to minimize legal risks and simplify the business activities of the front office and trading divisions. Approved, standardized contract materials are used for all derivative transactions. If legal questions arise in new areas of business or during development of new banking products, the legal departments supervise and actively participate in these processes.

Furthermore, the Legal departments monitor all planned legislation, developments in court rulings, and new standards stipulated by the supervisory authorities in LBBW's key areas of activity in close cooperation with the Federal Association of Public-Sector Banks in Germany (VÖB) and the German Savings Bank Association (DSGV).

To the extent that this results in LBBW having to act or adapt its policies, the Group Strategy/Legal division is instrumental in disseminating information quickly and implementing measures within the Bank. No legal risks currently exist at LBBW that could threaten its existence. The Group Strategy/Legal division also has no reason to believe that such risks will arise at LBBW in the foreseeable future.

Liquidity Risks.

LBBW's liquidity risk monitoring and management activities draw a distinction between short-term liquidity risk, which represents the risk of insolvency due to an acute lack of funds, and funding (spread) risk, which describes the adverse effects on income resulting from a possible deterioration of the funding spread. In addition, the market liquidity risk is an expression of the danger that due to inadequate market depth or to market disruptions, capital market positions can only be closed out at a loss.

Short-Term Liquidity Risk and Funding Risk.

Liquidity management at LBBW is viewed as a cross-disciplinary responsibility and is performed by the Treasury division. The funding (spread) risk arising from banking book positions is managed centrally by Treasury, in doing so long-term loans are generally matched to long-term funding. LBBW pursues the goal of a broad, diversified investor base as part of its funding strategy.

Measurement, monitoring, and limitation of liquidity risks are the responsibility of the Group Risk Control division.

The Group's short-term liquidity is monitored using regular forecasts. The risk of an acute shortage of funds is minimized using a limit system in which the overall limit is derived from the available liquidity reserves. The available funding potential at central banks is monitored daily. As part of a comprehensive liquidity report, the Group Risk Control division also reports to the Board of Managing Directors quarterly on all relevant issues associated with liquidity and the Bank's and Group's liquidity risk. In addition, a detailed emergency plan is in place to secure liquidity in possible crisis situations.

By limiting funding requirements and consistently managing its liquidity reserves, LBBW believes itself to also be well secured in the event of unforeseen interruptions in its market sources of liquidity and unexpected outflows of liquidity or defaults on expected incoming payments.

LBBW's available potential funding with same-day availability via central banks (ECB and the Fed), defined at LBBW as the liquidity reserve in the narrower sense, amounted to EUR 28.9 billion as of December 31, 2007. This means that LBBW's solvency would be guaranteed for a period of more than three months if no lending transactions were entered into, even under the assumption that no more deposit transactions could be undertaken or extended.

Despite the difficult situation in money and capital markets in the second half of 2007, LBBW's liquidity requirements were always fulfilled in the market without LBBW having to dip into liquidity reserves. In this regard, the financial market crisis did not pose great difficulties for LBBW. The liquidity requirements defined in Principle II of the KWG (German Banking Act) were substantially exceeded at all times in 2007. LBBW's liquidity ratio was 1.45 as of December 31, 2007 (2006: 1.32).

Market Liquidity Risk.

Market liquidity risks relate to potential losses from the trading of less liquid financial instruments, for example trading of larger portfolios of securities. If a large volume were to be bought or sold quickly, then a corresponding influence on the markets is to be anticipated, which would reduce the expected proceeds.

In some cases, LBBW addresses such risks by monitoring bid-offer spreads in the securities held in the portfolio. These are compared with the associated volumes traded. This correlation is then transferred to the volume in LBBW's portfolio and converted to a potential loss value. The risks arising from illiquid stocks in the trading portfolio are minimized through use of a separate limit and are not material to LBBW.

Moreover, this concept also relates to potential losses in the sense that the liquidity of entire market segments can decline, as was the case in the second half of 2007 with credit spread risks. The sudden lack of liquidity in what up to that point were very liquid markets resulted in difficulties in market valuations and the downstream processes in the following months. A loss triggered by a lack of liquidity occurs in such situations in particular if a financial institution is forced to sell or close out positions despite unfavorable market circumstances. LBBW's risk management in this regard aims to maintain wide latitude for action in such extreme situations. LBBW prefers that trading be limited to products and markets that indicate a high level of liquidity based on market development to date.

Investment Risks.

LBBW invests in other companies or assigns functions to subsidiaries, if this appears to be a logical choice after consideration of strategic aims or returns.

Early identification of business and risk developments at LBBW's subsidiaries and equity investments is particularly important for investment controlling purposes. To this end, regular coordination meetings are held at the corresponding management levels of LBBW and the subsidiary/equity investment, particularly in the case of companies material in terms of risk policy. In addition, these companies' results and planning are continually monitored by the organizational unit responsible for equity investment management in the Group Strategy/Legal division at LBBW. This unit also produces extensive reporting on this issue for the Board of Managing Directors and governing bodies.

The companies in LBBW's equity investment portfolio are assigned to one of two categories in terms of risk:

- Material subsidiaries, i.e., companies in which LBBW is the majority shareholder and whose risk potential (in the main risk categories of credit risk, market price risk, liquidity risk, operational risk, and real estate risk) is deemed to be material from the Group's perspective.
- Non-material subsidiaries and equity investments, i.e., companies in which LBBW is the majority shareholder and whose risk potential deemed to be immaterial from the Group's perspective, or minority equity investments, i.e., companies in which LBBW as the minority shareholder does not have the direct influence possible in the case of companies in which a majority interest is held.

As much as possible, the so-called transparency principle is applied to material subsidiaries, or they are being integrated into this approach step-by-step. In accordance with the transparency principle, risks identified as material at the respective companies are measured according to LBBW's principles and parameters and included at the level of LBBW in an aggregation or Group assessment.

In the case of the non-key subsidiaries and minority interests, the risk potential is quantified based on the interest held and included as a whole in LBBW's risk management system. This calculation is made using a ratings-based credit VaR approach.

LBBW pursues a selective equity investment policy. As a rule, a comprehensive risk analysis (of legal, financial and other risks) is performed in the form of due diligence, generally in conjunction with LBBW's specialized divisions, before equity investments are acquired. Of particular importance here are factors such as ensuring that inappropriate concentrations of risk do not arise in the investment portfolio.

LBBW aims to use transaction agreements to contractually hedge risks as much as possible, such as through option agreements or earn-out clauses. In addition, the buying process includes valuation of equity investments taking into account capital market-oriented risk premiums.

Fair market values for LBBW's equity investments are calculated in accordance with the guidelines issued by the Institut der Wirtschaftsprüfer (IDW – the German Institute of Auditors) at least once a year as part of preparatory work for the annual financial statements. For the half-year report, a plausibility check of the book values is performed using calculations pro-rated for the period.

Besides the risk of a potential decline in value as the result of defaults, there is also a risk that LBBW will receive an insufficient return or no return at all on its investments. However, this risk corresponds to the above-mentioned general book value or market value risk due to the focus on capitalized income value in the valuation of equity investments.

In addition to the usual risks inherent in equity interests through the investment of capital, liability risks also arise from the profit and loss transfer agreements signed with some subsidiaries and from the responsibility for fulfilling the maintenance obligation (Anstaltslast) and guarantor's liability (Gewährträgerhaftung) for equity investments in public-sector banks. Furthermore, LBBW has signed letters of comfort with various investees.

In view of the profits retained in LBBW's investees, an overall return on the equity investment portfolio was generated that exceeded the return that could have been achieved with alternative risk-free investments (public-sector, fixed-interest securities).

Management and monitoring systems ensure that LBBW is continually informed about the situation in its investees. Moreover, the subsidiaries and major equity investments follow a conservative risk policy synchronized with LBBW to the extent that LBBW can influence such policies.

Real Estate Risks.

Real estate risks are defined as potential negative changes in the value of LBBW's own holdings due to deterioration of the general real estate market or deterioration in the particular attributes of an individual property (vacancies, changes in options for use of the property, damage, etc.)

Commercial properties in LBBW's portfolio are reviewed using a comprehensive set of real estate-relevant criteria such as the cost/income ratio, the Group's strategy for use/growth of the site, the site's potential for development, portfolio diversification, or usage by LBBW-branches, and appropriate solutions are found on a case-by-case basis.

The client of the owner-occupied real estate business is the LBBW Group. Most of the properties are used for office or bank purposes. In 1A and 1B locations, the aim is to develop economic use concepts for LBBW and to find a profitable retail use for the associated ground-floor space in the medium term.

The Group's own properties are monitored and analyzed for risks in the course of quarterly portfolio valuation using a fair value approach. The goal is to identify at an early stage and analyze any adverse factors occurring as part of or relating to LBBW's activities. Active risk management contributes to ensuring a tolerable risk portfolio that provides a balanced ratio of opportunities to risks.

Summary of the Risk Situation.

Measures have been implemented at LBBW to limit or minimize all material risks. Prudent risk provisions were set up to address credit risks, and sufficient capital is available to cover all risks.

A Group-wide compilation of risks across all quantifiable risk categories is also being prepared from an economic perspective. The aggregation of risk types as economic capital shows that current risks only account for a small portion of LBBW's overall risk-bearing capacity. The majority serves as a buffer for non-quantifiable risks, stress test values, or strategic purposes, among other things. This is an expression of LBBW's conservative risk policy.

Outlook.

Anticipated Economic Performance.

In 2008, the economy is not expected to grow at the same pace as in the previous year. LBBW estimates that growth of the global economy will slow from 4.9% to around 4.0%. The source of this slowdown is the United States. The consequences of the mortgage and securitization market crisis led to a significant slowing of growth there at the end of 2007 and beginning of 2008. LBBW expects that the US economy will start to recover up to the second half of 2008 when the expansive stimulus of interest rate cuts and planned tax reductions will begin to take effect in the real economy, and the financial market crisis will gradually be overcome. On the whole, the United States could see GDP growth of 1.1% in 2008 as compared to the 2.2% achieved in 2007.

In Euroland, LBBW anticipates growth of 1.5% in 2008 after 2.7% in the previous year. Downward pressure will be exerted primarily by the cooling of the global economy due to the situation in the United States. Positive factors will be the continued high rate of growth in the emerging economies of Asia and Eastern Europe and a robust domestic economy, which will benefit from the strong improvement in employment numbers (+ around 2.7 million in 2007). Whereas Germany's GDP growth was 2.5% in 2007, LBBW estimates that this pace will cool to 1.5% in 2008. Although exports and spending on machinery and equipment were the primary drivers of the upswing in 2007, consumer spending is expected to become a pillar of the economy in 2008. The sweeping improvement in the German labor market situation is anticipated to provide stimulus to consumer spending. Against the backdrop of an economy that is weaker than in the previous year, but still robust, yields on German government bonds are expected to rise again during 2008 after experiencing a downturn starting in mid-2007.

In LBBW's opinion, the main risks associated with the scenario outlined here are a further deterioration of the credit market situation and a spill-over of the effects onto stock markets with the corresponding consequences for the banking sector and lending practices. In addition, the increase in consumer prices poses a danger to the economy. If wages are agreed during the pending collective wage negotiations that lead to second round effects, we can expect the inflation rate to hover well above the 2.0% mark for an extended period. In this case, the ECB would be in a quandary. On the one hand, its brief to ensure price stability would require it to tighten monetary policy in this case. On the other hand, the downturn in the United States could have dampening effects in Euroland as well, albeit with a delay of several months. Depending on their scope, these effects could conversely indicate room and even a need for an ECB rate cut. The direction in which the pendulum will swing will not be evident until the first half of 2008.

Competitive Situation and Strategic Development of the LBBW Group.

Apart from the financial market crisis, which will continue to influence the banking sector in 2008, LBBW anticipates competition in the retail and corporate customer segments of the German banking industry to remain high for the next two years. However, the LBBW Group is well positioned in this market environment thanks to its broadly diversified business model.

LBBW will continue to follow the business strategy pursued to date and to further drive earnings and efficiency improvements in the Group. In addition, opportunities for additional organic and external growth will be evaluated systematically. Earnings initiatives, such as those in the capital market or wealth management businesses, will be developed further, and focused efforts will be undertaken to expand the Group's international network. At the forefront of this effort is a strategy of using LBBW's business model to grow the Group's business in attractive regions abroad with similar economic structures and expanding LBBW's position throughout Germany in selected business segments not covered by the savings banks. Improving efficiency in the Group will include analyzing back-office processes to release capacity for customer market development. The opportunities provided by payment processing thanks to SEPA will receive more attention at the customer level.

In 2008, another focus will be on the full legal and financial integration of Sachsen LB and LRP, which has been operated as a subsidiary to date, into LBBW in order to generate synergies in terms of costs and to develop earnings potential in new core market areas.

A consensus was reached by early March 2008 on a Supplementary Agreement to the Foundation Agreement dated August 26/27, 2007 on the acquisition of Sachsen LB. This Supplementary Agreement governs the termination of the trust relationship and therefore concludes LBBW's acquisition of Sachsen LB and the split-off of credit substitute positions into a special-purpose entity which will be secured with a guarantee totaling EUR 2.75 billion issued by the Free State of Saxony. This agreement ends the liability of Sachsen LB or Sachsen LB Europe for these separate positions. The European Commission announced an audit in accordance with the EC Treaty state aid rules on February 27, 2008. After satisfying all conditions precedent under the Supplementary Agreement to the Foundation Agreement, LBBW acquired 100% of the shares of Sachsen LB. After becoming the sole owner of Sachsen LB, LBBW injected EUR 391.4 million into this institution retroactively to December 31, 2007 in order to avoid a proportional reduction of capital repayments from profit-participation rights and silent partners' contributions due to losses by Sachsen LB. LBBW carried the income contribution to new account at the time of the payment. Classified as subsequent acquisition costs, this payment increases the carrying amount of the equity interest in Sachsen LB and is therefore recognized directly in equity. In April 2008, Sachsen LB will be absorbed into LBBW by way of accrual (Anwachungsmodell).

At the end of February, the owners of Landesbank Baden-Württemberg and the State of Rhineland-Palatinate agreed in a framework paper that LRP would be reorganized as a dependent legal entity (unselbständige Anstalt) and integrated into LBBW as of July 1, 2008.

Whereas a certain foundation had been laid for LRP's integration into the LBBW Group in LRP's business territory, the aim with Sachsen LB is to more thoroughly develop the markets for the business with corporate clients and high-net worth private individuals in conjunction with the existing branches of BW Bank in eastern Germany. Moreover, the business territory of the Group will be expanded to include the regions in Eastern Europe adjacent to Saxony. LBBW will broaden its opportunities for cooperation with the savings banks due to the extension of the LBBW Group's core business area. In addition, the range of products and services offered to the savings banks is being continually reworked and expanded to more productively leverage the potential in LBBW's partnerships with the savings banks.

The LBBW Group's Earnings Development and Opportunities.

Due to the financial market crisis, LBBW experienced losses on mark-to-market valuations at the reporting date. Regardless of this fact, the operating results of LBBW's divisions can still be described as positive.

LBBW expects financial market turmoil to begin to quiet by mid-2008. For this reason, a significant increase in earnings can be anticipated in the coming years. In addition, LBBW believes that all divisions will see further growth in revenue. In the coming years, additional income potential will be generated by systematic implementation of the growth and strategy projects already underway. The full legal and financial integration of Sachsen LB and the former subsidiary LRP into LBBW is expected to reinforce LBBW's competitive position. This situation will be leveraged to expand the base for generating operating income. LBBW will also continue to pursue a conservative risk policy. At the same time, LBBW anticipates these mergers to create cost synergies within the Group.

In terms of the segments, plans are underway to develop the main focused areas described as follows. In the Retail Customer business, the expansion of wealth management activities via BW Bank to include a first-rate range of products and services aimed at high-net worth individuals will lead to further earnings improvements. A market launch is planned for the first half of 2008. Opportunities in the business territory of BW Bank in Baden-Württemberg are considered to be above average based on the general economic data. For this reason, LBBW expects further growth from increased services to high-net worth private individuals and private banking customers in the traditional branch business. The introduction of the definitive flat-rate withholding tax (Abgeltungsteuer) at the beginning of 2009 will be addressed with a corresponding range of products. LBBW anticipates additional stimulus for its business from this situation.

In the Corporates segment, LBBW believes that earnings and volume growth will continue to be sustainable. In the future LBBW aims to reinforce its strong position featuring a high level of customer satisfaction and a large proportion of total customers in Baden-Württemberg served in its function as a principal bank. In addition to extensive lending activities, LBBW will increasingly offer investment concepts and capital market instruments for business financing to broaden LBBW's sources of earnings and attract new customer groups. In order to meet the growing demand for company retirement planning products, special expertise in this area was added throughout LBBW. In addition, a broad-based training initiative for personal bankers was introduced to ensure active advising of customers and promote the acquisition of new customers. In this way, the LBBW Group will be able to support its customers even more effectively as a strategic partner. Moreover, the Group is further expanding its international network of German Centres, branches, and representative offices to provide support to customers in promising markets and to smooth their entry into those markets. In terms of leasing, LBBW is continuing to increase its activities in the German and international equipment leasing markets through the SüdLeasing subsidiary. In addition, real estate leasing activities are being stepped up further through the equity investment in LHI Leasing GmbH. One focus of LBBW Immobilien GmbH will be to expand its expertise in the project development business.

Holdings in the credit investment books of the Financial Markets segment were impacted heavily by the financial market crisis in 2007. In contrast, trading in interest rate and currency products in particular produced a satisfactory result despite the difficult market environment. LBBW anticipates an increase operating revenue primarily from implementation of the growth strategy for the capital markets business. LBBW will also continue to pursue its strategy of further reinforcing LBBW's positioning as an expert provider of structured equity, interest rate, credit, and commodity products. Moreover, steady growth in sales activities in the capital market-oriented business with customers in Europe and major global financial centers is expected to produce positive effects. This positive stimulus will be achieved mainly in the equities business and through expansion of the direct and indirect alternative investment business. The implementation of state-of-the-art front-office systems will provide sustained support for these growth activities. If, contrary to expectations, the financial market crisis should stretch throughout the entire 2008 fiscal year, this could affect LBBW's earnings correspondingly.

The LBBW Group's costs will be marked in 2008 by the full integration of Sachsen LB and LRP, regulatory and statutory requirements applicable to LBBW, and strategic growth projects. LBBW expects to realize synergy effects starting in 2009 mainly from the consolidation of IT systems, and head-office and back-office units.

Income Statement for the period from January 1 to December 31, 2007

Landesbank Baden-Württemberg, Stuttgart, Karlsruhe, and Mannheim

		EUR thousand	EUR thousand	EUR thousand	Jan. 1 to Dec. 31, 2006 EUR thousand
1. Interest income from	[29]				
a) lending and money market transactions		12 199 980			
b) fixed-interest securities and book-entry securities		3 937 326	16 137 306		13 505 124
2. Interest expenses			14 731 705		12 002 796
				1 405 601	1 502 328
3. Current income from	[29]				
a) shares and other					
non-fixed interest securities			263 492		237 275
b) companies in which an equity interest is held			6 887		5 660
c) shares in affiliated companies			18 211		49 223
				288 590	292 158
4. Income from profit pooling, profit transfer or partial profit transfer agreements				133 313	79 830
5. Commission income	[29,30]		671 953		578 946
6. Commission expenses			169 382		121 514
				502 571	457 432
7. Net income from financial transactions	[29]			123 940	175 016
8. Other operating income	[25,29]			116.441	110 698
9. Income from the reversal of the special item with partial reserve character				4 000	0
10. General administrative expenses					
a) Personnel expenses					
aa) wages and salaries		556 547			538 052
ab) compulsory social security contributions, expenses for pensions, and other employee benefits		143 080			165 481
			699 627		703 533
thereof: for pensions		59 088			79 463
b) Other administrative expenses			438 978		367 029
				1 138 605	1 070 562
11. Write-downs of and adjustments to tangible and intangible assets				100 362	106 727
12. Other operating expenses				86 677	97 185
13. Write-downs of and adjustments to claims and certain securities, as well as allocations to provisions for possible loan losses				851 701	0
14. Income generated by write-ups of claims and certain securities, as well as from the reversal of provisions for possible loan losses				0	1 301 445
				-851 701	1 301 445
15. Additions to the fund for general banking risks				0	1 600 000
Amount carried forward to next page				397 111	1 044 433

	EUR thousand	EUR thousand	EUR thousand	Jan. 1 to Dec. 31, 2006 EUR thousand
Amount carried forward from previous page			397 111	1 044 433
16. Write-downs of and adjustments to companies in which an equity interest is held, shares in affiliated companies and securities listed under fixed assets			0	3 180
17. Income from write-ups of companies in which an equity interest is held, shares in affiliated companies and securities listed under fixed assets			66 766	0
			66 766	-3 180
18. Expenses from the assumption of losses			53 219	34 811
19. Allocations to the special item with partial reserve character			10 500	5 700
20. Profit on ordinary activities			400 158	1 000 742
21. Extraordinary income		2 314		42 306
22. Extraordinary expenses	[27]	16 218		60 829
23. Extraordinary net income	[27]		-13 904	-18 523
24. Taxes on income	[28]	-16 913		187 274
25. Other taxes not shown under item 12		3 554		3 521
			-13 359	190 795
26. Income from the assumption of losses			0	0
27. Profits transferred under profit pooling, profit transfer or partial profit transfer agreements			214 808	217 378
Net income for the year/ Net retained profits (distributable profit)			184 805	574 046

Balance Sheet as of December 31, 2007 of Landesbank Baden-Württemberg, Stuttgart, Karlsruhe, and Mannheim.

	Notes	EUR thousand	EUR thousand	EUR thousand	Dec. 31, 2006 EUR thousand
Assets					
1. Cash funds					
a) Cash on hand				129 201	121 485
b) Balances with central banks				1 157 402	1 328 774
thereof: with Deutsche Bundesbank		0			0
c) Balances with postal giro accounts				0	0
				1 286 603	1 450 259
2. Public-sector debt instruments and bills of exchange eligible for refinancing with central banks					
a) Treasury bills and treasury discount paper, as well as similar public-sector debt instruments				9 163	35 047
thereof:					
eligible for refinancing with Deutsche Bundesbank		0			0
b) Bills of exchange				0	0
thereof:				9 163	35 047
eligible for refinancing with Deutsche Bundesbank		0			0
3. Claims on banks [5,6,8,10,14]					
a) Payable on demand				17 667 378	10 943 524
b) Other claims	[6]			119 267 874	139 263 356
				136 935 252	150 206 880
4. Claims on customers [5,6,8,10,14]					
thereof:				129 166 194	104 049 567
secured by mortgages		15 014 673			13 496 966
municipal loans		25 355 371			24 816 794
5. Bonds and other fixed-interest securities					
a) Money market instruments					
aa) issued by public-sector borrowers			985		0
thereof: eligible as collateral for Deutsche Bundesbank advances		985			0
ab) issued by other borrowers			26 073 163		14 648 718
thereof: eligible as collateral for Deutsche Bundesbank advances		10 319 279		26 074 148	14 648 718
b) Bonds					
ba) issued by public-sector borrowers			5 215 875		10 339 013
thereof: eligible as collateral for Deutsche Bundesbank advances		3 474 359			9 380 017
bb) issued by other borrowers			54 807 350		49 415 432
thereof: eligible as collateral for Deutsche Bundesbank advances		25 228 662		60 023 225	59 754 445
c) Own bonds				12 323 569	8 285 346
				98 420 942	82 688 509
Nominal amount		11 507 768			7 581 339

	Notes	EUR thousand	EUR thousand	EUR thousand	Dec. 31, 2006 EUR thousand
Amount carried forward to next page				365 818 154	338 430 262
Assets					
Amount carried forward from previous page				365 818 154	338 430 262
6. Shares and other non-fixed interest securities	[7,8]			2 231 091	4 928 346
7. Companies in which an equity interest is held	[7,11]			865 184	781 692
thereof:					
in banks		191 584			186 473
in financial services institutions		25			25
8. Shares in affiliated companies	[7,11]			3 580 038	4 391 790
thereof:					
in banks		765 613			1 048 264
in financial services institutions		12 932			21 924
9. Trust assets	[10]			241 807	129 329
thereof: loans granted on a trust basis at third-party risk		53 367			67 939
10. Recovery claims					
on the public sector including bonds resulting from their exchange				0	0
11. Intangible assets	[11]			54 602	64 347
12. Tangible assets	[11]			579 000	571 974
13. Unpaid contributions to subscribed capital				0	0
thereof: amount called in		0			0
14. Own shares or equity interests				0	0
Nominal amount		0			0
15. Other assets	[12]			4 019 151	3 731 370
16. Deferred items	[13]			951 682	1 006 088
Total assets				378 340 709	354 035 198

	Notes	EUR thousand	EUR thousand	Dec. 31, 2006 EUR thousand
Liabilities and Shareholders' Equity				
1. Liabilities to				
banks	[5,6,17]			
a) Payable on demand			8 217 252	12 420 632
b) With agreed term or period of notice	[6]		134 812 079	116 737 435
			143 029 331	129 158 067
2. Liabilities to				
customers	[5,6,17]			
a) Savings deposits				
aa) with agreed period of notice of three months		5 406 778		6 286 612
ab) with agreed period of notice of more than three months	[6]	277 528		322 746
			5 684 306	6 609 358
b) Other liabilities				
ba) payable on demand		21 353 403		17 565 043
bb) with agreed term or period of notice	[6]	67 447 692		63 701 532
			88 801 095	81 266 575
			94 485 401	87 875 933
3. Certificated liabilities				
	[5,6,14,17]			
a) Bonds issued			98 834 339	98 937 889
b) Other certificated liabilities			16 169 111	14 402 186
thereof:			115 003 450	113 340 075
money market instruments		16 169 111		14 402 186
own acceptances and promissory notes outstanding		0		0
4. Trust liabilities				
	[10]		241 807	129 329
thereof: loans granted on a trust basis at third-party risk		53 367		67 939
5. Other liabilities				
	[16]		3 804 704	2 638 913
6. Deferred items				
	[13]		965 335	1 029 154
7. Provisions				
a) Provisions for pensions and similar commitments			719 073	707 436
b) Provisions for taxes			235 510	317 728
c) Other provisions			436 515	222 380
			1 391 098	1 247 544
8. Special item with partial reserve character				
	[18]		69 049	64 598
9. Subordinated liabilities				
	[5,19]		4 960 897	4 016 976
10. Capital generated by profit participation certificates				
thereof: maturing in less than two years		578 314		398 938
Amount carried forward to next page			365 799 928	341 554 658

	Notes	EUR thousand	EUR thousand	Dec. 31, 2006 EUR thousand
Liabilities and Shareholders' Equity				
Amount carried forward from previous page			365 799 928	341 554 658
11. Fund for general banking risks				
			1 600 000	1 600 000
12. Equity [20]				
a) Subscribed capital				
aa) nominal capital			1 419 800	1 419 800
ab) silent partners' contributions			3 462 052	3 501 429
			4 881 852	4 921 229
b) Capital reserve				
c) Revenue reserves			3 073 821	3 073 821
ca) legal reserves				
cb) other revenue reserves			0	0
			2 800 302	2 311 444
			2 800 302	2 311 444
d) Net retained profits (distributable profit)				
			184 806	574 046
			10 940 781	10 880 540
Total liabilities and shareholders' equity			378 340 709	354 035 198
1. Contingent liabilities				
a) Contingent liabilities from rediscounted bills of exchange				
			1 801	3 679
b) Liabilities from sureties and guarantee agreements [17,21,22,23]				
			36 131 122	34 956 370
c) Liabilities from the granting of collateral for third-party liabilities				
			0	0
			36 132 923	34 960 049
2. Other commitments				
a) Transactions without firm repurchase agreements				
			0	0
b) Placing and underwriting commitments [21]				
			0	0
c) Irrevocable loan commitments [21]				
			27 424 150	29 016 115
			27 424 150	29 016 115

Notes.

to the Financial Statements of Landesbank Baden-Württemberg, Stuttgart, Karlsruhe, and Mannheim as of December 31, 2007

(1) Principles Governing the Preparation of the Financial Statements

The financial statements for the 2007 fiscal year of Landesbank Baden-Württemberg (LBBW) with headquarters in Stuttgart, Karlsruhe, and Mannheim were drawn up in compliance with the provisions of the Handelsgesetzbuch (HGB, the German Commercial Code), in particular the "Supplemental Regulations for Banks" (§§ 340 et seq. HGB) and Verordnung über die Rechnungslegung der Kreditinstitute und Finanzdienstleistungsinstitute (RechKredV, the German Accounting Regulation for Banks and Financial Service Institutions).

LBBW's audited single-entity financial statements for 2007 and a separate list entitled "Substantial Subsidiaries and Affiliates of Landesbank Baden-Württemberg" pursuant to § 285, No. 11 and § 313 (2) HGB will be published in the electronic Bundesanzeiger (the German Federal Gazette), where they can be inspected.

(2) General Accounting and Valuation Methods

Bills and forfaiting transactions held in the portfolio are stated at their discounted face amount, less specific valuation allowances.

Claims on banks and customers are stated at their nominal value, where necessary after deduction of the applicable valuation allowances.

Individual loan loss allowances were recognized for substantial and/or significant loans (receivables volume exceeding EUR 1 million) for which objective evidence of impairment has been identified. The impairment loss is calculated as the

carrying amount of the loan less the present value of future payments received on account of the loan, calculated using the discounted cash flow method and taking any collateral into account. In the case of insignificant, standardized loans (receivables volume of less than EUR 1 million), we comply with the principle of single-unit valuation to the extent that we group the loans concerned together into homogenous portfolios. In these cases collective valuation allowances for individual risks are recognized by using a statistically calculated or estimated default amount relating to the exposure at the time of default. Portfolio-based valuation allowances are recognized for losses in the loan portfolio that had already arisen as of the balance sheet date but were not yet identified. Since the 2007 fiscal year, their amount has been based on historical default probabilities and loss rates relating to parts of the loan portfolio for which no other provisions have been set up as well as the average discovery period to be assumed. The calculation of the portfolio-based valuation allowances takes country risks in the form of transfer and/or conversion risks into account. On the whole, the calculation of the portfolio-based valuation allowances, collective valuation allowances, and specific risk provisions therefore follows the method prescribed by the International Financial Reporting Standards (IFRS) from 2007 onward. The allowances for losses on loans and advances totaled EUR 1 788.2 million and was reduced to EUR 1 757.1 million due to the switch to IFRS. In addition, reserves for general banking risks are also recognized pursuant to § 340f and § 340g HGB.

Securities are reported in compliance with the strict lower-of-cost-or-market principle at the acquisition cost, or at the quoted/market price or fair value as of the balance sheet date (if lower). Securities arising from asset swap combinations are valued on a linked basis; marked-induced impairment losses due to credit risks are recognized in income.

In contrast to fiscal 2006, securities lending and securities borrowing transactions are not reported as receivables with simultaneous securities disposals or as additions of securities with simultaneous recognition of liabilities, respectively. Therefore, when recognizing and accounting for the securities, the beneficial ownership is assumed to rest with the lender as stipulated by IFRS.

Companies in which an equity interest is held and shares in affiliated companies are stated at acquisition cost or carried at book value.

Acquired intangible assets are carried at acquisition cost less scheduled amortization and, where necessary, non-scheduled write-downs. Scheduled write-downs are taken over the useful life of the assets using the rates allowed by tax regulations. Tangible assets are carried at acquisition or production cost less scheduled depreciation and, where necessary, non-scheduled write-downs. Depreciation on tangible assets of domestic offices is calculated for wear and tear on the basis of tax provisions. Low-value assets are fully written off in the year of their acquisition.

Depreciation on buildings is governed by the rates allowed by tax law.

Liabilities are valued at the repayable amount.

Premiums and discounts relating to outstanding claims and liabilities are allocated to prepaid expenses and deferred income, respectively, and reversed over their term.

Provisions for pension obligations are calculated on the basis of actuarial principles pursuant to § 6a EStG and the "Richttafeln 2005 G" (2005 G mortality tables), Heubeck-Richttafeln-GmbH, Cologne 2005.

The adjustment to the new Heubeck mortality tables was fully recognized in the statement of income in 2005. Pension commitments are always expensed in compliance with the relevant tax provisions.

Other provisions are calculated under consideration of all contingent liabilities and anticipated losses from pending transactions on the basis of conservative commercial assessment.

(3) Derivatives

The following tables provide information on derivative financial instruments pursuant to § 285, No. 18 HGB in conjunction with § 36 RechKredV that existed at LBBW as of the balance sheet date.

With due regard to the accounting practice statement RH BFA 1.003 issued by the Bankenfachausschuss (BFA, the Banking Panel of Experts) of the Institut der Wirtschaftsprüfer (IDW, the German Institute of Certified Public Accountants), ancillary agreements of a derivative nature included in portfolio-related management of trading positions are disclosed separately from the underlying transactions and are included in the following tables in the same way as derivative transactions that are concluded independently.

The tables exclude ancillary agreements of a derivative nature that are not reported separately on the balance sheet, but that are instead components of compound instruments and are therefore included as assets or liabilities in the corresponding balance sheet items.

Ancillary agreements of a derivative nature not reported separately do not result in market price risk positions due to the setting up of micro hedges. Please refer to the data presented in the "Other Assets" and "Other Liabilities" items for information on the book value of options in the form of option premiums.

The tables also exclude internal derivative financial instruments.

Derivative Transactions – Product Structure

EUR million	Nominal values		Positive market	Negative market
	Dec. 31, 2007	Dec. 31, 2006	value ¹ Dec. 31, 2007	value ¹ Dec. 31, 2007
Interest rate swaps	999 497.8	861 740.4	11 226.9	-10 388.6
FRAs	317 231.9	155 733.4	92.5	-253.1
Interest rate options				
– purchases	30 482.4	22 229.0	686.5	-0.9
– sales	39 721.9	34 910.0	-0.9	-961.5
Caps, Floors	42 358.1	39 079.9	182.8	-152.3
Interest rate futures	83 252.8	162 272.5	24.9	-11.9
Other interest rate forwards	2 547.1	2 554.8	7.7	-10.4
Total interest rate risks	1 515 092.0	1 278 520.0	12 220.4	-11 778.7
Currency forwards	135 821.0	105 053.2	1 829.3	-1 659.0
Cross-currency interest-rate swaps	28 053.0	29 446.3	1 515.9	-2 668.6
Currency options				
– purchases	8 119.7	5 597.0	152.8	0.0
– sales	6 728.9	3 152.1	0.0	-134.4
Currency futures	0.0	0.0	0.0	0.0
Other currency forwards	0.0	0.0	0.0	0.0
Total currency risks	178 722.6	143 248.6	3 498.0	-4 462.0
Stock futures	1 695.0	821.1	255.1	191.6
Equity forwards	5.0	0.0	4.4	-1.7
Stock options				
– purchases	8 246.1	5 062.0	517.2	0.0
– sales	7 795.2	3 423.8	0.0	-740.6
Commodities	1 130.6	359.5	43.5	-39.5
Total share and other price risks	18 871.9	9 666.4	820.2	-973.4

¹ Including accrued interest ("dirty price")

EUR million	Nominal values		Positive market	Negative market
	Dec. 31, 2007	Dec. 31, 2006	value ² Dec. 31, 2007	value ² Dec. 31, 2007
Credit derivatives – protection seller	51 359.1	38 990.5	60.3	-694.7
Credit derivatives – protection buyer	31 781.6	15 409.3	514.9	-34.1
Credit derivatives	83 140.7	54 399.8	575.2	-728.8
Total risks	1 795 827.2	1 485 834.8	17 113.8	-17 942.9

² Including accrued interest ("dirty price")

Thereof:

Derivative Transactions - Trading Transactions

EUR million	Nominal values		Positive market value ¹	Negative market value ¹
	Dec. 31, 2007	Dec. 31, 2006	Dec. 31, 2007	Dec. 31, 2007
Interest rate risks	1 334 418.1	1 089 832.1	10 458.1	-9 565.3
Currency risks	153 987.2	20 068.6	2 634.2	-2 214.6
Share and other price risks	13 785.5	6 489.9	874.2	-741.8
Credit derivatives	41 271.4	26 542.6	376.9	-275.9
Total trading transactions	1 543 462.2	1 142 933.2	14 343.4	-12 797.6

¹ Including accrued interest ("dirty price")

Derivative Transactions - Maturity Structure (According to Remaining Maturity)

Nominal values in EUR million	up to 3 months	more than 3 months to 1 year	more than 1 year to 5 years	more than 5 years	Total
Interest rate risks					
Dec. 31, 2007	268 873.0	529 181.6	364 629.2	352 408.2	1 515 092.0
Dec. 31, 2006	213 069.5	355 634.7	393 252.0	316 563.8	1 278 520.0
Currency risks					
Dec. 31, 2007	102 996.3	42 687.7	23 883.5	9 155.1	178 722.6
Dec. 31, 2006	74 387.0	38 859.4	21 260.2	8 742.0	143 248.6
Share and other price risks					
Dec. 31, 2007	5 431.2	7 767.6	2 572.1	3 100.9	18 871.9
Dec. 31, 2006	4 383.3	2 842.2	1 118.5	1 322.4	9 666.4

Nominal values in EUR million	up to 3 months	more than 3 months to 1 year	more than 1 year to 5 years	more than 5 years	Total
Credit derivatives					
Dec. 31, 2007	1 861.1	4 914.2	50 777.5	25 587.9	83 140.7
Dec. 31, 2006	987.1	3 503.0	19 739.8	30 169.9	54 399.8
Total risks					
Dec. 31, 2007	379 161.6	584 551.2	441 862.3	390 252.1	1 795 827.2
Dec. 31, 2006	292 826.9	400 839.3	435 370.5	356 798.1	1 485 834.8

Derivative Transactions - Structure of Counterparties

EUR million	Nominal values		Positive market value ²	Negative market value ²
	Dec. 31, 2007	Dec. 31, 2006	Dec. 31, 2007	Dec. 31, 2007
Banks in OECD countries	1 551 750.4	1 284 170.6	13 374.9	-13 816.0
Banks in non-OECD countries	11 815.1	7 949.3	90.9	-120.1
Public-sector agencies in OECD countries	30 410.3	17 763.2	465.6	-412.2
Other counterparties	201 851.4	175 951.7	3 182.4	-3 594.6
Total counterparties	1 795 827.2	1 485 834.8	17 113.8	-17 942.9

² Including accrued interest ("dirty price")

The market values of the derivatives are not synonymous with the Bank's market price risks which result from the development of interest rates, exchange rates, stock prices, or changes in credit standing, as risk class management relies on both on-balance sheet and derivative transactions. The risk report in compliance with § 289 HGB contains information about the scope and development of the Bank's market price risks. The market values calculated as of the balance sheet date are values at which it would be possible to liquidate or transfer the position or to conclude an offsetting transaction. In this context, the negative market values represent the amount that would be required for a potential liquidation of the derivative financial instruments as of the balance sheet date irrespective of their intended purpose. In contrast, the positive market values include the amount that would accrue from a potential liquidation as of the balance sheet date. Except for futures contracts as well as options sold that are free of counterparty risk, a positive market value at the same time reflects the maximum potential counterparty-related default risk from derivative financial instruments which existed as of the balance sheet date. The tables exclude netting and collateral agreements which mitigate default risks as these agreements benefit several types of products.

Valuation of derivative financial instruments

The market value (fair value) of derivatives is based on stock market prices, fair value analyses, observable market transactions in comparable instruments, or acknowledged actuarial pricing models.

Product group	Major valuation model
Interest rate swaps	Net present value method
Interest rate forwards	Net present value method
Interest rate options	Black-Scholes, Black 76 (on Yield)
Stock/index options	Black-Scholes, Cox Ross Rubinstein
Currency options	Garman Kohlhagen, mod. Black-Scholes
Commodity options	Garman Kohlhagen, mod. Black-Scholes
Credit derivatives	Intensity model

These models take the current market and contract prices of the underlying financial instruments, as well as fair value considerations, yield curves, and volatility factors, into account. In addition, the determination of the fair value takes into consideration expected market risks, model risks, credit risks, and administrative costs.

Recognition of valuation results in the balance sheet

The key issue in recognizing derivative financial transactions in the annual financial statements of LBBW is whether they are components of hedging relationships (micro or macro hedges) or are used in the course of trading operations.

Micro and macro hedges (excluding credit derivatives)

For micro hedges, individual assets or liabilities are linked with derivative financial instruments for the purpose of hedging against market price risks.

With macro hedges, derivatives are used to hedge against interest rate risks in the course of global asset and liability management.

The valuation of micro and macro hedges is compensatory in view of the suitable application of the general valuation principles pursuant to § 252 (1) HGB (particularly the imparity principle and the principle of single-unit valuation) and with regard to statements No. 2/1993 and No. 2/1995 issued by the BFA of the IDW.

For micro hedges, this value compensation is achieved by treating the underlying transactions and the hedging transactions as a valuation unit as of the balance sheet date. The income and expenses resulting from hedging transactions are included in the corresponding item of the results generated by the underlying transaction and hence present a true and fair view from a business-accounting perspective.

Valuation results from derivative financial instruments used for macro-hedging purposes are not recognized in the statement of income because the value compensation results from LBBW's global asset and liability structure.

Trading transactions

Trading transactions are subject to the oversight of the trading divisions within the framework of the predetermined risk limits. On-balance sheet products, derivative financial instruments and similar ancillary agreements that are split off from on-balance sheet products of the trading portfolio are subject to portfolio valuation. To this end, financial instruments in the trading portfolio that are traded in active markets are valued at market prices, while financial transactions for which market prices are not available are valued at prices determined with the help of valuation models. For accounting purposes, the individual values thus calculated are pooled at the portfolio level. As in the previous year the risk-adjusted mark-to-market valuation method was used for the valuation. This method reduces the mark-to-market result of these portfolios by the value-at-risk for these portfolios determined in line with regulatory requirements (10-day holding period, 99% confidence level).

This approach ensures that the statement of income drawn up in line with the German Commercial Code takes into account any potentially remaining realization risks in line with the conservatism principle. In order to reflect the risk-adjusted mark-to-market method on the balance sheet, an adjustment item was set up on the balance sheet and reported under the "Other assets" and "Other liabilities" items.

Credit derivatives, non-trading

Credit derivatives outside the trading portfolio are used in the form of credit default swaps and products with ancillary agreements of a credit default swap nature for risk assumption, arbitrage, hedging, and efficient portfolio management with regard to credit risks.

In accordance with IDW RS BFA statement 1, the treatment of credit derivatives differs depending on the respective intended purpose.

Protection seller transactions outside the trading portfolio that are not offset by specific compensating balances within the "Liabilities to banks" or "Liabilities to customers" balance sheet items are included below the line in "Contingent liabilities", sub-item b "Liabilities from sureties and guarantee agreements". For micro hedges, individual assets or liabilities are linked with credit derivatives for the purpose of hedging against credit risks. With regard to credit risks, the valuation of on-balance sheet transactions and credit derivatives is compensatory.

Credit derivatives used for portfolio management purposes with regard to credit risks are not valued using the mark-to-market method provided the credit default swap constitutes an original lending transaction for LBBW. A prerequisite in this respect is the intention to hold the investment to maturity, and the credit default swap must not contain structures that cannot be part of the original lending transaction. Credit derivatives outside the trading portfolio that do not fulfill these conditions are valued separately. Unrealized measurement gains are offset only if the credit risk relates to one and the same reference debtor. Provisions for anticipated losses from pending transactions are set up for unrealized measurement losses, if necessary after offsetting against unrealized measurement gains. The results are included in write-downs of and adjustments to claims and certain securities as well as allocations to provisions for possible loan losses. Any measurement gains remaining after offsetting are not recognized.

(4) Foreign Currency Translation

Foreign currency assets worth EUR 67.5 billion (2006: EUR 63.2 billion) and foreign currency liabilities worth EUR 99.2 billion (2006: EUR 98.7 billion), as well as income and expenses, included in the financial statements were translated in compliance with § 340h (1) HGB and under consideration of statement No. 3/1995 issued by the BFA. The risk of exchange rate movements associated with balance sheet items denominated in foreign currencies, including precious metals, is primarily covered by off-balance sheet hedging transactions. In order to determine the currency position, LBBW offset foreign currency assets and foreign currency liabilities arising from on-balance and off-balance sheet transactions by currency. Assets and liabilities – except for insignificant equity interests in fixed assets which were not funded with matching currencies – were translated at the mean spot rate as of December 28, 2007. Differences resulting from the translation of hedged assets and liabilities at the mean spot rate were allocated to the foreign currency adjustment item, which was included in other liabilities/ other assets (depending on the balance). The adjustment item primarily corresponds to the balance of the market values of the currency forwards, cross-currency interest-rate swaps, and currency swaps.

LBBW made consistent use of the option to split the forward rate into spot rate and swap rate for all currency forwards.

Except for strategic foreign currency positions, LBBW valued assets, liabilities, and pending transactions (currency forwards / currency options / currency swaps / cross-currency interest-rate swaps) in line with the risk-adjusted mark-to-market method described above.

Notes to the Balance Sheet

(5) Relationships with Affiliated Companies and Companies in Which an Equity Interest Is Held (as far as can be determined)

The following balance sheet items include claims on and liabilities to affiliated companies or companies in which an equity interest is held:

EUR million	Dec. 31, 2007	Dec. 31, 2006
A3. Claims on banks	136 935.3	150 206.9
thereof: on affiliated companies	2 656.9	3 449.5
thereof: on companies in which an equity interest is held	34 501.0	36 786.1
thereof: on savings banks in Baden-Württemberg	34 073.0	34 656.2
A4. Claims on customers	129 166.2	104 049.6
thereof: on affiliated companies	5 187.6	4 913.6
thereof: on companies in which an equity interest is held	258.1	286.0
A5. Bonds and other fixed-interest securities	98 420.9	82 688.5
thereof: claims on affiliated companies	3 030.5	2 655.4
thereof: claims on companies in which an equity interest is held	1 429.4	4 105.2
L1. Liabilities to banks	143 029.3	129 158.1
thereof: to affiliated companies	4 187.3	474.7
thereof: to companies in which an equity interest is held	18 553.1	17 365.1
thereof: to savings banks in Baden-Württemberg	18 380.4	16 826.1
L2. Liabilities to customers	94 485.4	87 875.9
thereof: to affiliated companies	8 178.7	9 350.0
thereof: to companies in which an equity interest is held	107.2	42.1
L9. Subordinated liabilities	4 960.9	4 017.0
thereof: to affiliated companies	360.0	333.3
thereof: to companies in which an equity interest is held	-	-

Because the »Certificated liabilities« balance sheet item (liability item No. 3) is primarily made up of bearer bonds, the holders of which were not known to the issuers within the LBBW as of the balance sheet date, information on liabilities to affiliated companies and liabilities to companies in which an equity interest is held is not provided here.

(6) Maturity Structure of the Balance Sheet Items

The following table contains a breakdown of the remaining maturity of claims and liabilities (including pro rata interest):

EUR million	Dec. 31, 2007	Dec. 31, 2006
A3. b) Other claims on banks	119 267.9	139 263.3
- up to 3 months	48 038.6	50 059.1
- more than 3 months to 1 year	17 258.7	25 040.5
- more than 1 year to 5 years	30 017.3	33 451.5
- more than 5 years	23 953.3	30 712.2
A4. Claims on customers	129 166.2	104 049.6
- up to 3 months	45 341.9	25 729.2
- more than 3 months to 1 year	11 342.4	11 304.6
- more than 1 year to 5 years	26 432.6	20 217.2
- more than 5 years	42 887.0	44 158.8
- without a fixed term	3 162.3	2 639.8
A5. Bonds and other fixed-interest securities	98 420.9	82 688.5
- thereof: maturing in the subsequent year	44 204.5	27 761.4
L1. b) Liabilities to banks with agreed term or period of notice	134 812.1	116 737.4
- up to 3 months	83 215.8	63 246.6
- more than 3 months to 1 year	16 849.7	16 479.9
- more than 1 year to 5 years	12 865.9	12 796.1
- more than 5 years	21 880.7	24 214.8
L2. a) ab) Savings deposits with agreed period of notice of more than 3 months	277.5	322.7
- up to 3 months	42.5	11.1
- more than 3 months to 1 year	117.3	46.0
- more than 1 year to 5 years	81.1	218.5
- more than 5 years	36.6	47.1
L2. b) bb): Other liabilities to customers with agreed term or period of notice	67 447.7	63 701.5
- up to 3 months	30 409.2	24 207.3
- more than 3 months to 1 year	6 084.8	2 935.7
- more than 1 year to 5 years	13 288.9	13 940.3
- more than 5 years	17 664.7	22 618.2
L3. Certificated liabilities		
a) Bonds issued	98 834.3	98 937.9
thereof: maturing in the subsequent year	26 331.6	25 345.8
b) Other certificated liabilities	16 169.1	14 402.2
- up to 3 months	6 459.3	7 736.5
- more than 3 months to 1 year	9 709.8	6 665.7
- more than 1 year to 5 years	0.0	0.0
- more than 5 years	0.0	0.0

(7) Securities Eligible for Stock Exchange Trading

The assets below include securities eligible for stock exchange trading as follows:

EUR million	Dec. 31, 2007	Dec. 31, 2006
A5. Bonds and other fixed-interest securities	98 420.9	82 688.5
- thereof: listed	76 245.4	67 476.8
A6. Shares and other non-fixed interest securities	1 974.7	3 291.3
- thereof: listed	1 806.2	3 112.5
A7. Companies in which an equity interest is held	222.3	222.4¹
- thereof: listed	174.5	174.5
A8. Shares in affiliated companies	111.7	429.7
- thereof: listed	0.0	0.0

¹ The figure for the previous year was corrected, i.e. reduced by EUR 2.0 million (Partners Group, Global Mezzanine S.C.A., Luxembourg) as these securities are not eligible for stock exchange trading.

(8) Subordinated Assets

Subordinated assets are included in the following asset items:

EUR million	Dec. 31, 2007	Dec. 31, 2006
A3. Claims on banks	241.1	0.0
A4. Claims on customers	206.2	168.9
A5. Bonds and other fixed-interest securities	752.2	894.5
A6. Shares and other non-fixed interest securities	53.9	58.6

(9) Transactions with Firm Repurchase Agreements and Open-Market Transactions

As of the balance sheet date, bonds of EUR 7 004.6 million (2006: EUR 5 510.3 million) were pledged under repurchase agreements in the course of open-market transactions with Deutsche Bundesbank.

The book value of securities sold to other banks and non-banks under repurchase agreements as of the balance sheet date was EUR 13 260.1 million (2006: EUR 8 649.8 million).

(10) Fiduciary Transactions

The following table contains a breakdown of trust assets (asset item A9) and trust liabilities (liability item L4):

EUR million	Dec. 31, 2007	Dec. 31, 2006
Trust assets	241.8	129.3
Claims on banks	1.1	0
Claims on customers	52.2	67.9
Companies in which an equity interest is held	126.4	0.0
Tangible assets	62.1	61.4
Other assets	0.0	0.0
Trust liabilities	241.8	129.3
Liabilities to banks	51.9	62.7
Liabilities to customers	189.9	66.6

(11) Fixed Assets

The changes in fixed assets are shown in the following Statement of Fixed Asset Additions and Disposals:

EUR million	Cost of acquisition LBBW	Additions	Disposals	Reclassifications	Write-ups	Cumulative depreciation/amortization and write-downs	Depreciation/amortization and write-downs in the fiscal year	Book value	
								Dec. 31, 2007	Dec. 31, 2006
Companies in which an equity interest is held	861.6	19.8	6.4	0.0	71.1	80.9	1.4	865.2	781.7
Shares in affiliated companies	4 478.6	300.6	1 136.6	0.0	3.8	66.4	6.7	3 580.0	4 391.8
Intangible assets	436.7	31.7	12.0	-4.5	0.0	397.3	37.0	54.6	64.3
Land and buildings	779.0	16.5	10.8	0.0	0.0	387.6	18.8	397.1	403.7
Thereof:									
land and buildings used by LBBW	598.0	16.3	10.3	-7.0	0.0	292.9	15.6	304.1	309.8
Other equipment, fixtures, furniture, and office equipment	555.5	55.4	47.3	4.5	0.0	386.2	44.6	181.9	168.2
Total fixed assets	7 111.4	424.0	1 213.1	0.0	74.9	1 318.4	108.5	5 078.8	5 809.7

(12) Other Assets

Items of particular significance included in LBBW's other assets are option premiums totaling EUR 1 615.8 million (2006: EUR 1 276.8 million), an adjustment item of EUR 713.0 million (2006: EUR 1 032.2 million) relating to risk-adjusted mark-to-market valuation, and tax refund claims amounting to EUR 650.6 million (2006: EUR 428.0 million). The tax refund claims include claims relating to taxes on income for past fiscal years amounting to EUR 216.2 million, claims relating to other taxes of EUR 7.0 million, claims of EUR 67.3 million from reversal effects in connection with the tax audit of a predecessor institution, and claims relating to taxes on income

for fiscal 2007 of EUR 251.8 million. In addition, claims on foreign revenue authorities amount to EUR 108.4 million. The tax refund claims stand in contrast to tax provisions amounting to EUR 235.5 million (2006: EUR 317.7 million). By signing the Foundation Agreement dated August 26/27, 2007, LBBW agreed to pay cash compensation in the amount of EUR 250.0 million to the shareholders of Sachsen LB for the acquisition of the shares of Sachsen LB. This cash compensation is reported under the »Other Assets« item.

(13) Deferred Items

Deferred items include the following amounts:

EUR million	Dec. 31, 2007	Dec. 31, 2006
Prepaid expenses	951.7	1 006.1
Discounts from liabilities pursuant to § 250 (3) HGB	560.9	600.1
Premiums from claims pursuant to § 340e (2), sentence 3 HGB	150.3	153.7
Deferred income	965.3	1 029.2
Discounts from claims pursuant to § 340e (2), sentence 2 HGB	221.3	114.8

Deferred items additionally include nonrecurring payments from interest rate swaps and cross-currency interest-rate swaps amounting to EUR 107.6 million (2006: EUR 132.8 million) on the assets side and EUR 227.9 million (2006: EUR 383.0 million) on the liabilities side which resulted from asset- and liability-swap combinations.

(14) Coverage of Mortgage and Municipal Loan Transactions

The liabilities below are covered as follows:

EUR million	Dec. 31, 2007	Dec. 31, 2006
Mortgage-backed covered bonds (Hypothekendarlehenbriefe) issued pursuant to the ÖPG (German Act on Covered Bonds and Related Bonds Issued by Public-sector Credit Institutions) and the PfandBG (German Covered Bond Act)	4 900.3	5 623.0
Assets serving as collateral	9 448.6	8 957.6
A3. Claims on banks	472.6	680.9
A4. Claims on customers	8 976.0	8 276.7
Excess coverage	4 548.3	3 334.6
Public-sector covered bonds (öffentliche Darlehenbriefe) issued pursuant to the PfandBG (German Covered Bond Act)	68 248.9	69 554.8
Assets serving as collateral	77 326.8	82 256.0
A3. Claims on banks	45 663.4	49 469.5
A4. Claims on customers	18 487.6	19 315.9
A5. Bonds and other fixed-interest securities	13 175.8	13 470.6
Excess coverage	9 077.9	12 701.2

(15) Transparency Provisions for Public-Sector Covered Bonds (öffentliche Pfandbriefe) and Mortgage-Backed Covered Bonds (Hypothekendarlehenpfandbriefe) pursuant to § 28 PfandBG (German Covered Bond Act)

A) Transparency provisions for public-sector covered bonds pursuant to § 28 PfandBG

EUR million	Dec. 31, 2007	Dec. 31, 2006
a) Cover pool for public-sector covered bonds		
Nominal value	77 327	82 256
Net present value	78 341	84 563
Net present value (+ 250 BP)	73 484	79 156
Net present value (- 250 BP)	84 219	91 029
Volume of public-sector covered bonds outstanding		
Nominal value	68 249	69 555
Net present value	69 280	71 409
Net present value (+ 250 BP)	65 119	66 744
Net present value (- 250 BP)	74 335	77 183
Excess coverage		
Nominal value	9 078	12 701
Net present value	9 061	13 154
Net present value (+ 250 BP)	8 365	12 412
Net present value (- 250 BP)	9 884	13 846
b) Share of derivatives in the cover pool	0	0

c) Maturity structure of public-sector covered bonds

EUR million	Dec. 31, 2007					Total
	up to 1 year	> 1 year to 5 years	> 5 years to 10 years	>10 years		
Cover pool	14 757	33 063	24 715	4 792	77 327	
Outstanding public-sector covered bonds	15 221	36 480	14 776	1 772	68 249	

EUR million	Dec. 31, 2006					Total
	up to 1 year	> 1 year to 5 years	> 5 years to 10 years	>10 years		
Cover pool	14 658	35 929	27 891	3 778	82 256	
Outstanding public-sector covered bonds	13 799	33 843	20 362	1 551	69 555	

d) Total nominal value of the cover pools broken down by country/type

Dec. 31, 2007					
EUR million	State	Regional	Local	Other debtors	Total
Austria	13	0	2	0	15
Canada	0	75	0	0	75
Finland	30	0	0	0	30
France incl. Monaco	49	0	20	0	69
Federal Republic of Germany	758	7 806	6 292	59 080	73 936
Greece	723	0	0	0	723
Hungary	25	0	0	0	25
Italy	503	187	22	0	712
Japan	300	0	0	0	300
Luxembourg	0	0	0	9	9
Poland	17	0	0	0	17
Portugal incl. Azores and Madeira	0	50	0	0	50
Spain	0	133	0	0	133
Switzerland	0	1 213	0	0	1 213
United States of America (incl. Puerto Rico)	0	20	0	0	20
Total	2 418	9 484	6 336	59 089	77 327

Dec. 31, 2006					
EUR million	State	Regional	Local	Other debtors	Total
Austria	13	0	0	0	13
Canada	0	79	0	0	79
Finland	32	0	0	0	32
France incl. Monaco	0	0	29	0	29
Federal Republic of Germany	619	7 442	7 031	63 730	78 822
Greece	729	0	0	0	729
Hungary	0	0	0	0	0
Italy	541	205	22	0	768
Japan	300	0	0	0	300
Luxembourg	0	0	0	9	9
Portugal incl. Azores and Madeira	0	50	0	0	50
Spain	0	133	0	0	133
Switzerland	0	1 211	25	0	1 236
United States of America (incl. Puerto Rico)	0	56	0	0	56
Total	2 234	9 176	7 107	63 739	82 256

e) Total amount of payments at least 90 days in arrears broken down by country/type

Dec. 31, 2007						
EUR million	State	Regional	Local	Other debtors	Total	
Austria	0	0	0	0	0	0
Canada	0	0	0	0	0	0
Finland	0	0	0	0	0	0
France incl. Monaco	0	0	0	0	0	0
Federal Republic of Germany	0	0	0	0	0	0
Greece	0	0	0	0	0	0
Hungary	0	0	0	0	0	0
Italy	0	0	0	0	0	0
Japan	0	0	0	0	0	0
Luxembourg	0	0	0	0	0	0
Poland	0	0	0	0	0	0
Portugal incl. Azores and Madeira	0	0	0	0	0	0
Spain	0	0	0	0	0	0
Switzerland	0	0	0	0	0	0
United States of America (incl. Puerto Rico)	0	0	0	0	0	0
Total	0	0	0	0	0	0

Dec. 31, 2006						
EUR million	State	Regional	Local	Other debtors	Total	
Austria	0	0	0	0	0	0
Canada	0	0	0	0	0	0
Finland	0	0	0	0	0	0
France incl. Monaco	0	0	0	0	0	0
Federal Republic of Germany	0	0	0	0	0	0
Greece	0	0	0	0	0	0
Hungary	0	0	0	0	0	0
Italy	0	0	0	0	0	0
Japan	0	0	0	0	0	0
Luxembourg	0	0	0	0	0	0
Portugal incl. Azores and Madeira	0	0	0	0	0	0
Spain	0	0	0	0	0	0
Switzerland	0	0	0	0	0	0
United States of America (incl. Puerto Rico)	0	0	0	0	0	0
Total	0	0	0	0	0	0

B) Transparency provisions for mortgage-backed covered bonds pursuant to § 28 PfandBG

EUR million	Dec. 31, 2007	Dec. 31, 2006
a) Cover pool for mortgage-backed covered bonds		
Nominal value	3 787	2 525
Net present value	3 844	2 625
Net present value (+ 250 BP)	3 481	2 368
Net present value (- 250 BP)	4 285	2 941
Volume of mortgage-backed covered bonds outstanding		
Nominal value	1 418	755
Net present value	1 428	760
Net present value (+ 250 BP)	1 320	692
Net present value (- 250 BP)	1 554	840
Excess coverage		
Nominal value	2 369	1 770
Net present value	2 416	1 865
Net present value (+ 250 BP)	2 161	1 676
Net present value (- 250 BP)	2 731	2 101
b) Share of derivatives in the cover pool	0	0

c) Maturity structure of mortgage-backed covered bonds pursuant to PfandBG

EUR million	Dec. 31, 2007				Total
	up to 1 year	> 1 year to 5 years	> 5 years to 10 years	>10 years	
Cover pool	622	1 284	1 565	316	3 787
Outstanding mortgage-backed covered bonds	364	569	485	0	1 418

EUR million	Dec. 31, 2006				Total
	up to 1 year	> 1 year to 5 years	> 5 years to 10 years	>10 years	
Cover pool	398	811	1 112	204	2 525
Outstanding mortgage-backed covered bonds	101	360	294	0	755

d) Total nominal value of the cover pools broken down by amount of the individual cover pools

EUR million	Dec. 31, 2007	Dec. 31, 2006
up to EUR 300 thousand	1 076	428
more than EUR 300 thousand up to EUR 5 million	1 423	1 123
more than EUR 5 million	1 288	974
Total	3 787	2 525

e) Total nominal value of the cover pools broken down by type of use/country

Dec. 31, 2007					
EUR million	Federal Republic of Germany	The Netherlands	France	Total	
Real estate used for commercial purposes	0	0	0	0	
Real estate used for residential purposes	0	0	0	0	
Apartments	346	0	0	346	
Single-family homes	485	0	0	485	
Multi-unit homes	1 458	0	0	1 485	
Office buildings	377	30	0	407	
Retail buildings	308	0	0	308	
Industrial buildings	17	0	0	17	
Other buildings used for commercial purposes	599	0	0	599	
Buildings under construction which are not yet commercially viable	116	0	0	116	
Building sites	11	0	0	11	
Other cover	40	0	0	40	
Total	3 757	30	0	3 787	

Dec. 31, 2006					
EUR million	Federal Republic of Germany	The Netherlands	France	Total	
Real estate used for commercial purposes	0	0	0	0	
Real estate used for residential purposes	0	0	0	0	
Apartments	108	0	0	108	
Single-family homes	183	0	0	183	
Multi-unit homes	1 121	0	0	1 121	
Office buildings	262	30	0	292	
Retail buildings	266	0	0	266	
Industrial buildings	10	0	0	10	
Other buildings used for commercial purposes	454	0	0	454	
Buildings under construction which are not yet commercially viable	68	0	1	69	
Building sites	2	0	0	2	
Other cover	20	0	0	20	
Total	2 494	30	1	2 525	

f) Total amount of payments at least 90 days in arrears broken down by country

EUR million	Federal Republic of Germany	The Netherlands	France	Total	
Dec. 31, 2007	0	0	0	0	
Dec. 31, 2006	0	0	0	0	

g) Number of pending foreclosure and administrative receivership proceedings, as well as the number of foreclosures performed during the fiscal year

Number	Dec. 31, 2007	
	Real estate used for commercial purposes	Real estate used for residential purposes
Pending foreclosure proceedings	0	0
Pending administrative receivership proceedings	0	0
Foreclosures performed	0	0
Total	0	0

Number	Dec. 31, 2006	
	Real estate used for commercial purposes	Real estate used for residential purposes
Pending foreclosure proceedings	0	0
Pending administrative receivership proceedings	0	0
Foreclosures performed	0	0
Total	0	0

h) Takeovers of real estate to prevent losses

Number	Total	
	Real estate used for commercial purposes	Real estate used for residential purposes
Jan. 1, 2007 - Dec. 31, 2007	0	0
Jan. 1, 2006 - Dec. 31, 2006	0	0

i) Total arrears in interest payments

EUR million	Total	
	Real estate used for commercial purposes	Real estate used for residential purposes
Jan. 1, 2007 - Dec. 31, 2007	0	0
Jan. 1, 2006 - Dec. 31, 2006	0	0

j) Total amount of repayments made on mortgages

Jan. 1, 2007 - Dec. 31, 2007		
EUR million	Real estate used for residential purposes	Real estate used for commercial purposes
Repayment through amortization	27	26
Repayment through other methods	11	1
Total	38	27

Jan. 1, 2006 - Dec. 31, 2006		
EUR million	Real estate used for residential purposes	Real estate used for commercial purposes
Repayment through amortization	57	33
Repayment through other methods	8	1
Total	65	34

(16) Other Liabilities

The most important individual components of the »Other liabilities« item are option premiums totaling EUR 1 847.4 million (2006: EUR 1 477.5 million) and a foreign currency adjustment item amounting to EUR 1 314.8 million (2006: EUR 750.8 million).

(17) Assets Assigned as Collateral for Own Liabilities

Assets in the amounts stated below were assigned for the following liabilities and contingent liabilities.

EUR million	Dec. 31, 2007	Dec. 31, 2006
Liabilities to banks	10 722.3	7 343.6
Liabilities to customers	80.8	1 413.3
Certificated liabilities	24.6	128.5
Subordinated liabilities	2.3	9.4
Contingent liabilities	87.2	146.7
Liabilities from securities lending transactions ¹	0.0	2 436.0
Total amount of collateral assigned	40 908.8	37 706.3

¹ In line with IFRS accounting for securities lending transactions, these transactions will no longer be reported in the HGB financial statements starting with the fiscal year.

(18) Special Item with Partial Reserve Character

The existing special item with partial reserve character amounting to EUR 69.0 million (§ 247 (3) in conjunction with § 273 HGB) was recognized and utilized in compliance with the provisions of § 6b EStG. In the 2007 fiscal year, EUR 10.5 million was allocated to and EUR 6.1 million was released from the reserve pursuant to § 6b EStG.

(19) Subordinated Liabilities

The subordinated liabilities of EUR 4 960.9 million recorded in the balance sheet comply with the requirements of § 10 (5a), sentence 5 KWG (EUR 3 865.8 million) after deduction of Tier 3 capital (EUR 993.0 million), pro rata interest (EUR 75.7 million), the original discount (EUR 12.7 million), two issues not

recognizable for regulatory purposes (EUR 9.8 million), write-ups of zero bonds in the last five years before maturity (EUR 3.3 million) and further corrections (EUR 0.6 million). In this respect, only two-fifths (EUR 38.0 million) of EUR 94.9 million (book value or issuing price for zero bonds plus write-ups during the period ending five years before maturity; previous year: EUR 227.4 million) were recognized because these liabilities might fall due within the two-year period stipulated in § 10 (5a), sentence 2 KWG. A total of EUR 3 808.8 million of the subordinated liabilities as of December 31, 2007 was included in supplementary capital pursuant to § 10 (5a) KWG. A market-smoothing item totaling EUR 17.3 million is required to be deducted from this amount as of the reporting date (December 31, 2007). The corrections of EUR 0.6 million result from different

conversion rates having been applied as of the balance sheet date by the reporting unit (ECB reference rate) and the accounting unit (EuroFX rate).

In the year under review, interest expenses of EUR 231.1 million were incurred for subordinated liabilities.

(20) Equity

LBBW's equity developed as follows in the fiscal year under review:

EUR million	Dec. 31, 2007
Equity as of December 31, 2006	10 880.5
- Distribution from the 2006 distributable profit (net retained profits)	85.2
- Price-related changes in silent partners' contributions	39.3
+ 2007 distributable profit (net retained profits)	184.8
Equity as of December 31, 2007	10 940.8

(21) Items Below the Line

Credit default swaps amounting to EUR 25 521.5 million (2006: EUR 23 984.4 million) for which LBBW provides counterparties with collateral similar in nature to guarantees are reported below the line. The total portfolio, including the credit default swaps for which LBBW provides no collateral, is described under item No. 3 Derivatives.

The irrevocable loan commitments are exclusively made up of external commitments. Delivery commitments arising from forward transactions totaled EUR 2 031.2 million as of the balance sheet date (2006: EUR 1 169.2 million). This figure included borrower's note loan transactions (EUR 427.0 million), term money (EUR 886.6 million), securities repurchase agreements (EUR 716.6 million), and bearer bonds (EUR 1.0 million).

As in the previous year, LBBW was not called upon during the fiscal year under review to place or assume financial instruments under its guarantees to issuers.

(22) Letter of Comfort

Except for political risks, LBBW ensures that the companies included in LBBW's list of shareholdings and identified accordingly are in a position to cover their liabilities, regardless of the amount of the interest held by the Bank.

With regard to LBBW Bank Ireland plc, Dublin, LBBW has agreed in respect of the Irish banking supervisory authority to ensure that LBBW Bank Ireland plc, Dublin, is in a position to cover its liabilities as long as LBBW holds a direct or an indirect interest in this company.

LBBW has issued letters of comfort in favor of BW Bank Capital Funding LLC I and BW Bank Capital Funding LLC II, which rank lower than all of LBBW's senior and subordinate liabilities including the capital generated by profit participation certificates.

(23) Guarantors' Liability (Gewährträgerhaftung)

In its capacity as guarantor, LBBW continues to be liable for liabilities of DekaBank Deutsche Girozentrale, Berlin and Frankfurt am Main; LRP Landesbank Rheinland-Pfalz, Mainz; and LBS Landesbausparkasse Baden-Württemberg, Stuttgart and Karlsruhe, incurred until July 18, 2005 (elimination of the guarantors' liability), in certain cases depending on the time when the liabilities arose and on their term; however, LBBW is in no event liable as guarantor for any liabilities that have arisen after this date.

This also applies externally to the liabilities of the following credit institutions provided that these liabilities arose during the time when LBBW was a guarantor of these credit institutions: former Landesbank Schleswig-Holstein Girozentrale, Kiel; Westdeutsche ImmobilienBank AG, Mainz; and former Sachsen LB Landesbank Sachsen Girozentrale, Leipzig.

As soon as all conditions precedent for the entry into force of the agreement amending and supplementing the Foundation Agreement dated August 26/27, 2007 in accordance with Section IX are met, LBBW will release the trustors and former guarantors of Sachsen LB inter partes from all claims for liabilities arising from the guarantor's liability (Gewährträgerhaftung) and maintenance obligation (Anstaltslast) they have assumed for Sachsen LB that are asserted against the trustors and former guarantors of Sachsen LB for the first time after December 31, 2007 insofar as and to the extent that the guarantor's liability (Gewährträgerhaftung) exists due to claims by LBBW or affiliates of LBBW within the meaning of § 15 et seq. of the Aktiengesetz (German Stock Corporation Act) in connection with the Ormond Quay structure, including one or more Castle View vehicles to the extent that these entities have assets that were originally included in the Ormond Quay portfolio. (Issuer Valuation Agreement dated May 6, 2004 as amended July 7, 2005 between Sachsen LB Europe plc and Ormond Quay Funding plc, Eden Quay Asset Limited, Ellis Quay Asset Management Limited, and Merchants Quay Asset Management Limited.)

LBBW will also release the trustors and former guarantors of Sachsen LB inter partes from all claims for liabilities arising from the guarantor's liability (Gewährträgerhaftung) and maintenance obligation (Anstaltslast) they have assumed for Sachsen LB that are asserted against the trustors and former guarantors of Sachsen LB for the first time after December 31, 2010.

(24) Other Financial Obligations

Other financial obligations that neither appear on the balance sheet nor below the line amounted to EUR 483.2 million (2006: EUR 575.0 million) at LBBW. EUR 79.9 million per year thereof is accounted for by long-term rental and leasing contracts, while EUR 8.9 million is attributable to a obligation to contribute to Liquiditäts- und Konsortialbank GmbH, Frankfurt am Main, in the year under review. The contributions paid to the reserve fund of the Landesbanken and the Girozentralen (central savings banks) were recalculated on the basis of risk-oriented principles. This created an obligation to make further contributions totaling EUR 358.1 million. Payment of these additional contributions can be immediately demanded in the event that an institution requires assistance.

EUR 39.9 million (2006: EUR 39.5 million) of the other financial obligations relate to affiliated companies.

Pursuant to § 5 (10) of the bylaws of the German Deposit Protection Fund, we undertook to indemnify Bundesverband deutscher Banken e.V., Berlin, against any and all losses incurred by the latter as the result of assistance provided to credit institutions that are majority-owned by Landesbank Baden-Württemberg.

Notes to the Statement of Income

(25) Other Operating Income

EUR 42.9 million of the other operating income is accounted for by capital gains on the sale of equity interests and real estate held as fixed assets, as well as by income from renting and leasing land and buildings.

(26) Auditors' Fees

The auditors' fees recognized as an expense in the fiscal year exclusively include fees for the services provided by PricewaterhouseCoopers AG Wirtschaftsprüfungsgesellschaft.

EUR million	Dec. 31, 2007
Audit of the financial statements	2.8
Other auditing and valuation services	2.6
Tax advisory services	0.1
Other services	3.7
Total	9.2

(27) Extraordinary Result

The extraordinary result item primarily includes restructuring expenses (EUR 13.8 million).

(28) Taxes on Income

The decrease in net income for the year reduced the Bank's current domestic tax expense accordingly. Taking the tax expense of foreign branches into account, current taxes decreased by EUR 116.2 million to EUR 48.1 million.

In addition, LBBW also received net non-periodic income of EUR 65 million. Due to the improvement in the tax risk situation, the corresponding provision was reversed.

(29) Breakdown of Income According to Geographic Markets

The breakdown below is based on the total amount recorded under the following items of the statement of income:

- No. 1: Interest income
- No. 3: Current income from shares and other non-fixed interest securities, companies in which an equity interest is held, and shares in affiliated companies
- No. 5: Commission income
- No. 7: Net income from financial transactions
- No. 8: Other operating income

Breakdown of income according to geographic markets:

EUR million	Dec. 31, 2007	Dec. 31, 2006
Federal Republic of Germany	13 676.3	11 613.0
Europe	2 085.7	1 795.0
Asia	611.6	479.4
America	964.6	774.5
Total	17 338.2	14 661.9

(30) Administrative and Intermediary Services

Services provided to third parties relate primarily to the administration of securities accounts, of trustee loans, of equity interests, and of investment and real estate investment funds, as well as related intermediary services.

Other Information

(31) Interests Exceeding Five Percent of the Voting Rights Held by LBBW in Large Corporations

Atos Wordline Processing GmbH, Frankfurt am Main

B+S Card Service GmbH, Frankfurt am Main

LBS Landesbausparkasse Baden-Württemberg, Stuttgart and Karlsruhe

LHI Südwest Immobilien GmbH, Pöcking

Südwestdeutsche Salzwerke AG, Heilbronn

Württembergische Lebensversicherung AG, Stuttgart

Wüstenrot & Württembergische AG, Stuttgart

(32) Positions

Legal representatives or employees of LBBW occupied the following positions on statutory supervisory boards and similar supervisory bodies of large corporations and banks within Germany:

Company	Position	Incumbent
AdCapital AG, Leinfelden-Echterdingen	Member of the Supervisory Board	Hans-Joachim Strüder
AIG International Real Estate GmbH & Co. KGaA, Frankfurt am Main	Member of the Supervisory Board	Patrick Walcher until June 19, 2007
AKA Ausfuhrkredit GmbH, Frankfurt am Main	Member of the Supervisory Board Deputy Member of the Supervisory Board	Joachim Landgraf Elvira Bergmann
Allgaier Werke GmbH, Utingen	Member of the Supervisory Board	Joachim E. Schielke since July 23, 2007
Bankhaus Ellwanger & Geiger, Stuttgart	Chairman of the Supervisory Board and of the Credit Committee	Michael Horn
B+S Card Service GmbH, Frankfurt am Main	Member of the Supervisory Board	Rudolf Zipf
börse-stuttgart AG, Stuttgart	Chairman of the Supervisory Board Member of the Supervisory Board	Horst Marschall Hans-Joachim Strüder
Bürgerliches Brauhaus Ravensburg-Lindau AG, Ravensburg	Deputy Chairman of the Supervisory Board	Harald R. Pfab LBBW employee until August 30, 2007
Bürgschaftsbank Baden-Württemberg GmbH, Stuttgart	Deputy Chairman of the Supervisory Board Member of the Supervisory Board	Dr. Bernhard Walter Dr. Hariolf Teufel until December 31, 2007
Dambach Werke GmbH, Gaggenau	Member of the Advisory Board	Jürgen Prockl
DekaBank Deutsche Girozentrale, Berlin and Frankfurt am Main	Member of the Supervisory Board 2. Deputy Chairman of the Supervisory Board	Dr. Siegfried Jaschinski until December 4, 2007 Dr. Siegfried Jaschinski since December 5, 2007
Dürr AG, Stuttgart	Member of the Supervisory Board	Joachim E. Schielke
Euwax AG, Stuttgart	Deputy Chairman of the Supervisory Board Member of the Supervisory Board Member of the Supervisory Board	Horst Marschall since December 3, 2007 Horst Marschall from June 29, 2007 to December 2, 2007 Hans-Joachim Strüder since June 29, 2007
Grieshaber Logistik AG, Weingarten	Member of the Supervisory Board	Michael Horn
Heidelberger Druckmaschinen AG, Heidelberg	Member of the Supervisory Board	Dr. Siegfried Jaschinski since April 3, 2007
HSBC Trinkaus & Burkhardt AG, Düsseldorf	Member of the Supervisory Board	Dr. Siegfried Jaschinski
Hymer AG, Bad Waldsee	Member of the Supervisory Board	Michael Horn
Karlsruher Versicherung AG, Karlsruhe (this company merged with another company as of September 28 and ceased to exist as a separate legal entity)	Deputy Chairman of the Supervisory Board	Horst Marschall until September 28, 2007
KfW Kreditanstalt für Wiederaufbau, Frankfurt am Main	Member of the Supervisory Board	Dr. Siegfried Jaschinski since December 5, 2007
LBBW Immobilien GmbH, Stuttgart	Chairman of the Supervisory Board Member of the Supervisory Board	Dr. Siegfried Jaschinski Dr. Bernhard Walter

Company	Position	Incumbent
LBS Baden-Württemberg, Stuttgart and Karlsruhe	Member of the Supervisory Board Deputy Member of the Supervisory Board	Michael Horn Rudolf Zipf
Landesbank Rheinland-Pfalz Girozentrale, Mainz	Chairman of the Supervisory Board Member of the Supervisory Board Deputy Member of the Supervisory Board Deputy Member of the Supervisory Board Deputy Member of the Supervisory Board	Dr. Siegfried Jaschinski Michael Horn Joachim E. Schielke Dr. Bernhard Walter Rudolf Zipf
MKB Mittelrheinische Bank GmbH, Koblenz	Chairman of the Supervisory Board Deputy Chairman of the Supervisory Board Member of the Supervisory Board	Joachim E. Schielke Michael Horn Dr. Bernhard Walter
MMV-Leasing GmbH, Koblenz	Chairman of the Advisory Board Deputy Chairman of the Advisory Board Member of the Advisory Board	Joachim E. Schielke Michael Horn Dr. Bernhard Walter
Rohwedder AG, Bermatingen	Member of the Supervisory Board	Dr. Peter Kaemmerer
Schlossgartenbau AG, Stuttgart	Member of the Supervisory Board	Dr. Armin Brendle
Schwabenverlag AG, Ostfildern	Member of the Supervisory Board	Werner Partsch
Siedlungswerk gemeinnützige Gesellschaft für Wohnungs- und Städtebau mbH, Stuttgart	Deputy Chairman of the Supervisory Board Member of the Supervisory Board Member of the Supervisory Board	Michael Horn Andreas Benninger Dr. Frank Schwertfeger
Storsack Holding GmbH, Viernheim	Member of the Supervisory Board	Rolf Kentner
Stratec biomedical Systems AG, Birkenfeld	Member of the Supervisory Board	Burkhard Wollny
Südwestdeutsche Salzwerke AG, Heilbronn	Member of the Supervisory Board	Rudolf Zipf until July 20, 2007
SüdWert Wohnungsprivatisierungs-GmbH, Bietigheim-Bissingen	Deputy Chairman of the Supervisory Board Member of the Supervisory Board Deputy Member of the Supervisory Board	Rainer Konopka Rudolf Klenk Dr. Frank Schwertfeger
SV Sparkassenversicherung Holding AG, Stuttgart	Member of the Supervisory Board	Michael Horn
Universal-Investment-Gesellschaft mbH, Frankfurt am Main	Member of the Supervisory Board	Horst Marschall
WestInvest Gesellschaft für Investmentfonds mbH, Frankfurt am Main	Member of the Supervisory Board	Helmut Dohmen until February 28, 2007
Württembergische Lebensversicherung AG, Stuttgart	Member of the Supervisory Board	Michael Horn
Wüstenrot Bank AG Pfandbriefbank, Ludwigsburg	Member of the Supervisory Board	Hans-Joachim Strüder
Wüstenrot & Württembergische AG, Stuttgart	Member of the Supervisory Board	Joachim E. Schielke

(33) Employees (Annual Averages)

	Male	Female	Total
LBBW			
- Domestic headquarters/branches	4 321	4 698	9 019
- Foreign branches	110	79	189
- Representative offices	21	23	44
Total LBBW	4 452	4 800	9 252
For information only:			
- Trainees	284	300	584

(34) Total Remuneration of the Executive Bodies

The total remuneration paid to the members of the Board of Managing Directors of LBBW amounted to EUR 6.0 million. The remuneration paid to the members of the Supervisory Board, the Owners' Meeting, and the Credit Committee totaled EUR 0.6 million. The total remuneration paid to former members of the Board of Managing Directors and their surviving dependents amounted to EUR 5.0 million; provisions for pensions for former members of the Board of Managing Directors and their surviving dependents totaled EUR 49.9 million.

(35) Advances and Loans to and Contingent Liabilities Assumed in Favor of the Executive Bodies of LBBW and its Predecessors (in EUR million)

EUR million	Board of Managing Directors	Supervisory Board	Owners' Meeting
Advances and loans	0.7	3.4	0.2
Contingent liabilities	0.0	0.0	0.0

**Board of Managing Directors and
Supervisory Board of LBBW**

Board of Managing Directors of LBBW.

DR. SIEGFRIED JASCHINSKI
Chairman of the Board of Managing Directors

MICHAEL HORN
Deputy Chairman of the Board of Managing Directors

DR. PETER A. KAEMMERER
Member of the Board of Managing Directors

JOACHIM E. SCHIELKE
Member of the Board of Managing Directors

HANS-JOACHIM STRÜDER
Member of the Board of Managing Directors

DR. BERNHARD WALTER
Member of the Board of Managing Directors

RUDOLF ZIPF
Member of the Board of Managing Directors

Supervisory Board of LBBW.

Chairman

PETER SCHNEIDER
Member of the State Parliament of Baden-Württemberg
President of Sparkassenverband Baden-Württemberg (the Savings Bank Association of Baden-Württemberg), Stuttgart

1st Deputy Chairman

STEFAN MAPPUS
Member of the State Parliament of Baden-Württemberg
Chairman of the CDU Parliamentary Group in the State Parliament of Baden-Württemberg, Stuttgart

2nd Deputy Chairman

Dr. Wolfgang Schuster
Lord Mayor of the State Capital Stuttgart

Full Members

THOMAS BERRETH*
Employee of Landesbank Baden-Württemberg, Stuttgart

SIEGFRIED BESSE*
Employee of Landesbank Baden-Württemberg (pre-retired), Esslingen

HARALD COBLENZ*
Employee of Landesbank Baden-Württemberg, Karlsruhe

BERND DOLL
Lord Mayor of the Town of Bruchsal, Chairman of the Supervisory Board of Sparkasse Kraichgau

RICHARD DRAUTZ
State Secretary in the Ministry of Economic Affairs of the State of Baden-Württemberg, Stuttgart

DR.-ING. H.C. HEINZ DÜRR
Chairman of the Supervisory Board of Dürr AG, Stuttgart

WALTER FRÖSCHLE*
Employee of Landesbank Baden-Württemberg, Stuttgart

ALBERT HÄBERLE
– since October 5, 2007 –
Savings Bank Director, Chairman of the Board of Managing Directors of Kreissparkasse Waiblingen

JÜRGEN HILSE
– until October 5, 2007 –
Senator h. c., Savings Bank Director, Chairman of the Board of Managing Directors of Kreissparkasse Göppingen

HELMUT HIMMELSBACH
Lord Mayor of the Town of Heilbronn

DR. SC. TECHN. DIETER HUNDT
Senator h. c., President of the Confederation of German Employers' Associations, Chairman of the Supervisory Board of ALLGAIER-WERKE GmbH, Uhingen

JENS JUNGBAUER*
Employee of Landesbank Baden-Württemberg, Stuttgart

DIPL.-ING. (FH) MANFRED KANZLEITER
City Councilor, Chairman of the SPD Parliamentary Group in the City Council of the State Capital Stuttgart

LIAN LIE LIEM*
Employee of Landesbank Baden-Württemberg, Stuttgart

GÜNTHER NOLLERT*
Employee of Landesbank Baden-Württemberg, Mannheim

EUGEN SCHÄUFELE
– since June 15, 2007 –
Savings Bank Director, Chairman of the Board of Managing Directors of Kreissparkasse Reutlingen

HELMUT SCHLEWEIS
– since October 5, 2007 –
Savings Bank Director, Chairman of the Board of Managing Directors of Sparkasse Heidelberg

DR. NILS SCHMID
Member of the State Parliament of Baden-Württemberg
Attorney at law, Deputy Chairman of the SPD Parliamentary Group in the State Parliament of Baden-Württemberg, Stuttgart

CLAUS SCHMIEDEL
Member of the State Parliament of Baden-Württemberg
Chairman of the SPD Parliamentary Group in the State Parliament of Baden-Württemberg, Stuttgart

HERMANN SEIMETZ
Senator h. c., Donzdorf

WILLI STÄCHELE
Member of the State Parliament of Baden-Württemberg
Minister at the Ministry of the Prime Minister and Minister responsible for European affairs of the State of Baden-Württemberg, Stuttgart

GERHARD STRATTHAUS
Member of the State Parliament of Baden-Württemberg
Finance Minister of the State of Baden-Württemberg, Stuttgart

HANS OTTO STREUBER
President of Sparkassen- und Giroverband Rheinland-Pfalz (the Savings Bank and Giro Association of Rhineland-Palatinate), Budenheim

JÜRGEN TEUFEL
– until September 30, 2007 –
Senator h. c., Savings Bank Director (retired), Calw

GABRIELE TIETZ*
– until December 31, 2007 –
Employee of Landesbank Baden-Württemberg (retired), Stuttgart

REINHOLD UHL
City Councilor, Chairman of the CDU Parliamentary Group in the City Council of the State Capital Stuttgart

* elected by LBBW employees

WERNER UNFRIED*
Employee of Landesbank
Baden-Württemberg, Stuttgart

KURT WIDMAIER
District Administrator of the Ravensburg
District, Chairman of the Supervisory
Board of Kreissparkasse Ravensburg

NORBERT ZIPF*
Employee of Landesbank
Baden-Württemberg, Stuttgart

Deputy Members

DIPL.-OEC. MUHTEREM ARAS
City Councilor, tax advisor, Chairman of
the Bündnis 90/DIE GRÜNEN Parliamen-
tary Group in the City Council of the State
Capital Stuttgart

STEFAN BARG
City Councilor, Senior Principal,
Ministry of the Prime Minister of the State
of Baden-Württemberg, Stuttgart

HANS BAUER*
Employee of Landesbank
Baden-Württemberg, Stuttgart

DIPL.-WIRTSCH.-ING. (FH)
BERND BECHTOLD
Chairman of the Chamber of Industry
and Commerce, Karlsruhe District,
Managing Partner of b.i.g. bechtold
INGENIEURGESELLSCHAFT MBH, Karlsruhe

CHRISTIAN BRAND
Chairman of the Board of Managing
Directors of Landeskreditbank
Baden-Württemberg – Förderbank –,
Karlsruhe

ROLAND BÜRKLE
– since April 1, 2007 –
Mayor of the Town of Bad Wurzach

WOLFGANG DREXLER
Member of the State Parliament of
Baden-Württemberg
Senior official of the Office of the District
Attorney (retired), 1st Vice President
of the State Parliament of
Baden-Württemberg, Stuttgart

MICHAEL FÖLL
Member of the State Parliament of
Baden-Württemberg
First Mayor of the State Capital Stuttgart

ARMIN FREUNDL*
Employee of Landesbank
Baden-Württemberg, Stuttgart

DR. RAINER HAAS M. A.
Senator h. c., District Administrator of
the Ludwigsburg District, Chairman of
the Supervisory Board of Kreissparkasse
Ludwigsburg

EBERHARD HÄGE*
Employee of Landesbank
Baden-Württemberg, Stuttgart

MARTIN HAIBLE*
Employee of Landesbank
Baden-Württemberg, Stuttgart

KARLHEINZ HEINZELMANN*
Employee of Landesbank
Baden-Württemberg, Stuttgart

HORST HOFFMANN
Savings Bank Director, Chairman of the
Board of Managing Directors of Sparkasse
Südliche Weinstrasse in Landau

UDO HUMMEL*
– until December 31, 2007 –
Employee of Landesbank
Baden-Württemberg, Stuttgart

HANS GEORG JUNGINGER
Member of the State Parliament of
Baden-Württemberg
Attorney at law, Chairman of the
Committee on Internal Affairs of the SPD
Parliamentary Group in the State Parlia-
ment of Baden-Württemberg, Stuttgart

TIMO KLEIN*
Employee of Landesbank
Baden-Württemberg, Karlsruhe

HEINZ-JÜRGEN KOLOCZEK
– until March 31, 2007 –
Lord Mayor (retired), Tuttlingen

SABINE LEHMANN*
Employee of Landesbank
Baden-Württemberg, Mannheim

THOMAS LÜTZELBERGER
Savings Bank Director, Chairman of the
Board of Managing Directors of Sparkasse
Schwäbisch Hall-Crailsheim

HERMANN MADER
District Administrator of the Heidenheim
District, Chairman of the Supervisory
Board of Kreissparkasse Heidenheim

PETER MAY
Senator h. c., Honorary Consul of Uruguay,
Chairman of the Board of Managing
Directors of STINAG Stuttgart Invest AG,
Stuttgart

DR. GISELA MEISTER-SCHEUFELN
– since August 6, 2007 –
Director general in the Ministry of Finance
of the State of Baden-Württemberg,
Stuttgart

SIEGFRIED RIEG
District Councilor, Lord Mayor (retired),
Giengen

* elected by LBBW employees

DIETER RÖSLER*
Employee of Landesbank
Baden-Württemberg, Stuttgart

JOHANN ROTH
Savings Bank Director, Chairman
of the Board of Managing Directors of
Bezirkssparkasse Reichenau

DR. STEFAN SCHEFFOLD
Member of the State Parliament of
Baden-Württemberg
Attorney at law, Deputy Chairman of
the CDU Parliamentary Group in the
State Parliament of Baden-Württemberg,
Stuttgart

GERD SIEBERTZ*
Employee of Landesbank
Baden-Württemberg, Stuttgart

JOACHIM WALTER
District Administrator of the Tübingen
District, Chairman of the Supervisory
Board of Kreissparkasse Tübingen

PROF. DR. WILLI WEIBLEN
Director in the Ministry of Economic
Affairs of the State of Baden-Württemberg,
Stuttgart

HUBERT WICKER
- until August 6, 2007 -
State Secretary at the Ministry
of the Prime Minister of the State of
Baden-Württemberg, Stuttgart

CLEMENS WINCKLER
Waghäusel-Wiesental

* elected by LBBW employees

Responsibility Statement

To the best of our knowledge, and in accordance with the applicable reporting principles, the annual financial statements give a true and fair view of the assets, liabilities, financial position, and profit or loss of Landesbank Baden-Württemberg, and the management report includes a fair review of the development and performance of the business and the position of Landesbank Baden-Württemberg, together with a description of the principal opportunities and risks associated with the expected future development of Landesbank Baden-Württemberg.

Stuttgart, Karlsruhe, and Mannheim, March 13, 2008

The Board of Managing Directors



DR. SIEGFRIED JASCHINSKI
Chairman




MICHAEL HORN
Deputy Chairman



DR. PETER A. KAEMMERER



JOACHIM E. SCHIELKE



HANS-JOACHIM STRÜDER



DR. BERNHARD WALTER



RUDOLF ZIPP

Independent Auditor's Report.

»We have audited the annual financial statements, comprising the balance sheet, the income statement and the notes to the financial statements, together with the bookkeeping system, and the management report of the Landesbank Baden-Württemberg, Stuttgart, Karlsruhe, and Mannheim, (LBBW) for the business year from January 1, to December 31, 2007. The maintenance of the books and records and the preparation of the annual financial statements and management report in accordance with German commercial law are the responsibility of the Company's Board of Managing Directors. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, and the management report based on our audit.

We conducted our audit of the annual financial statements in accordance with § (Article) 317 HGB (»Handelsgesetzbuch«: »German Commercial Code«) and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the annual financial statements in accordance with (German) principles of proper accounting and in the management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Company and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the books and records, the annual financial

statements and the management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by the Company's Board of Managing Directors, as well as evaluating the overall presentation of the annual financial statements and management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion based on the findings of our audit, the annual financial statements comply with the legal requirements and give a true and fair view of the net assets, financial position and results of operations of the Company in accordance with (German) principles of proper accounting. The management report is consistent with the annual financial statements and as a whole provides a suitable view of the LBBW's position and suitably presents the opportunities and risks of future development.«

Stuttgart, March 13, 2008

PricewaterhouseCoopers
Aktiengesellschaft, Wirtschaftsprüfungsgesellschaft



(WALTER SCHULD)
Wirtschaftsprüfer
(German Public Auditor)



(DR. ANDREAS RUSS)
Wirtschaftsprüfer
(German Public Auditor)