Disclosure Report in accordance with the German Solvency Ordinance

as of December 31, 2008.

Banking – Made in Germany.

Contents.

1 Fundamentals.

The Basel Committee on Banking Supervision has defined internationally applicable standards for the capital adequacy of banks and the associated disclosure requirements in the Basel capital standards recommendation (Basel II). With the ordinance governing the capital adequacy of banks, groups of banks and financial holding groups, the Basel II-based requirements of the Banking Directive (2006/48/EC) and the Capital Adequacy Directive (2006/49/EC) regarding European minimum equity standards were implemented into national legislation effective as of January 1, 2007 (Solvency Ordinance – SolvV, dated December 14, 2006). The Solvency Ordinance substantiates the capital adequacy of institutions required by section 10 (1) sentence 9 of the Kreditwesengesetz (KWG – German Banking Act). SolvV was first implemented by LBBW on January 1, 2008.

In terms of qualitative disclosures, Landesbank Baden-Württemberg (LBBW) utilizes this opportunity in accordance with section 320 (1) SolvV and refers to this type of disclosure media, provided that the information has already been disclosed in the context of other publicity requirements.

As of January 1, 2008, LBBW was granted admission by the German Federal Financial Supervisory Authority (BaFin) to apply the Internal Ratings-based Approach (basic IRB approach) for establishing capital backing for credit risk from the main receivables classes. As of the reporting date December 31, 2008, LBBW, as a parent company in accordance with section 10a (1) sentence 1 KWG, is implementing the disclosure requirements according to sections 319 to 337 SolvV in conjunction with section 26a KWG by means of this report. In accordance with section 319 (2) SolvV, disclosure will take place in aggregate form for the banking group.

This Disclosure Report is published on the Internet as an independent report alongside the annual financial statements and management report for LBBW in accordance with HGB accounting standards and the annual report for the LBBW Group in accordance with IFRS, which also includes the risk report.

2 Risk management.
(section 322 SolvV)

The risk management system is determined by the Board of Managing Directors and the Supervisory Board in the risk strategies consistent with business strategy. Reference figures include company-policy and risk-strategy provisions for risk management.

The general Risk Strategy documents the strategic stipulations applicable for all types of risk in the LBBW Group. It thereby substantiates the business strategy with regard to general risk-related topics. The General Risk Strategy represents overriding regulations and is substantiated by organization guidelines where necessary.

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

The risk strategy for market price and liquidity risk describes the activities of LBBW which involve market price and liquidity risks and specifies an aware and controlled way of dealing with these risks in order to use the opportunities involved strategically.

Interest rate risks are managed at LBBW as part of market price risks.

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

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

A detailed presentation of the aims and principles of the management of individual risk areas can be found in the LBBW Risk Report.

3 Scope.
(section 323 SolvV)

All disclosures in this report relate to the LBBW Group. This largely corresponds to the scope of consolidation in line with IFRS accounting standards. Unless otherwise indicated, the disclosures relate to the reporting date December 31, 2008.

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

		Regulatory treatment				Consolidation under accounting standard	
		Consolidation					
Description	Name	Full	Proportionate	Deduction method	Risk-weighted investments	Full	Measurement at equity
Banks	LBBW Bank CZ a.s.	X				X	
	LBBW Immobilien GmbH				X	X	
	LBBW Luxemburg S.A.	X				X	
	LBBW México	X					
	LBBW Securities, LLC	X				X	
	MKB Mittelrheinische Bank GmbH	X				X	
Financial services institutions	LBBW Asset Management GmbH	X				X	
	LHI Leasing GmbH	X					x
	MDL Mitteldeutsche Leasing GmbH	X					
	R-Procedo Factoring GmbH	X					
	SüdFactoring GmbH	X				X	
	SüdLeasing GmbH	X				X	
Investment companies	Baden-Württembergische Investmentgesellschaft mbH	X				X	
	LRI Invest S.A.	X				X	

Description	Name	Regulatory treatment				Consolidation under accounting standard	
		Consolidation		Deduction method	Risk-weighted investments		
		Full	Proportionate			Full	Measurement at equity
Financial enterprises	BW Capital Markets Inc.	X					
	BW Mergers & Acquisitions GmbH	X					
	BWK GmbH Unternehmensbeteiligungsgesellschaft		X				X
	CFH Beteiligungsgesellschaft mbH	X				X	
	Dresden Fonds GmbH	X					
	Lasssarus Handels GmbH	X				X	
	LBBW Asset Management (Ireland) plc	X				X	
	LBBW Dublin Management GmbH	X				X	
	LBBW Equity Partners GmbH & Co. KG		X				
	LBBW Pensionsmanagement GmbH	X					
	LBBW Venture Capital GmbH	X					
	LRP Capital GmbH	X				X	
	Süd KB Unternehmensbeteiligungsgesellschaft mbH & Co. Kommanditgesellschaft auf Aktien	X					
	SüdImmobilien GmbH	X					
	Süd-Kapitalbeteiligungs-Gesellschaft mbH	X				X	
Providers of related banking services	Financial Services GmbH	X					
	LBBW Grundstücksverwaltungsgesellschaft mbH & Co. KG Objekt Am Hauptbahnhof Stuttgart	X					
	LG Grundstücksanlagen-Gesellschaft mbH & Co. KG – Immobilienverwaltung –	X					
	Sachsen DV Betriebs- und Servicegesellschaft mbH	X					
	Stuttgarter Aufbau Bau- und Verwaltungs-Gesellschaft mbH	X					
Other companies	Baden-Württemberg L-Finance N.V.				X	X	
	Landesbank Baden-Württemberg Capital Markets Plc				X	X	

Figure 1: disclosure in accordance with section 323 (1) no. 2 SolvV

The regulation in line with section 2a KWG, whereby individual institutions can be excluded if organizational and procedural conditions of certain regulations for equity funding and reportability at an institution level are fulfilled (waiver regulation), is not used within the LBBW Group.
There are no limitations or other significant obstacles to carrying forward funds or liable equity capital to be taken into account in the LBBW Group.

The following quantitative disclosure requirements are currently not implemented/are not relevant to the LBBW Group:

- Total amount of capital deficiency of all subsidiaries subject to the deduction method (disclosure in accordance with section 323 (2) SolvV)
  - This is omitted, since at the reporting date December 31, 2008 none of the companies whose participation is deducted from the liable equity capital has a capital deficit.

- Credit volume according to PD classes (without retail) in the advanced approach (disclosure in accordance with section 335 (2) no. 1 and 2b SolvV)
  - This is omitted as LBBW does not use its own estimates of loss ratios in the case of default or of the IRBA conversion factors.

- Unutilized credit facilities and weighted EAD per portfolio in the advanced IRB approach (disclosure in accordance with section 335 (2) no. 2d SolvV)
  - This is omitted as LBBW does not use its own estimates of loss ratios in the case of default or of the IRBA conversion factors.

- Credit volume according to PD classes (retail) (disclosure in accordance with section 335 (2) no. 3 SolvV)
  - The companies of the LBBW Group did not include the retail receivables class in the IRB approach as at December 31, 2008.

- Actual allowance for losses on loans and advances (disclosure in accordance with section 335 (2) no. 4 and 5 SolvV)
  - LBBW uses the exemption clause in section 335 SolvV from the substantiation of SolvV, which does not require an initial disclosure of this table before December 31, 2009.

- Estimated alpha factor (disclosure in accordance with section 326 (2) no. 5 SolvV)
  - At present, there is no internal model used for own estimation of the alpha factor in line with section 223 (6) SolvV.

- Securitizations in connection with revolving counterparty default risk positions (disclosure in accordance with section 334 (2) no. 5 SolvV)
  - No such securitizations were made by companies in the LBBW Group as an originator.

4 Equity.
(section 324 and section 325 SolvV)

Equity structure

Figure 2 below shows combined equity as defined in accordance with section 10a KWG. Disclosures relate to the regulatory scope of consolidation of LBBW as of December 31, 2008.

in EUR million	
Paid-in capital	6 097
Capital reserves and other retained reserves	4 999
Special reserves for general banking risks in accordance with section 340g HGB	1 967
Other Tier 1 capital components	639
Deductible items in accordance with section 10 (2a) KWG	– 1 477
Total of Tier 1 capital in accordance with section 10 (2a) KWG	**12 225**
Total of Tier 2 capital in accordance with section 10 (2b) KWG and retained Tier 3 funds in accordance with section 10 (2c) KWG	**5 745**
for information only: Total for items with funds withdrawn in accordance with section 10 (6) and (6a) KWG	– 2 527
of which: Value adjustment deficits and expected loss amounts for IRBA items in accordance with section 10 (6a) no. 1 and 2 KWG	– 1 049
Total of modified available equity in accordance with section 10 (1d) KWG and retained Tier 3 funds in accordance with section 10 (2c) KWG	**17 970**

Figure 2: disclosure in accordance with section 324 (2) SolvV

The Tier 1 capital of the LBBW Group is composed of paid-in capital, which also includes contributions made by silent partners, and of capital reserves and other retained reserves. Furthermore, it also includes special reserves for general banking risks in accordance with section 340g HGB and the Tier 1 capital components from consolidated subsidiaries.

The majority of contributions made by silent partners are held by the guarantors of LBBW. A large proportion of these capital contributions by silent partners have a permanent duration. The option to terminate these after ten years requires the approval of BaFin. Some of the permanent capital contributions were issued in foreign currency (US$ 500 million). Temporary capital contributions by silent partners are held by insurance companies and savings banks. The original duration is between 10 and 30 years.

Capital contributions by silent partners participate in the net loss for the year by reducing capital contributions by silent partners commensurate to the proportion of other equity components participating in the loss in the respective fiscal year. In the event of insolvency or liquidation, capital contributions by silent partners are serviced only after all non-subordinated liabilities are satisfied.

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

Intangible assets fully deductible from the Tier 1 capital, the carrying amounts of the investments (half of which is to be deducted) and other capital from unconsolidated banks and financial enterprises are included in deductible items in accordance with section 10 (2a) KWG. Value adjustment deficits and expected loss amounts from IRBA investment items in accordance with section 10 (6a) KWG are also included.

The Tier 2 capital of LBBW includes liabilities arising from profit participation rights, additional reserves in line with section 340f HGB and longer-term subordinated liabilities.

Depending on the original issuing bank (Vorgängerinstitut), profit participation rights participate in the net loss/accumulated loss by reducing participation certificates outstanding commensurate to the proportion of other equity components contributing to the loss in the respective fiscal year. In the event of insolvency or liquidation, profit participation rights are serviced only after all non-subordinated creditors are satisfied. The original duration of the participation certificates structured as bearer instruments or registered securities is between ten and twenty years.

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

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

Modified liable capital in line with section 10 (1d) KWG is calculated by finding the difference between the total expected loss amounts, consisting of all IRBA items for the central governments, banks and corporate businesses receivables classes, and the allowance for losses recognized for these items, consisting of valuation adjustments and provisions. This difference, together with the expected loss amounts for IRBA investments, is to be deducted equally from Tier 1 and Tier 2 capital. Furthermore, pre-settlement risks in the context of trading book securities must be taken into account if the consideration still has not been paid five business days after maturity.

As at the reporting date December 31, 2008, the amount of expected loss was impacted by the financial crisis. Particularly as a result of the bank defaults in the USA and Iceland, as well as the credit deteriorations also becoming apparent on the German market, the expected loss to be included in the valuation allowance comparison was considerably increased. This value adjustment deficit will decrease again after approval of the annual financial statements when the newly created valuation allowances are recognized in equity. In accordance with the Solvency Ordinance, only loan loss provisions which were included in the annual financial statements are recognized in the comparison.

Internal equity management

Capital management

Capital management at LBBW is designed to ensure solid capitalization within the LBBW Group. In order to guarantee adequate capital from various perspectives, capital ratios and structures are analyzed from the point of view of economic capital and regulatory capital and from the perspective of rating agencies. Equity is also the basis for internal management.

Capital management at LBBW is embedded in the overall bank management process, the strategies, regulations, monitoring processes 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 capital, capital 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 is allocated during the planning process and is monitored regularly by the Group's Board of Managing Directors. The Capital Committee, coordinated by Finance 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 Finance Controlling, Risk Controlling, Group Strategy/Legal, Accounting/Reporting/Taxes, Treasury, Capital Markets and Internal Auditing divisions. The Capital Committee is chaired by the Chairman of the LBBW Group's Board of Managing Directors. Resolutions are passed by the Board of Managing Directors as a whole.

Regulatory management

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

Internal targets for the capital ratio (ratio of Tier 1 capital to counterparty, market price and operational risks) and the overall capital ratio (ratio of equity to counterparty, market price and operational risks) are defined for the regulatory equity management of the LBBW Group. Actual developments, forecast accounts and stress tests for the planning period are monitored on an ongoing basis in order to ensure that solvency ratios (see above) are always observed.

Economic management

In order to safeguard the risk-bearing capacity and monitor on the basis of economic capital, the Board of Managing Directors determines a fixed amount for the permissible overall risk (upper economic capital limit) derived from the Group's risk-covering equity (see page 10). Economic capital refers to risk quantification, which is undertaken using value-at-risk (VaR) at a 99.95 % confidence level with a one year holding period or by a comparable risk measure.

This upper economic capital limit serves as basis for a Group-wide risk-limitation system (limit system) which includes limits for the various risk categories. This is a key element of the Internal Capital Adequacy Assessment Process (ICAAP) required by regulations.

This limit system is designed to restrict risks within the LBBW Group. In addition, a capital reserve has been set up above and beyond the upper economic capital limit to take into account in particular unquantified risk categories and extreme scenarios.
Based on LBBW's risk inventory, the Group's risk exposure is identified systematically and analyzed in accordance with clearly defined materiality criteria. Those subsidiaries and equity investments which are classified as material are presented transparently, i. e. on the basis of their individual items, in the relevant risk category. Other subsidiaries and equity investments are recognized globally in the investment risk category. This ensures that there is complete risk recognition throughout the Group.

The following are currently quantified as the key risk categories in calculating the economic capital at LBBW:

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

The liquidity risks which are material, too, are managed separately from the economic capital approach.

Economic capital also forms the basis for capital allocation. The following points are relevant for this process:

- Calculation of the available risk cover.
  Risk cover is calculated in line with IFRS and is broken down into five levels:
  – equity
  – subordinated capital
  – revaluation reserves
  – off balance sheet reserves
  – operating result

- Determining the upper economic capital limit.
  In determining this, the following three criteria are used as guidelines by the Group's Board of Managing Directors:
  – necessary risk buffer between the risk cover and the upper economic capital limit
  – income fluctuation: value-at-risk carryover in a »1 in 10 years« analysis
  – regulatory ratio

- This upper limit is divided into the relevant risk categories. In allocating the level of the limit, the Group's Board of Managing Directors is assisted by the Risk Committee.

- Loans, capital market products and derivatives are dealt with as part of calculating credit risk and market price risk (cf. Section 9).

- The economic capital limits provide the framework for risk taking in the corresponding risk categories. There is a defined escalation process for high utilization of limits and for exceeding limits.

Capital requirements

Figure 3 below summarizes regulatory capital backing in terms of regulation-relevant risk types (counterparty risk, market price risk and operational risks). Disclosures relate to the regulatory scope of consolidation of LBBW as of December 31, 2008.

The equity requirements for market price risks relating to the general interest rate risk and share risk of the main bank in Stuttgart are calculated using the internal model approved by BaFin. The general interest rate risk and share risk of foreign branches, as well as other market price risks, are calculated using the standard approach. The majority of operational risks are also calculated using the standard approach.

in EUR million

	Equity requirement
1 Counterparty risks	
1.1 Credit risk under standard approach (CRSA)	
Central governments	0
Regional governments and local government units	6
Other public sector	10
Multilateral development banks	0
International organizations	0
Banks	86
Covered bonds issued by banks	1
Corporates	2 172
Retail	506
Items collateralized with real estate	250
Investment units	0
Other items	54
Past-due items	79
Total CRSA	**3 164**
1.2 Internal ratings-based approach (IRBA)	
Central goverments	207
Banks	1 609
Corporates	3 843
Retail	0
of which: secured by real estate liens	0
of which: qualified, revolving	0
of which: other	0
Other assets not dependent on credit	470
Total IRBA	**6 129**

in EUR million	Equity requirement
1.3 Securitizations	
Securitizations in CRSA	1 014
Securitizations in IRBA	1 156
Total securitizations	**2 170**
1.4 Risks from investment items	
Investments in IRBA	376
of which: model-based	0
of which: PD/LGD approach	126
of which: simple risk-weighted approach	250
of which: listed	10
of which: not listed but sufficiently diversified	29
of which: other	211
Investments in CRSA	236
of which: interests held with method continuation/ grandfathering	0
Total investments	**612**
Total counterparty risks	**12 075**
2 Market price risks	
Standard procedure	1 401
Approach in accordance with the internal model	193
Total market price risks	**1 594**
3 Operational risks	
Basic indicator approach	5
Standard approach	522
Advanced measurement approach	0
Total operational risks	527
Total equity requirements	**14 196**

Figure 3: disclosure in accordance with section 325 (2) no. 1 to 4 SolvV

Capital ratios

Figure 4 below shows the regulatory capital ratios for the LBBW Group, the LBBW Bank and the consolidated significant subsidiary banks. The ratios were calculated in accordance with the provisions of the Solvency Ordinance.

in %

Companies	Overall capital ratio	Tier 1 ratio
LBBW Group	**10.1**	**6.9**
LBBW Bank	11.3	7.5
LBBW Bank CZ a.s.*	13.0	12.8
LBBW Luxemburg S.A.*	11.0	10.4
MKB Bank	13.3	6.8

*) calculated on the basis of the additional registration in accordance with SolvV

Figure 4: disclosure in accordance with section 325 (2) no. 5 SolvV

The information for individual banks is disclosed without including transactions within the Group. As of the reporting date, December 31, 2008, the respective ratios for the LBBW Group and individual banks were considerably higher than the minimum values of 8% for total capital and 4% for Tier 1 capital required by regulatory bodies.

5 General counterparty risk.
(section 327 SolvV)

The following quantitative information on general reporting requirements for counterparty risk is disclosed on the basis of the management approach. With reference to the management approach, the risk situation for LBBW is reported based on data used for internal risk management and thus internal reporting to the Board of Managing Directors and the executive bodies. This means that the credit volume and the consolidated subsidiaries can be defined according to internally-applied criteria.

The internal view of risk (management approach) differs in some cases from the balance sheet reporting. Key reasons for the differences between internal management and external finance reporting are different scopes of consolidation and the definition of the credit volume as exposure (utilization/fair values plus open external commitments).

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

- LBBW Luxemburg (previously LRI)
- SüdLeasing (sub-group)
- LBBW Securities, LLC
- MKB Mittelrheinische Bank GmbH/MMV-Leasing GmbH
- Süd-Kapitalbeteiligungsgesellschaft
- Süd Private Equity
- LBBW Venture Capital

The scope of consolidation shown is reviewed at least annually, or as needed, and is adjusted to reflect current developments.

Breakdown by region, industry and residual term

Regions[1]

Figure 5 below shows the exposure, broken down according to region and type of loan.

Regions (in EUR million)	Loans, commitments and other non-derivative off balance sheet assets	Securities	Derivative financial instruments	Total
Western Europe	283 964	104 352	88 860	477 176
Eastern Europe	4 838	839	1 923	7 600
Asia/Pacific	5 338	2 531	3 300	11 169
North America	23 906	9 061	10 944	43 911
Latin America	3 486	4 107	51	7 644
Africa	152	69	70	291
Other	336	462	660	1 458
Total	**322 020**	**121 421**	**105 808**	**549 249**

Figure 5: disclosure in accordance with section 327 (2) no. 1 and 2 SolvV

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

Industries

Figure 6 below shows the exposure, broken down according to internal risk-oriented industry category and type of loan.

in EUR million

Industries	Loans, commitments and other non-derivative off balance sheet assets	Securities	Derivative financial instruments	Total
Banks	**141 954**	**98 919**	**49 844**	**290 717**
Savings banks + landesbanks	64 427	31 039	2 836	98 302
Private banks	24 018	35 914	37 872	97 803
Other banks	13 565	7 463	2 710	23 738
Financial services (excluding banks and insurance companies)	39 944	24 503	6 426	70 874
Companies and organizations, private individuals, sole enterprises	**128 378**	**11 682**	**35 946**	**176 006**
Automobile	13 896	1 578	4 665	20 139
Construction	11 022	424	1 146	12 592
Services for companies for all industries	6 833	131	813	7 777
Commercial real estate	25 433	362	652	26 447
Food trade and other non-cyclical consumer goods	4 111	282	1 635	6 028
Telecommunications	2 079	1 004	3 597	6 680
Transport and logistics	6 844	1 382	793	9 019
Insurance	3 090	874	4 245	8 209
Utilities	10 053	695	3 692	14 440
Other broadly diversified industries	45 018	4 949	14 707	64 674
Public sector	**30 714**	**10 744**	**19 870**	**61 328**
Private employees	**20 974**	**76**	**148**	**21 198**
Total	**322 020**	**121 421**	**105 808**	**549 249**

Figure 6: disclosure in accordance with section 327 (2) no. 1 and 3 SolvV

The »Other broadly diversified industries« category groups together industries representing less than 1 % of the company portfolio.

Breakdown by residual term

Figure 7 below shows the exposure, broken down according to contractual residual term and type of loan.

in EUR million

Residual term	Loans, commitments and other non-derivative off balance sheet assets	Securities	Derivative financial instruments	Total
until further notice	27 992	0	0	**27 992**
< 1 year	78 496	46 685	18 333	**143 514**
up to 5 years	82 742	39 748	50 903	**173 393**
> 5 years	111 628	33 046	36 572	**181 246**
No information	21 162	1 942	0	**23 104**
Total	**322 020**	**121 421**	**105 808**	**549 249**

Figure 7: disclosure in accordance with section 327 (2) no. 1 and 4 SolvV

Definitions of loan loss provisions

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

LBBW distinguishes between the following levels of a service disruption:

Definition of »in arrears«
LBBW defines a transaction as »in arrears to a significant extent« when the committed credit facility (taking a minimum limit into account) is exceeded. This is also the case when there are arrears in the form of unpaid interest or principal and other receivables for more than five days.

Definition of »in default«
A customer is considered »in default« when

- a valuation allowance has been set up (always the case when there is an objective indication of an impairment)
- the customer was given a default rating in accordance with section 125 SolvV
- payment of one of the customer's loans is in default by at least 90 days and the above criteria are not cancelled out by a current recovery report.

Loan loss provisions, broken down by industry and region

The following tables show defaulting and past-due loans and the reporting date balances for loan loss provisions and changes therein during the 2008 fiscal year.

Breakdown of loans in default and in arrears by region

Figure 8 below shows loans in default and in arrears, broken down by region.

in Mio EUR

Regions	Total utilization of loans in default and in arrears (with write-down requirements)	Loans in arrears (without write-down requirement)	Individual valuation allowance	Portfolio valuation allowance	Provisions
Western Europe	5 183	107	2 038	244	181
Eastern Europe	54	13	11	13	0
Asia/Pacific	50	1	10	6	0
North America	1 448	0	137	28	6
Latin America	116	0	11	13	0
Africa	1	2	0	0	0
Other	5	0	5	0	0
Total	**6 857**	**123**	**2 212**	**304**	**187**

Figure 8: disclosure in accordance with section 327 (2) no. 5 SolvV

Exposures in default are shown at the level of the entire exposure amount relating to the customer, even if only part of the customer liability meets the criteria of »in default«. »Loans in arrears without write-down requirement« shows only the transactions which are actually in arrears.

Breakdown of loans in default and in arrears by industry

Figure 9 below shows loans in default and in arrears, broken down by internal risk-oriented industry category.

in EUR million

Industries	Total utilization of loans in default and in arrears (with write-down requirements)	Loans in arrears (without write-down requirement)	Individual valuation allowance	Portfolio valuation allowance	Provisions	Net additions/ reversals of specific valuations allowances/global valuation allowances/ provisions	Direct write-down	Recoveries on loans previously written off
Banks	**2 486**	**64**	**329**	**40**	**60**	**341**	**5**	**0**
Savings banks + landesbanks	0	0	0	0	0	-1	0	0
Private banks	923	60	251	12	0	248	3	0
Other banks	283	0	5	11	0	4	0	0
Financial services (excluding banks and insurance companies)	1 280	4	73	17	60	90	2	0
Companies and organizations, private individuals, sole enterprises	**3 865**	**37**	**1 660**	**192**	**109**	**536**	**39**	**1**
Automobile	356	0	154	15	3	69	0	0
Construction	655	2	249	21	15	24	2	0
Services for companies for all industries	166	2	106	7	0	32	2	0
Commercial real estate	955	6	412	33	22	196	2	0
Food trade and other non-cyclical consumer goods	34	2	22	3	0	11	0	0
Telecommunications	17	0	11	2	0	9	0	0
Transport and logistics	107	0	44	17	6	27	1	0
Insurance	13	0	5	1	0	-2	0	0
Utilities	38	5	24	5	0	16	0	0
Other broadly diversified industries	1 524	20	633	88	63	154	32	1
Public sector	**7**	**16**	**4**	**2**	**0**	**1**	**0**	**0**
Private employees	**499**	**6**	**219**	**70**	**18**	**43**	**20**	**15**
Total	**6 857**	**123**	**2 212**	**304**	**187**	**921**	**64**	**16**

Figure 9: disclosure in accordance with section 327 (2) no. 5 SolvV

Exposures in default are shown at the level of the entire exposure amount relating to the customer, even if only part of the customer liability meets the criteria of »in default«. »Loans in arrears without write-down requirement« shows only the transactions which are actually in arrears.

Changes in loan loss provisions on loans and advances

Figure 10 below shows the change in loan loss provisions in the 2008 fiscal year.

in EUR million

	Opening balance December 31, 2007	Additions	Reversals	Utilization	Exchange rate and other changes	Closing balance December 31, 2008
Individual valuation allowances	1 645	1 125	350	210	2	2 212
Portfolio valuation allowances	316	222	232	0	–2	304
Provisions	166	104	78	7	2	187
Total	**2 127**	**1 451**	**660**	**217**	**2**	**2 703**

Figure 10: disclosure in accordance with section 327 (2) no. 6 SolvV

There is a difference between the risk costs recognized in the annual financial statements under IFRS (risk provisioning for loans and advances) and the net amount from additions and reversals recognized in the table above. This results from reversals from unwinding, which are included in this Disclosure Report in the »Reversals« column but are not included in the risk costs. In addition, there is differing recognition for the whole development of risk provisioning due to the fact that the scope of consolidation is not the same (see page 14).

6 Counterparty risk in the CRS approach.
(section 328 SolvV)

Appointed rating agencies

In the CRS approach, external credit rating assessments from the following three ratings agencies are consulted for all receivables classes:

- Standard & Poor's
- Moody's
- Fitch Ratings

Transfer of credit rating assessments of issues to receivables

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

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

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

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

Figure 11 below includes the respective totals of the position values which are allocated to a fixed regulatory risk weight. For the CRS approach, position values are presented before and after credit risk mitigation effects from collateral. In addition, the table also shows the position values for investments, for items secured with real estate liens and for special-purpose finance under the IRB approach which are calculated using the simple risk weighting approach. Due to financial collateral, there may be both changes within the risk weight classes and a decrease in the volume of the position values.

in EUR million

Risk weight	Total of position values before credit risk mitigation under the CRSA	Total of position values after credit risk mitigation under the CRSA	IRBA (investments, items secured with real estate liens and special finance)
0%	112 490	94 421	
10%	2	2	
20%	5 403	5 912	
35%	7 763	7 716	
50%	1 675	1 819	731
70%			1 084
75%	15 548	8 438	
90%			750
100%	38 171	29 857	
115%			88
150%	1 147	1 016	
190%			193
200%	0	0	
250%			0
290%			43
350%	0	0	
370%			713
1 250%	29	0	
Capital deduction	0	0	
Total	**182 228**	**149 181**	**3 602**

Figure 11: disclosure in accordance with section 328 (2) and section 329 SolvV

7 Counterparty risk in the IRB approach.
(section 335 SolvV)

Approved procedures and transition regulations for IRBA procedures (»partial use«)

Approved procedures
As of January 1, 2008, LBBW was granted admission to the basic IRB approach for both the Bank and the Group. At first, regulatory capital backing was based on the following eight rating systems in line with the simple IRB approach:

- Banks
- Country and transfer risks
- Insurance
- Project finance
- Corporates
- International real estate finance
- Savings bank real estate business
- German Savings Bank Association Joint Liability Scheme

During 2008, LBBW was also granted admission to the following procedures:

- German Savings Bank Association Standard Rating Procedure
- specific special rating classes
- IAA procedure for measuring securitizations

Transition regulations
For the other portfolios of the LBBW Bank and all other companies included in the regulatory scope of consolidation of the LBBW Group which do not yet use the IRB approach, the transition regulation is used of temporarily handling these in line with the CRS approach. By 2012, all materially significant portfolios and subsidiaries will be handled in line with the IRB approach. There is an approved implementation plan for the transition of these portfolios to the IRB approach showing compliance with the prescribed entry thresholds for both the LBBW Group and the LBBW Bank.

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

Description of the internal rating systems

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

- scorecard-based rating procedures
- simulation-based rating procedures

A scorecard procedure is a standardized valuation procedure. The development of these procedures consists of the valuation of quantitative and qualitative factors and is supplemented by the inclusion of liability relationships. Finally, transferences and warning signals are included in the rating result.

In contrast to a scorecard rating, which estimates the probability of default on the basis of the current status of factors, a simulation-based rating generates scenarios for the future cash flow development of, for example, a project finance company (SPV). This process analyses the entire term of the exposure and its structure. In addition, the simulation also includes macroeconomic scenarios (e.g. interest and exchange rates) if relevant.

All rating procedures produce a result in terms of a one-year probability of default in the local currency (local currency PD). The transfer risk which is sometimes present is taken into account in foreign currency (foreign currency PD). Using the master scale (which is used uniformly within the Savings Banks Finance Group), these probabilities of default are translated into a rating class. The master scale differentiates between a total of 18 rating classes, the first of which is divided into 8 further sub-classes. Rating classes 16 to 18 are default classes.

Use of internal estimates for purposes other than calculating risk-weighted position values in line with the IRBA

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

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

Control mechanisms for the rating systems

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

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

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

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

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

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

Responsibility for designing, implementing and monitoring the functionality of the internal rating procedures lies with the credit risk controlling department.

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

Banks receivables class
The rating procedure for banks classifies all obligors which are assigned to the »banks« IRBA receivables class in line with section 75 SolvV. The aim of rating procedures for banks is to measure their global risks of default. In terms of content, their use is limited to rating items that mostly perform typical banking transactions (material interpretation of the term »bank«). Thus, bank holdings, home savings and loan associations, state finance agencies, financial and finance companies and financial service providers should also be rated with the banks module regardless of their legal form if they mostly perform typical banking transactions.
Similarly, institutions that do not have a banking license but effectively mostly perform typical banking activities are rated using the rating procedure for banks. Furthermore, only rating items that are subject to regulation and therefore operate in a regulated environment are rated.

Corporates receivables class

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

Corporates receivables class: special-purpose finance subclass

The rating systems for special-purpose finance clients classify obligors also assigned to the »corporates« IRBA receivables class in line with section 81 SolvV. They are a sub-class of the corporates receivables class. Ratings for project finance are usually based on the cash flow or the user/recipient of the project results. Compared to other special-purpose finance, project finance is distinguished by the fact that cash flows are generated from a narrowly defined activity and not several business concepts in parallel.

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

Investments receivables class

Investments are processed in a special organizational unit. Depending on the type of investment, the same rating procedures can be used as for the above receivables classes. System allocations and product numbers ensure that these can be clearly identified and thus assigned to the above receivables classes or the investments receivables class. In addition, some investments are handled using the standard approach in the context of grandfathering (portfolio protection).

Retail business receivables class

Receivables due to LBBW which are assigned to retail business are not yet handled in line with the IRB approach.
LBBW applies the regulation on portfolio business eligible for exceptions for private building finance.
LBBW is targeting authorization to use self-estimated loss ratios (IRB Retail).

Total credit volume by credit rating assessment (not including Retail) in the IRB approach

Figure 12 below shows the following key figures, based on the receivables classes recognized in the IRB approach – central governments, banks, corporates and investments – and broken down by risk class:

- the total position values and the position values for unutilized credit commitments
- the position values weighted with average risk weights

in EUR million

Receivables class	Investment grade: Position values	of which open loan commitments	Ø risk weight	Position value weighted with risk weight	Non-Investment grade: Position values	of which open loan commitments	Ø risk weight	Position value weighted with risk weight
Central governments	67 495	1 204	3.7%	2 493	86	2	105.8%	91
Banks	80 669	290	19.6%	15 832	4 672	42	91.5%	4 274
Corporates	54 791	6 340	35.8%	19 619	23 877	3 273	111.1%	26 534
of which small and medium-sized enterprises (SMEs)	2 057	111	23.0%	474	127	1	96.9%	123
of which special-purpose finance	7 323	606	34.7%	2 541	6 085	813	107.8%	6 557
of which purchased receivables	0	0	0.0%	0	0	0	0.0%	0
Investments	713	0	185.8%	1 325	94	0	266.0%	250
Total	**203 668**	**7 834**		**39 269**	**28 729**	**3 317**		**31 149**

in EUR million

Receivables class	Default: Position values	of which open loan commitments	Ø risk weight	Position value weighted with risk weight	Total: Position values	of which open loan commitments	Ø risk weight	Position value weighted with risk weight
Central governments	31	0	0.0%	0	67 612	1 206	3.8%	2 584
Banks	1 583	0	0.0%	0	86 924	332	23.1%	20 106
Corporates	3 131	21	0.0%	0	81 799	9 634	56.4%	46 153
of which small and medium-sized enterprises (SMEs)	13	0	0.0%	0	2 197	112	27.2%	597
of which special-purpose finance	241	11	0.0%	0	13 649	1 430	66.7%	9 098
of which purchased receivables	0	0	0.0%	0	0	0	0.0%	0
Investments	2	0	0.0%	0	809	0	194.7%	1 575
Total	**4 747**	**21**		**0**	**237 144**	**11 172**		**70 418**

Figure 12: disclosure in accordance with section 335 (2) no. 1. 2a and 2c SolvV

Expected losses and actual losses on loans and advances

Figure13 below compares the expected losses and actual losses in the 2008 reporting year. The information relates only to the traditional lending business (i. e. not including banking-book securities or derivatives) for the respective receivables classes in the IRB approach.

Actual losses are defined as the total of direct write-downs and additions and reversals of individual valuation allowances/provisions less recoveries on loans previously written off (on the basis of HGB). Expected losses are calculated in line with the provisions of the basic IRB approach and include only »living« lending transactions, i. e. only those which were classed as performing as at January 1, 2008. Lending transactions already in default on January 1, 2008 (probability of default (PD) of 100%) are not included. Due to the first-time disclosure this year, no figures are shown for the previous year. In addition, only those exposures of the LBBW Bank are included which relate neither to transactions of the former SachsenLB nor to transactions of the former Landesbank Rheinland-Pfalz. Due to the intrayear migration of these companies' transactions, they were not included within the one-year period under review. Furthermore, no transactions are included which were internally rated for the first time over the course of the year.
The following table is based on this information.

in EUR million

	Losses in the period from January 1, 2008 to December 31, 2008	
Receivables class	**Expected loss (EL)**	**Actual loss**
Central governments	0	0
Banks	12	10
Corporates	107	120
Investments	1	0
Retail	0	0
of which qualified, revolving	0	0
of which residual real estate loans	0	0
of which other	0	0
Total	**120**	**130**

Figure 13: disclosure in accordance with section 335 (2) no. 6 SolvV

8 Credit risk mitigation techniques.
(section 336 SolvV)

Process of controlling and recognizing credit risk mitigation techniques

Control is effected in line with the specifications in the regulations of the Bank on the types of collateral permitted and the carrying amounts.

In order to include collateral in the calculation of capital adequacy, LBBW has implemented the regulatory requirements in collateral management.

Presentation of the main types of collateral

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

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

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

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

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

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

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

Credit derivatives are mainly concluded with banks that have very good credit ratings overall. The main hedging instruments used at LBBW are also used for regulatory purposes as they satisfy the requirements of admissible credit risk reducing techniques.

Strategies and procedures for measuring and managing the admissible collateral used

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

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

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

Collateral is measured and checked on its acceptance and usually at least once per year during the term of the credit. Regardless of this, collateral is checked for impairment immediately if negative information becomes known. The value of the collateral and the credit quality of the obligor must not have any significant correlation, i.e. the value of the collateral and the credit rating of the borrower cannot be significantly dependent on each other.

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

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

Management of concentration risks in the credit and collateral portfolio

In measuring the risk arising from collateral, LBBW distinguishes between collateral in conventional lending business and collateral in trading business. If there is a significant positive correlation between the value of an item of collateral and the borrower providing the collateral, the calculated collateral value is of no significance for the credit decision.

The decision as to whether or not the transaction can be concluded without measurable collateral is made in line with the hierarchy of decision-making powers.

Concentrations of collateral in capital market business are limited by a restrictive collateral policy that only allows the acceptance of cash collateral or first class government bonds on the basis of ISDA master agreements in relation to OTC derivatives. Most OTC collateral consists of cash collateral and liquid securities. In addition, timely measurement of collateral within the agreed margining periods contributes to risk limitation.

The presentation of concentrations in the collateral portfolio is included as an element of management reporting.

Total amount of the secured position values in the CRS approach (not including securitization)

Figure 14 below shows the position values by CRSA receivables classes secured by financial collateral or guarantees (including warranties and credit derivatives). The credit risk mitigation is reported at the values allowable for regulatory purposes.

in EUR million

Receivables class	Financial collateral	Guarantees
Central governments	0	0
Regional governments	1	1
Other public sector	0	5
Multilateral development banks	0	0
International organizations	0	0
Banks	24 067	57
Covered bonds issued by banks	0	0
Corporates	9 130	4 501
Retail	10	169
Items collateralized with real estate	0	0
Investment units	0	0
Investments	0	0
Other items	29	0
Past-due items	1	14
Total	**33 238**	**4 747**

Figure 14: disclosure in accordance with section 336 no. 2 SolvV

Total amount of the secured position values in the IRB approach (not including securitization)

Figure 15 below shows the position values by IRBA receivables classes secured by financial collateral, other/physical collateral or guarantees (including warranties and credit derivatives). The credit risk mitigation is reported at the values allowable for regulatory purposes.

in EUR million

Receivables class	Financial collateral	Other / physical collateral	Guarantees
Central governments	259	0	125
Banks	12 591	0	2 464
Corporates	485	3 603	6 433
Retail	0	0	0
of which qualified, revolving	0	0	0
of which residual real estate loans	0	0	0
of which other	0	0	0
Investments	0	0	0
of which simple risk-weighted approach	0	0	0
of which internal model approach	0	0	0
of which PD/LGD approach	0	0	0
Other assets not dependent on credit	0	0	0
Total	**13 335**	**3 603**	**9 022**

Figure 15: disclosure in accordance with section 336 no. 2 SolvV

9 Derivative counterparty risks.
(section 326 SolvV)

Capital allocation on the basis of economic capital

For derivative items, capital is allocated in line with the generally applicable processes for limiting counterparty risks – see section 4 »Economic capital management«.

Credit risk mitigation techniques

Various different credit risk mitigation techniques are used at LBBW.
Credit risk mitigation techniques in connection with derivative counterparty risk positions are used by LBBW through netting agreements for OTC derivatives. The procedure for concluding and managing master agreements for OTC derivative netting is stipulated in the internal regulations of the Bank and the working instructions of the responsible back office. Netting for OTC derivatives has been used for equity and interest rate derivatives since 2002 and since 2004 for currency derivatives. Netting for credit derivatives has been used for trading book credit derivatives since December 31, 2008. At present, netting relates only to fair value netting.

In the context of collateral agreements for derivatives business, a large number of counterparties are managed in the financial markets back office area. A joint process with the initiating trading unit and the wholesale/securitizations, LBBW credit management is implemented to add new counterparties. In the majority of cases, the agreements concluded do not provide for an increase in collateral in the event of an LBBW rating downgrade. However, a gradual increase in collateral is provided for in the case of downgrades for some individual counterparties.

In addition, so-called savings bank guarantee transactions are concluded, whereby the derivative transactions concluded with the savings bank customer are guaranteed by the savings bank.

Loan loss allowances

At LBBW, loan loss allowances for derivatives are formed by including the fair values in the measurement basis for valuation allowances. This applies both to HGB and to IFRS.

Correlation between market price risks and credit risks

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

The economic capital of the various risk categories is aggregated taking correlations into account. Assumption of correlations between market price risks and credit risks is based on an external estimate and is considered by LBBW as a conservative value.

Positive replacement costs before and after charging netting agreement and collateral

Figure 16 below shows the derivative counterparty risk positions in the form of the positive market values before and after charging derivative netting positions and collateral, broken down by types of contract.

in EUR million

Types of contract	Positive replacement costs before netting and collateral	Netting options	Eligible collateral	Positive replacement costs after netting and collateral
Interest rate contracts	29 151			
Currency contracts	8 694			
Share/ index contracts	1 259			
Credit derivatives	3 033			
Commodity contracts	189			
Other contracts	7			
Total	**42 333**	**29 107**	**243**	**12 983**

Figure 16: disclosure in accordance with section 326 (2) SolvV

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

Counterparty default risk

Figure 17 below shows the creditable counterparty default risk for derivative default risk positions in the form of the measurement basis for the respective method used. LBBW uses the market measurement method for this.

in EUR million	Duration method	Market measurement method	Standard method	Internal model
Counterparty default risk positions	0	23 985	0	0

Figure 17: disclosure in accordance with section 326 (2) SolvV

Nominal value of credit derivatives for hedging purposes

Figure 18 below shows the nominal value of credit derivatives eligible for regulatory purposes which are used for hedging purposes.

in EUR million	Nominal value of hedging
Credit derivatives (protection purchaser)	4 712

Figure 18: disclosure in accordance with section 326 (2) SolvV

Nominal value of credit derivatives by type of use

Figure 19 below shows the nominal values of the credit derivatives bought and sold for LBBW's own credit portfolio, broken down by type of credit derivative. Credit derivatives from brokering activities were not used by LBBW in 2008.

in EUR million		
	Nominal value of use for own credit portfolio	
Types of contract	**bought**	**sold**
Credit default swaps	36 229	62 033
Total return swaps	1 186	2 000
Credit linked note	1 398	198
Other	0	0
Total	**38 813**	**64 231**

Figure 19: disclosure in accordance with section 326 (2) SolvV

10 Securitizations.
(section 334 SolvV)

Objectives, extent and assumed functions of securitization transactions

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

In the credit substitute business, LBBW primarily plays the role of an investor for securitization and a sponsor for securitization programs with the intention of generating income and diversifying its portfolio and refinancing options. In addition, LBBW acts as a sponsor and arranger of securitization programs in the context of customer transactions, offering the customers innovative, capital market oriented financing alternatives.

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

The securitization positions in which LBBW invests are rated by at least one or usually two recognized rating agencies (Standard & Poor's, Moody's or Fitch Ratings) and generally have a good to first-class rating. Consequently, these positions can be used through the ECB as part of refinancing.

As a result of the acquisition of SachsenLB in 2008, LBBW assumed a significant volume of securitization portfolios, including obligations towards refinancing vehicles previously sponsored by SachsenLB and some leveraged funds which themselves invest in the types of product mentioned above. A large portion of SachsenLB's ABS portfolio was not assumed by LBBW, instead being transferred to a special purpose entity towards which LBBW acts only as a lender. The first-loss position is hedged through a guarantee from the Free State of Saxony. In addition, LBBW did not enter into any significant new business as an investor in the area of securitizations in 2008. Due to the considerable increase in the investment portfolio for securitization positions as a result of the acquisition of SachsenLB, a strategic reduction of the securitization portfolio is planned.
The items in the portfolios of securitization programs sponsored by LBBW are mostly securities (primarily ABS securities of various asset classes) and receivables from customers of LBBW (trade receivables and interest-bearing receivables).

Some of the securitization programs are rated by Moody's and Standard & Poor's; others are unrated. In its function as a sponsor of securitization programs, LBBW essentially performs the roles of portfolio manager, administrator and refinancer (for credit substitute business) or of arranger and service provider (for customer business). LBBW also provides the programs with facilities to improve credit, liquidity facilities and/or refinancing facilities, as well as swap lines if necessary.

As an originator, LBBW is active on the »Entry« (borrower note loan securitization) and »Prime« (securitization of mezzanine profit participation rights under the name SmartMezzanine) ABS platforms. LBBW's functions here include arranger, lead manager, service provider (only on the Entry platform), agent (as a provider of acquisition services for the vehicle) and swap counterparty.

Presentation of the procedures for determining position values

In the IRB approach, the Bank almost exclusively uses the rating-based approach and only uses the derived credit rating assessment in line with section 256 SolvV or the relevant paragraphs for CRSA securitization positions in isolated cases.

The majority of transactions are classified as high quality and granular and almost exclusively have at least one rating from a recognized rating agency on acquisition. If there is no available external rating, the Bank uses the regulatory formula approach in line with section 258 SolvV. Synthetic investor positions are also predominantly classified using this approach. In the case of unrated CRSA securitization positions, section 243 (2) SolvV is used. In originator activities, risk transfers are demonstrated in line with SolvV. The liquidity lines and swaps provided as part of the Lake Constance Asset Back Commercial Paper (ABCP) program are measured using the internal classification procedure (IAA, Internal Assessment Approach). LBBW developed and introduced appropriate models for the measurement of trading receivables, interest-bearing receivables and ABS bonds for this purpose in 2008.

Cross-program credit enhancement and purchased commercial papers (CPs) are classified as overlapping positions, i. e. the risk positions are already covered by the liquidity lines, meaning that no further capital backing is necessary. With the exception of retail underlying tranches, true sale investor positions are recognized as IRBA securitization positions. Retail underlying tranches are recognized as CRSA securitization positions.

Accounting policies for securitizations

In its role as an originator for securitization transactions, LBBW acquires receivables as part of a regulated process and initially takes these onto its own balance sheet. These receivables are then resold to the SPV. By performing true sale transactions, LBBW ensures that it retains neither the rights nor obligations. Therefore, under HGB (IDW RS HFA 8) and IAS 39.20a, assets are no longer recognized on the LBBW balance sheet.

The securitization products acquired as an investor (mainly ABS, CDO/CLO, RMBS, CMBS) are usually banking book portfolios. At the time of their acquisitions the products are assigned to the held for trading, fair value option, available for sale or loans and receivables categories under IAS 39.9 in line with their documented purpose and measured accordingly (for more information on IFRS accounting see also item 8 in the notes »Financial instruments«). Under HGB, acquired securitization products are classified as securities measured in the trading portfolio, the liquidity reserve and the portfolio as non-current assets (for information on HGB accounting see also the notes to the 2008 LBBW separate financial statements, page 83, »Accounting policies«).

HGB accounting

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

IFRS accounting

Financial instruments classified as held for trading or using the fair value option are measured at fair value. Gains and losses on remeasurement and realized gains and losses are recognized under net trading income or net income from fair value option financial instruments. Current gains and losses are reported under net interest income.
Financial instruments assigned to the available for sale category are measured at fair value. Gains and losses on remeasurement are reported in equity (revaluation surplus). In the event of impairment or disposal, gains and losses on remeasurement are reported in income under net income from investment securities. Current gains and losses are shown under net interest income.
Financial instruments assigned to the loans and receivables category are measured at amortized cost. In the event of impairment, the amount is recognized in the income statement. Current gains and losses are reported under net interest income.

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

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

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

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

Total amount of securitized receivables

Figure 20 below shows the effectively securitized receivables of LBBW. These are positions for which LBBW has assumed the role of originator. It does not include positions from investor or sponsor activities. The effectively securitized receivables are broken down into securitization transactions with a transfer of receivables (true sale or traditional securitization) and those without a transfer of receivables (synthetic securitization) and by the type of securitized receivables.

in EUR million

	Total amount of securitized positions	
Type of securitized receivable	**traditional**	**synthetic**
Receivables from home construction loans	0	0
Receivables from whole or partial commercial real estate loans	0	0
Receivables from companies (including SMEs)	421	0
Receivables from own and acquired lease receivables	0	0
Receivables from car finance (excluding leases)	0	0
Receivables from other retail business (e.g. credit cards, student loans)	0	0
Receivables from CDO and ABS	0	0
Total	**421**	**0**

Figure 20: disclosure in accordance with section 334 (2) no. 1 SolvV

Written down and securitized receivables in arrears and losses realized in the current period

Figure 21 below shows only those securitized receivables in arrears or in default for which LBBW has assumed the role of originator. It does not include positions from investor or sponsor activities.

in EUR million

Type of securitized receivable	Receivables in arrears or in default	Losses in the reporting period
Receivables from home construction loans	0	0
Receivables from whole or partial commercial real estate loans	0	0
Receivables from companies (including SMEs)	13	0
Receivables from own and acquired lease receivables	0	0
Receivables from car finance (excluding leases)	0	0
Receivables from other retail business (e.g. credit cards, student loans)	0	0
Receivables from CDO and ABS	0	0
Total	**13**	**0**

Figure 21: disclosure in accordance with section 334 (2) no. 2 SolvV

Total amount of retained or purchased securitization position

Figure 22 below comprises both retained securitization positions from own receivables securitized by the Bank as originator and securitization positions in connection with third-party receivables (sponsor/investor). Retained and purchased securitization positions are broken down according to the underlying Solvency Ordinance approach and the type of securitized receivable.

in EUR million

Securitization positions	Position values in CRSA	Position values in IRBA
Receivables from home construction loans	1 600	2
Receivables from whole or partial commercial real estate loans	0	749
Receivables from companies (including SMEs)	0	8
Receivables from own and acquired lease receivables	10	107
Receivables from car finance (excluding leases)	19	0
Receivables from other retail business (e.g. credit cards, student loans)	479	0
Credit improvement measures	2 710	6 089
Other balance sheet items	6 748	6 006
Total balance sheet items	**11 566**	**12 961**
Liquidity facilities	0	3 464
Derivatives	8	34
Positions specifically for synthetic transactions	0	885
Other non-balance sheet items	1 746	71
Total non-balance sheet items	**1 754**	**4 454**
Total	**13 320**	**17 415**

Figure 22: disclosure in accordance with section 334 (2) no. 3 SolvV

The provisions of the Solvency Ordinance apply for the information provided. These may differ from the presentation for securitization positions shown in other reports.

Total amount and capital requirements for retained or purchased securitization positions according to risk-weighting bands

Figure 23 below shows the respective position values and capital backing for securitizations, broken down by risk-weighting bands, for the CRS and IRB approach.

in EUR million

	KSA approach		IRB approach	
Risk weighting bands	Position value	Equity requirement	Position value	Equity requirement
≤ 10%	0	0	12 358	71
> 10% ≤ 20%	8 942	119	2 081	30
> 20% ≤ 50%	372	15	1 322	42
> 50% ≤ 100%	951	55	325	26
> 100% ≤ 650%	2 550	334	305	82
> 650% ≤ 1 250%/capital deduction	505	491	1 024	905
Total	**13 320**	**1 014**	**17 415**	**1 156**

Figure 23: disclosure in accordance with section 334 (2) no. 4 SolvV

The provisions of the Solvency Ordinance apply for the information provided. These may differ from the presentation for securitization positions shown in other reports.

Securitization activities in the current year

During the current fiscal year 2008, no new securitization transactions were executed for which LBBW acted as the originator.

11 Investments in the banking book.
(section 332 SolvV)

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

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

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

For regulatory purposes, LBBW distinguishes between investment positions which are part of a portfolio managed in terms of probability of default (PD/LGD method) and those handled using the simple risk weighting method. Investment positions which were already held before January 1, 2008 are exempt from the application of IRBA in accordance with section 338 (4) SolvV (grandfathering regulation).

Carrying amounts of investment instruments in the banking book

Figure 24 below is broken down by type of investment item and the extent to which they can be traded and shows both the balance sheet value and the fair value. For listed companies the fair value is the stock market value. If a fair value has not been calculated for internal or external purposes, then the carrying amount is used. The table shows investments in the banking book which are not consolidated or deducted from equity.

in EUR million

Groups of investment instruments	Carrying amount in accordance with HGB	Fair value	Stock market value
Investments in banks	**191**	**221**	**7**
of which: exchange-traded	7	7	7
of which: not traded on an exchange but part of a sufficiently diversified investment portfolio	184	214	
Investments in financial services institutions	**0**	**0**	**0**
of which: exchange-traded	0	0	0
of which: not traded on an exchange but part of a sufficiently diversified investment portfolio	0	0	
Investments in other companies	**964**	**990**	**348**
of which: exchange-traded	408	348	348
of which: not traded on an exchange but part of a sufficiently diversified investment portfolio	556	642	
Subsidiaries – banks	**894**	**1 228**	**0**
of which: exchange-traded	0	0	
of which: not traded on an exchange but part of a sufficiently diversified investment portfolio	894	1 228	
Subsidiaries – financial services institutions	**0**	**0**	**0**
of which: exchange-traded	0	0	
of which: not traded on an exchange but part of a sufficiently diversified investment portfolio	0	0	
Subsidiaries – other companies	**250**	**329**	**4**
of which: exchange-traded	4	4	4
of which: not traded on an exchange but part of a sufficiently diversified investment portfolio	246	325	
Total	**2 299**	**2 768**	**359**

Figure 24: disclosure in accordance with section 332 no. 2 SolvV

Realized and unrealized gains/losses from investment instruments

Figure 25 below reports realized and unrealized gains and losses from banking book investment business for the reporting period and in accordance with IFRS accounting.

in EUR million	
Realized gains and losses from sales and settlement	**187**
Unrealized gains and losses from sales and settlement	**467**
of which amounts recognized:	
in Tier 1 capital	0
in Tier 2 capital	0

Figure 25: disclosure in accordance with section 332 no. 2 SolvV

12 Market price risk.
(section 330 SolvV)

LBBW measures its trading book positions at market prices which are obtained on a daily basis from sources independent of trading and are quality assured specially. The providers of market data used include Reuters, Bloomberg, MarktIT and UBS. If the data are not directly observable on the market, then LBBW uses measurement models which include the parameters derived from market prices. As a result of the prudence principle, measurement provisions for model risks have also been recognized.

More detailed information on market price risks and the internal risk model can be found in the Risk Report.

Equity requirements for market risk positions

Capital backing using LBBW's internal risk model is based on the so-called »Solvency Ordinance portfolio«. This consists of all trading positions except branches and positions in investment funds. Capital backing is undertaken for the general interest rate risks and share risks in this portfolio.

Figure 26 below shows the equity requirements for market price risks calculated according to the standard procedure – cf. Figure 3 – broken down by the following types of risk:

in EUR million

Market price risks	**Equity requirement**
Interest rate risk	1 244
Share risk	10
Currency risk	108
Risks from commodities positions	39
Other risks	0
Total	**1 401**

Figure 26: disclosure in accordance with section 330 (1) SolvV

13 Interest rate risk in the banking book.
(section 333 SolvV)

Risks in the banking book

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

Premises

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

For variable interest transactions with retail and business customers (particularly deposits), records made on grounds of conduct are taken into account by using the deposit base theory in connection with the concept of moving averages. Effects from early loan repayments are incurred according to the model by means of synthetic options in the context of BaFin interest rate shock calculations.

Measurement frequency

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

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

Interest rate risks in the banking book

Figure 27 below shows changes in present value in the event of shifts of + 130 and – 190 bp specified by regulatory provisions.

in EUR million

Groups of investment instruments	Change in present value due to interest rate shock: positive interest rate shock + 130 bp	Change in present value due to interest rate shock: negative interest rate shock –190 bp
CHF	– 2	2
EUR	– 256	385
GBP	– 8	13
JPY	– 4	6
USD	47	– 67
Total	**– 223**	**339**

Figure 27: disclosure in accordance with section 333 (1) SolvV

14 Operational risk.
(section 331 SolvV)

For regulatory purposes, LBBW uses the standard approach for determining the equity requirement for operational risk. As at December 31, 2008, the equity requirement totals EUR 527 million, EUR 5 million of which provisionally relates to the basic indicator approach for a new subsidiary bank added during the year.

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

Abbreviations.

ABCP	Asset-backed commercial paper
ABS	Asset-backed securities
AktG	German Stock Corporation Act *(Aktiengesetz)*
BaFin	German Federal Financial Supervisory Authority *(Bundesanstalt für Finanzdienstleistungsaufsicht)*
CCF	Credit conversion factor
CDO	Collateralized debt obligation
CDS	Credit default swap
CLN	Credit linked notes
CLO	Collateralized loan obligation
CMBS	Commercial mortgage backed securities
CP	Commercial paper
CRD	Capital requirement directive
EAD	Exposure at default; synonym: position value
EC	European Community
EK	Equity
EL	Expected loss
EWB	Specific allowances for impairment losses
GS I	Principle I
HGB	German Commercial Code *(Handelsgesetzbuch)*
IAA	Internal assessment approach
ICAAP	Internal capital adequacy assessment process
IDW	Institute of Public Auditors in Germany *(Institut der Wirtschaftsprüfer)*
IFRS	International Financial Reporting Standards
IMM	Internal model method
IRBA	Internal ratings-based approach

ISDA	International Swaps and Derivatives Association
KI	Bank (in terms of the German Banking Act)
SME	Small and medium-sized enterprises
KSA	Standardized approach
KWG	German Banking Act *(Kreditwesengesetz)*
LGD	Loss given default
ÖKap	Economic capital
OTC	Over-the-counter
PD	Probability of default
PWB	Global valuation allowances
RMBS	Residential mortgage-backed securities
RSU	Rating Service Unit GmbH & Co. KG
RW	Risk weight
RWA	Risk-weighted assets
SIM	Collateral management
SM	Standard method
SolvV	Solvency Ordinance
SPV	Special purpose vehicle
SR	Sparkassen Rating und Risikosysteme GmbH
TRS	Total return swap
VaR	Value-at-risk
WM	German Securities Business Journal *(Wertpapier-Mitteilungen)*

Index of tables.

Landesbank Baden-Württemberg
Headquarters

Stuttgart
P.O. Box 106049
D-70049 Stuttgart
Am Hauptbahnhof 2
D-70173 Stuttgart
Phone +49 711 127-0
Fax +49 711 127-43544
www.LBBW.de
kontakt@LBBW.de

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

Mannheim
P.O. Box 100352
D-68003 Mannheim
Augustaanlage 33
D-68165 Mannheim
Phone +49 621 428-0
Fax +49 (621 428-72591
www.LBBW.de
kontakt@LBBW.de

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

Landesbank Baden-Württemberg