Annual Report 2007.

LBBW

Landesbank Baden-Württemberg

Key Figures of the LBBW Group

Income statement (EUR million)	2007	2006
Net interest income	2 127	2 185
Allowances for losses on loans and advances	– 186	– 163
Net fee and commission income	584	500
Net trading income/loss[1]	– 615	190
Other operating income[2]	202	125
Administrative expenses	– 1 650	– 1 542
Net loss from investment securities	– 124	– 3
Net income/loss from investments accounted for using the equity method and from profit/loss transfer agreements	9	0
Consolidated profit before tax	**347**	**1 292**
Income tax	– 36	– 361
Consolidated profit for the period	**311**	**931**

Key figures in %	2007	2006
Return on equity before tax	3.7	15.3
Cost/income ratio	71.8	51.4

Balance sheet figures (EUR billion)	Dec. 31, 2007	Dec. 31, 2006
Total assets	443.4	417.3
Risk volume according to the German Banking Act (qualifying items)	191.4	169.9
Equity (consolidated capital less net retained profit, including hybrid capital, subordinated debt, and capital generated by profit participation rights)	21.6	20.3

Regulatory figures according to the German Banking Act	Dec. 31, 2007	Dec. 31, 2006
Core capital (EUR billion)	12.4	10.7
Own funds (EUR billion)	18.6	17.9
Core capital ratio (Tier I ratio) in %	8.3	7.4
Total principle I ratio (in %)	9.7	10.6

Employees	Number	Number
Group	12 303	11 999

Rating (April 2008)

Rating agency	Long-term rating	Long-term rating	Financial strength	Pfandbriefe (public covered bonds)
	Guaranteed obligations	Unguaranteed obligations		
Standard & Poor's	AA+	A+	–	AAA
Moody's Investors Service	Aaa	Aa1	C+	Aaa
Fitch Ratings	AAA	A+	B/C	AAA

[1] In addition to net trading income/loss, this item also includes net income/loss from financial instruments designated at fair value and the net loss from hedging transactions.

[2] In addition to other operating income/expenses, this item also includes net income from investment property.

2007

Foreword.

DR. SIEGFRIED JASCHINSKI
Chairman of the Board of Managing Directors

Dear Customers and Business Partners of the LBBW Group,

For the financial sector, 2007 was an eventful year. On the one hand, the German economy continued to be prosperous. On the other hand, however, 2007 saw the start of turbulence on the US real estate and credit markets with effects that spread throughout the financial sector worldwide. After satisfactory earnings in the first six months of 2007, the tensions on capital markets worldwide changed the environment in which the LBBW Group operates as well. Nonetheless, we were able to generate

Foreword.

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generate positive consolidated net profits for the period of EUR 311 million. The significant decline as compared with the previous year is primarily due to price volatility at the reporting date and is particularly magnified by the initial adoption of International Financial Reporting Standards. However, I am confident that these price fluctuations will again turn in the LBBW Group's favor when the situation on the financial markets returns to normal.

STRONG CAPITAL BASE: CREDIT SUPPLY INCREASED. As our consolidated net profit for the period indicates, we have a solid business model that enables us to operate confidently, even in turbulent times. The core elements of this business model are our conservative risk policy and our broadly diversified business fields with a robust business serving SMEs and retail customers. Due to our healthy capital resources and high level of liquidity reserves, the LBBW Group was able to weather the difficult situation on the international money markets. Our worldwide investors were not the only ones to benefit from our success in the form of very solid investments: Our financial strength also benefits our more than one million customers to whom we are a reliable partner – thanks to our secure deposits and extensive financing capabilities. Despite the challenging market environment, we further expanded the volume of credit we supply to our corporate customers.

INTEGRATION OF SACHSEN LB: NEW OPPORTUNITIES IN NEW REGIONS. With the acquisition of Sachsen LB in early 2008, we established an excellent base for further developing our successful business model in Saxony and adjacent German states. Prosperous Saxony in particular offers LBBW attractive income potential from the business with small- and medium-sized enterprises. We are also looking past Germany's borders to business opportunities in Poland and the Czech Republic. During the first half of 2008, we will integrate Sachsen LB into LBBW as a legally dependent institution with its own independent sales structures. This arrangement will combine efficient cost structures and the Group's expert knowledge on the one hand with proximity to customers and regional expertise on the other hand. We are leveraging additional synergies in the same way at LRP – Landesbank Rheinland-Pfalz, which has been operated as a subsidiary to date. The final step of the integration process will be to fully integrate LRP into LBBW as an operating unit in both legal and financial terms.

GROWTH INITIATIVES: INCREASING EARNINGS, KEEPING COSTS STABLE. We have continued to concentrate particularly on our efforts to increase earnings while keeping costs stable. In the past year, the Financial Markets growth project already produced notable successes. We are also focusing on further expanding our international offices, most recently in Jakarta, Dubai, and Seoul. In the Retail Customer segment, we have set the stage for growing our wealth management business, and we have also further intensified our partnerships with the savings banks.

A PROVEN FORMULA FOR SUCCESS: CONSISTENTLY FOLLOWING THE PATH TAKEN. The LBBW Group was only indirectly touched by the problems on the sub-prime market, although the financial market crisis did affect other asset classes, such as issues by banks, corporates, and sovereigns with good credit ratings. This indirect effect is also reflected in the LBBW Group's 2007 financial statements. However, the write-downs necessitated by these upheavals are not a sign of reduced asset quality, but rather mainly a reflection of current market price fluctuations. LBBW's leadership position in Germany's southwestern region and among its public-sector banks, the Group's broad customer base, and LBBW's increasing growth potential both in Germany and abroad constitute our proven formula for success that we can continue building on in the future. We will therefore consistently follow the path we have taken.

LOYAL CUSTOMERS, COMMITTED EMPLOYEES: EXPRESSION OF APPRECIATION BY THE BOARD OF MANAGING DIRECTORS. The entire Board of Managing Directors would first of all like to express particular thanks our customers for their confidence in LBBW and for their partnerships with us, which often reach back decades. A special thanks also goes to our more than 12,000 employees. Our ambitious goals and numerous projects have posed great challenges for our employees, who have met every challenge with a great deal of team spirit and commitment. We would also like to thank the Staff Councils for cooperating with us in an environment of mutual trust. Last, but certainly not least, the Board of Managing Directors would like to express our thanks to LBBW's Owners and Supervisory Board members who provided our management with constructive assistance in the past year, as well as further promoting LBBW's good reputation.

Sincerely,

Dr. Siegfried Jaschinski
Chairman of the Board of Managing Directors

Board of Managing Directors.

Board of Managing Directors

Dr. Bernhard Walter

Back Office

Wholesale/Risk Management

Risk Management Key Account / Real Estate / Structured Finance / Leverage Finance

Joachim E. Schielke

Corporate Customers I

Target Group Management Corporate Banking / German Public Clients

Dr. Peter A. Kaemmerer

Corporate Customers II

International Business Region East

International Business Region West

Real Estate

Key Account / Leverage Finance / Structured Finance

Dr. Siegfried Jaschinski

Chairman

Corporate Center

Group Strategy/Legal

Group Communication / Marketing

Human Resources

Internal Auditing

Research

Hans-Joachim Strüder

Financial Markets

Equity

Treasury

Credit Capital Markets

Capital Markets Trading and Sales

Michael Horn

Deputy Chairman

Savings Banks/Retail and Investment Customers

Savings Banks Cooperation Office

Back Office Financial Markets

Rudolf Zipf

Finance, Operations and IT

IT Financial Markets

IT / Organization

Financial Controlling

Group Risk Control

Accounting / Reporting System / Tax

Administration

Banking Operations

Report of the Owners' Meeting.

GÜNTHER H. OETTINGER
Prime Minister
of the State of Baden-Württemberg

In the past year, the Owners' Meeting of Landesbank Baden-Württemberg discussed the earnings performance of the Group, particularly against the backdrop of the turbulence on financial markets, as well as equity investment issues and strategic issues associated with the continuing discussion of public-sector bank consolidation in Germany. Key topics in this context were the acquisition of Sachsen LB by LBBW and the integration of Landesbank Rheinland-Pfalz into the LBBW Group.

The Board of Managing Directors and its Chairman regularly presented timely and detailed reports to the Owners' Meeting and its voting leader (Stimmführer) outlining fundamental information concerning the Group's business performance and business policies, and maintained an ongoing dialogue to discuss key issues. The Owners' Meeting held three ordinary meetings and six extraordinary meetings in the 2007 fiscal year. Where necessary, resolutions were voted on in writing. The Owners' Meeting performed the duties incumbent upon it pursuant to the laws and statutes.

In its meeting on April 25, 2008, the Owners' Meeting took note of the reports of the auditor, PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, on the single-entity and consolidated financial statements, which were issued unqualified auditor's report, and passed a resolution on the appropriation of distributable profit. Discharge was granted unanimously to the Board of Managing Directors and the Supervisory Board.

On behalf of the members of the Owners' Meeting, I would like to thank the Board of Managing Directors and the employees of Landesbank Baden-Württemberg for their work in the past year.

Stuttgart, April 25, 2008
Chairman of the Owners' Meeting

GÜNTHER H. OETTINGER, Member of the State Parliament of Baden-Württemberg
Prime Minister of the State of Baden-Württemberg

Report of the Supervisory Board.

PETER SCHNEIDER
President
Sparkassenverband Baden-Württemberg
(SVBW – the Savings Bank Association of Baden-Württemberg)

The Board of Managing Directors of Landesbank Baden-Württemberg reported to the Supervisory Board and its committees regularly and in a timely manner about the business situation and performance of the Bank and the Group during 2007. The Supervisory Board and its committees exercised the duties incumbent upon them under the applicable laws and statutes. Moreover, the Chairman of the Board of Managing Directors of the Bank informed the Chairman of the Supervisory Board about key developments and decisions between meetings.

In the year under review, the Supervisory Board held four regular meetings. An additional meeting was held to notify the deputy members of the Supervisory Board about developments at the Bank and in the Group. In all regular meetings of the Supervisory Board, reports were presented about the business volume, earnings and risk situation and performance of the LBBW Group. In the year under review, two extraordinary meetings of the Supervisory Board were also held in the course of the acquisition of Sachsen LB.

The main topics covered in regular reporting to the Supervisory Board included the effects of financial market turbulence and current discussions about Landesbank consolidation in addition to LBBW's volume and earnings performance and risk situation. In its meeting on December 7, 2007, the Supervisory Board approved the Business Plan for the 2008 fiscal year. In terms of LBBW's international business, the Supervisory Board voted in favor of the following projects: opening of branches in Tokyo and Seoul, establishment of German Centres in Moscow and India, and approval for a financing and (human resources) service company in Mexico City.

In addition, the Supervisory Board was regularly informed about risk-relevant issues in the LBBW Group pursuant to the Minimum Requirements for Risk Management (MaRisk). The business strategy and the risk strategies for individual business segments and customer groups developed in line with this business strategy were discussed and acknowledged by the Loan Committee and the Supervisory Board. Detailed reports about the relevant risk types were presented to the Loan Committee and summaries were presented to the Supervisory Board about this topic on a quarterly basis. LBBW's Loan Committee, a Supervisory Board committee, held 11 meetings in the year under review to discuss commitments requiring approval according to the applicable law and statutes. LBBW's Loan Committee took note of urgent decisions made by the Board of Managing Directors.

PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Stuttgart, audited the single-entity financial statements and consolidated financial statements of LBBW, including the management reports, in accordance with the resolution by the Supervisory Board and issued them unqualified auditor's report. The Supervisory Board discussed the auditor's report and found no grounds for objections after completing its review.

As a result, the Supervisory Board adopted the 2007 single-entity financial statements of Landesbank Baden-Württemberg in its meeting on April 25, 2008, and acknowledged the consolidated financial statements and the proposal to the Owners' Meeting on the utilization of LBBW's distributable profits.

2007 was marked by considerable challenges for LBBW. On behalf of the members of the Supervisory Board, I would like to thank the Board of Managing Directors and LBBW's employees for their efforts during the year under review.

Stuttgart, April 25, 2008
Chairman of the Supervisory Board

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

Group Strategy.

The LBBW Group remains firmly focused on its most important strategic goal: further strengthening its position among major German banks. Meeting this goal will involve systematically leveraging the earnings and growth opportunities provided by LBBW's solid market position and successful business model. The partnerships with the savings banks will remain a cornerstone of LBBW's business.

Landesbank Baden-Württemberg's (LBBW) business model is based on the interplay between specialized Group units and Group companies. This enables Germany's largest Landesbank to offer customers the comprehensive range of services expected of a modern financial services group – in retail and investment banking, in the corporate customer business, and in transactions on the German and international capital markets. The LBBW Group holds a solid market position thanks to a business model anchored in Germany, strong roots in a core market exhibiting above-average economic strength, and a broad customer base. LBBW is expanding this foundation for business while continuing to pursue a restrained and conservative risk policy in order to systematically develop the available earnings and growth opportunities.

Focus on Efficiency and Earnings Structure.

In past years, the LBBW Group concentrated on generating cost synergies. In the 2007 fiscal year, however, the focus shifted to further improving the efficiency and earnings structure of the Group. These goals will remain the same in 2008, as this is the only way for LBBW to secure its high ratings for the long term. This also contributes substantially to maintaining the cost-effective funding necessary for the entire Sparkassen Financial Group (Sparkassenfinanzgruppe). LBBW therefore continues to set its sights firmly on its most important strategic goal: to solidify its position among major German credit institutions and to bolster its top position among the German Landesbanken.

Bank customers today are demanding increasingly specialized banking services and more effective products due to economic globalization and rapid technological change. With a sophisticated range of products and services and far-reaching expertise, the LBBW Group can meet these customer requirements and offer them tailored solutions. In addition to being a lender, the LBBW Group is a reliable partner to customers for comprehensive, strategic financial advising and structuring of individual financing solutions. At the same time, LBBW will continue to invest in additional staff for growth areas in the banking business and in attractive new products and services in the future.

LBBW continues to refine its successful business model on an ongoing basis. Currently, this includes the full legal and financial integration of LRP Landesbank Rheinland-Pfalz (LRP) and Landesbank Sachsen Aktiengesellschaft (Sachsen LB) into the LBBW Group, further optimization of internal structures, and Group-wide consolidation of expertise in specialized units. LBBW continues to steadily focus on meeting the needs of all customer groups and on growing capital market requirements, as well as gradually building up promising business segments, such as wealth management or the international banking business. Numerous currently ongoing initiatives additionally aim to boost the Group's cross-selling ratio and to improve the Group's efficiency overall, thereby increasing earnings.

A key factor in this regard is developing and training employees. LBBW wants each and every employee to possess a level of expertise in their area of responsibility that exceeds the current level at the Group's competitors. To this end, LBBW continually organizes personnel development programs and specifically hires external staff with selected key qualifications to work in the growth areas of the Group. This parallel situation featuring a high degree of continuity in workforce coupled with additions of expert employees from outside the company translates to robust market strength for LBBW.

Customer Focus: the Standard for All of the Group's Divisions.

In doing **business with corporate customers,** LBBW's strategy emphasizes positioning LBBW as a principal bank to small- and medium-sized enterprises (SMEs) and working in conjunction with Baden-Württembergische Bank (BW Bank), LRP, and (since April 2008) the Sachsen Bank, which came out of former Sachsen LB, to support these companies by providing innovative financing solutions and partnering with them as they develop markets abroad. In particular, the LBBW Group will step up cooperation with larger, family-owned companies in Germany and the rest of Europe. Linking various corporate banking activities with those of the Financial Markets division is a key factor in continually improving advising quality and the focus on SMEs, especially in the case of complex financing and investing issues. In addition, processes involving cooperation between the front- and back-office units within the Group are reviewed and updated on an ongoing basis. Finally, maintaining and gradually expanding LBBW's international network are very important, particularly for providing comprehensive banking services to our corporate customers. LBBW's offices in 26 locations worldwide offer customers the service they have come to expect on-site in international markets.

In the **retail customer business,** BW Bank aims to become established as the leading provider of services to high-net worth private individuals in southwestern Germany. At the same time, BW Bank continues to function as a savings bank in the territory of the state capital Stuttgart. In order to attain this target positioning, the asset management and consulting services offered by BW Bank to retail customers will be developed further to systematically build BW Bank's market position. In the future, BW Bank's expertise and product range will also benefit Sachsen Bank in building the business with high-net worth private individuals in Saxony and neighboring regions. During this process, it is vital to identify trends in the industry early on and to adequately address increasingly sophisticated customer requirements by offering top-quality products and services. The extraordinary opportunities afforded by BW Bank's economically strong business territory will offer LBBW the chance to gradually and substantially increase gross earnings from the retail business. For this reason, leveraging more of the potential offered by existing customers and acquiring new customers in all segments are at the heart of these activities.

In the **capital market business,** LBBW continues to pursue the aims of building a capital market-oriented and customer-driven business as well as expanding further in European markets and capital market centers around the globe. LBBW aims to utilize the strengths of its capital market business for further organic growth in line with key market trends. A crucial factor in this regard will be more tightly integrating the expertise and efficiency of LBBW's capital market activities into the Group's retail and corporate customer operations.

Another core pillar of LBBW's business model is its role as a **central bank to the savings banks.** The partnerships with the savings banks serve the purpose of maintaining and bolstering their joint market position with LBBW. This collaboration is being reinforced in a step-by-step process in close cooperation with the savings banks. Impetus for this process will come from consolidation of the central bank functions of LBBW, LRP, and former Sachsen LB. The focus here is primarily on areas beyond the traditional central bank function. In this way, the complex product and service expertise of the LBBW Group will also be used optimally to strengthen the position of the savings banks and to leverage cost-cutting potential generated by this cooperation.

Business Divisions.

CONTENT

LBBW's business model provides customers with the comprehensive range of products and services expected of a modern financial services provider. This is made possible by the Group's wide-ranging expertise and extensive market knowledge, as well as the steady focus of the business divisions on meeting customer and market requirements.

Corporates.

The LBBW Group's traditional core business is providing small- and medium-sized companies with a full range of services and assisting them in shaping their future as a strategic partner. Based on this solid foundation of experience, LBBW is further expanding the successful SME business with customized solutions for both regional and international markets.

SMEs: A Core Focus of LBBW's Activities.

The LBBW Group provides a wide variety of products and services to companies from small- and medium-sized enterprises (SMEs) to multinational corporations. LBBW's particular focus has traditionally been on providing all types of services to small- and medium-sized family-owned companies in the function as a principal bank to these companies. In Baden-Württemberg, BW Bank has served many corporate and key account customers for generations as a bank that is familiar with their needs and requirements. LRP Landesbank Rheinland-Pfalz serves the LBBW Group's small- and medium-sized corporate customers in Rhineland-Palatinate and the business centers of the German states of North Rhine-Westphalia and Hesse by applying the same business philosophy. Thanks to the acquisition of Sachsen LB in early 2008, LBBW will have the opportunity to transfer its successful business with SMEs to Saxony and adjacent regions in the future. Key accounts and multinational corporations are a separate target customer group for the LBBW Group that is served by LBBW itself outside of Baden-Württemberg and internationally.

The strategic goal is to offer corporate customers a comprehensive range of banking services for the long term and to assist them in building their futures. In providing these services, BW Bank, LRP and Sachsen Bank operate in their home markets. At the same time, they are in the position to offer a full range of assistance on cross-border transactions to their export-oriented corporate customers. This is made possible by their direct access to the wide variety of services and international network of the LBBW Group.

Entrepreneurs and Their Companies: Integrated Services.

Based on often decades-long business relationships with corporate customers, the LBBW Group occupies the role of a strategic partner, additionally providing advice on development going beyond short-term planning. In order for LBBW to better serve in this role in the future, a broad training initiative for corporate banking specialists was launched in 2007 and will continue in 2008. Newly updated planning software helps advisors to provide their customers with comprehensive support and to simulate future trends with a high degree of precision. A personal advisor serving as the central contact for both corporate issues as well as the entrepreneur's personal requirements makes the suggested solutions understandable for the customer, while also involving him or her in the process of working out solutions. This process involves on-site advisors working hand-in-hand with experts in the LBBW Group's specialized divisions, thereby utilizing the full range of products, services and expertise of the Group.

Among the most important building blocks of a relationship based on trust between the customer and the advisor is open communication. For this reason, it goes without saying that the advisors of the Bank are transparent in their use of rating results and analyses of quantitative and qualitative factors generated for customers. Risks are analyzed and assessed decentrally by the LBBW Group's experts to enable corporate customers to benefit from a fast and flexible decision-making process.

Customer Satisfaction: Successful Advising Approach.

In an analysis of customer satisfaction, over 3,000 decision-makers at companies served by LBBW were surveyed in 2007. The analysis indicated the important part that individual advisors and continuity of support play in customer satisfaction and loyalty. Respondents who gave their advisors very good ratings – and that was over 80 percent of them – also gave the Bank a positive rating on the whole. This assessment and trust are vital in an increasingly competitive environment and form the foundation for our traditionally strong business with corporate customers. In this regard, LBBW differs quite markedly from other Landesbanken. There is no other Landesbank with a comparable business model.

Financing for SMEs: Customized Solutions.

Rising commodity prices and the continued weakness of the US dollar posed challenges for many companies in 2007. These developments affected the traditionally very export-oriented economy of Baden-Württemberg in particular. In addition, the trend toward an increasingly strong capital market focus continued unabated at larger corporations. Customized financing solutions, such as securitized ABS transactions or structured financing, were in demand among LBBW's customers as a result, as was a broad range of balance sheet-neutral financing services, such as leasing, factoring, and forfaiting. The latter is becoming increasingly important, especially for financial settlement of export transactions.

Despite the difficult capital market situation in the second half of 2007, the LBBW Group successfully developed customized capital market solutions to meet the financing needs of its corporate customers. LBBW continued to systematically improve the standardization and securitization concepts created especially to meet the needs of SMEs in recent years in order to meet the demand for smaller volumes. Offering a wide range of borrower's notes, mezzanine capital, and private equity solutions, the LBBW Group also provides small and medium-sized enterprises with financing alternatives that for a long time were available only to large companies.

Flexibility Pays Off: Smart*Mezzanine* Program Extended.

The Smart*Mezzanine* profit participation certificate program, which combines an equity solution with debt financing, again contributed substantially to the success of LBBW's own standardization and securitization concepts. Its advantage over pure equity- or debt-based financing lies in the flexible structuring of remuneration components, term and redemption, which can be tailored to a company's specific requirements.

Smart*Mezzanine* was expanded into a product family in 2007. The Smart*Mezzanine* 100 premium product comprises profit participation rights that can be fully carried as equity on the balance sheet in accordance with the HGB (German Commercial Code). Smart*Mezzanine* 50 consists entirely of economic capital and as such offers a very high level of protection in the event of a liquidity crisis. Smart*Sub* is the cost-effective alternative, comprising a subordinated loan fully recognizable as economic capital. The minimum volume was lowered to EUR 0.5 million for all Smart*Mezzanine* products, and the funds committed are available to companies immediately after the contract is signed. This allows even smaller companies to strengthen their capital base and receive a more positive assessment in the rating process.

The Capital Market Financing Alternative: LBBW Entry.

The LBBW Entry portfolio-based borrower's note program is another financing alternative. Thanks to the particular structuring of LBBW Entry, middle market companies can take advantage of this tailored form of corporate financing starting at amounts as low as EUR 250,000. In addition to offering a simple, fast, and cost-effective way to access the capital markets, LBBW Entry's individually customizable term of between two and five years is also an attractive incentive. In addition, no separate guarantees must be furnished, and companies are not required to give third parties an active say in operational or strategic management.

Service for Companies and Entrepreneurs: Integrated Asset Management.

Many entrepreneurs tie up large portions of their wealth in their own companies. This not only creates a strong interlinking of their assets overall, but also tends to result in poor diversification of risks. The LBBW Group's asset management services offer corporate customers investment opportunities in all of the traditional asset classes along with innovative solutions, such as derivatives and structured products. LBBW develops personalized plans from a holistic view of the customer's dual position as a company and entrepreneur that secure both the entrepreneur's life's work and his or her private assets. This process starts with an analysis of the strategic and financial planning of the company, its legal and tax environment, and the interplay between liquidity requirements, opportunities, and risks. Building on this analysis, advising teams made up of corporate customer advisors, financial planners, investment experts, and M&A specialists work hand-in-hand with the customer to develop solutions that are sustainable in the long term.

In 2007, the optimization of corporate retirement planning solutions was a well-received service in heavy demand. These solutions include deferred compensation alternatives, support for analysis and structuring of pension commitments, and the establishment and management of lifetime working-time accounts. In this regard, the LBBW Group offers all types of options, including transferring the obligations to pension funds or special trust models.

Managing Payments for Companies: Quickly, Easily, and Securely.

Companies use transactional accounts to manage their domestic and cross-border payments and their liquidity. The LBBW Business Portal, which is specifically aligned with client requirements, provides customers with quick, easy, and secure electronic access to their accounts via the Internet. The Business Portal was revamped in 2007, and an English-language version became available in 2008.

In 2007, cross-border payment activities were marked by preparations for the introduction of the Single Euro Payments Area (SEPA). SEPA will standardize wire transfers, card payments, and later even direct debits, throughout Europe. The LBBW Group made available the SEPA products required by the EU on schedule as of January 28, 2008. Once they comply with SEPA's terms and conditions, LBBW's customers can now settle payment transactions in 31 European countries for the price of a domestic transfer. A sharp increase in volume in conjunction with a high degree of automation ensured steady earnings from the Bank's cross-border payment activities despite the reduction in fees stipulated by the EU regulation on cross-border payments in euro.

Interest Rates, Currencies, Commodities: A Single Source for Value-based Risk Management.

The volatility of international financial markets and the general legal environment make it necessary for companies to be aware at all times about the type and scope of risks to which their financial activities are exposed. Interest rate, currency, and commodity management plays a particularly important role in value-based risk management and in securing a company's liquidity. The presence of employees from the central interest rate and currency management units was stepped up at the front-office units on site to ensure that companies receive a full range of services. For example, the Bank's forward-looking currency management activities involved LBBW employees working directly with customers to ensure that the very weak US dollar during 2007 did not materially adversely affect customers or the LBBW Group. In addition to conventional instruments, such as currency forwards and standard options, LBBW also increasingly made use of structured products with the newest generation of options.
By offering special interest rate and commodities derivatives, LBBW was able to meet the increased demand by customers for products in this sector. In view of the increased risk associated with interest rates and commodities prices, demand will remain stable for such products in 2008.

Key Accounts and Multinational Corporations: Further Market Penetration.

Market penetration and building extensive relationships with large, multinational corporate customers are two key activities for the LBBW Group. In achieving these goals, LBBW will continue to follow its industry-specific strategy, which has been responsible for LBBW obtaining numerous contracts to structure sophisticated financial products. In addition to borrower's note loans and ABS structures, listed companies increasingly used capital increases to implement their strategic goals with the help of LBBW.

Capital market-oriented multinational corporations were the companies most directly and quickly affected by capital market turbulence (particularly on the commercial paper market) in the past year. However, the solid financial resources of these customers ensured that this turbulence did not spill over to corporate financing, and the market calmed quickly. In October, LBBW again successfully placed initial transactions. This enabled LBBW to further reinforce its position as a core bank for this customer group.

Leveraged and Acquisition Financing: Brisk Demand.

LBBW's leveraged and acquisition financing business focusing on upper-tier SMEs continues to remain solid. Interest in promising transactions is still strong among private equity companies. This trend is expected to continue in 2008, and some sectors of industry may again see the return of strategic buyers.

The ongoing need for consulting and support during the strategic restructuring of companies and larger corporations was again a growth driver for the LBBW Group's mergers and acquisitions (M&A) business in 2007. Particularly in the automotive and mechanical engineering focal sectors, numerous contracts and inquiries indicate that this trend continues unabated.

Markets in many European countries are fertile ground for LBBW's target-oriented key account approach. The combination of industry expertise and a focused product portfolio meets the needs of a target group that cannot be met everywhere by local banks. The building and strengthening of such business relationships remains a core element of LBBW's medium-term strategy. Stock market placements in Switzerland and LBBW's leading position in syndicated financing in Austria are the first visible successes in this European strategy. The LBBW Group's international network of branches, subsidiaries, and representative offices, which can quickly provide local contacts, supports this approach.

Project and Structured Financing: Services in Attractive Target Sectors.

The structured financing/project financing segment performed well despite market turbulence. In particular, LBBW was involved in interesting transactions due to its expertise in aircraft financing. LBBW also successfully assisted a large number of middle market customers with cash flow-based project structuring. This type of solution promises strong growth again in 2008.

Financing of renewable energies moved to the forefront of LBBW's activities in this segment in 2007. This trend is spreading beyond Germany to other European countries, like Greece, Spain, and Turkey. The LBBW Group offers assistance to its customers with projects there. In 2008, LBBW anticipates a significant increase in business due to lively customer interest and a strong willingness to enter into dialogue with LBBW on this issue.

Public Sector: Broad Range of Services Offered.

The services offered by companies of the LBBW Group include the financing of municipal activities, as well as specialized financing for municipalities and municipal companies. LBBW is recognized as an expert partner to public-sector institutions and companies that provides services in cooperation with local savings banks.

In the 2007 fiscal year, public private partnerships (PPP) in municipal projects covered a broader spectrum of business than in previous years. LBBW prepared feasibility studies for such projects for municipalities in Baden-Württemberg and also acquired interests in European transactions.

One-stop Shopping for Real Estate Services.

Comprehensive Expertise for Real Estate Companies.

Thanks to its wide-ranging expertise and years of experience in the German and international real estate financing business, the LBBW Group is positioned to assist professional investors with large-scale real estate investments. As an arranger and syndicate bank, LBBW offers a comprehensive range of real estate products and services. In addition to providing conventional financing, LBBW also invests in selected German and international real estate projects. The LBBW Group conducts real estate activities in its core market of Baden-Württemberg and beyond in Germany's major business centers. In Europe, the focus is on the UK, Switzerland, and Austria, as well as Spain, Poland, the Czech Republic, and Hungary. In other parts of the world, LBBW concentrates on major business locations in the USA and Canada and selected locations in Asia and Australia.

Results in this segment were improved thanks to a long-standing, first-rate network of relationships with real estate companies, project developers, and syndicate banks. At around EUR 6.5 billion, loan commitments exceeded the prior-year figure considerably, with approximately two-thirds of new business generated on international markets. The focus continues to be on financing high-quality office and retail properties in top-quality locations in major German, European, and North American cities. The high commitment volume had a positive effect on the loan portfolio, which grew by over 20 % year-on-year.

Nearly one-fourth of the more than 3,200 residential real estate companies in Germany rely on the high level of expertise and service provided by LBBW. The focus in 2007 was again on investments in boosting the value of the real estate portfolio and therefore financing renovation and modernization projects. The volume of new financing extended to residential real estate companies and social service facilities was significantly higher than in the prior year. The majority of this business was in the western part of Germany.

LBBW Immobilien GmbH.

On January 1, 2007, the LBBW Group's center of excellence for real estate was launched under its new name of LBBW Immobilien GmbH. All of the LBBW Group's real estate services are gradually being consolidated in this company. Based on a 70-year company history, the new LBBW Immobilien GmbH offers a complete range of real estate services. The company is positioned among Germany's market leaders as a residential and commercial real estate investor, developer, and service provider. Its core markets are Baden-Württemberg and Rhineland-Palatinate, but stepping up activities in Germany and abroad is another goal of the company's strategy.

LBBW Immobilien GmbH brings together investments in all types of residential and commercial real estate development projects in the development segment. Currently, the project volume stands at around EUR 2 billion. LBBW Immobilien Capital GmbH runs project development operations with the help of partners and is currently responsible for projects totaling approximately EUR 750 million. The company's activities concentrate on Munich, Stuttgart, Frankfurt, and additional major metropolitan areas in Germany, as well as Luxembourg and Romania.

LBBW Immobilien GmbH's asset management activities cover residential and commercial real estate portfolios, along with portfolio-related services for rental apartments and condominiums. Real estate management remains a major source of earnings for this Group subsidiary: the company manages nearly 50,000 residential units, around half of which are in its own portfolio, as well as office and commercial properties with leased space measuring around 180,000 m^2. In the future, real estate trading activities will be increased and this Group company will be developed from a portfolio manager into a real estate brokerage firm. To date, LBBW Immobilien GmbH has privatized roughly 14,000 apartments in a socially responsible manner, the majority of which were sold to tenants or their relatives. Non-investment-related real estate services are consolidated in the real estate services division of LBBW Immobilien GmbH.

BW-Immobilien GmbH.

For two years now, the Group's real estate management activities have been consolidated in BW-Immobilien GmbH (BWI). Positioned as one of Germany's leading providers of these services, the company is increasingly able to provide services to private and institutional real estate owners, even outside the Group, and therefore to tap into additional growth segments. Its activities concentrate on all-around management of real estate holdings with a focus on earnings and costs. Currently, the company manages approximately 750,000 m^2 of commercial real estate, 500,000 m^2 of which is managed for the Group and the remaining part for third-party customers. The market value of these properties is around EUR 1.4 billion.

International Business: Close to Customers Around the World.

International Business – International Presence: LBBW's Global Network.

The LBBW Group's global network consists of branches, representative offices, international offices, subsidiaries, and German Centres that are being linked more and more closely all the time. This allows the Group's customers to take advantage of LBBW's services anywhere in the world they do business while still enjoying the expertise and quality of service they were used to back home. In 2007, LBBW's presence on international markets was reinforced with the opening of a representative office in Jakarta and the establishment of a financing company in Mexico. LBBW México SOFOM offers local financing solutions in US dollars and Mexican pesos.

The opening of a branch in Seoul and an office in Dubai in spring 2008 marked further milestones. Concurrently, the network of German Centres is also being expanded. The German Centre Delhi.Gurgaon is located in the industrial belt of India's capital, Delhi, and was established as a joint enterprise with Bayerische Landesbank. The office space measuring 8,600 m^2 will be ready in fall 2008. In addition, a new German Centre in Moscow and an expanded German Centre in Beijing are in the planning stages.

LBBW – Around the Globe.

Branches:	
London (UK)	Seoul (South Korea)
New York (USA)	Singapore

Representative offices:	
Barcelona (Spain)	Mumbai (India)
Beijing (People's Repuplic of China)	Paris (France)
Budapest (Hungary)	Prague (Czech Republic)
Hanoi (Vietnam)	São Paulo (Brazil)
Jakarta (Indonesia)	Shanghai (People's Republic of China)
Madrid (Spain)	Tokyo (Japan)
Mexico City (Mexico)	Warsaw (Poland)
Milan (Italy)	Vienna (Austria)
Moscow (Russian Federation)	Zurich (Switzerland)

International offices:	
Dubai (UAE)	

German Centres:	
Beijing (People's Repuplic of China)	Singapore
Mexico City (Mexico)	

Subsidiaries:	
Amsterdam (The Netherlands)	Mexico City (Mexico)
Dublin (Ireland)	New York (USA)
London (UK)	Zurich (Switzerland)
Luxembourg	

Providing Services Locally: LBBW's Branches Abroad.

The LBBW Group's branches performed well, as in previous years, and again increased their volume of business in 2007.

The number of the Group's employees in **New York** grew from 49 in 2006 to 76 at the end of 2007. LBBW's branch there offers a wide range of products and services for financing small and medium sized companies and their US activities. In addition, customer advising is enhanced by partnerships with LBBW's wholly owned SL Financial Services Corporation subsidiary and integration into the network operated by the German-American Chamber of Commerce in New York. The branch is increasingly positioned as an expert in forex trading. Within the Group, the New York branch has become established as the center of excellence for commercial real estate financing in the US and Canadian markets and made a reputation for itself with lead management contracts as an arranger for large-volume financing for individual deals and portfolios. A leveraged financing team was also formed. The success of LBBW New York's issuing activities is underscored by the MTNi »Alternative Asset Class Structured MTN Deal of the Year 2006« award that LBBW received. The branch also gets more and more important for the Group's US dollar funding.

LBBW Securities, LLC, a wholly owned subsidiary of LBBW, received a US broker-dealer license in March 2007. This company trades in repos and for its own account, as well as trading in German shares. Securities underwriting is currently being introduced.

In the 2007 fiscal year, the focus of the **London** branch was on reinforcing its areas of expertise and expanding the services offered. In the capital market business, LBBW London concentrated on further developing its Treasury units. In addition, the foundation was laid for an expansion of capacity on the product and sales side of the corporate customer business. Moreover, additional resources are being added in lending operations to address the growing importance of London's syndication market.

The branch in **Singapore** focused primarily on building up its corporate customer business. Private banking was also introduced as a new business segment. To this end, the professional expertise of LRI Landesbank Rheinland-Pfalz International (Luxembourg) is being combined with LBBW's regional expertise in Singapore. During the process of establishing the new branch in Seoul, the Singapore branch prepared to serve as the hub of LBBW's business activities in Asia and to offer assistance for setting up additional offices there. The new branch in **Seoul,** which opened in spring 2008, enables German corporate customers to access banking services in Korean won (KRW), as well as other convertible currencies. LBBW also offers local payment settlement, lending, deposit, foreign exchange (including hedging), and guarantee credit and trade financing services there.

German Centre Network: The Success Story Continues.

The German Centres continue to receive excellent feedback from customers. This assessment is backed up by continually high occupancy rates and strong demand for office space, particularly in the Centres in Asia. The German Centres offer SMEs a full range of support services, especially in challenging foreign markets. There they can take advantage of a selection of office space and services aligned with their needs, as well as a network of service providers, such as international chambers of commerce; tax, legal, and human resources consultants, and of course, LBBW's branches and representative offices. The tenants represent all sectors of German industry, but around 20 % is accounted for by the mechanical engineering industry alone. To date, the worldwide network of German Centres has provided more than 1,200 middle market tenant companies with assistance in the relevant markets.

International Corporate Customer Business: LBBW's Core Competence.

International business is becoming increasingly interconnected. Whereas the share of foreign supplies and contract processing of German export goods was only 30 percent in 1995, this figure in the German export industry had reached nearly 50 percent in 2007. Globalization is also affecting smaller companies who often lack the home office capacity to manage their international activities. This is the reason LBBW supports and advises its customers on entering international markets. LBBW not only provides customers with banking products locally, but also makes it easier for corporate clients to enter new markets by providing knowledge of regional and local conditions.

LBBW's international corporate customer business pursues a sales strategy that places strategic partnerships above price competition. The customer account managers and specialist advisors at LBBW base their consulting services on the business policies and strategies of their customers and work with customers to develop risk-minimizing solutions. These solutions include receivables management that goes beyond classic export financing to take pressure off of customer balance sheets and service packages featuring complete settlement of documentary foreign trade transactions.

Close Cooperation with Banks: Relationship Management for the Benefit of the Customers.

The Relationship Management Financial Institutions unit of the LBBW Group coordinates partnerships with banks abroad. One focal point of these activities is the traditional correspondent banking business, which involves maintaining and further expanding a network of correspondent banks for the purpose of settling and financing payments as well as documentary and foreign trade transactions for customers. Moreover, these foreign banks are an attractive target and customer group in their own right with a great deal of business potential. Continually developing and improving the quality of the business with banks abroad, particularly with a view to the strong degree of globalization of the corporate customers, will remain a key activity in the future.

Cooperation with the savings banks is becoming increasingly important for LBBW's international business. In 2007, a special consulting unit was established to provide support services for international banking to the savings banks ranging from systematic customer analysis to acquisition talks.

Investment Business: Customer-focused Solutions.

The LBBW Group offers a broad spectrum of customer-focused equity solutions. As equity investment companies with their own investment management teams, various companies of the LBBW Group pursue their own investment philosophies.

Süd-Kapitalbeteiligungs-Gesellschaft mbH (SüdKB) is a wholly owned subsidiary with its own basic equity product that is specifically used as a component of the overall customer relationship.

LBBW holds a 40 % interest in BWK GmbH Unternehmensbeteiligungsgesellschaft, the other shareholders of which also pursue a long-term, dividend-oriented investment strategy. BWK is positioned as an independent »institutional family shareholder« that provides equity to established, owner-run SMEs in its role as a long-term partner.

As is typical in the sector, Süd Private Equity GmbH & Co KGaA (SüdPE) is designed as a fund with limited duration that offers a broader range of investors access to equity investments in SMEs and provides »entrepreneurial equity«, particularly in the case of leveraged buyout-based structures, for majority takeovers.

From the Group's perspective, Beteiligungsmanagementgesellschaft (BMG), which provides support services for the acquisition, management, and sale of equity investments, represents the framework for this diverse range of equity investment services.

Helping Innovations Get to Market: LBBW Venture Capital GmbH.

A wholly owned subsidiary of LBBW, LBBW Venture Capital GmbH invests in new technology companies with a focus on the IT/high-tech and life sciences industries. LBBW Venture is a partner to these companies from the innovation stage to market launch, from domestic and international expansion to the path toward long-term corporate development. Here in particular, a key advantage is provided by the close interlinking of all-around advising by experienced equity investment managers and the LBBW Group's products and services. This is reflected in the successful arrangement of new equity investments across Germany and a number of international transactions as well. At the end of the year, LBBW Venture was involved in 15 direct investments and several fund investments throughout Europe.

Leasing and Factoring.

As a holding company, LBBW Leasing GmbH is the central location for the LBBW Group's leasing activities. The company is among the three largest manufacturer-independent providers of leasing services in Germany.

In summer 2007, SüdLeasing GmbH restructured its activities into three new business areas. The »Corporates & Bank« unit promotes cooperation among the companies of the LBBW Group in doing business with SMEs. The »Vendors« business area concentrates on developing and implementing leasing and financing solutions for construction, manufacturing, printing, and packaging equipment, and medical technology products. The »Automotive« unit works with partners to develop markets with attractive lease and service offers. In the course of internationalizing its operations further, SüdLeasing opened an office in Mexico in spring 2008. Additional offices are planned for Canada and Romania.

LHI Leasing GmbH (LHI) structures intelligent financing solutions for companies and investors. The products offered range from leasing and rental solutions for companies to retail investment funds and private placements for high-net worth private individuals, foundations, and family offices. As in previous years, LHI's international business also performed well. LHI is the market leader in real estate leasing in Poland and has done business in Moscow since 2006. Rounding out these services are related services including real estate management, property company management, strategic real estate analysis, and insurance solutions. As an arranger, LHI has developed a permanent customer base among international investment firms. LHI's IFRS-compliant structuring of leases continues to be a service that is unique in this market. In terms of structured financing, a large number of municipalities as well as commercial clients chose to use LHI's services in 2007. Against the backdrop of corporate tax reform in Germany, LHI offers corporate customers the numerous advantages provided by the new »Z-lease« and »Z-rent« products. Moreover, LHI is also breaking new ground with the sale, structuring, and placement of entire real estate portfolios.

The MKB/MMV Group markets customized equipment financing solutions to commercial middle market customers across Germany. Within LBBW Leasing, MMV Leasing is responsible for small-volume equipment leasing in particular. The choice of either a lease or a loan enables customers to select the most cost-effective financing solution. On the whole, the Group served more than 50,000 customers, mostly SMEs, as of the end of the year. In 2007, the company once more underwent a rating process conducted by GBB Rating-Gesellschaft für Bonitätsbeurteilung mbH, again receiving a high rating of AA- in May.

Along with the subsidiaries SüdFactoring and R-Procedo Factoring GmbH, located in Stuttgart and Mainz-Kastel respectively, the LBBW Group is one of Germany's five largest factoring service providers. Thanks to the ongoing strong demand by many SMEs for in-house and full-service factoring in Germany and abroad, SüdFactoring generated double-digit revenue growth in 2007, topping four billion Euro in revenue for the first time. The company's activities focus mainly on the food and beverage, wholesale, automotive supply, and IT industries. The subsidiary R-Procedo Factoring has been part of the LBBW Group since September 2007 and offers LRP and the savings banks in Rhineland-Palatinate a factoring platform in the Mainz area. The food and beverage sector, and its retail/wholesale activities, the automotive supply sector, and the chemical industry are the focus of the company's activities.

Retail Clients.

In the core market of Baden-Württemberg, BW Bank stands for the LBBW Group's decades of success in doing business with retail customers and investors. Providing comprehensive and sustainable financial advising based on a complete range of products and services will ensure LBBW's continued success in the future.

Retail Customers: Confidence in BW Bank.

Trust and satisfaction form the foundation of personal relationships, as well as successful long-term partnerships. This has been BW Bank's philosophy in serving retail customers and investors in its core market of Baden-Württemberg for generations. Securing this success for the future is the primary goal. In addition, continual improvements in customer satisfaction and loyalty are the core of BW Bank's corporate strategy, as well as its daily business.

After LBBW completed the technical integration of BW-Bank AG into the LBBW Group in 2006, the goal for 2007 was to develop new advising processes for the bank's business with both high-net worth private individuals (private banking) and with retail customers. Depending on the customer group, various tools are used to map out the customer's specific financial situation. Subsequently, the customer's current needs and future financial goals are defined. All BW Bank advisors from asset managers in private banking to financial advisors on the retail customer side to service employees were trained intensively in this process.

In the future, the business serving high-net worth private clients will be expanded in Saxony and neighboring regions. To accomplish this goal, the new Sachsen Bank will build on the expertise and market knowledge of BW Bank, which has operated branches in Dresden, Halle, and Leipzig for years.

Daily Contact with BW Bank: Fast, Easy, and Secure.

In 2007, BW Bank further simplified access to its services. A key step forward was the expansion of Internet banking services. Since 2007, this service includes not only checking account information and conducting transactions online, but also opening new accounts. In order to provide customers with even greater flexibility and ease-of-use, BW Bank also introduced an agency agreement throughout the bank. This agreement allows customers to request banking services without having to sign separate contracts each time.

Launch of the TAN Generator in online banking enhanced the former PIN/TAN procedure with the addition of a state-of-the-art security procedure. The Fraunhofer Institute for Security in Data Processing believes this process to be effective and has confirmed that using a transaction-specific TAN can successfully prevent fraudulent transactions. LBBW's approximately 50,000 direct brokerage securities account holders can also benefit from this additional security measure.

The BW Bank Service Center offers all customers extended phone services in addition to a security hotline to assist customers when Internet security issues arise. Over one million contacts per year by phone, fax, and e-mail underscore the high rate of acceptance of this service. LBBW's high level of service in self-service banking was increased once again with the replacement of all 285 automated teller machines with a new generation of machines and the simultaneous updating of the relevant application systems.

Regardless of whether they wish to use BW Bank's online banking, direct brokerage, or card services, customers can access the required information and services almost instantaneously through BW Bank's homepage. A »branch locator« feature with integrated route planner supplies information to customers on the quickest way to get to one of BW Bank's more than 200 branches, 31 self-service locations, or 285 automated teller machines.

An Attractive Account: BW extend Value-added Checking.

The lynchpin of the business relationship between customer and bank is and remains the checking account. For five years now, BW Bank has offered customers the attractive opportunity of opening a BW extend value-added checking account. In summer 2007, the services included with this account were again expanded considerably. For the same monthly flat rate, customers can obtain a gold-level credit card with one for their spouse as well. This account package still includes numerous discounts on leisure activities offered by extend partners, as well as a reduced price for annual passes from Stuttgart's regional transportation cooperative. Over 175,000 customers already enjoy the benefits of BW extend.

BW Bank's credit cards also offer new features. Holders of the SPECIAL Visa Goldcard and SPECIAL MasterCard Gold can now take advantage of significantly improved security features. Rounding out BW Bank's credit card range is a new pre-paid card that offers customers attractive interest rates on balances and all of the advantages of a conventional credit card with no risk of debt and no credit check. BW Bank offers young people ages 12 and over a special version of the BW pre-paid Visa card so that they too can enjoy these advantages and learn how to handle this contemporary payment method early on.

The Region's Source of Construction Financing: BW Bank.

The economic upturn in Germany did not yet directly impact demand for construction financing in 2007. Nonetheless, BW Bank was able to defend its position as the region's construction financing provider against competitors, even gaining new customers due to the bank's expertise and comprehensive range of services. In view of the gradual rise in interest rates, many customers took this opportunity to refinance their existing loans at BW Bank ahead of time at these still-low interest rates. In addition to forward loans, home savings and loan contracts with attractive terms are also used for this purpose. These contracts were offered in cooperation with LBS Baden-Württemberg.

Innovative Investments: BW Zielfonds.

The securities business saw the introduction of the new BW Zielfonds in early 2007. This is an innovative fund concept offered by BW Bank consisting of funds of funds with fixed maturities. Initially, the money contributed is invested exclusively in equity funds to optimally leverage capital growth opportunities. Later, the asset allocation is shifted to include bond, real estate, and money market funds, which provide more security. The new twist offered by BW Zielfonds is that the risk-reward profile of the account is shifted to ensure increasingly more conservative investments as the redemption date draws nearer.

In the first half of 2007, customers profited from booming stock markets. However, in the second six months, the trend turned around with stock exchanges experiencing extremely volatile prices. Fortunately, LBBW's innovative certificates allowed BW Bank's customers to take advantage of attractive investment opportunities whatever the stock market situation.

The introduction of the definitive flat-rate withholding tax (Abgeltungsteuer) as of 2009 was a focus of LBBW's attention well ahead of time. Suitable product solutions were developed early on to allow customers to benefit from the existing rules. The LBBW Balance concept was available as early as December 2007. For the first time, this product allows customers to gradually invest in the stock market while still taking advantage of the tax benefits of the transitional provisions. Customers who want to park their liquid funds for a short period can also find a product to fit their needs at BW Bank. More than 25,000 customers are already signed up for the BW Cash account launched in late 2006. The BW Park+Ride account, which is mainly offered as a securities clearing account, saw a sharp increase in the number and volume of accounts opened.

Beyond Riester: BW for a Secure Future.

Planning for retirement and the future are issues that are as relevant as ever. Around one-third of business conducted in this segment in the past year involved »Riester« pension products (private, voluntary retirement savings plans subsidized in part by the state and named after former German Labor Minister Walter Riester). BW Bank's FondsRente product is available to customers who wish to supplement their private retirement plans with the opportunity for attractive capital growth. The combination of a BW Zielfonds and an insurance wrapper allows customers to remain flexible in structuring their retirement planning. Cooperation with numerous well-known partners also permits customers to access a broad spectrum of products with customized retirement planning solutions. The top sales partners for these products are SV Sparkassenversicherung, Wüstenrot & Württembergische, and DekaBank.

More Than Just Investing: Private Banking at BW Bank.

For years now, BW Bank's asset managers have been generating above-average returns for their clients. Evidence of this success is provided by firstfive, an independent ranking firm: BW Bank took top honors in its ratings again in 2007, including a first place in the »balanced« risk category (performance weighted over 36 months).

Thanks to fund asset management being switched to the new BW Portfolio Fonds fund-of-funds concepts, customers with assets of at least EUR 50,000 can take advantage of LBBW's asset management services. In the past year, both the number of customers and the volume of assets under management increased. There was strong demand for the preparation of financial reports. Customers with considerable wealth as well as SMEs value a holistic approach to financing advising built on a well-founded financial plan. Asset structure, liquidity management, and risk management play a role here, as do issues concerning the structuring of property succession.

A Leader in Germany: BW Bank's Foundation Management.

Establishing foundations in Germany is increasingly gaining acceptance for the purpose of building wealth sustainably and managing the distribution of wealth in a focused way. With 540 foundations relying on its professional support and a foundation volume totaling around EUR 3.2 billion, BW Bank's foundation management unit is among the top providers in this segment in the German financial sector.

New Opportunities: Baden-Württembergische Equity GmbH.

For discerning high-net worth private clients, conventional investments are not enough. This clientele is seeking new opportunities in addition to classic investment vehicles. Diversification and assets are key words in this regard. Closed-end funds – over 600 of which are available in Germany alone each year – offer convenient access to investments in tangible assets. The spectrum ranges from international real estate investments and shipping companies to environmental investments. The job of separating the chaff from the wheat is handled by Baden-Württembergische Equity GmbH (BWEquity). Closed-end funds from this large number of possibilities are chosen using a careful review process. Capital of EUR 1.4 billion has been invested to date in a wide variety of assets via BWEquity, and in 2007 approximately EUR 150 million was added to this amount.

BWEquity's services are available to the entire LBBW Group and the Savings Banks Financial Group (Sparkassenfinanzgruppe). The support of BWEquity is therefore enjoyed not only by BW Bank and Sachsen Bank, but also by the savings banks, particularly in Baden-Württemberg, Rhineland-Palatinate, and Saxony. This collaboration with the savings banks holds a great deal of growth potential and is already producing initial positive results. In order to prepare for the future demands of the Group and the growing savings bank customer group, BWEquity has created a multiple client-capable Internet platform. Electronic subscription forms, online fund and customer archives, customer portfolios, and personalized after-sales services offer a high level of convenience and significant efficiency improvements.

Asset Management at the Highest Level: Wealth Management.

Wealth management customers, often entrepreneurs, are characterized mainly by the complexity of their asset structures. Liquid assets – securities and bank balances – do not always play the major role in these situations. Interests in business ventures or real estate are often much more important.

Wealth managers work exclusively on meeting the personal needs of their clients and spend considerable time on the complex issues involved. They are supported by specialists within the Group as well as third-party experts. The range of services offered includes all issues relevant to wealth management, from securities management to financing to foundation management and art consulting.

The Reliable Private Bank in Zurich: LBBW (Schweiz) AG.

LBBW (Schweiz) AG is an independent Swiss private bank specializing in providing personalized support services to a high-net worth international clientele. The bank can offer its customers an independent Swiss infrastructure tailored to international requirements for managing their assets. This puts LBBW (Schweiz) AG in the advantageous position of being able to build bridges between two worlds. As the subsidiary of a major German bank, LBBW (Schweiz) AG understands the requirements and mentality of its international clientele, and as a Swiss asset management firm works solidly within the traditions of that country. In 2007, assets under management and the number of customers both grew sharply, and LBBW believes that this trend will continue in the future.

Financial Markets.

The sustainability of a successful business model becomes evident when times are tough. With solid capital resources and a conservative risk policy, the LBBW Group continues to provide its customers a full range of services, even during turbulent capital market phases.

The performance of the German and international financial markets was split in 2007. Although the stock markets were bullish in the first six months of the year, the second half was marked by the major disruptions caused by the subprime crisis on the US mortgage market. The loss of confidence among market participants arising as a result and the ensuing shortage of liquidity in some market segments changed the environment in which LBBW does business as well. Despite these difficult market conditions and supported by LBBW's strong capital resources and high levels of liquidity reserves, LBBW was able to cushion the effects of these tensions on the international money markets. As a result, LBBW was able to continue to develop and place products for and in cooperation with its customers.

Credit Capital Markets: The Source for a Complete Range of Services.

The establishment of the Credit Capital Markets (CCM) division in 2006 was the LBBW Group's way to address the increasing convergence on global credit markets. CCM consolidates and manages the credit risk-based investment, structuring, and trading activities of the Bank. The responsibilities of CCM will be extended to the Group as a whole in the medium term. Thanks to LBBW's conservative business model and correspondingly solid balance sheet structure, LBBW is in an advantageous position for continuing to leverage in the future the favorable risk-reward opportunities identified on the market to date.

Credit Investment: Efficient Management of the Group's Portfolio.

The LBBW Group's aggregate portfolio is managed using carefully selected securities investments in the »Corporates,« »Financial Institutions,« and »Sovereigns« categories while taking into account risk-reward considerations. LBBW invests exclusively in the high-grade segment of the credit markets. As a reaction to the market turbulence in the second half of the previous year, monitoring of key investments was stepped up to minimize defaults and mark-to-market risks. To this end, LBBW entered into hedging transactions for some individual positions (micro hedges) or portfolios (macro hedges). During the second half of 2007, new business was limited to transactions featuring unusually high margins, excellent credit ratings, and secured financing.

Credit Trading: Liquidity for Customers Even in Difficult Times.

The credit trading business was heavily influenced by market distortions in 2007. The lack of confidence exhibited by financial institutions led to a pronounced shortage of liquidity, which in turn magnified the downturn in prices, while credit institutions and financial transactions had to face the effects of this crisis in extremely defensive markets. Against this backdrop, this business segment, which provides liquidity to the Bank's customers, reported a loss in 2007. LBBW reacted to this result by reducing the volume of positions overall and adjusting the risk profile so that this business would be better positioned on the market even if turbulence continues.

Capital Markets Trading and Sales.

Debt Capital Markets: Strong Earnings.

With a total placement volume of over EUR 2.5 billion, LBBW further reinforced its position as the German market leader in corporate borrower's note transactions in 2007. In the jumbo covered bond (Pfandbrief) segment, LBBW is among the world's top five lead managers and again underscored its strong record of success in placing German and international covered bond transactions.

Top 10 Issues in 2007 – with LBBW as Joint Lead Manager.

Issuer	Type	Maturity	Currency	Volume in Mio.	LBBW share in Mio.
LBBW	Jumbo Covered Bond	Oct. 2012	EUR	2 000	613.340
Bank of Scotland	Jumbo Covered Bond	Jan. 2015	EUR	2 000	475.000
AyT Cedulas Cajas	Jumbo Covered Bond	Mar. 2017	EUR	2 000	456.250
Dexia Municipal Agency	Covered Bond	July 2017	EUR	1 250	391.660
Land Berlin	Sub Sovereign/Region	June 2017	EUR	1 250	363.334
Caja Madrid	Jumbo Covered Bond	Apr. 2022	EUR	1 500	360.000
Caja Madrid	Covered Bond	Feb. 2014	EUR	1 250	300.000
CIF-Euromortgage	Covered Bond	Apr. 2011	EUR	1 250	297.500
IM Cedulas	Covered Bond	Nov. 2009	EUR	1 050	262.500
NRW Bank	Bank (unsecured)	Jan. 2009	EUR	1 500	216.000

Since the markets for structured funding were particularly affected by the effects of the subprime crisis, LBBW expects a resurgence in traditional bond transactions. The Group is well-positioned for this opportunity to gain new customers thanks to LBBW's extensive expertise and proven placement track record. In the future, LBBW will also increasingly focus on private placements for international issuers.

Sales Activities: Challenges Met, Market Position Improved.

Hedging interest rate risk was the primary concern in LBBW's business involving real estate and municipalities in 2007. Numerous customers took advantage of opportunities to reduce interest rates using structured interest rate derivatives offered by LBBW. Moreover, the number of municipalities taking advantage of LBBW's advisory services, primarily in Baden-Württemberg, increased further. LBBW also reinforced its excellent market position in terms of insurance companies, pension funds, and asset management firms in German-speaking countries. The expanded product range including credit derivatives, structured credit products, and alternative investments contributed to this result.

LBBW will continue to pursue the structured credit product and credit derivative strategy undertaken in 2007. In the future, the focus of sales will be on LBBW's own ABS products. With a further increase in placements of primary syndicated bond transactions and private placements, including for customers abroad, LBBW aims to replicate the success achieved in the previous year. Furthermore, emphasis will also be placed on growing sales of alternative investments, placing primary private equity transactions, such as PG Global Mezzanine Funds, and expanding trading in registered securities, particularly by international issuers. The goal in this business segment is to establish LBBW permanently in the top echelon of the German banking sector to improve chances for placement of registered securities in Germany and the rest of Europe.

LBBW's product management activities in support of sales are being stepped up. Selected institutional target customers are offered all-around advising by LBBW's relationship management team along with a sustained high level of service quality with a broad range of customer training sessions, individual valuation services, portfolio analysis, and SAA (structured asset allocation) and ALM (asset-liability management) advising. In addition, sales activities vis-à-vis banks were intensified and LBBW's customer base broadened as a result. In the first half of the year, LBBW met the targets set despite a noticeable increase in market volatility. In the second six months, some transactions were postponed. However, overall sales targets were reached for the most part due to sales growth in more conservative product groups.

LBBW pushed forward with additional activities in the strategically important segment of capital-guaranteed alternative investments and fund derivatives. Expanding the base of asset managers (origination) for various types of credit and fund structures supported this development. »Plain vanilla« business also grew, particularly placement of new issues including international covered bonds, corporate bonds and notes, and financial floaters.

LBBW's structured credit product activities included developing alternative forms of securitization for SME borrower's note loans (»M-Korb«) and various synthetic CDO concepts. In general, the sales figures for the second six months of the year reflected the generally observable trend toward investor flight into liquidity and safe investments. As a result, sales of public-sector covered bonds (Pfandbriefe) improved significantly. New highs were also reached by LBBW in terms of unsecured bearer bonds, for example the special promotion run in conjunction with the savings banks in Baden-Württemberg and Rhineland-Palatinate valued at around EUR 2 billion. The volume of corporate borrower's notes also rose sharply in the second half of the year, with LBBW's volume of sales to the savings banks amounting to EUR 634 million from 17 different issuers.

Trading Activities: Targets Exceeded, Position Reinforced.

Trading in the Money Market/Forex/Commodities division significantly outperformed the result of the previous year and the earnings forecast for 2007. LBBW's forex traders occupy a top spot among the world's market makers. At the same time, trading in commodities also grew in 2007.

The turbulence on financial markets also affected the generally very liquid covered bond markets. Above all, Spanish and American issuers saw trading in jumbos slow to a halt during certain periods. In contrast, German federal government bonds benefited, pushing prices up dramatically compared to swaps. At the same time, obtaining funding for the trading portfolios became much more expensive. Nonetheless, LBBW was able to generate substantial earnings from proprietary trading positions in 2007. The retail bond business and trading in low-interest bonds in particular grew sharply.

LBBW's money market trading focused on managing liquidity risks for the Group as a whole. The LBBW Group's solvency was fully guaranteed at all times. In addition, extensive liquidity reserves were also built up. In the process of interest rate derivatives trading, LBBW originates, structures, and assumes risks for complex interest rate products for institutional investors, SMEs, multinational corporations, savings banks, and other banks. As part of the growth strategy, LBBW's product, IT, and human resources capacity was expanded further, which also resulted in significant growth in earnings from trading in exotic interest rate products.

In 2008, LBBW will continue to expand capacity and develop innovative products. High-volume individual transactions in Swiss francs will be added to the bulk transactions already conducted, a new swap desk in London will deal in pounds sterling, and another new swap desk in Singapore will concentrate on East Asian currencies.

Equity: Increasing Market Penetration.

In 2007, LBBW's equity business improved slightly over the prior year's satisfactory result. Due to strong capital market volatility, proprietary trading in stocks underperformed the previous year's result. On the plus side, however, the derivatives segment saw uninterrupted strong growth; sustained positive results were generated from business with institutional customers, including savings bank trading-account securities portfolios; and the Equity Capital Markets division had a successful fiscal year.

Equity Capital Markets: Expert Partner for All Aspects of the Equities Business.

In terms of stock issues, LBBW has become established as a sought-after partner for capital market activities in the small- and mid-cap segments. Evidence of LBBW's effectiveness is provided by three issues with the best price performance in Europe in the past two years: Manz Automation AG (Reutlingen, Germany), Roth & Rau AG, (Hohenstein-Ernstthal, Germany), and Meyer Burger Technology AG (Switzerland).

In 2007, LBBW was again a lead manager. Highlights in this regard were the IPO of Halloren Schokoladenfabrik AG, the capital increase by Roth & Rau AG, the capital increase by Manz Automation AG, the secondary placement of a stock package by Meyer Burger Technology AG, the capital increase by Norddeutsche Affinerie AG, and the placement of SGL Carbon AG's convertible bond. In addition, LBBW was a key partner in various syndicates participating in corporate actions, such as the IPOs of Strabag SE (Austria), Homag Group AG, HanseYachts AG, MeVis Medical Solutions AG, and centrotherm photovoltaics AG. Among the services LBBW regularly provides are smaller capital market transactions, consulting on and performance of squeeze-out activities, paying agent services for dividend distribution, and setting up employee equity compensation programs. Moreover, around 30 companies rely on LBBW's expertise in running annual general meetings. At the end of 2007, LBBW's designated sponsor and research contracts had risen to 41.

Structured retail products continued to perform well. Compared to 2006, the volume of new sales rose to more than EUR 3 billion. LBBW has firmly established itself on the market as a full-service provider of certificates and derivative structures with approximately 2,500 products in all asset classes. The focus of this product range is on the »Zanonia« and »Synthia« product families. Equally successful were the »Clever Plus« certificate placed in conjunction with the savings banks in Baden-Württemberg and a pooling project with the savings banks in Rhineland-Palatinate. The placement volume of LBBW products in 2007 amounted to about EUR 4.8 billion. In 2008, the range of products will be expanded accordingly to around 7,500 product variations in line with market and customer requirements. Key issues here are the definitive flat-rate withholding tax (Abgeltungsteuer) and the development of product types that ensure the same tax treatment for certificates as for other investment products.

Total sales volume (EUR million)	3 071
of which top 3 products groups (EUR million)	
Zanonia certificates	523
Discount certificates	510
Capital guaranteed bonds	223

Other product types:
Reverse convertible/Index bonds
Bonus certificates
Credit-based certificates
Index certificates
Warrants
Other certificates
Sprint certificates
Step-up bonds

Equity Sales: Sustained Growth.

Sales to German and international institutional investors grew with the support of LBBW's high-quality equities research. LBBW participated in numerous corporate road shows and conferences, exhibiting the Group's proven skill as one of the leading brokers of German shares.

A focus on individual customers was a primary concern in managing the equities holdings of the savings banks in the trading-account securities portfolio business. Beyond the core regions of Baden-Württemberg and Rhineland-Palatinate, additional customers were gained in Germany's North Rhine-Westphalia, Bavaria, and Hesse states for the institutional retail investment funds developed jointly with LBBW Asset Management and LBBW Research. A major milestone in expanding the successful activities aimed at US- and UK-based institutional investors was the establishment of a sales team in London. In early 2008, this concept was also extended to the United States with the creation of a sales unit in New York.

Research: A Comprehensive, Result-focused Approach.

Equity Research Institutionals: Customized Service.

In 2007, LRP Research was integrated into LBBW Research. The addition of 13 analysts from Mainz was used to form a team in the newly founded Equity Research Institutionals department that concentrates exclusively on the needs of institutional investors. As part of the German broker approach, 35 analysts and equities strategists at LBBW conduct primary analyses of approximately 170 individual German stocks. This specialization has led to a sharp increase in interest among institutional investors even beyond Germany's borders.

Investment Research: Target Group-based Advising.

The focus of the analysts in the Investment Research department is on providing advisory services to savings banks and retail customers. Numerous new analysis topics, publications, and services were introduced for this target group, while the range of European and US stocks analyzed was upped substantially. Emphasis was also placed on developing special portfolio strategies for use as a basis for issuing investment funds and certificates, among other instruments.

Support for the retail customer business of BW Bank and the savings banks in Baden-Württemberg was stepped up considerably during the course of the year. During this process, the savings banks in Rhineland-Palatinate were seamlessly integrated into the advising strategy. In the meanwhile, savings banks in other German states are increasingly expressing interest in LBBW's services.

Bond Research/Economics: New Commodities Analysis Module.

The analysts in the Bond Research/Economics department analyze the development of economic, interest rate, and exchange rate risks in the major currency areas, including a number of emerging markets. In addition to economic analysis and the development of trading strategies, efforts in 2007 also focused on establishing and building a commodities analysis module.

Credit Research: Independence Creates Competitive Edge.

In addition to classic credit rating analysis and the valuation of corporate and bank debt instruments, the coverage provided by the approximately 30-strong Credit Research analyst team includes all covered bond markets worldwide, as well as the entire gamut of structured credit products and alternative investments. Well-founded credit research is increasingly becoming a deciding factor in the competition for managing the issuance of corporate bonds and borrower's note loans. An additional focal point of the department's activities is European covered bonds and Pfandbriefe.

The department's independence is at the root of the success of LBBW's Rating Advisory Team, which advises corporate SME customers primarily, as well as major corporations, on external ratings, including debt and capital structures. The large number of new contracts signed indicates that the approach selected is successful for both customers and the Bank.

Asset Management: Now Even Stronger.

After the reorganization of LBBW's asset management and investment companies in 2006, both new companies – Baden-Württembergische Investmentgesellschaft (BWInvest) and LBBW Asset Management GmbH – concluded their first full fiscal year successfully.

LBBW Asset Management GmbH: Successful Sales of Retail Investment Funds.

Despite difficult market conditions, LBBW Asset Management GmbH was able to hold onto its managed fund volume (assets under management) of roughly EUR 16 billion as of the end of 2007. A slight decline in specialized funds was offset by a corresponding increase in retail funds.

In 2007, the »BWI-Dividenden-Strategie Europa« flagship fund received the Golden Bull, S&P and Lipper awards, and for the first time was also awarded the »Grand Prix Eurofonds« as the best European large-cap fund. In December 2007, the existing dividend fund family was expanded to include the »LBBW Dividenden Strategie Small & MidCaps BWI« to extend the concept to the small- and mid-cap listed companies segment.

Among products for institutional investors, the »LBBW NachhaltigkeitsStrategie BWI« fund, which was launched in 2006, performed well. With a fund volume of around EUR 38 million, the fund is among the top 10 in the SRI Global Equities category. The »LBBW Global Warming Strategie BWI« fund represents a true innovation. The fund was launched in January 2007 as the first purely climate change-focused fund and has since seen numerous imitators in the fund industry.

BWInvest: On a Path of Growth.

With assets under administration of approximately EUR 20.5 billion, BWInvest was one of the largest German investment companies as of December 31, 2007. At the end of the year, 153 specialized funds were administered for institutional investors. The number of retail funds for retail and institutional investors grew during the year from 39 to 46.

The share of total funds accounted for by what are known as »private label« funds increased at BWInvest as well. These administrative and other services performed for third parties developed into an important pillar of the company's business, accounting for a share of around 25 percent.

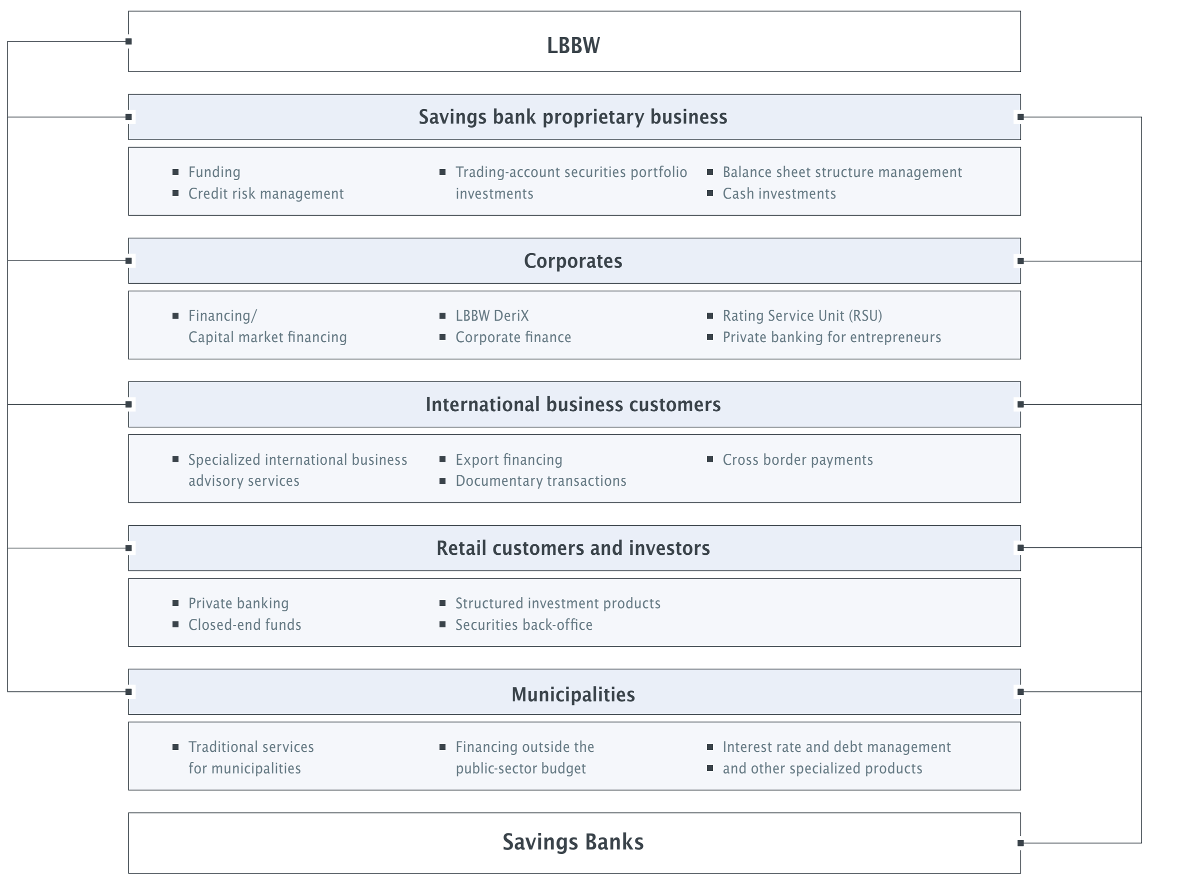
Central Bank to the Savings Banks.

As a central bank to the savings banks in Baden-Württemberg, Rhineland-Palatinate, and since April 2008 also in Saxony, the LBBW Group builds on its partnerships with the savings banks wherever possible. The high level of acceptance of the LBBW Group's performance in all areas of cooperation with the savings banks is the primary driver of this expansion.

All-around Partnerships.

The LBBW Group, Sparkassenverband Baden-Württemberg (SVBW, Savings Bank Association of Baden-Württemberg), and Baden-Württemberg's savings banks have continually worked on developing their traditional partnerships over the years. Within the contractual service partnership (Leistungsverbund) in Baden-Württemberg, these institutions work as association and market partners, concentrating their collective strength on the strategic goal of systematically increasing their joint market share. For this reason, LBBW considers the contractual service partnership and further intensification of the partnerships with the savings banks to be vitally important. Cooperation between Baden-Württemberg's and Rhineland-Palatinate's savings banks and the LBBW Group is voluntary and governed by individual contracts. The signing rate of over 86 percent for contracts in the individual business areas underscores the high level of acceptance of LBBW's performance as an institution. Since 2006, cooperation in a number of areas has been stepped up substantially; these include private banking, asset management, and interest rate and currency management.

Cooperation with the Savings Banks.



A Model for Success: Key Account Managers as Central Contacts.

The relevant specialized divisions at LBBW assist the savings banks with operational issues. They are in close contact with the respective specialists at various levels at the savings banks. A new approach for intensifying this cooperation has proven effective since early 2006: Three key account managers (KAM) at LBBW operate across divisions as single points of contact for the savings banks on all issues concerning cooperation within the partnership and the entire range of services of the Bank. For high-potential business areas, the KAMs put together individualized offers for each of the savings banks, thereby promoting cooperation between LBBW and the savings banks. Special business area managers from the savings bank administrative office are available to provide LBBW's specialized divisions and the KAMs with sales and strategic assistance.

The Savings Bank Proprietary Business: Credit Risk Management for Savings Banks.

In 2007, a Germany-wide credit pooling transaction with an asymmetric structure was conducted for the first time with the cooperation of other Landesbanken as arrangers. Numerous savings banks from a total of 11 German states participated in this deal.

Corporates: Successful Cooperation in Middle Market Business.

The partnership between the savings banks and LBBW in the joint loan business was successful in 2007. Guided by the principle of equal distribution of risk, the focus here is on providing optimal, all-around support to the SME customers served by the savings banks. The savings banks are the holders of the joint loans and therefore the first point of contact for customers. They also act as brokers for other products and services while LBBW provides its product expertise.

The partnership also extends to acquisition financing. This type of financing, which is oriented toward the cash flow of the target company, is not appropriate in every case due to its complexity. However, under certain conditions acquisition financing can be an attractive option for all participants starting at a financing volume of under EUR 10 million and taking into account the opportunities provided by joint loans.

The »LBBW Entry« portfolio-based borrower's note program was again in great demand among the savings banks. A standardized settlement process between the savings banks and LBBW guarantees that liquidity is provided quickly to customers.

International Business Customers: A Strategic Growth Segment.

Germany's small- and medium-sized enterprises are developing new markets every day with their products and services worldwide. International business today accounts for 17 percent of the total revenues of German SMEs. The issue of international business is therefore of high importance to the savings banks, which are the top providers of financing to SMEs in Germany.

The German Savings Bank Association (DSGV) launched the »Erfolgreich im Ausland« (»Successful Abroad«) campaign and in March 2008 showcased the international expertise of the contractual service partnership of the Sparkassenfinanzgruppe. With this initiative savings banks and LBBW want to develop the strategic growth market of international business more effectively. LBBW provides its expertise and makes available its international network for this purpose.

The partnership in this market goes even further. Two expert advisors from the LBBW International Business division cooperate closely with the savings banks and their customers. In addition, LBBW disseminates relevant and current information in a new monthly newsletter called »Ausland aktuell« (»International Business Today«) as well as in country reports and the »LBBW International« publication for the savings banks.

Retail Customers and Investors: Services Provided by LBBW.

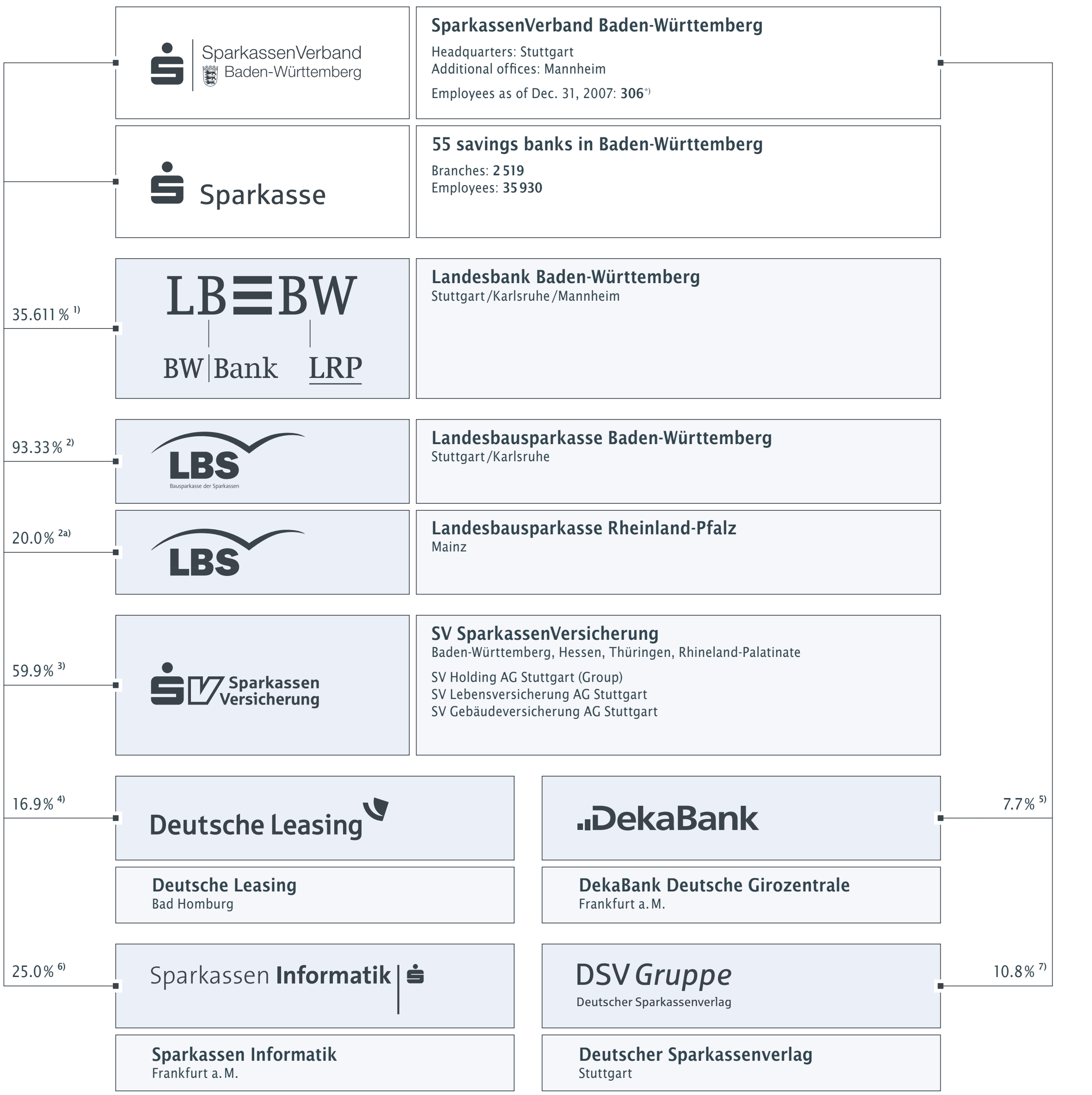
The Back Office Financial Markets division at LBBW offers the savings banks a package of services including securities back-office activities covering all aspects of portfolio management, order settlement, and reconciliation. After organizing two successful pilot projects in 2006, seven additional savings banks signed on in 2007.

Since then, more complex process changes, such as those necessitated by the MiFID Directive, which entered into force on November 1, 2007, have been implemented to the satisfaction of the savings banks. By outsourcing back-office services, the savings banks can cut costs and improve their effectiveness and efficiency by concentrating their resources on their core competencies while reducing operational risks. The positive feedback from the participating savings banks underscores the high quality level of LBBW's services.

Municipalities: Active Interest Rate and Currency Management.

Partnerships with municipalities are a key element of the public mission of the savings banks and LBBW. Active interest rate and currency management is increasing in importance for the municipalities. An advisory contract with municipal customers involves preparing a comprehensive analysis of the results, which are also incorporated into strategic discussions. The analysis covers the entire financing portfolio of the respective municipality and includes regular valuations of its risk positions. Management tools such as derivatives are used which must, of course, comply with the terms and conditions of statutory rules governing public budgets.

Structure of the Sparkassen-Finanzgruppe.



1) LBBW's other owners are the State of Baden-Württemberg (35.611 %), the City of Stuttgart (18.932 %), the Savings Bank and Giro Association of Rhineland-Palatinate (4.923 %), and L-Bank (4.923 %).
2) LBBW (35.611 %) is also a guarantor of LBS.
2a) The Savings Bank and Giro Association
3) The savings Banks and the Savings Bank Association of Baden-Württemberg (SVBW) hold an interest of 59,9 % in SV Holding via a holding company, while LBBW holds a share of 3.2 %. Other guarantors are the Sparkassen Financial Groups of Hesse-Thuringia (33.2 %) and Rhineland-Palatinate (3.7 %).
4) Other shareholders are the regional associations of Hesse-Thuringia, Rhineland, Rhineland-Palatinate, and Westphalia-Lippe.
5) Other guarantors are the other regional Savings Bank Associations and the Landesbanken (50 %).
6) Savings banks outside of Baden-Württemberg also hold direct or indirect equity interests.
7) Other shareholders are regional Savings Bank Associations and Landesbanken.

 / *) in employee capacity

Group Management Report.

CONTENT

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 an unqualified auditor's report by PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft.

Business Activities of Landesbank Baden-Württemberg.

With a business volume of EUR 477 billion and total assets of EUR 443 billion, the LBBW Group is one of Germany's largest credit institutions and ranks among the world's 50 largest banks. 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 8,000-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 half 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 Group's Business Performance.

	2007	2006	change 2007/2006	
Income Statement of the LBBW Group	Mio. EUR	Mio. EUR	Mio. EUR	in %
1. Net interest income	2 127	2 185	– 58	– 2.7
2. Allowance for losses on loans and advances	–186	–163	– 23	14.1
3. Net fee and commission income	584	500	84	16.8
4. Net trading income/loss[1]	– 615	190	– 805	—
5. Other operating income[2]	202	125	77	61.6
6. Total operating income (after allowance for losses from loans and advances)	**2 112**	**2 837**	**– 725**	**– 25.6**
7. Administrative expenses	–1 650	–1 542	–108	7.0
8. Net loss from investment securities	–124	– 3	–121	—
9. Net income/loss from investments accounted for using the equity method and from profit/loss transfer agreements	9	0	9	—
10. Consolidated profit before tax	**347**	**1 292**	**– 945**	**– 73.1**
11. Income tax	–36	– 361	325	– 90.0
12. Consolidated profit for the period	**311**	**931**	**– 620**	**– 66.6**

[1] In addition to net trading income/loss this item also includes net income/loss from financial instruments designated at fair value and net loss from hedging transactions.

[2] In addition to other operating income/expenses, this item also includes net income from investment property.

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 the middle of the 2008 fiscal year.

Against the backdrop of this assessment, the results of operations of the LBBW Group 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 at the LBBW Group in strongly negative valuation results from the measurement of portfolios of structured securities at the reporting date. However, the LBBW Group is not subject to an increased risk of default due to the observable price fluctuations of these highly rated financial instruments. The value adjustments recognized essentially reflect an indirect effect of the downturn implicated by the financial market crisis. The LBBW Group's solid capital backing enables the Group to hold the investment securities in its portfolios to maturity. LBBW Group expects 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.

Effects of the Financial Market Crisis on LBBW's Consolidated Financial Statements.

From the product perspective, absorbing the effects of the financial market crisis mainly involved declines in the fair value of collateralized debt obligations (CDO), asset-backed securities (ABS), commercial mortgage-backed securities (CMBS), residential mortgage-backed securities (RMBS), and commercial papers (CP). The LBBW Group's portfolio of acquired securitized products amounted to a total of EUR 18.1 billion as of the end of the 2007 fiscal year. The consolidation of a total of seven special-purpose entities ensured that all material risks arising from these kinds of entities were reflected in the consolidated financial statements. A breakdown of the portfolio of credit derivatives is provided in the derivatives data reported in Note 90 of the Group's annual report.

The effects of the financial market crisis resulted in an overall reduction in earnings of EUR – 456 million, EUR – 258 million of which is due to a drop in the fair value of financial instruments allocated to the trading portfolio. Another EUR – 198 million of this amount relates to write-downs on available-for-sale structured securities, the reporting of which was required in the net loss from investment securities item due to a supposed permanent impairment identified by LBBW.

In addition, the effects of the financial market crisis required the LBBW Group to recognize additional fair value losses from available-for-sale structured securities in the amount of EUR – 631 million in the revaluation reserve, thus decreasing equity.

Financial Market Crisis Affects Earnings only in Certain Cases.

With securities portfolios of EUR 123 billion, the LBBW Group was not able to fully decouple from the effects of the financial market crisis in terms of earnings in the 2007 fiscal year. In some cases, this development overshadowed the solid profits from operations. On the whole, however, the fiscal year closed with a consolidated profit for the period of EUR 311 million. The fact that healthy profits in the hundreds of millions were generated despite the difficult market environment was mainly the result of the broad diversification of the LBBW Group's sources of earnings. The foundation for this earnings mix is the well-balanced business model pursued by the Group.

In the past fiscal year, net interest income was stable despite the effects of unfavorable external factors and competition-induced pressure on margins. This figure declined only slightly by 2.7 %, or EUR – 58 million, to EUR 2,127 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.

The allowance for losses on loans and advances grew by EUR – 23 million over the previous year, but remained at a moderate level overall, totaling EUR – 186 million. This reflects the unwavering conservative risk policy and high-quality loan portfolio of the LBBW Group, which was given a not-insignificant boost by the sustained positive influence of the robust economic environment of LBBW's core market.

The Group's fee and commission income seamlessly continued its positive performance of the previous year. Compared to the 2006 fiscal year, net fee and commission income rose by 16.8 %, or EUR 84 million, to EUR 584 million. This positive development was marked in particular by the increase in fee and commission income from the lending and guarantee business, and the international business. These segments grew by 82.1 %, or EUR 64 million, and 19.5 %, or EUR 7 million, respectively.

With regard to the income statement, the remeasurement losses resulting from the observable turbulence on the financial markets affected net trading income/loss in particular. These fair value losses totaling EUR – 258 million at the reporting date were due primarily to the reporting of spread widening relating to structured securities. This income statement item was also affected by EUR – 387 million in corrections resulting from the measurement of credit default swaps (CDS) mainly related to banks and sovereigns with excellent credit ratings. On the whole, the overall negative results in the 2007 fiscal year in the net trading income/loss and the net income/loss from financial instruments designated at fair value items declined by a total of EUR – 843 million to EUR – 591 million.

Other operating income greatly outperformed the previous year's result, growing by 61.6 %, or EUR 77 million. A significant share of this item was accounted for by the real estate business, which therefore continues to represent a substantial source of income for the Group.

The performance of the LBBW Group's individual sources of earnings indicates that despite the effects of a turbulent financial market environment, weakness only occurred in some income items. Overall, the LBBW Group generated operating income (after allowance for losses on loans and advances) of EUR 2.1 billion.

Cost Remain Moderate Despite Additional Liabilities.

Administrative expenses increased by 7.0 % (EUR – 108 million) to EUR – 1,650 million. The main reason for this result was a year-on-year increase in other administrative expenses by EUR – 86 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 multi-year projects involving preparations for meeting regulatory requirements (particularly Basel II/Solvabilitätsverordnung (German Solvency Regulation), and preparation of the consolidated financial statements according to International Financial Reporting Standards (IFRSs) starting from the 2007 fiscal year).

Current staff costs at the LBBW Group rose moderately in the 2007 fiscal year, but the increase, at EUR – 33 million, was significantly lower than the increase in other administrative expenses. The rise in staff costs was mainly due to the investments in human resources associated with the launch of strategy and growth projects, which in turn resulted in an increase in the Group's number of employees by 304 as of the reporting date. In contrast, staff costs were positively influenced by extension of the defined benefit obligation due to longer pension terms as the result of application of the RV-Altersgrenzenanpassungsgesetz (German Pension Insurance Retirement Age Adjustment Act), resulting in lower provisions for pensions in the 2007 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.

Due to the decline in results during the period primarily attributable to the financial market crisis and the observable widening of CDS spreads, the Group's cost/income ratio (CIR) rose significantly over the previous year from 51.4 % to 71.8 %. After adjustment of this figure for these two extraordinary factors, the LBBW Group still holds a competitive position among German banks with a CIR slightly over 50 %.

The net loss from investment securities reflected a net increase in expenses in 2007 and amounted to EUR – 124 million. This was due mainly to the impairment losses recognized for available-for-sale structured securities totaling EUR – 198 million, which the LBBW Group was required to report in the income statement due to expected permanent impairment. The main positive effect on this item came from proceeds from the disposal of available-for-sale investments amounting to EUR 108 million.

Consolidated Profit in the Three-digit Millions.

Consolidated profit in the fiscal year under review was marked by the turbulence observed on the money and capital markets. The LBBW Group's consolidated profit did not remain untouched by the noticeable deterioration in net losses from trading and investment securities. However, aggregation of all of the LBBW Group's sources of earnings led to a profit before tax in the three-digit millions (EUR 347 million, or – 73.1 %) in an unusually difficult business environment for the banking sector.

Among the results of the business taxation reform implemented in Germany is a reduction in the LBBW Group's tax liability due to lowering of the Group's tax rate starting in 2008. In 2007, this one-time non-cash effect positively impacted deferred tax income. In addition, the decreases in earnings described above led to a lower current tax liability, resulting in consolidated profit for the period of EUR 311 million (– 66.6 %).

Net Assets and Financial Position.

Business Volume.

Compared to the previous year, the LBBW Group's business volume (the Group's total assets including off-balance sheet guarantee and surety obligations and irrevocable loan commitments) rose by 6.7 %, or EUR 30 billion, to EUR 477 billion, which was due almost exclusively to growth in balance sheet items. During the same period, growth in these items was 6.3 %, or EUR 26 billion, for consolidated total assets of EUR 443 billion as of the December 31, 2007 reporting date.

The nominal volume of derivative transactions exceeded the previous year's level thanks to an increase of EUR 292 billion to EUR 1,933 billion at the end of the 2007 fiscal year. The increase resulted almost solely from growth in the interest rate derivatives business.

On a nominal basis, the aggregate volume of derivatives at the end of the fiscal year accounted for a share of 435.9 % of the Group's total assets. However, the derivatives volume includes largely closed-out positions from offsetting derivatives and open positions from trading portfolios within the stipulated risk limits. The classification as proprietary trading transactions is based on rules handed down by the Board of Managing Directors.

Lending.

Loans and advances to other banks fell sharply in the 2007 fiscal year, declining by – 4.6 %, or EUR – 7 billion, to EUR 144 billion. In contrast, loans and advances to customers grew by 20.6 %, or EUR 25 billion, to EUR 146 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 conduits. On the whole, the structure of the portfolio of loans and advances to customers is balanced. The section on credit risk in the Risk Report contains a breakdown of the loan portfolio.

The LBBW Group's aggregate loan volume amounted to EUR 324 billion as of December 31, 2007, which is equal to an increase of 7.2 %, or EUR 22 billion, over the previous year's reporting date. The jump was mainly due to increases in loans and advances to customers. The LBBW Group's total loan volume includes off-balance sheet guarantee and surety obligations and irrevocable loan commitments, in addition to loans and advances to other banks and customers.

Trading assets grew sharply by 24.5 %, or EUR 10 billion, to EUR 51 billion. The increase is mainly due to the considerable jump in commercial papers by EUR 8 billion. By contrast, the LBBW Group's portfolio of investment securities saw a slight decrease by 3.8 %, or EUR – 3 billion, to EUR 88 billion. Nearly all (98.6 %) of these securities are classified as available for sale.

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 deposits from other banks and securitized liabilities, which amounted to EUR 157 billion and EUR 127 billion respectively at the end of 2007.

Whereas securitized liabilities remained near last year's level, deposits from other banks rose considerably by 10.8 %, or EUR 15 billion, due especially to the funding of the volume growth in securities portfolios carried as assets. The third pillar of the LBBW Group's funding comprises deposits from customers, which also grew considerably by 12.9 %, or EUR 11 billion, to a total of EUR 96 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.

The LBBW Group 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 papers (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 Bank'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 slight 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.

Landesbank Rheinland-Pfalz is also active on the German and international capital markets. Internationally, the bank issued under a USD 25 billion debt issuance program. LRP's total capital market issuing volume was EUR 5.6 billion in 2007, whereas it had amounted to EUR 2.4 billion in the previous year.

The LBBW Group's Capital.

The LBBW Group's capital (consolidated equity not including net retained profit, but including hybrid capital, subordinated debt, and capital generated by profit-participation rights) amounted to EUR 21.6 billion as of December 31, 2007, whereas it had amounted to EUR 20.3 billion a year earlier. The increase resulted principally from the allocation of EUR 0.9 million from 2006 net retained profits to retained earnings and growth in subordinated debt by EUR 0.8 million. A reduction in the LBBW Group's capital was due to a decrease in the revaluation reserve by EUR – 0.3 billion to EUR 0.7 billion, mainly due to the decline in value of available-for-sale securities portfolios recognized directly in equity. These fair value losses were offset somewhat by gains in fair value from measurement of available-for-sale investments at the reporting date and a positive net effect from the recognition of deferred taxes.

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 Berufsakademie (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.

Risk-bearing capacity

	Risk Category	Describes possible …
	Credit risks (including counterparty risks, country risks, etc.)	… losses arising from the default or credit rating deterioration of business partners (exceeding expected losses). … losses arising from transfer problems with a business partner's country of domicile.
	Market price risks	… losses caused by changes in interest rates; share prices, exchange rates, commodities prices; volatilities, etc.
	Operational risks	… losses due to the failure of internal processes, people, and systems, ot to external influences, including legal risks.
	Liquidity risks	… problems meeting payment obligations in the short term, or not being able to quickly close out larger positions at market value.
	Real estate risks	… losses in value of the Bank's real estate holdings.
	Investment risks	… losses in value of Group companies and equity investments to the extent that these are not included in the above risk categories.
Other	**Strategic risks**	… losses in value due to strategic decisions.
Other	**Business performance risks**	… losses in value due to less favorable business performance than expected.
Other	**Reputation risks**	… losses in value due to damage to the Bank's reputation.

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.

The LBBW Group companies are integrated into the Group's risk management functions depending on their respective business model and the materiality of the risks to which they are exposed.

Some subsidiaries are therefore integrated fully into the Group's risk management system. Others maintain their own structures and processes as part of the parent-subsidiary model; these are used for reporting and aggregation within the Group. In 2008, LRP will be merged even more closely into the LBBW Group. Currently, this plan includes integrating LRP fully into LBBW's risk management processes.

The transparency principle is applied to the material subsidiaries. This means that the relevant individual risk positions of the subsidiaries in question are fully included in the various risk categories.
The other subsidiaries, particularly those in which LBBW holds minority interests or investees with no material risks, are carried by LBBW as investment risk based on their market value.
The risk contributions of the material subsidiaries are aggregated at Group level in monthly monitoring of Group-wide limits, in the quarterly credit risk report, and in daily market price risk and profit-and-loss reporting. Transactions by LBBW's branches abroad are fully integrated into LBBW's risk monitoring processes.

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.

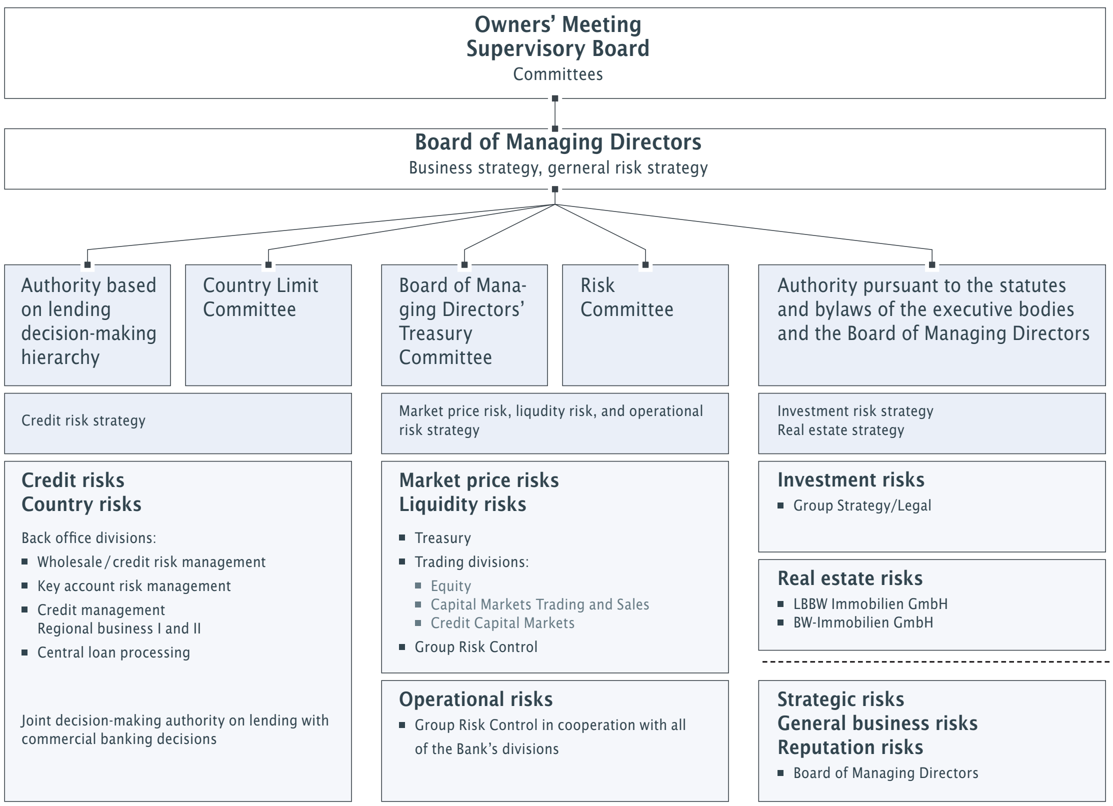
Among other things, Group Risk Control division collects and analyzes incidents of loss centrally to identify operational risks, as well as reviewing existing processes for their susceptibility to these risks and supporting the corresponding risk-prevention process adjustments. The Risk Committee monitors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

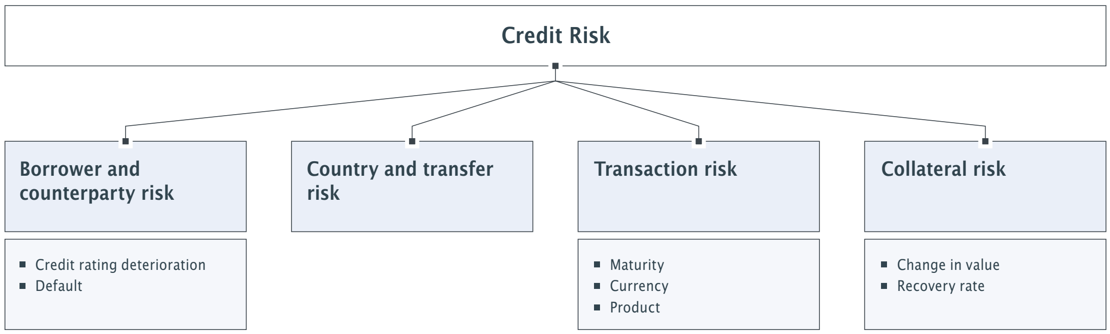
Transaction Risk.

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.

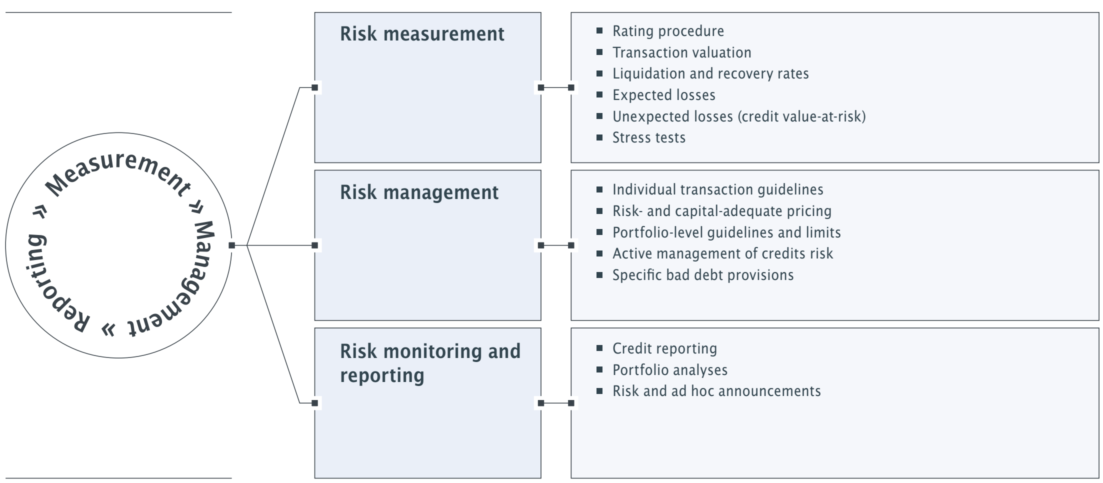
LBBW's lending rules cover all of the information required for responsible and risk-oriented lending practices. At the same time, they provide LBBW with a risk-adequate framework for responding to market changes flexibly and in the interest of the customers.

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 port-folio 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.

Overview.

The statements concerning the risk situation are presented based on the **management approach.** This means that LBBW's risk situation is reported based on the data that is used for the aforementioned internal risk management, and thus internal reporting to the Board of Managing Directors and the executive bodies.

The internal view of risk differs in some cases from the balance sheet reporting. Key reasons for the differences between the figures used for internal management and for external financial reporting are different bases of consolidation, measurement procedures, measurement parameters, and definitions of the loan volume. The basis for internal management is exposure. For this purpose, loans and open commitments are recognized at their nominal amount; most banking book and trading book securities are reported at market value, and derivative financial instruments are recognized at their equivalent amounts. In addition, investment risks are also reflected in default risk beyond what is required by IFRS 7.

The following subsidiaries relevant in terms of credit risk are included in the **basis of consolidation** for internal reporting purposes:

- Landesbank Baden-Württemberg (including Baden-Württembergische Bank)
- Landesbank Rheinland-Pfalz (sub-group)
- LBBW Bank Ireland plc. (until 2006)
- SüdLeasing (sub-group)
- MKB Mittelrheinische Bank GmbH / MMV-Leasing GmbH
- Süd-Kapitalbeteiligungsgesellschaft
- Süd Private Equity
- LBBW Venture Capital
- LBBW Securities LLC (from 2007)
- Conduits (Bodensee, Mainau)

This basis of consolidation is reviewed at least annually, or as needed, and is adjusted to reflect the current circumstances.

The differences between the figures used for internal management and for external financial reporting are quantified as follows for the maximum default risk:

- Differences due to different bases of consolidation amount to EUR –13 billion (previous year: EUR –7 billion) in the loans and advances to customers and loans and advances to other banks categories, EUR –1 billion (previous year: EUR 0 billion) in the investment securities category, EUR –1 billion (previous year: EUR 0 billion) in the trading assets category, and EUR-6 billion (previous year: EUR –3 billion) in the irrevocable loan commitments and other agreements (including financial guarantee contracts) category.
- Differences due to varying risk assessments associated with methods of measurement amount to EUR 42 billion (previous year: EUR 19 billion) in the loans and advances to customers and loans and advances to other banks categories, EUR 4 billion (previous year: EUR 0 billion) in the investment securities category, EUR –2 billion (previous year: EUR 0 billion) in the hedging derivatives category, and EUR –56 billion (previous year: EUR –46 billion) in the trading assets category.
- Differences arising from divergent methodological bases of assessment (netting of repo transactions and inclusion in counterparty risk of revocable commitments and investments) amount to EUR 1 billion (previous year: EUR 2 billion) in the cash reserve category, EUR 2 billion (previous year: EUR 8 billion) in the loans and advances to customers and loans and advances to other banks categories, EUR 2 billion (previous year: EUR 4 billion) in the investment securities category, EUR 0 billion (previous year: EUR-1 billion) in the hedging derivatives category, EUR –3 billion (previous year: EUR 3 billion) in the trading assets category, and EUR –23 billion (previous year: EUR-20 billion) in the irrevocable loan commitments and other agreements category.

Basically, all types of collateral are considered for the purpose of reducing credit risk after consideration of costs and benefits, although fungible assets with a sustainable value are preferred.

Collateral primarily includes traditional forms of collateral, such as real estate liens, guarantees, sureties, pledges, assignments, and transfers of title of property. Moreover, LBBW also uses all credit risk minimization techniques according to Basel II, including credit derivatives and netting agreements.

The valuation of collateral is based on appraisals by certified experts or on LBBW’s own conservative valuation principles. In the case of unsecured loans, LBBW always requires equal treatment of all banks providing credit.

Group.

LBBW's loan portfolio grew further as compared to the previous year. LBBW's exposure rose from nearly EUR 500 billion to over EUR 530 billion. Total assets also increased from EUR 417 billion to EUR 443 billion. The table below illustrates maximum default risk (exposure reconciled to balance sheet (categories)):

Maximum Default Risk EUR million	Dec. 31, 2007	Dec. 31, 2006
Cash reserve	12	2
Loans and receivables	258 676	252 070
of which loans and advances to other banks	131 858	135 081
of which loans and advances to customers	126 819	116 989
of which receivables from finance leases	3 284	3 066
Investment securities	82 974	87 453
of which interest-bearing assets	78 853	78 995
of which non-interest-bearing assets	4 121	8 458
Hedging derivatives	7 207	5 969
Trading assets	116 865	88 738
of which designated at fair value	4 474	5 716
of which held for trading	112 391	83 022
Irrevocable loan commitments/other agreements	68 381	60 345
Total	**534 115**	**494 577**

The breakdown of the portfolio by categories reflects LBBW's business model. In addition to the core business with retail and corporate customers (loans and advances to customers), LBBW's focus is on business with financial institutions (loans and advances to other banks) and relating to the capital markets (investment securities, trading assets).

Once again, LBBW's portfolio quality remains at a high level. In LBBW's capital market business, most transactions are entered into with counterparties with investment-grade ratings. In the retail and corporate client segments, the focus is also on customers classified as investment grade or upper non-investment grade. Lower credit rating levels are of minor importance and are monitored more carefully due to the increased risk.

Maximum Default Risk by Rating and industry Dec. 31, 2007, EUR million	Investment grade (AAA–BBB-)	Upper non-investment (BB+–B+)	Non Investment (B–C)	Default	Other	Total
Financial institutions	290 139	3 430	353	308	9 400	303 630
Credit institutions	233 448	2 134	84	15	1 635	237 316
Financial services providers	56 691	1 296	269	293	7 765	66 314
Companies	106 610	23 669	3 392	3 141	21 065	157 876
Energy, utilities	13 310	865	46	9	348	14 578
Food, consumer goods, and durables	2 863	831	113	121	341	4 269
Chemicals, plastics	5 911	1 134	40	103	216	7 406
Metals, mechanical engineering	6 427	2 116	398	324	763	10 028
Auto manufacturing	7 798	572	85	58	89	8 601
Electrical engineering, communication, IT	3 827	1 076	45	47	334	5 328
Construction, housing	19 809	6 732	640	985	1 695	29 861
Retail/wholesale	6 775	2 300	208	292	1 428	11 002
Transportation, logistics	3 405	1 512	583	149	760	6 409
Media, entertainment	2 357	452	149	87	362	3 407
Services	17 288	4 817	506	806	7 468	30 884
Insurance	8 191	30	3	15	706	8 946
Other	8 651	1 231	575	146	6 554	17 157
Public sector	51 480	141	2	8	147	51 778
Private individuals	3 353	1 479	129	529	15 342	20 832
Total	**451 581**	**28 718**	**3 875**	**3 987**	**45 953**	**534 115**

The share of the portfolio accounted for by non-impaired and non-past due commitments amounts to over 99 % of the maximum default risk.

Non-Impaired and Non-Past Assets

EUR million	Max. default risk as of Dec. 31, 2007	Non-impaired and non-past due assets as of Dec. 31, 2007	Max. default risk as of Dec. 31, 2006	Non-impaired and non-past due assets as of Dec. 31, 2006
Cash reserve	12	12	2	2
Loans and receivables	258 676	255 024	252 070	247 286
of which loans and advances to other banks	131 858	131 810	135 081	134 703
of which loans and advances to customers	126 819	123 214	116 989	112 582
of which receivables from finance leases	3 284	3 016	3 066	2 424
Investment securities	82 974	82 653	87 453	87 383
of which interest-bearing assets	78 853	78 577	78 995	78 936
of which non-interest bearing assets	4 121	4 076	8 458	8 447
Total*	**341 663**	**337 689**	**339 525**	**334 670**

*In the hedging derivatives and trading assets categories, no transactions are impaired or past due.

LBBW holds very few past due commitments (< 1 %). About half of the past due commitments fall within the category of commitments past due by less than one month.

Past Due Assets Dec. 31, 2007, EUR million	Total	< 1 month	> 1 to 3 months	> 3 to 6 months	> 6 to 9 months	> 9 to 12 months	> 12 months
Loans and receivables	719	351	147	50	10	37	124
of which loans and advances to other banks	45	10	23	0	1	0	10
of which loans and advances to customers	675	341	124	50	9	36	114
of which receivables from finance leases	119	68	21	16	1	1	11
Investment securities	63	25	38	0	0	0	0
of which interest-bearing assets	63	25	38	0	0	0	0
Total	**782**	**376**	**185**	**50**	**10**	**37**	**124**

Past Due Assets Dec. 31, 2006, EUR million	Total	< 1 month	> 1 to 3 months	> 3 to 6 months	> 6 to 9 months	> 9 to 12 months	> 12 months
Loans and receivables	1 173	607	162	57	36	74	237
of which loans and advances to other banks	373	348	20	1	1	0	3
of which loans and advances to customers	799	259	142	56	35	74	233
of which receivables from finance leases	91	30	10	3	2	44	3
Investment securities	50	50	0	0	0	0	0
of which interest-bearing assets	50	50	0	0	0	0	0
Total	**1 223**	**657**	**162**	**57**	**36**	**74**	**237**

In the case of impaired commitments, collateral is available to offset the impairment losses. Any additional risk of loss is therefore largely limited to collateral risk. As part of restructuring efforts, loan commitments of EUR 0.1 billion are available to customers.

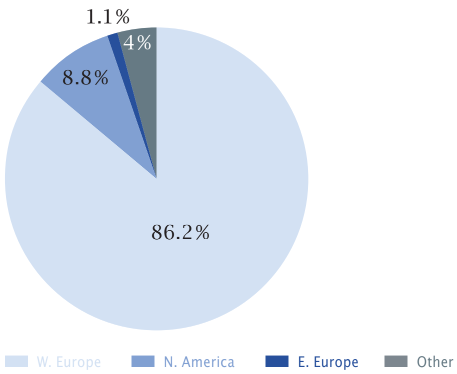
Impaired Assets EUR million	Dec. 31, 2007	Dec. 31, 2006
Loans and receivables	2 933	3 611
of which loans and advances to other banks	4	4
of which loans and advances to customers	2 930	3 607
of which receivables from finance leases	149	551
Investment securities	259	20
of which interest-bearing assets	213	9
of which non-interest-bearing assets	45	11
Total	**3 192**	**3 631**

Specific valuation allowances (IAS 39.63) have been recognized for the credit and country risks associated with loans and advances to customers and other banks according to standards uniform throughout the Group. To this end, a test is conducted at each balance sheet date to determine whether objective evidence exists that the value of an individual financial asset or a group of financial assets is impaired. Objective evidence of impairment includes, in particular, significant financial difficulty of the borrower; a breach of contract (default or past due interest or principal payments), an increased likelihood that the borrower will enter bankruptcy or other financial reorganization, and granting by the lender, for economic or legal reasons relating to the borrower's financial difficulty, of a concession that the lender would not otherwise consider.

To a very limited degree, LBBW assumes assets from collateral received for liquidation (foreclosures totaling EUR 28.7 million in 2007 and EUR 34.6 million in 2006). This collateral is either purchased directly or acquired in foreclosure sales.

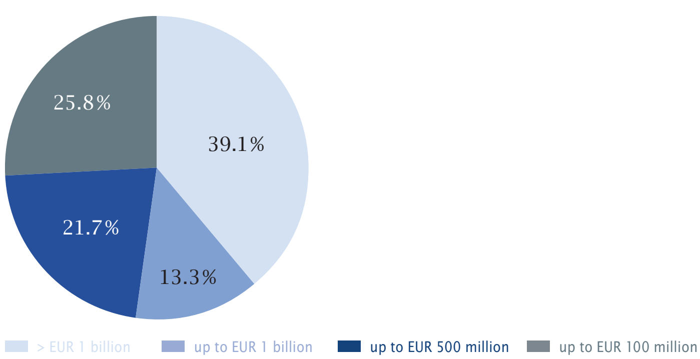
LBBW's business model also exhibits regional diversity. In addition to the core markets of Baden-Württemberg and Rhineland-Palatinate, LBBW mainly operates in Western Europe and North America.

Distribution by Country in Percent.



LBBW's portfolio is also broadly diversified by volume class. Customers with obligations exceeding EUR 1 billion are classified exclusively as investment grade. No individual commitment exceeds one percent of the maximum default risk.

Distribution by Volume Class in Percent (Borrower Unit).



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.

LRP also measures market price risks based on a simulation model (historical simulation). LRP's model is approved for general interest rate risks and other trading book price risks, as well as for special price risks associated with net interest positions.

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 Group overall	**220**	**270**	**187**	**220**	**237**
of which LBBW sub-group	199	249	172	205	214
of which LBBW Bank (less subsidiaries)					
Interest rate risk	189	216	169	206	206
Equity risks	31	55	14	25	33
Currency risks	6	14	2	6	8
of which LRP sub-group	**20**	**31**	**13**	**14**	**24**

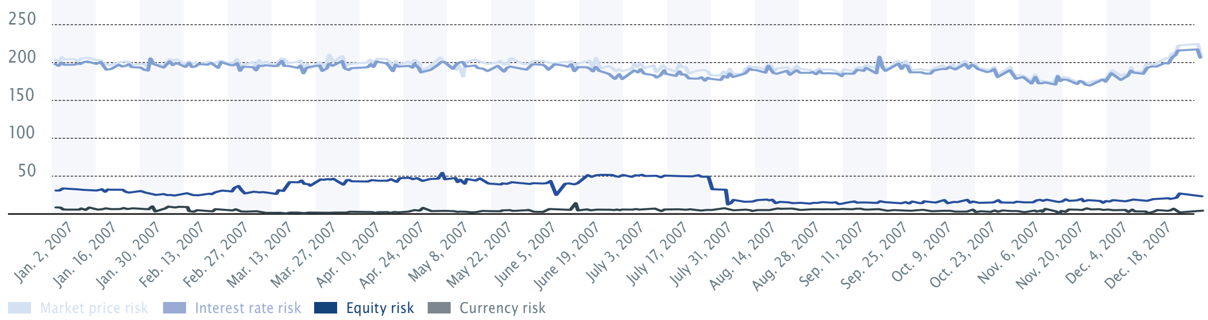
In addition to LBBW Bank, the LBBW sub-group includes the subsidiaries LBBW Ireland, LBBW Securities, LLC, and (since the end of the year) MKB.

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 Group trading book	**39**	**54**	**27**	**43**	**40**
of which LBBW sub-group	27	39	20	26	23
of which LBBW Bank (less subsidiaries)					
Interest rate risk	21	37	15	20	19
Equity risks	13	27	6	15	7
Currency risks	3	8	0	0	5
of which LRP sub-group	**12**	**20**	**5**	**17**	**17**

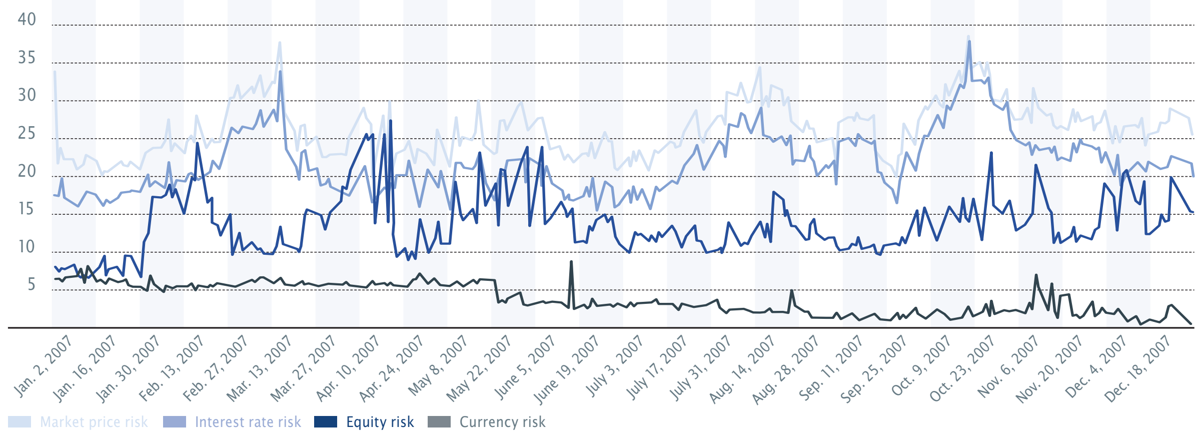
The following charts illustrate LBBW Banks market price risks over the course of the year:

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.

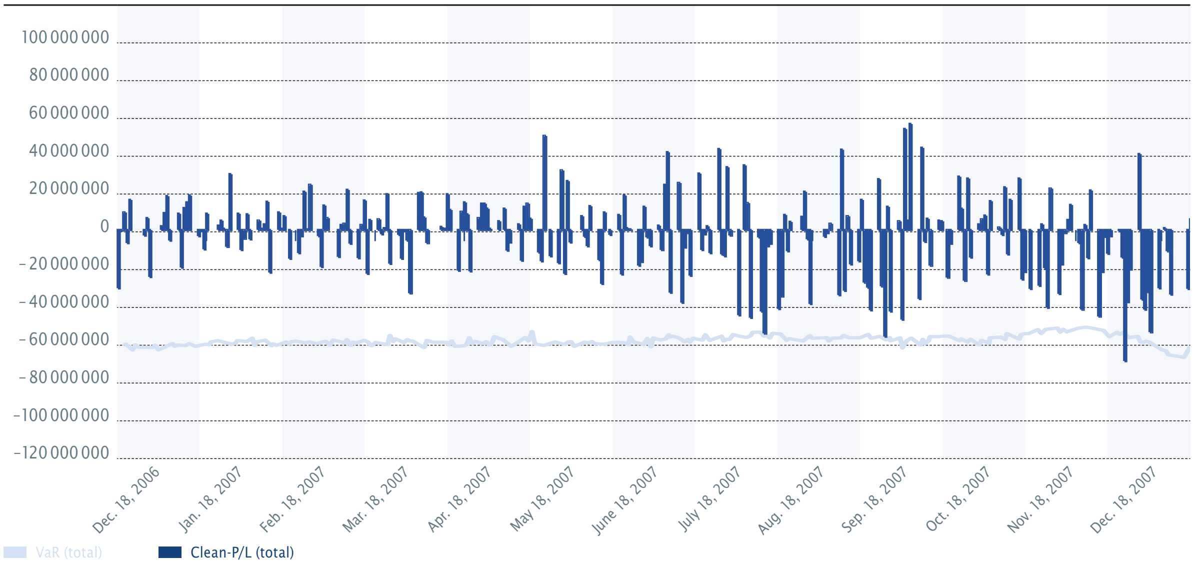
Risk Performance of Trading Positions of LBBW Bank in 2007, EUR million



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 a 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.

The table below illustrates expected inflows and outflows of funds from LBBW's perspective as presented by Group Risk Control. In cases where the disbursement date and/or payment due dates are not clearly spelled out contractually, the worst case scenario for the expected inflows and outflows of funds is presented – this means that the actual refinancing requirements tend to be overstated.

Assets and Liabilities According to Contractually Agreed Payment Dates Dec. 31, 2007, EUR million		< 1 month	> 1–3 months	> 3–12 months	> 12 months – 5 years	> 5 years
Principal payments	Inflows of funds	112 753.2	31 363.2	57 730.1	126 099.8	121 250.9
	Outflows of funds	–123 980.8	–56 929.8	–62 900.5	–105 584.1	–77 778.8
Interest payments	Inflows of funds	1 606.6	2 564.0	9 368.6	30 826.5	46 937.9
	Outflows of funds	–1 515.2	–2 300.2	–7 626.4	–22 911.2	–23 903.4
Net balance of payments from interest rate derivatives		812,1	–3 266.3	–388.7	2 177.5	–3 375.8
Forex transactions	Inflows of funds	56 737.8	46 418.7	33 620.4	5 094.9	1 188.1
	Outflows of funds	–56 773.1	–46 394.9	–33 507.1	–5 021.1	–1 299.9

Advances on current account/balances in interbank accounts, including with the ECB	7 450.8
Demand and savings deposits (including interbank accounts)	–18 896.3
Irrevocable loan commitments[1] and guarantees (avals)	–29 665.0

[1] Basis: Principle II-relevant loan commitments and guarantees (avals), not including intra-Group commitments as the funding risk associated with these commitments is already reflected in the consolidation of the inflows and outflows of funds and not including undisbursed loans to the extent that these loans are also already reflected in the inflows and outflows of funds.

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 at the Bank and EUR 38.8 billion at the Group 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, the LBBW Group'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), while LRP's liquidity ratio was 1.91 (2006: 1.54).

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.).

The LBBW Group's real estate portfolio is broadly diversified in terms of residential and commercial properties, properties used by the Group and by third parties, and various sizes and levels of quality. LBBW's real estate portfolio has a concentration of properties in southern Germany.

LBBW pursues a strategy of developing residential holdings into a high-return, long-term target portfolio. The target portfolio features a concentration of properties with long-term development prospects in prosperous economic areas. This strategy involves turning away from broad-based holdings, which in turn improves the risk-return structure of the portfolio and increases the total return.

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 Bank and the LBBW Group 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.

Risk-bearing capacity Dec. 31, 2007 EUR million	LBBW group	utilization	LBBW sub-group	utilization	LBBW-Immobilien sub-group	utilization	LRP sub-group	utilization
Aggregate risk cover	24 407	39 %	21 255	37 %	625	38 %	2 527	48 %
Max. loss limit (max. global limit)	11 600	81 %	8 900	89 %	500	47 %	2 200	55 %
Economic capital	9 400		7 957		235		1 208	

During 2007, economic capital and limit utilization both increased. For the most part, this is due to changes in market data, particularly widening of spreads in the second half of the year, which led to an increase in credit VaR: in the net present value-oriented model, the larger spreads result in greater changes in present value in simulated rating changes in the portfolio.

The sub-groups presented here are responsible for their own global limits that are included in the Group limit. The other subsidiaries are included in the LBBW sub-group. In no case were the global limits exceeded in the Group or the sub-groups.

Events After the Reporting Date.

Material Events After Fiscal Year-end.

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. On April 1, 2008, Sachsen LB was absorbed into LBBW by way of accrual (Anwachsungsmodell). During this process, LBBW consolidated Sachsen LB's business serving small- and medium-sized companies and BW Bank's corporate client and high-net worth private client businesses in central Germany in Sachsen Bank, which was newly established on April 1, 2008.

At the end of February 2008, 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.

Additional material events after the close of the 2007 fiscal year that could affect the LBBW Group's net assets, financial position, and results of operations exist in the form of the financial market crisis, which has not yet been overcome, and the resulting pressure on earnings.

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 it's 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. 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 LRP, which has been operated as a subsidiary to date, and Sachen LB into LBBW in order to generate synergies in terms of costs and to develop earnings potential in new core market areas.

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 clients 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 particulary in the Group's credit investment business. Regardless of this fact, the operating results of LBBW's other business areas 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 clients 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.

Consolidated Financial Statements.

CONTENT

For LBBW, 2007 was a divided year. On the one hand, the international financial market crisis did not leave the LBBW Group completely untouched. On the other hand, LBBW further reinforced its positioning thanks to a focus on generating solid earnings from operations. This result is attributable to the Group's successful and robust business model.

Consolidated Income Statement for the Period January 1, 2007 to December 31, 2007 of Landesbank Baden-Württemberg, Stuttgart, Karlsruhe, and Mannheim

	Notes	Jan. 1 – Dec. 31, 2007 EUR thousand	Jan. 1 – Dec. 31, 2006 EUR thousand	Change in EUR thousand	Change in %
Interest income	(46)	28 688 323	25 686 003	3 002 320	11.7
Interest expense	(46)	– 26 560 896	– 23 501 267	– 3 059 629	13.0
Net interest income	(46)	2 127 427	2 184 736	– 57 309	– 2.6
Allowance for losses on loans and advances	(47)	– 186 250	– 163 415	– 22 835	14.0
Net interest income after allowance for losses on loans and advances		**1 941 177**	**2 021 321**	**– 80 144**	**– 4.0**
Fee and commission income	(48)	721 066	623 204	97 862	15.7
Fee and commission expense	(48)	– 137 301	– 123 564	– 13 737	11.1
Net fee and commission income	(48)	583 765	499 640	84 125	16.8
Net loss from hedging transactions	(49)	– 24 290	– 62 499	38 209	– 61.1
Net trading income/loss	(50)	– 567 526	186 608	– 754 134	> – 100
Net income/loss from financial instruments designated at fair value	(51)	– 23 032	66 127	– 89 159	> – 100
Net loss from investment securities	(52)	– 123 596	– 2 265	– 121 331	> 100
Net income from investment accounted for using the equity method	(53)	9 719	772	8 947	> 100
Net income from investment property	(54)	134 083	116 266	17 817	15.3
Administrative expenses	(55)	– 1 649 726	– 1 541 476	– 108 250	7.0
Other operating income	(56)	67 984	8 770	59 214	> 100
Net loss from profit and loss transfer agreements		– 1 306	– 962	– 344	35.8
Consolidated profit before tax		**347 252**	**1 292 302**	**– 945 050**	**– 73.1**
Income tax	(57)	– 35 809	– 360 933	325 124	– 90.1
Consolidated profit for the period		**311 443**	**931 369**	**– 619 926**	**– 66.6**
Profit attributable to minority interest		8 332	5 176	3 156	61.0
Profit attributable to shareholders		303 111	926 193	– 623 082	– 67.3
Consolidated profit for the period		**311 443**	**931 369**	**– 619 926**	**– 66.6**

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

	Notes	Dec. 31, 2007 EUR million	Dec. 31, 2006 EUR million	Change in EUR million	Change in %
Assets					
Cash reserve	(7) (60)	1 477	1 578	–101	– 6.4
Loans and advances to other banks	(8) (17) (33) (38) (61)	143 643	150 612	– 6 969	– 4.6
Loans and advances to customers	(8) (17) (33) (38) (62)	146 394	121 391	25 003	20.6
Allowance for losses on loans and advances	(11) (63)	–1 966	– 2 157	191	– 8.9
Positive fair values from derivative hedging instruments	(8) (36) (64)	5 002	4 925	77	1.6
Trading assets	(8) (36) (65)	51 130	41 065	10 065	24.5
Financial assets designated at fair value	(8) (36) (65)	5 372	5 104	268	5.3
Investment securities	(8) (35) (65)	87 583	91 008	– 3 425	– 3.8
Investments accounted for using the equity method	(4) (5) (66)	186	4	182	> 100
Portfolio hedge adjustment attributable to assets	(8) (36)	– 396	– 71	– 325	> 100
Noncurrent assets/disposal groups held for sale	(13) (67)	0	64	– 64	–100.0
Intangible assets	(14) (68)	113	98	15	15.3
Investment property	(15) (31) (69)	1 636	1 652	–16	–1.0
Property and equipment	(16) (17) (33) (70)	768	756	12	1.6
Current income tax assets	(18) (57) (71)	684	451	233	51.7
Deferred income tax assets	(18) (32) (57) (71)	405	321	84	26.2
Other assets	(19) (72)	1 393	484	909	> 100
of which inventories	(20) (72)	871	378	493	> 100
Total assets		**443 424**	**417 285**	**26 139**	**6.3**

	Notes	Dec. 31, 2007 EUR million	Dec. 31, 2006 EUR million	Change in EUR million	Change in %
Equity and Liabilities					
Deposits from other banks	(8) (37) (73)	157 446	142 043	15 403	10.8
Due to customers	(8) (17) (33) (37) (74)	96 451	85 436	11 015	12.9
Securitized liabilities	(8) (37) (75)	126 874	126 836	38	0.0
Negative fair values from derivative hedginginstruments	(8) (36) (76)	5 501	5 324	177	3.3
Trading liabilities	(8) (77)	15 276	11 541	3 735	32.4
Financial liabilities designated at fair value	(8) (77)	17 220	21 831	– 4 611	– 21.1
Portfolio hedge adjustment attributable to liabilities	(8) (36)	– 476	– 75	– 401	> 100
Provisions	(21) (30) (39) (78)	1 692	1 842	–150	– 8.1
Current income tax liabilities	(18) (57) (79)	318	393	– 75	–19.1
Deferred income tax liabilities	(18) (32) (57) (79)	297	251	46	18.3
Other liabilities	(19) (80)	940	655	285	43.5
Subordinated debt	(22) (29) (81)	11 465	10 854	611	5.6
Equity	(23) (34) (82)	10 420	10 354	66	0.6
Ordinary share capital	(82)	1 420	1 420	0	0.0
Share premium	(82)	3 074	3 074	0	0.0
Retained earnings	(82)	4 850	3 864	986	25.5
Net income recognized directly in equity	(82)	650	967	– 317	– 32.8
Net retained profit	(82)	303	926	– 623	– 67.3
Minority interest	(82)	123	103	20	19.4
Total equity and liabilities		**443 424**	**417 285**	**26 139**	**6.3**

Consolidated Statement of Recognized Income and Expense for the Period January 1, 2007 to December 31, 2007 of Landesbank Baden-Württemberg, Stuttgart, Karlsruhe, and Mannheim

		Attributable to		Total	Attributable to		Total
		Shareholders	Minority interest		Shareholders	Minority interest	
EUR million	Notes	Jan. 1 – Dec. 31, 2007	Jan. 1 – Dec. 31, 2007	Jan. 1 – Dec. 31, 2007	Jan. 1 – Dec. 31, 2006	Jan. 1 – Dec. 31, 2006	Jan. 1 – Dec. 31, 2006
Retained earnings							
Actuarial gains/losses	(21) (30) (78)	147	0	147	18	0	18
Effect of limit in IAS 19.58 (b)	(21) (30) (78)	–18	0	–18	0	0	0
Net income recognized directly in equity							
Gains/losses from the remeasurement of available-for-sale financial instruments	(52) (65) (82)						
Changes taken directly to equity		–270	–11	–281	70	–2	68
Transferred to profit or loss		–49	0	–49	–33	0	–33
Gains/losses from the measurement of cash flow hedges	(49) (82)						
Changes taken directly to equity		–1	0	–1	–6	0	–6
Currency translation differences	(82)	–6	0	–6	0	0	0
Change from investments accounted for using the equity method	(66) (82)	–17	0	–17	0	0	0
Income and expenses recognized directly in equity		**–214**	**–11**	**–225**	**49**	**–2**	**47**
of which noncurrent assets or disposal groups held for sale		0	0	0	46	0	46
Consolidated profit for the period		**303**	**8**	**311**	**926**	**5**	**931**
Total recognized income and expense	**(82)**	**89**	**–3**	**86**	**975**	**3**	**978**

The composition of shareholders' equity is explained in Note 82.

Consolidated Cash Flow Statement for the Period January 1, 2007 to December 31, 2007 of Landesbank Baden-Württemberg, Stuttgart, Karlsruhe, and Mannheim

	Notes	Jan. 1 – Dec. 31, 2007 EUR million	Jan. 1 – Dec. 31, 2006 EUR million
Profit attributable to shareholders		303	926
Non-cash items in consolidated profit for the period and reconciliation to cash flow from operating activities			
Depreciation, write-downs and reversals of impairment losses on receivables, property and equipment, and investment securities		460	260
Increase/decrease in provisions		147	174
Other non-cash expense/income		1 513	200
Gain/loss on the sale of investment securities and property and equipment		–117	–49
Other adjustments		–2 107	–1 951
		199	**–440**
Change in operating assets and liabilities			
Loans and advances to other banks		7 011	–423
Loans and advances to customers		–25 538	–2 318
Financial assets designated at fair value		–10 893	–1 959
Investment securities (not including equity investments)		3 847	–10 645
Other operating assets		–904	18
Deposits from other banks		14 620	23 413
Due to customers		11 005	2 274
Securitized liabilities		–304	–4 914
Financial liabilities designated at fair value		–2 161	–4 053
Other operating liabilities		195	–81
Interest and dividends received		29 865	22 968
Interest paid		–26 865	–21 880
Income taxes paid		–328	–468
Net cash used in/from operating activities	**(92)**	**–251**	**1 492**

Consolidated Cash Flow Statement for the Period January 1, 2007 to December 31, 2007 of Landesbank Baden-Württemberg, Stuttgart, Karlsruhe, and Mannheim

	Notes	Jan. 1 – Dec. 31, 2007 EUR million	Jan. 1 – Dec. 31, 2006 EUR million
Proceeds from the disposal of			
Equity investments		220	191
Property and equipment		22	11
Intangible assets		0	2
Payments to acquire			
Equity investments		– 297	– 310
Property and equipment		– 84	– 66
Intangible assets		– 51	– 43
Payments to acquire consolidated companies		– 30	0
Net cash used in investing activities	**(92)**	**– 220**	**– 215**
Dividend payments	(82)	– 89	– 85
Net change in cash and cash equivalents from other capital		459	– 429
Net cash provided by/used in financing activities	**(92)**	**370**	**– 514**
Cash and cash equivalents at start of period		1 578	815
Net cash used in/from operating activities		– 251	1 492
Net cash used in investing activities		– 220	– 215
Net cash provided by/used in financing activities		370	– 514
Cash and cash equivalents at end of period	**(60) (92)**	**1 477**	**1 578**

The cash flow statement is explained in Note 92.

Notes to the Consolidated Financial Statements.

of Landesbank Baden-Württemberg, Stuttgart, Karlsruhe, and Mannheim.

Business and Organization.

Landesbank Baden-Württemberg (LBBW) is a public law institution (rechtsfähige Anstalt des öffentlichen Rechts) with registered offices in Stuttgart (Am Hauptbahnhof 2, 70173 Stuttgart, Germany), Karlsruhe (Ludwig-Erhard-Allee 4, 76131 Karlsruhe, Germany), and Mannheim (Augustaanlage 33, 68165 Mannheim, Germany).

LBBW is responsible for the full range of the Group's capital market activities from balance sheet and portfolio advising to developing financial market products to conducting trading and sales activities on the international capital markets and provides services within the scope of its international operations. The Bank serves corporate customers across Germany and around the world, along with institutional clients and public-sector institutions. LBBW also functions as a central bank to the savings banks in Baden-Württemberg, as well as to the savings banks in Rhineland-Palatinate in conjunction with Landesbank Rheinland-Pfalz.

The consolidated financial statements will be authorized for issue by the Supervisory Board of Landesbank Baden-Württemberg on April 25, 2008. The shareholders of LBBW may amend the financial statements after publication where necessary.

Basis of Group Accounting.

The consolidated financial statements of Landesbank Baden-Württemberg for the 2007 fiscal year were prepared for the first time in accordance with International Financial Reporting Standards (IFRSs) and International Accounting Standards (IASs), as well as the applicable provisions of the Handelsgesetzbuch (HGB, German Commercial Code) in accordance with § 315a (1) HGB. The Standards published at the time of preparation of the financial statements and adopted by the European Union are authoritative, as are their interpretations by the International Financial Reporting Interpretation Committee (IFRIC) and the Standing Interpretations Committee (SIC).

The reconciliation statements and explanations of the effects of the transition to IFRSs on consolidated equity and consolidated profit as required by IFRS 1 are reproduced in Notes 25 and 26.

The consolidated financial statements comprise the consolidated balance sheet, the consolidated income statement, the consolidated statement of recognized income and expense, the consolidated cash flow statement, and the notes to the consolidated financial statements. Segment reporting for the Group is covered in Note 45.

Following the adoption of GAS 3 by the German Accounting Standards Board (Deutscher Standardisierungsrat) and publication of a notice to this effect in the Federal Gazette (Bundesanzeiger) dated August 31, 2005, the German Accounting Standards (GAS) were amended such that these Standards shall generally not be applied if consolidated financial statements

are prepared in accordance with International Accounting Standards as set out in § 315a HGB. This guidance does not apply to GAS 15 Management Report or to the supplementary GAS 5 and GAS 5-10 Risk Report. The Group Management Report including the separate Report on the Opportunities and Risks Relating to Future Development (Risk Report) in accordance with § 315 HGB is reproduced in the Annual Report. The Risk Report contains the disclosures on risks associated with financial instruments required by IFRS 7.31 et seq.
An overview of the Standards and Interpretations applied is provided in Note 2 »Standards Applied«.
Standards and Interpretations that enter into force on or after January 1, 2008 (IFRS 8 »Operating Segments«; changes to IAS 23 »Borrowing Costs«; changes to IAS 1 »Presentation of Financial Statements«; changes to IAS 27 »Consolidated and Separate Financial Statements«; changes to IFRS 3 »Business Combinations«) have not been taken into account.
Unlike segment reporting in IAS 14, segment reporting in accordance with IFRS 8 takes the management approach. This provides that the segment information used internally and published externally must be consistent. According to IFRS 8, internal reports used by management or the chief operating decision-maker to make decisions about segments and assess their performance will serve as the basis for defining the operating segments in the future. In exceptional cases, methods of accounting are used for internal management reporting that are not compliant with IFRSs.
In the LBBW Group's opinion, the effects of the revision of IAS 23 »Borrowing Costs« are unlikely to be significant for the presentation of the net assets, financial position and results of operations, as up to now the Group's volume of qualifying assets has been small.
The changes to IAS 1 will primarily affect the presentation and contents of the income statement as well as the statement of recognized income and expense. If a method of accounting was applied retrospectively, a balance sheet item was corrected retrospectively, or a balance sheet item was reclassified at the balance sheet date, a further comparative period will need to be added to the balance sheet. This amendment also affects the detail of presentation in the statement of changes in equity.

The revised standard IAS 27 was published in January 2008. The amendments made must be applied in fiscal years beginning on or after July 1, 2009. The changes relate primarily to accounting for minority (non-controlling) interests, to which the losses of the Group will be allocated fully in the future, and to transactions that lead to the loss of control over a subsidiary, the effects of which must be recognized in profit or loss. In contrast, the effects of disposals that do not lead to a loss of control must be recognized directly in equity. The transitional provisions, which as a rule require the retrospective application of the changes made, stipulate that these changes should be applied prospectively in the aforementioned situations. In the case of assets and liabilities that result from such transactions before the date of first-time application of the new standard, no changes must be made.
The revised standard IFRS 3 was published in January 2008 and must be applied in fiscal years beginning on or after July 1, 2009. The material changes relate in particular to the introduction of a choice in measurement of minority (non-controlling) interests between recognition at the proportionate share of net assets or the full goodwill method according to which the goodwill of the acquiree must be recognized in full, including the share attributable to minority (non-controlling) interests. Additional key points are the remeasurement of existing interests at the time initial control is obtained and recognition of any adjustments in profit or loss, the mandatory recognition of payments contingent on future events at the date of acquisition, and the expensing of transaction costs. The transitional provisions stipulate that the new rules must be applied prospectively. In the case of assets and liabilities arising from business combinations before the first-time application of the new standard, no changes must be made.

The reporting currency is the euro (EUR). The amounts reported in the balance sheet are generally in millions of euros (EUR million), while those shown in the income statement are in thousands of euros (EUR thousand). Percentages are rounded to one decimal place. The reporting year is the calendar year.

Accounting Policies.

1. Accounting Principles.

The consolidated financial statements are based on the going concern principle.
The consolidated financial statements are prepared on a historical cost and fair value basis. Fair value is used in the case of investment property, investment securities classified as available-for-sale financial assets, derivative financial instruments, and financial assets and liabilities at fair value through profit or loss.
Income and expenses are accrued. Interest income and interest expense are presented using the effective interest method or, if expedient, accrued using a method that approximates the effective interest method. Borrowing costs are generally recognized as an expense in the period in which they are incurred.
In accordance with IAS 27.28, financial statements in the LBBW Group are prepared using uniform accounting policies. All fully consolidated companies prepared separate financial statements as of the reporting date December 31, 2007.
Estimates, judgments, and assumptions are a necessary part of recognition and measurement under IFRSs. The best possible estimates are made in conformity with the respective Standards. Estimates, judgments, and assumptions mainly relate to the calculation of the fair value of financial instruments and investment property, the value of assets, and the calculation of the allowance for losses on loans and advances, as well as the recognition and measurement of deferred taxes and provisions. Moreover, estimates and assumptions are made

regarding the cash flows of special-purpose entities. Where significant estimates and/or complex judgments were required, the assumptions made are explained in detail in the notes to the corresponding item.

The estimates, judgments, and assumptions are each based on the level of knowledge available about expected future business developments and trends in the global and sector-specific environment. Where actual values differ from the estimates made, the underlying assumptions and – if necessary – the carrying amounts of the relevant assets and liabilities are adjusted accordingly.

2. Standards Applied.

Regulation (EC) No. 1606/2002 of the European Parliament and the Council dated July 19, 2002 stipulates that for each fiscal year starting on or after January 1, 2005, all publicly traded companies in the European Union are required to adopt the IASs/IFRSs. Pursuant to § 57 Einführungsgesetz zum Handelsgesetzbuch (Introductory Law to the German Commercial Code), a transitional period extended by two years was granted to entities solely authorized to issue debt instruments for trading on a regulated market of a Member State of the European Union or another signatory state to the Agreement on the European Economic Area (EEA) within the meaning of Article 1 No. 13 of Directive 93/22/EEC. The LBBW Group made use of this extended transitional period.

LBBW's consolidated financial statements as of December 31, 2007 are based on the IASB Framework and on the following relevant IASs and IFRSs, as well as Interpretations by the SIC and IFRIC:

IAS 1	Presentation of Financial Statements
IAS 2	Inventories
IAS 7	Cash Flow Statements
IAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
IAS 10	Events after the Balance Sheet Date
IAS 11	Construction Contracts
IAS 12	Income Taxes
IAS 14	Segment Reporting
IAS 16	Property, Plant and Equipment
IAS 17	Leases
IAS 18	Revenue
IAS 19	Employee Benefits
IAS 21	The Effects of Changes in Foreign Exchange Rates
IAS 23	Borrowing Costs
IAS 24	Related Party Disclosures
IAS 27	Consolidated and Separate Financial Statements
IAS 28	Investments in Associates
IAS 31	Interests in Joint Ventures
IAS 32	Financial Instruments: Presentation
IAS 34	Interim Financial Reporting
IAS 36	Impairment of Assets
IAS 37	Provisions, Contingent Liabilities and Contingent Assets
IAS 38	Intangible Assets
IAS 39	Financial Instruments: Recognition and Measurement, with the addition of provisions on the use of the fair value option
IAS 40	Investment Property
IFRS 1	First-time Adoption of International Financial Reporting Standards
IFRS 3	Business Combinations
IFRS 5	Non-current Assets Held for Sale and Discontinued Operations
IFRS 7	Financial Instruments: Disclosures
SIC-12	Consolidation – Special Purpose Entities
SIC-15	Operating Leases - Incentives
SIC-21	Income Taxes – Recovery of Revalued Non-depreciable Assets
SIC-25	Income Taxes – Changes in the Tax Status of an Entity or Its Shareholders
SIC-27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease
IFRIC 4	Determining whether an Arrangement Contains a Lease
IFRIC 9	Reassessment of Embedded Derivatives
IFRIC 10	Interim Financial Reporting and Impairment

We have not considered IAS 20, 26, 29, 33, or 41; IFRS 2, 4, or 6; SIC-7, 10, 13, 29, 31, or 32; or IFRIC 1, 2, 5, 6, 7, 8, 11, 12, 13, or 14 as these Standards and Interpretations are not relevant for us.

3. Changes in Presentation.

The transition of the LBBW Group's accounting to IFRSs brought about a number of changes in the accounting policies and the preparation of the income statement, the balance sheet, and the cash flow statement of the LBBW Group. The accounting policies applied in 2007 correspond to those used for the 2006 fiscal year adjusted to IFRSs. The cumulative effect of the adjustments was recognized in equity as of January 1, 2006. These changes are described in detail in Notes 25 to 42.

4. Basis of Consolidation.

In addition to the ultimate parent company LBBW, 12 subsidiaries (previous year: 11 subsidiaries), four sub-groups (previous year: four sub-groups), and seven special-purpose entities (previous year: eight special-purpose entities) were included in the consolidated financial statements.

A subsidiary is an entity that is controlled by another entity (known as the parent). The parent has the ability to control the entity if it directly or indirectly holds a majority of the voting rights in the entity or has the de facto ability to influence the entity.

LBBW is deemed to control entities in which it holds an interest of less than 50 % mainly in the case of special-purpose entities (SPEs). Control of such entities is assumed to exist when one of the following key criteria is met: The activities of the SPE are conducted in favor of the Group in accordance with its specific business requirements in such a way that the LBBW Group derives benefits from these activities. LBBW holds decision-making powers to obtain and does obtain the majority of the benefits of the SPE's activities. LBBW retains the majority of the residual or ownership risks related to the SPE's assets in order to obtain benefits from its activities. LBBW supports the formation of SPEs to enable customers to make investments in legally independent companies, to make joint investments in alternative investment vehicles, to securitize assets, or to buy or sell loan collateral instruments.
The following subsidiaries were consolidated for the first time in 2007:

- LBBW Securities LLC
- LBBW Immobilien Beteiligung GmbH & Co. KG

In the 2007 fiscal year, seven SPEs were included in LBBW's consolidated financial statements pursuant to IAS 27 in conjunction with SIC-12. The following four SPEs were consolidated for the first time:

- Lake Constance Funding Ltd.
- Peter Pike Funding LLC/Rathlin Loans Ltd.
- LI-FI (Leveraged Investment in Financial Institutions)
- Spencerview Asset Management Ltd.

Consolidation of the aforementioned SPEs accounts for all material risks arising from such entities in the consolidated financial statements.
The following special funds were deconsolidated in 2007 because they were liquidated:

- REA-Fonds
- RER-Fonds
- TR1-Fonds
- TR4-Fonds
- TR5-Fonds

Bensel Verwaltungs- und Beratungsgesellschaft für Vermögensanlagen mbH and LBBW Spezialprodukte-Holding GmbH were merged retroactively to January 1, 2007. As a result, the existing contractual relationships of LBBW Spezialprodukte-Holding GmbH (transferring company) were transferred by way of universal succession to the receiving legal entity. In connection with the merger, Bensel Verwaltungs- und Beratungsgesellschaft für Vermögensanlagen mbH was renamed LBBW Spezialprodukte-Holding GmbH.

An associate is an entity over which the LBBW Group exercises significant influence. Associates are companies in which the Group holds a voting interest of between 20 % and 50 % (rebuttable presumption of association).
A joint venture is a contractual arrangement whereby two or more parties undertake activities subject to joint control or manage jointly controlled assets or jointly controlled entities.
The investment in BWK GmbH Unternehmensbeiteiligungsgesellschaft (associate) was accounted for using the equity method for the first time in the 2007 fiscal year.
A total of 278 (previous year: 259) subsidiaries were not included in the consolidated financial statements because their aggregate influence on the net assets, financial position, and results of operations of the LBBW Group is not significant. The aggregate total assets of all non-consolidated affiliates amounts to less than 1.5 % of the Group's total assets, and the aggregate profit for the period of these companies accounts for less than 1 % of LBBW's consolidated profit for the period. These mainly include property management companies and shelf companies of SüdLeasing Group. The interests in these entities are reported under »Investment securities«.
We refer to the list of shareholdings filed with the Federal Gazette for the subsidiaries, joint ventures, associates, and special funds included in the consolidated financial statements, as well as the entities and equity investments omitted on grounds of insignificance.

5. Consolidation Methods.

Subsidiaries and special funds (in the previous year) were consolidated using the purchase method in accordance with IAS 27.22 in conjunction with IFRS 3. Under this method, all of a subsidiary's assets and liabilities to be recognized from the acquirer's perspective are carried at fair value at the acquisition date or when control is obtained. The remeasured assets and liabilities are taken over into the consolidated balance sheet, taking deferred taxes into account. Hidden reserves and liabilities are accounted for in subsequent periods in accordance with the applicable Standards.
Where the cost exceeds the fair value of the assets and liabilities, goodwill is recorded under intangible assets.
Minority interests in the equity or the profit or loss of the LBBW Group's majority-owned subsidiaries are reported separately in equity under »Minority interest« or in the income statement under »Profit attributable to minority interest.«
All intra-group receivables and liabilities, as well as income, expenses, and profits and losses resulting from intra-group transactions, were eliminated in accordance with IAS 27.24 et seq.
Joint ventures and associates are accounted for using the equity method provided they are not insignificant for the presentation of the LBBW Group's net assets, financial position and results of operations. Where a company accounted for using the equity method uses different accounting policies, appropriate adjustments to the IFRSs applied in the Group are made. The Group's share in profit or loss of the companies accounted for using the equity method is recorded in the consolidated financial statements at the same time. The share in profit or loss of investments accounted for using the equity method is measured on the basis of the Group's share in equity.

6. Currency Translation.

The consolidated financial statements are prepared in euros. Currency translation in the LBBW Group is performed in accordance with IAS 21. Each LBBW subsidiary defines its own functional currency. The items included in the financial statements of the relevant Group company are measured using this functional currency.
A foreign currency transaction must be initially recognized at the average spot rate between the functional currency and the foreign currency at the transaction date.
Monetary assets and liabilities denominated in foreign currency and unsettled foreign currency spot transactions are translated into euros at the prevailing closing rate.
Non-monetary items measured at amortized cost are translated at the historical rate at the transaction date. Non-monetary items measured at fair value are translated at prevailing exchange rates on the date of the fair value measurement.
Exchange differences are generally recognized in profit or loss in the period in which they occur. The following constitute exceptions to this:
In the case of non-monetary items for which fair value adjustments are recognized directly in equity, any exchange differences that arise must also be recognized in equity.
In the consolidated financial statements, the balance sheet items of LBBW's subsidiaries whose reporting currency is not the euro are translated at the exchange rate on the balance sheet date. Average annual rates are used to translate the expenses and income of these subsidiaries. All resulting exchange differences are presented as a separate item of equity.

The exchange rates used for the most important currencies in the LBBW Group at the respective closing date are as follows:

Equivalent of EUR 1	Dec. 31, 2007	Dec. 31, 2006
USD	1.4704	1.3178
GBP	0.7353	0.6714
SGD	2.1250	2.0185
JPY	165.97	156.67
CHF	1.6597	1.6080

7. Cash Reserve.

In addition to cash and balances with central banks, the cash reserve includes public-sector debt instruments and bills due in up to three months. All items are reported at their nominal value.

8. Financial Instruments (IAS 39).

All financial assets and financial liabilities including all derivatives are recognized on the balance sheet in accordance with IAS 39.
Financial assets and financial liabilities are initially recognized when the entity becomes a party to the contractual provisions of the instrument. Regular way purchases or sales of financial assets and securities are recognized using settlement date accounting or, in the case of derivatives, trade date accounting.
A financial asset is derecognized when the contractual rights to the cash flows from the financial asset expire or the entity relinquishes control of the financial asset. A financial liability is derecognized as soon as it is discharged.

Fair value measurement.

Fair value is the amount for which a financial instrument could be exchanged between knowledgeable, willing parties in an arm's length transaction. If market values from active markets (e.g., quoted prices on organized markets in accordance with § 2 (2) Wertpapierhandelsgesetz (German Securities Trading Act)) are available, these are used for the measurement. Otherwise, valuation models (particularly the net present value method and option pricing models) are used that reflect current market and contract prices of the underlying financial instruments, as well as fair value considerations, yield curves, and volatility factors. These models are also used for calculating daily gains or losses.
The valuation methods for measuring the fair value of financial instruments are broken down into three categories. All financial instruments, including available-for-sale investments, with currently quotable (securities) market prices are assigned to the first group. OTC derivatives, borrower's note loans, commercial papers and purchased securitized products that are measured using models and that no longer have sufficiently liquid prices are assigned to the second group. The third group includes financial derivatives that reference individual CDS baskets, certain CDOs, and available-for-sale investments for which no current market prices are available.

The following table contains an overview of the valuation models applied:

Derivatives	Valuation model
Interest rate swaps	Net present value method
Forward rate agreements	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
Credit derivatives	Intensity model

The cash flows used in the net present value method are based on the contractual data of the financial instruments and market parameters.
Due to the developments currently observable on financial markets, measurement of the value of financial instruments in particular is subject to increased uncertainty. When transaction volumes on markets are low and particularly when forced transactions or distress sales are not taken into account, the comparative data available is limited.
In the event of inactive markets, i.e., where current market data is lacking, indicative prices or valuation models based on internal market data are used for measurement.
In the case of items payable on demand as well as other assets and other liabilities with short maturities, it is assumed that the carrying amount approximates the fair value.
If no observable market values are available for the input parameters of the model and estimated values are used instead, the fair value reported is influenced by the assumptions underlying the estimates. If other realistic values are selected for the model parameters, the fair value determined can be much higher or much lower. For this reason, the assumptions for estimates are made with the utmost care by LBBW's Risk Controlling unit.

Financial assets or financial liabilities at fair value through profit or loss.

This category in IAS 39 makes a distinction between financial instruments held for trading (HfT) and financial instruments irrevocably designated at fair value through profit or loss at the time of acquisition (designated at fair value/fair value option (FVO)). Financial assets and liabilities in this category are measured at fair value through profit or loss.
Derivatives, securities, and borrower's note loans acquired for the purpose of generating a profit from short-term fluctuations in market prices or dealing margins are classified as held for trading. This sub-category includes those derivative financial instruments, broken down into trading derivatives and economic hedging derivatives that are used for trading purposes or are part of an economic hedge and have a positive or negative fair value. It does not include the derivatives used as hedging instruments for hedge accounting purposes. Financial instruments held for trading are reported in the balance sheet under »Trading assets« or »Trading liabilities«. Unrealized remeasurement gains or losses as well as realized gains and losses on the sale or disposal of trading assets are recognized in »Net trading income/loss«.

The »financial instruments designated at fair value« sub-category includes financial instruments that were not acquired or are held for trading purposes but are measured at fair value through profit or loss. Instruments that qualify for the fair value option include financial instruments with embedded derivatives to be separated from the host contract or financial instruments managed in accordance with a documented risk management or investment strategy so as to eliminate or significantly reduce a measurement or recognition inconsistency. Compound financial instruments mainly include LBBW's own bearer bonds and borrower's note loans issued, which are structured with interest rate, credit, equity, and currency derivatives. Financial instruments that qualify for the fair value option on initial recognition are reported in the balance sheet under »Financial assets designated at fair value« or »Financial liabilities designated at fair value«. The effects of changes in the fair value of the designated financial instruments are carried in the income statement item »Net income/loss from financial instruments designated at fair value«.

Current income from financial instruments held for trading and designated at fair value through profit or loss is reported in the net interest income item.

Available-for-sale assets.

Available-for-sale financial assets include all non-derivative financial instruments that have not already been assigned to other categories. Securities designated as available-for-sale financial assets are reported under »Investment securities«. Available-for-sale financial instruments are measured at fair value. The remeasurement gain or loss is charged directly to equity under the sub-item »Revaluation reserve for AfS financial instruments«. Impairment losses and realized remeasurement gains or losses are reported in the income statement. Reversals of impairment losses on debt instruments are recognized through profit or loss, while reversals of impairment losses on equity instruments are recognized directly in equity.

In the case of debt instruments, a test is performed at each balance sheet date or when specific events such as unusual market distortions arise in order to assess whether there is any objective evidence that individual financial assets are impaired.

Objective evidence of impairment includes, in particular, significant financial difficulty of the borrower; a breach of contract, a strong likelihood that the borrower will enter bankruptcy or other financial reorganization, and granting by the lender, for economic or legal reasons relating to the borrower's financial difficulty, of a concession that the lender would not otherwise consider. The potentially impaired debt instruments identified based on these criteria are then tested to determine whether the current fair value falls below the cost less any repayment or amortization. The total of the acquisition cost less current fair value (and any impairment charge previously recognized in profit or loss) equals the impairment charge recognized.

In the case of equity instruments, a financial asset is impaired if there is a significant or prolonged decline in its fair value of a financial asset below its cost. Where there is an active market for available-for-sale assets, significant impairment is assumed if the fair value at the measurement date is at least 20 % below the cost of the asset. Permanent impairment exists if the fair value is permanently below the cost of the asset over a period of 12 months. Where there is no active market, significant impairment is assumed if the fair value of the assets at the measurement date is at least 20 % below their cost. Permanent impairment exists if the fair value of the last two measurements is below the cost of the assets.

Income or expenses from currency translation are reported for debt instruments (e.g., bonds and debentures) under »Currency gain/loss«, while income and expenses from currency translation are recorded for equity instruments (e.g., shares, equity investments, interests in other companies) in the revaluation reserve. When the financial instrument is sold, the change in value accrued in the revaluation reserve is recorded under »Net income/loss from investment securities«.

Derivatives.

The LBBW Group uses derivatives to hedge balance sheet and/or off-balance-sheet items within the scope of its asset/liability management. Derivatives are also used to hedge fluctuations in interest rates or other market prices for trading transactions. In addition, derivatives are traded.

As of December 31, 2007, the LBBW Group had the following types of derivatives in its balance sheet portfolio:

- Forwards and futures are contractual agreements for the purchase or sale of a specific financial instrument at a specified price and at a specified time in the future. Forwards are non-standardized contracts traded on the over-the-counter (OTC) market. Futures are contracts for standardized volumes and are traded on stock exchanges.
- Swaps are contractual agreements between two parties where one stream of interest payments and/or exchange rates is exchanged for another based on a specified principal amount in the event of certain events arising.
- Options are contractual agreements that give the buyer the right to buy or sell a specific amount of a financial instrument at a specified price on a specified date or during a specified period of time.
- Hedges as defined in IAS 39 (hedge accounting) are reported under »Positive fair values from derivative hedging instruments« or »Negative fair values from derivative hedging instruments« with positive fair values on the assets side and negative fair values on the liabilities side of the balance sheet.

Hedge accounting.

At the inception of the hedge there is formal designation and documentation of the hedging relationship that identifies the hedged item and the hedging instrument, the nature of the risk being hedged, explains the hedging strategy and the risk management objective, and defines the method used to assess the hedging instrument's effectiveness. In accordance with the provisions of IAS 39, the hedge is expected to be highly effective at its inception and throughout the term of the hedging relationship. The effectiveness must also be assessed retrospectively at regular intervals. A hedge is considered to be effective if the ratio of the changes in value from the hedging transaction to the hedged part of the hedged item is between 80 % and 125 % (IAS 39.AG105(b)). An ineffective hedge must be canceled and can be redesignated for the remainder of the hedge's term if the hedge is expected to be effective for the remaining term (prospective test).

If the requirements for hedge accounting in accordance with IAS 39.71 et seq. are met, a decision is made as to whether the hedging transaction will be accounted for as a fair value hedge or as a cash flow hedge.

Fair value hedges serve to hedge the exposure to market price risk and related changes in the fair value. They exist in the form of micro fair value hedges and portfolio fair value hedges.

According to IAS 39.89(b), in a micro fair value hedge the carrying amount of the hedged item is adjusted for the gain or loss on the hedged item attributable to the hedged risk and recognized in profit or loss. This applies both to financial instruments carried at amortized cost (receivables and investment securities from the »Loans and receivables« category, as well as liabilities from the »Other liabilities« category) and to hedged items measured at fair value where changes in value are recognized in the revaluation reserve (available-for-sale financial instruments). Changes in the fair value of the hedged item not attributable to the hedged risk are accounted for in accordance with the guidance applicable to the relevant category.

LBBW has used portfolio fair value hedges to hedge interest rate risks within the meaning of IAS 39 since preparation of the 2006 opening balance sheet. The rules applicable to portfolio fair value hedges on interest rate risks enable LBBW to reproduce internal Bank management of interest rate risks. The portfolios contain both receivables and liabilities that are subject at regular intervals to prospective and retrospective measurement of effectiveness in a dynamic hedge accounting cycle. The repayment amount is allocated to the appropriate time interval for each financial instrument according to the expected maturity.

In the case of portfolio fair value hedges, a separate line item (portfolio hedge adjustment attributable to assets/liabilities) is carried on the face of the balance sheet to record the change in the hedged item as regards the hedged risk.

The remeasurement gains and losses resulting from the measurement of the hedging transaction offset the measurement effect of the hedged items attributable to the hedged risk. These are recognized under »Net loss from hedging transactions«.

The cash flow hedge used by LRI Landesbank Rheinland-Pfalz International S.A. to a limited extent hedges the risks arising from future cash flows. The hedging transaction is recognized in the balance sheet at its fair value. The resulting changes in fair value are recognized directly in equity in the revaluation reserve.

A hedging relationship ends when the hedged item or the hedging instrument expires, is sold, is terminated before maturity, or is designated for other purposes, or if the hedge no longer meets the criteria to qualify for hedge accounting.

If a financial instrument used to hedge changes in the fair value of a hedged item is terminated before maturity or designated for other purposes, the interest-related fair value adjustment included in the carrying amount of the hedged item is amortized over its remaining maturity and netted against interest income/expenses.

In the event of disposal or early repayment of the hedged assets or liabilities, the adjustments in the fair value of the hedged item are recognized along with the realized gains/losses from the disposal or repayment.

Embedded derivatives.
Hybrid instruments are financial instruments that are composed of a host contract and one or more derivatives, where the embedded derivatives are a component of a contract and therefore are not traded separately. In conformity with IAS 39, embedded derivatives are separated from the host contract and accounted for as standalone derivatives if all of the conditions below are satisfied:

- the hybrid instrument is not measured at fair value through profit or loss;
- the economic characteristics and risks of the embedded derivative are not clearly and closely related to the economic characteristics and risks of the host contract; and
- the terms of the embedded derivative would meet the definition of a derivative.

If a hybrid instrument is separated for accounting purposes, the host contract must be accounted for in accordance with its category and the embedded derivative accounted for separately in the held-for-trading category. The host contract is measured subject to the category to which this host contract was assigned. Embedded derivatives that are separated from their host contract are measured at fair value with changes in value recognized in profit or loss. According to IAS 39.AG29, if several embedded derivatives that must be separated exist per host contract, those derivatives that relate to the same risk exposure must be reported and measured together. If the criteria for a separation of the embedded derivatives are not met, the host contract and the embedded derivative must be recognized and measured as a single asset or liability.

Financial guarantee contracts.
Obligations arising from financial guarantee contracts extended by the Group (guarantor) relate to contracts that require the Group to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. Financial guarantee contracts are initially recognized at fair value and subsequently measured at fair value. The present value of the outstanding premium payments is netted against the present value of the obligations arising from the financial guarantee contracts; in arm's length transactions, the two amounts are the same. If necessary, an allowance for losses is recognized upon subsequent measurement.
Due to the insignificance of the amounts involved, no fair values are presented in the notes.

Measurement at amortized cost.
Amortized cost is the amount at which a financial asset or financial liability was recognized at initial recognition. Any principal repayments, plus or minus accumulated amortization of any difference between the original amount and the amount repayable at maturity using the effective interest method less any write-down for impairment losses incurred, are deducted from this amount.

Loans and receivables.
Loans and receivables (LaR) are all non-derivative financial instruments with fixed or determinable payments that are not quoted in an active market and are not assigned to any other category on acquisition. Loans and receivables are carried at amortized cost. Loans and receivables are tested for impairment at each closing date or whenever there are indications of potential impairment. As a consequence, impairment losses must be recognized if necessary (see Note 11). Impairment losses are reversed in the income statement. Reversals are limited to the amortized cost that would have been recorded at the measurement date without impairment losses.
Loans and receivables include loans and advances to other banks, loans and advances to customers, and investment securities not classified as available-for-sale financial assets. »Loans and advances to other banks« and »Loans and advances to customers« primarily comprise originated loans, borrower's note loans, and overnight and term money.

Other liabilities.
Financial liabilities measured at amortized cost (»Other liabilities«) comprise financial liabilities including securitized liabilities provided these were not designated at fair value through profit or loss. They are recognized at amortized cost making allowance for proportionate premiums and discounts.
In accordance with IAS 39, own bonds held in the Group are deducted from issued bonds. Own bonds held in the Group are offset at their redemption value against the nominal value of the issued bonds. This measurement is deemed to be a reasonable approximation of amortized cost. The difference between the redemption value and the nominal value of the Group's own bonds is recognized in net interest income.

Held-to-maturity investments.

Currently, LBBW does not use the category of held-to-maturity investments.

9. Offset Arrangements.

A financial asset and a financial liability are offset if the Group has a legally enforceable right to set off the recognized amounts, and intends either to settle on a net basis, or to liquidate the asset and settle the respective liability simultaneously.

10. Classification.

The classification of financial instruments required by IFRS 7.6 was defined for the LBBW Group as follows:

Assets	
Assets carried at amortized cost	
	Loans and advances to other banks
	Loans and advances to customers
	Investment securities
	Interest-bearing assets
	Non-interest-bearing assets1[1]
Assets carried at fair value:	
	Investment securities
	Interest-bearing assets
	Non-interest-bearing assets
	Portfolio hedge adjustment attributable to assets
	Positive fair values from derivative hedging instruments
	Trading assets (HfT)
	Financial assets designated at fair value

Liabilities	
Liabilities carried at amortized cost:	
	Deposits from other banks
	Due to customers
	Securitized liabilities
	Subordinated debt
Liabilities carried at fair value:	
	Portfolio hedge adjustment attributable to liabilities
	Negative fair values from derivative hedging instruments
	Trading liabilities (HfT)
	Financial liabilities designated at fair value

[1] Carried at cost

Please refer to the Risk Report in the Group's Management Report for detailed information in accordance with IFRS 7.31 et seq. on the presentation of risks arising from our financial instruments and management of these risks.

11. Allowance for Losses on Loans and Advances.

The item »Allowance for losses on loans and advances« comprises the write-downs charged on financial instruments reported as loans and advances. This item comprises specific valuation allowances on loans and advances identified as impaired, collective valuation allowances, and portfolio-based valuation allowances. Collective valuation allowances are recognized for insignificant loans and advances if objective evidence of impairment exists. Portfolio-based valuation allowances comprise portfolio-based valuation allowances for significant loans and advances and portfolio-based valuation allowances for insignificant loans and advances. Valuation allowances are recognized for significant and insignificant loans and advances if no loss event is determined for the relevant loan or advance. If objective evidence of impairment exists in the case of significant loans and advances and a valuation allowance does not have to be recognized because the present value of the loan or advance exceeds its carrying amount, these significant loans and advances are also included in the portfolio-based valuation allowances. Specific valuation allowances (IAS 39.63) were recognized for the credit and country risk exposures on the loans and advances to other banks and to customers in accordance with standard Group criteria. For this, a test is performed at each balance sheet date to assess whether there is any objective evidence that individual financial assets or a group of financial assets are impaired. Objective evidence of impairment includes, in particular, significant financial difficulty of the borrower; a breach of contract (default or past due interest or principal payments), a strong likelihood that the borrower will enter bankruptcy or other financial reorganization, and granting by the lender, for economic or legal reasons relating to the borrower's financial difficulty, of a concession that the lender would not otherwise consider.

The impairment loss is measured as the carrying amount of the loan less the present value of the estimated future cash flows discounted using the original effective interest rate for the loan. The fair value of recoverable collateral is also taken into account if necessary. To calculate estimated future cash flows, the amounts and accrual date of all anticipated proceeds from the loan (interest and repayments) as well as any payments from the liquidation of collateral are estimated over a period of four to five years. Country risks and adjusting events are reflected in this estimate.

The net interest income from loans and advances subject to allowances does not include the contractually agreed interest income or the accrual of any discounts; rather, it is calculated on the basis of the change in the present value of estimated future cash flows at the next balance sheet date (unwinding). The original effective interest rate of the loan or advance is used to calculate the interest income. Impaired loans and advances are recognized as non-performing from the date the impairment losses are recognized for the first time. Expected incoming payments reduce the carrying amount of the loan or advance, while unexpected payments received additionally reduce the allowance for losses through profit or loss. In the year under review, no correction of unrecognized interest was undertaken, because the unwinding and unrecognized interest amounts are substantially similar. The loans and advances and allowance for losses are therefore reported at their gross amounts before adjustments for unrecognized interest and unwinding. In the 2008 fiscal year, adjustments for unrecognized amounts and correct accounting for unwinding are planned.

The collective valuation allowances and portfolio-based valuation allowances are differentiated by subportfolio and calculated as a product of the amount drawn, the probability of default on a commitment within one year, and the loss ratio at the time of the default, as well as – if applicable – the time frame between the occurrence of an event and its identification.

Unrecoverable loans and advances for which no allowance has been recognized are written off directly (IAS 39.63). Recoveries on loans and advances already written off are recognized in profit or loss.

To the extent that it relates to loans and advances reported on the face of the balance sheet, the total allowance for losses is deducted from loans and advances to other banks and customers on the face of the balance sheet. By contrast, the allowance for losses on loans and advances for off-balance-sheet transactions (guarantees, endorsement liabilities, loan commitments) is presented as a provision for credit risks.

The provision for credit risks is recognized when current obligations arise from past events and the settlement of these obligations can be expected to be associated with an outflow of resources. These obligations are recognized in the amount that LBBW would reasonably have to pay to settle the obligation or to transfer it to a third party according to the circumstances as of the reporting date.

12. Investments Accounted for Using the Equity Method.

Investments in associates or joint ventures accounted for using the equity method are carried at cost in the consolidated balance sheet when a significant influence is obtained or on formation of the company. In subsequent years, the figure reported at equity is adjusted by the Group's share in the associates's equity.

The proportion of profit or loss generated by the investment is reported in the consolidated income statement as »Net income from investments accounted for using the equity method«. Changes in the investment's revaluation reserve are recognized directly in consolidated equity.

13. Noncurrent Assets/Disposal Groups Held for Sale.

In accordance with IFRS 5, noncurrent assets or disposal groups held for sale are carried at the balance sheet date at the lower of the carrying amount or the fair value (less costs to sell) and presented separately from other assets on the face of the balance sheet. The liabilities of a disposal group classified as held for sale are presented separately from other liabilities on the balance sheet.

14 Intangible Assets.

Intangible assets include goodwill as well as internally developed and purchased software.

Goodwill is calculated as the excess of the cost of the acquisition over the acquirer's interest in the fair value of the net assets of the purchased company, net of deferred taxes. Goodwill is tested for impairment at least once a year, and also during the year if there are indications of potential impairment. For purposes of the impairment test, goodwill is assigned to the cash-generating units. Each of these cash-generating units is assigned to a segment in the primary reporting format. Gains and losses from the acquisition of a company include the proportionate amount of goodwill. Goodwill from the acquisition of an associate is reported under »Investments in associates«.

Purchased intangible assets are carried at amortized cost. Internally developed software is capitalized at cost if the recognition criteria in IAS 38 are met. The capitalized cost mainly includes staff costs and expenses for external services incurred during development. The internally developed or purchased software is amortized over three to eight years on a straight-line basis. Where indications of impairment exist, the recoverable amount is calculated and compared with the carrying amount. Impairment losses are charged to profit or loss.

Amortization, write-downs, and impairment losses on intangible assets are recorded under »Administrative expenses« in the income statement.

Intangible assets are derecognized when sold or when no further economic benefit can be expected from their use or sale. Gains and losses are the difference between the net proceeds from the disposal of the asset, if any, and its carrying amount (recognized in profit or loss).

15. Investment Property.

Properties leased out to third parties or acquired for purposes of deriving profit are reported as investment property according to IAS 40 as long as they are held to earn rental income and/or for capital appreciation. Where mixed-use properties exist and the non-owner-occupied parts can be sold separately or leased out separately, these parts are accounted for separately. Mixed-use properties with a leased portion of over 80 % of the total area are aggregated and classified as investment property. Investment property is reported as a separate item in the balance sheet. Investment property is measured initially at its cost including transaction costs. After initial recognition, it is measured at fair value. In the absence of current prices in an active market, models are used or appraisals are obtained for measurement purposes.
In the measurement of investment property, the scope of measurement is based on the assumptions used to calculate future cash flows. Changes in parameters such as the inflation rate, interest rate, anticipated cost trends and leasing, market conditions, and vacancy rates affect future cash flows and, consequently, the fair value.

16. Property and Equipment.

Property and equipment includes land and buildings used by LBBW, technical equipment and machines, operating and office equipment, advance payments and assets under construction, as well as leased assets under operating leases.
Property and equipment is initially carried at cost and subsequently at amortized cost. The cost of internally developed property and equipment includes directly attributable direct costs as well as fixed and variable production overheads.
Subsequent expenditure for property and equipment is capitalized if it is deemed to increase the future potential benefit. All other subsequent expenditure is recognized under liabilities.
Property and equipment is depreciated over its expected economic life using the straight-line or declining-balance method. Determination of the economic life reflects expected physical wear and tear, technical obsolescence, and legal and contractual constraints.

	Expected useful life (in years)
Buildings	25–80
Technical equipment and machines	3–12
Operating and office equipment	1–13
Purchased IT systems	3–7

The determination of the useful life and depreciation method is reviewed at a minimum at the end of each fiscal year. After depreciation including the review of the depreciation method used, the underlying useful life and the residual value (recoverable amount of a comparable asset) of the asset in question, a check is performed at each balance sheet date to ascertain whether there are any indications of impairment. Consequently, any impairments resulting from technical or economic obsolescence or wear and tear, or a decline in market prices are taken into account. Where indications of impairment exist, the recoverable amount is calculated and compared with the carrying amount. Impairment losses are charged to profit or loss as extraordinary write-downs. The permanence of the impairment is not relevant for the measurement of the asset.
Impairment losses must be reversed if the calculation of the recoverable amount has changed since the last time an impairment was recorded. Impairment losses are only reversed up to the amount by which the asset would have been depreciated until this date. If the carrying amount is increased by the reversal of impairment losses, the depreciation is adjusted over the remaining useful life of the asset.
The gain or loss on the derecognition of property or equipment is calculated as the difference between the net proceeds from the disposal of the asset, if any, and its carrying amount.
Depreciation, impairment losses, and write-downs are reported under »Administrative expenses«. Gains and losses on the disposal of property and equipment are recorded under »Other operating income«.

17. Leases.

Leases are recognized in accordance with IAS 17 on the basis of their classification as a finance or operating lease. This classification is based on the overall assessment of which risks and rewards lie with the lessor and the lessee.

A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset from the lessor to the lessee. In accordance with the principle of substance over form, beneficial ownership, not legal ownership, is the key factor here. All other leases are operating leases.

The lessor and lessee must classify a lease separately and independently of one another. This may lead to diverging representations of the lease by the lessor and lessee.

The LBBW Group as the lessor.

In the case of operating leases concluded by the companies active in the LBBW Group, beneficial ownership of the leased asset remains with the Group company. The leased assets are recognized in the consolidated balance sheet under »Property and equipment«. Leased property is carried at cost and depreciated over its economic life and/or written down as necessary if subject to permanent impairment. Lease income is recognized on a straight-line basis over the lease term unless another systematic basis is more appropriate in specific cases. All of the depreciation, write-downs, and impairment losses and the income earned are reported under »Other operating income«.

Assets held under a finance lease are presented as a receivable from the lessee at an amount equal to the net investment in the lease at the time the lease is arranged. Lease payments received are broken down into an interest component recognized in income and a repayment component. The interest income is recognized as interest income for the respective period.

The LBBW Group as the lessee.

Lease payments under an operating lease are recognized by the lessee as an expense over the lease term. The lease payments should reflect the time pattern of the user's benefit. If the time pattern of the user's benefit differs from the actual payments of the expense to be recognized, the difference is recognized under »Prepaid expenses« or »Deferred income« as appropriate.

Assets recognized under finance leases are depreciated/amortized in accordance with IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets. If there is no reasonable certainty that the lessee will obtain ownership by the end of the lease term, the asset is depreciated over the (shorter) lease term (and not its economic life). If the lessee benefits from part of the residual value of the leased asset, the asset is depreciated to this value. The leased asset is also tested for impairment in accordance with IAS 36. Finance lease payments received are broken down into an interest component and a repayment component. This repayment component is recognized in equity against the liability, while the interest component is recognized in income as interest expense.

18. Income Taxes.

IAS 12 governs the recognition and measurement of income taxes. Current income tax liabilities and assets are calculated at current tax rates and carried at the expected payment or refund amount.

Deferred income tax assets and liabilities are recognized in respect of temporary differences. Taxable and deductible temporary differences are calculated as the difference between the IFRS carrying amount of an asset or liability and its tax base (adjusted for permanent differences). The tax base is determined based on the tax regulations of the country in which the taxation occurs. Deferred income tax assets and liabilities are calculated at the tax rates that are expected to apply when the asset is realized or the liability is settled. The effect of tax rate changes on deferred taxes is recognized in profit or loss during the period in which the changes were approved by legislative bodies.

Deferred tax liabilities are carried for temporary differences that will result in a tax expense when settled. Deferred tax assets are recognized if tax relief is expected and likely to be utilized when temporary differences are reversed. If temporary differences relate to items that are credited or charged directly to equity, the resulting deferred taxes are also recognized directly in equity in the revaluation reserve. A deferred tax asset is recognized for a tax loss carryforward if it is probable that the carryforward will be used in a future period. In Germany, loss carryforwards can be carried forward without restriction. Foreign loss carryforwards that cannot be carried forward without restriction are recognized in accordance with their maturity. The LBBW Group tests deferred tax assets arising from temporary differences and loss carryforwards for impairment at each balance sheet date.

Deferred tax assets are set off against deferred tax liabilities in accordance with IAS 12.74.

19. Other Assets and Other Liabilities.

Other assets includes assets which, considered separately, are not significant for the disclosure of balance sheet assets and cannot be allocated to any other balance sheet item. Other liabilities includes accruals and obligations which, considered separately, are not significant for the disclosure of balance sheet liabilities and cannot be allocated to any other balance sheet item. Receivables and liabilities in this item are measured at amortized cost.

20. Inventories.

In accordance with IAS 2.9, inventories are measured at the lower of cost or net realizable value. The cost of inventories is calculated in accordance with IAS 2.10 et seq. using the weighted average cost formula, while the net realizable value is calculated in accordance with IAS 2.28 et seq. The cost of inventories that cannot be exchanged and of goods and products or services created and separated for special projects is calculated though allocation of their individual cost of purchase or production.

21. Provisions.

Provisions for pensions and other post-employment benefits.

The LBBW Group offers its employees different types of retirement benefits. Employees may acquire an entitlement to a pension on the basis of a direct pension commitment in which the amount of the pension payment is defined and depends on factors such as age, compensation, and length of service (defined benefit plan). Alternatively, employees receive an entitlement to a pension on the basis of an indirect pension commitment (defined contribution plans). To finance this, the relevant Group company contributes a set amount to external pension funds with individual participation by employees.

In the case of defined benefit plans, the relevant Group company is obligated to grant benefits pledged to active and former employees. The actuarial risk and the investment risk are substantially borne by the relevant Group company. For defined benefit plans, the scope of the obligation is calculated once a year by independent actuaries. In this process, the present value of the defined benefit obligation is calculated at each reporting date using the projected unit credit method. In addition to pensions and entitlements accrued known at the balance sheet date, the calculation also reflects expected future increases in pensionable salaries and annuities as well as employee turnover rates. The present value of the pension obligation is calculated on the basis of the current market interest rate for long-term investments. Irregularities in the development of the risk associated with the pension obligations, effects of changes in the calculation parameters (employee turnover rate, salary increase, estimate parameters or discount rate) as well as unexpected gains or losses in relation to plan assets may lead to actuarial gains or losses. Actuarial gains or losses are recognized directly in equity through retained earnings in their full amount in the year they arise.

Existing plan assets are measured at fair value and reduce the carrying amount of the provisions for pensions. The expected income from plan assets is set off against the addition to provisions for pensions and other post-employment benefits.

The amount to be recorded as an asset or liability is calculated from the present value of the defined benefit obligation at the balance sheet date plus any unrecognized actuarial gains (less corresponding losses), less any unrecognized past service cost, less the fair value of the plan assets (if any) at the balance sheet date. The asset is limited to the total of all cumulative, unrecognized, netted actuarial losses and past service cost as well as the present value of an economic benefit in the form of refunds from the plan or reductions of future contributions paid into the plan.

Defined benefit plans include credit balances from the conversion of certain salary elements by employees for financing compensation during a leave of absence. This conversion is governed by the »LBBW FlexiWertkonto« agreement between LBBW and the General Staff Council which entered into force on January 1, 2007.

In the case of defined contribution plans, the relevant Group company's legal or constructive obligation is limited to an agreed fund. The amount of the benefits is based on the amount of these contributions and the income generated from the investment of these contributions. The assets in these plans/funds are managed separately from the relevant Group company by trustees. The contributions are expensed in the relevant period. Outstanding contributions are reported under »Other liabilities«.

Other provisions.
Provisions are recognized for uncertain obligations to third parties and anticipated losses from pending contracts. Provisions are carried at the best estimate. This is the amount required to settle the present obligation (amount that an entity would rationally pay to settle the obligation at the balance sheet date or to transfer it to a third party) and which is most likely to occur. In so doing, management included empirical values from similar transactions and may have drawn on opinions by independent experts.
Noncurrent provisions are discounted where the effect is material.
Provisions for restructuring costs and legal proceedings are carried where the LBBW Group has a legal or constructive obligation from a past event where fulfilling the obligation is likely to lead to an outflow of resources embodying economic benefits and a reliable estimate of the amount of the obligation can be made.

22. Subordinated Debt.
The LBBW Group reports subordinated liabilities, issues of profit participation rights, and typical silent partners' contributions under »Subordinated debt«. In accordance with the provisions of IAS 32, the silent partners' contributions recognized as liable capital for regulatory purposes and in the Kreditwesengesetz (German Banking Act) are reported as debt on account of the existence of a contractual right of termination. Subordinated debt is carried at amortized cost. The amortized cost of subordinated debt designated as the hedged item of a fair value hedge in hedge accounting is adjusted through profit or loss by the changes in the fair value of the hedge for the collateralized portion.

23. Equity.
The ordinary share capital is the capital paid in or to be paid in by the owners of Landesbank Baden-Württemberg (the State of Baden-Württemberg, Sparkassenverband Baden-Württemberg (Savings Bank Association of Baden-Württemberg), the state capital Stuttgart, Landeskreditbank Baden-Württemberg – Förderbank, Sparkassen und Giroverband Rheinland-Pfalz (Savings Bank and Giro Association of Rhineland-Palatinate)) in accordance with § 5 Gesetz über die Landesbank Baden-Württemberg (Landesbank Baden-Württemberg Act) in conjunction with § 3 of the Ordinance of Landesbank Baden-Württemberg.
The share premium includes the premiums from the issue of equity interests in accordance with the provisions of the Ordinance.
Retained earnings are divided into legal reserves, reserves provided for in LBBW's Ordinance, and other retained earnings. Other retained earnings include reinvested profits from previous years. In addition, this item includes the effect of the first-time adoption of IFRSs – except for the effects of the fair value measurement from the first-time adoption for AfS securities and equity investments.
The effects of the fair value measurement of the AfS securities and equity investments are reported under the net income recognized directly in equity under the item »Revaluation reserve for AfS financial instruments«, after deduction of any deferred taxes. These gains or losses are not recognized in income until the asset is sold or written off due to impairment. The revaluation reserve also includes the offsetting item from the recognition of deferred tax assets or liabilities on measurement differences in equity.
The remeasurement gain or loss from cash flow hedges includes the portion of the profit or loss that is considered an effective hedge and is recognized directly in equity. The offsetting item from the recognition of deferred tax assets and liabilities on cash flow hedges is also reported in this item.
The amounts transferred to the currency translation reserve arise from the translation of the financial statements of a foreign operation into euros. All resulting exchange differences are recognized in equity until the net investment is sold. Differences resulting from the translation of monetary items from a net investment in a foreign operation (e.g., noncurrent receivables or loans granted) are recognized directly in equity as a separate item. Exchange differences from foreign currency liabilities from a rate-hedging transaction of a net investment in a foreign operation are carried as equity in the entity's financial statements until the net investment is sold.
Minority interests must be stated as a separate sub-item in equity; besides the shareholders of the parent company, other shareholders hold a stake in the equity of the subsidiaries (50 % < parent company interest < 100 %).

24. Securities Repurchase and Securities Lending Agreements.

The LBBW Group enters into both securities repurchase and securities lending agreements.

Securities repurchase agreements.

Genuine repurchase (repo) agreements are contracts providing for the transfer of securities against payment of a specified amount in which the return of the securities to the pledgor at a later date for a price agreed in advance is also agreed.
As the pledgor, the LBBW Group continues to carry the assets pledged on the balance sheet and also recognizes the proceeds received as a loan to the pledgee.
As the pledgee, the LBBW Group recognizes a corresponding receivable from the pledgor as an asset.

These transactions are measured in accordance with the underlying categories in IAS 39. Interest payments on repurchase agreements are recorded as interest income or interest expense. Any premiums/discounts to be accrued/deferred (or differences between the amount received on transfer and the amount to be repaid on return) are recorded in the relevant balance sheet item. Amounts written back from premiums/discounts are reported under »Net interest income«.

Securities lending agreements.

Securities lending agreements are transactions in which ownership of securities is transferred with an obligation on the borrower to retransfer securities of the same type, quality, and quantity on expiration of the agreed period of time and pay a fee for the duration of the loan. As the borrower, the LBBW Group does not report the borrowed securities. If the borrowed securities are sold on to another party, a gain on disposal is recognized as an asset and an obligation to return the securities is recognized under »Trading liabilities« at the same time. The fee paid by the borrower is reported under »Net fee and commission income« or »Net trading income/loss« depending on the category to which the security is assigned in accordance with IAS 39. The collection of interest or dividends depends on the contractual arrangements and can benefit either the borrower or the lender. The interest is reported accordingly under »Net interest income«.
As the lender, the LBBW Group continues to report the securities in accordance with the rules applicable to the relevant category in IAS 39.

Main Differences Between HGB and IFRSs.

25. Reconciliation of 2006 Consolidated Equity from HGB to IFRSs.

Opening balance sheet of the LBBW Group as of January 1, 2006:

	Jan. 1, 2006 EUR million
Assets	
Cash reserve	815
Loans and advances to other banks	150 345
Loans and advances to customers	119 451
Allowance for losses on loans and advances	– 2 393
Positive fair values from derivative hedging instruments	10 180
Trading assets	32 639
Financial assets designated at fair value	6 600
Investment securities	80 306
Investments accounted for using the equity method	3
Portfolio hedge adjustment attributable to assets	686
Intangible assets	122
Investment property	1 641
Property and equipment	767
Current income tax assets	192
Deferred income tax assets	359
Other assets	529
Total assets	**402 242**
Equity and Liabilities	
Deposits from other banks	118 468
Due to customers	83 609
Securitized liabilities	131 783
Negative fair values from derivative hedging instruments	9 771
Trading liabilities	13 014
Financial liabilities designated at fair value	21 106
Portfolio hedge adjustment attributable to liabilities	843
Provisions	1 819
Current income tax liabilities	369
Deferred income tax liabilities	229
Other liabilities	614
Subordinated debt	11 151
Equity	9 466
Ordinary share capital	1 420
Share premium	3 074
Retained earnings	3 272
Net income recognized directly in equity	936
Net retained profit	662
Minority interest	102
Total equity and liabilities	**402 242**

IFRSs are generally applied retrospectively, though there are mandatory and voluntary exceptions to this rule. The mandatory exceptions with regard to hedge accounting, the derecognition of financial instruments, and estimates were taken into account at the opening balance sheet date. With regard to the transitional provisions of IFRS 5 (Non-current Assets Held for Sale and Discontinued Operations), there were no such transactions to report as of January 1, 2006.

The following exemptions in IFRS 1 were applied when the opening balance sheet was being prepared:

- No retrospective application of IFRS 3 in accordance with IFRS 1 B1. In the HGB financial statements, all existing goodwill from full consolidation after allocation of hidden reserves was set off against revenue reserves (retained earnings). Any excess of the interest in fair value over cost (negative goodwill) was also allocated to revenue reserves.
- Exemption from the provisions for cumulative translation differences in accordance with IFRS 1.22.
- Application of the exceptions in IFRS 1.25A regarding the designation of previously recognized financial instruments at the time of the transition to IFRSs.

The LBBW Group has designated financial assets that were reported in the HGB financial statements under »Claims on banks« and »Claims on customers« as well as »Shares and other non-fixed interest securities« with a HGB book value of EUR 33 704 million as at fair value through profit or loss (HfT, FVO).

Financial assets with a HGB book value of EUR 86 490 million were designated as available for sale (AfS). These were reported in the HGB financial statements under »Bonds and other fixed-interest securities«, »Companies in which an equity interest is held«, »Shares in affiliated companies« and »Shares and other non-fixed interest securities«.

Financial liabilities – reported in the HGB financial statements under »Liabilities to banks,« »Liabilities to customers«, »Certificated liabilities«, and »Deferred income« with a total HGB book value of EUR 31 004 million – were designated at fair value through profit or loss.
The changes in balance sheet items as of January 1, 2006 resulting from the first-time adoption of IFRSs that are recognized in equity are presented below:

EUR million	Notes	Issued capital	Silent partners' contributions	Share premium
Equity under HGB		**1 420**	**3 544**	**3 074**
Effects of first-time adoption from the reclassification of silent partners' contributions as debt	(28)	0	– 3 544	0
Effects of first-time adoption on revenue reserves (retained earnings)				
from the reversal of contingency reserves pursuant to § 340f HGB	(28)	0	0	0
from the reclassification of silent partners' contributions as debt	(29)	0	0	0
from provisions for pensions	(30)	0	0	0
from investment property	(31)	0	0	0
from deferred taxes	(32)	0	0	0
from leases	(33)	0	0	0
from the transfer of available-for-sale assets to the revaluation reserve	(34) (35)	0	0	0
from others	(38) (39)	0	0	0
Effects of first-time adoption on revaluation reserve for AfS financial instruments	(34)	0	0	0
Effects of first-time adoption on minority interest		0	0	0
Effects of different bases of consolidation		0	0	0
Total reconciliation		**0**	**– 3 544**	**0**
Equity under IFRSs		**1 420**	**0**	**3 074**

Retained earnings	Revaluation reserve for AfS financial instruments	Net retained profit	Minority interest	Total
2 487	**0**	**670**	**83**	**11 278**
0	0	0	0	–3 544
1 288	0	0	0	1 288
–753	0	0	0	–753
–530	0	0	0	–530
290	0	0	0	290
306	0	0	0	306
79	0	0	0	79
24	0	0	0	24
–53	0	0	0	–53
0	932	0	0	932
0	0	0	16	16
134	4	–8	3	133
785	**936**	**–8**	**19**	**–1 812**
3 272	**936**	**662**	**102**	**9 466**

The changes in balance sheet items resulting from the first-time adoption of IFRSs that are recognized in equity as of December 31, 2006 are presented below:

EUR million	Notes	Issued capital	Silent partners' contributions	Share premium
Equity under HGB		**1 420**	**3 501**	**3 074**
Effects of first-time adoption from the reclassification of silent partners' contributions as debt	(28)	0	– 3 501	0
Effects of first-time adoption on revenue reserves (retained earnings)				
from the reversal of contingency reserves pursuant to § 340f HGB	(28)	0	0	0
from the reclassification of silent partners' contributions as debt	(29)	0	0	0
from provisions for pensions	(30)	0	0	0
from investment property	(31)	0	0	0
from deferred taxes	(32)	0	0	0
from leases	(33)	0	0	0
from the transfer of available-for-sale assets to the revaluation reserve	(34) (35)	0	0	0
from others	(38) (39)	0	0	0
Effects of first-time adoption on revaluation reserve for AfS financial instruments	(34)	0	0	0
Remeasurement gain/loss from cash flow hedges		0	0	0
Effects of first-time adoption on minority interest		0	0	0
Effects of different bases of consolidation		0	0	0
Total reconciliation		**0**	**– 3 501**	**0**
Equity under IFRSs		**1 420**	**0**	**3 074**

Retained earnings	Revaluation reserve for AfS financial instruments	Remeasurement gain/loss from cash flow hedges	Net retained profit[1]	Minority interest	Total
3 087	**0**	**0**	**805**	**90**	**11 977**
0	0	0	0	0	– 3 501
1 288	0	0	0	0	1 288
– 753	0	0	0	0	– 753
– 530	0	0	20	0	– 510
290	0	0	59	0	349
306	0	0	– 95	0	211
79	0	0	19	0	98
24	0	0	0	0	24
– 54	0	0	307	0	253
0	985	0	0	0	985
0	0	– 6	0	0	– 6
0	0	0	5	14	19
127	– 12	0	– 194	– 1	– 80
777	**973**	**– 6**	**121**	**13**	**– 1 623**
3 864	**973**	**– 6**	**926**	**103**	**10 354**

[1] Consolidated net retained profit is calculated from the HGB consolidated net income for the year less a loss carryforward of of EUR 3 million and allocation to revenue reserves of EUR 10 million.

26. Reconciliation of 2006 Consolidated Profit from HGB to IFRSs.

	Notes	2006 EUR million
Consolidated net income under HGB		**818**
Change in basis of consolidation		–194
Hedge accounting and measurement of derivative hedging instruments	(36)	119
Offsetting of intra-group issues	(37)	90
Measurement of third-party issues		69
Investment property	(31)	59
Designation at fair value	(36)	32
Pension expense	(30)	20
Leases	(33)	19
Other	(40) (41)	–16
Tax effects	(32)	–95
Profit attributable to minority interest		5
Total reconciliation		**108**
Profit attributable to shareholders under IFRSs		**926**

27. Reconciliation of 2006 Cash Flow Statement from HGB to IFRSs.

The differences in cash flows from operating activities, investing activities, and financing activities under HGB and IFRSs are mainly attributable to changes in the classification of securities, investment property, lease assets, and interest on silent partners' contributions.

28. Addition to Provision for General Banking Risks in Accordance with § 340f HGB.

Recognition of hidden reserves in accordance with § 340f HGB is not possible under IFRSs. These were reversed against retained earnings on initial recognition.

29. Subordinated Debt.

In accordance with IFRSs, subordinated debt must be classified as debt on account of the lender's right of recovery. Silent partners' contributions reported under equity in the HGB financial statements are classified as debt under IFRSs and reported as subordinated debt or in some cases represent trust liabilities.

30. Provisions for Pensions.

According to IFRSs, both direct and indirect obligations are included in the calculation of pension obligations. IAS 19 requires future economic and demographic trends (e.g., salary increases and employee turnover, selection of a comparable market rate of interest for discounting provisions) to be factored into the measurement of pension obligations. IAS 19 requires the discount rate to be based on the capital market rates of high-quality, fixed-income bonds with matching maturities so as to reflect the economic and demographic trends impacting the amount of the obligations entered into by the company. IFRS pension obligations are calculated using the projected unit credit method.

IAS 19 makes a distinction between defined contribution and defined benefit plans. A balance sheet provision is recognized exclusively for defined benefit plans (IAS 19.49), as defined contribution plans did not constitute an obligation for the LBBW Group and are therefore recognized as a liability and an expense in the period (IAS 19.44) or are carried as accruals. Actuarial gains or losses are recognized directly in retained earnings in the year in which they arise.

According to HGB, pension obligations arise from a direct commitment by a company to grant its employees future pension benefits. These obligations are liabilities of uncertain timing and amount. § 249 HGB thus generally requires provisions to be set up for obligations from direct pension commitments. Calculation of pension obligations for German accounting and reporting purposes uses the German entry age normal method (Teilwertverfahren) in accordance with § 6a Einkommensteuergesetz (German Income Tax Act).

31. Investment Property.

Under IFRSs, property held for rental or for capital appreciation must be reported separately. Investment property is measured initially at its cost. It is subsequently measured in the LBBW Group using the fair value model.

Under the HGB, land and buildings are reported as tangible assets (property and equipment) and measured at cost less depreciation.

32. Deferred Tax Assets and Liabilities.

In accordance with § 274 and § 306 HGB, deferred taxes are recognized only for timing differences between accounting profit and taxable profit that will reverse in future years (timing concept). § 306 HGB requires deferred tax assets to be recognized. However, deferred tax assets may not be recognized for tax loss carryforwards. HGB allows deferred tax assets and liabilities to be offset.

By contrast, IAS 12 uses the balance sheet liability method, under which all differences between the tax base and the carrying amounts in the IFRS financial statements resulting in future benefits or expenses (temporary differences) are recognized in the computation of deferred tax assets and liabilities.

Under IFRSs, deferred tax assets and liabilities must be recognized, irrespective of whether the differing carrying amounts in the IFRS financial statements and the tax base have affected profit or loss. The calculation of deferred tax assets and liabilities using the balance sheet liability method uses the future enacted local tax rates.

IFRSs only permit deferred tax assets and deferred tax liabilities to be offset where the company has a legally enforceable right to set off tax assets against tax liabilities and the criteria set out in IAS 12.74 have been satisfied.

In addition, IAS 12 requires deferred tax assets to be recognized for tax loss carryforwards where their utilization is probable in

future periods. Under IFRSs, exceptions to the recognition of deferred taxes relate to permanent differences, undistributed profits of individual Group companies, goodwill from capital consolidation, and differences from the initial recognition of assets and liabilities.
Deferred tax assets must be recognized separately from other assets and from the actual tax refund. Contrary to § 274 (2) HGB, which sets out a recognition option, deferred taxes are required to be recognized under IFRSs.

33. Leases.

Under IFRSs, leased assets are allocated to and recognized by the lessor or the lessee on the basis of the risks and rewards arising from the leased assets.
This means that the lessee must recognize leased assets held under finance leases including an obligation for future lease payments, while the lessor must recognize a corresponding receivable in the amount of the net investment value.
Lessors must carry assets leased under operating leases as property and equipment, while the lessee does not recognize an asset or an obligation.
HGB generally requires leased assets to be carried under tangible assets (property and equipment) by the lessor. Depreciation charges are recognized as administrative expenses.

34. Equity.

Differences between IFRSs and HGB arise from the different classifications of equity and debt and the taking to equity of differences between cost and fair value measurements in the income and expenses recognized directly in equity.

The recognition and measurement differences resulting from the first-time adoption of IFRSs are recognized under »Retained earnings« in the opening balance sheet.

35. Investment Securities.

Investment securities are measured either at fair value or at amortized cost depending on the category to which they are assigned under IAS 39. Under HGB, companies in which an equity interest is held and shares in affiliated companies are stated at their historical cost. Fixed-income securities that were acquired to be held long term and have been assigned an upper investment grade rating by third parties are measured using the less strict lower-of-cost-or-market principle.

36. Trading Portfolios and Derivative Hedging Instruments.

Under IFRSs, loans held for trading/trading liabilities are generally carried under »Trading assets«/»Trading liabilities« and measured at fair value. Changes in the fair value of the trading assets/liabilities are recognized directly in profit or loss for the period.
The application of the fair value option in IAS 39 gives rise to measurement principles that differ from those of HGB.

HGB currently does not contain specific guidance on the measurement of derivatives, which is why the general valuation principles of §§ 252 et seq. HGB are used. Derivatives in the trading portfolio are measured at market prices in the case of financial instruments traded on active markets, while financial instruments for which market prices are not available are measured at prices determined with the help of valuation models.
A risk-adjusted mark-to-market method was used to measure trading portfolios. This method reduces the mark-to-market result of these portfolios by the value-at-risk determined for these portfolios in line with regulatory requirements.
By contrast, HGB does not generally allow gains or losses to be recognized on the measurement of hedging derivatives. Under German accounting principles, the hedged item and the hedging instrument are accounted for as a hedging relationship. The hedged item is carried at amortized cost on the balance sheet. The hedging instrument is not generally recognized on the balance sheet.

37. Liabilities.

Under IFRSs, both deferred interest and discounts/premiums are recognized directly under the corresponding balance sheet items in which the liabilities are carried.
Own bonds in the LBBW Group's portfolio are set off against the securitized liabilities and recognized in income under IFRSs.

38. Loans and Advances.

Under HGB, all loans and advances are carried at their principal amounts. Accrued interest is allocated directly to the relevant loan or advance and carried under the relevant balance sheet item. Discounts and premiums are carried under »Prepaid expenses« and »Deferred income«.
In accordance with IAS 39, loans and advances are carried at amortized cost with the exception of those designated at fair value. Under IFRSs, both accrued interest and discounts/premiums are therefore recognized directly under the corresponding balance sheet items in which the loans and advances are carried.

Allowance for losses on loans and advances

Under IFRSs, the allowance for losses on loans and advances is recognized under assets on the face of the balance sheet. Global valuation allowances, which are required under HGB, may not be recognized under IFRSs. For the first-time adoption of IFRSs, the global valuation allowances recognized under the German Commercial Code were therefore reversed against retained earnings in equity (prior-year amounts) or through profit or loss (changes in the reporting period).

39. Other Provisions.

Under IFRSs, a distinction is made between provisions, accruals, and contingent liabilities depending on their probability of occurrence. No distinction is made between provisions and accruals in HGB.

The recognition requirement for certain types of expenses set out in § 249 (1) sentence 2 HGB is not permissible under IAS 37. The measurement options provided in § 249 (1) sentence 3 and § 249 (2) HGB are also not applicable in IFRSs.

Under IFRSs, provisions are discounted where the effect is material, whereas discounting is only possible in HGB if the liability in question contains an interest component.

40. Securities Lending Transactions.

Under IFRSs, the lender continues to report the securities in accordance with the rules of the relevant category in IAS 39. In 2006, LBBW as the lender derecognized the securities at their book value and instead recognized a (loan) receivable (asset swap) in accordance with HGB. LBBW as the borrower recognized the securities and a corresponding obligation to return the securities. As of 2007, securities lending transactions are subject to the same treatment under HGB and IFRSs at LBBW.

41. Trust Activities.

Trust activities are not recognized under IFRSs, but are disclosed in the notes if significant. Disclosures on trust activities can be found in Note 88.

42. Tax Bases.

The use of tax bases of assets and liabilities under German tax law is prohibited in the IFRS financial statements.

Business Combinations.

43. Business Combinations Completed.

In the 2007 fiscal year, LBBW acquired additional shares in LI-FI (Leveraged Investment in Financial Institutions), gaining a controlling interest on September 17, 2007 through subscription of a capital increase. LBBW's interest in LI-FI amounted to 58.52 % as of the balance sheet date. LI-FI is a sub-trust that was designed to generate returns from a portfolio of bank debt instruments. This portfolio was designated as available for sale and measured at fair value. No additional hidden reserves or liabilities exist beyond this amount.

The acquisition costs totaled EUR 79 million. No costs directly attributable to the acquisition were incurred. The transaction resulted in goodwill of EUR 17 million. For the period from the date of acquisition to December 31, 2007, LI-FI's contribution to earnings amounted to EUR 3 million. The goodwill generated will be allocated as part of the restructuring of cash-generating units in the course of the integration of Sachsen LB into LBBW. As a result, IAS 36.84 will be applied.

44. Business Combinations Completed in 2008.

LBBW agreed to acquire Landesbank Sachsen AG pursuant to the foundation agreement dated August 26/27, 2007. Based on the foundation agreement, LBBW made an anticipated cash payment amounting to EUR 250 million to the shareholders of Landesbank Sachsen AG. Pursuant to the trust agreement dated October 23, 2007, LBBW received and held in trust the shares of Landesbank Sachsen AG. In a framework paper dated December 13, 2007, the conditions precedent for the acquisition of Landesbank Sachsen AG and the purchase price of EUR 328 million were determined. When the conditions precedent were met on March 6, 2008, LBBW acquired the shares of Landesbank Sachsen AG from the Free State of Saxony and Sachsen-Finanzgruppe. LBBW was thereafter the sole shareholder of Landesbank Sachsen AG and had obtained control within the meaning of IAS 27.4.

Landesbank Sachsen AG is expected to be merged with LBBW by accrual (Anwachsungsmodell) on April 1, 2008 and will therefore cease to exist as a separate legal entity. Landesbank Sachsen AG is expected to be operated under the Sachsen Bank brand. LBBW will assume the bank's responsibilities as a central bank to the savings banks in Saxony.

Segment Reporting of LBBW Group for the 2007 fiscal year.

45. Segment Reporting by Business Field.

Segment reporting serves to provide information about the development of results in the individual areas of business within the LBBW Group. The business segments are defined as product and customer groups based on the Group's internal organizational structures. The segment results are based on the internal financial control data documented by Controlling and external data from the annual financial statements. Segment reporting in the LBBW Group is prepared in accordance with the provisions of IAS 14.

Primary segment reporting at LBBW is divided into the following segments:

- The Corporates segment includes business transactions with medium-sized corporate customers, business customers, key accounts, real estate companies, the international business, and loan transactions with the public sector. Besides traditional commercial banking, this also includes investment banking and other specialized product areas such as leasing, factoring, or the equity investment business.
- The Retail Clients segment comprises all activities involving retail, investment, and private banking customers, as well as the business activities connected with the Bank's function as the central bank for savings banks.
- Apart from traditional trading operations, the Financial Markets segment also includes all business activities with credit institutions, sovereigns, insurance companies, and pension funds. The Corporates segment includes all results from financial market transactions with corporate customers. In addition, the Financial Markets segment covers refinancing and capital market investment in connection with credit risk controlling.
- The Corporate Items segment includes all business activities not included in the operating segments. This notably consists of equity investments not included in the consolidated financial statements, the contribution to earnings from strategic trading operations, and the profit or loss generated from central investment of LBBW's own funds, to the extent that this is not assigned to other segments.
- The Other/Consolidation column covers pure consolidation issues. In addition, this segment presents a reconciliation of internal financial control data to external reporting data.

As a rule, income and expenses are allocated to the segments in which they arise.

Net interest income is determined in accordance with the Marktzinsmethode (a market-oriented funds transfer pricing system used by German banks). Net interest income also includes the capital benefit, i.e., investment income from equity.

Net trading income/loss includes the net loss from hedging transactions and the net income/loss from financial instruments designated at fair value.

The net income from investment property is reported as part of »Other operating income«.

Besides direct personnel and material expenses, the administrative expenses of a segment also include expenses assigned on the basis of intra-group cost allocation. Overheads are allocated on a pro rata basis.

The allowance for losses on loans and advances corresponds to the carrying amounts in the income statement and is allocated to the segments in which it arises.

The net loss from investment securities is reported in a single item along with the net loss from profit and loss transfer agreements and the net income from investments accounted for using the equity method.

Segment assets include loans and advances to other banks and to customers less the allowance for losses on loans and advances, positive fair values from hedging derivatives, trading assets, financial assets designated at fair value, investment securities, investments accounted for using the equity method, portfolio hedge adjustment attributable to assets, noncurrent assets/disposal groups held for sale, and investment property.

Segment liabilities include deposits from other banks and amounts due to customers, securitized liabilities, negative fair values from derivative hedging instruments, trading liabilities, financial liabilities designated at fair value, and portfolio hedge adjustment attributable to liabilities.

Equity deemed to be tied up is calculated in accordance with Grundsatz I, Kreditwesengesetz (Principle I, German Banking Act) in line with banking supervision requirements based on the risk assets determined and the capital charges for market price risk positions, as well as imputed Tier 1 capital charges in the segments.

A segment's return on equity is calculated based on the ratio of profit before tax to equity deemed to be tied up in accordance with supervisory requirements. The cost/income ratio is the ratio of administrative expenses to operating income.

The 2007 segment results developed as follows compared with the previous year:

EUR million	Corporates 2007	Corporates 2006	Retail Clients 2007	Retail Clients 2006	Financial Markets 2007	Financial Markets 2006	Corporate Items 2007	Corporate Items 2006	Other/ Consolidation 2007	Other/ Consolidation 2006	LBBW Group 2007	LBBW Group 2006
Net interest income	837	810	403	410	404	479	129	195	354	292	2 127	2 185
Net fee and commission income	263	215	279	283	105	127	7	5	– 70	– 131	584	500
Net trading income/loss[1]	9	4	0	0	– 325	239	118	90	– 417	– 143	– 615	190
Other operating income[2]	203	216	4	2	37	24	22	13	– 63	– 130	202	125
Total operating income	**1 313**	**1 245**	**686**	**695**	**221**	**870**	**275**	**302**	**– 196**	**– 112**	**2 298**	**3 000**
Administrative expenses	– 584	– 526	– 488	– 482	– 378	– 301	– 193	– 238	– 7	6	– 1 650	– 1 541
Allowances for losses on loans and advances	– 108	– 90	– 55	– 42	– 9	– 2	– 12	5	– 2	– 34	– 186	– 163
Net income/loss from investment securities and other items[3]	82	35	0	0	– 215	22	– 57	– 50	75	– 10	– 115	– 2
Profit before tax	**703**	**664**	**143**	**170**	**– 382**	**588**	**12**	**20**	**– 129**	**– 150**	**347**	**1 292**
Segment assets	81 902	76 800	32 568	31 851	266 399	255 863	35 073	30 020	22 641	19 064	438 582	413 597
Segment liabilities	36 072	33 097	16 055	15 198	305 868	293 640	23 383	16 008	36 914	34 993	418 291	392 937
Positions for which capital charges are required	67 452	62 499	17 036	18 115	73 796	71 941	30 219	26 277	2 898	– 8 893	191 402	169 939
Tied-up equity	3 373	3 125	852	906	3 690	3 597	3 941	1 745	– 2 471	– 919	9 384	8 453
Return on equity (in %)	**20.8 %**	**21.3 %**	**16.8 %**	**18.8 %**	**– 10.3 %**	**16.3 %**					**3.7 %**	**15.3 %**
Cost/income ratio (in %)	**44.5 %**	**42.2 %**	**71.1 %**	**69.4 %**	**>100 %**	**34.7 %**					**71.8 %**	**51.4 %**

[1] The net loss from hedging transactions and the net income/loss from financial instruments designated at fair value are stated as part of net trading income/loss.
[2] The net income from investment property is reported as part of other operating income.
[3] Includes the following income statement items: net loss from investment securities, net loss from profit or loss transfer agreements and net income from investments accounted for using the equity method.

The earnings performance of the **LBBW Group** in 2007 was marked by the effects of the financial market crisis, which led to strong turbulence on the money and capital markets. The absorption of the effects of these market distortions was reflected in net trading income/loss and net loss from investment securities. Operating income in particular was reduced significantly. An increase in administrative expenses and in the allowance for losses on loans and advances led to a significantly lower profit before tax amounting to EUR 347 million (previous year: EUR 1 292 million). The resulting return on equity (ROE) totaled 3.7 %. The cost-income ratio (CIR) rose to 71.8 %.

Operating income in the **Corporates** segment grew substantially by 5.5 %, or EUR 68 million. The allowance for losses on loans and advances remained at a moderate level. On the whole, this enabled LBBW to increase profit before tax to EUR 703 million (+5.8 %).

In the **Retail Clients** segment, operating income was EUR 686 million, holding almost steady at the previous year's level despite strong competition. A moderate rise in costs (1.2 %) and an increase in the allowance for losses on loans and advances led to profit before tax of EUR 143 million (previous year: EUR 170 million).

The effects of the financial market crisis were evident in the **Financial Markets** segment in particular. The trading segments not affected by the market turbulence continued to perform positively and were able to considerably increase operating income. Administrative expenses grew year on year. The key reason for this development were the start-up costs in connection with the growth strategy.

No secondary segment reporting is presented here due to the insignificance of the Europe, Americas, and Asia regions compared to Germany.

Notes to the Income Statement.

46. Net Interest Income.

Besides interest and current income and interest expense, net interest income includes proportionate reversals of premiums and discounts from financial instruments. The interest and dividend income and the associated refinancing expenses of financial instruments in the held-for-trading and designated at fair value categories are also reported under »Net interest income«. In addition, the payments to typical silent partners are reported under »Interest expense« due to the classification of silent partners' contributions as debt in accordance with IAS 32.

	2007 EUR thousand	2006 EUR thousand
Interest income/expense from operating activities	1 897 407	1 932 890
Current income	161 782	154 894
Early termination fees	54 223	80 133
Income from profit transfer/expenses from loss absorption	14 015	16 819
Net interest income	**2 127 427**	**2 184 736**

Current income includes income from dividends of EUR 115 289 thousand (previous year: EUR 96 305 thousand).

In the case of financial assets in the LaR category on which valuation allowances were charged, interest of EUR 83.2 million (previous year: EUR 87.5 million) was calculated in the year under review from the increase in the present value of the receivable (unwinding in accordance with IAS 39.AG93). Due to insignificance, the interest was not corrected as part of the first-time adoption of IFRSs.

Net interest income from financial assets and financial liabilities not recognized at fair value through profit or loss comprises the following items:

	2007 EUR thousand	2006 EUR thousand
Interest income	19 122 695	15 560 334
Interest expense	–17 912 674	–15 186 943
	1 210 021	**373 391**

47. Allowance for Losses on Loans and Advances.

The allowance for losses on loans and advances is reported in the LBBW Group's income statement as follows:

	2007 EUR thousand	2006 EUR thousand
Net expense from additions including provisions for credit risks	–166 961	–138 104
Direct loan write-offs	– 33 351	– 31 107
Recoveries on loans previously written off	18 975	10 764
Other expenses from lending operations	– 4 913	– 4 968
Total allowance for losses on loans and advances	**–186 250**	**–163 415**

48. Net Fee and Commission Income.

	2007 EUR thousand	2006 EUR thousand
Securities and custody business	149 491	152 778
Lending and guarantee (aval) business	141 721	77 814
Payments and international transactions	122 959	117 359
Brokerage business	96 390	90 287
Trust activities	13 056	17 082
Leasing	– 3 234	– 2 709
Other	63 382	47 029
Net fee and commission income	**583 765**	**499 640**

Other net fee and commission income mainly comprises income and expenses from asset management.
Net fee and commission income from financial assets and financial liabilities not recognized at fair value through profit or loss totals EUR – 6 777 thousand (previous year: EUR – 12 133 thousand).

49. Net Loss from Hedging Transactions.

The net loss from hedging transactions exclusively comprises remeasurement losses from effective hedging transactions as part of hedge accounting. The effect on profit or loss of hedging transactions not satisfying the effectiveness requirements of IAS 39 is reported under »Net trading income/loss«.

	2007 EUR thousand	2006 EUR thousand
Portfolio fair value hedges	– 20 881	– 45 835
of which hedged items	180 196	185 424
of which hedging instruments	– 201 077	– 231 259
Micro fair value hedges	– 3 409	– 16 664
of which hedged items	– 105 607	95 645
of which hedging instruments	102 198	– 112 309
Net loss from hedging transactions	**– 24 290**	**– 62 499**

50. Net Trading Income/Loss.

Net trading income/loss includes all gains/losses on disposal and gains or losses on the remeasurement of financial instruments held for trading. In addition, the income/loss from the currency translation of items denominated in foreign currency and the remeasurement gains/losses from economic hedging derivatives are presented under this item. The interest and dividend income from these financial instruments and the associated refinancing expenses are reported under »Net interest income«.

	2007 EUR thousand	2006 EUR thousand
Net income from equity transactions	58 435	5 089
Net income from foreign exchange transactions	53 372	61 959
Net income from economic hedging derivatives and trading derivatives	23 094	108 061
Net loss from interest rate transactions	– 66 089	– 20 465
Net income/loss from credit risk-related transactions	– 636 338	31 964
Net trading income/loss	**– 567 526**	**186 608**

The net income/loss from interest rate transactions resulted in particular from exchange gains and losses from transactions with bonds and other fixed-income securities and interest rate derivatives.
Net income from equity transactions includes gains and losses from trading of equities and equity derivatives.
The income or loss from credit derivatives, mainly from transactions with credit default swaps, is reported under »Net income/loss from credit risk-related transactions«. The net income/loss from credit risk-related transactions in the 2007 fiscal year mainly includes measurement adjustments for credit default swaps in the amount of EUR 387 million and declines in fair value reflecting the widening of spreads for structured securities.
Net income from foreign exchange transactions includes gains and losses from foreign currency spot and forward transactions, currency options, currency futures, and the translation of foreign currency assets or liabilities.
Currency translation differences recognized in income totaled EUR 1 095 million (previous year: EUR 565 million). This amount does not include the currency translation differences arising from financial instruments designated at fair value through profit or loss.
For information about the amount of the currency translation differences recognized as a separate item in equity, see Note 82.

The net income from economic hedging derivatives and trading derivatives includes, among other things, the net income/loss from the measurement of derivative financial instruments, particularly OTC interest rate derivatives that are not assigned to the trading book and do not qualify for hedge accounting.
Net trading income/loss includes remeasurement gains of EUR 1 713 thousand (previous year: EUR 4 875 thousand) calculated on the basis of valuation models whose parameters are not based on observable market data.

51. Net Income/Loss from Financial Instruments Designated at Fair Value.

Net income from financial instruments designated at fair value includes all realized and unrealized gains and losses from assets and liabilities designated at fair value. Dividends and the interest income/interest expense from trading assets designated at fair value are reported under »Net interest income«. The fee and commission payments associated with purchases and sales are reported under »Net fee and commission income«.

	2007 EUR thousand	2006 EUR thousand
Realized gains/losses	79 211	25 375
Unrealized gains/losses	– 102 243	40 752
Net income/loss from financial instruments designated at fair value	**– 23 032**	**66 127**

The change in fair value of financial liabilities designated at fair value due to credit risk changes in unrealized gains/losses amounts to EUR 38 million in the fiscal year under review (previous year: EUR – 11 million); EUR 20 million of this amount is attributable to changes in connection with the measurement of LBBW's own credit rating. The credit rating-induced fair value change is calculated by netting the change in value of the structured financial instrument and the offsetting derivative. The provisions of IDW RS HFA 9 (Accounting Principle No. 9 by the Hauptfachausschuss (HFA, Auditing and Accounting Board) of the Institut der Wirtschaftsprüfer (IDW, Institute of Public Auditors in Germany)) form the basis for determining the fair value of the embedded derivative and the financial instrument.
The net loss from financial instruments designated at fair value includes remeasurement losses of EUR – 263 thousand (previous year: gains of EUR 500 thousand) calculated using valuation models that did not reflect observable market data.

52. Net Loss from Investment Securities.

The net loss from investment securities includes disposal and impairment losses on available-for-sale securities as well as on equity investments and investments in unconsolidated companies and in companies not accounted for using the equity method. This item also includes reversals of impairment losses on investment securities following credit-based write-downs up to the amount of the amortized cost.

	2007 EUR thousand	2006 EUR thousand
Net gain/loss on the disposal of	85 657	12 180
securities (AfS)	– 3 204	– 23 469
equity investments (AfS)	107 982	47 937
other investment securities (AfS)	– 19 121	– 12 288
Impairment losses	– 213 486	– 15 450
Reversals of impairment losses	0	139
Net loss from investment securities (AfS)	**– 127 829**	**– 3 131**
Net gain/loss on the disposal of	5 643	1 064
securities (LaR)	7 763	371
equity investments (LaR)	0	459
other investment securities (LaR)	– 2 120	234
Impairment losses and other unrealized expenses	– 1 534	– 282
Reversals of impairment losses	124	84
Net gain from investment securities (LaR)	**4 233**	**866**
Total net loss from investment securities	**– 123 596**	**– 2 265**

The net loss from investment securities (AfS) includes amounts of EUR – 48 681 thousand (previous year: EUR – 33 329 thousand) withdrawn from equity as part of the transfer or impairment of financial instruments and allocated to the income statement. As a result of the financial market crisis, impairment losses on structured securities classified as available for sale were included in the net loss from investment securities in the amount of EUR 198 million due to evidence of permanent impairment.

53. Net Income from Investments Accounted for Using the Equity Method.

	2007 EUR thousand	2006 EUR thousand
Income from accounting using the equity method	9 719	1 361
Expenses from accounting using the equity method	0	– 589
Net income from investments accounted for using the equity method	**9 719**	**772**

54. Net Income from Investment Property.

	2007 EUR thousand	2006 EUR thousand
Rental income	140 767	135 823
Income from disposals	10 203	8 437
Income from investment property	**150 970**	**144 260**
Operating expenses for leased properties	– 45 048	– 44 501
Other expenses	– 52	0
Expenses from investment property	**– 45 100**	**– 44 501**
Income from fair value adjustments	28 213	16 507
Net income from investment property	**134 083**	**116 266**

55. Administrative Expenses.

The LBBW Group's administrative expenses comprise staff costs, other administrative expenses, as well as depreciation, amortization, and write-downs on intangible assets and property and equipment. The relevant items are broken down as follows:

	2007 EUR thousand	2006 EUR thousand
Wages and salaries	– 734 968	– 692 708
Social security contributions	– 105 924	– 107 011
Additions to and reversals of provisions for pensions and other post-employment benefits	– 101 918	– 114 034
Other expenses for pensions and other benefits	– 8 848	– 5 714
Expenses for pensions (defined contribution plans)	– 5 704	– 6 074
Other staff costs	– 14 949	– 13 948
Total staff costs	**– 972 311**	**– 939 489**
IT costs	– 142 068	– 121 561
Legal and consulting expenses	– 77 879	– 44 810
Cost of premises	– 68 039	– 61 049
Expenses from operating leases	– 56 106	– 55 658
Advertising, public relations, and representation costs	– 49 495	– 40 394
Association and other contributions	– 22 833	– 22 367
Audit costs	– 14 665	– 8 868
Other administrative expenses	– 128 890	– 119 494
Total other administrative expenses	**– 559 975**	**– 474 201**
Depreciation and write-downs of property and equipment	– 69 209	– 64 509
Amortization and write-downs of intangible assets	– 48 231	– 63 277
Depreciation, amortization, and write-downs	**– 117 440**	**– 127 786**
Total administrative expenses	**– 1 649 726**	**– 1 541 476**

In addition to the expenses for pensions, LBBW paid EUR 62 237 thousand in 2007 and EUR 60 342 thousand in 2006 into the German pension fund for employees and recorded this as an expense under »Social security contributions«.

In addition to start-up costs for strategy and growth projects undertaken, the increase in legal and consulting expenses was due to intensive preparations for meeting regulatory requirements, particularly Basel II/Solvabilitätsverordnung (German Solvency Regulation), and reporting of the consolidated financial statements according to International Financial Reporting Standards (IFRSs) starting from the 2007 fiscal year.

The fee of EUR 14 665 thousand paid to the auditors of the financial statements that was expensed in the fiscal year comprises the following items:

	2007 EUR thousand	2006 EUR thousand
Audit services	– 7 338	– 6 091
Audit-related services	– 2 751	– 2 052
Tax services	– 857	– 488
Other services	– 3 719	– 237
Total audit costs	**– 14 665**	**– 8 868**

The expenses from operating leases mainly comprise expenses for motor vehicles, photocopiers, and fax machines. Expenses from operating leases include minimum lease payments of EUR –56 106 thousand (previous year: EUR 55 658 thousand). The leases generally do not include extension and purchase options.

As lessee, LBBW is required to make the following minimum lease payments from non-cancelable operating leases in the coming years:

	2007 EUR thousand	2006 EUR thousand
Up to one year	30 740	15 018
Between 1 and 5 years	70 100	39 389
More than 5 years	55 852	56 881
	156 692	**111 288**

Other administrative expenses mainly include office and motor vehicle expenses of EUR 22 653 thousand (previous year: EUR 19 457 thousand) as well as postage, transportation, and communication costs of EUR 27 068 thousand (previous year: EUR 28 241 thousand).

56. Other Operating Income.

Other operating income is broken down into income and expense as follows:

	2007 EUR thousand	2006 EUR thousand
Income from refunds of expenses from third parties	49 609	61 436
Income from operating leases	13 525	15 493
Income from property and equipment and intangible assets	11 976	8 005
Income from the reversal of other provisions	10 842	3 826
Income from foreclosed land and buildings	3 748	250
Miscellaneous operating income	273 235	238 453
Total other operating income	**362 935**	**327 463**
Addition to other provisions	– 19 197	– 24 177
Restructuring expenses	– 10 994	– 25 406
Expenses for other taxes	– 7 999	– 4 427
Expenses from property and equipment and intangible assets	– 2 806	– 5 211
Write-downs from operating leases	– 2 721	– 2 255
Expenses for donations	– 2 185	– 5 256
Impairment of inventories	– 238	– 1 032
Expenses for foreclosed land and buildings	– 216	– 1 591
Miscellaneous operating expenses	– 248 595	– 249 338
Total other operating expenses	**– 294 951**	**– 318 693**
Net other operating income	**67 984**	**8 770**

The income from items of property and equipment and intangible assets includes gains on disposals of EUR 11 131 thousand (previous year: EUR 6 500 thousand), rental income of EUR 829 thousand (previous year: EUR 1 495 thousand), and compensation payments of EUR 16 thousand (previous year: EUR 9 thousand).

Below are the minimum lease payments from non-cancelable operating leases for LBBW as lessor:

	2007 EUR thousand	2006 EUR thousand
Up to one year	3 080	3 013
Between 1 and 5 years	6 239	5 974
More than 5 years	5 267	4 978
	14 586	**13 965**

Miscellaneous operating income principally comprises income from the disposal of inventories of EUR 201 million (previous year: EUR 149 million), income from support services of EUR 30 million (previous year: EUR 28 million), and income from property management of EUR 16 million (previous year: EUR 6 million). Standing in contrast to this income is the miscellaneous operating expenses item, comprising expenses from the disposal of inventories of EUR 164 million (previous year: EUR 134 million), expenses from support services of EUR 7 million (previous year: EUR 8 million), and property management expenses of EUR 6 million (previous year: EUR 6 million).

At EUR 2 806 thousand (previous year: EUR 5 210 thousand), expenses from property and equipment and intangible assets relate to losses on the disposal of property and equipment.
In the 2007 fiscal year, restructuring expenses of EUR – 10 994 thousand (previous year: EUR – 25 406 thousand) comprised current expenses for restructuring associated with the integration of BW Bank into LBBW.

57. Income Taxes.

Income tax expense comprises the following items:

	2007 EUR thousand	2006 EUR thousand
Current income tax expense	– 66 479	– 221 183
Income/expense from prior-period income taxes	46 092	– 12 185
	– 20 387	– 233 368
of which decrease in actual income tax expense from utilization of previously unrecognized loss carryforwards and tax credits	13 850	0
Expense from deferred income taxes	– 15 422	– 127 565
of which deferred income tax expense/income from change in temporary differences	– 27 142	– 121 761
of which deferred tax expense/income from changes in tax rates	– 14 449	– 537
of which deferred tax expense/income from change in write-downs	– 450	0
of which decrease in deferred income tax expense from previously unrecognized prior-period temporary differences	20 231	317
of which decrease in deferred income tax expense from previously unrecognized loss carryforwards and tax credits	18 662	0
Total income taxes	**– 35 809**	**– 360 933**

The following reconciliation shows the relationship between reported and expected income taxes:

	2007 EUR thousand	2006 EUR thousand
Consolidated profit before tax	347 252	1 292 302
Applicable tax rate	38.92 %	38.92 %
Expected income taxes	135 150	502 964
Tax effects		
Effect of non-deductible operating expenses	177 690	82 674
Effect of permanent tax effects	41 721	– 126 136
Effect of non-creditable income taxes (withholding taxes and foreign taxes)	3 687	1 412
Effect of tax-free income	– 209 777	– 100 330
Effect of prior-period taxes recognized in the fiscal year	– 42 412	30 537
Effect of changes in tax rates	– 24 510	537
Effect of value adjustments	– 6 320	– 1 315
Effect of different tax rates on deferred taxes recognized in profit or loss	– 1 100	– 38 353
Effect of other differences	– 38 320	8 943
Total income tax expense	**35 809**	**360 933**

The tax rate to be used for the reconciliation is calculated as the corporate income tax rate of 25 % applicable in Germany at the reporting date (2006: 25 %) including the solidarity surcharge of 5.5 % (2006: 5.5 %) and the trade tax rate (average: 17.04 %) depending on the relevant multiplier (Hebesatz). The ability to deduct trade tax when calculating corporate income tax results in a total domestic income tax rate of 38.92 % for the Group, which is unchanged from the previous year.

As a result of Germany's business taxation reform, which entered into force on January 1, 2008, deferred tax items are measured using the reduced corporate income tax rate of 15 % and a solidarity surcharge of 5.5 %. Trade tax is no longer deductible; for this reason, the base rate for calculating trade tax (Steuermesszahl) was lowered to 3.5 %.
Due to this business taxation reform, the LBBW Group's total statutory tax rate (depending on the trade tax multiplier) will be 30.19 % in 2008. In the 2007 fiscal year, the Group had total one-time tax income of EUR – 24.5 million from the change in the tax rate (tax income (–), tax expense (+)).

Additional income tax effects amounting to EUR –1.1 million arise on account of the different tax rates applicable in the individual countries where the foreign companies are located, which are between 0 % and 30 %.

In the 2007 fiscal year, impairment losses were recognized for various equity investments. These were reported in the reconciliation under the »Effect of non-deductible operating expenses« item in the amount of EUR 25 million (previous year: EUR 5 million).

This item also includes impairment losses on fixed-income securities of EUR 63 million not allowable under US tax law.

The »Effect of tax-free income« item includes all effects from domestic and foreign companies, such as tax-free income in connection with the disposal of various interests amounting to EUR –103 million (previous year: EUR –64 million) and tax-free dividend income totaling EUR –37 million (previous year: EUR 14 million).

The differences between the IFRS carrying amount and the tax base of shares and equity investments in corporations recognized as income or expenses resulted in permanent balance sheet effects of EUR 74 million (previous year: EUR –59 million) due to the exemption from tax pursuant to § 8b Körperschaftsteuergesetz (Corporate Income Tax Act).

The »Effect of other differences« item mainly comprises addbacks and deductions for local taxes, particularly trade tax, in the amount of EUR –28 million (previous year: EUR 20 million).

No deferred taxes were stated for the following loss carryforwards:

	2007 EUR million	2006 EUR million
Unrecognized loss carryforwards at the reporting date	67	140
of which non-forfeitable	67	140

Deferred tax assets are potential income tax benefits arising from temporary differences between the carrying amounts of the assets and liabilities in the IAS/IFRS consolidated balance sheet and the tax base. Deferred income tax liabilities are potential income taxes payable arising from temporary differences between the carrying amounts of assets and liabilities in the IFRS balance sheet and the tax base.

Deferred tax assets and liabilities were recognized in connection with the following balance sheet items:

	Deferred tax assets		Deferred tax liabilities	
	2007	2006	2007	2006
	EUR million	EUR million	EUR million	EUR million
Assets				
Loans and advances (including allowance for losses)	146	97	–223	–178
Positive fair values from derivative hedging instruments	0	0	–132	–315
Trading assets and financial assets designated at fair value	351	2 055	–1 849	–2 114
Investment securities	464	118	–604	–366
Intangible assets	2	3	–1	–1
Property and equipment/investment property	79	143	–79	–189
Other assets	35	46	–12	–3
Equity and liabilities				
Liabilities	65	130	–83	–299
Negative fair values from derivative hedging instruments	91	275	0	0
Trading liabilities and financial liabilities designated at fair value	1 599	402	–65	–116
Provisions	179	240	–34	–31
Other liabilities	55	102	0	–5
Loss carryforwards	93	55		
Other	31	21	0	0
Net amount	–2 785	–3 366	2 785	3 366
	405	**321**	**–297**	**–251**
of which changes recognized in profit or loss	–596	1 083	581	–1 210
of which changes recognized in the revaluation reserve	86	0	20	85
of which changes recognized in retained earnings	0	0	–53	–10
of which other changes recognized directly in equity	19	0	–18	-18
Change during the period	**–491**	**1 083**	**530**	**–1 153**

No deferred tax liabilities were recognized for temporary differences associated with investments in subsidiaries that retain profits, because it is unlikely that these temporary differences will be reversed in the foreseeable future.

58. Net Gains/Losses from Financial Instruments.

The net gains or losses, broken down by category according to IAS 39, comprise gains and losses on disposal, changes in fair value, impairment losses, reversals of impairment losses, and subsequent income from financial instruments already written off. They also include changes in value from economic hedging derivatives and the income/loss from the changes in the value of the hedged items from micro fair value hedges.

	2007 EUR thousand	2006 EUR thousand
Financial assets/liabilities held for trading	–567 526	186 608
Financial assets/liabilities designated at fair value through profit or loss	–23 031	66 127
Available-for-sale financial assets	–332 505	–636 313
Loans and receivables	–680 664	–994 414
Financial liabilities measured at amortized cost	796 266	1 736 744

59. Impairment Losses on Financial Assets by Class.

	2007 EUR thousand	2006 EUR thousand
Allowances for losses on loans and advances to other banks	2 060	2 291
Allowances for losses on loans and advances to customers	–188 863	–185 851
of which receivables from finance leases	–27 640	–11 155
Investment securities (LaR)		
Interest-bearing assets	–1 534	–128
Investment securities (AfS)		
Interest-bearing assets	–202 913	–451
Non-interest-bearing assets	–10 573	–14 999
	–401 823	**–199 138**

Notes to the Balance Sheet.

60. Cash Reserve.

The cash reserve is composed of the following items:

	Dec. 31, 2007 EUR million	Dec. 31, 2006 EUR million
Balances with central banks	1 301	1 419
Cash	167	124
Public-sector debt instruments and bills	9	35
Total cash reserve	**1 477**	**1 578**

Balances with central banks include balances with Deutsche Bundesbank (the German central bank) of EUR 1 154 million (previous year: EUR 1 319 million).

61. Loans and Advances to Other Banks.

Breakdown by business type	Dec. 31, 2007 EUR million	Dec. 31, 2006 EUR million
Money market transactions	66 577	70 509
Borrower's note loans	44 832	47 006
Other loans	18 092	19 050
Public-sector loans	11 436	12 148
Home savings loans from home savings and loan associations	338	472
Leasing	1	7
Other loans and advances	2 367	1 420
Loans and advances to other banks	**143 643**	**150 612**
Allowance for losses on loans and advances	–15	–5
Loans and advances to other banks after allowance for losses	**143 628**	**150 607**

Breakdown by region	Dec. 31, 2007 EUR million	Dec. 31, 2006 EUR million
Banks within Germany	97 761	100 290
Banks outside Germany	45 882	50 322
Total loans and advances to other banks	**143 643**	**150 612**

As of December 31, 2007, LBBW as pledgee held EUR 18 400 million (previous year: EUR 12 923 million) in receivables from genuine repurchase agreements.

62. Loans and Advances to Customers.

Breakdown by business type	Dec. 31, 2007 EUR million	Dec. 31, 2006 EUR million
Public-sector loans	25 360	25 848
Mortgage loans	10 389	10 132
Borrower's note loans	6 054	3 992
Other loans	63 078	56 774
Receivables from finance leases	4 546	4 307
Other loans and advances	36 967	20 338
Loans and advances to customers	**146 394**	**121 391**
Allowance for losses on loans and advances	–1 951	–2 152
Loans and advances to customers after allowance for losses	**144 443**	**119 239**

Breakdown by region	Dec. 31, 2007 EUR million	Dec. 31, 2006 EUR million
Customers within Germany	96 655	95 076
Customers outside Germany	49 739	26 315
Total loans and advances to customers	**146 394**	**121 391**

Loans and advances to customers include prepayments of EUR 213 million (previous year: EUR 104 million).
The volume of securities borrowed under securities lending agreements amounted to EUR 257 million (previous year: EUR 698 million). As of December 31, 2007, LBBW as pledgee held EUR 17 982 million (previous year: EUR 1 888 million) in receivables from genuine repurchase agreements.

The following reconciliation of the gross investment value to the present value of the minimum lease payments has been prepared for the receivables from finance leases included in the item:

	Dec. 31, 2007 EUR million	Dec. 31, 2006 EUR million
Gross investment value	**5 122**	**4 848**
./. Unearned financial income	– 576	– 541
= Net investment value	**4 546**	**4 307**
./. Present value of unguaranteed residual values	– 27	0
= Present value of minimum lease payments	**4 519**	**4 307**

The following overview shows the remaining maturities of the gross investment values and the present values of the outstanding minimum lease payments:

	Dec. 31, 2007 EUR million	Dec. 31, 2006 EUR million
Remaining maturity of total gross investments		
Up to 1 year	1 899	1 805
Between 1 and 5 years	3 023	2 852
More than 5 years	200	191
Remaining maturity of present values of minimum lease payments		
Up to 1 year	1 655	1 584
Between 1 and 5 years	2 699	2 564
More than 5 years	165	159

Gross investment in the lease is the aggregate of the minimum lease payments under a finance lease from the standpoint of the lessor and any unguaranteed residual value accruing to the lessor. Minimum lease payments are the payments over the lease term that the lessee is, or can be required, to make, as well as any guaranteed residual values.

The net investment comprises the fair value of the leased property at the inception of the lease and the capitalized initial direct costs. The net investment value is the present value of the gross investment discounted using the interest rate implicit in the lease (from the lessor's perspective).

Finance leases include full payout agreements, non-full payout agreements, and hire-purchase agreements. Depending on its form, a finance lease can be a cancelable agreement or an agreement with an option to sell. The lease payments must generally be made in advance. The lessee is obligated to insure the leased asset for the lessor's account. Regular cancellation of the lease during the lease term is not permitted. The leases can be terminated without notice by either party for cause pursuant to the legal regulations.

63. Allowance for Losses on Loans and Advances.

The allowance for losses on loans and advances deducted from assets changed as follows in the year under review:

EUR million	Specific/collective valuation allowance: Loans and advances to other banks	Specific/collective valuation allowance: Loans and advances to customers	Specific/collective valuation allowance: of which from finance leases	Portfolio valuation allowance: Loans and advances to other banks	Portfolio valuation allowance: Loans and advances to customers	Portfolio valuation allowance: of which from finance leases
Balance at Jan. 1, 2007	**2**	**1 869**	**69**	**3**	**283**	**16**
Net additions	– 2	169	27	1	–15	1
Utilization	0	– 331	– 46	0	– 4	0
Exchange-rate-related and other changes	0	– 74	38	11	54	0
Balance at Dec. 31, 2007	**0**	**1 633**	**88**	**15**	**318**	**17**

EUR million	Specific/collective valuation allowance: Loans and advances to other banks	Specific/collective valuation allowance: Loans and advances to customers	Specific/collective valuation allowance: of which from finance leases	Portfolio valuation allowance: Loans and advances to other banks	Portfolio valuation allowance: Loans and advances to customers	Portfolio valuation allowance: of which from finance leases
Balance at Jan. 1, 2006	**1**	**2 142**	**79**	**8**	**242**	**18**
Net additions	1	113	13	– 4	42	– 2
Utilization	0	– 377	– 23	– 1	– 1	0
Exchange-rate-related and other changes	0	– 9	0	0	0	0
Balance at Dec. 31, 2006	**2**	**1 869**	**69**	**3**	**283**	**16**

The cumulative allowance for losses on uncollectible, outstanding minimum lease payments amounted to EUR – 56 million (previous year: EUR – 66 million).
The provisions for credit risks totaled EUR 150 million (previous year: EUR 140 million).

64. Positive Fair Values from Derivative Hedging Instruments.

	Dec. 31, 2007 EUR million	Dec. 31, 2006 EUR million
Positive fair values from portfolio fair value hedges	3 468	3 476
Positive fair values from micro fair value hedges	1 531	1 446
Positive fair values from cash flow hedges	3	3
Positive fair values from derivative hedging instruments	**5 002**	**4 925**

The positive fair values from derivative hedging instruments are broken down by hedged item as follows:

	Dec. 31, 2007 EUR million	Dec. 31, 2006 EUR million
Assets		
Derivative hedges on loans and advances to other banks	40	24
Derivative hedges on loans and advances to customers	329	253
Derivative hedges on investment securities		
AfS category	157	97
LaR category	0	10
Liabilities		
Derivative hedges on deposits from other banks	25	75
Derivative hedges on amounts due to customers	132	182
Derivative hedges on securitized liabilities	675	629
Derivative hedges on subordinated liabilities	176	179
Derivative hedges on portfolio fair value hedges	3 468	3 476
Positive fair values from derivative hedging instruments	**5 002**	**4 925**

Interest rate swaps and to a lesser extent credit derivatives are the main categories designated as hedging instruments.

65. Trading Assets, Financial Assets Designated at Fair Value and Investment Securities.

The table below illustrates the breakdown of bonds and other fixed-income securities, equities and other non-fixed-income securities, positive fair values from derivative financial instruments that do not satisfy the requirements of hedge accounting in accordance with IAS 39 and other assets included in the balance sheet items trading assets, financial assets designated at fair value, and investment securities.

Dec. 31, 2007

EUR million	Trading assets	Financial assets designated at fair value	Investment securities
Bonds and other fixed-income securities	34 653	2 093	83 699
Money market instruments	20 506	0	2 729
Bonds and debentures	14 147	2 093	80 970
Equities and other non-fixed-income securities	1 335	953	157
Equities	369	894	7
Investment units	946	54	81
Other securities	20	5	69
Other	2 721	1 284	0
Borrower’s note loans	2 705	708	0
Precious metals	16	0	0
Other loans and receivables	0	26	0
Miscellaneous	0	550	0
Positive fair values from derivative financial instruments	12 421	1 042	0
Equity investments	0	0	2 708
Investments in affiliates	0	0	1 019
	51 130	**5 372**	**87 583**

Dec. 31, 2006

EUR million	Trading assets	Financial assets designated at fair value	Investment securities
Bonds and other fixed-income securities	25 225	1 814	87 227
Money market instruments	12 531	300	2 806
Bonds and debentures	12 694	1 514	84 421
Equities and other non-fixed-income securities	1 011	821	741
Equities	397	667	171
Investment units	590	154	385
Other securities	24	0	185
Other	4 579	1 376	0
Borrower’s note loans	4 487	745	0
Precious metals	32	0	0
Other loans and receivables	0	78	0
Miscellaneous	60	553	0
Positive fair values from derivative financial instruments	10 250	1 093	0
Equity investments	0	0	2 213
Investments in affiliates	0	0	827
	41 065	**5 104**	**91 008**

Other loans and receivables designated at fair value relate to a maximum credit risk exposure of EUR 26 million (previous year: EUR 78 million).

In the 2007 fiscal year, securities in the trading assets item were transferred to third parties by way of securities repurchase and lending agreements. However, the resulting risk remained with the LBBW Group. For this reason, all of these securities continue to be reported at their carrying amount of EUR 24 932 million (previous year: EUR 3 988 million). The associated liabilities amount to EUR 24 932 million (previous year: EUR 3 813 million). Moreover, in the 2007 fiscal year, securities reported as investment securities were transferred to third parties by way of securities repurchase and lending agreements. The risk was not transferred. Therefore, assets in the amount of EUR 4 501 million (previous year: EUR 1 475 million) continued to be carried in the balance sheet. The liabilities associated with these assets total EUR 5 004 million (previous year: EUR 2 872 million).

To enable it to enter into open market transactions, LBBW has pledged investment securities with a lending value of EUR 7 042 million (previous year: EUR 5 518 million) to the European Central Bank as collateral.
The total volume of securities lent amounted to EUR 365 million (previous year: EUR 3 850 million).

The securities in the trading assets and financial assets designated at fair value items are classified based on their marketability and stock exchange listing status as follows:

	Trading assets		Financial assets designated at fair value	
	Dec. 31, 2007 EUR million	Dec. 31, 2006 EUR million	Dec. 31, 2007 EUR million	Dec. 31, 2006 EUR million
Marketable and listed securities	27 118	19 080	2 500	2 368
Marketable and unlisted securities	8 806	7 091	546	139
Non-marketable securities	65	125	63	176
	35 988	**26 296**	**3 109**	**2 683**

The securities and equity investments reported in investment securities are classified as follows based on their marketability and stock exchange listing status:

	Dec. 31, 2007 EUR million	Dec. 31, 2006 EUR million
Marketable and listed securities/equity investments	65 026	68 896
Marketable and unlisted securities/equity investments	20 176	20 422
Non-marketable securities/equity investments	2 381	1 690
	87 583	**91 008**

Bonds and debentures in the trading assets and financial assets designated at fair value item are divided between public-sector and other issuers as follows:

	Trading assets		Financial assets designated at fair value	
	Dec. 31, 2007 EUR million	Dec. 31, 2006 EUR million	Dec. 31, 2007 EUR million	Dec. 31, 2006 EUR million
Bonds and debentures from public-sector issuers	1 142	872	332	885
Bonds and debentures from other issuers	13 005	11 822	1 761	629
	14 147	**12 694**	**2 093**	**1 514**

Bonds and debentures in the investment securities item are divided between public-sector and other issuers as follows:

	Dec. 31, 2007 EUR million	Dec. 31, 2006 EUR million
Bonds and debentures from public-sector issuers	6 670	9 759
Bonds and debentures from other issuers	74 300	74 662
Bonds and debentures – Investment securities	**80 970**	**84 421**

Changes in noncurrent investment securities in the 2007 fiscal year are shown in the table below:

	Equity investments EUR million	Investments in affiliates EUR million	Total EUR million
Historical cost			
Balance at Jan. 1, 2007	1 690	829	2 519
Additions	178	119	297
Disposals	– 49	– 35	– 84
Transfers and other changes	– 92	– 89	–181
Balance at Dec. 31, 2007	1 727	824	2 551
Write-downs			
Balance at Jan. 1, 2007	–189	–114	– 303
Write-downs in the fiscal year	– 3	– 8	–11
Transfers and other changes	9	27	36
Balance at Dec. 31, 2007	–183	– 95	– 278
Changes in fair value			
Balance at Jan. 1, 2007	712	112	824
Changes in fair value	452	178	630
Balance at Dec. 31, 2007	1 164	290	1 454
Carrying amount at Dec. 31, 2007	**2 708**	**1 019**	**3 727**

	Equity investments EUR million	Investments in affiliates EUR million	Total EUR million
Historical cost			
Balance at Jan. 1, 2006	1 616	762	2 378
Additions	162	148	310
Disposals	– 99	-53	–152
Transfers and other changes	11	-28	–17
Balance at Dec. 31, 2006	1 690	829	2 519
Write-downs			
Balance at Jan. 1, 2006	–196	–105	– 301
Write-downs in the fiscal year	– 3	-11	–14
Transfers and other changes	10	2	12
Balance at Dec. 31, 2006	–189	–114	– 303
Changes in fair value			
Balance at Jan. 1, 2006	531	200	731
Changes in fair value	181	– 88	93
Balance at Dec. 31, 2006	712	112	824
Carrying amount at Dec. 31, 2006	**2 213**	**827**	**3 040**

LBBW indirectly owns 29.6 % (2006: 29.6 %) of GLB GmbH & Co. OHG. Due to the articles of incorporation adopted, no single shareholder can exert significant influence. Although LBBW is in a position to participate in all decisions to be made with regard to business and financial policies, the Group cannot exert significant influence in its own interest and/or play a material part in decision-making. LBBW also indirectly owns 20.3 % (2006: 20.3 %) of HSBC Trinkhaus & Burkhardt AG. This interest also does not allow LBBW to exert significant influence because a majority shareholder (HSBC) with a clear controlling influence exists, the Group has no significant influence on decision-making, and the parties do not engage in material transactions with one another, do not exchange key executives, and do not provide important technical information to one another.

66. Investments Accounted for Using the Equity Method.

	Dec. 31, 2007 EUR million	Dec. 31, 2006 EUR million
Carrying amount of associates	180	4
Goodwill from investments accounted for using the equity method	6	0
Shares in investments accounted for using the equity method	**186**	**4**

The following table presents the aggregate assets, liabilities, revenues, and profits and/or losses for the period of the associates accounted for using the equity method:

	Other associates Dec. 31, 2007 EUR million	of which Sachsen LB AG* Dec. 31, 2007 EUR million	Other associates Dec. 31, 2006 EUR million
Total assets	62 762	62 095	58
Total liabilities	60 946	60 677	0
Total equity	1 816	1 418	58
Revenues	5 535	5 492	1
Profit or loss for the period	11	0	0

* Sachsen LB AG figures prepared according to the German Commercial Code (HGB).

67. Noncurrent Assets/Disposal Groups Held for Sale.

A holding company held as an investment that operated in the field of motor vehicle leasing was sold for EUR 64 million effective January 1, 2007. In accordance with IFRS 5, the equity investment in this holding company as of December 31, 2006 is recognized in the »Assets held for sale« balance sheet item in the amount of EUR 64 million.

68. Intangible Assets.

The changes in intangible assets are shown in the following table:

EUR million	Software	Goodwill	Advance payments on intangible assets	Other intangible assets	Internally generated intangible assets	Total
Historical cost						
Balance at January 1, 2007	**492**	**0**	**9**	**0**	**26**	**527**
Currency translation differences	–1	0	0	0	0	–1
Additions	29	17	14	2	6	68
Transfers	3	0	–7	0	0	-4
Disposals	–13	0	0	0	0	–13
Balance at December 31, 2007	**510**	**17**	**16**	**2**	**32**	**577**
Amortization and impairment losses/reversals of impairment losses						
Balance at January 1, 2007	**–425**	**0**	**0**	**0**	**–4**	**–429**
Amortization	–43	0	0	0	–5	–48
Disposals	13	0	0	0	0	13
Balance at December 31, 2007	**–455**	**0**	**0**	**0**	**–9**	**–464**
Carrying amounts						
Balance at January 1, 2007	67	0	9	0	22	98
Balance at December 31, 2007	55	17	16	2	23	113

EUR million	Software	Goodwill	Advance payments on intangible assets	Other intangible assets	Internally generated intangible assets	Total
Historical cost						
Balance at January 1, 2006	**523**	**0**	**2**	**0**	**9**	**534**
Additions	18	0	8	0	17	43
Transfers	–3	0	0	0	0	–3
Disposals	–46	0	–1	0	0	–47
Balance at December 31, 2006	**492**	**0**	**9**	**0**	**26**	**527**
Amortization and impairment losses/reversals of impairment losses						
Balance at January 1, 2006	**–412**	**0**	**0**	**0**	**0**	**–412**
Amortization	–59	0	0	0	–4	–63
Transfers	1	0	0	0	0	1
Disposals	45	0	0	0	0	45
Balance at December 31, 2006	**–425**	**0**	**0**	**0**	**–4**	**–429**
Carrying amounts						
Balance at January 1, 2006	111	0	2	0	9	122
Balance at December 31, 2006	67	0	9	0	22	98

69. Investment Property.

The value of investment property is assessed annually based on market value appraisals prepared by one of the Group's own experts. Under certain circumstances, this 12-month period may be curtailed and a new appraisal conducted. Fair values are calculated using the discounted cash flow method or the income capitalization approach. In a few cases, measurement is based on a present value calculation of the projected fair market value. The calculations are based on the assumptions described as follows.

For valuation purposes, a property (building) is defined as an independent strategic cash-generating unit.
The expected cash flows generated per cash-generating unit are calculated assuming income from property management. For a detailed planning period of 10 years, the cash generated is calculated as the net amount of payments received and payments made in connection with management of the property. A residual value for the cash-generating unit is forecast for the end of the detailed planning period by capitalizing the cash generated in the tenth year as a perpetual annuity.
In the case of residential real estate, future income during the detailed planning period is forecast by analyzing the rent potential and risk associated with individual cash-generating units while taking into account financial and market factors, as well as the technical features of the property's equipment and fittings and its condition. In the case of subsidized properties, rent trends are simulated within the scope of the restrictions applicable to the particular subsidy. Benefits from the subsidized financing are not reflected in the fair value of the cash-generating unit, but instead in the fair value of the corresponding loan on the liability side of the balance sheet.
In the case of commercial real estate, future income during the detailed planning period is forecast based on the contractually agreed target rent or, after the contract period has expired, the property-specific market rent.
Administrative expenses are standardized at standard market rates. Costs associated with vacancies and losses of rental income are assumed to total 2 % of the expected rent from the property. Maintenance expenses are projected for each property taking into account the property's technical equipment and fittings and its age in accordance with the standardized rates stipulated by the II. Berechnungsverordnung (Second Rent Calculation Regulation). For the forecast period, ground rent (Erbbauzins) is determined according to the provisions of each separate heritable building right contract. The maintenance backlog is calculated for each property individually and measured at the property-specific average results obtained from tenders.
The cash generated in each period is discounted to the valuation date by applying a property-specific market discount rate.
The capitalization rate for determining the perpetual annuity is derived from the discount rate by accounting for the material valuation-relevant criteria continuing to exist after expiration of the detailed planning period, such as subsidy type, long-term potential of the macro location, and options for use by third parties, for leased buildings using premiums and discounts.
The calculation using the income capitalization method is based on the proceeds realized.
Rental income from properties recognized as investment property (all leases are operating leases) totaled EUR 141 million in the 2007 fiscal year (previous year: EUR 136 million). All investment property generated rental income in the 2007 fiscal year.
The carrying amounts of the investment properties measured at fair value developed as follows in the year under review:

	2007 EUR million	2006 EUR million
Carrying amount at January 1	1 652	1 641
Additions	43	73
Disposals	– 86	– 79
Transfers	11	0
Other changes	–12	0
Fair value changes	28	17
Carrying amount at December 31	**1 636**	**1 652**

As LEG Baden-Württemberg Wohnungsverwaltungsgesellschaft mbH Co. KG and LEG Baden-Württemberg Wohnungsgesellschaft mbH & Co. KG entered into leasing fund models with atypical silent partners, the disposal of investment property held by these two companies of EUR 139.1 million (previous year: EUR 137.9 million) and EUR 169.8 million (previous year: EUR 170.8 million), respectively is subject to restrictions.

70. Property and Equipment.

The following table shows the changes in property and equipment:

EUR million	Land and buildings	Technical equipment and machines	Operating and office equipment	Advance payments and assets under construction	Leased assets under finance leases	Leased assets under operating leases	Total
Historical cost							
Balance at January 1, 2007	**766**	**87**	**540**	**16**	**9**	**117**	**1 535**
Changes in the basis of consolidation	0	0	0	16	0	0	16
Currency translation differences	0	0	-1	0	0	0	-1
Additions	16	4	57	6	0	1	84
Transfers	-27	0	12	-8	0	17	-6
Disposals	-6	-3	-54	-6	0	-2	-71
Balance at December 31, 2007	**749**	**88**	**554**	**24**	**9**	**133**	**1 557**
Depreciation/impairment losses and reversals of impairment losses							
Balance at January 1, 2007	**-268**	**-62**	**-383**	**0**	**-1**	**-65**	**-779**
Currency translation differences	0	0	1	0	0	0	1
Depreciation	-16	-7	-45	0	-1	-3	-72
Transfers	-2	0	0	0	0	4	2
Disposals	4	3	51	0	0	1	59
Balance at December 31, 2007	**-282**	**-66**	**-376**	**0**	**-2**	**-63**	**-789**
Carrying amounts							
Balance at January 1, 2007	498	25	157	16	8	52	756
Balance at December 31, 2007	467	22	178	24	7	70	768

EUR million	Land and buildings	Technical equipment and machines	Operating and office equipment	Advance payments and assets under construction	Leased assets under finance leases	Leased assets under operating leases	Total
Historical cost							
Balance at January 1, 2006	**777**	**82**	**537**	**22**	**0**	**116**	**1 534**
Additions	4	6	42	12	1	1	66
Transfers	-8	2	19	-18	8	0	3
Disposals	-7	-3	-58	0	0	0	-68
Balance at December 31, 2006	**766**	**87**	**540**	**16**	**9**	**117**	**1 535**
Depreciation/impairment losses and reversals of impairment losses							
Balance at January 1, 2006	**-252**	**-58**	**-395**	**0**	**0**	**-62**	**-767**
Depreciation	-18	-7	-38	0	-1	-3	-67
Transfers	-1	0	-2	0	0	0	-3
Disposals	3	3	52	0	0	0	58
Balance at December 31, 2006	**-268**	**-62**	**-383**	**0**	**-1**	**-65**	**-779**
Carrying amounts							
Balance at January 1, 2006	525	24	142	22	0	54	767
Balance at December 31, 2006	498	25	157	16	8	52	756

The carrying amount of assets leased under finance lease agreements relates solely to buildings.
Dimeter Grundstücksverwaltungsgesellschaft GmbH & Co. Vermietung GmbH as the lessor and Landesbank Rheinland-Pfalz as the lessee entered into a finance lease for the WIB office building in Mainz, Germany. The lease has a term of 20 years with the conversion date fixed to August 31, 2020. The lessee has an option to buy at the end of the 10th or 15th year of the lease term when the lessee may purchase the leased office building at the present value of the rents and contributions to administrative expenses payable until the end of the lease term, plus the present value of the market value of the leased office building at the end of its lease term. At the end of the lease term, the lessee has an option to buy the leased office building at its market value.
The carrying amounts of assets leased under operating leases, which mainly constitute agreements concerning leasing of LBBW's own properties and buildings, are broken down as follows:

	Dec. 31, 2007 EUR million	Dec. 31, 2006 EUR million
Land	54	26
Buildings	16	26
Leased assets under operating leases	**70**	**52**

71. Income Tax Assets.

	Dec. 31, 2007 EUR million	Dec. 31, 2006 EUR million
Current income tax assets	684	451
of which in Germany	572	362
of which abroad	112	89
Deferred income tax assets	405	321
Total income tax assets	**1 089**	**772**

For a detailed description of income tax assets, see the information under Note 57.

72. Other Assets.

	Dec. 31, 2007 EUR million	Dec. 31, 2006 EUR million
Inventories	871	378
Prepaid expenses	16	18
Receivables from tax authorities	16	5
Other	490	83
Total other assets	**1 393**	**484**

The receivables are recognized at amortized cost.

The inventories can be broken down as follows:

	Dec. 31, 2007 EUR million	Dec. 31, 2006 EUR million
Land and land rights, without buildings	336	44
Land and land rights, with buildings in progress	284	157
Land and land rights, with finished buildings	247	170
Other inventories	4	7
Total inventories	**871**	**378**

The carrying amount of inventories recognized at fair value less costs to sell is EUR 1 million (previous year: EUR 3 million).
As part of the foundation agreement dated August 26/27, 2007, LBBW agreed to make a cash payment of EUR 250 million to the shareholders of Sachsen LB for the acquisition of the shares of Sachsen LB. This cash payment is reported in the »Other« item in »Other assets«. Moreover, the »Other« item also includes receivables from profit and loss transfer agreements totaling EUR 120 million (previous year: EUR 67 million).
»Other assets« includes assets amounting to EUR 59 million with a term of more than 12 months.

73. Deposits from Other Banks.

Deposits from other banks comprise Pfandbriefe (covered bonds), demand and time deposits as well as leasing liabilities.

Breakdown by business type	Dec. 31, 2007 EUR million	Dec. 31, 2006 EUR million
Öffentliche Namenspfandbriefe (public-sector registered covered bonds) issued	7 462	7 900
Hypotheken-Namenspfandbriefe (mortgage-backed registered covered bonds) issued	1 121	4 072
Leasing business	412	364
Other deposits from other banks	148 451	129 707
Total deposits from other banks	**157 446**	**142 043**

Breakdown by region	Dec. 31, 2007 EUR million	Dec. 31, 2006 EUR million
Banks within Germany	106 451	87 699
Banks outside Germany	50 995	54 344
Total deposits from other banks	**157 446**	**142 043**

As of December 31, 2007, LBBW as pledgor held EUR 26 230 million (previous year: EUR 20 483 million) in liabilities from genuine securities repurchase agreements.

74. Amounts due to Customers.

Amounts due to customers comprise savings deposits and demand and time deposits, including savings certificates.

Breakdown by business type	Dec. 31, 2007 EUR million	Dec. 31, 2006 EUR million
Öffentliche Namenspfandbriefe (public-sector registered covered bonds) issued	15 181	16 300
Savings deposits	5 709	6 645
Hypotheken-Namenspfandbriefe (mortgage-backed registered covered bonds) issued	1 818	1 844
Other amounts due to customers	73 743	60 647
Total amounts due to customers	**96 451**	**85 436**

Breakdown by region	Dec. 31, 2007 EUR million	Dec. 31, 2006 EUR million
Customers within Germany	75 773	69 267
Customers outside Germany	20 678	16 169
Total amounts due to customers	**96 451**	**85 436**

As of December 31, 2007, LBBW as pledgor held EUR 3 689 million (previous year: EUR 1 527 million) in liabilities from genuine securities repurchase agreements.

As regards liabilities under finance leases reported under this item, reconciliation of the aggregate minimum finance lease payments to their present values is as follows:

EUR thousand	Aggregate future minimum lease payments 2007	Interest 2007	Present value 2007	Aggregate future minimum leasing payments 2006	Interest 2006	Present value 2006
Up to 1 year	24	0	24	86	3	83
Between 1 and 5 years	0	0	0	128	13	115

Leased properties are not sublet.

75. Securitized Liabilities.

Securitized liabilities mainly comprise issued bonds and other liabilities securitized in the form of transferable instruments.

	Dec. 31, 2007 EUR million	Dec. 31, 2006 EUR million
Pfandbriefe (covered bonds)	55 282	62 257
Money market instruments	15 453	17 373
Other bonds	48 195	42 828
Bonds issued	118 930	122 458
Other securitized liabilities	7 944	4 378
Total securitized liabilities	**126 874**	**126 836**

The following table provides an overview of LBBW's material issues in the 2007 fiscal year:

	Quantity	Volume EUR million	New issues in 2007 EUR million
Pfandbriefe (covered bonds)	54	1 750	1 586
Other bonds			
Commercial papers	1 810	94 103	94 103
Certificates of deposit	293	22 481	22 481
MTN programs	56	3 017	3 017
Other bearer bonds	1 672	49 203	18 897
Material issues in 2007	**3 885**	**170 554**	**140 084**

The following table provides an overview of LBBW's material issues in the 2006 fiscal year:

	Quantity	Volume EUR million	New issues in 2006 EUR million
Pfandbriefe (covered bonds)	115	7 921	7 373
Other bonds			
Commercial papers	1 509	84 032	84 028
Certificates of deposit	604	46 984	46 983
MTN programs	73	5 862	5 862
Other bearer bonds	1 307	35 103	10 151
Material issues in 2006	**3 608**	**179 902**	**154 397**

76. Negative Fair Values from Derivative Hedging Instruments.

	Dec. 31, 2007 EUR million	Dec. 31, 2006 EUR million
Negative fair values from portfolio fair value hedges	3 378	3 260
Negative fair values from micro fair value hedges	2 113	2 050
Negative fair values from cash flow hedges	10	14
Negative fair values from derivative hedging instruments	**5 501**	**5 324**

The negative fair values from derivative hedging instruments are broken down by hedged item as follows:

	Dec. 31, 2007 EUR million	Dec. 31, 2006 EUR million
Assets		
Derivative hedges on loans and advances to other banks	57	104
Derivative hedges on loans and advances to customers	197	275
Derivative hedges on investment securities		
AfS category	477	825
LaR category	0	5
Liabilities		
Derivative hedges on deposits from other banks	102	46
Derivative hedges on amounts due to customers	316	205
Derivative hedges on securitized liabilities	971	601
Derivative hedges on subordinated liabilities	3	3
Derivative hedges on portfolio fair value hedges	3 378	3 260
Negative fair values from derivative hedging instruments	**5 501**	**5 324**

77. Trading Liabilities and Financial Liabilities Designated at Fair Value.

The following table illustrates the breakdown of negative fair values from derivative financial instruments in the trading book and of economic hedges that do not qualify for hedge accounting in accordance with IAS 39, delivery obligations for short sales of securities, and other financial liabilities relating to the trading liabilities and financial liabilities designated at fair value items on the balance sheet.

	Trading liabilities		Financial liabilities designated at fair value	
	Dec. 31, 2007 EUR million	Dec. 31, 2006 EUR million	Dec. 31, 2007 EUR million	Dec. 31, 2006 EUR million
Negative fair values from trading derivatives and from economic hedging derivatives	13 251	9 927	758	631
Delivery obligations from short sales of securities	1 256	1 129	0	0
Other financial liabilities	769	485	16 462	21 200
	15 276	**11 541**	**17 220**	**21 831**

The securities reported under »Trading liabilities« and »Financial liabilities designated at fair value« can be broken down by marketability and stock exchange listing status as follows:

	Trading liabilities		Financial liabilities designated at fair value	
	Dec. 31, 2007 EUR million	Dec. 31, 2006 EUR million	Dec. 31, 2007 EUR million	Dec. 31, 2006 EUR million
Marketable and listed securities	1 814	1 296	7 711	11 136
Marketable and unlisted securities	0	49	1 331	2
Non-marketable securities	211	269	5 442	7 325
	2 025	**1 614**	**14 484**	**18 463**

The cumulative change in fair value of financial liabilities designated at fair value due to credit risk changes amounts to EUR 27 million (previous year: EUR -11 million). The difference between the fair value and the amount contractually payable upon maturity is EUR -223 million (previous year: EUR -50 million).

78. Provisions.

	Dec. 31, 2007 EUR million	Dec. 31, 2006 EUR million
Provisions for pensions	1 305	1 452
Other provisions	387	390
Total provisions	**1 692**	**1 842**

Provisions for pensions.

Provisions for pensions and other post-employment benefits primarily consist of provisions for the obligation to pay company pensions based on direct pension commitments. The nature and amount of the pension payments to employees entitled to pension benefits are governed by the applicable pension rules (including pension guidelines and agreements), which depend largely on the date that employment commenced.

The provisions for pensions changed as follows:

	Vested benefits of active/former employees and retirees	
	2007 EUR million	2006 EUR million
Balance at January 1	**1 452**	**1 431**
Utilization/pension benefit payments	– 71	– 62
Reversals	– 7	– 13
Additions	109	127
Actuarial gains/losses recognized directly in equity	– 179	– 33
Other changes	1	2
Balance at December 31	**1 305**	**1 452**

Gains recognized in profit or loss are reported under the staff costs item as part of administrative expenses.

	31.12.2007 EUR million	31.12.2006 EUR million
Current service cost	– 41	– 46
Interest expense	– 74	– 69
Expected return on plan assets	10	9
Other income and expenses	3	– 8
Additions to/reversals of provisions for pensions and other post-employment benefits	**– 102**	**– 114**

The present value of the defined benefit plan obligations changed as follows:

	2007 EUR million	2006 EUR million
Balance at January 1	**1 677**	**1 654**
Current service cost	41	46
Interest expense	74	69
Actuarial gains and losses	– 208	– 33
Pension benefits paid	– 78	– 68
Past service cost	5	0
Business combinations	– 2	9
Balance at December 31	**1 509**	**1 677**

Obligations under defined benefit plans were calculated using the following actuarial assumptions:

	Dec. 31, 2007 in %	Dec. 31, 2006 in %
Discount rate	5.5	4.5
Expected return on plan assets	3.25–5.5	4.5
Expected rate of salary increase	2.25–3.5	2.0–2.5
Expected rate of pension increase	2.0–3.5	1.0–2.0
Career dynamics	0.5	0.5
Employee turnover	2.5	2.5

Life expectancy, marriage probability and disability were calculated using the 2005 Heubeck mortality tables. Commencement of retirement is determined using the retirement age in accordance with actuarial assumptions.

The fair value of plan assets consists of the following at year end:

	Dec. 31, 2007 EUR million	Dec. 31, 2006 EUR million
Equities and investment funds	220	216
Time deposits and other cash and cash equivalents	5	5
Other assets	4	4

None of the above assets are used directly by the LBBW Group. The expected long-term return on plan assets is based on expected long-term inflation rates, interest rates, risk premiums, and the target allocation of plan assets. These estimates also take into account the historical returns of individual asset classes and are calculated in conjunction with the investment advisors and retirement planning experts.

The fair value of plan assets changed as follows during the fiscal year:

	2007 EUR million	2006 EUR million
Balance at January 1	**225**	**222**
Expected return on plan assets	10	9
Actuarial gains or losses	– 4	0
Employer contributions	2	1
Pension benefits paid	– 6	– 7
Business combinations	2	0
Balance at December 31	**229**	**225**

Actual returns on plan assets amounted to EUR 6 million in the year under review (previous year: EUR 19 million).

The present value of defined benefit obligations and the fair value of plan assets can be reconciled with the assets and liabilities as reported in the balance sheet as follows:

	Dec. 31, 2007 EUR million	Dec. 31, 2006 EUR million
Present value of defined benefit obligations	1 509	1 677
of which unfunded defined benefit obligations	1 304	1 412
of which wholly or partially funded defined benefit obligations	205	265
Fair value of plan assets	– 229	– 225
Assets not recognized due to limitation under IAS 19.58 (b)	25	0
Defined benefit plan assets/liabilities	**1 305**	**1 452**

The actuarial reports required for measurement of plan assets and pension obligations were prepared by the actuary Rauser as of December 31, 2007 and December 31, 2006.

The amounts of the present value of defined benefit obligations, the fair value of plan assets, and under- or overfunding of plan assets are listed in the following table.

	Dec. 31, 2007 EUR million	Dec. 31, 2006 EUR million	Jan. 1, 2006 EUR million
Present value of defined benefit obligations	1 509	1 677	1 107
Plan assets	229	225	222
Obligations not covered by plan assets	1 304	1 412	883

Pension provisions are generally long-term liabilities.

Other Provisions.

The »Other provisions« item consists of the following:

	Dec. 31, 2007 EUR million	Dec. 31, 2006 EUR million
Other personnel-related provisions	167	163
Provisions for credit risks	150	140
Other provisions	70	87
Total other provisions	**387**	**390**

The following table shows changes in other provisions in the year under review:

EUR million	Other personnel-related provisions	Provisions for credit risks	Other provisions	**Total**
Balance at January 1, 2007	**163**	**140**	**87**	**390**
Utilization	– 29	– 4	– 23	– 56
Reversals	– 9	– 15	– 8	– 32
Additions	25	29	24	78
Transfers	17	0	– 11	6
Changes in the basis of consolidation	0	0	1	1
Balance at December 31, 2007	**167**	**150**	**70**	**387**

EUR million	Other personnel-related provisions	Provisions for credit risks	Other provisions	**Total**
Balance at January 1, 2006	**93**	**175**	**120**	**388**
Utilization	– 26	– 20	– 23	– 69
Reversals	– 10	– 74	– 4	– 88
Additions	41	59	48	148
Transfers	65	0	– 54	11
Balance at December 31, 2006	**163**	**140**	**87**	**390**

Other personnel-related provisions mainly consist of provisions for bonuses and profit shares.
Other provisions include provisions for litigation and recourse risks of EUR 16 million (previous year: EUR 19 million) and for bonuses of EUR 10 million (previous year: EUR 11 million).
Of the total amount of other provisions, EUR 214 million is due in 2008 and EUR 176 million is due in more than 12 months.
The Group is faced with various legal proceedings and court actions arising in the ordinary course of business. Provisions were recognized for the risks involved if the management and the Group's legal advisers deem payments to be made by LBBW likely and the amounts involved can be estimated with sufficient reliability. There are other legal disputes where the management/the Board of Managing Directors, after consultation with its legal advisers, hold the view that the final settlement of these disputes should not affect the present consolidated financial statements in any material way.

79. Income Tax Liabilities.

Income tax liabilities include income taxes for the current and previous periods payable, but not yet paid, as of the balance sheet date.

	Dec. 31, 2007 EUR million	Dec. 31, 2006 EUR million
Current income tax liabilities	318	393
of which provisions for income taxes	317	392
of which income tax liabilities to tax authorities	1	1
Deferred income tax liabilities	297	251
Total income tax liabilities	**615**	**644**

For a detailed description of income tax liabilities, see Note 57.

80. Other Liabilities.

	Dec. 31, 2007 EUR million	Dec. 31, 2006 EUR million
Liabilities from other taxes	150	79
Trade payables	58	50
Deferred income	51	50
Other	681	476
Total other liabilities	**940**	**655**

»Other liabilities« mainly include liabilities to employees and social insurance institutions. Other liabilities amounting to EUR 814 million are due within 12 months, and other liabilities amounting to EUR 126 million are due in more than 12 months.

81. Subordinated Debt.

	Dec. 31, 2007 EUR million	Dec. 31, 2006 EUR million
Subordinated liabilities	5 395	4 603
Capital generated by profit-participation certificates	2 125	2 266
Hybrid capital instruments	3 945	3 985
of which typical silent partners' contributions	3 945	3 985
Total subordinated debt	**11 465**	**10 854**

Subordinated debt includes accrued interest payments not yet due amounting to EUR 250 million (previous year: EUR 124 million).

Subordinated liabilities.

In the event of insolvency proceedings or liquidation, the reported subordinated liabilities may not be repaid until all non-subordinated creditors have been satisfied. A conversion into capital or other form of debt is not planned.

The following borrowings exceed 10 % of the total of subordinated liabilities:

	Dec. 31, 2007			Dec. 31, 2006		
EUR million	Capital	Interest accrued in year under review	Total	Capital	Interest accrued in year under review	Total
Subordinated DM/EUR registered securities/bonds	2 581	36	2 617	1 985	30	2 015
Subordinated DM/EUR borrower's note loans	1 119	15	1 134	730	13	743
Subordinated foreign currency bonds	793	12	805	835	13	848
	4 493	**63**	**4 556**	**3 550**	**56**	**3 606**

The interest expense on subordinated liabilities is EUR 276 million (previous year: EUR 274 million).

Capital Generated from Profit-participation Rights.

Pursuant to the provisions set forth in § 10 (5) Kreditwesengesetz (German Banking Act), capital generated by profit-participation rights is counted toward liable capital. The claims of profit participation right holders for repayment of capital are subordinated to other creditors' claims. Interest is paid only if net retained profits are generated, while losses are assumed in the full amount of the share attributable to the capital generated by profit participation rights.

The terms of material profit participation rights were as follows as of the balance sheet date:

Year of issue	Nominal amount Dec. 31, 2007 in EUR million	Interest rate % p.a.	Maturity
Participation rights in bearer form			
1994	261	6.75	2008
1997	103	6.73	2007
1997	73	6.55	2006
1997	67	6.81	2009
1997	51	7.38	2008
1998	6	7.71	2008
1999	100	7	2008
1999	39	6.47	2011
1999	30	6.66	2011
1999	25	6.44	2011
1999	10	6.32	2011
1999	10	6.79	2011
1999	5	6.61	2009
1999	2	6.63	2011
1999	1	6.26	2011
2001	129	6.5	2011
2001	50	6.75	2010
2001	25	6.3	2013
2002	153	6.5	2012
2002	10	8.25	2011
Participation rights in registered form			
Companies	967	5.24 to 7.23	2022
Banks	20	6.97 to 7.1	2007/2010

The interest expense on capital generated by profit-participation rights totaled EUR 149 million in 2007 (previous year: EUR 104 million).

Hybrid capital instruments.

Hybrid capital instruments consist of typical silent partners' contributions.
Contributions by silent partners are measured at cost at the time of their addition, with such cost being equivalent to the fair value of the consideration received. Subsequently, they are carried at amortized cost.
At the end of the year under review, the following material contributions had been made by silent partners:

Maturity	Payout in % of the nominal amount	Paid-in capital Dec. 31, 2007 EUR million	Paid-in capital Dec. 31, 2006 EUR million
Dec. 1, 1997 – Dec. 31, 2007	7	128.0	128.0
May 28, 1999 – Dec. 31, 2011	5.87	102.0	102.0
Jan. 1, 2006 - Dec. 31, 2007 [1)]	3.5	0.4	0.4
Jan. 1, 2003 - Dec. 31, 2012 [1)]	5.79	55.5	55.5
Jan. 1, 2004 - Dec. 31, 2013 [1)]	5.69	14.9	14.9
Jan. 1, 2005 - Dec. 31, 2014 [1)]	4.96	64.7	64.7
Jan. 1, 2006 - Dec. 31, 2015 [1)]	4.69	19.5	19.5
Permanent	6.31	767.0	767.0
Permanent (nominal amount: USD 197.5 million)	6.8	134.3	149.9
Permanent	6.36	790.0	790.0
Permanent	5.98	1 210.0	1 210.0
Permanent	6.34	205.7	229.5
Permanent	6.71	200.0	200.0
Permanent	7.046	253.1	253.1
Total		**3 945.1**	**3 984.5**

1) The earliest maturity date, taking into account a two-year notice period prior to the end of the calendar year and a waiting period, if any.

The silent partners share any net accumulated loss suffered by LBBW up to the full amount less their repayment claims.
The interest expense on the silent partners' contributions was EUR 245 million in the year under review (previous year: EUR 248 million).

82. Equity.

	Dec. 31, 2007 EUR million	Dec. 31, 2006 EUR million
Ordinary share capital	1 420	1 420
Share premium	3 074	3 074
Retained earnings	4 850	3 864
Net income recognized directly in equity	650	967
Net retained profit	303	926
Minority interest	123	103
Total equity	**10 420**	**10 354**

				Net income recognized directly in equity						
EUR million	Ordinary share capital	Share premi-um	Retained earnings	Reval-uation reserve for AfS financial instru-ments	Reval-uation reserve for in-vestments accounted for using the equity method	Measure-ment gain/loss from cash flow hedges	Currency trans-lation reserve	Net retained profit	Minority interest	**Total**
Equity at January 1, 2006	**1 420**	**3 074**	**3 272**	**936**	**0**	**0**	**0**	**662**	**102**	**9 466**
Balance brought forward	0	0	662	0	0	0	0	– 662	0	0
Distribution to shareholders	0	0	– 85	0	0	0	0	0	– 2	– 87
Total recognized income and expense	0	0	18	37	0	– 6	0	926	3	978
Other changes in equity	0	0	– 3	0	0	0	0	0	0	– 3
Equity at December 31, 2006	**1 420**	**3 074**	**3 864**	**973**	**0**	**– 6**	**0**	**926**	**103**	**10 354**
Balance brought forward	0	0	926	0	0	0	0	– 926	0	0
Distribution to shareholders	0	0	– 89	0	0	0	0	0	0	– 89
Changes in the basis of consolidation	0	0	20	– 60	86	0	0	0	23	69
Total recognized income and expense	0	0	129	– 319	–17	–1	– 6	303	– 3	86
Equity at December 31, 2007	**1 420**	**3 074**	**4 850**	**594**	**69**	**– 7**	**– 6**	**303**	**123**	**10 420**

LBBW's fully paid-in ordinary share capital was held in the year under review by the State of Baden-Württemberg (35.6 %), the City of Stuttgart (18.9 %), Sparkassenverband Baden-Württemberg (Savings Bank Association of Baden-Württemberg) (including equity investments held by savings banks in Baden-Württemberg: 35.6 %), Landeskreditbank Baden-Württemberg (4.9 %), and Sparkassen- und Giroverband Rheinland-Pfalz (Savings Bank and Giro Association of Rhineland-Palatinate) (4.9 %).
The share premium is composed of the amount received in excess of the (arithmetical) nominal value when shares are issued (offering premium) and the proceeds from the issue of bonds, conversion rights and options to buy shares, as well as additional payments made by shareholders in return for preference rights attached to their shares and other payments made by shareholders towards equity.
In addition to transfers from LBBW's consolidated profit for the period, the retained earnings include the Group's share in the net retained profits/net accumulated losses of the consolidated subsidiaries to the extent these profits were generated since the inclusion of such subsidiaries in the basis of consolidation. In addition, retained earnings include the cumulative effects of consolidation and adjustments arising from the first-time adoption of IFRSs. Adjustments to retained earnings due to first-time IFRS adoption include only those changes in fair value of transactions that would otherwise have been recognized through profit or loss. Other reserves also include accumulated actuarial gains or losses amounting to EUR 164 million (previous year: EUR 18 million).

Changes in the fair values of AfS financial instruments are recognized in the revaluation reserve for AfS financial instruments. In addition, the revaluation reserve also includes the offsetting item from the recognition of deferred tax assets or liabilities on measurement differences in equity. This item also includes the losses attributable to the minority interests in accordance with IAS 27.35.

	2007 EUR million	2006 EUR million
Balance at January 1	**973**	**936**
Change in fair value	–377	–6
Change in basis of consolidation	–60	0
Transfers to profit or loss	–49	–33
Deferred tax assets/liabilities recognized directly in equity	107	76
Balance at December 31	**594**	**973**

The measurement gains/losses from cash flow hedges includes the share in profit or loss that is considered the effective hedge. In addition, the offsetting item from the recognition of deferred tax assets or liabilities on cash flow hedges is included in this item. Cash flows from variable-interest bonds with maximum maturities of 5 years and average maturities of approximately 2.5 years were hedged.
The balance of currency translation differences arising due to capital consolidation is allocated to the currency translation reserve. These amounts arise from the translation of the financial statements of a foreign operation into the reporting currency.
Instead of the consolidated profit for the period, consolidated net retained profit is reported in equity due to the fact that the consolidated balance sheet is prepared after part of the profit had been appropriated.

In addition to the shareholders of the parent company, there are other shareholders who hold interests in its subsidiaries' equity (50 % < interest held by the parent company < 100 %). These minority interests are included in the »Equity« item of the consolidated balance sheet.
Deferred taxes totaling EUR –4 million (previous year: EUR –58 million) are included in equity.
With respect to equity, there are no distribution restrictions imposed on the share premium. The effects of the first-time adoption of IFRSs and of deferred taxes are not distributable from retained earnings.

83. Fair Value of Financial Instruments.

The following table shows a comparison of the carrying amounts and the fair values of financial instruments.

	Dec. 31, 2007		Dec. 31, 2006	
EUR million	Carrying amount	Fair value	Carrying amount	Fair value
Assets				
Cash reserve	1 477	1 477	1 578	1 578
Assets carried at amortized cost				
Loans and advances to other banks after allowance for losses	143 628	142 174	150 607	153 108
Loans and advances to customers after allowance for losses	144 443	146 525	119 239	127 283
Investment securities				
Interest-bearing assets	1 183	1 183	2 205	2 221
Non-interest-bearing assets	9	9	10	10
Assets carried at fair value				
Investment securities				
Interest-bearing assets	82 772	82 772	85 395	85 395
Non-interest-bearing assets	3 619	3 619	3 398	3 398
Portfolio hedge adjustment attributable to assets	–396	–396	–71	–71
Positive fair values from derivative hedging instruments	5 002	5 002	4 925	4 925
Financial assets designated at fair value	5 372	5 372	5 104	5 104
Trading assets	51 130	51 130	41 065	41 065

	Dec. 31, 2007		Dec. 31, 2006	
EUR million	Carrying amount	Fair value	Carrying amount	Fair value
Liabilities				
Liabilities carried at amortized cost				
Deposits from other banks	157 446	155 278	142 043	142 725
Due to customers	96 451	97 925	85 436	87 046
Securitized liabilities	126 874	126 429	126 836	126 138
Subordinated debt	11 465	11 307	10 854	11 078
Liabilities carried at fair value				
Portfolio hedge adjustment attributable to liabilities	–476	–476	–75	–75
Negative fair values from derivative hedging instruments	5 501	5 501	5 324	5 324
Financial liabilities designated at fair value	17 220	17 220	21 831	21 831
Trading liabilities	15 276	15 276	11 541	11 541

The fair value of assets and liabilities designated at fair value was measured using the following methods:

Fair value (gross)	Quoted market price		Measurement method – indicative prices or externally observable parameters		Measurement method – no externally observable parameters	
Dec. 31, 2007	EUR million	in %	EUR million	in %	EUR million	in %
Positive fair values from derivative hedging instruments	0	0	5 002	7	0	0
Trading assets	11 463	19	38 187	54	1 480	9
Financial assets designated at fair value	1 740	3	2 938	4	694	4
Investment securities (AfS)	47 134	78	24 600	35	14 658	87
Total assets	**60 337**	**100**	**70 727**	**100**	**16 832**	**100**
Negative fair values from derivative hedging instruments	0	0	5 500	16	1	0
Trading liabilities	1 946	79	13 113	37	217	92
Financial liabilities designated at fair value	504	21	16 699	47	17	7
Total liabilities	**2 450**	**100**	**35 312**	**100**	**235**	**100**

The »Measurement method – indicative prices or externally observable parameters« column includes securitized products measured at fair value based on indicative prices (EUR 16 681 million) and commercial papers measured using models (EUR 22 665 million).

84. Reconciliation of Carrying Amounts to IAS 39 Categories.

Dec. 31, 2007 EUR million	Loans and receivables	Available-for-sale	Held for trading	Fair value option	Other liabilities	Total
Loans and advances to other banks	143 643					143 643
Loans and advances to customers	146 394					146 394
Trading assets			51 130			51 130
Financial assets designated at fair value				5 372		5 372
Investment securities	1 192	86 391				87 583
Deposits from other banks					157 446	157 446
Due to customers					96 451	96 451
Securitized liabilities					126 874	126 874
Trading liabilities			15 276			15 276
Financial liabilities designated at fair value				17 220		17 220
Subordinated debt					11 465	11 465

Dec. 31, 2006 EUR million	Loans and receivables	Available-for-sale	Held for trading	Fair value option	Other liabilities	Total
Loans and advances to other banks	150 612					150 612
Loans and advances to customers	121 391					121 391
Trading assets			41 065			41 065
Financial assets designated at fair value				5 104		5 104
Investment securities	2 215	88 793				91 008
Deposits from other banks					142 043	142 043
Due to customers					85 436	85 436
Securitized liabilities					126 836	126 836
Trading liabilities			11 541			11 541
Financial liabilities designated at fair value				21 831		21 831
Subordinated debt					10 854	10 854

85. Breakdown of Balance Sheet Items by Remaining Maturity.

The remaining maturity is defined as the period between the balance sheet date and the contractual maturity date of a receivable or liability, or installments thereof. Equity instruments have been allocated to the »up to 3 months or without a fixed term« band. Trading assets or liabilities are generally recognized in accordance with their contractual maturity. The remaining maturity of derivative financial instruments is reported separately under Note 90.

Dec. 31, 2007 EUR million	Up to 3 months or w/o fixed term	Between 3 months and 1 year	Between 1 year and 5 years	More than 5 years	Total
Loans and advances to other banks	65 520	19 264	33 418	25 441	143 643
Loans and advances to customers	55 731	15 754	32 944	41 965	146 394
Positive fair values from derivative hedging instruments	231	375	1 296	3 100	5 002
Trading assets	19 725	12 385	9 660	9 360	51 130
Financial assets designated at fair value	1 141	336	1 306	2 589	5 372
Investment securities	17 438	11 534	33 187	25 424	87 583
Deposits from other banks	100 812	16 685	16 423	23 526	157 446
Due to customers	62 641	3 862	13 245	16 703	96 451
Securitized liabilities	19 114	30 508	53 722	23 530	126 874
Negative fair values from derivative hedging instruments	421	326	1 343	3 411	5 501
Trading liabilities	3 962	1 777	4 550	4 987	15 276
Financial liabilities designated at fair value	370	3 594	5 433	7 823	17 220
Subordinated debt	734	1 034	6 030	3 667	11 465

Dec. 31, 2006 EUR million	Up to 3 months or w/o fixed term	Between 3 months and 1 year	Between 1 year and 5 years	More than 5 years	Total
Loans and advances to other banks	57 303	27 226	35 209	30 874	150 612
Loans and advances to customers	35 304	13 340	26 704	46 043	121 391
Positive fair values from derivative hedging instruments	238	256	1 990	2 441	4 925
Trading assets	11 307	9 887	11 148	8 723	41 065
Financial assets designated at fair value	1 526	327	1 263	1 988	5 104
Investment securities	16 412	10 946	35 880	27 770	91 008
Deposits from other banks	84 343	18 398	14 046	25 256	142 043
Due to customers	51 208	2 957	8 590	22 681	85 436
Securitized liabilities	21 307	21 822	55 502	28 205	126 836
Negative fair values from derivative hedging instruments	158	326	2 422	2 418	5 324
Trading liabilities	1 891	1 208	3 825	4 617	11 541
Financial liabilities designated at fair value	489	4 713	7 970	8 659	21 831
Subordinated debt	605	507	2 569	7 173	10 854

Off-Balance Sheet Transactions and Obligations.

86. Contingent Liabilities and Other Obligations.

Contingent liabilities arise from contractually agreed possible future obligations that are not yet likely to materialize (likelihood of occurrence less than 50 %). These obligations may arise both from guarantees given and credits lines granted to customers for a specified period but not yet drawn down. Recognized amounts reflect the possible obligations that may arise if credit lines or guarantees granted are utilized in the maximum amount. The probability of an outflow of assets is reviewed regularly and if a drawdown appears more likely than not, a provision is recognized.

	Dec. 31, 2007 EUR million	Dec. 31, 2006 EUR million
Contingent liabilities		
from sureties and guarantee agreements	6 180	4 916
from associates	4	0
of which joint liabilities	4	0
from rediscounted bills of exchange	2	4
from other contingent liabilities	0	1
	6 186	**4 921**
Other obligations		
Irrevocable loan commitments	27 390	24 860
Payment obligations and joint liability	476	541
Obligations from rental or leasing contracts	108	308
Other obligations	0	69
Placement and underwriting commitments	0	10
Obligations from investment projects started	0	2
	27 974	**25 790**
	34 160	**30 711**

LBBW still has an additional funding obligation for Liquiditäts- und Konsortialbank GmbH, Frankfurt am Main, in the amount of EUR 23 million.
The contributions made to the Sicherungsreserve der Landesbanken und Girozentralen (Guarantee Fund of the Landesbanken and Central Savings Banks) were recalculated based on risk-oriented principles. The resulting additional funding obligation totals EUR 428 million. Payment of these additional contributions can be called in immediately in the event that an institution requires assistance.
Pursuant to § 5 (10) of the bylaws of the Einlagensicherungsfonds (German Deposit Protection Fund), LBBW undertook to indemnify Bundesverband deutscher Banken e.V., Berlin, (Association of German Banks) 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. In its capacity as guarantor, LBBW continues to be liable for the liabilities of DekaBank Deutsche Girozentrale, Berlin and Frankfurt am Main; LRP Landesbank Rheinland-Pfalz, Mainz; and LBS Landesbausparkasse Baden-Württemberg, Stuttgart and Karlsruhe, incurred up to July 18, 2005 (date of end of the guarantor's liability). In certain cases, this depends on when the liabilities arose and on their terms. However, in no case is LBBW liable as guarantor for any liabilities that arose 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 (LB Kiel); Westdeutsche ImmobilienBank, Mainz; and the 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. 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 assumed for Sachsen LB that are asserted against the trustors and former guarantors of Sachsen LB for the first time after December 31, 2010.

87. Letters of Comfort.

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

As long as LBBW holds a direct or an indirect stake in LBBW Bank Ireland plc, Dublin, LBBW has made a commitment to the Irish banking supervisory authority to ensure that LBBW Bank Ireland plc, Dublin, is in a position to cover its liabilities.
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.

88. Trust Activities.

The trust activities which are not carried in the balance sheet involve the following types of assets/liabilities and break down as follows:

	Dec. 31, 2007 EUR million	Dec. 31, 2006 EUR million
Trust assets		
Loans and advances to other banks	139	183
Loans and advances to customers	1 204	1 282
Investment securities	126	0
Property and equipment	62	61
Other assets	45	54
Other trust assets	1	0
	1 577	**1 580**
Trust liabilities		
Deposits from other banks	225	324
Due to customers	1 351	1 247
Other liabilities	1	9
	1 577	**1 580**

Information on Derivative Transactions.

89. Intended Purpose of Derivative Financial Instruments.

The following table shows a breakdown by purpose of the derivative financial instruments held as of the balance sheet date:

Fair value	Dec. 31, 2007 Positive EUR million	Dec. 31, 2007 Negative EUR million	Dec. 31, 2006 Positive EUR million	Dec. 31, 2006 Negative EUR million
Derivative financial instruments used for trading and economic hedging derivatives	13 463	14 009	11 343	10 558
Derivative financial instruments used for fair value hedging	4 999	5 491	4 922	5 310
Derivative financial instruments used for cash flow hedging	3	10	3	14
	18 465	**19 510**	**16 268**	**15 882**

90. Breakdown of Derivatives Volume.

	Nominal values Remaining maturity					Fair value	
Dec. 31, 2007 EUR million	Up to 3 months	Between 3 months and 1 year	Between 1 and 5 years	More than 5 years	Total	Positive	Negative
Currency spot and forward transactions	102 417	35 077	3 956	245	141 695	1 949	1 780
Currency options (purchases)	2 019	2 132	4 568	126	8 845	172	0
Currency options (sales)	1 882	1 934	3 733	107	7 656	0	149
Currency options	3 901	4 066	8 301	233	16 501	172	149
Cross-currency interest rate swaps	2 501	4 874	12 567	9 392	29 334	1 620	2 836
Currency-related derivatives	**108 819**	**44 017**	**24 824**	**9 870**	**187 530**	**3 741**	**4 765**
Forward rate agreements	0	296 272	20 992	0	317 264	93	253
Interest rate swaps	248 560	201 048	336 489	328 196	1 114 293	12 338	11 416
Interest rate options (purchases)	3 991	4 911	9 542	12 146	30 590	687	1
Interest rate options (sales)	4 190	5 004	14 504	16 296	39 994	–1	966
Interest rate options	8 181	9 915	24 046	28 442	70 584	686	967
Caps/floors/collars	2 174	5 229	23 053	13 325	43 781	189	155
Other interest rate contracts	511	163	483	1 420	2 577	10	11
Exchange-traded interest rate products	27 390	45 451	14 811	0	87 652	26	13
Interest rate-related derivatives	**286 816**	**558 078**	**419 874**	**371 383**	**1 636 151**	**13 342**	**12 815**
Credit derivatives (protection seller)	1 650	3 821	32 726	19 081	57 278	64	951
Credit derivatives (protection buyer)	266	1 280	23 091	8 382	33 019	531	37
Credit derivatives	**1 916**	**5 101**	**55 817**	**27 463**	**90 297**	**595**	**988**
Exchange-traded products	1 753	8	0	0	1 761	255	192
Equity forward contracts	5	0	0	0	5	4	2
Stock options (purchases)	1 697	3 558	1 343	1 661	8 259	517	0
Stock options (sales)	1 824	3 413	1 129	1 440	7 806	0	741
Stock options	3 521	6 971	2 472	3 101	16 065	517	741
Miscellaneous other transactions	242	789	100	0	1 131	44	40
Other derivatives	**5 521**	**7 768**	**2 572**	**3 101**	**18 962**	**820**	**975**
Total derivatives	**403 072**	**614 964**	**503 087**	**411 817**	**1 932 940**	**18 498**	**19 543**

	Nominal values Remaining maturity					Fair value	
Dec. 31, 2006 EUR million	Up to 3 months	Between 3 months and 1 year	Between 1 and 5 years	More than 5 years	Total	Positive	Negative
Currency spot and forward transactions	73 281	33 103	3 016	240	109 640	1 454	1 185
Currency options (purchases)	2 874	3 442	641	19	6 976	100	– 6
Currency options (sales)	2 014	3 142	532	19	5 707	– 2	69
Currency options	4 888	6 584	1 173	38	12 683	98	63
Cross-currency interest rate swaps	1 397	2 983	18 043	9 273	31 696	1 158	1 846
Other currency-related derivatives	664	322	446	36	1 468	68	48
Currency-related derivatives	**80 230**	**42 992**	**22 678**	**9 587**	**155 487**	**2 778**	**3 142**
Forward rate agreements	1 500	111 877	42 545	0	155 922	35	21
Interest rate swaps	178 805	170 480	340 652	303 847	993 784	11 851	10 803
Interest rate options (purchases)	5 778	2 924	7 507	6 143	22 352	634	0
Interest rate options (sales)	3 662	5 535	12 443	13 487	35 127	1	980
Interest rate options	9 440	8 459	19 950	19 630	57 479	635	980
Caps/floors/collars	2 038	4 749	20 521	13 867	41 175	178	96
Other interest rate contracts	338	14	830	1 398	2 580	4	9
Exchange-traded interest rate products	37 773	98 372	29 351	0	165 496	70	46
Interest rate-related derivatives	**229 894**	**393 951**	**453 849**	**338 742**	**1 416 436**	**12 773**	**11 955**
Credit derivatives (protection seller)	989	4 037	14 806	23 697	43 529	270	56
Credit derivatives (protection buyer)	200	305	6 638	8 276	15 419	42	182
Credit derivatives	**1 189**	**4 342**	**21 444**	**31 973**	**58 948**	**312**	**238**
Exchange-traded products	853	0	0	0	853	56	87
Stock options (purchases)	2 286	1 097	554	1 164	5 101	300	0
Stock options (sales)	1 259	1 507	545	158	3 469	0	458
Stock options	3 545	2 604	1 099	1 322	8 570	300	458
Miscellaneous other transactions	57	276	20	0	353	119	53
Other derivatives	**4 455**	**2 880**	**1 119**	**1 322**	**9 776**	**475**	**598**
Total derivatives	**315 768**	**444 165**	**499 090**	**381 624**	**1 640 647**	**16 338**	**15 933**

For purposes of providing data on derivatives above, futures are listed at their fair values. In contrast, the balance of the market values of the futures and the offsetting margin payments in the relevant balance sheet items is zero.

The following table shows the positive and negative fair values as well as the nominal values of the derivative transactions, broken down by counterparty:

	Fair values				Nominal values	
	Dec. 31, 2007	Dec. 31, 2007	Dec. 31, 2006	Dec. 31, 2006	Dec. 31, 2007	Dec. 31, 2006
EUR million	Positive	Negative	Positive	Negative		
Banks in OECD countries	14 591	15 115	12 791	12 478	1 670 714	1 423 245
Banks in non-OECD countries	91	120	64	53	11 815	7 956
Public-sector agencies in OECD countries	471	432	569	379	31 770	19 214
Other counterparties	3 345	3 876	2 914	3 023	218 641	190 232
Total derivatives	**18 498**	**19 543**	**16 338**	**15 933**	**1 932 940**	**1 640 647**

The nominal amounts serve as reference amounts for determining mutually agreed settlement payments and represent the gross volume of all sales and purchases.

Other Disclosures.

91. Capital Management.

LBBW's capital management system is designed to ensure sound capitalization within the LBBW Group. In order to guarantee adequate capital from various perspectives, the Bank analyzes capital ratios and structures both from the perspective of economic capital and the perspective of regulatory capital requirements.

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

The Board of Managing Directors' Capital Committee established in 2006 regularly analyzes measures aimed at ensuring the adequacy of the LBBW Group's capital resources, ratios, and structures and prepares information to serve as the basis for decisions to be adopted by the Group's Board of Managing Directors. Capital allocation is part of the planning process and is monitored regularly by the Group's Board of Managing Directors.

The Capital Committee, coordinated by Financial Controlling, is composed of the Board of Managing Directors members from Corporate Center, Financial Markets, Finance/Operations, and IT as well as the heads of the Financial Controlling, Group Strategy/Legal, Accounting/Reporting/Taxes, Treasury, Capital Markets, and Internal Auditing divisions. The Chairman of the Capital Committee is the Chairman of the LBBW Group's Board of Managing Directors. The Board of Managing Directors member responsible for Finance/Operations and IT substitutes for him, if necessary.

Economic Capital.

In order to safeguard and monitor economic capital, the Board of Managing Directors determines a fixed amount for the permissible overall risk (upper loss limit: EUR 11.6 billion) derived from the Group's risk-bearing potential (EUR 24.4 billion).

This upper loss limit serves as a basis for a Group-wide risk limitation system (limit system), which includes global limits for sub-groups bearing risks and for the various risk categories.

This limit system is designed to restrict risks within the LBBW Group. In addition, an adequate capital reserve has been set up above and beyond the upper loss limit to take into account even potential losses incurred in stress scenarios.

Based on LBBW's risk inventory, the Group's risk exposure is identified systematically and analyzed in accordance with clearly defined materiality criteria. LBBW uses various risk models for the individual risk categories and sub-groups to quantify the risk exposure of its economic capital (EUR 9.4 billion) and to monitor it using the Group-wide limit system.

For more detailed information on our risk management systems and economic capital, see the Risk Report included in the Group Management Report.

Regulatory Capital.

The LBBW Group's own funds are determined in accordance with the requirements of the Kreditwesengesetz (German Banking Act) and the relevant capital adequacy requirements stipulated by the supervisory authorities and applicable to groups of credit institutions.

Exercising the transitional option set out in § 339 (9) Solvabilitätsverordnung (German Solvency Regulation), the overall ratio of the LBBW Group for 2007 is determined in accordance with the provisions of the presently applicable Grundsatz I (Principle I, the German implementation of the Basel I framework).

In accordance with § 10 Kreditwesengesetz (German Banking Act) in conjunction with § 2 Grundsatz I (Principle I), the overall ratio calculated as the ratio of the Group's own funds and the total of the weighted risk assets and market risk positions weighted by a factor of 12.5 must not fall below 8.0 % at the close of any business day.

Both LBBW as an individual entity and the LBBW Group have complied with these requirements at all times.

The **LBBW Group's own funds** are composed of its Tier 1, Tier 2, and Tier 3 capital. The Group's total Tier 2 capital must not exceed the amount of its Tier 1 capital. The lower Tier 2 capital must not exceed 50 % of the total Tier 2 capital. The Tier 3 capital is limited to 250 % of the freely available Tier 1 capital (core capital not required to cover the weighted risk assets).

Core capital, or Tier 1 capital, consists of the paid-in capital, the share premium and other reserves, capital contributions by silent partners, preference shares, reserves for general banking risks in accordance with § 340 g HGB, and deductible items (basically consisting of intangible assets and goodwill). Most of the capital contributions by silent partners of the LBBW Group are permanent and are mainly held by the owners of LBBW.

Supplementary capital, or Tier 2 capital, consists of higher Tier 2 capital which is composed of the contingency reserves in accordance with § 340 f HGB, the liabilities arising from profit participation rights, and the lower Tier 2 capital composed of long-term subordinated liabilities.

Short-term subordinated liabilities with maturities of at least two, but less than five years, is eligible as **Tier 3 capital.** This capital may only be used to back eligible amounts of market risk positions.

The own funds as defined by the German Banking Act are calculated based on the separate financial statements of the entities included in the basis of consolidation, taking the applicable national accounting regulations into account.

The following table shows the structure of the LBBW Group's own funds:

	Dec. 31, 2007 EUR million	Dec. 31, 2006 EUR million
Own funds (Tiers 1 + 2 + 3)	**18 623**	**17 939**
Core capital (Tier 1)	12 422	10 698
Supplementary capital (Tier 2)	5 208	6 853
Tier 3 capital	993	388
Qualifying items	**191 402**	**169 939**
Weighted risk assets	150 014	143 889
Weighting for market risk positions (weighting factor of 12.5 for market risk positions)	41 388	26 050
Total Principle I ratio	**9.7%**	**10.6%**

	Dec. 31, 2007 EUR million	Dec. 31, 2006 EUR million
Core capital (Tier 1)	**12 422**	**10 698**
Paid-in capital	1 541	1 656
Share premium	3 074	3 074
Silent partners' contributions	4 099	4 126
Other reserves	2 565	2 302
Reserve for general banking risks in accordance with § 340 g HGB	1 967	367
Deductible from core capital	– 824	– 827

Explanation of the changes in 2007 versus 2006.
The LBBW Group's Tier 1 capital was increased by net retained profits allocated to other reserves. The decline in paid-in capital is the result of the deconsolidation of insignificant companies that can no longer be allocated to equity due to minority interest. In addition, in light of the IFRS adoption, hidden contingency reserves (in accordance with § 340 f HGB) were converted into disclosed risk reserves (in accordance with § 340 g HGB), which further increased the Group's core capital. Tier 2 capital decreased accordingly.
Due to the new acquisitions by LBBW, short-term subordinated liabilities (Tier 3 capital) increased by EUR 603.5 million. This capital is used to cover market risk positions.

92. Additional Information on the Cash Flow Statement.

The cash flow statement shows the change in cash and cash equivalents resulting from cash flows provided by/used in operating, investing and financing activities.
Cash and cash equivalents are the LBBW Group's cash reserve. Of the total cash reserve, the Group cannot dispose freely of cash and cash equivalents totaling EUR 2.5 million.
Net cash provided by operating activities is derived indirectly from the consolidated financial statements. Included are cash flows (inflows and outflows) from loans and advances to other banks and to customers as well as from securities and other assets. Additions and disposals resulting from deposits from other banks and amounts due to customers from securitized liabilities and other liabilities are also recognized here. Furthermore, interest and dividend payments resulting from operating activities are allocated to net cash provided by operating activities.
The item »Change in other non-cash items« includes net loss from hedging transactions, unrealized trading income/loss, unrealized income/loss from financial instruments designated at fair value, unrealized income/loss from investment property, and amortization/write-downs on intangible assets, as well as unrealized other operating income and expenses. Other adjustments include effects from interest income, current income, interest expense and income tax, not including deferred taxes.
Net cash used in investing activities comprises proceeds and payments relating to the disposal or acquisition of equity investments, interests in non-consolidated affiliates and associates, property and equipment as well as the effects of changes in the basis of consolidation.
All proceeds and payments from transactions relating to equity, subordinated debt, capital generated by profit participation rights, and typical silent partners' contributions are included in net cash used in financing activities.

93. Assets Assigned or Held as Collateral.

Assignor.

The following collateralized liabilities existed at the LBBW Group on the balance sheet date:

	Dec. 31, 2007 EUR million	Dec. 31, 2006 EUR million
Deposits from other banks	24 164	15 908
Due to customers	3 116	184
Securitized liabilities	25	128
Trading liabilities	2 667	1 408
Contingent liabilities	87	147
	30 059	**17 775**

Most of the assets were assigned as collateral for LBBW's own liabilities within the framework of repurchase agreements and in accordance with the provisions of the Pfandbriefgesetz (German Covered Bond Act).

The following assets were assigned as collateral for the above liabilities:

	Dec. 31, 2007 EUR million	Dec. 31, 2006 EUR million
Loans and advances to other banks	2 616	1 555
Loans and advances to customers	3 399	339
Trading assets	33 998	5 975
Investment securities	11 717	9 046
Assets assigned	**51 730**	**16 915**

Pledged assets serve exclusively as collateral for the respective counterparty. The collateral is returned upon conclusion of the underlying transaction. If LBBW is in default, the counterparty is entitled to liquidate the collateral in order to settle the liability.

Assignee.

The fair value of the financial or non-financial assets received as collateral, which the LBBW Group may sell or assign to a third party even if the owner of such collateral is not in default, totals EUR 34 426 million (previous year: EUR 835 million). The fair value of collateral sold or assigned to third parties in the year under review amounts to EUR 8 438 million (previous year: EUR 487 million). This included collateral with a total fair value of EUR 34 426 million (previous year: EUR 835 million) that the LBBW Group is required to return to its owners.

94. Subordinated Assets.

Assets are considered subordinated if the claims they represent may not be satisfied before those of other creditors in the case of a liquidation or insolvency of the debtor.

The following subordinated assets are included in the asset items of the balance sheet:

	Dec. 31, 2007 EUR million	Dec. 31, 2006 EUR million
Loans and advances to other banks	274	33
Loans and advances to customers	363	272
Trading assets	273	554
Financial assets designated at fair value	377	174
Investment securities	842	727
Total subordinated assets	**2 129**	**1 760**

95. List of Shareholdings and Information on Subsidiaries, Associates, and Joint Ventures.

The following is an overview of LBBW's material shareholdings:

Name/Location	Share of capital in %	Non-proportional voting rights in %	Currency	Equity in thousand	Profit or loss in thousand
(A) Companies included in the consolidated financial statements					
Subsidiaries					
Baden-Württemberg L-Finance N.V., Hoofddorp, Netherlands [3)]	100		EUR	2 736	4 790
Bahnhofplatz-Gesellschaft Stuttgart AG, Stuttgart [1) 4a)]	83.66	92.42	EUR	4 452	0
Eisenbahn-Siedlungsgesellschaft Stuttgart GmbH, Stuttgart [1)]	85.39	94.87	EUR	11 000	11
Industriehof-Aktiengesellschaft, Stuttgart [1) 4a)]	83.63	92.37	EUR	23 282	0
Landesbank Baden-Württemberg Capital Markets Plc, London, UK [3) 5)]	100		GBP	7 044	2 044
LBBW Bank Ireland plc, Dublin, Irland [3a)]	100		EUR	10 551	11 002
LBBW Finance-Holding GmbH, Stuttgart [4)]	100		EUR	409 000	0
LBBW Immobilien-Holding GmbH, Stuttgart [4)]	100		EUR	751 251	0
LBBW Leasing GmbH, Mannheim [4)]	100		EUR	731 789	0
LBBW Spezialprodukte-Holding GmbH, Stuttgart [4)]	100		EUR	371 263	0
LBBW Immobilien GmbH, Stuttgart [1)]	90		EUR	707 367	33 491
LRI Landesbank Rheinland-Pfalz International S.A., Luxembourg, Luxembourg [1)]	100		EUR	667 086	13 900
LRP Capital GmbH, Mainz [1) 4a)]	100		EUR	14 000	0
LRP Landesbank Rheinland-Pfalz, Mainz	100		EUR	1 334 228	55 366
MKB Mittelrheinische Bank GmbH, Koblenz [2)]	100		EUR	30 071	210
Schlossgartenbau-Aktiengesellschaft, Stuttgart [1) 4a)]	82.56	91.19	EUR	6 592	0
SüdFactoring GmbH, Stuttgart [1) 4a)]	100		EUR	1 600	0
Süd-Kapitalbeteiligungs-Gesellschaft mbH, Stuttgart [1) 4a)]	100		EUR	88 982	0
SüdLeasing GmbH, Mannheim [2) 4a)]	100		EUR	32 085	0
Fully consolidated subsidiaries (SIC-12)					
Bodensee II Funding L.T.D., St. Helier, Jersey, UK [1)]	0		EUR	---	---
FIT Repo Ltd., Dublin 2, Irland [1)]	0		EUR	---	---
Lake Constance Funding Ltd., GB St. Helier, Jersey, UK [1)]	0		EUR	---	---
LI-FI (Leveraged Investment in Financial Institutions), GeorgeTown, Cayman Islands [1)]	58.52		EUR	---	---
Mainau Funding Ltd., Dublin, Ireland [1)]	0		EUR	---	---
Peter Pike Funding LLC / Rathlin Loan Ltd., Dublin 2, Ireland [1)]	0		EUR	---	---
Spencerview Asset Management Ltd., Dublin 1, Ireland [1)]	0		EUR	---	---

Name/Location	Share of capital in %	Non-proportional voting rights in %	Currency	Equity in thousand	Profit or loss in thousand
(B) Companies not included in the consolidated financial statements					
Subsidiaries					
Baden-Württembergische Investmentgesellschaft mbH, Stuttgart [5]	64		EUR	16 093	2 655
BMG Beteiligungsmanagementgesellschaft mbH, Stuttgart [5]	100		EUR	73	– 18
BW Capital Markets Inc., Florham Park, NEW JERSEY, USA [3) 5]	100		USD	1 192	– 134
BW-Immobilien GmbH, Stuttgart [4) 5]	100		EUR	3 199	0
LBBW Asset Management GmbH, Stuttgart [3) 5]	100		EUR	5 815	2 027
LBBW (Schweiz) AG, Zürich, Switzerland [5]	100		CHF	12 392	1 439
LBBW US Real Estate Investment LLC, Wilmington, Delaware, USA [5]	100		USD	36 859	7 469
LBBW Venture Capital GmbH, Stuttgart [5]	100		EUR	28 869	2 074
R-Procedo Factoring GmbH, Wiesbaden [1]	100		EUR	2 675	1 675
Süd Private Equity GmbH & Co. KGaA, Stuttgart [5]	100		EUR	60 853	9 886
Joint ventures					
LHI Leasing GmbH, Munich [1) 5]	51		EUR	55 857	14 357
Associates					
Bankhaus Ellwanger & Geiger KG, Stuttgart [5]	47.7		EUR	12 300	2 810
BWK GmbH Unternehmensbeteiligungsgesellschaft, Stuttgart [1) 5]	45	40	EUR	239 880	22 906
Landesbank Sachsen Aktiengesellschaft, Leipzig	0		EUR	1 417 385	0
Siedlungswerk gemeinnützige Gesellschaft für Wohnungs- und Städtebau mbH, Stuttgart [1) 5]	25		EUR	200 280	5 079
Vorarlberger Landes- und Hypothekenbank AG, Bregenz, Austria [1) 5]	15.16	25	EUR	396 452	34 103
Material equity investments					
DekaBank Deutsche Girozentrale, Frankfurt am Main/Berlin [6]	14.56		EUR	1 426 031	33 628
HSBC Trinkaus & Burkhardt AG, Düsseldorf [1) 5]	20.31		EUR	706 820	111 300
Schweizerische National-Versicherungs-Gesellschaft, Basel, Switzerland [1) 5]	11.35	5	CHF	639 570	63 741
Württembergische Lebensversicherung AG, Stuttgart [5]	10.01		EUR	165 030	15 222
Wüstenrot & Württembergische AG, Stuttgart [5]	10		EUR	1 439 569	10 746

1) Held indirectly.
2) Including shares held indirectly.
3) A letter of comfort exists.
3a) A letter of comfort exists. The letter of comfort was with drawn as of August 31, 2007.
4) A profit and loss transfer agreement exists with LBBW.
4a) A profit and loss transfer agreement exists with another company.
5) Data available only as of December 31, 2006.
6) Guarantor's liability.

A full list of the LBBW Group's shareholdings has been disclosed in the electronic Bundesanzeiger (German Federal Gazette) in accordance with § 313 HGB .

Schlossgartenbau-Aktiengesellschaft, in which LBBW indirectly holds an 82.56 % interest, is a listed company. The company has issued the declaration prescribed in § 161 Aktiengesetz (German Stock Corporation Act) and has made it available to the shareholders.
Note 66 presents our shares in our associates' aggregate assets and liabilities, revenues and profits/losses for the period.

96. Related Party Disclosures.

Related party transactions are concluded at arm's length terms in the ordinary course of business. The following tables show the scope of such transactions:

EUR million	Shareholders	Members of the Board of Managing Directors	Affiliates	Associates	Joint ventures	Other related parties/ companies
Loans and advances to banks						
2007	3 681	0	11	2 084	0	6 421
2006	3 343	0	1	0	0	5 098
Loans and advances to customers						
2007	4 146	0	1 780	17	0	264
2006	4 099	0	1 676	5	0	145
Trading assets, financial assets designated at fair value						
2007	1 079	0	31	139	0	277
2006	2 151	0	0	0	0	395
Investment securities						
2007	78	0	737	576	166	1 444
2006	80	0	948	193	11	4
Other assets						
2007	0	0	0	131	0	0
2006	0	0	84	0	0	1
Total assets						
2007	8 984	0	2 559	2 947	166	8 406
2006	9 673	0	2 709	198	11	5 643

EUR million	Shareholders	Members of the Board of Managing Directors	Affiliates	Associates	Joint ventures	Other related parties/ companies
Deposits from other banks						
2007	3 668	0	9	1 153	0	8 542
2006	2 465	0	1	0	0	2 479
Due to customers						
2007	2 712	2	525	0	0	780
2006	892	2	956	1	0	257
Securitized liabilities						
2007	0	0	0	0	0	1 014
2006	0	0	0	0	0	0
Trading liabilities, financial liabilities designated at fair value						
2007	478	0	0	130	0	354
2006	122	0	3	0	0	161
Provisions						
2007	0	0	0	0	0	4
2006	0	0	0	0	0	0
Subordinated debt						
2007	0	0	0	0	0	55
2006	0	0	0	0	0	27
Other liabilities						
2007	1	0	1	0	0	0
2006	0	0	35	0	0	0
Total liabilities						
2007	6 859	2	535	1 283	0	10 749
2006	3 479	2	995	1	0	2 924

In the 2007 fiscal year, LBBW recognized neither provisions for the outstanding balances of doubtful loans and advances, nor expenses for uncollectible or doubtful loans and advances to related parties.
Individuals regarded as related parties pursuant to IAS 24 are members of the Board of Managing Directors and of the Supervisory Board, including their relatives, of Landesbank Baden-Württemberg as the parent company. Note 97 provides information on the compensation of and transactions with the individuals concerned.
Guarantees were furnished for associates in the ordinary course of business.

97. Executive and Supervisory Bodies and Positions Held. Members of the Board of Managing Directors and Supervisory Bodies.

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, MdL*
President of Sparkassenverband Baden-Württemberg (the Savings Bank Association of Baden-Württemberg), Stuttgart

1st Deputy Chairman

STEFAN MAPPUS, MdL*
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

Members

THOMAS BERRETH**
Employee of Landesbank Baden-Württemberg, Stuttgart

SIEGFRIED BESSEY**
Bank employee in early retirement, 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, MdL*
Attorney at Law, Deputy Chairman of the SPD Parliamentary Group in the State Parliament of Baden-Württemberg, Stuttgart

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

HERMANN SEIMETZ
Senator h.c., Donzdorf

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

GERHARD STRATTHAUS, MdL*
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
Bank employee (retired), Stuttgart

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

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

* Member of the State Parliament of Baden-Württemberg
** elected by LBBW employees

Deputy Members

DIPL.-OEC. MUHTEREM ARAS
City Councilor, Tax Adviser, Chairman of the Bündnis 90/Die Grünen Parliamentary Group of 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 Shareholder of b.i.g. bechtold INGENIEUR-GESELLSCHAFT 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, MdL*
Public Prosecutor (retired), First Deputy President of the State Parliament of Baden-Württemberg, Stuttgart

MICHAEL FÖLL, MdL*
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, Landau

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

HANS GEORG JUNGINGER, MdL*
Attorney at Law, Chairman of the Committee on Internal Affairs of the SPD Parliamentary Group in the State Parliament 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-SCHEUFELEN
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

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, MdL*
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 in the Ministry of the Prime Minister of the State of Baden-Württemberg, Stuttgart

CLEMENS WINCKLER
Waghäusel-Wiesental

* Member of the State Parliament of Baden-Württemberg
** elected by LBBW employees

The compensation of and defined benefit pension commitments to members of the executive and supervisory bodies are broken down as follows:

	Board of Managing Directors		Supervisory Board	
	2007	2006	2007	2006
	EUR million	EUR million	EUR million	EUR million
Compensation of the executive and supervisory bodies				
Salaries and short-term benefits	6.0	5.0	0.3	0.3
Post-employment benefits (obligations from defined benefit pension commitments)	12.5	14.5	0.0	0.0
Compensation of former members of the executive and supervisory bodies and their surviving dependents				
Salaries and short-term benefits	5.0	5.3	0.0	0.0
Obligations from defined benefit pension commitments to these persons	57.6	67.8	0.0	0.0

Provisions for pensions totaling EUR 70.1 million (previous year: EUR 82.3 million) for the group of persons described above fully cover all obligations to these pension beneficiaries.
As of the balance sheet date, loans and advances of EUR 4.1 million (previous year: EUR 4.3 million) had been granted to members of the Board of Managing Directors and members of the Supervisory Board. There were no other contingent liabilities. All loans to members of the Board of Managing Directors and members of the Supervisory Board bear interest at market rates.

Positions held.
Legal representatives or other employees of LBBW occupied the following positions on statutory supervisory boards and similar oversight bodies of large corporations and major banks within Germany and abroad:

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 since June 19, 2007
AKA Ausfuhrkredit GmbH, Frankfurt am Main	Member of the Supervisory Board Deputy Member of the Supervisory Board	Joachim Landgraf Elvira Bergmann
AKSys GmbH, Worms	Member of the Supervisory Board	Joachim Hug
Allgaier Werke GmbH, Uhingen	Member of the Supervisory Board	Joachim E. Schielke since July 23, 2007
asknet AG, Karlsruhe	Member of the Supervisory Board	Joachim Hug
Baden-Württembergische Investmentgesellschaft mbH, Stuttgart	Member of the Supervisory Board	Markus Gierke
Bankhaus Ellwanger & Geiger, Stuttgart	Chairman of the Supervisory Board and the Loan 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 Employee of LBBW 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 2nd Deputy Chairman of the Supervisory Board Member of the Supervisory Board	Dr. Siegfried Jaschinski until December 4, 2007 Dr. Siegfried Jaschinski since December 5, 2007 Dr. Friedhelm Plogmann
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 until 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 Sept. 28 and ceased to exist as a seperate 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 Dec. 5, 2007

Company	Position	Incumbent
Landesbank Rheinland-Pfalz	Chairman of the Supervisory Board	Dr. Siegfried Jaschinski
Girozentrale, Mainz	Member of the Supervisory Board	Michael Horn
	Deputy Member of the Supervisory Board	Joachim E. Schielke
	Deputy Member of the Supervisory Board	Dr. Bernhard Walter
	Deputy Member of the Supervisory Board	Rudolf Zipf
LBBW Immobilien GmbH, Stuttgart	Chairman of the Supervisory Board	Dr. Siegfried Jaschinski
	Member of the Supervisory Board	Dr. Bernhard Walter
LBS Baden-Württemberg,	Member of the Supervisory Board	Michael Horn
Stuttgart und Karlsruhe	Deputy Member of the Supervisory Board	Rudolf Zipf
MKB Mittelrheinische Bank GmbH, Koblenz	Chairman of the Supervisory Board	Joachim E. Schielke
	Deputy Chairman of the Supervisory Board	Michael Horn
	Member of the Supervisory Board	Dr. Bernhard Walter
MMV-Leasing GmbH, Koblenz	Chairman of the Advisory Board	Joachim E. Schielke
	Deputy Chairman of the Advisory Board	Michael Horn
	Member of the Advisory Board	Dr. Bernhard Walter
Provinzial Rheinland-Holding AdöR., Düsseldorf	Deputy Member of the Supervisory Board	Paul K. Schminke
Rohwedder AG, Bermatingen	Member of the Supervisory Board	Dr. Peter Kaemmerer
Schlossgartenbau AG, Stuttgart	Chairman of the Supervisory Board	Hans Strudel
	Member of the Supervisory Board	Dr. Armin Brendle
Schwabenverlag AG, Ostfildern	Member of the Supervisory Board	Werner Partsch
Siedlungswerk Gemeinnützige Gesellschaft	Deputy Chairman of the Supervisory Board	Michael Horn
für Wohnungs- und Städtebau mbH, Stuttgart	Member of the Supervisory Board	Andreas Benninger
	Member of the Supervisory Board	Dr. Frank Schwertfeger
Sparkasse Donnersberg, Rockenhausen	Member of the Supervisory Board	Gabriela Wildanger-Hofmeister
Storsack Holding GmbH, Viernheim	Member of the Supervisory Board	Rolf Kentner
Stratec biomedical Systems AG, Birkenfeld	Member of the Supervisory Board	Burkhard Wollny
SüdWert Wohnungsprivatisierungs-GmbH, Bietigheim-Bissingen	Deputy Chairman of the Supervisory Board	Rainer Konopka
	Member of the Supervisory Board	Rudolf Klenk
	Deputy Member of the Supervisory Board	Dr. Frank Schwertfeger
Südwestdeutsche Salzwerke AG, Heilbronn	Member of the Supervisory Board	Rudolf Zipf
		until July 20, 2007
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 Febuary 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

98. Employees.

On average, the number of employees in the LBBW Group was as follows:

	2007			2006		
	Male	Female	Total	Male	Female	Total
Full time	5 768	4 069	9 837	5 725	4 077	9 802
Part time	150	2 156	2 306	174	2 094	2 268
Trainees	289	307	596	292	306	598
Total	**6 207**	**6 532**	**12 739**	**6 191**	**6 477**	**12 668**

99. Events after the Balance Sheet Date.

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 by 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 on profit-participation rights and silent partners' contributions due to losses incurred 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 investment in Sachsen LB and therefore does not affect profit or loss. On April 1, 2008, Sachsen LB was absorbed into LBBW by way of accrual (Anwachsungsmodell). During this process, LBBW consolidated Sachsen LB's business serving small- and medium-sized companies and BW Bank's corporate client and high-net worth private client businesses in central Germany in Sachsen Bank, which was newly established on April 1, 2008.

At the end of February 2008, 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.

Additional material events after the close of the 2007 fiscal year that could affect the LBBW Group's net assets, financial position, and results of operations exist in the form of the financial market crisis, which has not yet been overcome, and the resulting pressure on earnings.

Responsibility Statement.

To the best of our knowledge, and in accordance with the applicable financial reporting framework, the consolidated financial statements give a true and fair view of the net assets, financial position, and result of operations of the Group, and the Group management report gives a true and fair view of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks relating to the expected future development of the Group.

Stuttgart, Karlsruhe, and Mannheim, April 2, 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 ZIPF

Independent Auditor's Report.

»We have audited the consolidated financial statements prepared by the Landesbank Baden-Württemberg, Stuttgart, Karlsruhe, and Mannheim, (LBBW) comprising the balance sheet, the income statement, statement of recognised income and expense, cash flow statement and the notes to the consolidated financial statements, together with the group management report for the business year from January 1, to December 31, 2007. The preparation of the consolidated financial statements and the group management report in accordance with the IFRSs, as adopted by the EU, and the additional requirements of German commercial law pursuant to § (Article) 315a Abs. (paragraph) 1 HGB (»Handelsgesetzbuch«: German Commercial Code) are the responsibility of the parent Company's Board of Managing Directors. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

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

Our audit has not led to any reservations.

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

Stuttgart, April 2, 2008

PricewaterhouseCoopers
Aktiengesellschaft, Wirtschaftsprüfungsgesellschaft

(WALTER SCHULDT)	**(DR. ANDREAS RUSS)**
Wirtschaftsprüfer	Wirtschaftsprüfer
(German Public Auditor)	(German Public Auditor)

Owners' Meeting.

Chairman

GÜNTHER H. OETTINGER, MdL*
Prime Minister of the State of Baden-Württemberg, Stuttgart

1st Deputy Chairman

PETER SCHNEIDER, MdL*
President of Sparkassenverband Baden-Württemberg (the Savings Bank Association of Baden-Württemberg), Stuttgart

2nd Deputy Chairman

DR. WOLFGANG SCHUSTER
Lord Mayor of the State Capital Stuttgart

Members

HERMANN BAUER
Mayor of the Town of Weilheim a. d. T.

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

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

MICHAEL FÖLL, MdL*
First Mayor of the State Capital Stuttgart

JÜRGEN HILSE
until March 31, 2007
Senator h. c., Savings Bank Director, Chairman of the Board of Managing Directors of Kreissparkasse Göppingen

ERNST PFISTER, MdL*
Minister for Economic Affairs of the State of Baden-Württemberg, Stuttgart

HERIBERT RECH, MdL*
Minister of the Interior of the State of Baden-Württemberg, Stuttgart

HELMUT SCHLEWEIS
since April 1, 2007
Savings Bank Director, Chairman of the Board of Managing Directors of Sparkasse Heidelberg

GERHARD STRATTHAUS, MdL*
Finance Minister of the State of Baden-Württemberg, Stuttgart

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

* Member of the State Parliament of Baden-Württemberg

Advisory Board.

PROFESSOR DR. ULRICH ABSHAGEN*
Managing Director of Heidelberg Innovation Fonds Management GmbH, Heidelberg

DIPL.-KFM. DIPL.-ING. HELMUT ACKER*
until Dec. 31, 2007
Managing Director of Neue Pressegesellschaft mbH & Co. KG, Ulm

WILLEM G. VAN AGTMAEL*
Honorary Consul of the Netherlands, Managing Partner of E. Breuninger GmbH & Co., Stuttgart

THOMAS ARTMANN*
Karlsruhe

ROBERT AULBACH*
Managing Partner of Miltenberger Otto Aulbach GmbH, Miltenberg

HELMUT AURENZ*
Honorary Consul of Estonia, Senator h.c. Managing Partner of Helmut Aurenz GmbH & Co. KG, Ludwigsburg

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Member of the Board of Evangelische Landeskirche in Baden, Karlsruhe

ROBERT BAUSCH*
Managing Director of Liebherr-International Deutschland GmbH, Biberach

ALBERT BERNER*
Chairman of the Supervisory Board of Berner Gruppe, Künzelsau

DR. KURT BOCK
Member of the Board of Managing Directors of BASF Aktiengesellschaft, Ludwigshafen

DR. GERO-FALK BORRMANN
President, Chairman of the Management of Deutsche Rentenversicherung Baden-Württemberg, Karlsruhe

DR. CHRISTOF BOSCH*
Königsdorf

PETER BOUDGOUST
since July 1, 2007
Director of Südwestrundfunk, Stuttgart

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General Manager of Gesamtmetall Gesamtverband Arbeitgeberverbände der Metall- und Elektro-Industrie e. V., Berlin

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Chairman of the Management of Leitz Holding GmbH & Co. KG, Oberkochen

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until September 30, 2007
Hannover

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until December 31, 2007
Managing Director of Südwestdeutsche Medien Holding GmbH, Stuttgart

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Managing Partner of VAUDE Sport GmbH & Co. KG, Tettnang

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Managing Partner of Dieffenbacher GmbH + Co. KG, Eppingen

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Senator h.c. mult. Owner and Chairman of the Management of Unternehmensgruppe fischer, fischer holding GmbH & Co. KG, Waldachtal

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Member of the Board of Managing Directors of Stuttgarter Versicherungsgruppe, Stuttgart

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President of Zentrum für Europäische Wirtschaftsforschung GmbH (ZEW), Mannheim

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Chairman of the Committee of the Owners of Freudenberg & Co. KG, Weinheim

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Heilbronn

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Director general (retired), Stuttgart

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* Also Member of the Advisory Board of BW Bank

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Managing Partner of Schokinag Schokolade-Industrie Herrmann GmbH & Co. KG, Mannheim

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Fürst zu Hohenlohe-Oehringen'sche Verwaltung, Öhringen

S.D. KARL FRIEDRICH ERBPRINZ VON HOHENZOLLERN LIC.RER.POL.*
Unternehmensgruppe Fürst von Hohenzollern, Sigmaringen

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Chairman of the Management of MAHLE GmbH, Stuttgart

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Lord Mayor (retired), Vaihingen an der Enz

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Member of the Board of Evangelische Landeskirche in Württemberg, Head of Finance and IT, Stuttgart

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Managing Director of Witzenmann GmbH, Pforzheim

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Managing Director of Institut für Demoskopie Allensbach Gesellschaft zum Studium der öffentlichen Meinung mbH, Allensbach am Bodensee

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Managing Partner of Robert Klingel GmbH + Co, Pforzheim

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Heidenheim

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Managing Director, Bischöfliches Ordinariat of the Rottenburg-Stuttgart diocese, Rottenburg

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Managing Partner of MAPAL Präzisionswerkzeuge Dr. Kress KG, Aalen

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Chairman of the Board of Managing Directors of Wieland-Werke AG, Ulm

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City Councilor, Attorney at law, Stuttgart

GERHARD KÜMMEL
Managing Director of Robert Bosch GmbH, Gerlingen

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President of Baden-Württembergische Versorgungsanstalt für Ärzte, Zahnärzte und Tierärzte, Aichwald

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* Also Member of the Advisory Board of BW Bank

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Stuttgart

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DIPL.-VOLKSWIRT DR. VOLKMAR MAIR*
Publisher, MAIRDUMONT GmbH & Co. KG, Ostfildern

MARCO FREIHERR VON MALTZAN*
until December 21, 2007
München

HERBERT MANDEL
Managing Director, Head of Finance of Unilever Deutschland GmbH, Hamburg

DR. HARALD MARQUARDT*
Managing Director of Marquardt GmbH, Rietheim-Weilheim

DR. MED. H.C. ADOLF MERCKLE*
Senator h.c., Attorney at law, Blaubeuren

PROFESSOR DR. MARBOD MUFF
since January 1, 2008
Member of the Management of Boehringer Ingelheim GmbH, Ingelheim

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Honorary Consul of Finland, Chairman of the Board of Managing Directors of Ernst & Young AG Wirtschaftsprüfungsgesellschaft, Steuerberatungsgesellschaft, Stuttgart

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Managing Partner of Münzing Chemie GmbH, Heilbronn

KLAUS MUTSCHLER*
Zürich

DIPL.-KFM. CARL MICHAEL NÄGELE*
Heilbronn

KURT NAGEL
† February 16, 2008
Managing Partner of Kraftverkehr Nagel GmbH & Co. KG, Versmold

GEORG NOLTE*
Partner of Nolte-Gruppe, Germersheim

ASS. JUR. HEINZ OHNMACHT
Managing Director, Chairman of the Boards of Managing Directors of Badischer Gemeinde-Versicherungs-Verband, Badische Allgemeine Versicherung AG, Karlsruhe

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Member of the Board of Managing Directors of Bilfinger Berger AG, Mannheim

DR. WOLFGANG PALM*
Managing Partner of Papierfabrik Palm GmbH & Co. KG, Aalen

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Chairman of the Board of Managing Directors of LBS Landesbausparkasse Baden-Württemberg, Stuttgart

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Managing Partner of Unternehmensgruppe Eberspächer, Esslingen

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MANFRED POPP*
until December 31, 2007
Eggenstein-Leopoldshafen

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Member of the Board of Managing Directors of VOLKSWAGEN Aktiengesellschaft, Wolfsburg

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Director, of Kommunaler Versorgungsverband Baden-Württemberg, Karlsruhe

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Managing Partner of REUM GmbH & Co. Betriebs KG, Hardheim

DIPL.-BETRIEBSWIRT CLEMENS ROSENSTIEL*
Managing Director of IMS Gear GmbH, Donaueschingen

DIPL.-ING. ULRICH RUETZ
Ludwigsburg

JÜRGEN SAUER
City Councilor, Stuttgart

DR. THOMAS SCHÄUBLE*
Sole Managing Director of Badische Staatsbrauerei Rothaus AG, Grafenhausen-Rothaus

DR.-ING. ULRICH SCHEUFELEN*
Partner of Papierfabrik Scheufelen GmbH + Co. KG, Lenningen

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Chairman of the Supervisory Board of Bechtle AG, Gaildorf

DIPL.-PHYS. ROBIN SCHILD*
Managing Director of VON ARDENNE Anlagentechnik GmbH, Dresden

DIPL.-ING. KARL SCHLECHT*
Senator h.c., Chairman of the Supervisory Board of Putzmeister Holding GmbH, Aichtal

DIPL.-KFM. EDUARD SCHLEICHER*
Personally liable Partner of SCHWENK Zement KG, Ulm

DIPL.-KFM. KLAUS SCHMIDT*
Chairman of the Boards of Managing Directors of DEKRA e.V./AG, Stuttgart

DIPL.-KFM. EKKEHARD SCHNEIDER*
Chairman of the Board of Managing Directors of Südwestdeutsche Salzwerke AG, Heilbronn

DIPL.-BETRIEBSWIRT
MARTIN SCHOMAKER*
Chairman of the Board of Managing Directors of R. Stahl AG, Waldenburg

DR. ROBERT SCHULER-VOITH*
Chairman of the Supervisory Board of Schuler AG, Göppingen

GERHARD SCHÜRMANN*
Director of Walter Frey Holding AG, Zürich

* Also Member of the Advisory Board of BW Bank

DR. RUDOLF SCHULTEN*
Chairman of the Board of Managing Directors of MVV Energie AG, Mannheim

DIETER SCHWARZ*
General Manager of Unternehmensgruppe Schwarz, Neckarsulm

DR. ALEXANDER SELENT*
Deputy Chairman of the Board of Managing Directors of FUCHS PETROLUB AG, Mannheim

DR.-ING. HANS-JOCHEM STEIM*
Chairman of the Management of Hugo Kern und Liebers GmbH & Co., Schramberg

DOROTHEE STEIN-GEHRING*
Managing Partner of Gehring GmbH & Co. KG, Ostfildern

DIPL.-ING. HANS PETER STIHL*
Honorary Consul General of Singapore, Personally liable Partner of STIHL Holding AG & Co. KG, Waiblingen

DR. H. C. MULT. SYBILL STORZ*
Managing Director of KARL STORZ GmbH & Co. KG, Tuttlingen

FRANK STRAUB*
Managing Partner of BLANCO GmbH + Co KG, Oberderdingen

DR. H. C. ERWIN TEUFEL
Prime Minister (retired), Spaichingen

DIPL.-WIRTSCH.-ING. WOLFGANG TOPF*
Managing Partner of Industriemontagen Leipzig GmbH, Leipzig

BODO UEBBER
Member of the Board of Managing Directors of Daimler AG, Stuttgart

DR. H. WERNER UTZ*
Chairman of the Board of Managing Directors of UZIN UTZ AG, Ulm

HELGA VETTER
City Councilor, Stuttgart

UDO J. VETTER*
Partner of Vetter Pharma Fertigung GmbH & Co. KG, Ravensburg

OLIVER VOERSTER*
Managing Partner of Koch, Neff & Volckmar GmbH, Stuttgart

S. D. JOHANNES FÜRST ZU WALDBURG-WOLFEGG UND WALDSEE*
Wolfegg

THE RIGHT HONORABLE ERICH ERBGRAF VON WALDBURG-ZEIL*
Leutkirch

DR. ULRICH WALKER*
Member of the Board of Managing Directors of Festo AG & Co. KG, Esslingen

DIPL.-ING. SIEGFRIED WEISHAUPT*
Managing Partner of Max Weishaupt GmbH, Schwendi

DIPL.-WIRTSCH.-ING. ALBRECHT WEISS*
until December 31, 2007
Hanau

MATTHIAS WISSMANN*
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Glossary.

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

Associates
Companies that are subject to their parent companies' significant, but not controlling, influence. These companies are included in the consolidated financial statements using the equity method.

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

Cash Flow
Inflows and outflows of cash and cash equivalents.

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

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

Credit Derivatives
Derivative financial instruments that enable one participant in the transaction (the risk seller, or protection buyer) to transfer the credit risk on a receivable or security to the other participant (the risk buyer, or protection seller), in return for payment of a premium. The risk buyer thus assumes the credit risk on the receivable or security without actually having to purchase that underlying asset.

Deferred Taxes
Future tax liabilities and tax credits arising as a result of temporary differences between the IFRS carrying amount of an asset or liability and its tax base. At the time of reporting, they do not yet constitute actual amounts receivable from or due to tax authorities.

Derivatives
Financial products derived from underlying instruments (such as equities, bonds, currencies or indexes) whose price can be calculated from the price of an underlying security.

Equity Method
Consolidation method used in consolidated financial reporting to account for interests in companies over whose business policies a parent company can exercise significant influence (associates). The parent company's proportional share of the associate's profit or loss for the year is credited/charged to the carrying amount of the investment. If a distribution is made, the proportional share is reduced accordingly.

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

Hedge Accounting
A method of accounting for hedging relationships for the purpose of compensating economically and in accounting terms for the changes in the fair value of both the hedged item and the offsetting value changes of the hedging instrument.

Impairment
Unscheduled write-down of the value of assets such as loans and advances, securities, intangible assets, and property and equipment in the amount by which the amortized cost or cost less depreciation exceeds the amount recoverable in the market.

International Financial Reporting Standards (IFRSs)
IFRSs comprise the International Financial Reporting Standards (IFRSs) themselves as well as the previous International Accounting Standards (IASs), the interpretations of the International Financial Reporting Interpretations Committee (previously Standing Interpretations Committee), and all standards and interpretations issued in the future by the International Accounting Standards Board (IASB).

Issue
Issue of securities, effected either directly or through the services of an arranger. The arranger either conducts the sale on a commission basis for the issuer's account, or underwrites the securities at a fixed price before offering them to the public at a higher price.

Letter of Comfort
Obligation toward third parties assumed by LBBW according to which LBBW undertakes to ensure that its subsidiaries conduct their operations properly and settle their liabilities when due.

Over the Counter (OTC)
»Over the counter« designates the trading of financial instruments outside of organized exchanges.

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

Repo (Repurchase) Agreement
A combination of a spot purchase or spot sale of securities with a simultaneous forward sale or forward repurchase transaction with the same counterparty.

Return on Equity (ROE)
Indicator comprising the ratio of profit before tax to average equity.

Securitization
Issue of securities (e.g., bonds or commercial paper) as replacement for loans or the financing of loans and advances.

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

Spread
Difference between two prices, or a premium/discount compared to a particular reference rate.

Stress Testing
A method that attempts to model the loss effects of extreme events; a required supplement to value-at-risk analyses, which do not take adequate account of such events.

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

Volatility
Price fluctuation of a security or a currency and/or bandwidth of fluctuation of interest rates.

Note Regarding Forward-Looking Statements.

Insofar as this Annual Report contains forward-looking statements, expectations and assumptions, these statements may be subject to known and unknown risks and uncertainties. Forward-looking statements, identified by the use of words such as »estimate«, »forecast«, »planning«, »expect«, »probably«, »assume« and similar expressions, are not historical facts. As a result, the actual results and developments may differ materially from the expressed expectations and assumptions. Such developments may result from changes in general economic conditions, the competitive situation, the performance of the financial markets, the development of currency exchange rates as well as from changes in the general legal and/or tax law framework. In addition, deviations may result from credit defaults and other reasons not listed here. The LBBW Group assumes no obligation to update any forward-looking statements in the light of new information or against the backdrop of future events occurring after the publication of this Annual Report.

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The LBBW-Group at a Glance.

Landesbank Baden-Württemberg (LBBW).

LBBW is the LBBW Group's parent company. It covers the entire bandwidth of capital market business and provides international banking services. It looks after the Group's supra-regional and international corporate customers, institutional customers and public institutions. It also fulfils control functions within the Group, bundling within it activities that support retail banking and activities that do not require regional relations with customers. It also performs central clearing and service functions for the Group overall. A further important focus is on its role as the central bank for the savings banks in Baden-Württemberg, Rhineland-Palatinate and Saxony.

Baden-Württembergische Bank (BW-Bank).

BW Bank conducts banking for private and corporate customers, focusing mainly on its core market Baden-Württemberg. It offers a comprehensive range of products and services. In addition to traditional banking services such as giro and card transactions, traditional financing solutions and securities activities, BW Bank offers its private customers special services ranging from financial planning to trust management. In the case of corporate customers it focuses on small and medium-sized enterprises, servicing their financing requirements not just through traditional instruments but also by recourse to the LBBW Group's entire innovative product portfolio. BW Bank acts as a savings bank for LBBW in the area of Stuttgart, the state capital of Baden-Württemberg. Outside the state capital it addresses itself primarily to investment, private banking and corporate customers. A dense network of more than 200 branches testifies to its strong regional roots and proximity to customers.

Landesbank Rheinland-Pfalz (LRP).

Landesbank Rheinland-Pfalz concentrates its financing, investment and other services on the needs of SME customers in its core market, the federal state of Rhineland-Palatinate, and neighboring economic zones. It is also a Group expertise center for selected sectors. It has full access to the LBBW Group's product portfolio and international capital market know-how, and concentrates its Group expertise in the real estate segment in the France and Benelux economic regions. As a state and municipal bank it supports the federal state and local authorities as a partner. LRP's integration into the LBBW Group is scheduled for completion by June 30, 2008. Then the LBBW will take over the role of central bank for the savings banks in Rhineland-Palatinate.

Sachsen Bank.

Sachsen Bank is a new bank formed on April 1, 2008 from Sachsen LB and BW Bank branches in Saxony. Sachsen Bank's activities are focused principally on SME customers and private wealth management in Central Germany (Saxony, Saxony-Anhalt and Thuringia). Sachsen Bank will also manage the market launch of the LBBW Group in Poland and the Czech Republic.

Other Companies in the Group.

The LBBW Group includes a number of other subsidiaries that provide specific products and services. The full range of leasing business within the Group was consolidated in 2006 in the newly established **LBBW Leasing Holding**, which has three operating companies beneath its umbrella. **SüdLeasing** deals with vehicle leasing and solutions for large-volume product leasing, while **MKB/MMV** concentrates on small-volume product leasing. **LHI**, in which the LBBW Group owns a 51 percent interest, focuses on property leasing and fund management. **LBBW Immobilien GmbH** is the real estate expertise center within the LBBW Group, focusing on residential and commercial property management, project development, investment advice and local authority development. **SüdFactoring GmbH** offers its customers a full range of factoring services. Institutional asset management is provided by **BWInvest**, a service company that offers production and handling services, and **LBBW Asset Management**, which manages special funds for institutional customers and public funds for private investors. Equity financing is provided by special subsidiaries bundled beneath the umbrella of **Beteiligungsmanagementgesellschaft mbH.**

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