

# Financial Stability Forum Report

as of December 31, 2010.

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# Financial Stability Forum Report.

The Financial Stability Forum (FSF) was founded in 1999 on the initiative of the G7, in order to ensure financial market stability on an international level. The basic idea behind the FSF is the regular exchange of information and international cooperation between central banks, regulatory authorities and international financial institutions with the aim of improving the functionality of the markets, increasing transparency and reducing system risks. Germany is represented in this forum by the Bundesanstalt für Finanzdienstleistungsaufsicht (BaFIN – Federal Financial Supervisory Authority) among other organizations.

As a consequence of the financial market crisis, the Financial Stability Forum has recommended additional disclosures on portfolios that could be affected by market disruptions. Although the disclosure of the information is currently voluntary, by publishing this report LBBW is fulfilling the main recommendations of the FSF.

The information on LBBW's securitization portfolio supplements the explanations in the Risk Report.

Detailed information on the exposure to the peripheral countries (Portugal, Ireland, Italy, Greece and Spain) and the leveraged finance portfolio is also included.

# 1 Securitization Portfolio of the LBBW Group.

## 1.1 Preliminary Remark on Risk Protection.

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

A partial amount of the guarantee amounting to EUR 6.7 billion serves to secure a securitization portfolio (guarantee portfolio) with a currently outstanding nominal volume of EUR 13.4 billion (as of December 31, 2010). LBBW bears the first loss on the guarantee portfolio up to an amount of EUR 1.9 billion, which were already fully included on the balance sheet in the 2009 financial year. Losses beyond this amount will be absorbed by the guarantee. Should further losses occur after the guarantee has been fully utilized, these shall be borne by LBBW.

The remaining EUR 6.0 billion of the guarantee covers loans granted by LBBW to the special-purpose entity Sealink.

## 1.2 Development of the Securitization Portfolio and the Customer Transactions.

As of December 31, 2010, the LBBW securitization portfolio (including the guarantee portfolio) amounts to EUR 21.0 billion<sup>1)</sup>. This includes the George's Quay Funding I Ltd. vehicle and fund investments (LAAM funds) acquired from the former Sachsen LB. LBBW is also involved in customer transactions amounting to EUR 2.1 billion via the ABCP vehicle Weinberg Capital Ltd.

The non-guaranteed (section 1.5) and the guaranteed portfolio (section 1.6) and customer transactions (section 2) are shown with regard to the development of their volume and ratings for selected asset classes in the following sections.

### Development of the LBBW securitization portfolio and the customer transactions year on year as of December 31, 2010.

	Dec. 31, 2010	June 30, 2010		Dec. 31, 2009	
Outstanding Volume in EUR billion		Absolute change		Absolute change	
Total Securitization	21.0	-2.7	23.7	-0.8	24.5
Customer Transactions	2.1	0.1	2.0	0.2	1.8

Figures may be subject to rounding differences.

Compared to financial year 2009, the securitization portfolio has declined continuously by EUR 3.5 billion from EUR 24.5 billion to EUR 21.0 billion. The decline in volume of approximately EUR 4.1 billion is the result of redemptions, write-downs and sales, which were offset by opposite currency effects of EUR 0.6 billion. The latter were the result of the rise in the nominal exchange rate of the EUR against the US Dollar, Yen and Pound Sterling and consequently the increase in the assets denominated in foreign currency.

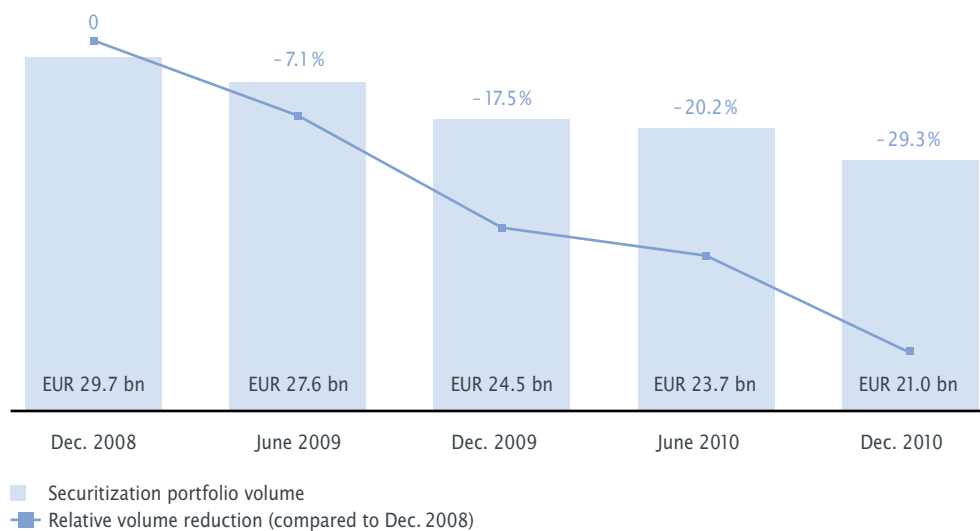
The vast majority of the portfolio (some 76%) is characterized by securitization positions categorized as investment grade (rating class AAA to BBB). 35% of the exposure (amounting to EUR 7.3 billion) has the top rating.

<sup>1)</sup> Statements concerning the risk situation below are based on the management approach.

Compared to the first reporting date (December 2008), the securitization portfolio has declined by EUR 8.7 billion (29.3%). Overall, LBBW thus continued with the intended

restructuring targets, i.e., ongoing risk reduction by means of ordered repayment of the securitization volume and controlled expiry of existing commitments.

**Development of the LBBW securitization portfolio volume for the period from December 2008 to December 2010.**



The financial market crisis has led to considerable declines in market values in LBBW's securitization portfolio since 2007. In retrospect, average market prices improved slightly compared with December 31, 2009 up to mid-2010 and then remained stable on average until the reporting date.

In the area of customer transactions, LBBW also achieved the expansion in business that it had striven for in the past. Year-on-year, transaction volume rose by EUR 0.3 billion from EUR 1.8 billion to EUR 2.1 billion. LBBW also plans to continue the successful expansion of its customer-driven business in financial year 2011 (see section 2).

## 1.3 Development of Equity and Income Statement Effects.

### Equity and income statement effects from the securitization portfolio according to IFRS.<sup>1)</sup>

EUR million Asset Class	Effects in Income <sup>2)</sup>		Effects in Equity <sup>3)</sup>	
	Dec. 31, 2010	Dec. 31, 2009	Dec. 31, 2010	Dec. 31, 2009
CDO	24	30	149	207
RMBS	31	-297	89	77
CMBS	42	-31	16	22
Other ABS	-48	76	31	60
<b>Total</b>	<b>49</b>	<b>-222</b>	<b>285</b>	<b>366</b>

1) Statement without proprietary trading.

2) Recognized in income: change in income statement.

3) Recognized in equity: change in equity item (revaluation reserve).

All the securitized products are included in LBBW's consolidated financial statements for 2010 and subject to ongoing market assessment and risk valuation. Against the background of fluctuations in the markets and a stabilization of the real economy, a positive result, of EUR 49 million, was reported. However, this remained well down on the half year, at EUR 152 million.

While write-downs on the portfolios contained in the securitization portfolio had been reversed in the amount of EUR 73 million halfway through the year, these had to be revoked in part because of developments on the money and capital markets in the second half of the year. CDOs, in particular, were affected by the decline, while write-downs of other products, such as ABS and RMBS, were still being reversed at the year-end.

In 2010, additional impairments amounting to EUR 78 million, were covered by the risk protection agreed by contract with the state of Baden-Württemberg.

The positive market developments are reflected in effects in equity at the end of 2010. The amount to be taken into consideration in the revaluation reserve rose to EUR 285 million in total up to the year end (half year: EUR 137 million). CDO portfolios accounted for a significant portion of this, at 52%, followed by RMBS portfolios with a share of 31%.

As at the reporting date, approximately 93% of ABS securitizations are in the »Loans and Receivables« (LaR) category, around 3% are in the »Available for Sale« (AfS) category and 4% in the »Fair Value Option« (FVO).

**Collateralized Debt Obligations (CDO):**

The term »CDO« covers transactions based on different types of receivables (underlying or collateral transactions). These essentially involve claims on companies, financial service providers (»Trust Preferred Security«) and governments. One special case is CDOs of ABS, in which ABS transactions form the underlying transaction. These ABS transactions can include residential mortgage backed securities as well as consumer loans, leasing receivables, commercial mortgage backed securities and CDOs.

**Commercial Mortgage Backed Securities (CMBS):**

CMBS are securities that are secured by property that is used or managed for commercial purposes. This can include office or retail properties, multiple dwellings, shopping centers and mixed use.

**Residential Mortgage Backed Securities (RMBS):**

This category of securities comprises securities secured by property that is used or managed privately.

**Rating:**

The allocation to the different rating classes was carried out on the basis of information from external providers. In line with a conservative approach, the lowest available rating from Moody's, Standard & Poor's or Fitch was applied in each case. These may differ considerably from each other. For transactions without an external rating but with an internal credit rating, the lowest internal rating was transferred to the corresponding S&P rating.

The transactions reported with NR (»not rated«) are mainly securitization positions written down by LBBW, from which the external rating was withdrawn or which arose from restructuring measures.

Owing to the guarantee structure, the composition of the securitization portfolio is reported separately for the non-guaranteed and guaranteed sub-portfolio. The sub-categories of the asset classes (sub-asset classes), their respective rating distribution and changes thereto are also examined in more detail.

## 1.4 Assets of the Entire Securitization Portfolio.

The LBBW securitization portfolio amounting to EUR 21.0 billion (previous year: EUR 24.5 billion) is presented on an aggregated basis for four product categories

(asset classes) in the present report. The assets underlying the investments originate primarily from the European and American market.

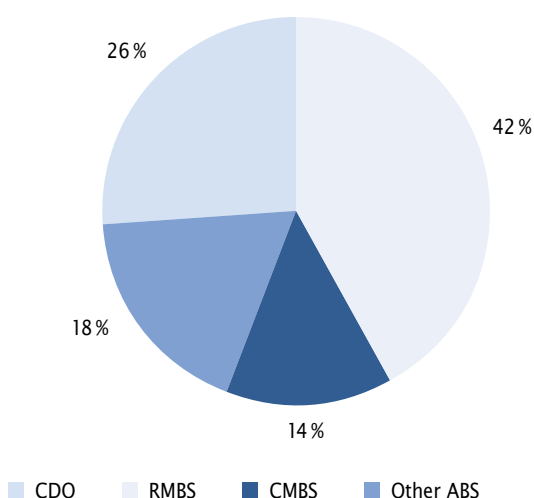
### Securitization portfolio – distribution of asset classes.

Outstanding Volume in EUR million as of December 31, 2010	AAA	AA	A	BBB	BB to B	CCC to C	D	NR	Total	
CDO	317	1 526	629	297	1 315	1 127	187	131	5 529	26.3%
RMBS	5 012	1 428	329	194	137	1 403	244	0	8 747	41.7%
CMBS	819	808	743	424	49	96	0	0	2 938	14.0%
Other ABS	1 167	1 159	694	330	185	79	30	138	3 781	18.0%
<b>Total Investments</b>	<b>7 314</b>	<b>4 921</b>	<b>2 395</b>	<b>1 245</b>	<b>1 685</b>	<b>2 704</b>	<b>461</b>	<b>269</b>	<b>20 996</b>	<b>100.0%</b>
	34.8%	23.4%	11.4%	5.9%	8.0%	12.9%	2.2%	1.3%	100.0%	

In each case, the lowest external rating was selected or the corresponding S&P rating used as a consequence of the internal rating method. Figures may be subject to rounding differences.

### The portfolio volume is distributed across the different asset classes as follows:

#### Securitization portfolio – relative asset class distribution (amounting to EUR 21 billion).



The two asset classes RMBS and CDO continue to reflect the largest shares of the portfolio. A figure of EUR 8.7 billion is attributable to RMBS transactions, which originate, most notably, from Spain (24%), the UK (27%) and the USA (21%). The volume of CDO transactions comes to EUR 5.5 billion (26%).

The majority of CMBS transactions involve positions in the UK (51%) and Germany (16%). The asset class Other ABS most notably includes American student loans (15%) and American/UK credit card securitizations (14%) in addition to leases.

## 1.5 Assets Not Secured by the State Risk Shield.

The nominal securitization volume not protected by the guarantee of the state of Baden-Württemberg fell to EUR 7.6 billion compared with the year to year date (December 31, 2009: EUR 8.5 billion). The decline in volume was attributable to redemptions and write-downs of EUR 1.6 billion, the majority of which related to RMBS and other ABS. At the same time, this decrease was offset by moderate currency effects amounting to EUR 63 million caused by the reduction in the nominal euro exchange rate in the reporting period.

As in previous periods, the overwhelming majority (EUR 6.7 billion, 88%) of the non-guaranteed portfolio was characterized by an investment grade rating level. In isolated cases, ratings migrated from rating category AAA over several notches to AA and even to BB to B.

### Assets not secured by the state risk shield – securitization portfolio by asset classes and ratings.

Outstanding Volume in EUR million as of December 31, 2010	AAA	AA	A	BBB	BB to B	CCC to C	D	NR	Total	
CDO	125	561	193	114	609	202	0	21	1825	24.2%
RMBS	3068	195	119	109	0	2	0	0	3494	46.2%
CMBS	165	30	61	29	0	0	0	0	285	3.8%
Other ABS	630	753	515	0	0	0	0	54	1952	25.8%
<b>Total Investments</b>	<b>3988</b>	<b>1539</b>	<b>888</b>	<b>252</b>	<b>609</b>	<b>203</b>	<b>0</b>	<b>75</b>	<b>7555</b>	<b>100.0%</b>
	52.8%	20.4%	11.8%	3.3%	8.1%	2.7%	0.0%	1.0%	100.0%	

In each case, the lowest external rating was selected or the corresponding S&P rating used as a consequence of the internal rating method. Figures may be subject to rounding differences.

With regard to regional diversification, it should be noted that non-guaranteed transactions are concentrated predominantly in Europe (77%). The securitization volume with regard to the countries heavily affected by the debt crisis, namely Portugal, Italy, Ireland, Greece and Spain (peripheral countries), comes to EUR 1.9 billion, of which EUR 1.3 billion is attributable to Spain. A detailed presentation of LBBW's exposure to the peripheral countries follows in section 1.7.

Securitization positions, which refer to portfolios consisting of student loans, car loans and credit card receivables, are recorded in the category Other ABS.<sup>1)</sup>

In the following section, the three major asset classes are examined in more detail.

<sup>1)</sup> A separate presentation of the declining credit card portfolio has been waived.

### 1.5.1 CDO portfolio for non-secured assets.

The CDO transactions in the non-guaranteed portfolio, amounting to EUR 1.8 billion (24 %) are distributed heterogeneously across the various sub-asset classes.

Of this figure, the largest volumes are attributable to CLOs secured through corporate loans, at EUR 0.8 billion (41 %), and synthetic securitizations, at EUR 0.9 billion (51 %).

#### Assets not secured by the state risk shield – CDO breakdown by sub-asset classes and ratings.

Outstanding Volume in EUR million as of December 31, 2010										
Sub-Asset Class	AAA	AA	A	BBB	BB to B	CCC to C	D	NR	Total	
CDO of ABS	0	0	32	9	35	19	0	0	95	5.2%
CLO	112	478	161	0	3	0	0	0	755	41.4%
Synthetic CDO	0	82	0	85	558	183	0	21	928	50.9%
Other CDO	12	0	0	20	14	0	0	0	47	2.6%
<b>Total CDO</b>	<b>125</b>	<b>561</b>	<b>193</b>	<b>114</b>	<b>609</b>	<b>202</b>	<b>0</b>	<b>21</b>	<b>1825</b>	<b>100.0%</b>
	6.8%	30.7%	10.6%	6.3%	33.4%	11.0%	0.0%	1.1%	100.0%	

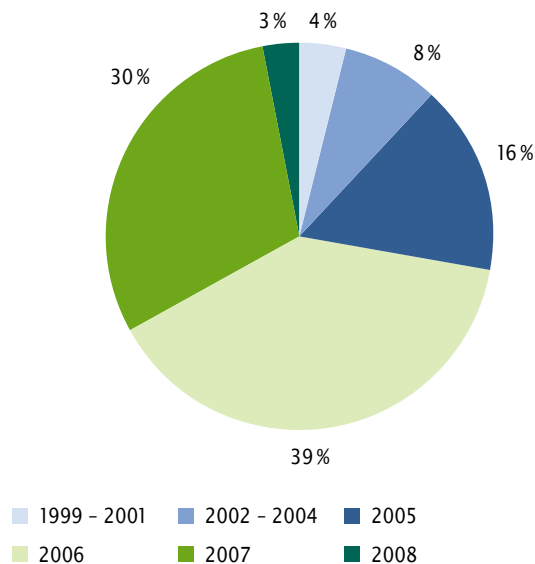
In each case, the lowest external rating was selected or the corresponding S&P rating used as a consequence of the internal rating method. Figures may be subject to rounding differences.

With regard to the rating level, it should be noted that the majority of the product category, amounting to 54 %, is concentrated in the investment grade range. The good rating level of the CLOs, in particular, stabilized here. On the other hand, ratings for synthetic CDOs and CDO of ABS also migrated into the non-investment grade range.

42 % of the CDO volume is tranches with preferential redemption (most senior tranches) and only 0.8 % is classed as first loss positions. The sub-portfolio considered is dominated by transactions from the 2005 to 2007 years of issue (85 %).

The distribution of the years of issue in the non-guaranteed CDO portfolio can be found in the following diagram:

**Non-guaranteed CDO portfolio distribution by year of issue (amounting to EUR 1.8 billion).**



### 1.5.2 RMBS portfolio for non-secured assets.

As of the reporting date, the RMBS transactions in the non-guaranteed sub-portfolio amounted to EUR 3.5 billion (46%). The vast majority of the volume – both in

total and in relation to the individual sub-asset classes – has the highest rating (AAA). A small amount of approximately EUR 2 million (0.05%) is categorized in the non-investment grade range.

#### Assets not secured by the state risk shield – RMBS breakdown by countries and ratings.

Outstanding Volume in EUR million as of December 31, 2010										
Country/Sub-Asset Class	AAA	AA	A	BBB	BB to B	CCC to C	D	NR	Total	
USA	2	8	4	0	0	2	0	0	15	0.4%
thereof: US Alt-A	2	6	2	0	0	0	0	0	10	62.2%
thereof: US Subprime	0	2	2	0	0	0	0	0	4	25.8%
UK	675	2	0	0	0	0	0	0	677	19.4%
thereof: UK Non-Conforming	123	2	0	0	0	0	0	0	125	18.5%
Spain	1 135	45	0	0	0	0	0	0	1 180	33.8%
Other	1 257	140	115	109	0	0	0	0	1 621	46.4%
<b>Total RMBS</b>	<b>3 068</b>	<b>195</b>	<b>119</b>	<b>109</b>	<b>0</b>	<b>2</b>	<b>0</b>	<b>0</b>	<b>3 494</b>	<b>100.0%</b>
	<b>87.8%</b>	<b>5.6%</b>	<b>3.4%</b>	<b>3.1%</b>	<b>0.0%</b>	<b>0.1%</b>	<b>0.0%</b>	<b>0.0%</b>	<b>100.0%</b>	

In each case, the lowest external rating was selected or the corresponding S&P rating used as a consequence of the internal rating method. Figures may be subject to rounding differences.

LBBW is only exposed to a minor and diminishing extent (EUR 15 million) to the US Alt-A and Subprime segment – predominantly investments from the 2003 to 2004 years of issue.

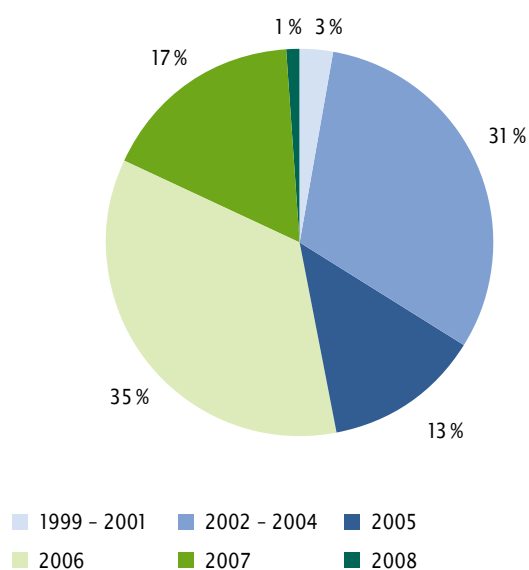
UK investments also have AAA ratings virtually without exception, here the greatest pro rata volume originates from the 2006 year of issue (51 %).

The Spanish RMBS portfolio amounting to EUR 1.2 billion – mainly most senior positions (85 %) from the 2003 (22 %) and 2006 (24 %) years of issue – continues to represent the greatest share of the non-guaranteed RMBS portfolio. The securities continue to be characterized predominantly by a very good rating level (AAA).

The securities in the category Other RMBS are rated in the investment grade range and are, primarily, attributable to European countries such as the Netherlands (26 %), Italy (6 %) and Greece (4 %).

The non-guaranteed RMBS volume classified by year of issue is made up as follows:

**Non-guaranteed RMBS portfolio distribution by year of issue (amounting to EUR 3.5 billion).**



The non-guaranteed RMBS portfolio features the highest volume for 2005 – 2007 (EUR 2.3 billion) and the lowest volume for 2008 (EUR 18 million).

### 1.5.3 CMBS portfolio for non-secured assets.

to EUR 285 million and is mainly secured by properties in Europe used as office or retail buildings.

The proportion of CMBS investments not covered by the state of Baden-Württemberg's guarantee amounts

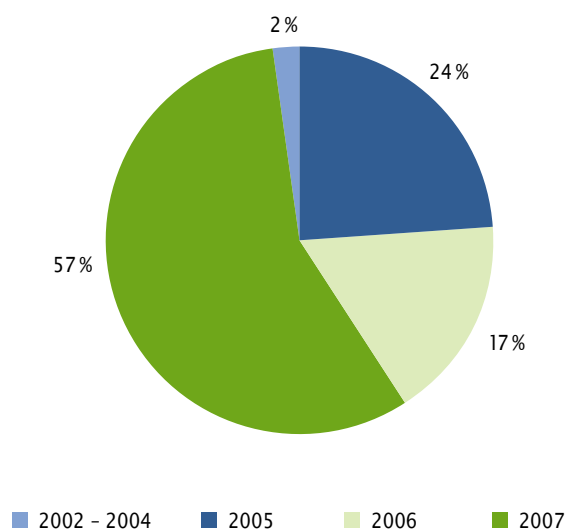
#### Assets not secured by the state risk shield - CMBS breakdown by countries and ratings.

Outstanding Volume in EUR million as of Dec. 31, 2010											
Asset Class	Country	AAA	AA	A	BBB	BB to B	CCC to C	D	NR	Total	
CMBS	Europe*	0	0	30	23	0	0	0	0	53	18.8%
	Spain	36	0	0	0	0	0	0	0	36	12.5%
	Germany	86	0	18	6	0	0	0	0	110	38.7%
	UK	43	0	12	0	0	0	0	0	55	19.4%
	Singapore	0	30	0	0	0	0	0	0	30	10.6%
<b>Total CMBS</b>		<b>165</b>	<b>30</b>	<b>61</b>	<b>29</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>285</b>	<b>100.0%</b>
		<b>58.0%</b>	<b>10.6%</b>	<b>21.3%</b>	<b>10.1%</b>	<b>0.0%</b>	<b>0.0%</b>	<b>0.0%</b>	<b>0.0%</b>	<b>100.0%</b>	

In each case, the lowest external rating was selected or the corresponding S&P rating used as a consequence of the internal rating method. Figures may be subject to rounding differences. Europe\*: No definite classification possible due to geographical distribution across several countries. CMBS from Luxembourg were added to Germany, since the underlying loans originated in Germany.

The non-guaranteed CMBS portfolio exclusively comprises investment grade securities, of which 86% are most senior positions. This asset class also comprises issues from 2005 to 2007 amounting to EUR 278 million almost exclusively and is concentrated, in regional terms, on Germany (some 39%) and the UK (some 19%).

#### Non-guaranteed CMBS portfolio distribution by year of issue (amounting to EUR 285 million).



## 1.6 Assets Secured by the State Risk Shield – Guaranteed Portfolio.

As of the reporting date, the guarantee portfolio contains securitization positions with an outstanding nominal volume of EUR 13.4 billion. The secured assets fell sharply by EUR 1.9 billion year-on-year (net effect). This again is the result of redemptions and write-downs amounting to EUR 2.4 billion as well as opposite currency effects amounting to EUR 0.5 billion offsetting the portfolio reduction.

The assets underlying the investments originate predominantly from Europe (55 %) and America (40 %). For the guaranteed portfolio, the shares attributable to the peripheral countries amount to approximately EUR 2.3 billion (share of the sub-portfolio around 17 %), with Spain accounting for the largest volume, at approximately EUR 1.1 billion, within this group of countries (see section 1.7).

### Assets secured by the state risk shield – securitization portfolio by asset classes and ratings.

Outstanding Volume in EUR million as of December 31, 2010										
Asset Sub-Type	AAA	AA	A	BBB	BB to B	CCC to C	D	NR	Total	
CDO	192	965	436	182	705	925	187	110	3 705	27.6%
RMBS	1 943	1 233	210	85	137	1 401	244	0	5 253	39.1%
CMBS	654	778	682	396	49	96	0	0	2 654	19.7%
Other ABS	537	406	179	330	185	79	30	83	1 830	13.6%
<b>Total Investments</b>	<b>3 326</b>	<b>3 383</b>	<b>1 508</b>	<b>993</b>	<b>1 076</b>	<b>2 501</b>	<b>461</b>	<b>194</b>	<b>13 441</b>	<b>100.0%</b>
	24.7%	25.2%	11.2%	7.4%	8.0%	18.6%	3.4%	1.4%	100.0%	

In each case, the lowest external rating was selected or the corresponding S&P rating used as a consequence of the internal rating method. Figures may be subject to rounding differences.

In the guaranteed portfolio, the majority of the investments (EUR 9.2 billion, 69%) continue to be highly rated.

#### Guarantee structure:

The guarantee structure provides for LBBW assuming the first losses from the reference assets up to a total loss of EUR 1.9 billion (so-called »first loss«). Losses in excess of the first loss will be absorbed by

the guarantee of the state of Baden-Württemberg, which amounts to EUR 6.7 billion. Losses from the guaranteed portfolio, which exceed the figure of EUR 8.6 billion will be borne in turn by LBBW. The first loss was fully included on the balance sheet as of December 31, 2009.

In the following sections, the secured assets are examined in the same way as the above presentation.

### 1.6.1 CDO portfolio for secured assets.

As of the reporting date, the CDO portfolio volume shielded via the guarantee amounts to EUR 3.7 billion. Here, the nominal volume, which is continuing to

reduce overall (previous year: EUR 4.1 billion), is spread relatively equally across all major sub-asset classes (with the exception of synthetic CDOs).

#### Assets secured by the state risk shield – CDOs by asset classes and ratings.

Outstanding Volume in EUR million as of December 31, 2010										
Sub-Asset Class	AAA	AA	A	BBB	BB to B	CCC to C	D	NR	Total	
CDO of ABS	30	37	41	15	451	359	74	15	1 022	27.6%
CLO	158	795	275	91	26	0	0	35	1 380	37.3%
Synthetic CDO	0	0	0	0	0	0	50	60	110	3.0%
CDO of TruPs	3	102	0	2	74	540	63	0	784	21.2%
Other CDO	2	31	120	75	155	27	0	0	409	11.0%
<b>Total CDO</b>	<b>192</b>	<b>965</b>	<b>436</b>	<b>182</b>	<b>705</b>	<b>925</b>	<b>187</b>	<b>110</b>	<b>3 705</b>	<b>100.0%</b>
	5.2%	26.1%	11.8%	4.9%	19.0%	25.0%	5.1%	3.0%	100.0%	

In each case, the lowest external rating was selected or the corresponding S&P rating used as a consequence of the internal rating method. Figures may be subject to rounding differences.

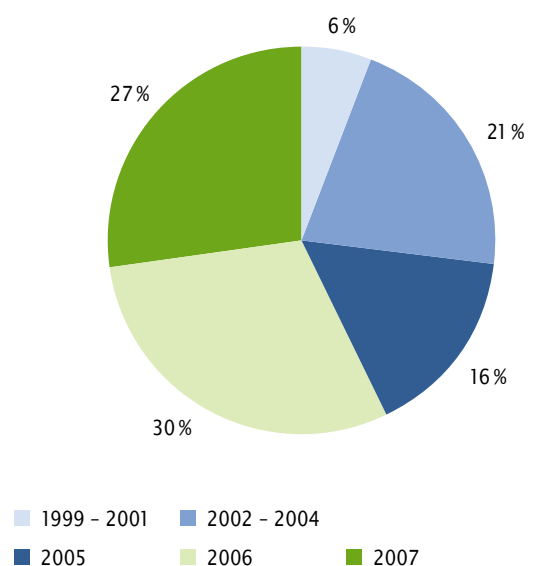
Almost half of the guaranteed CDO portfolio has an investment grade rating (48%). It is dominated by CLO positions, which stabilized in mid-2010 and are characterized by a slight improvement in average ratings (AA). In the non-investment grade range, the focus is on CDOs of TruPs and CDOs of ABS, which were downgraded by one rating category on average during the year.

Approximately 84% are most senior positions with only a small proportion encompassing first loss investments (1%).

Finally, commercial real estate CDOs and collateral bond obligations are aggregated under Other CDOs.

The distribution of the guaranteed CDO portfolio by year of issue is as follows:

**Guaranteed CDO portfolio distribution by year of issue (amounting to EUR 3.7 billion).**



### 1.6.2 RMBS portfolio for secured assets.

As of the reporting date, the largest pro rata volume in the guaranteed securitization portfolio was taken up by RMBS transactions in the amount of EUR 5.3 billion. The majority of these are investment grade rated positions (66%). The RMBS portfolio continues to refer primarily to the US market (35%), the British (32%) and the Spanish market (17%). The focus is on the 2005 to 2007 years of issue, for which the volume comes to EUR 4.7 billion.

The US-RMBS investments (Alt-A and Subprime) have mainly come from the takeover of the former Sachsen LB by LBBW. These have already been largely written down. The crisis-riven years of 2006 and 2007 constitute a focal point in the sub-portfolio, which explains the higher contribution from securitizations rated as non-investment grade (34%).

#### Assets secured by the state risk shield – RMBS breakdown by countries and ratings.

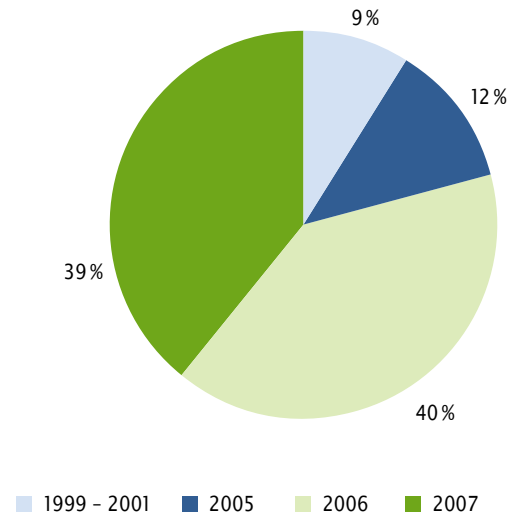
Outstanding Volume in EUR million as of December 31, 2010										
Country/Sub-Asset-Class	AAA	AA	A	BBB	BB to B	CCC to C	D	NR	Total	
USA	7	30	15	16	98	1 401	244	0	1 811	34.5%
thereof: US Alt-A	7	11	10	14	38	1 172	244	0	1 495	82.5%
thereof: US Subprime	0	0	0	0	0	193	0	0	193	10.7%
UK	1 192	373	57	0	38	0	0	0	1 661	31.6%
thereof: UK Non-Conforming	801	324	45	0	38	0	0	0	1 208	72.7%
Spain	78	634	137	62	0	0	0	0	910	17.3%
Other	667	196	1	7	0	0	0	0	871	16.6%
<b>Total RMBS</b>	<b>1 943</b>	<b>1 233</b>	<b>210</b>	<b>85</b>	<b>137</b>	<b>1 401</b>	<b>244</b>	<b>0</b>	<b>5 253</b>	<b>100.0%</b>
	<b>37.0%</b>	<b>23.5%</b>	<b>4.0%</b>	<b>1.6%</b>	<b>2.6%</b>	<b>26.7%</b>	<b>4.6%</b>	<b>0.0%</b>	<b>100.0%</b>	

In each case, the lowest external rating was selected or the corresponding S&P rating used as a consequence of the internal rating method.  
 Figures may be subject to rounding differences.  
 Percentages in »thereof lines« relate to the volume reported for the respective country.

As before, the UK RMBS volume amounting to EUR 1.7 billion is largely very highly rated (72 % rated AAA). The vast majority of UK transaction volume (some EUR 750 million) is from the 2006 and 2007 years of issue.

The guaranteed Spanish RMBS volume, amounting to EUR 0.9 billion, is continuing to decrease and is solely classified as investment grade (AAA for 9%, AA for 70% of the investments). Other positions with a very good rating contain underlying receivables from Italy (7%) and Portugal (5%), please refer to section 1.7 on this topic.

**Guaranteed RMBS portfolio distribution by year of issue (amounting to EUR 5.3 billion).**



### 1.6.3 CMBS portfolio for secured assets.

In the guaranteed securitization portfolio, CMBS positions, at EUR 2.7 billion, form the third largest

asset class (after RMBS and CDO) and, given that approximately 95% of the securities are classified as investment grade, continue to be characterized by a cross-national high rating level.

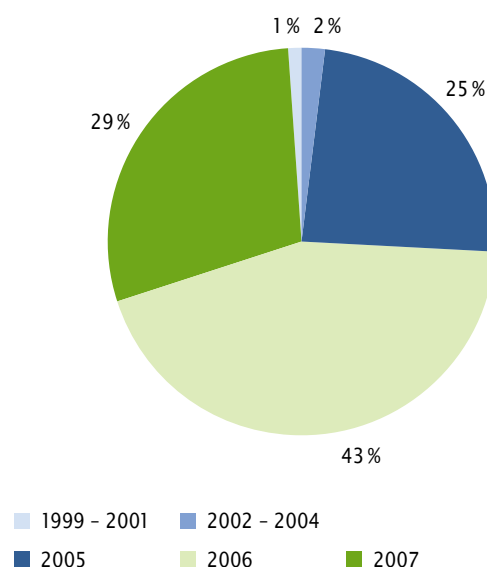
#### Assets secured by the state risk shield – CMBS breakdown by countries and ratings.

Outstanding Volume in Million EUR as of Dec. 31, 2010											
Country/asset class	Country	AAA	AA	A	BBB	BB to B	CCC to C	D	NR	Total	
CMBS	UK	305	456	312	275	0	96	0	0	1443	54.4%
	Germany	77	50	265	58	0	0	0	0	449	16.9%
	Europe*	37	221	22	0	44	0	0	0	323	12.2%
	USA	150	44	25	13	5	0	0	0	237	8.9%
	France	41	0	0	50	0	0	0	0	91	3.4%
	Austria	35	0	6	0	0	0	0	0	41	1.5%
	Ireland	0	0	36	0	0	0	0	0	36	1.4%
	Japan	9	7	16	0	0	0	0	0	33	1.2%
<b>Total CMBS</b>		<b>654</b>	<b>778</b>	<b>682</b>	<b>396</b>	<b>49</b>	<b>96</b>	<b>0</b>	<b>0</b>	<b>2654</b>	<b>100.0%</b>
		24.6%	29.3%	25.7%	14.9%	1.8%	3.6%	0.0%	0.0%	100.0%	

In each case, the lowest external rating was selected or the corresponding S&P rating used as a consequence of the internal rating method. Figures may be subject to rounding differences.  
 Europe\*: No definite classification possible due to geographical distribution across several countries. CMBS from Luxembourg were added to Germany, since the underlying loans originated in Germany.

The majority of the CMBS portfolio is focused on the British (54%) and the German market (17%). For the sub-portfolio under consideration, the focus is on the 2005 to 2007 years of issue. The outstanding British CMBS volume of EUR 1.1 billion was mainly issued in 2005 to 2006, while the German CMBS volume of some EUR 0.3 billion dates from 2006 to 2007.

**Guaranteed CMBS portfolio distribution by year of issue (amounting to EUR 2.7 billion).**



## 1.7 Exposure to Peripheral Countries.

In the reporting period, the refinancing costs (risk premiums) for government bonds in Portugal, Ireland, Italy, Greece and Spain increased dramatically on the capital market. Among other things, this was caused by for example pessimistic assessments of the economic consequences of further growth in sovereign debt, on the countries' solvency and the country credit risk associated therewith.

LBBW has invested to a considerable, albeit diminishing degree across various asset classes in the amount of EUR 4.2 billion (June 30, 2010: EUR 4.8 billion) in the relevant countries. The securities in question are almost exclusively rated as investment grade.

### Securitization portfolio for the peripheral countries by asset classes and ratings.

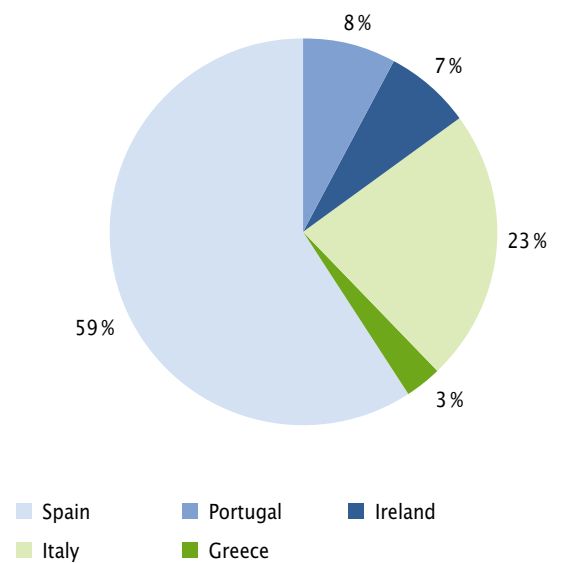
Outstanding Volume in EUR million as of December 31, 2010							Country/ asset class share	As of June 30, 2010	Country/ asset class share	
Country/asset class	AAA	AA	A	BBB	BB to B	Total				
CDO	Portugal	0	0	20	25	0	45	11.8%	60	11.6%
	Ireland	0	0	0	0	0	0	0.0%	62	12.1%
	Italy	0	0	90	0	0	90	23.9%	90	17.5%
	Greece	0	0	0	0	0	0	0.0%	0	0.0%
	Spain	52	85	85	20	0	243	64.3%	301	58.7%
<b>Total CDO</b>	<b>52</b>	<b>85</b>	<b>194</b>	<b>45</b>	<b>0</b>	<b>377</b>	<b>100.0%</b>	<b>513</b>	<b>100.0%</b>	
RMBS	Portugal	267	7	1	0	0	274	8.3%	287	8.1%
	Ireland	0	155	81	7	0	243	7.3%	258	7.2%
	Italy	514	53	0	0	0	567	17.1%	661	18.6%
	Greece	0	0	30	109	0	139	4.2%	150	4.2%
	Spain	1213	679	137	62	0	2091	63.1%	2204	61.9%
<b>Total RMBS</b>	<b>1994</b>	<b>894</b>	<b>250</b>	<b>178</b>	<b>0</b>	<b>3315</b>	<b>100.0%</b>	<b>3560</b>	<b>100.0%</b>	
CMBS	Portugal	0	0	0	0	0	0	0.0%	0	0.0%
	Ireland	0	0	36	0	0	36	49.6%	36	96.8%
	Italy	1	0	0	0	0	1	1.3%	1	3.2%
	Greece	0	0	0	0	0	0	0.0%	0	0.0%
	Spain	36	0	0	0	0	36	49.0%	0	0.0%
<b>Total CMBS</b>	<b>37</b>	<b>0</b>	<b>36</b>	<b>0</b>	<b>0</b>	<b>73</b>	<b>100.0%</b>	<b>37</b>	<b>100.0%</b>	
Other ABS	Portugal	0	0	0	0	0	0	0.0%	1	0.2%
	Ireland	0	0	0	0	0	0	0.0%	0	0.0%
	Italy	214	93	9	0	0	316	66.9%	423	65.7%
	Greece	0	0	0	0	0	0	0.0%	0	0.0%
	Spain	7	62	34	3	50	156	33.1%	220	34.1%
<b>Total Other ABS</b>	<b>221</b>	<b>155</b>	<b>44</b>	<b>3</b>	<b>50</b>	<b>473</b>	<b>100.0%</b>	<b>644</b>	<b>100.0%</b>	
<b>Total investments of the peripheral countries</b>	<b>2304</b> 54.4%	<b>1134</b> 26.8%	<b>524</b> 12.4%	<b>226</b> 5.3%	<b>50</b> 1.2%	<b>4238</b> 100.0%	<b>100.0%</b>	<b>4755</b>	<b>100.0%</b>	

In each case, the lowest external rating was selected or the corresponding S&P rating used as a consequence of the internal rating method. Figures may be subject to rounding differences.

The pro rata peripheral investments in the guaranteed securitization portfolio amount to EUR 2.3 billion (17%).

In terms of volume, the largest country exposure is to Spain, amounting to EUR 2.5 billion (59%), followed by Italy in the amount of some EUR 1 billion (23%). In comparison with total exposure to the peripheral countries, LBBW is only exposed to a minor extent in Greece, at EUR 139 million, and it has underlying assets associated with Portugal of EUR 319 million.

**Securitization portfolio – share of the peripheral countries in the non-guaranteed and guaranteed portfolio (amounting to EUR 4.3 billion).**



## 1.8 Loan Granted by LBBW to Sealink Funding Special-Purpose Entity.

When Sachsen LB was acquired by LBBW in 2008, the structured portfolios Ormond Quay and Sachsen Funding I were excluded from the acquisition. These portfolios with an aggregated nominal outstanding of originally EUR 17.3 billion were transferred to an Irish special-purpose vehicle, Sealink Funding Ltd., established in 2008.

The Free State of Saxony has issued a first loss guarantee in the amount of EUR 2.75 billion to cover losses arising from the Sealink portfolio. Losses relating to former Sachsen Funding I assets were covered by LBBW up to an amount of EUR 71.3 million (the »Special First Loss Guarantee«).

Payment defaults in excess of the amount guaranteed by the Free State of Saxony have to be borne by LBBW based on its junior refinancing of Sealink. Since June 30, 2009, LBBW has been covered against these payment defaults up to an amount of EUR 6 billion by the risk shield of the state of Baden-Württemberg.

LBBW expects that the guarantee of the Free State of Saxony and the guarantee of the State of Baden-Württemberg will cover all risks arising from the portfolios transferred to Sealink.

## 1.9 ABCP Program.

During 2009 and at the beginning of 2010, LBBW restructured the ABCP program as follows: the arbitrage vehicles Mainau Funding Ltd. and Bodensee 2 Funding Ltd. are no longer contained in the ABCP program. Bodensee 2 Funding Ltd. was closed down in July 2009 while Mainau Funding Ltd. was removed from the ABCP program in October 2009. In November 2010, the ABS securities contained in Mainau Funding Ltd. were transferred to the LBBW balance sheet. Mainau Funding Ltd. will be formally closed down in 2011.

In addition, the following changes to the structure of the ABCP program were carried out in January 2010:

- The sole purpose of the new ABCP program lies in the financing of trade receivables and interest-bearing receivables sold to the program by target customers of LBBW (largely SMEs as well as financing institutions and leasing companies).
- The special-purpose entity Weinberg 2 Funding Ltd. was renamed Weinberg Capital Ltd. in November 2009 (solely a change of name). Weinberg Capital Ltd. is now a purchasing and CP issuing company and in this capacity is simultaneously taking on the refinancing of the second purchasing company Weinberg Funding Ltd. The previous commercial paper (CP) issuing special-purpose entities Lake Constance Funding LLC and Lake Constance Funding Ltd. were closed down during the financial year 2010, as was the special-purpose entity Peter Pike Funding LLC.

■ LBBW is providing liquidity lines for the two acquisition companies Weinberg Funding Ltd. and Weinberg Capital Ltd. Contrary to the previous structure, these are »fully supported« liquidity lines that have also covered counterparty risks since then. In the previous structure, these were covered by a letter of credit (LOC) from LBBW that has not applied since then.

■ The CP issued by Weinberg Capital has a short-term rating from Moody's (P - 1) and Fitch (F 1 +). As long as no »program termination event« has occurred, the underlying receivables portfolio can optionally be an individual receivables portfolio (»special series«) or the residual number of all remaining portfolios (»general series«).

As of December 31, 2010, LBBW is providing the purchasing companies Weinberg Funding Ltd. and Weinberg Capital Ltd. with liquidity lines amounting to EUR 2.1 billion (see section 2 for details). Neither Weinberg Funding Ltd. nor Weinberg Capital Ltd. are consolidated in the LBBW annual financial statements for 2010 <sup>1)</sup>.

<sup>1)</sup> The individual receivables portfolios with their applicable refinancing in Weinberg Funding Ltd. and Weinberg Capital Ltd. represent »cells« (transactions definable on the basis of opportunities and risks). Under IAS 27 in conjunction with SIC-12, Weinberg Funding Ltd. and Weinberg Capital Ltd. (as shell

companies) have to be consolidated but are immaterial and therefore do not have to be included in the consolidated financial statements. The individual cells do not have to be consolidated. The majority of the opportunities and risks of each cell remain with the seller of the receivable or with third parties.

## 2 Customer Transactions.

In addition to the ABS-investment portfolio, LBBW is involved in the segment of customer transactions.

This category contains transactions with liquidity line commitments amounting to EUR 2.1 billion. Around EUR 1.0 billion of the overall portfolio is attributable to trade receivables and around EUR 1.1 billion to interest bearing receivables (primarily leasing receivables).

Additionally, LBBW is invested in a senior tranche backed by auto loans in the amount of EUR 29.1 million. This term-bond was structured by LBBW for a key account customer from the automotive sector.

The following table shows a breakdown of the portfolio by rating classes.

### Rating distribution of customer transactions.

Outstanding Volume in EUR million as of December 31, 2010						
Sub-Asset Class	AAA	AA	A	BBB	Total	
Trade Receivables	0	0	896	142	1 038	48.9%
Interest-bearing Receivables	0	213	842	0	1 055	49.7%
Auto Loans	29	0	0	0	29	1.4%
<b>Total Customer Transactions</b>	<b>29</b>	<b>213</b>	<b>1 738</b>	<b>142</b>	<b>2 122</b>	<b>100.0%</b>
	1.4%	10.0%	81.9%	6.7%	100.0%	

In each case, the lowest external rating was selected or the corresponding S&P rating used as a consequence of the internal rating method. Figures may be subject to rounding differences.

The majority of the exposure to trade and interest-bearing receivables is related to SMEs. This customer-driven business is primarily focused on the German market and transactions are exclusively rated internally in investment grade. The receivables are acquired by the purchasing companies Weinberg Funding Ltd. and Weinberg Capital Ltd. LBBW provides liquidity lines

of EUR 2.1 billion available for this purpose. Funding is provided through LBBW's Asset-Backed Commercial Paper (ABCP) program. As an investment vehicle Weinberg Capital Ltd. also issues these ABCPs.

LBBW is planning to expand this customer-driven business.

# 3 Leveraged Finance Portfolio.

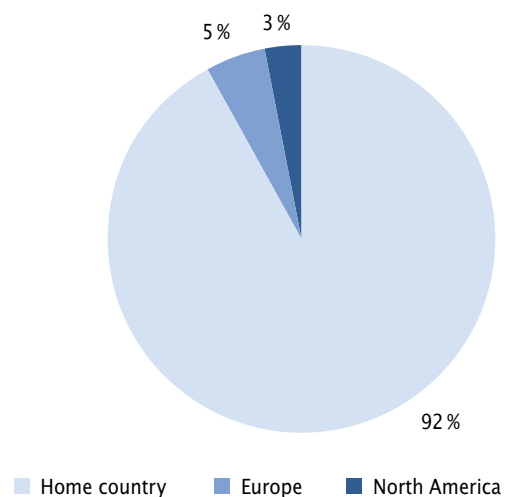
As part of its overall credit strategy, LBBW primarily conducts financing for acquisitions involving a high degree of financial leverage (usually over 50%) in its leveraged financing. As part of its small and medium-sized corporate banking business, the bank supports customers in debt-financed strategic purchase financing and succession planning. In addition, investments by financial investors in small and medium-sized corporate customers are also financed in this area of business. In addition to SMEs, the Bank also offers leveraged finance for large corporates that are already managed within its corporate business. Investments carried out as part of these business activities are included in the leveraged finance portfolio.

LBBW performs the following services for its small and medium-sized customers as part of its strategy in business with small and medium-sized companies: origination, structuring and arrangement as a mandated lead arranger or co-lead for regional as well as national syndicated financing transactions with high commission for acquisitions. In view of its trusting and long-standing customer relationships with SMEs, LBBW assumes fixed syndicate shares in the amount of 20 – 25% as part of a primarily »buy and hold« strategy.

In 2010, the leveraged finance market in Germany was relatively subdued, meaning that there were only a few new transactions for LBBW in this area of business. As a result of simultaneous reductions in the portfolios in the rest of Europe and North America, the leveraged finance portfolio shrank by EUR 1.1 billion to EUR 5.0 billion as of December 31, 2010. The average exposure per investment was around EUR 40 million.

The following overview lists the risk positions from around 127 leveraged finance corporate loans, ordered by region, sector and rating.

**Regional breakdown of the leveraged finance portfolio as of December 31, 2010 (amounting to EUR 5.0 billion).**



The market focus is on Germany, particularly in the core area of Baden-Württemberg. In order to round out the portfolio and to avoid regional clustering, transactions with a balanced risk profile were acquired in the past, particularly in the English-speaking markets in London and New York. At present, these transactions are no longer being replaced on maturity.

**Sector distribution of leveraged finance portfolio as of December 31, 2010.**

Sector	
Automobile	59.7%
Non-Industry-Specific Tools and Machine Construction	6.0%
Health Care	4.1%
Apparel, Sporting Equipment and Luxury Goods	3.4%
Chemicals	2.6%
Construction Industry	3.2%
Cross-Sector Services for Companies	2.9%
Conglomerates/Conglomerate Holding Companies	2.8%
Transport and Logistics	2.1%
Food Retail and Other Non-Cyclical Consumer Goods	1.9%
Other	11.2%
<b>Total</b>	<b>100.0%</b>

Figures may be subject to rounding differences.

The high concentration in the automotive sector is due to a single, large-volume transaction.

**Rating distribution of leveraged finance portfolio as of December 31, 2010.**

	AAA to A-	BBB+	BBB	BBB-	BB+	BB	BB-	B+	B	B-	CCC+ to C	SD/D	NR
Rating in %	0.5	0.0	4.7	4.5	4.4	19.3	48.8	8.2	2.2	0.0	0.7	6.4	0.3

The average rating is BB-, with 82.2% of the portfolio lying in this rating class or higher. New business is predominantly entered into in the rating classes BB+ to BB- (in 2010: BB+ and BB), where it must be clear

from company data on the business development of the borrower that the rating will improve as repayments progress.

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