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

Management Report for the Fiscal Year from January 1 to December 31, 2008.

CONTENT

The following information should be read in conjunction with the annual financial statements of the Landesbank Baden-Württemberg, Stuttgart, Karlsruhe, Mannheim, and Mainz (LBBW) for the business year from January 1 to December 31, 2008, comprising the balance sheet, the income statement and the notes to the financial statements. As in the previous year, the annual financial statements and the 2008 Management Report were issued an unqualified auditor's report by Pricewaterhouse-Coopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft.

Management Report of Landesbank Baden-Württemberg.

Business Activities of Landesbank Baden-Württemberg.

With total assets of EUR 426 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 13 300 employees serve customers in 215 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 20 representative offices and branches in New York, London, Singapore and, since February 2008, Seoul. The services offered by the international network are further enhanced by two financing companies abroad and the German Centres operated by LBBW in Beijing, Mexico City, and Singapore, to which a further office in India, in Delhi.Gurgaon, was added in December 2008. LBBW operates this new German Centre together with Bayerische Landesbank.

Through the integration into LBBW of Landesbank Sachsen AG under the name Sachsen Bank as of April 1, 2008 and of Landesbank Rheinland-Pfalz as Rheinland-Pfalz Bank as of July 1, 2008, each as a legally dependent institution, the customer base of the LBBW Group was expanded in 2008.

The nucleus 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 markets of Baden-Württemberg, Rhineland-Palatinate and Saxony, LBBW acts as a central bank to the savings banks.

The LBBW Group serves over one million customers in retail business, private banking and wealth management in Baden-Württemberg through BW-Bank. In southwestern Germany, BW-Bank also operates LBBW's corporate customer business specializing in small and medium-sized companies. In the state capital, Stuttgart, BW-Bank also functions as a savings bank.

Rheinland-Pfalz Bank today functions as the regional bank serving customers in the state of Rhineland-Palatinate and nearby economic areas, assuming responsibility for the Corporate Banking business division and focusing in particular on small and medium-sized businesses. It is also involved in the Private Banking business division and financial advisory services for institutional customers.

As a regional bank serving customers in Saxony and nearby economic areas, Sachsen Bank now supports high net worth retail customers and small and medium-sized corporate customers of LBBW in Saxony. From Saxony, it also initiates setting up new areas of business in the Czech Republic and Poland. 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.

Economic Environment.

Global Economy.

2008 will be remembered as an exceptional year in economic history. Such an abrupt economic about-turn has seldom been observed before. The financial markets crisis and its repercussions on the real economy in developed economies on both sides of the Atlantic played a key part in 2008. Based on the assumption of a continued decline in prices on the US real estate market in 2008, LBBW's assessment that the USA could slip into a recession proved to be well-founded. Initially, however, economic growth data for the first quarter came as a positive surprise. Developments in the United States were particularly remarkable as the US research institute NBER (National Bureau of Economic Research) dated the official time of recession back to December 2007.

From spring onwards, however, the leading indicators went into free fall. The credit crisis from the United States had an impact on the real economy. As of the second quarter, growth in GDP went into decline on both sides of the Atlantic. Although the difficulties on the residential property market had already become apparent in the United States, it was barely conceivable at first that banks would have to write off over USD 1 000 billion worldwide as a result. The disappearance of well-known international banks was completely unthinkable. The crisis in the real economy occurred in industrialized nations in accordance with the domino principle. With increasing problems in the banking sector, access to credit became more difficult for companies and private households, which dampened overall demand. Falling house prices and the decline on the stock markets also had a considerable negative impact on wealth, which affected one sector after the other. Some countries, such as the United States, Ireland, Spain and the UK, were closer to the start of the domino chain and each experienced their own difficulties after a bubble burst on the residential property market, while others, such as Germany, were further back and were affected through international trade connections. The true extent of the crisis will not be seen until the growth figures for 2009 are available. On balance, the United States is still expected to have recorded growth of 1.3% in its GDP in 2008. According to the latest information from the International Monetary Fund (IMF), the world's GDP grew by 3.4%.

Germany.

German growth benefited in the first half of the year from the high incoming orders in the previous year. In the manufacturing industry, production was still at a high level and investment in machinery and equipment saw an above-average increase of 7.6% year-on-year in the second quarter. The rapidly progressing slowdown in the worldwide economy and overall sentiment, which was characterized by increasing caution and restraint, ultimately led to an about-turn. As exports had always guaranteed a prosperous German economy, foreign trade significantly curbed economic output in the third quarter, with a slight drop in export volumes and a simultaneous above-average increase in imports.

The heavy dependence on exports is now having a negative impact. Consumer spending was still strong, however, owing to the abrupt about-turn in crude oil prices and the continued positive development of the labor market, together with larger increases in pay. German consumption nevertheless remained at a low level, in view of the weak underlying trend in real consumer spending and the tendency towards low levels of purchasing. According to initial data from the Statistisches Bundesamt (German Federal Statistical Office), Germany's GDP rose by 1.3% in the 2008 calendar year. As the crisis hit some countries, such as Italy, particularly hard, growth of only 0.9% is anticipated for the GDP of the euro zone as a whole.

Central Bank Policy.

In view of the crisis situation, major central banks were forced to take unusual measures. The accelerated economic decline had to be dealt with, while mutual distrust on the interbank market required clear intervention by central banks. The tension on the European interbank market became apparent, for example, in the difference between the 3-month interbank rate and the ECB's key interest rate. While the difference is usually around 20 basis points, it peaked at 140 bp. The situation was very similar all around the globe. The ECB effectively assumed balancing liquidity among credit institutions, which would otherwise take place via the money market. With regard to refinancing, this was carried out through unlimited offers at fixed interest rates. The ECB also reduced the difference between the interest rate for the marginal lending facility and the interest rate for the deposit facility from the usual two percentage points to one percentage point. With regard to its interest rate policy, the ECB caused confusion in the first half of the year, however, with its emphasis on inflation risks and the underlying economic risks. In July, the ECB raised its key rate by 25 basis points to 4.25%. Shortly after its unexpected interest rate increase, however, the ECB had to take into account the intensifying crisis, and changed its monetary policy towards a reduction in key rates. LBBW's forecast in spring 2008 that the ECB would lower interest rates during 2008 was thus confirmed in retrospect. On balance, the ECB cut its most important central bank rate by 175 basis points to 2.5% at the end of 2008. This included a historic change of 75 basis points in December. In the United States, the Fed cut key rates during the year from 4.25% to practically zero (target range 0 to 0.25%) at the end of the year. As the zero interest rate line had been reached, the US central bank announced that it would make use of all available monetary policy instruments. The focus was on instruments for »quantitative easing«. The measures include buying up mortgage-backed securities; the purchase of long-term US government bonds was also announced. A new instrument is also set up in order to encourage lending to small companies and consumers (TALF).

Bond Markets.

On the international bond markets, the first half of 2008 was very different on the two sides of the Atlantic. While long-term US government bonds moved sideways, caught between inflation risks and the emerging economic downturn, the ECB's emphasis on inflation risks led to an increase in yields. In this climate, the yield on 10-year German federal government bonds rose to a peak of 4.7% halfway through the year and thus reached the previous year's high again; 2-year bonds for a time had even higher yields in the expectation that the ECB would raise interest rates further. However, as bad news arrived from the finance sector and the risks to the worldwide economy became apparent, the yields on long-term government bonds rapidly dropped to new lows around the world in the autumn months. In the euro zone, yields fell in the summer as a result of the about-turn by the ECB. The downward trend on the worldwide market accelerated, so that 10-year German federal government bonds reached a new historic low of 2.92% at the end of 2008.

Foreign Currency Markets.

On the foreign currency markets, the euro initially reached record highs against the US dollar in the spring. This occurred against the background of a widening gap in interest rates in favor of the euro zone. The worsening situation on the financial markets in the summer months led in the end to an unprecedented winding up of carry trades. As a result, the Japanese yen increased massively in value against both the US dollar and the euro. At the same time, high interest rate currencies suffered considerable drops against the main currencies. The liquidity freed as a result was mainly transferred back to the United States, which led to an increase in the value of the US dollar against the euro of around 20% to USD 1.24 per euro by October. The British pound also showed a remarkable development. While the currency remained virtually constant against the euro until the autumn, at around GBP 0.80 per euro, interest rate reductions of 250 basis points in November and December and concerns about the UK financial system led to a significant drop in the value of the British pound. At GBP 0.97 per euro, the pound was at its lowest ever level against the euro at the end of the year.

Stock Markets.

2008 was a major disappointment for all investors. Although only banks and insurers got into difficulties because of the financial market crisis initially, shares in industrial companies were also severely affected in the fourth quarter. The order level fell drastically within a very short time, which resulted in numerous reductions in forecasts and profit warnings. Institutional investors in particular sold large volumes of shares, which led to a rapid drop on stock exchanges around the world. Only in December was there a slight stabilization. On balance, the DAX and the EuroStoxx 50 lost over 40% last year, while the US stock exchange was similarly weak.

Banking Industry Performance.

Banking Year 2008 Shaped by the Financial Market Crisis.

The international financial market crisis shaped the 2008 fiscal year in the banking industry. The development of business and profits in the sector in 2008 was heavily marked by a climate of crisis, with disruptions to markets for a multitude of financial products and continued burdens from value adjustments.

Institutions all over the world saw their value fall significantly; some failed or had to be rescued from collapse. In Germany, default guarantees from the government with the involvement of the German banking industry protected Hypo Real Estate against failure.

In view of the risks associated with a systemic crisis in the international financial system, which reached new dimensions following the insolvency of US investment bank Lehman Brothers in September and the state bankruptcy of Iceland in October, there was increasing intervention by governments and central banks. Throughout the world, government influence on the banking sector increased. This included both state investments in institutions as part of individual rescue measures and general measures and specific regulations in connection with government bail-out packages.

In Germany, the government launched a EUR 500 billion bail-out package for the German banking sector, which, under certain conditions, offers the possibility of strengthened equity for institutions, along with guarantees intended to revive the flagging interbank market.

As a result of the crisis, increased capital requirements for credit institutions have become established on the markets. There has also been a loss of confidence in the finance sector, which has led to a drastic reduction in long-term refinancing funds. Capacity for (re)capitalization and refinancing has therefore become a more important factor in competition.

Business Models under Increasing Scrutiny.

The business model of large, pure investment banks proved not to be viable in the crisis. In the United States, the last two major investment banks, Goldman Sachs and Morgan Stanley, applied for the status of traditional commercial banks again. The sector appears to be returning to a stronger focus on classic customer business. Many institutions have also begun restructuring, involving job cuts, a reduction in risk positions and more restrictive lending for large financing plans.

The trend towards consolidation in the sector intensified in 2008. In Germany, Commerzbank and Dresdner Bank teamed up, as did DZ BANK and WGZ, in order to bundle their strengths. In the Landesbank sector, reflections on further consolidation continued.

Key Events During the Fiscal Year.

Rheinland-Pfalz Bank and Sachsen Bank Established as New Regional Retail Banks in the Group.

In 2008, Landesbank Rheinland-Pfalz and Sachsen LB were integrated into the LBBW Group as dependent legal entities. The technical migration of the business data of both banks to LBBW's systems was completed. At the same time, the business models were realigned. In future, both banks will focus on the function of a regional bank serving customers in the respective core markets, particularly small and medium-sized companies and wealthy private customers.

Acquisition in the Czech Republic.

LBBW took over BAWAG Bank CZ, headquartered in Prague, from BAWAG P.S.K., Austria, in 2008. This institution, which has total assets of EUR 1.2 billion and has operated under the name LBBW Bank CZ a.s. since September, provides corporate banking and retail banking services throughout the Czech Republic. In future, it will serve mainly Czech, German and other international large and medium-sized corporate customers in the Czech Republic and areas of Saxony near the border, as well as high net worth private customers. With this acquisition, LBBW has taken an important step in the expansion of its sales activities towards Central and Eastern Europe, as part of the Group's efforts to expand its international business further.

LBBW's Business Performance.
Results of Operations.

The figures presented below in accordance with the VöB (Association of German Public Sector Banks) model for the 2008 fiscal year are affected by the merger with LRP Landesbank Rheinland-Pfalz on January 1, 2008 and the accrual of Sachsen LB on April 1, 2008.

In the presentation below, the previous year's figures have been adjusted to ensure comparability. In line with the timing of the economic transfer of assets, LBBW's figures for the previous year were adjusted by LRP's entire result for 2007 and by the results of Sachsen LB for 9 months of 2007. The result for one month was based on an average calculation.

Results of Operations.

		2008	2007 adjusted	2007	Change 2007/2008	
	Item	EUR million	EUR million	EUR million	EUR million	in %
1. Interest income	1,2,3,4	2 801	2 195	1 828	606	28
2. Commission income	5,6	407	563	503	–156	–28
3. Net income from financial transactions	7	359	107	124	252	>100
4. Administrative expenses	10,11	–1 531	–1 482	–1 239	–49	3
5. Other operating income/ expenses	8,12,25	218	55	26	163	>100
6. Operating income before risk provision/valuation result		2 255	1 438	1 241	817	57
7. Risk provision/valuation result	9,13,14,16,17,18,19	–2 605	–1 428	–845	–1 177	82
8. Liquidation of the fund for general banking risks	15	1 120	0	0	1 120	
9. Operating income (profit from ordinary activities)		769	10	397	759	>100
10. Extraordinary income/expenses	21,22,26	–345	–14	–14	–331	>100
11. Partial profit transfers	27	–284	–259	–215	–25	10
12. Net income of the year before tax		140	–263	168	403	>100
13. Tax	24	–46	22	17	–68	>100
14. Net income	28	94	–241	185	335	>100

Significant Intensification of Financial Market Crisis in Second Half of 2008.

Since summer 2007, rising default rates in the subprime segment of the US mortgage market and disruptions on the markets for the relevant securitization products, together with the associated bottlenecks in liquidity, generated repeated shock waves on international monetary and credit markets. Since then, there have been a growing number of reports on financial service providers that are in difficulty, while the stock markets have slumped and individual states have experienced considerable financial problems.

Owing to its integration into global financial market activities, Landesbank Baden-Württemberg was unable to escape the consequences of the turbulent developments on the markets, which were partly the result of the ongoing confidence crisis. The downward spiral in values that was observed with the collapse of the investment bank Lehman Brothers, which intensified the crisis, had a strong impact on the securitization products received through the takeover of the former Landesbank Sachsen AG and on securitization portfolios of the former Landesbank Rheinland-Pfalz. However, not only securitization products were negatively affected by the increasingly widespread uncertainty among investors, but also investments that were regarded as solid in themselves. In particular, these included government bonds from various countries in the European Monetary Union, where spreads widened considerably. In connection with this development, there has recently been an increase in risk premiums, particularly for those credit default swaps (CDS) that relate to the default risk of various state issuers.

The unexpected severity of the catastrophic events in the second half of 2008 made it clear that the intensity and duration of the financial crisis and the risks that it revealed for the earnings situation of the banking sector could not have been foreseen. Even if there are signs that tensions are easing with regard to the supply of liquidity to institutions, a reliable forecast cannot currently be made regarding the end of the ongoing crisis. It also remains to be seen what impact the state-guaranteed issues of various banks will have on other markets, such as the covered bond market. It is already clear that the financial market crisis led virtually seamlessly to a noticeable slowdown in the economy.

Increase in Net Interest Income and Net Income from Financial Transactions Despite Burden on Earnings from Primary and Secondary Effects of Financial Market Crisis.

The net interest income rose by 28% or EUR 606 million to EUR 2 801 million. The burden on the net interest income from increased expenses for liquidity and refinancing in connection with the financial market crisis was offset by growth in earnings. The income from equity holdings within the net interest income had a positive impact of EUR 846 million. In particular, this was due to gains from internal sales of investments held indirectly through holding companies as part of the restructuring of the investment portfolio of LBBW following the integration of the former Sachsen LB and LRP. The distribution of accumulated profits of LBBW Immobilien GmbH also contributed to higher income from equity holdings.

Commission income in 2008 was lower than in the previous year, at EUR 407 million. The decline in fee and commission income from the securities and securities portfolio business and from the lending, trust and guarantee business by a total of EUR 184 million, which was largely due to stock market developments, was not offset by growth in other types of commission, such as syndication and participation fees and in the acquisition and leverage financing division (EUR 19 million in total).

At EUR 359 million, net income from financial transactions was well above the adjusted previous year's figure of EUR 107 million (+EUR 252 million). In particular, trading in interest rate derivatives and money market trading achieved higher earnings in the fourth quarter. The money market trading business benefited from the development of liquidity and bid/offer spreads and from the portfolio structure, which is geared towards a reduction in interest rates. Trading in commodities was still positive.

Costs Influenced by Integration Efforts.

There was a slight increase of 3% or EUR 49 million in administrative expenses, to EUR 1 531 million. This development was essentially due to the rise of 12% or EUR 62 million in other administrative expenses. This increase is primarily due to a rise in rental and ancillary costs, IT costs and contributions and allocations. With staff costs, there was a drop in wages and salaries, mainly as provisions were not made for voluntary performance-related payments for 2008. At the same time, there was a negative impact on staff costs from the increased number of staff in strategic growth segments and the higher provisions for pensions necessitated by the pending approval of the new collective wage agreement for the banking industry.

Due to the effects on earnings quantified above, Landesbank Baden-Württemberg had a cost-income ratio (CIR) of 40%. With adjustments for the consequences of the financial market crisis and extraordinary effects, the CIR was 54%.

Other operating income increased considerably compared with the previous year. The positive development of earnings was primarily influenced by increased gains from the sale of land and buildings totaling EUR 178 million.

Operating Income and Net Income for the Year Burdened by Financial Market Crisis.

With an improved net interest income and net income from financial transactions and an increase in other operating income, operating income before risk provision/valuation result rose by 57% (EUR 817 million) to EUR 2 255 million (2007: EUR 1 438 million), despite a drop in the commission income and a slight increase in administrative expenses.

The significant increase in the risk provision/valuation result in the year under review by EUR 1 167 million (+ 82%) to EUR 2 595 million is largely due to valuation allowances in the classic lending business and on securities in the liquidity reserve of EUR 2 076 million and on securities held as long-term investments and equity investments of EUR 581 million in total. This was primarily due to the intensifying transmission effect in the second half of the year, which transferred the disruptions caused by the financial market crisis to the real economy.

In the year under review, valuation allowances on securities held as long-term investments were necessary for the first time following the migration of securities held as long-term investments from LRP and Sachsen LB and the reclassification of securities in the trading portfolio and securities in the liquidity reserve.

To offset the developments listed above, disclosed reserves amounting to EUR 1 110 million were released into income in accordance with § 340g HGB.

In view of the change in the risk provision/valuation result item, operating income (profit from ordinary activities) was EUR 769 million, which significantly exceeded the previous year's figure of EUR 10 million.

The negative extraordinary result of EUR – 345 million, a significant increase on the previous year, includes one-off expenses and income in connection with the merger with LRP and the accrual of Sachsen LB. Of this figure of EUR – 345 million, EUR 271 million was from the merger with LRP and EUR – 594 million from the accrual of Sachsen LB. The partial profit transfers essentially include expenses for paying silent partners. The expenses for paying profit participation rights are included in the net interest income.

With net income for the year before tax totaling EUR 140 million, LBBW significantly exceeded the adjusted level of the previous year (EUR – 263 million). Net income for the year after tax totaled EUR 94 million, EUR 335 million higher than the previous year's figure of EUR – 241 million.

Proposal for the Appropriation of Profits.

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

Net Assets and Financial Position.

The year under review at LBBW Bank includes volume components from the former LRP Bank and Sachsen LB Bank as at the reporting date of December 31, 2008.

The previous year's figures were not adjusted; the major effects on the 2008 annual financial statements of the merger with LRP and the accrual of Sachsen LB are presented below.

The merger with LRP extended the balance sheet by EUR 71 billion. On the assets side, loans and advances to other banks accounted for EUR 30 billion of this, bonds and other fixed-income securities for EUR 20 billion and loans and advances to customers for EUR 17 billion. On the liabilities side, securitized liabilities accounted for EUR 28 billion, deposits from other banks for EUR 28 billion and amounts due to customers for EUR 10 billion.

The accrual of Sachsen LB extended the balance sheet by EUR 54 billion. On the assets side, bonds and other fixed-income securities accounted for EUR 19 billion of this, loans and advances to other banks for EUR 17 billion and loans and advances to customers for EUR 16 billion. On the liabilities side, deposits from other banks accounted for EUR 25 billion, securitized liabilities for EUR 20 billion and amounts due to customers for EUR 7 billion.

Business Volume.

LBBW's business volume grew by 14% or EUR 62 billion compared with the previous year, to EUR 504 billion, which was almost entirely due to growth in the balance sheet items. During the same period, growth in these items was 13%, or EUR 47 billion, for total assets of EUR 426 billion as of the December 31, 2008 reporting date.

The nominal volume of derivative transactions was EUR 1 731 billion at the end of the year, slightly below the previous year's level. Out of the aggregate derivatives volume, around EUR 1 529 billion was attributable to trading portfolios, which corresponds to a share of 88%. However, trading transactions mostly include closed-out positions from offsetting derivatives. Open positions from trading portfolios are within the stipulated risk limits. The classification as proprietary trading transactions is based on rules handed down by the Board of Managing Directors.

Lending.

Claims on banks fell slightly in the 2008 fiscal year. This item fell by 2% or EUR 2 billion to EUR 135 billion, of which 32% or EUR 43 billion was attributable to savings banks in Baden-Württemberg.

Claims on customers grew by 22% or EUR 29 billion to EUR 158 billion. This rise was due to an increase in loans and receivables used for hedging (EUR 8 billion), mainly owing to the migration of the former LRP/Sachsen LB and an increase in loans and advances to affiliated companies (EUR 11 billion), most of which was for special-purpose entities.

LBBW's aggregate loan volume amounted to EUR 371 billion as of December 31, 2008, which amounted to an increase of 12%, or EUR 41 billion, over the previous year's reporting date. The jump was mainly due to increases in claims on customers. LBBW's total loan volume includes bills of exchange, as well as guarantee credits reported off-balance sheet and irrevocable loan commitments, in addition to claims on banks and customers.

The volume of bonds and other fixed-interest securities also saw an increase. As of the reporting date, this item was up substantially by 10%, or EUR 10 billion, to EUR 108 billion. Among other factors, the increase is linked to a rise in the volume of bonds and debentures from public and other issuers (+EUR 14 billion) and of own bonds (+EUR 4 billion). In contrast, there was a drop in money market securities from other issuers (EUR –9 billion). This was mainly the result of a reduction in the volume of commercial papers.

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 are used in varying degrees depending on the performance of the money and capital markets. In the year under review these included liabilities to banks and securitized liabilities, which amounted to EUR 143 billion and EUR 142 billion respectively at the end of 2008.

While liabilities to banks almost reached the previous year's level, the volume of securitized liabilities grew by 24% or EUR 27 billion. Of aggregate liabilities to banks, 17% or EUR 24 billion was accounted for by liabilities to Baden-Württemberg's savings banks at the end of the year.

The third pillar of LBBW's funding comprises liabilities to customers. At the end of the year, these were up by 18%, or EUR 17 billion, at a total of EUR 111 billion.

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

LBBW issued bonds under a EUR 50 billion EMTN (Euro Medium Term Note) program and a EUR 20 billion euro commercial paper and euro certificate-of-deposit program from Stuttgart, London, and New York. Moreover, other issuing programs exist on the US market for MTNs (USD 15 billion) and commercial papers (USD 10 billion) and on the Australian and New Zealand markets for AUD MTNs (AUD 5 billion). In 2008, Pfandbriefe (covered bonds) in the amount of EUR 1.5 billion, JPY 7.0 billion, CHF 0.2 billion and USD 0.1 billion were issued under the EUR 50 billion EMTN program. In addition, bonds were issued in Stuttgart under a program for issuing standard and derivative bonds.

LBBW's issuing volume at the end of the reporting period totaled EUR 187 billion, which represents growth of 25%, or EUR 37 billion, compared to the previous year. The volume of new issues totaled EUR 87 billion in 2008. With a share of 33%, the sale of issues denominated in foreign currencies fell below that of euro-denominated issues. The decline in issues denominated in foreign currencies resulted primarily from the decrease in funding at the New York branch (EUR 11 billion).

Equity.

As of December 31, 2008, LBBW reported equity on its balance sheet (equity less net retained profits including funds for general banking risks, subordinated liabilities and capital generated by profit participation certificates) of EUR 20 636 million (previous year: EUR 19 166 million). The increase was due mainly to the integration of the former Sachsen LB and LRP and associated increase in silent partners, capital generated by profit participation certificates and subordinated liabilities. The reversal of disclosed reserves in accordance with § 340g HGB had a negative impact (EUR 1 billion in total).

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

	2008	2007	Changes 2008/2007	
	EUR million	EUR million	EUR million	in %
Own regulatory funds	19 177*	18 480**	697	3.8
of which core capital	12 712	12 232	480	3.9
of which supplementary capital	5 825	5 255	570	10.8
of which Tier 3 capital	640	993	– 353	– 35.5
Qualifying items	**170 187**	**163 966**	**6 221**	**3.8**

	2008	2007	Change
	%	%	% points
Overall ratio	**11.3**	**11.3**	–

* § 10 KWG in conjunction with § 2 SolvV.
** § 10 KWG in conjunction with § 2 GS I and § 339 paragraph 9 SolvV.

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

Employees.

The further growth of the LBBW Group and the continuation of the Group's consolidation were the main factors driving the work of LBBW's human resources division in 2008. The highlights were the successful and quick integration of Sachsen LB and LRP into LBBW, together with the creation of the two new brands Sachsen Bank and Rheinland-Pfalz Bank and the strategic expansion of the international business with the new LBBW Bank CZ and new branches abroad.

LBBW paid particular attention once again to strengthening its internal job market. As in the previous year, almost 1 300 in-house job advertisements in 2008 showed the importance of filling vacancies internally in the Group's human resources planning. Demographic change and the growing need to be able to adapt the Group quickly to changing market conditions increase demands on the human resources department. Effective new instruments must be developed for forward-looking human resources work and the human resources department organized in a more customer-oriented way in order to meet the increasing demands on human resources work in Germany and abroad. Key elements in future human resources work were defined in 2008 within the framework of the Goal project. The introduction of a system allowing greater variation of salary components was continued and a new function structure was partially introduced, while succession planning and planning of potential were intensified.

The Group's workforce increased by 1 066 (+8.7%) from 12 303 employees as of December 31, 2007 to 13 369 employees as of December 31, 2008. Women make up a slight majority of the personnel, accounting for 51.3% of employees. The share of the Group's employees working part-time, including older employees working part-time (Altersteilzeit), was 18.7%. LBBW Bank – which, at the end of 2008, consisted of the four brands LBBW/BW-Bank/RLP Bank and Sachsen Bank – had 10 934 employees at the end of the year. This represented growth of 1 612 jobs (+17.3%) compared to the previous year's figure of 9 322.

This increase in employment at LBBW Bank by 1 612 jobs is essentially due to the integration of LRP into LBBW (of the Group subsidiary into LBBW as a brand), the integration of Sachsen LB into LBBW (additional jobs including employees) and growth abroad. The increase in employment at the LBBW Group by 1 066 jobs is also due to growth abroad and the integration of Sachsen LB into LBBW.

Integration of Sachsen LB and LRP.

LBBW is working intensively on realizing human resources synergies from the integration of Sachsen LB and Landesbank Rheinland-Pfalz through soft measures, avoiding layoffs. A varied and targeted catalogue of measures has been developed, including, in addition to measures for older employees, an intensification of the internal job market and offers for professional development and obtaining additional qualifications.

The integration of Sachsen LB into LBBW was based on the successful completion of the redundancy plan and the reconciliation of interests regarding the integration of Sachsen LB. Works agreements relating to human resources measures and the further application of works agreements at Landesbank Rheinland-Pfalz formed the basis for the integration of LRP into LBBW.

Introduction of a New Function Structure.

At the same time that the project was launched for the introduction of a new variable payment in May 2006, work began on a new function structure across all divisions at LBBW. The new function structure is not only an essential requirement for the implementation of the new, performance-related remuneration model, but also forms the central basis for a variety of important human resources instruments, such as quantitative and qualitative human resources planning, determining the number of apprentices and trainees needed in the medium term, succession and career planning, the activation of the internal job market, the specification of qualification profiles specific to functions and the development of individual qualification and further training measures. In the private customers/private banking and corporate customers divisions, the new functions have been worked out and introduced; the Bank-wide introduction will be completed in the first quarter of 2009.

Training and Personnel Development.

Traineeships.

LBBW is known in Baden-Württemberg and beyond for its first-rate training. In the career of banking specialist (Bankkauffrau/-mann) alone, 10 prizes and 35 commendations were awarded by the chambers of commerce in 2008 for the outstanding performance of trainees. LBBW continues to focus on the new generation of recruits. In 2008, all those who completed a dual traineeship or course of study at the Berufsakademie (vocational academy) received an offer of employment. Recruitment figures for traineeships and Berufsakademie students rose by a further 3.3% from 244 to 252 in 2008.

On December 31, 2008, a total of 665 career starters (2007: 638) were undergoing traineeships in various careers at the LBBW Group. Of this total, 481 young people (2007: 463) were being trained as banking specialists (Bankkauffrau/-mann) and in additional commercial and other careers. 184 entry-level employees (2007: 175) 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 5.0% in 2008 (2007: 5.2%) is a sign of clear, long-term commitment to traineeship programs.

Graduate Trainee Programs.

In order to attract and develop qualified college and university graduates, LBBW has consistently stepped up the employment of graduate trainees in its various areas of business and expanded its activities with colleges and universities. Over 90 college and university graduates were taken on in 2008, while around 70 employees completed an internal graduate trainee program. The young graduates were employed in all divisions of the bank, although the focus was on the private customer business, the corporate customer business and the field of financial markets. Recruiting and training of college and university graduates as part of our trainee programs will continue to be a key element in the strategic development of promising young employees in 2009.

Personnel Development.

The number of personnel development measures carried out stabilized at a high level in 2008. In total, training measures were organized for 15 059 seminar participants. In addition, 193 workshops were organized for executives, with 2 610 workshop participants. 87% of training program measures involved events organized internally. In the category of specialist/banking seminars, 9 914 sessions were attended.

There was an 18.5% increase in language training compared with the previous year. In 2008, 1 287 internal and external measures were carried out. Depending on their requirements and personal language level, employees practice foreign languages in small groups and in individual seminars abroad. 684 employees updated and extended their knowledge of IT in internal and external seminars. 574 employees were trained in the use of Microsoft Office products. 624 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.

The support program for potential future executives, which was redesigned at the end of 2007, gained momentum in 2008. A total of 60 employees participated in four support programs for potential future executives at management levels 3 and 4 in 2008. They underwent analyses of their potential in advance, successfully demonstrating their abilities regarding the relevant functions. The first participants have already taken on responsibilities at the target management level.

These support programs have further optimized the systematic development of management at LBBW. Together with the seminars offered by the management skills training program, the diverse individual advisory services and external development opportunities, LBBW thus provides a comprehensive and efficient range of instruments for the targeted development, promotion and further training of its established and future executives.

Company Pensions.

With the integration of Sachsen LB and Landesbank Rheinland-Pfalz, pension commitments were taken over giving legislative dispensation. In order to reduce the complexity of the various commitments, the different systems are to be harmonized. A replacement works agreement was signed with employee representatives for the transfer of the 2006 pension scheme of the former Sachsen LB, on the basis of which entitlements are to be transferred to the capital accounts plan of LBBW. Employees thus receive an initial building block in the capital accounts plan and will in future accumulate further entitlements in the new system from January 2009 onwards. This transfer will serve as a blueprint for further transfers that will be dealt with gradually in future. In particular, the harmonization will help make planning easier for the bank with regard to company pensions.

LBBW's »FlexiWertkonto«.

LBBW expanded its working time account model LBBW FlexiWertkonto throughout the Group in 2008. Almost all German subsidiaries agreed to its introduction, which means that a standardized and modern system is available to employees within the Group, allowing them to organize their professional life and retirement planning flexibly. However, the decision of legislators in autumn 2008 to introduce the so-called Flexi II law, intended to improve the framework for protecting flexible working-time regulations, necessitates extensive adjustments to the LBBW FlexiWertkonto model and regulatory framework in order to bring it into line with the new legal situation.

Equal Opportunities, Diversity Charter and Company Health Management.

In 2008, LBBW published the works agreement signed in December 2007 to protect against discrimination and ensure a spirit of partnership in the workplace. With this works agreement, the regulations of the Allgemeines Gleichbehandlungsgesetz (AGG – German Anti-Discrimination Act) were implemented at the bank.

Following the integration of LRP into LBBW, the human resources department of the LBBW Group has had a position for an equal rights representative since mid-2008. From this position, the issues of equal rights and diversity can be addressed directly and explicitly from an organizational point of view. As LBBW regards diversity as an opportunity, it signed up to the »diversity charter« for companies in Germany at the end of 2008.

With the creation and occupation of the position of health manager in 2008, LBBW has made it clear that it supports an integrated and sustained company health management system and will expand this further in future.

The Goal Project.

The Goal project in the human resources division stands for Mitarbeiter/OrGanisation (employees/organization), PrOdukte/Dienstleistungen (products/services), QuAlität/Kosten (quality/costs) and Prozesse/AbLäufe (processes). The aim is to make the human resources division of the LBBW Group more customer-oriented and competitive and to equip it for a future with increasing responsibilities in an international group.

The reorganization of the human resources division in the LBBW Group is characterized by its orientation towards the business partner model for Personnel with the three functions »distribution«, »service« and »expertise«.

The new personnel environment allows executives, employees and therefore also job applicants to benefit from new, more customer-friendly working processes. From the summer/mid-2009 onwards, they will meet an internal human resources service provider. Depending on their request, various options will be available. The experts can be contacted by telephone, for example, via a direct personnel advisory service. The human resources division also provides relevant information on LBBW's new Intranet through personnel self-service scenarios such as employee self-service (ESS) and management self-service (MSS). An Employee Interaction Center (EIC) will be available in future for responsibilities of the human resources division in operating issues that are not specific to one time or place. Technical innovations allow a significant improvement in efficiency in operational human resources work and create scope for dealing with new tasks and challenges.

LBBW Improvement Process.

LBBW's idea management system, which ranks highly in the financial sector, leverages the innovative capabilities of employees. The results of LBBW's improvement process allow the bank to gear products and services better to the needs of customers, to minimize operational risks and to generate additional revenue with innovative ideas. The clear, simple and transparent process has for years motivated a workforce that is almost double that of comparable institutions to contribute to the continuous development of the Group with its suggestions and ideas. This means that the idea management system not only strengthens the Group's competitiveness. It also helps employees to identify with »their« company. The number of proposals submitted increased to over 3 000 (+ 20 %) in 2008. The additional revenue and savings achieved as a result in 2008 totaled EUR 1.4 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, internal standards and processes, and as the result of unfulfilled expectations of our owners, customers, employees, and the public.

In order to understand and deal with this risk better, the Board of Managing Directors adopted the compliance management system (CMS) at the beginning of 2008. This system combines internal guidelines and principles, a compliance organization, information systems, controls, employee training and reciprocal reporting to create an instrument for risk-oriented management. The CMS is derived from national and international legal requirements, established market standards and insights gained from internal risk analyses. 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 achieving risk transparency and ultimately the trust of business partners.

In the last year, all branches and major subsidiaries were examined with regard to LBBW's compliance standards. These high standards are to be rolled out step by step, with adjustments for risks, across all relevant subsidiaries and branches by the end of 2009.

Capital Market Compliance.

The legal regulations that were newly implemented in connection with the EU's Markets in Financial Instruments Directive (MiFID) were applied for a full fiscal year for the first time in 2008. LBBW implemented the regulations and set up the necessary processes and procedures. Interim solutions permitted by regulatory authorities were replaced by permanent solutions.

Principles for the management of conflicts of interest between the bank and customers were already introduced in 2007, so that potential conflicts of interest in business with securities could be identified in the interest of customers and prevented through organizational precautions. In 2008, the principles of employee business were also adapted to the new legal regulations.

The LBBW Group's compliance officer exercised his duties autonomously and reported regularly to the Board of Managing Directors. In 2008, 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. In addition to ongoing advice for specialized divisions on issues of capital market compliance, the focus was on the continual monitoring of securities transactions to ensure adherence to legal regulations.

Money Laundering Prevention.

The worldwide presence of the LBBW Group means that the compliance standards developed for LBBW must also apply to its subsidiaries and its foreign branches. One focus in the 2008 fiscal year was therefore a worldwide preliminary study to determine the need for action, with which the standards are to be transferred to the relevant subsidiaries and branches in a so-called »roll-out«.

The requirements of the new money laundering law also necessitated significant adjustments to processes, both in the field of money laundering prevention and in distribution. The new money laundering law concentrates on a risk-oriented approach that is specific to the institution, which can be determined through a detailed analysis of the bank's risk situation. As a result, foreign politically exposed persons (PEPs) are subject to stricter reviews and must meet increased transparency and integrity standards. These stringent 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's customers and all incoming and outgoing payment transactions by LBBW and its savings bank partners in Baden-Württemberg, Rhineland-Palatinate and Saxony that are processed through LBBW's cross-border payment activities are continually reviewed. The underlying processes in these checks are continuously adapted to changing legal conditions and optimized further.

Financial Intelligence Activities.

Fraud, corruption and embezzlement represent a significant potential threat that, in addition to material damage, can involve indeterminable risks to the reputation of every bank. As in previous years, the Financial Intelligence Activities unit attached particular importance to raising awareness among employees and passing on information about the *modus operandi* of groups of perpetrators, in order to protect customers.

As part of this, a joint information campaign was successfully carried out within a pilot project between the police criminal prevention department of the state criminal investigation office of Baden-Württemberg (LKA) and LBBW to protect against card fraud. Along with the information given to employees, customer brochures were provided to branches of BW-Bank and savings banks in collaboration with the savings bank association of Baden-Württemberg.

In order to better counteract the anticipated increase in organized fraud, LBBW will draw up additional measures based on the results of the Group-wide risk analysis for financial crime.

Data Protection.

After an internal notification requirement was introduced for new IT projects in the last few years, there has been a considerable increase in data protection advice for internal projects. This means that issues relating to data protection law can be taken into account at an early stage for new applications.

On the basis of the data protection guidelines and security standards issued by the »Bundesamt für Sicherheit in der Informationstechnik« (Federal Office for Information Security), controls were carried out in 2008 to check the organization of data protection at seven German companies in the LBBW Group. The aim of these measures is to achieve a standardized level of data protection in all Group companies.

More audits were also carried out in 2008 regarding technical and organizational measures available for ensuring data protection. The focus here was on checking data security in procedures and selected applications, as well as on-site checks for external service providers in the field of marketing and document shredders.

There was a high demand for telephone and written advice for employees and customers, particularly because of the numerous reports of data theft. In connection with this, employees and customers were provided with more information on the latest data protection issues via internal and external communication media and their awareness was raised. These measures were complemented by training for new employees and target group-specific instructions for selected divisions (e.g. marketing managers).

Sustainability.

LBBW regards a business model geared towards sustainability as an important prerequisite for long-term success. The focus is not on the short-term maximization of profits, but on lasting economic success in harmony with the environment.

In its second sustainability report, LBBW published comprehensive information in the 2008 fiscal year on the further development of its sustainability management. Supplementary information on the subject of sustainability that is not part of the Management Report is included in this report. Details can be found, for example, on initiatives and figures from the last few years, economic sustainability, strategy and management, our employees, donations, sponsoring and foundations and corporate ecology.

The »Sustainability Report 2007/2008« can be accessed online at http://nachhaltigkeit.lbbw.de. Some of the important subjects are singled out below. In particular, these are issues that relate to the core business and with which progress was made in 2008.

Sustainable Management.

LBBW's sustainability management includes all areas of business and is implemented throughout the Group in several stages. In 2008, a »sustainability board« was set up at the divisional management level, forming a bridge between the Board of Managing Directors and the specialized divisions. The sustainability board bundles and steps up internal opinion-forming on strategic sustainability issues and prepares decisions of the Board of Managing Directors. The committee is managed by Rudolf Zipf, the member of the Board of Managing Directors with responsibility for corporate sustainability.

The sustainability management system applies to LBBW Bank, BW-Bank and GastroEvent GmbH, since April 1, 2008 to Sachsen Bank, since July 1, 2008 to Rheinland-Pfalz Bank and since August 1, 2008 to the three subsidiaries BW Immobilien GmbH, LBBW Asset Management GmbH and LBBW Immobilien GmbH.

Stakeholder Dialogue.

LBBW's stakeholders include shareholders, employees, borrowers and lenders, fund managers and analysts, NGOs (non-governmental organizations) and trade unions, which all, in one form or another, are involved in the bank's development. For LBBW, their opinions, which are sometimes critical, can provide valuable ideas. Conversely, it is important for LBBW to explain the bank's position and strategy to the stakeholders in order to avoid misunderstandings and help them to contribute ideas. For this reason, LBBW invited different groups of stakeholders to a total of four stakeholder dialogues in 2007 and 2008. The knowledge gained will be used in the further development of the sustainability policy.

Sustainable Investment Products.

There was increased interest last year in sustainable investment products, both from institutional and from private investors. LBBW has responded to this interest by offering customers a variety of investment products that meet sustainability criteria, from the Group itself and from third parties.

With the equity fund »LBBW Nachhaltigkeitsstrategie BWI«, the selection of securities is based on social, cultural, ethical and ecological criteria. Investments are made on a broad basis worldwide in companies that show an above-average commitment to sustainability within their sector (best-in-class). This positive screening is complemented by strict exclusion criteria: the sustainability fund has a negative screening system that excludes companies from controversial sectors and with ethically questionable business practices. Another tranche was set up on October 15, 2008, which is open to both private and institutional investors.

LBBW is now using its many years of experience with special funds geared towards sustainability to set up a new bond fund with a focus on sustainability. The retail fund »LBBW Nachhaltigkeit Renten BWI« invests in government bonds, covered bonds, corporate bonds and emerging markets of companies or states that act in a more sustainable way than average.

The equity fund »LBBW Global Warming Strategie BWI« invests specifically in companies that offer products and services that work to counteract global warming or can mitigate its ecological and economic effects. In terms of its value development, the fund is one of the best widely diversified equity funds in Europe. The fund was in third place in a one-year comparison in the »Golden Bull« Fund Award 2008 presented by EuroFinanzen. In the journal »Der Aktionär«, it occupied first place in the rankings of all climate change funds. And in the Morningstar fund rankings, it regularly held top spots in the category »Equity Funds Europe Leading Equities Growth«.

The »Nachhaltigkeitsbasket Nr. 1« set up on January 15, 2008, focuses on companies that operate in a sustainable way in the field of renewable energy.

In asset management, BW-Bank pays specific attention to sustainability criteria on request when putting together its portfolios. The rating agency oekom research AG supplies an up-to-date investment universe each quarter, from which BW-Bank's asset managers put together an individual portfolio.

Sustainable Capital Market Activities.

LBBW has built up share analysis expertise in the field of renewable energy that is recognized throughout Europe and has strengthened its good competitive position in this sector.

In 2008, for example, LBBW supported SMA Technology AG and 3S Industries AG with stock market transactions in the photovoltaic industry. In the last few years, several key suppliers to the solar industry, such as Roth & Rau, Meyer Burger, Manz Automation and Centrotherm, were floated on the stock market and in some cases supported subsequently with capital increases. In the run-up to these capital market transactions, marketing roadshows were held for analysts, lasting several weeks. During these roadshows and the LBBW investors' conference in February 2008 in Zurich, LBBW presented a new study in which LBBW's market model for the photovoltaic sector has been updated. All major European investors and numerous companies from the photovoltaic industry were represented at this investors' conference, which is currently the largest conference for photovoltaics in German-speaking countries.

Sustainable Financing.

At the beginning of 2008, the »guiding principle of credit« in accordance with the principles established in LBBW's sustainability policy was extended. This meant that an already common practice was recorded in writing, as sustainability criteria have systematically been applied in credit checks at LBBW since 2004. In addition, environmental reports are obtained for most project financing and, if applicable, loans granted only provided that certain environmental conditions are fulfilled.

In 2008, LBBW was also involved in the financing of projects of particular relevance to the environment, such as the financing of a thermal power station in Weener, near Papenburg, through BW-Bank. This technologically unique plant with an energy efficiency of up to 65% is powered exclusively by waste from the region and supplies a nearby factory producing corrugated cardboard from recycled paper – a customer of BW-Bank and one of the operators of the plant – with electricity and process heat. This saves 30 million cubic meters of gas per year, benefiting customers and the environment. LBBW also underlined the importance of renewable energy by creating the »Project Finance Renewables« department in mid-2008, which focuses on the financing of wind and solar power stations.

In the last two years, LBBW has successfully expanded its financing portfolio in the renewable energy sector. As part of its strategy for renewable energy, LBBW is aiming to expand its overall portfolio significantly between the end of 2008 and the end of 2010.

In addition to the financing of larger projects, a newly developed consulting process including a valuation tool allows the sound valuation and financing of smaller solar plants up to a volume of EUR 10 million, whereby the bank's expertise in the field of solar energy is also available to the SME division.

Risk Report.

Risk-oriented Management of the Bank as a Whole.

2008 was above all characterized by the escalating worldwide financial markets crisis, not only with regard to income, as discussed in the section on business performance, but also with regard to risks. For LBBW, the integration of Sachsen LB and LRP, which was completed in 2008, also played an important part. In addition to the traditional loan portfolio, extensive portfolios were taken over in structured loan products, which came under considerable pressure in the crisis.

Although it had followed a conservative risk policy for many years, LBBW could not escape this trend.

- In particular, this concerns the *market price risks*: the largest proportion of these are now credit spread risks, which determine possible fluctuations in the value of products whose price depends primarily on the creditworthiness of the issuer traded on the market, expressed in the so-called credit spread. Above all, the increase in volatility of the credit spreads determines the increased risk in 2008, in addition to the expansion of the portfolio through the addition of the former Sachsen LB and LRP.
- This concerns the *credit risks*: the actual default probability for LBBW's credit portfolio began to rise significantly at the end of the year, while the higher credit spreads results in higher risk levels in the value at risk. The banking failures in the United States and Iceland in September and October not only placed a burden on income but also led to severe fluctuations in the market parameters. An increase in defaults in the coming year can not be ruled out.
- With the extensive confidence crisis triggered by the financial markets crisis, the focus was on *liquidity risks*. In particular, the markets for long-term funding were no longer sufficiently lucrative for the banks. Even if the maturity of the funds available to LBBW was considerably shortened, the Group did not have difficulties at any time obtaining adequate liquidity.
- The *market liquidity risks* also became considerably more important: while it had until now been the market standard to assume that investments can be realized at any time at the current »fair market price« in the most important market sectors, this assumption was now put to the test: certain product categories that had shown high levels of liquidity for years could no longer be traded at certain times or only with very high discounts.

As the crisis continued, the number of market participants who were prepared to insure risks at an acceptable risk premium on the market or to take them over completely was drastically reduced. This was shown clearly by the insolvency of Lehman Brothers in mid-September and the collapse of Icelandic banks in October 2008. LBBW was affected by these events through defaults on claims and on hedges, for which it was able to find new business partners only at considerable expense, given the current market situation.

In its portfolio, LBBW holds securitized credit positions (ABS, CDO and related product categories). Parts of the portfolios come from LRP and from the acquisition of Sachsen LB. LBBW also consolidates the portfolios of its ABCP programs (Lake Constance) in the reported risk, regardless of the extent to which these are refinanced through investors on the market. Some of these portfolios were subject to significant drops and fluctuations in their market value in 2008. The liquidity and trading volumes of securitized loans were extremely low overall and the volatility of prices was high.

For LBBW, risks arising from securitized loans will continue to represent a considerable portion of the reported risk in the next few years, both in the market price risks (credit spread risk) and in the credit risks (counterparty risk). On the other hand, this portfolio also represents an opportunity to achieve reversals, as credit ratings are still good to very good in many cases: regardless of the market price of the portfolios, there is automatically an increase in value if the positions are held until they mature if the discounts currently assumed in the market valuation are reflected to a lesser extent in actual defaults.

At LBBW, transactions can only be entered into within clearly defined limits or competencies, and risks must be in reasonable proportion to profit potential. These guidelines form the foundation of LBBW’s risk policy and provide a framework for all business activities.

Part of LBBW’s risk policy in the last few years has been moderate utilization of the aggregate risk cover and the reservation of a conservative buffer for stress situations. This meant that, with the model used, the risk-bearing capacity was adequate throughout 2008. The effects described above of the market situation on risk calculation and the income statement meant, however, that the aggregate risk cover now has a much greater level of utilization. LBBW is aiming to reduce this utilization significantly again through a capital increase and by cutting back risks. The reduction in risks will initially be carried out mainly through the expiry of existing risk positions in the credit substitute business. If liquidity returns to the market, the active reduction of risks is also planned.

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, these two figures are compared monthly to monitor LBBW's risk-bearing capacity, i.e., the adequacy of the capital required for business purposes.

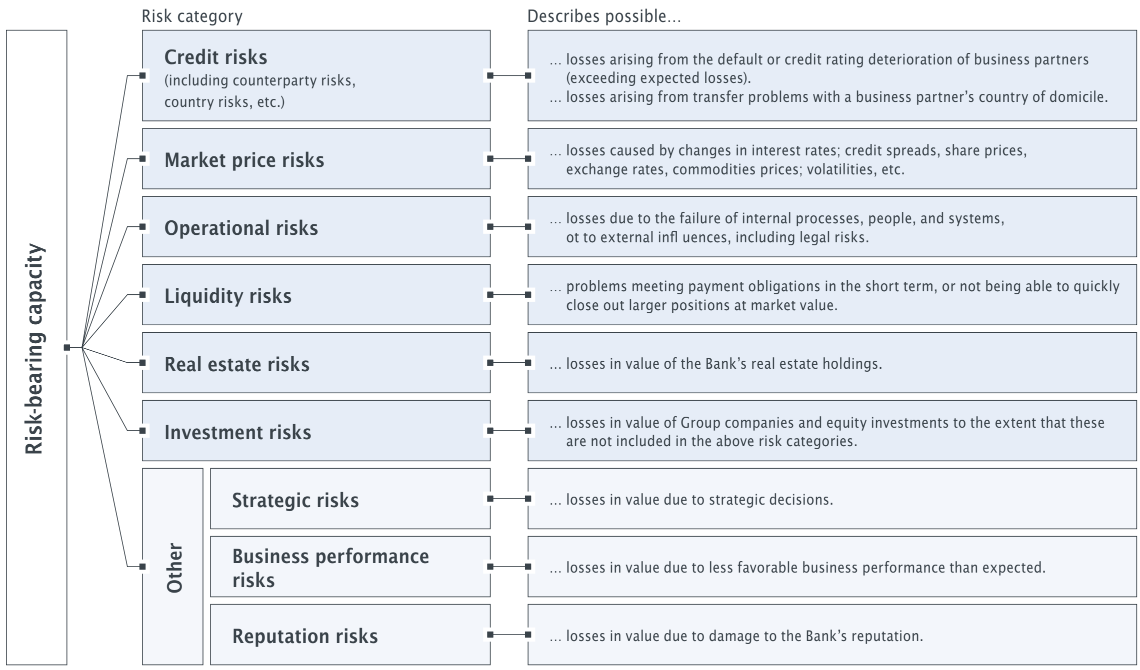
LBBW's aggregate risk cover represents LBBW's ability to absorb possible unexpected losses. These resources are broken down into levels based on the various degrees of availability of the funds included in each level. The aggregate risk cover takes into account losses that may have been incurred, which are compared with the risks as potential losses.

Economic capital is calculated as a uniform risk parameter at the highest level. 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 and limits all quantifiable risk categories on this basis. The upper risk limit for economic capital represents the upper limit for all currently quantifiable risks throughout the Group. This limit reflects LBBW's maximum willingness to take risks and was set well below the total resources available to cover risks in line with the conservative risk policy of LBBW. Economic capital limits for the various risk categories are derived from this maximum limit for losses. The limits had to be raised several times in 2008 in view of the financial markets crisis, which considerably reduced the aggregate risk cover not used by the economic capital limit.

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

Monitoring of Risk-bearing Capacity.



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

The portfolios of the former Landesbank Rheinland Pfalz and Sachsen LB were transferred to the central LBBW systems in 2008. The newly created units Rheinland-Pfalz-Bank and Sachsen Bank have also been integrated into LBBW's central risk management systems and processes. This integration significantly improves the possibility of central risk monitoring and management compared with the previous parent/subsidiary model.

Risk Management Organization.

The Board of Managing Directors manages and limits Group risk positions either directly or through its committees by setting Group-wide risk 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 all risks, as well as in complying with regulatory requirements.

Credit Risk Management.

The framework for portfolio management of credit risks is determined by credit risk strategy and by the economic capital limit on a credit value-at-risk basis.

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 and managed by the back office, 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.

Credit risk management 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 for portfolios and individual customers. 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. Operational monitoring of credit risks is assigned in general to the central and regional back-office departments.

The mathematical-statistical rating procedures developed by the Group Risk Control division are a key element in the risk assessment process, along with the qualitative and quantitative analysis of economic conditions. The result of this assessment, a rating score, reflects a standardized estimation of a customer's creditworthiness.

Market Price Risk Management.

Market price risks are managed and monitored using value-at-risk (VaR), stop-loss limits and sensitivities in accordance with defined levels of portfolio responsibility and limit-setting authority.

The strategic management of all capital market-eligible credit positions in the banking book is carried out via the Credit Investment committee, which draws up draft decisions for the Group's Board of Managing Directors. The active management is the responsibility of the Credit Capital Markets division. The structured credit positions part of the portfolio is to be reduced significantly over the next few years through maturity.

The Board of Managing Directors has delegated the strategic management of all other market price risk positions in the banking book to its Treasury Management Committee. The proposals developed by the Treasury division for strategic positioning are presented for 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 with 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 VaR estimation procedures applied.

Management of Other Risk Categories.

Ensuring an active risk culture in dealing with *operational risks* is the prerequisite for monitoring and managing these risks.

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.

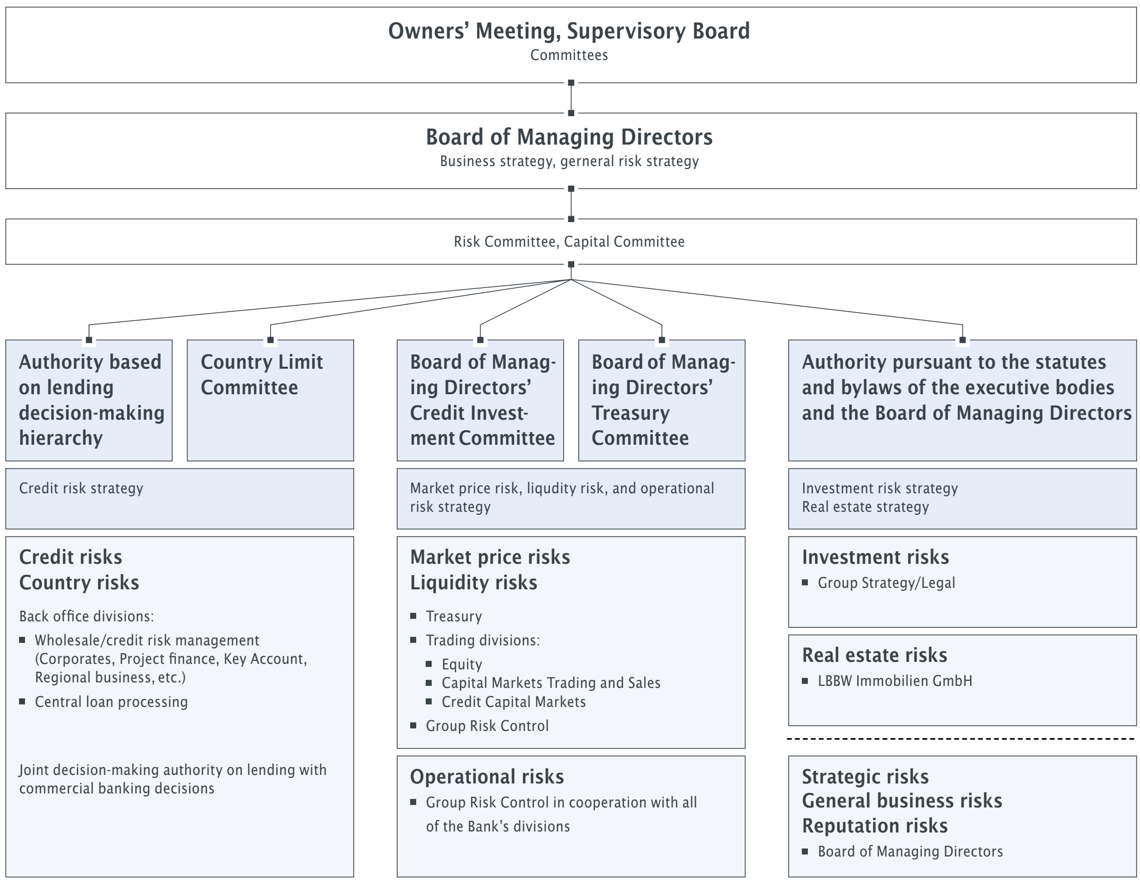
Among other things, Group Risk Control division collects and analyzes incidents of loss centrally to identify operational risks, as well as reviewing existing processes for their susceptibility to these risks and supporting the corresponding risk-prevention process adjustments. The Risk Committee monitors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

Risk Management Structure.



Additional Functions.

It is the responsibility of the Capital Committee to ensure the adequacy of the LBBW Group's capital resources, structure, and target figures.

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.

On the reporting date of March 31, 2008, LBBW successfully sent its first report to the relevant regulatory authorities in accordance with the provisions of SolvV (Internal Ratings-Based Approach – IRBA).

For subsequent years, LBBW is aiming to ease the burden on its capital adequacy by introducing further rating procedures that are permitted by the supervisory authorities and will bring the capital adequacy more into line with economic risk.

LBBW integrated the two former institutions Sachsen LB and Landesbank Rheinland-Pfalz into the report of the LBBW Group with regard to SolvV and MaRisk in 2008.

On the basis of the figures as at December 31, 2008, LBBW will carry out its initial disclosure in accordance with § 26a KWG.

Risk Management System for Covered Bond (Pfandbrief) Operations.

A risk management system must be in place pursuant to § 27 PfandBG (German Covered Bond Act) 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. As part of internal reporting, the Board of Managing Directors and the Risk Committee are informed quarterly of limit utilization. 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 or cannot fulfill them completely due to limitations on currency transfer or other government actions.

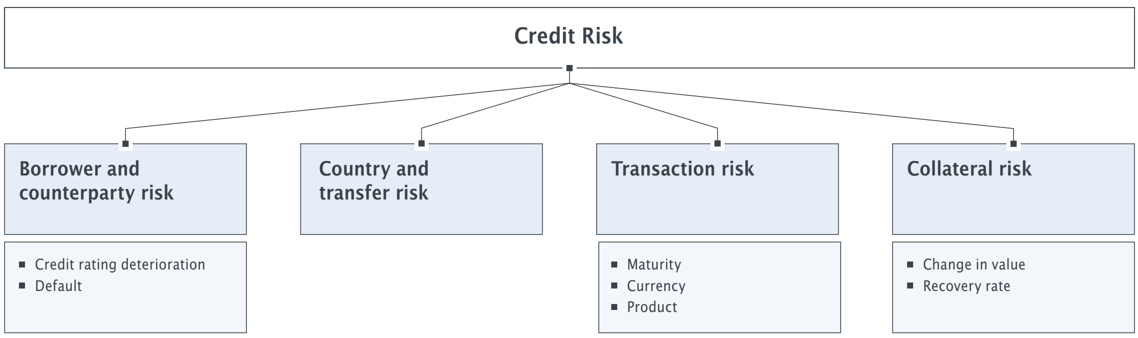
Transaction Risk.

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 the various types of collateral that serve 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.

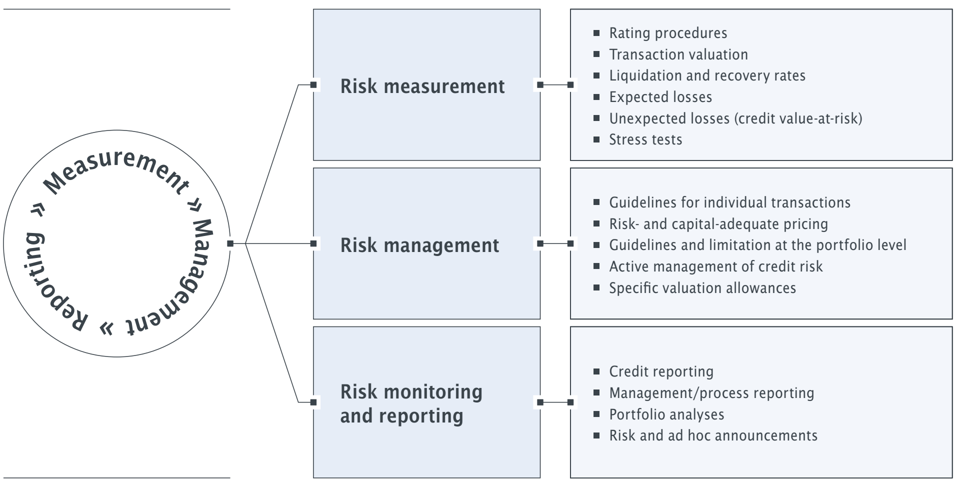
LBBW's credit risk strategy and lending rules cover all of the information required for responsible and risk-oriented lending practices. At the same time, they provide LBBW with a risk-adequate framework for responding to market changes flexibly and in the interest of the customers.

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.
- 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 assessment of existing and new customer accounts is supported by the use of 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, a joint subsidiary of the Landesbanken. As of January 1, 2008, LBBW began using the Internal Ratings-Based Approach (IRBA) to measure capital adequacy for counterparty risks after the rating procedures used by the LBBW Group were audited and approved by the supervisory authorities.

Country Ratings.

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

Transaction Valuation.

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

Liquidation and Recovery Rates.

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

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

Expected Losses.

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

Unexpected Losses (CVaR).

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

Stress Tests.

In addition to statistical indicators and risk measurement tools, stress scenarios also play an important part in risk management at LBBW. These analyze the impact of economic volatility, market crises and extreme scenarios, among other points. The difference between this and the statistical tools is that the various scenarios are formulated without taking into account the relevant probability of occurrence. At LBBW, individual clearly defined scenarios are calculated on each reporting date, such as the downgrading of important sectors by two rating levels. Special situation-specific stress scenarios are also calculated, such as the downgrading of certain customer accounts.

Analyzing stress test results by taking into account risk-bearing capacity enables the stability of the Group to be tested 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. Preliminary costing of all individual transactions is therefore compulsory at LBBW. In addition to the historical interest rate, the components in the calculations are the cost requirement margin (cover for processing costs), the capital range (interest on equity) and the risk range (cover for expected loss). Appropriate calculation tools are available to support the front and back office divisions. The results of the preliminary costing calculation are transferred to the final costing calculation and form the basis of business management 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 manœuver) limits are possible depending on risk relevance and LBBW's business policy considerations.

In 2008, sector limitation was developed further at LBBW. In the preliminary stages, LBBW's customers (excluding retail customers) were categorized according to a new risk-oriented industry key. This shows the connections in the output chain and therefore the dependence of losses. Industry risks can thus be actively managed and the risk of concentration reduced further.

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, up-to-the-minute information on all cases subject to intensive tracking can be viewed by the relevant decision-makers.

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 quarterly report on credit risk (as part of the LBBW Group's overall risk report).

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. Reports with detailed statements about the respective investment strategy and financial development are used to ensure that the Group's Board of Managing Directors and decision-makers are 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.

Internal risk management differentiates between private and investment clients; corporate client and wholesale business, which is managed separately according to financial markets and credit investment portfolio. Areas such as treasury and own equity investments, which relate to the bank as a whole, are bundled into corporate items.

Exposure

EUR million	Total
Private and investment customers/savings banks	38 927
Corporate customers	140 692
Financial markets	211 877
Credit investment portfolio	92 575
Corporate items	44 094
Total	**528 165**

The portfolio quality is dominated by an 81.3 % share of investment grade (very good to good) creditworthiness classes. The exposure is up against the previous year by EUR 89.5 billion, in particular as a result of the successfully completed integration of Landesbank Rheinland Pfalz and Landesbank Sachsen.

At EUR 280 billion, banks and financial service providers form the most important partial portfolio. The share of clients with low default risks (investment grade) is predominant. The corporate client portfolio is well diversified according to specific industries. The three largest industries are commercial real estate, followed by automotive and utilities. The financial and economic crisis is reflected in the portfolio in the rise in exposure of non-investment and default rating classes.

Exposure according to rating* and industries

EUR million	Investment grade (AAA – BBB –)	Upper non-investment (BB+ – B+)	Non Investment (B – C)	Default	Other	Total
Banks and financial service providers	256 524	11 187	3 070	2 290	6 931	280 002
Banks	203 069	7 555	405	1 073	1 031	213 133
Financial Services	53 455	3 632	2 665	1 217	5 900	66 869
Companies	108 944	39 737	3 241	3 643	11 078	166 643
Automotive	11 421	7 322	279	341	85	19 447
Construction	6 547	3 274	502	588	268	11 180
Cross-industry service for companies	3 922	1 210	165	162	2 029	7 488
Commercial real estate	14 659	8 695	315	954	1 704	26 327
Foodstuffs trade and other non-cyclical consumer goods	4 906	668	12	32	124	5 741
Telecommunications	5 647	509	109	16	63	6 344
Transport and logistics	5 591	1 458	656	83	309	8 097
Insurance	7 533	245	6	12	106	7 902
Utilities	12 601	1 204	26	35	215	14 082
Other widely diversified industries	36 117	15 152	1 172	1 420	6 175	60 036
Government	59 246	1 046	0	7	153	60 453
Private persons	4 657	2 752	111	499	13 049	21 068
Total	**429 371**	**54 722**	**6 423**	**6 439**	**31 210**	**528 165**
in %	**81.3 %**	**10.4 %**	**1.2 %**	**1.2 %**	**5.9 %**	**100.0 %**

* Equivalent rating classes according to S&P.

Data from internal reporting. Industry classification according to internal risk-oriented industry key. Transfer to the balance sheet takes place at the level of group figures in the IFRS risk report. Intragroup receivables of EUR 16.9 billion are not presented.

At 55%, business in Germany predominates in the regional distribution and shows a focus on the defined core markets in private, SME, and large client business, as well as the function of a central bank to savings banks.

Around two thirds of foreign investments are in Western Europe and another quarter in North America, so the focus is on countries with the highest credit ratings.

Region

	Share of foreign portfolio
Western Europe	65%
North America	24%
Asia/Pacific	7%
Eastern Europe	2%
Latin America	1%
Supra-national	0%
Africa	0%

Data from the internal country limit system, which is the basis of the internal country risk management.

The development of risk provision is shown in the table below:

Valuation result – Lending

EUR million	Specific bad debt provisions Dec, 2007	Addition from consolidation	Appro-priation	Reduction	Utilization	Direct write-offs	Currency difference
Credit risks	1 459.2	712.8	1 413.6	363.1	241.4	52.7	–4.6
General bad debt provision	297.9	82.7					0.8
LBBW-Bank	**1 757.1**	**795.5**					

	Risk costs (reported in net profit/loss)	Specific bad debt provisions Dec, 2008	in % of total exposure	Exposure
Credit risks	1 098.7	2 976.6	0.56 %	528 165.2
General bad debt provision	–16.8	363.7		
LBBW-Bank	**1 081.9**	**3 340.3**		

The general bad debt provision at the end of 2008 corresponds to the portfolio risk provisioning calculated in accordance with IFRS (GLLP/PLLP not impaired).
The addition from consolidation is the result of the inclusion of Landesbank Rheinland-Pfalz and Landesbank Sachsen.

Details on the portfolio of securitized products are in the risk report in the LBBW Group's Annual Report.

Market Price Risks.

Market Price Risk Monitoring and Control.

LBBW's market price risks are monitored daily by risk controlling. 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 given to cap the absolute loss across the year.

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 in the overall risk report about the effects of market price risks on the risk and earnings situation and weekly reports on worst-case results. As part of the overall risk report and where the Risk Committee deems it necessary, there will also be a detailed discussion of LBBW's exposure on the basis of various stress scenarios.

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. 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.

The positions of Landesbank Rheinland-Pfalz and Sachsen LB are migrated and are also measured with LBBW's market risk model. LBBW Luxemburg remains an important independent subsidiary, which also measures the risks with a simulation model (historical simulation).

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.

Credit spread risks from bonds are measured with the general – and partly with the issuer-specific – risk. For this purpose, the transactions of the trading book and the deposit book that are sensitive to creditworthiness are mapped onto rating- and industry-dependent yield curves. This is carried out for all transactions executed through the trading system (in particular fixed-income securities) and also for the traditional lending business. The issuer-specific risk is calculated using the spread (and the spread volatility) of individual clients. LBBW is working on complete measurement of the specific spread risk from the credit substitute business. The credit spread risks from all credit derivatives are determined using a multi-index model. The respective credit spreads of the reference debtor are entered into the risk calculation. In the course of the financial market crisis, the credit spread risks have become an important part of LBBW's market price risk.

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

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.

Risk Situation.

Due to the intensification of the financial market crisis, the economic capital limit for market price risks was raised several times during the year, to take account of the rise in the risks from market volatility. During 2008, the rise in risk led to increased VaR and stop-loss limit excesses up to the level of LBBW Bank and the LBBW Group. The limit excesses were communicated and monitored in line with the internal escalation process. However, the market price risks entered into were fully within LBBW's risk-bearing capacity.

LBBW's market price risks are characterized overall by interest rate and credit spread risks. The overall risk is dominated by the positions in the banking book. The basis risks in the interest rate range between the euro financial curves and the swap curve, as well as the exposure to credit spreads including the risks from fixed-income securities, credit derivatives and the credit substitute business, play a decisive part here.

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

VaR 99%/10 days

EUR Million	Average	Maximum	Minimum	Dec. 30, 2008	Dec. 30, 2007
LBBW-Bank overall	**401**	**879**	**204**	**760**	**207**
Interest rate risks (incl. credit spread risks)	390	851	198	745	206
Equity risks	28	60	19	34	25
Currency risks	29	153	3	65	6

Not included in the LBBW Bank overall position is a VaR calculated on a stand-alone basis, which can therefore not be classified according to risk type, from the LRP and Sachsen LB inventories of EUR 172 million VaR as of December 30, 2008.

The clear risk increase is on the one hand the result of sharply increased volatilities and on the other the result of the integration of inventories of Sachsen LB.

The risk of individual conduits is shown in a simplified manner in the operating risk calculation presented here, but is included in its entirety in the presentation of the risk-bearing capacity and the income statement.

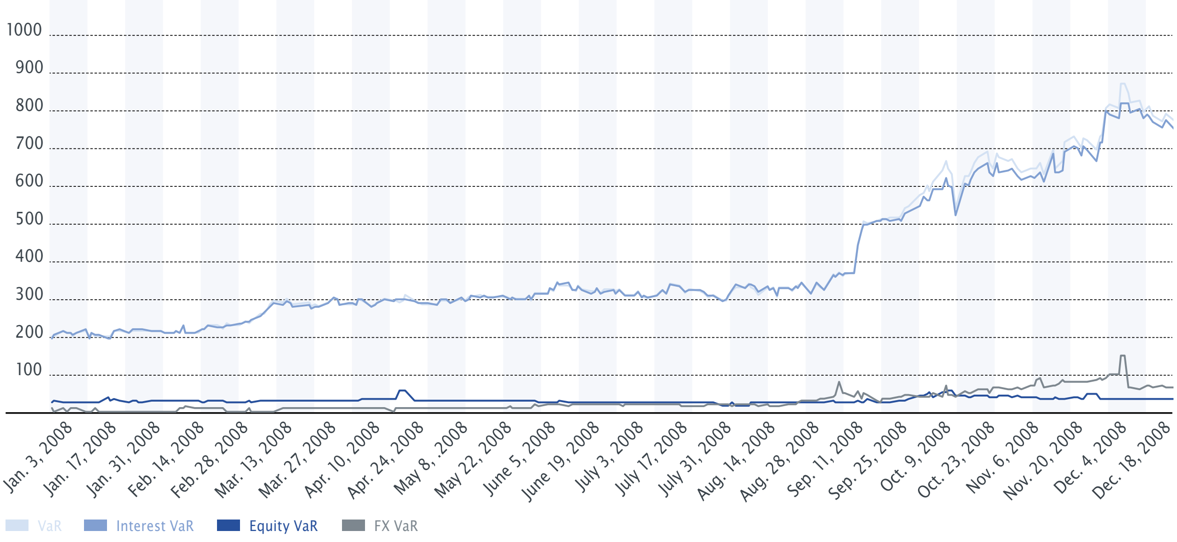
The following is the breakdown for the trading book positions:

VaR 99%/10 days

EUR Million	Average	Maximum	Minimum	Dec. 30, 2008	Dec. 30, 2007
LBBW Bank trading book	**46**	**88**	**26**	**74**	**25**
Interest rate risks	36	70	18	64	20
Equity risks	17	52	9	19	15
Currency risks	5	40	0	8	–

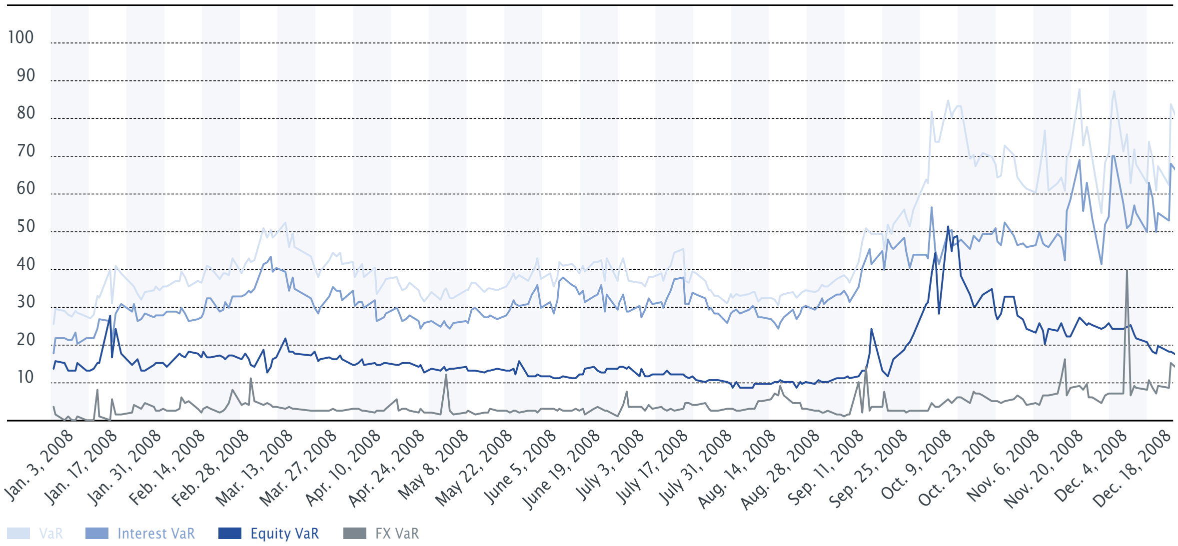
The following charts illustrate LBBW Bank's market price risks over the course of the year.

Risk Performance of LBBW Bank, EUR million



The sharp increase in risk in the last quarter is primarily due to a rise in the volatility and reduced correlations of the yield curves due to the escalation of the financial market crisis following the collapse of Lehman Brothers.

Risk performance trading book, EUR million



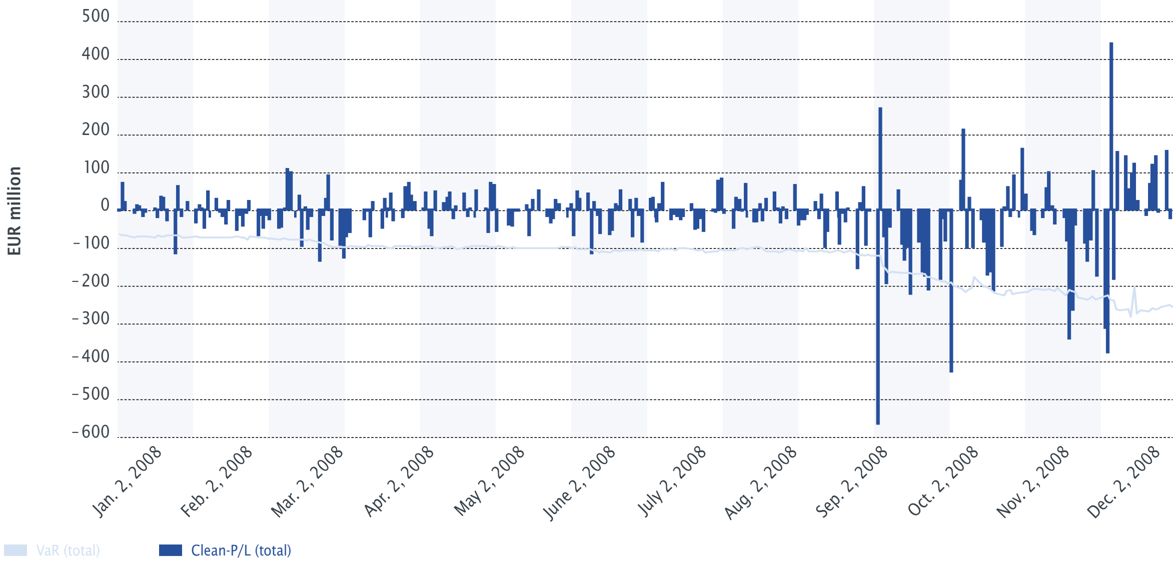
Stress testing will be used to examine how the value of the portfolio changes under extreme market conditions. Historical, synthetic and portfolio-specific scenarios are defined within LBBW's risk system. These are applied to the portfolio and reported on every week. The stress test limit of LBBW Bank was exceeded once during 2008.

The interest rate shock defined 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.

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 30, 2008 (inclusive), backtesting for the preceding 250 trading days indicated nine model outliers for LBBW's trading positions and fifteen for LBBW Bank. However, according to LBBW's estimations, the outliers do not directly indicate a model problem, but are due to the extreme market movements related to the financial crisis, which represent more a crash scenario and thus cannot be forecast with a VaR model.

Portfolio backtesting – LBBW Bank for the period from Jan. 02, 2008 – Dec. 30, 2008
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. This step-by-step approach was further developed in 2008. LBBW itself develops the necessary valuation procedures for the risk model.

In 2008, two releases of the risk model were completed; each release included new products and enhancements of the calculation methodology – in particular in the presentation of the unsystematic interest rate risk. This gives LBBW control and, if necessary, enables the Bank to react to variations in product structure. In addition to valuations, the adequacy of risk modeling and the risk factors used are also reviewed regularly. If certain markets and risk types become more important in the future, LBBW can flexibly expand the self-developed model.

Limits have been set for the valuation procedure: all types of modeling are simplified compared with reality. LBBW counters these kinds of »model risks« with conservative parameters and with the use of various procedures such as VaR, sensitivities, stress values, etc. In certain cases, write-downs 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.

Within the LBBW Group, the management of these risks is mainly the responsibility of the individual divisions and subsidiaries. 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 organizational unit within Group Risk Control 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 the analysis of risk indicators. A systematic ad hoc reporting process has been institutionalized for operational risk of incidents of loss.

The centralized OpRisk Controlling unit provides decision-makers with relevant information as part of regular risk reporting. 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 and current events.

During the 2008 fiscal year, the central OpRisk Controlling unit concentrated on the involvement of new subsidiaries in the Group-wide OpRisk processes. The software used at LBBW for managing operational risks was also expanded. In particular, a module was developed which supports the management of measures by being linked to the internal incident database and risk potential assessment. To enable provision of further information on the risk analysis, LBBW has been connected to the VöB (Association of German Public Sector Banks) database of public sector incidents operational risks since the beginning of the year.

The current LBBW Group has been formed from mergers and the integration of subsidiaries. The processes and systems of the parent company have in some cases been transferred to the subsidiaries; their own processes and systems remained partly in use. In such situations, the modification and integration phase is always associated with an increased operational risk. These risks are to a large extent minimized with careful project planning and ongoing employee training. 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.

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.

IT Risks.

LBBW implements international IT security standards on a continual basis and complies with ISO standards 27001 and 27002. A central procedure has been defined within IT risk management. This 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 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 has been 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 2008. In order to ensure that a sufficient number of potential specialists and executive staff continue to be available in the future, LBBW will strengthen its commitment to offering in-service professional training courses and marketing in universities in 2009.

Legal Risks.

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

Legal risks are mainly managed by LBBW's legal departments (as part of the Group Strategy/Legal division). 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 in cooperation with the latter, 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. In relation to this, the Bank is supported by the cooperation of the German Savings Bank Association (DSGV) and the forms developed in the committees there and made available by the Sparkassenverlag publisher. Approved, standardized contract materials are used for all derivative transactions. If legal questions arise in new areas of business or during the 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 in particular the Association of German Public Sector Banks (VÖB), the German Savings Bank Association (DSGV), and the Association of German Pfandbrief Banks (VdP).

To the extent that this results in LBBW having to take appropriate action with regard to legal matters or adapt its policies, the Legal departments are 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 – to be noted when measuring and monitoring the market price risks – 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.

The significance of the liquidity risks and the attention they receive in the internal risk management have increased sharply at LBBW, as they have across the banking world in the light of the financial market crisis in 2007 and 2008. The material risk to which the banks are exposed during funding is a potential loss of trust among business partners, in particular in interbank business.

Despite the financial market crisis, the situation for the LBBW Group in 2008 was such that until the insolvency of Lehman Brothers on September 15, there were restrictions in funding options only for with long maturities. Despite these limitations, to the middle of September more funds were obtained on the liabilities side with maturities exceeding one year than were required for funding the 2008 asset-side business. In the weeks following the Lehman insolvency, the procurement of unsecured funds via the market was possible in part only with call money. Since then the situation has relaxed somewhat, so that sufficient funds were procured in the last quarter in long-term money-market transactions to prevent a lasting deterioration in the liquidity structure. At no point in 2008 was the LBBW Group forced to make recourse to its cash reserves for funding. The ECB reserves were utilized to a limited degree for the purposes of fine tuning.

Liquidity management at LBBW is viewed as a cross-disciplinary responsibility in the Group and is performed by the Treasury division. The funding (spread) risk from the deposit book positions is centrally managed. Long-term loans are predominantly refinanced in the long term, and the assumption of risk by de-centralized units such as group subsidiaries or foreign branches is strictly limited. 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 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 section in the overall risk report, the Group Risk Control division also reports to the Group’s Board of Managing Directors monthly via the Risk Committee on all relevant issues associated with liquidity and the Group’s liquidity risk. Since the beginning of the financial market crisis, the liquidity situation is discussed in management meetings involving the Treasury, money market trading units, the Group Risk Control division and Financial Controlling at least every two weeks. The Treasury division reports every two weeks to the Group’s Board of Managing Directors on the results and the most current figures on the liquidity situation. The LBBW Group has an emergency plan for securing liquidity in crisis situations. The crisis team created for this purpose at the highest level of management has not yet been called upon.

As a result of the limitation of funding requirements and consistent management of the liquidity reserves before the start of the liquidity crisis, LBBW was able to additionally take over the funding of the Sachsen LB Group.

The requirements of the liquidity regulation were at all times clearly exceeded in 2008. As of December 31, 2008, LBBW's liquidity ratio was 1.54 (2007: 1.45).

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, the concept of market liquidity risks also relates to potential losses in the sense that the liquidity of market segments can decline, as was the case in 2007 and 2008 with credit spread products and especially securitizations. Since then, the sudden lack of liquidity in what up to that point were very liquid markets has resulted in difficulties in market valuations and the downstream processes in these market segments.

There is also a market liquidity risk in structured transactions, e.g. in the issuing of trigger certificates, which force either a purchase or a sale of hedge positions if a certain market threshold is exceeded.

The limited liquidity of products usually leads to a higher volatility and thus to an increase in the market price risk. The market liquidity risk is thus implicitly included in the market price risk calculation to a large extent. However, a sudden lack of liquidity in market segments which are normally very liquid cannot be comparably illustrated using historical models. In this case, assumed scenarios and flat-rate mark-ups must be used. LBBW's risk management also aims to retain a great deal of room to manœuver even in crisis situations, since losses can be avoided if an institution is not forced to sell or close, despite unfavorable market liquidity situation positions.

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 is 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.

Seen overall, a central risk for LBBW in relation to its investments lies in a partial or overall loss in value in one or several large strategic investments.

Overall, LBBW's investment portfolio has a strong financial focus. A disturbance in this market segment can therefore lead to significant losses from investments.

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.).

LBBW'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's material risk in relation to its real estate lies in a sharp decline in value in individual large properties or in the focus region of Stuttgart.

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 risks as economic capital shows that current risks only account for a portion of LBBW's overall risk-bearing capacity. The other portion serves as a buffer for non-quantifiable risks, risks from unforeseeable stress situations, or strategic purposes, among other things.

In the course of 2008, there was a clear rise in the economic capital tie-up and a sharp decline in the aggregate risk cover. Due to the results situation, the buffer was utilized extensively. LBBW is striving to reduce this utilization with a capital measure and with the reduction in risk positions in the credit substitute business.

Events after the Reporting Date.
Milestones determined for strengthening the capital basis.

As a result of the changes in market requirements of the capital resources of banks and in order to strengthen LBBW's competitiveness against the background of the financial market crisis, LBBW's owners' meeting on November 21, 2008 decided on milestones for an increase in equity for LBBW of EUR 5 billion. This will be implemented in the first quarter of 2009, using the expertise of consultancies on issues relating to the risk situation and the business model design.

It was also agreed to examine guarantees for newly issued debt instruments or other liabilities, depending on further market developments.

The consultancies' expert reports were presented to the owners' meeting and the LBBW Group's Supervisory Board on February 18 and 19, 2009. One issue was the review and development of the operating business model by Roland Berger, and another was the evaluation of LBBW's risk situation by PricewaterhouseCoopers and Ernst & Young.

Roland Berger's report showed that the LBBW Group's business model is stable and profit-oriented. Further expansion in business with larger corporate customers, mid-term cost cuts in the range of EUR 150 million to EUR 170 million and a reduction in the credit substitute business were recommended. The auditors PricewaterhouseCoopers found that LBBW's risk strategies were consistent with the aims and planning for the Bank's essential business activities. The range of instruments used and the organization of management and monitoring of the market price, customer default and liquidity risks of importance to LBBW are functioning and appropriate. As of December 31, 2008, the valuation of the credit substitute business is appropriate and the liquidity has been assured in line with stress test calculations. Ernst & Young confirmed these estimates.

The final decision of the owners' committee on the capital increase is scheduled for the second half of March 2009.

Additional material events after the close of the 2008 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.

The outlook for 2009 is gloomy. The combination of a banking and real estate crisis makes this economic downturn probably the most severe since the Second World War. A pronounced recession in the most important economies and the global financial crisis may bring worldwide economic growth almost to a standstill. LBBW anticipates global growth of only around 0.1% for the current year. The International Monetary Fund's definition of a recession in the world economy (growth of less than 3%) would therefore be fulfilled. Most worrying is that there has so far been no sustainable sign of a change in the trend. The most important early indicators in the large industrial nations are near their historically lowest points. The length and severity of the crisis will depend to a large extent on whether it is possible to get the credit supply moving again, which in the most important countries has come to a virtual standstill. The swift and decisive intervention of governments to recapitalize the banks and protect them from risk, and the substantial interest rate reductions by the Federal Reserve, the Bank of Japan, the Swiss National Bank, the Bank of England, the European Central Bank and others – in some cases even to 0% – promise economic stabilization in the mid-term. However, there are still no reliable signs that the economic low point has already been reached or even passed. However, the size of the downturn should be reduced by the numerous large-scale economic programs implemented by the world's governments. In the United States alone, economic aid is expected to amount to around USD 1 trillion. The total in Germany on balance will be EUR 86 billion.

For the euro zone, LBBW expects a reduction in GDP of 3.5%. Above all, investments and foreign trade are likely to suffer as a result of the crisis. According to LBBW's estimations, Germany will be even more strongly affected due to its high dependence on exports. German GDP is expected to shrink by 4.5% in 2009. Neither will the United States experience a noticeable revival. In spite of the massive increase announced in state handouts, the United States' GDP is expected to decline by 2%.

The threat of inflation, which had still concerned the markets in mid-2008, has given way to fears of deflation since summer 2008 with the intensification of the recession and the drastic reduction in oil prices. LBBW believes that the inflation rate in 2009 in Germany will be 0.6%, compared with 2.6% in 2008 (national consumer price index). In the euro zone, LBBW expects an inflation rate of 0.6% in 2009 following 3.3% in the previous year (harmonized consumer price index). The inflation rate in the United States is expected to fall from 3.8% in 2008 to 0.0% in 2009 due to the massive reduction in gasoline prices and the associated basis effect. In the light of this, 2009 is set to be a year of deflation debate. A lasting reduction in consumer prices across a wide front such as was apparent in Japan in the 1990s is, however, not likely in the United States or in the euro zone. In view of the globally expansive monetary policy in connection with rapidly growing state debt, inflation risks are of greater importance in the mid to long term, although they are expected to materialize only when the lending process gets going again.

Industry and Competitive Situation.

Against the background of the global economic downturn and financial markets still shaken by the financial market crisis, the banking industry will be faced with another challenging fiscal year in 2009.

The process of adjusting capacity and risk positions that began in 2008 is expected to continue. The negative economic development leads to the expectation of an increase in the pressures on the industry resulting from the increasingly difficult situation, while a significant change in the difficult conditions on the capital markets is not yet in sight.

The noticeable increase in importance of traditional customer business for business strategy in the industry is likely to intensify competition. However, consolidation and the possible retreat of foreign banks can limit this general trend in the individual markets.

Funding and capitalization will remain decisive competitive factors in the financial sector in 2009. Overall, positive effects are expected from the state measures taken to stabilize the financial markets.

The LBBW Group’s Business Strategy and Opportunities.

The negative developments on the financial markets, which have intensified since mid-September 2008 as a result above all of the insolvency of Lehman Brothers and the Icelandic banks, have clearly left their mark on the results of the LBBW Group. As a result of the current conditions and the anticipated economic development, it is to be expected that 2009 will be characterized in particular by the downturn in the real economy triggered by the financial market crisis. LBBW will not be able to completely escape this trend. In the event of a continuation of the disruption on the financial markets, corresponding negative effects on the LBBW Group cannot be excluded.

In its operating business, LBBW also expects growth in income in the future. In all three operating segments, the LBBW Group's strategic development is focused on the further expansion of customer business. In particular, the establishment of the new regional retail banks Rheinland-Pfalz Bank and Sachsen Bank, as well as the cooperation with the savings banks, is being pursued with vigor. Detailed explanations of the operating segments and their development can be found in the following sections. However, the credit substitute business of the LBBW Group is being systematically reduced. The synergies from the complete integration of LRP and Sachsen LB will show an effect from 2009. Furthermore, the cost optimization projects begun in the previous year are being stringently implemented and new initiatives taken to increase efficiency. In comparison with previous years, the effects of the financial market crisis led to a significantly higher allowance for losses on loans and advances in 2008. LBBW also expects an above-average allowance for losses on loans and advances for 2009.

Due to its prudent liquidity situation, the LBBW Group was at no point during the crisis year of 2008 forced to take recourse to its liquidity reserves for funding – these were used exclusively for fine-tuning. The principle of funding without using the liquidity reserves will also be adhered to in future. Furthermore, LBBW is also examining a framework guarantee of EUR 15 billion to EUR 20 billion for debt instruments to be newly issued and other liabilities. To ensure adequate – and, in the current competitive environment, expected – capital resources, the owners of LBBW set milestones for increasing equity in November 2008. An increase of EUR 5 billion is planned for the spring of 2009.

Overall, LBBW's customer-oriented business model has proved itself resilient despite difficult conditions due to the financial market crisis. By focusing on its growth areas, such as SMEs, business with larger private customers and customer business in financial markets, LBBW can emerge from the crisis in a stronger position. With all this, a conservative risk policy and a balanced and prudent funding policy will continue to provide a framework. Despite this approach, it cannot be excluded that further material intensification of the financial market crisis, accompanied by an expansion of the recession, will have negative effects on LBBW in the future. For example, these could accompany an increasing allowance for losses on loans and advances in the traditional lending business, increased risks from the portfolio of securitized products or a clear rise in the market price risks due to spread widening, particularly in the credit substitute business.

In LBBW's **customer business**, the expansion of private banking/wealth management, of corporate banking business in the core market and the corresponding capital market-oriented activities will be priorities in the future. The following is the foreseeable development of the operating segments in detail.

The economic downturn will be reflected in a higher allowance for losses on loans and advances in the **Corporates** segment. However, the close and trusting relationship between customer and bank is experiencing a renaissance, meaning there will also be opportunities for the house bank model pursued by LBBW and the savings banks in this environment. As a reliable partner of SMEs with comprehensive product expertise and proven high customer satisfaction, LBBW will still have growth opportunities even under difficult economic conditions. This applies even more if consolidation continues among competitors or if foreign competitors concentrate more on their domestic markets again.

Continued intensive competition is expected in the **Retail Clients** segment, with corresponding effects on the margins. However, against the backdrop of the looming economic weak phase, the core business areas of Baden-Württemberg, Rhineland-Palatinate and Saxony remain attractive to an above-average degree to the LBBW Group's private customer business. Within the scope of the selected expansion of services, in particular for private banking customers and wealth management customers, the LBBW Group is also pursuing fields offering attractive growth opportunities.

In the **Financial Markets** segment, the financial market crisis, characterized by the most extreme disruption on the capital markets, led to losses in parts of portfolios. However, a good result was achieved overall by the consistent focus on the customer business in 2008. LBBW is expecting another increase in the operating income due to the expansion of regional customer loyalties and the maintenance of the strong competitive position in traditional capital market products. At the same time, the sales activities and the asset management consulting business are continuously being expanded with regional focuses. With this consistent focus on the capital market-oriented customer business, LBBW regards itself as well positioned and expects further positive results in 2009.

The partnership with the **savings banks** will be supported by the continued intensification of the contractual service partnership and collaboration in the areas of liquidity and funding.

In line with the ongoing industry-wide trend toward consolidation, a further bundling of resources is also being discussed in the Landesbank sector. Following the successful complete integration of Landesbank Rheinland-Pfalz and Sachsen LB in 2008 and their reorganization as regional retail banks, LBBW is open to this discussion under the conditions formulated by its owners. In particular, these conditions concern the protection of existing liabilities by the respective previous owners and the development of a viable business model for a merged bank. Until further notice, the LBBW Group will nevertheless continue to pursue its own course consistently.

Income statement

for Landesbank Baden-Württemberg, Stuttgart, Karlsruhe, Mannheim, and Mainz for the period from January 1 to December 31, 2008.

	Notes	EUR thousand	EUR thousand	EUR thousand	Jan. 1 to Dec. 31, 2007 EUR thousand
1. Interest income from	29				
a) lending and money market transactions		15 394 691			
b) fixed-interest securities and book-entry securities		6 079 060	21 473 751		16 137 306
2. Interest expenses			19 568 367		14 731 705
				1 905 384	1 405 601
3. Current income from	29				
a) shares and other non-fixed interest securities			49 566		263 492
b) companies in which an equity interest is held			17 094		6 887
c) shares in affiliated companies			30 787		18 211
				97 447	288 590
4. Income from profit pooling, profit transfer or partial profit transfer agreements				797 957	133 313
5. Commission income	29,30		762 722		671 953
6. Commission expenses			355 432		169 382
				407 290	502 571
7. Net income from financial transactions	29			359 181	123 940
8. Other operating income	26,29			313 663	116 441
9. Income from the reversal of the special item with partial reserve character				73 241	4 000
10. General administrative expenses					
a) Personnel expenses					
aa) Wages and salaries		614 382			556 547
ab) Compulsory social security contributions, expenses for pensions, and other employee benefits		226 320			143 080
			840 702		699 627
thereof: for pensions		137 077			59 088
b) Other administrative expenses			585 018		438 978
				1 425 720	1 138 605

	Notes	EUR thousand	EUR thousand	EUR thousand	Jan. 1 to Dec. 31, 2007 EUR thousand
11. Write-downs of and adjustments to tangible and intangible assets				104 845	100 362
12. Other operating expenses				90 787	86 677
13. Write-downs of and adjustments to claims and certain securities, as well as allocations to provisions for possible loan losses				2 086 118	851 701
14. Income generated by write-ups of claims and certain securities, as well as from the reversal of provisions for possible loan losses				0	0
				– 2 086 118	– 851 701
15. Additions to the fund for general banking risks				1 120 000	0
16. Write-downs of and adjustments to companies in which an equity interest is held, share in affiliated companies and securities listed under fixed assets				581 271	0
17. Income from write-ups of companies in which an equity interest is held, shares in affiliated companies and securities listed under fixed assets				0	66 766
				– 581 271	66 766
18. Expenses from the assumption of losses				10 349	53 219
19. Allocations to the special item with partial reserve character				693	10 500
20. Profit on ordinary activities				774 380	400 158
21. Extraordinary income			436 741		2 314
22. Extraordinary expenses			782 230		16 218
23. Extraordinary net income	28			– 345 489	–13 904
24. Taxes on income	29		46 198		–16 913
25. Other taxes not shown under item 12			4 977		3 554
				51 175	–13 359
26. Income from the assumption of losses				0	0
27. Profits transferred under profit pooling, profit transfer or partial profit transfer agreements				283 630	214 808
Net income for the year/Net retained profits (distributable profit)				**94 086**	**184 805**

Balance sheet

as of December 31, 2008 of Landesbank Baden-Württemberg, Stuttgart, Karlsruhe, Mannheim, and Mainz.

Assets	Notes	EUR thousand	EUR thousand	EUR thousand	Dec. 31, 2007 EUR thousand
1. Cash funds					
a) Cash on hand				136 993	129 201
b) Balances with central banks				3 146 050	1 157 402
thereof: with Deutsche Bundesbank		3 134 697			0
c) Balances with postal giro accounts				0	0
				3 283 043	1 286 603
2. Public-sector debt instruments and bills of exchange eligible for refinancing with central banks					
a) Treasury bills and treasury discount paper, as well as similar public-sector debt instruments				36 216	9 163
thereof: eligible for refinancing with Deutsche Bundesbank		0			0
b) Bills of exchange				0	0
thereof:				36 216	9 163
eligible for refinancing with Deutsche Bundesbank		0			0
3. Claims on banks	6,7,9,11,15				
a) Payable on demand				10 895 218	17 667 378
b) Other claims	7			123 986 676	119 267 874
				134 881 894	136 935 252
4. Claims on customers	6,7,9,11,15			157 918 142	129 166 194
thereof: secured by mortgages		18 327 573			15 014 673
municipal loans		34 901 554			25 355 371
5. Bonds and other fixed-interest securities	6,7,8,9,10,15				
a) Money market instruments					
aa) issued by public-sector borrowers			222 058		985

Assets	Notes	EUR thousand	EUR thousand	EUR thousand	Dec. 31, 2007 EUR thousand
thereof:					
eligible as collateral for Deutschen Bundesbank advances		222 058			985
ab) issued by other borrowers			16 740 031		26 073 163
thereof:				16 962 089	26 074 148
eligible as collateral for Deutschen Bundesbank advances		10 306 720			10 319 279
b) Bonds					
ba) issued by public-sector borrowers			9 559 215		5 215 875
thereof:					
eligible as collateral for Deutschen Bundesbank advances		8 444 402			3 474 359
bb) issued by other borrowers			65 007 618		54 807 350
thereof:				74 566 833	60 023 225
eligible as collateral for Deutschen Bundesbank advances		32 287 443			25 228 662
c) Own bonds				16 713 182	12 323 569
				108 242 106	98 420 942
Nominal amount		14 074 515			11 507 768
6. Shares and other non-fixed interest securities	8,9			2 473 433	2 231 091
7. Companies in which an equity interest is held	8,12			1 951 242	865 184
thereof:					
in banks		790 097			191 584
in financial services institutions		25			25
8. Shares in affiliated companies	8,12			6 316 137	3 580 038
thereof:					
in banks		954 359			765 613
in financial services institutions		188 426			12 932
9. Trust assets	11			1 156 183	241 807
thereof: loans granted on a trust basis at third-party risk		888 123			53 367
10. Recovery claims on the public sector including bonds resulting from their exchange				0	0
11. Intangible assets	12			74 973	54 602
12. Tangible assets	12			510 702	579 000
13. Unpaid contributions to subscribed capital				0	0
thereof: amount called in		0			0
14. Own shares or equity interests				0	0
Nominal amount		0			0
15. Other assets	13			7 382 783	4 019 151
16. Deferred items	14			1 424 027	951 682
Total assets				**425 650 879**	**378 340 709**

Liabilities and Shareholders Equity	Notes	EUR thousand	EUR thousand	EUR thousand	Dec. 31, 2007 EUR thousand
1. Liabilities to bank	6,7,18				
a) Payable on demand				5 398 770	8 217 252
b) With agreed term or period of notice	7			137 145 075	134 812 079
				142 543 845	143 029 331
2. Liabilities to customers	6,7,18				
a) Savings deposits					
aa) with agreed period of notice of three months			4 777 194		5 406 778
ab) with agreed period of notice of more than three month	7		140 835		277 528
				4 918 029	5 684 306
b) Other liabilities					
ba) payable on demand			21 438 143		21 353 403
bb) with agreed term or period of notice	7		85 010 020		67 447 692
				106 448 163	88 801 095
				111 366 192	94 485 401
3. Certificated liabilities	6,7,15,18				
a) Bonds issued				125 394 240	98 834 339
b) Other certificated liabilities				16 878 670	16 169 111
thereof:				142 272 910	115 003 450
money market instruments		16 878 670			16 169 111
own acceptances and promissory notes outstanding		0			0
4. Trust liabilities	11			1 156 183	241 807
thereof: loans granted on a trust basis at third-party risk		888 123			53 367

Liabilities and Shareholders Equity

	Notes	EUR thousand	EUR thousand	EUR thousand	Dec. 31, 2007 EUR thousand
5. Other liabilities	17			4 409 163	3 804 704
6. Deferred items	14			1 140 980	965 335
7. Provisions					
a) Provisions for pensions and similar commitments				1 108 690	719 073
b) Provisions for taxes				315 317	235 510
c) Other provisions				610 738	436 515
				2 034 745	1 391 098
8. Special item with partial reserve character	19			6 866	69 049
9. Subordinated liabilities	6,20			5 637 172	4 960 897
10. Capital generated by profit participation certificates				2 462 748	1 848 856
thereof: maturing in less than two years		666 143			578 314
11. Fund for general banking risks				480 000	1 600 000
12. Equity	21				
a) Subscribed cpaital					
aa) nominal capital			1 419 800		1 419 800
ab) silent partners' contributions			4 652 448		3 462 052
				6 072 248	4 881 852
b) Capital reserve				3 073 821	3 073 821
c) Revenue reserves					
ca) legal reserves			0		0
cb) other revenue reserves			2 899 920		2 800 302
				2 899 920	2 800 302
d) Net retained profits (distributable profit)				94 086	184 805
				12 140 075	10 940 781
Total liabilities and shareholders' equity				**425 650 879**	**378 340 709**
1. Contingent liabilities					
a) Coningent liabilities from rediscounted bills of exchange				1 097	1 801
b) Liabilities from sureties and guarantee agreements	18,22,23,24			44 207 827	36 131 122
c) Liabilities from the granting of collateral for third-party liabilities				0	0
				44 208 924	36 132 923
2. Other commitments					
a) Transactions without firm repurchase agreements				0	0
b) Placing and underwriting commitments	22			0	0
c) Irrevocable loan commitments	22			33 648 349	27 424 150
				33 648 349	27 424 150

Notes

to the Annual Financial Statements of Landesbank Baden-Württemberg, Stuttgart, Karlsruhe, Mannheim, and Mainz as of December 31, 2008.

1. Principles Governing the Preparation of the Financial Statements.

The financial statements for the 2008 fiscal year of Landesbank Baden-Württemberg (LBBW) with headquarters in Stuttgart, Karlsruhe, Mannheim, and Mainz were drawn up in compliance with the provisions of the Handelsgesetzbuch (HGB, the German Commercial Code), in particular the »Supplemental Regulations for Banks« (§§ 340 et seq. HGB) and Verordnung über die Rechnungslegung der Kreditinstitute und Finanzdienstleistungsinstitute (RechKredV, the German Accounting Regulation for Banks and Financial Service Institutions).

LBBW's audited single-entity financial statements for 2008 and a separate list entitled »Substantial Subsidiaries and Affiliates of Landesbank Baden-Württemberg« pursuant to § 285, No. 11 and § 313 (2) HGB will be published in the electronic Bundesanzeiger (the German Federal Gazette), where they can be inspected.

2. Comparability of Previous Year's Figures.

Integration of Landesbank Rheinland-Pfalz.

As of July 1, 2008, the wholly owned subsidiary LRP Landesbank Rheinland-Pfalz (LRP) was merged with LBBW retroactively to January 1, 2008 and thus lost its status as a legally independent institution. The merger was carried out in line with § 24 of the Umwandlungsgesetz (UmwG, German Reorganization Law). The assets and liabilities of LRP were assumed in the balance sheet of LBBW at the carrying amount. The equity of LRP was offset against the carrying amount of LBBW's interest in LRP and the difference recorded as merger profit in the extraordinary result. This extended the balance sheet by EUR 70.5 billion. On the assets side, loans and advances to other banks accounted for EUR 29.6 billion of this, bonds and other fixed-income securities for EUR 19.6 billion and loans and advances to customers for EUR 17.2 billion. On the liabilities side, securitized liabilities accounted for EUR 28.0 billion, deposits from other banks for EUR 27.5 billion and amounts due to customers for EUR 10.2 billion.

Integration of Landesbank Sachsen AG.

As of April 1, 2008, Landesbank Sachsen AG (SLB) was absorbed into LBBW by way of accrual, thereby losing its status as a legally independent entity. The assets and liabilities of SLB were assumed in the balance sheet of LBBW at the carrying amount. The equity of SLB was offset against the carrying amount of LBBW's interest in SLB and the difference recorded as a merger loss in the extraordinary result. This extended the balance sheet by EUR 54.4 billion. On the assets side, bonds and other fixed-income securities accounted for EUR 19.3 billion of this, loans and advances to other banks for EUR 16.7 billion and loans and advances to customers for EUR 16.3 billion. On the liabilities side, deposits from other banks accounted for EUR 24.6 billion, securitized liabilities for EUR 20.2 billion and amounts due to customers for EUR 6.5 billion.

The receivables and payables arising from this migration are offset against each other at the time of migration.

The corresponding items in the income statement have also increased against the previous year due to the increase in business volume as a result of the migration. However, due to the migration of the portfolios to LBBW's systems, the amounts resulting from this cannot be determined separately.

3. General Accounting and Valuation Methods.

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

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

Specific valuation allowances have been recognized for major or significant loans (loan volume greater than EUR 1 million) for which objective indications of impairment have been identified. The impairment loss is calculated as the carrying amount of the loan less the present value of future payments received on account of the loan, calculated using the discounted cash flow method and taking any collateral into account. In the case of insignificant, standardized loans (receivables volume of less than EUR 1 million), we comply with the principle of single-unit valuation to the extent that we group the loans concerned together into homogenous portfolios. In these cases collective valuation allowances for individual risks are recognized by using a statistically calculated or estimated default amount relating to the exposure at the time of default. Portfolio-based valuation allowances are recognized for losses in the loan portfolio that had already arisen as of the balance sheet date but were not yet identified. Their amount is based on historical default probabilities and loss rates relating to parts of the loan portfolio for which no other provisions have been set up as well as the average discovery period to be assumed. The calculation of the portfolio-based valuation allowances takes country risks in the form of transfer and/or conversion risks into account. On the whole, the calculation of the portfolio-based valuation allowances, collective valuation allowances, and specific risk provisions therefore follows the method prescribed by the International Financial Reporting Standards (IFRS).

LBBW includes ongoing interest payments in the net interest income, in line with HGB. In order to prevent the interest from being reported twice, the unwinding to be taken into account under IFRS is not applied.

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

We carry securities held as long-term investments, companies in which an equity interest is held and shares in affiliated companies at acquisition cost or the fair value on the reporting date (if lower) in the case of continued impairment losses. If the reasons for impairment in earlier fiscal years have elapsed, additions up to the amount of the fair value are carried out to a maximum of the acquisition costs.

Selling profit or loss from investment transactions is recorded in other operating income or expense on the basis of § 340c (2), clause 2 HGB. We have presented our material shareholdings and the information in addition to this in line with § 285 clause 1 No.11 HGB in the list of shareholdings in line with § 313 (4) HGB.

Acquired intangible assets are carried at acquisition cost less scheduled amortization and, where necessary, non-scheduled write-downs. Scheduled write-downs are taken over the useful life of the assets using the rates allowed by tax regulations.

Tangible assets are carried at acquisition or production cost less scheduled depreciation and, where necessary, non-scheduled write-downs. Depreciation on tangible assets of domestic offices is calculated for wear and tear on the basis of tax provisions. Low-value assets are fully written off in the year of their acquisition.

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

Liabilities are valued at the repayable amount.

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

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

Pension commitments are always expensed in compliance with the relevant tax provisions.

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

4. Derivatives.

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

With due regard to the accounting practice statement IDW RS HFA 22 issued by the Hauptfachausschuss (Auditing and Accounting Board) of the Institut der Wirtschaftsprüfer (IDW, the German Institute of Certified Public Accountants), ancillary agreements of a derivative nature included in portfolio-related management of trading positions are disclosed separately from the underlying transactions and are included in the following tables in the same way as derivative transactions that are concluded independently.

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

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

The tables also exclude internal derivative financial instruments.

Derivative Transactions – Product Structure.

EUR million	Nominal values Dec. 31, 2008	Nominal values Dec. 31, 2007	Positive market value[1] Dec. 31, 2008	Negative market value[1] Dec. 31, 2008
Interest rate swaps	1 144 149.1	999 497.8	26 021.1	25 618.8
FRAs	50 068.5	317 231.9	67.5	76.9
Interest rate options				
purchases	29 831.4	30 482.4	1 589.20	–18.2
sales	46 608.3	39 721.9	– 0.2	2 326.5
Caps, floors, collars	46 199.9	42 358.1	464.7	301.1
Futures contracts	116 471.8	83 252.8	50.8	119.2
Other interest rate futures	851.1	2 547.1	10.4	15.9
Interest rate risks – overall	**1 434 180.1**	**1 515 092.0**	**28 203.5**	**28 440.2**
Currency forwards	140 191.8	135 821.0	5 890.6	4 520.3
Cross-currency interest rate swaps	29 502.8	28 053.0	2 137.1	2 784.8
Currency options				
purchases	5 678.9	8 119.7	368.1	0.0
sales	5 246.7	6 728.9	0.0	322.8
Currency risks – overall	**180 620.2**	**178 722.6**	**8 395.9**	**7 627.8**
Futures contracts	5 711.1	1 695.0	342.0	1 026.9
Equity forward contracts	125.9	5.0	1.3	43.2
Stock options				
purchases	5 306.7	8 246.1	868.6	0.0
sales	5 662.8	7 795.2	0.0	1 415.6
Commodities	796.9	1 130.6	147.5	144.5
Equities and other price risks – overall	**17 603.4**	**18 871.9**	**1 359.3**	**2 630.2**

EUR million	Nominal values Dec. 31, 2008	Nominal values Dec. 31, 2007	Positive market value[1] Dec. 31, 2008	Negative market value[1] Dec. 31, 2008
Credit derivatives (protection seller)	59 492.0	51 359.1	62.4	4 479.5
Credit derivatives (protection buyer)	38 691.5	31 781.6	3 695.9	73.2
Credit derivatives	**98 183.5**	**83 140.7**	**3 758.3**	**4 552.7**
Risks – overall	**1 730 587.2**	**1 795 827.2**	**41 717.0**	**43 251.1**

1 including interest rate limit (dirty price)

Thereof:

Derivative Transactions – Trading Transactions.

EUR million	Nominal values		Positive market value[2]	Negative market value[2]
	Dec. 31, 2008	Dec. 31, 2007	Dec. 31, 2008	Dec. 31, 2008
Interest rate risks	1 297 280.3	1 334 418.1	23 391.8	22 449.5
Currency risks	158 888.8	153 987.2	7 189.3	5 801.3
Equities and other price risks	17 211.1	13 785.5	1 059.0	2 246.0
Credit derivatives	55 985.6	41 271.4	2 278.8	2 182.8
Trading transactions – overall	**1 529 365.8**	**1 543 462.2**	**33 918.9**	**32 679.6**

Derivative Transactions – Maturity Structure (According to Remaining Maturity).

Nominal value

EUR million	Up to 3 months	Between 3 months and 1 year	1 to 5 years	More than 5 years	Total
Interest rate risks					
Dec. 31, 2008	245 699.4	344 257.5	459 326.7	384 896.6	1 434 180.1
Dec. 31, 2007	268 873.0	529 181.6	364 629.2	352 408.2	1 515 092.0
Currency risks					
Dec. 31, 2008	93 349.1	53 475.6	25 412.7	8 382.9	180 620.2
Dec. 31, 2007	102 996.3	42 687.7	23 883.5	9 155.1	178 722.6
Equities and other price risks					
Dec. 31, 2008	3 627.8	5 008.3	2 700.0	6 267.3	17 603.4
Dec. 31, 2007	5 431.2	7 767.6	2 572.1	3 100.9	18 871.9
Credit derivatives					
Dec. 31, 2008	2 634.9	4 986.5	67 570.9	22 991.2	98 183.5
Dec. 31, 2007	1 861.1	4 914.2	50 777.5	25 587.9	83 140.7
Risks – overall					
Dec. 31, 2008	**345 311.1**	**407 727.9**	**555 010.3**	**422 537.9**	**1 730 587.2**
Dec. 31, 2007	**379 161.6**	**584 551.2**	**441 862.3**	**390 252.1**	**1 795 827.2**

2 including interest rate limit (dirty price)

Derivative Transactions – Structure of Counterparties.

EUR million	Nominal values		Positive market value[3]	Negative market value[3]
	Dec. 31, 2008	Dec. 31, 2007	Dec. 31, 2008	Dec. 31, 2008
Banks in the OECD	1 420 828.9	1 551 750.4	34 611.0	35 901.0
Banks outside the OECD	17 455.3	11 815.1	842.6	204.3
Public sector agencies in OECD countries	32 459.5	30 410.3	1 157.0	1 161.5
Other counterparties	259 843.5	201 851.4	5 106.4	5 984.3
Counterparties – overall	**1 730 587.2**	**1 795 827.2**	**41 717.0**	**43 251.1**

The market values of the derivatives are not synonymous with the Bank's market price risks which result from the development of interest rates, exchange rates, stock prices, commodity prices or changes in credit standing, as risk class management relies on both on-balance sheet and derivative transactions. The risk report in compliance with § 289 HGB contains information about the scope and development of the Bank's market price risks.

The market values calculated as of the balance sheet date are values at which it would be possible to liquidate or transfer the position or to conclude an offsetting transaction.

In this context, the negative market values represent the amount that would be required for a potential liquidation of the derivative financial instruments as of the balance sheet date irrespective of their intended purpose.

The positive market values include the amount that would accrue from a potential liquidation as of the balance sheet date. Except for futures contracts as well as options sold that are free of counterparty risk, a positive market value at the same time reflects the maximum potential counterparty-related default risk from derivative financial instruments which existed as of the balance sheet date. The tables exclude netting and collateral agreements which mitigate default risks as these agreements benefit several types of products.

Valuation of Derivative Financial Instruments.

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

Product group	Relevant valuation model
Interest rate swaps	Net present value method, interest rate structure model
Forward rate agreements	Net present value method
Interest rate options	Black-Scholes, Black 76 (on Yield), interest rate structure model
Stock/index options	Black-Scholes, numerical procedure
Currency options	Garman Kohlhagen, mod. Black-Scholes
Commodity options	Garman Kohlhagen, mod. Black-Scholes
Credit derivatives	Intensity model, copula model

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

Recognition of Valuation Results in the Balance Sheet.

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

Micro and Macro Hedges (excluding credit derivatives).

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

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

3 including interest rate limit (dirty price)

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

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

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

Trading Transactions.

Trading transactions are subject to the oversight of the trading divisions within the framework of the predetermined risk limits.

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

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

Credit Derivatives, Non-trading.

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

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

Protection seller transactions outside the trading portfolio that are not offset by specific compensating balances within the »Liabilities to banks« or »Liabilities to customers« balance sheet items are included below the line in »Contingent liabilities«, sub-item b »Liabilities from sureties and guarantee agreements«.

For micro hedges, individual assets or liabilities are linked with credit derivatives for the purpose of hedging against credit risks. On-balance sheet transactions and credit derivatives are treated as a valuation unit.

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

5. Foreign Currency Translation.

Foreign currency assets worth EUR 73.6 billion (2007: EUR 67.5 billion) and foreign currency liabilities worth EUR 58.6 billion (2007: EUR 99.1 billion), as well as income and expenses, included in the financial statements were translated in compliance with § 340h (1) HGB and under consideration of statement No. 3/1995 issued by the BFA. The risk of exchange rate movements associated with balance sheet items denominated in foreign currencies, including precious metals, is primarily covered by off-balance sheet hedging transactions.

In order to determine the currency position, LBBW offset foreign currency assets and foreign currency liabilities arising from on-balance and off-balance sheet transactions by currency.

Assets and liabilities – except for insignificant equity interests in fixed assets which were not funded with matching currencies – were translated at the mean spot rate as of December 30, 2008. Differences resulting from the translation of hedged assets and liabilities at the mean spot rate were allocated to the foreign currency adjustment item, which was included in other liabilities/ other assets (depending on the balance). The adjustment item primarily corresponds to the balance of the market values of the currency forwards, cross-currency interest-rate swaps, and currency swaps.

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

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

Notes to the Balance Sheet.

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

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

EUR million	Dec. 31, 2008	Dec. 31, 2007
A3. Loans and advances to other banks	**134 881.9**	**136 935.3**
thereof to affiliates	2 958.6	2 656.9
thereof to companies in which an equity interest is held	43 178.8	34 501.0
thereof to savings banks in Baden-Württemberg	42 883.4	34 073.0
A4. Loans and advances to customers	**157 918.1**	**129 166.2**
thereof to affiliates	16 256.5	5 187.6
thereof to companies in which an equity interest is held	471.3	258.1
A5. Bonds and other fixed-income securities	**108 242.1**	**98 420.9**
thereof to affiliates	3 698.9	3 030.5
thereof to companies in which an equity interest is held	5 056.6	1 429.4
P1. Deposits from other banks	**142 543.8**	**143 029.3**
thereof to affiliates	508.5	4 187.3
thereof to companies in which an equity interest is held	24 258.9	18 553.1
thereof to savings banks in Baden-Württemberg	23 894.0	18 380.4
P2. Due to customers	**111 366.2**	**94 485.4**
thereof to affiliates	8 843.8	8 178.7
thereof to companies in which an equity interest is held	174.9	107.2
P9. Subordinated liabilities	**5 637.2**	**4 960.9**
thereof to affiliates	388.9	360.0
thereof to companies in which an equity interest is held	0.0	0.0

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

7. Maturity Structure of the Balance Sheet Items.

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

EUR million	Dec. 31, 2008	Dec. 31, 2007
A3. b): Other loans and advances to other banks	**123 986.7**	**119 267.9**
Up to 3 months	37 981.9	48 038.6
Between 3 months and 1 year	24 671.6	17 258.7
Between 1 and 5 years	36 437.1	30 017.3
More than 5 years	24 896.1	23 953.3
A4. Loans and advances to customers	**157 918.1**	**129 166.2**
Up to 3 months	34 792.5	45 341.9
Between 3 months and 1 year	14 869.3	11 342.4
Between 1 and 5 years	37 879.6	26 432.6
More than 5 years	64 585.4	42 887.0
With unlimited maturity	5 791.3	3 162.3
A5. Bonds and other fixed-income securities	**108 242.1**	**98 420.9**
thereof due in the following year	37 889.7	44 204.5
P1. b): Deposits from other banks with an agreed maturity or withdrawal notice	**137 145.1**	**134 812.1**
Up to 3 months	61 519.9	83 215.8
Between 3 months and 1 year	24 320.8	16 849.7
Between 1 and 5 years	17 850.3	12 865.9
More than 5 years	33 454.1	21 880.7
P2. a) ab): Savings deposits with agreed withdrawal notice of over 3 months	**140.8**	**277.5**
Up to 3 months	22.8	42.5
Between 3 months and 1 year	20.8	117.3
Between 1 and 5 years	68.5	81.1
More than 5 years	28.7	36.6
P2. b) bb): Other deposits from customers with an agreed maturity or withdrawal notice	**85 010.0**	**67 447.7**
Up to 3 months	35 545.9	30 409.2
Between 3 months and 1 year	10 914.4	6 084.8
Between 1 and 5 years	18 286.1	13 288.9
More than 5 years	20 263.7	17 664.7
P3. Securitized liabilities		
a) Bonds issued	**125 394.2**	**98 834.3**
thereof due in the following year	29 398.0	26 331.6
b) Other securitized liabilities	**16 878.7**	**16 169.1**
Up to 3 months	6 147.3	6 459.3
Between 3 months and 1 year	10 731.4	9 709.8
Between 1 and 5 years	0.0	0.0
More than 5 years	0.0	0.0

8. Securities and Equity Investments.

The assets items below include marketable securities as well as equity investments and affiliates in line with the less strict lower-of-cost-or-market principle:

EUR million	Dec. 31, 2008	Dec. 31, 2007
A5. Bonds and other fixed-income securities		
Marketable	79 227.8	98 420.9
thereof listed	67 080.6	76 245.4
No amortization due to temporary impairment		
Carrying amount	33 146.9	0.0
Fair value	30 276.8	0.0
A6. Equities and other non-fixed-income securities		
Marketable	1 272.7	1 974.7
thereof listed	1 090.6	1 806.2
No amortization due to temporary impairment		
Carrying amount	390.4	0.0
Fair value	27.5	0.0
A7. Equity investments		
Marketable	836.9	222.3
thereof listed	711.1	174.5
No amortization due to temporary impairment		
Carrying amount	604.9	0.0
Fair value	539.8	0.0
A8. Investments in affiliates		
Marketable	665.3	111.7
thereof listed	0.0	0.0
No amortization due to temporary impairment		
Carrying amount	19.5	0.0
Fair value	17.6	0.0

Securities held as long-term investments, equity investments and shares in affiliated companies are carried at cost or amortized cost or at fair value (if lower) in the case of permanent impairment loss. The impairment of the securities held as long-term investments, equity investments and shares in affiliated companies is determined on the reporting date on the basis of published stock market price quotations, i.e. in line with IDW S1 in conjunction with IDW RS HFA 10-recognized valuation methods (income value or discounted cash flow method).

In the case of impairments which are foreseeably not permanent, the option of § 253 (2), clause 3 HGB is exercised in conjunction with § 340e (1) HGB, so that no amortizations are made on the lower fair value (less strict lower-of-cost-or-market principle). The impairment is judged as non-permanent if the Companies' net payments/deposits expected in the future allow this.

9. Subordinated Assets.

Subordinated assets are included in the following asset items:

EUR million	Dec. 31, 2008	Dec. 31, 2007
A3. Loans and advances to other banks	263.4	241.1
A4. Loans and advances to customers	427.3	206.2
A5. Bonds and other fixed-income securities	1 588.1	752.2
A6. Equities and other non-fixed-income securities	22.2	53.9

10. Transactions with Firm Repurchase Agreements and Open-Market Transactions.

As of the balance sheet date, bonds of EUR 31 347.4 million (2007: EUR 28 146.0 million) were pledged under repurchase agreements in the course of open-market transactions with Deutsche Bundesbank, of which EUR 555.3 million (2007: EUR 7,004.6 million) was required.

The book value of securities sold to other banks and non-banks under repurchase agreements as of the balance sheet date was EUR 29 119.8 million (2007: EUR 25 293.3 million). With the previous year's figures, corrections were made to the information given in 2007.

11. Fiduciary Transactions.

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

EUR million	Dec. 31, 2008	Dec. 31, 2007
Trust assets	**1 156.2**	**241.8**
Loans and advances to other banks	6.2	1.1
Loans and advances to customers	881.9	52.2
Fixed-income securities	4.5	0.0
Equity investments	126.4	126.4
Property and equipment	54.7	62.1
Other items	82.5	0.0
Trust liabilities	**1 156.2**	**241.8**
Deposits from other banks	150.0	51.9
Due to customers	1 006.2	189.9
Other	0.0	0.0

12. Fixed Assets.

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

EUR million	Acquisition costs (LBBW only)	Additions through accrual of SLB and LRP	Acquisition costs LBBW (LBBW incl. SLB and LRP)	Additions	Disposals	Reclassifications	Reversals of impairment losses	Write-downs and valuation allowances cumulative	Write-downs and valuation allowances in fiscal year	Carrying amount Dec. 31, 2008	Carrying amount Dec. 31, 2007
Equity investments	874.9	705.0	1 579.9	678.5	294.9	5.0	0.0	17.2	7.5	1 951.3	865.2
Investments in affiliates	3 641.9	2 048.2	5 690.1	2 795.4	1 788.8	– 5.0	0.0	375.6	313.8	6 316.1	3 580.0
Securities held as long-term investments	0.0	13 562.7	0.0	27 812.1	799.8	0.0	56.6	267.6	0.0	40 364.0	0.0
Intangible assets	452.0	35.3	487.3	43.2	18.5	– 1.8	0.0	435.2	36.0	75.0	54.6
Land and buildings	784.7	136.0	920.7	7.9	344.6	– 8.7	0.0	293.2	17.9	282.1	397.1
thereof: land and buildings used commercially	584.8	125.8	710.6	4.3	318.5	2.5	0.0	203.1	14.2	195.8	304.1
Other assets, operational and business equipment	568.2	36.8	605.0	80.1	73.9	10.5	0.0	393.1	51.0	228.6	181.9
Total fixed assets										**49 217.1**	**5 078.8**

13. Other Assets.

Items of particular significance included in LBBW's other assets are option premiums totaling EUR 2 161.9 million (2007: EUR 1 615.8 million), an adjustment item of EUR 2 275.2 million (2007: EUR 713.0 million) relating to risk-adjusted mark-to-market valuation, and tax refund claims amounting to EUR 790.6 million (2007: EUR 650.6 million).

The tax refund claims include claims relating to taxes on income for past fiscal years amounting to EUR 249.1 million, claims relating to other taxes of EUR 5.9 million, claims of EUR 70.1 million from reversal effects in connection with the tax audit of a predecessor institution, and claims relating to taxes on income for fiscal 2008 of EUR 319.3 million. The tax refund claims stand in contrast to tax provisions amounting to EUR 315.3 million (2007: EUR 235.5 million).

14. Prepaid Expenses.

Deferred items include the following amounts:

EUR million	Dec. 31, 2008	Dec. 31, 2007
Prepaid expenses	**1 424.0**	**951.7**
Discount from liabilities in line with § 250 (3) HGB	895.3	560.9
Premium from receivables in line with § 340 e (2) clause 3 HGB	145.9	150.3
Deferred income	**1 141.0**	**965.3**
Discount from receivables in line with § 340 e (2) clause 2 HGB	268.2	221.3

Deferred items additionally include nonrecurring payments from interest rate swaps and cross-currency interest-rate swaps amounting to EUR 132.3 million (2007: EUR 107.6 million) on the assets side and EUR 245.4 million (2007: EUR 227.9 million) on the liabilities side which resulted from asset- and liability-swap combinations.

15. Coverage of Mortgage and Municipal Loan Transactions.

The liabilities below are covered as follows:

EUR million	Dec. 31, 2008	Dec. 31, 2007
Mortgage-backed covered bonds (Hypothekenpfandbriefe) issued in line with ÖPG (German Act concerning Pfandbriefe and associated Bonds of Banks under Public Law) and PfandBG (German Covered Bond Act)	6 238.0	4 900.3
To cover certain assets	11 770.7	9 448.6
A3. Loans and advances to other banks	344.5	472.6
A4. Loans and advances to customers	11 426.2	8 976.0
Overcollateralization	**5 532.7**	**4 548.3**
Public-sector covered bonds (öffentliche Pfandbriefe) in line with PfandBG (German Covered Bond Act)	72 132.0	68 248.9
To cover certain assets	87 685.2	77 326.8
A3. Loans and advances to other banks	47 398.4	45 663.4
A4. Loans and advances to customers	24 127.2	18 487.6
A5. Bonds and other fixed-income securities	16 159.6	13 175.8
Overcollateralization	**15 553.2**	**9 077.9**

16. Transparency Provisions for Public-Sector Covered Bonds (öffentliche Pfandbriefe) and Mortgage-Backed Covered Bonds (Hypothekenpfandbriefe) Pursuant to § 28 PfandBG (German Covered Bond Act).

A) Transparency Provisions for Public-sector Covered Bonds Pursuant to § 28 PfandBG.

EUR million	Dec. 31, 2008	Dec. 31, 2007
a) Cover fund for public-sector covered bonds		
Nominal value	87 685	77 327
Present value	92 074	78 341
Present value (+ 250 bp)	86 251	73 484
Present value (– 250 bp)	98 708	84 219
Circulation of public-sector covered bonds		
Nominal value	72 132	68 249
Present value	76 056	69 280
Present value (+ 250 bp)	71 205	65 119
Present value (– 250 bp)	81 441	74 335
Overcollateralization		
Nominal value	15 553	9 078
Present value	16 018	9 061
Present value (+ 250 bp)	15 046	8 365
Present value (– 250 bp)	17 267	9 884
b) Proportion of derivatives in cover fund	0	0

c) Term structure of public-sector covered bonds

	Dec. 31, 2008				
EUR million	Up to 1 year	1 to 5 years	5 to 10 years	More than 10 years	Total
Cover fund	18 541	40 124	23 400	5 620	87 685
Circulating public-sector covered bonds	18 012	40 731	11 428	1 961	72 132

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

d) Total nominal value of cover funds according to country/type

	Dec. 31, 2008				
EUR million	Country	Regional government	Local government	Other debtors	Total
Austria	21	10	12	0	43
Belgium	0	0	0	0	0
Canada	0	73	0	0	73
Cyprus	10	0	0	0	10
Czech Republic	65	0	0	0	65
Federal Republic of Germany	1 399	11 682	6 959	62 415	82 455
Finland	50	0	0	0	50
France incl. Monaco	50	3	11	0	64
Greece	1 027	0	0	0	1 027
Hungary	57	0	0	0	57
Iceland	20	0	0	0	20
Ireland	0	0	0	0	0
Italy	685	147	22	600	1 454
Japan	300	0	0	0	300
Latvia	30	0	0	0	30
Luxembourg	0	0	0	9	9
Netherlands	0	0	0	200	200
Poland	22	0	0	0	22
Portugal incl. Azores and Madeira	0	0	0	0	0
Slovakia	80	0	0	0	80
Slovenia	10	0	0	0	10
Spain	0	389	48	0	437
Switzerland	0	1 217	0	0	1 217
United States of America (incl. Puerto Rico)	0	22	0	40	62
Total	**3 826**	**13 543**	**7 052**	**63 264**	**87 685**

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

e) Total amount of payments outstanding at least 90 days according to country/type

	Dec. 31, 2008				
EUR million	Country	Regional government	Local government	Other debtors	Total
Austria	0	0	0	0	0
Canada	0	0	0	0	0
Cyprus	0	0	0	0	0
Czech Republic	0	0	0	0	0
Federal Republic of Germany	0	0	0	0	0
Finland	0	0	0	0	0
France incl. Monaco	0	0	0	0	0
Greece	0	0	0	0	0
Hungary	0	0	0	0	0
Iceland	0	0	0	0	0
Ireland	0	0	0	0	0
Italy	0	0	0	0	0
Japan	0	0	0	0	0
Latvia	0	0	0	0	0
Luxembourg	0	0	0	0	0
Poland	0	0	0	0	0
Portugal incl. Azores and Madeira	0	0	0	0	0
Slovakia	0	0	0	0	0
Slovenia	0	0	0	0	0
Spain	0	0	0	0	0
Switzerland	0	0	0	0	0
United States of America (incl. Puerto Rico)	0	0	0	0	0
Total	**0**	**0**	**0**	**0**	**0**

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

B) Transparency Provisions for Mortgage-Backed Covered Bonds (Hypothekenpfandbriefe) Pursuant to § 28 PfandBG (German Covered Bond Act).

EUR million	Dec. 31, 2008	Dec. 31, 2007
a) Cover fund for mortgage-backed covered bonds		
Nominal value	6 042	3 787
Present value	6 460	3 844
Present value (+250 bp and currency stress)	5 824	3 481
Present value (–250 bp)	7 235	4 285
Circulation of mortgage-backed covered bonds (Hypothekenpfandbriefen)		
Nominal value	2 829	1 418
Present value	2 978	1 428
Present value (+250 bp and currency stress)	2 832	1 320
Present value (–250 bp)	3 151	1 554
Overcollateralization		
Nominal value	3 213	2 369
Present value	3 482	2 416
Present value (+250 bp and currency stress)	2 992	2 161
Present value (–250 bp)	4 084	2 731
b) Proportion of derivatives in cover fund	0	0

c) Term structure of the mortgage-backed covered bonds according to PfandBG

			Dec. 31, 2008		
EUR million	Up to 1 year	1 to 5 years	5 to 10 years	More than 10 years	Total
Cover fund	789	2 233	2 492	528	6 042
Circulating mortgage-backed covered bonds	760	1 625	439	5	2 829

			Dec. 31, 2007		
EUR million	Up to 1 year	1 to 5 years	5 to 10 years	More than 10 years	Total
Cover fund	622	1 284	1 565	316	3 787
Circulating mortgage-backed covered bonds	364	569	485	0	1 418

d) Total nominal value of the cover funds according to the amount of the individual cover funds

EUR million	Dec. 31, 2008	Dec. 31, 2007
Up to EUR 300,000	2 357	1 076
Between EUR 300,000 and EUR 5 million	1 869	1 423
More than EUR 5 million	1 816	1 288
Total	**6 042**	**3 787**

e) Total nominal value of cover funds according to type of use/ country

EUR million	Dec. 31, 2008			
	Federal Republic of Germany	Netherlands	France	Total
Commercially utilized land	0	0	0	0
Land used for residential purposes	0	0	0	0
Apartments	800	0	0	800
Single family houses	1 076	0	0	1 076
Multi-family houses	1 897	0	0	1 897
Office buildings	630	30	0	660
Trade buildings	458	0	0	458
Industrial buildings	28	0	0	28
Other commercially used buildings	874	0	0	874
Incomplete and not profitable new buildings	142	0	0	142
Building sites	21	0	0	21
Other cover	80	0	0	80
Total	**6 006**	**30**	**0**	**6 036**

EUR million	Dec. 31, 2007			
	Federal Republic of Germany	Netherlands	France	Total
Commercially utilized land	0	0	0	0
Land used for residential purposes	0	0	0	0
Apartments	346	0	0	346
Single family houses	485	0	0	485
Multi-family houses	1 458	0	0	1 458
Office buildings	377	30	0	407
Trade buildings	308	0	0	308
Industrial buildings	17	0	0	17
Other commercially used buildings	599	0	0	599
Incomplete and not profitable new buildings	116	0	0	116
Building sites	11	0	0	11
Other cover	40	0	0	40
Total	**3 757**	**30**	**0**	**3 787**

f) Total amount of payments outstanding at least 90 days according to country

EUR million	Federal Republic of Germany	Netherlands	France	Total
Dec. 31, 2008	0	0	0	0
Dec. 31, 2007	0	0	0	0

g) Quantity of pending foreclosures and compulsory administration and foreclosures carried out in the fiscal year

	Dec. 31, 2008	
Quantity	Commercially utilized land	Land serving residential purposes
Foreclosures pending	0	0
Cases of compulsory administration pending	0	0
Foreclosures carried out	0	0
Total	**0**	**0**

	Dec. 31, 2007	
Quantity	Commercially utilized land	Land serving residential purposes
Foreclosures pending	0	0
Cases of compulsory administration pending	0	0
Foreclosures carried out	0	0
Total	**0**	**0**

h) Acquisition of land to prevent losses

	Total	
Quantity	Commercially utilized land	Land serving residential purposes
Jan. 1, 2008 – Dec. 31, 2008	0	0
Jan. 1, 2007 – Dec. 31, 2007	0	0

i) Total amount of outstanding interest

Quantity	Total: Commercially utilized land	Total: Land serving residential purposes
Jan. 1, 2008 – Dec. 31, 2008	0	0
Jan. 1, 2007 – Dec. 31, 2007	0	0

j) Total amount of repayments on the mortgages

EUR million	Jan 1, 2008 – Dec. 31, 2008: Land serving residential purposes	Jan 1, 2008 – Dec. 31, 2008: Commercially utilized land
Repayment by amortization	28	68
Repayment in another form	28	34
Total	**56**	**102**

EUR million	Jan 1, 2007 – Dec. 31, 2007: Land serving residential purposes	Jan 1, 2007 – Dec. 31, 2007: Commercially utilized land
Repayment by amortization	27	26
Repayment in another form	11	1
Total	**38**	**27**

17. Other Liabilities.

The most important individual components of the »Other liabilities« item are option premiums totaling EUR 3 514.4 million (2007: EUR 1 847.4 million) and pro rata interest from the swap custody business amounting to EUR 271.0 million (2007: EUR 227.6 million).

18. Assets Assigned as Collateral for Own Liabilities.
Assets in the amounts stated below were assigned for the following liabilities and contingent liabilities

EUR million	Dec. 31, 2008	Dec. 31, 2007
Deposits from other banks	63 321.1	55 534.9
Due to customers	365.7	493.8
Securitized liabilities	67.5	24.6
Subordinated liabilities	13.0	2.3
Contingent liabilities	140.0	138.0
Total amount of collateral transferred	**63 907.3**	**56 193.6**

19. Special Item with Partial Reserve Character.
The existing special item with partial reserve character amounting to EUR 6.9 million (§ 247 (3) in conjunction with § 273 HGB) was recognized and utilized in compliance with the provisions of § 6b EStG. In the 2008 fiscal year, the portfolio increased from EUR 69.0 million by EUR 10.4 million to EUR 79.4 million through the accrual of LRP. Following an addition of EUR 0.7 million to provisions and a reversal of provisions of EUR 73.2 million, the closing balance was EUR 6.9 million.

20. Subordinated Liabilities.
The subordinated liabilities of EUR 5 637.2 million recorded in the balance sheet comply with the requirements of § 10 (5a), clause 5 KWG (German Banking Act) (EUR 4 883.7 million) after deduction of Tier 3 capital (EUR 640.5 million), pro rata interest (EUR 89.2 million), the original discount (EUR 13.6 million), three issues not recognizable for regulatory purposes (EUR 0.8 million), write-ups of zero bonds in the last four years before maturity (EUR 31.7 million), plus further corrections owing to the use of different exchange rates (EUR 22.4 million). In this respect, only two-fifths (EUR 113.9 million) of EUR 284.8 million (book value or issuing price for zero bonds plus write-ups during the period ending five years before maturity; previous year: EUR 94.9 million) were recognized because these liabilities might fall due within the two-year period stipulated in § 10 (5a), sentence 2 KWG, or because there is a cancellation right.

A total of EUR 4 712.8 million of the subordinated liabilities as of December 31, 2008 was included in supplementary capital pursuant to § 10 (5a) KWG. A market-smoothing item totaling EUR 18.4 million is required to be deducted from this amount as of the reporting date (December 31, 2008).

The correction of EUR 22.4 million results from different conversion rates having been applied as of the balance sheet date by the reporting unit (ECB reference rate) and the accounting unit (EuroFX rate) and the limited allocatability of the interest accrued from subordinated zero borrower's note loans to liable capital in line with § 10 (5a) clause 1 no. 2 KWG.

In the year under review, interest expenses of EUR 272.4 million (previous year: EUR 231.1 million) were incurred for subordinated liabilities.

21. Equity.

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

EUR million	Dec. 31, 2008
Equity as of December 31, 2007	10 940.8
./. Distribution from 2007 net retained profit	85.2
+ Price-related changes in the silent partners	12.8
+ Changes in the silent partners	1 177.6
2008 net retained profit	94.1
Equity as of December 31, 2008	12 140.1

22. Items Below the Line.

Credit default swaps amounting to EUR 29 393.3 million (2007: EUR 25 521.5 million) for which LBBW provides counterparties with collateral similar in nature to guarantees are reported below the line. The credit default swaps relate to 947 individual transactions (2007: 755). Of the total volume, the main institution accounts for EUR 10 461.3 million (2007: EUR 8 246.0 million), the London branch for EUR 15 346.3 million, the Singapore branch for EUR 1 349.0 million and the New York branch for EUR 2 236.7 million.

The total portfolio, including the credit default swaps for which LBBW provides no collateral, is described under item No. 4 Derivatives.

The irrevocable loan commitments are exclusively made up of external commitments. Delivery commitments arising from forward transactions totaled EUR 1 853.1 million as of the balance sheet date (2007: EUR 2 031.2 million). This figure includes borrower's note loan transactions (EUR 438.0 million), term money (EUR 718.9 million), fixed-income securities (EUR 54.7 million) and securities repurchase agreements (EUR 641.5 million).

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

23. Letter of Comfort.

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

There was a letter of comfort in the case of LBBW Bank Ireland plc, Dublin (now LBBW Asset Management (Ireland), Dublin). This was withdrawn as of August 31, 2007.

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.

24. Guarantors' Liability (Gewährträgerhaftung).

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

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

In addition, LBBW will release the trustors and former guarantors of SLB inter partes from all claims for liabilities arising from the guarantor's liability (Gewährträgerhaftung) and maintenance obligation (Anstaltslast) they have assumed for SLB that are asserted against the trustors and former guarantors of SLB 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 Sealink structure (successor company to Ormond Quay and Castle Views), 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 of May 6, 2004 amended July 7, 2005, between SachsenLB 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 SLB inter partes from all claims for liabilities arising from the guarantor's liability (Gewährträgerhaftung) and maintenance obligation (Anstaltslast) they have assumed for SLB that are asserted against the trustors and former guarantors of SLB for the first time after December 31, 2010.

25. Other Financial Obligations.

Other financial obligations that neither appear on the balance sheet nor below the line amounted to EUR 915.9 million (2007: EUR 483.2 million) at LBBW. EUR 135.6 million per year thereof is accounted for by long-term rental and leasing contracts, while EUR 75.8 million is attributable to an obligation to contribute to Liquiditäts- und Konsortialbank GmbH, Frankfurt am Main, in the year under review. There are obligations to make further contributions of EUR 633.2 million to the reserve fund of the Landesbanken and the Girozentralen (central savings banks). Payment of these additional contributions can be called in immediately in the event that an institution requires assistance.

EUR 56.1 million (2007: EUR 39.9 million) of the other financial obligations relate to affiliated companies.

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

Notes to the Statement of Income.

26. Total Other Operating Income.

EUR 213.9 million of the other operating income is accounted for by capital gains on the sale of equity interests and real estate held as fixed assets, as well as by income from renting and leasing land and buildings.

27. Auditors' Fees.

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

EUR million	Dec. 31, 2008
Audit services	3.7
Audit-related services	1.9
Tax services	0.1
Other services	1.5
Total	**7.2**

28. Extraordinary Result.

The extraordinary result consists mainly of charges associated with the acquisition of SLB and the related merger loss of EUR 593.9 million and a merger profit of EUR 270.9 million from the acquisition of LRP.

As a result of the retroactive merger of SLBE with Dublin GmbH with effect from January 1, 2008, the value of the interest in Dublin GmbH increased through the addition of the new shares with the fair value (application of general swap principles) by EUR 165.8 million to EUR 230.8 million.

29. Taxes on Income.

The decrease in the aggregate profit/loss for the period before tax, including the foreign branches and after migration of Landesbank Sachsen AG and Landesbank Rheinland Pfalz, led to a tax income of EUR 27.6 million.

In view of the tax risk situation and the processing of the tax audit, non-periodic expense of EUR 73.8 million was necessary, meaning that total tax on income of EUR 46.2 million has been posted.

30. Breakdown of Income According to Geographic Markets.

The total amount from the income statement items

No. 1: Interest income

No. 3: Current income from shares and other non-fixed interest securities, companies in which an equity interest is held, and shares in affiliated companies

No. 5: Commission income

No. 7: Net income from financial transactions

No. 8: Other operating income

is distributed across the following geographical markets:

EUR million	Dec. 31, 2008	Dec. 31, 2007
Federal Republic of Germany	19 563.2	13 676.3
Europe (EU states excluding Germany)	2 047.0	2 085.7
Asia	568.0	611.6
America	828.5	964.6
Total	**23 006.7**	**17 338.2**

31. Administrative and Intermediary Services.

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

Other Information.

32. Interests Exceeding Five Percent of the Voting Rights Held by LBBW in Large Corporations.

Atos Wordline Processing GmbH, Frankfurt am Main

B+S Card Service GmbH, Frankfurt am Main

Bürgschaftsbank Sachsen GmbH, Dresden

HSBC Trinkaus & Burkhardt AG, Düsseldorf

LBS Landesbausparkasse Baden-Württemberg, Stuttgart and Karlsruhe

LHI Südwest Immobilien GmbH, Pöcking

quirin bank AG, Berlin

Siedlungswerk gemeinnützige Gesellschaft für Wohnungs- und Städtebau GmbH, Stuttgart

SOTRADA AG, Stuttgart

Südwestdeutsche Salzwerke AG, Heilbronn

Universal-Investment-Gesellschaft mbH, Frankfurt am Main

VBH Holding AG, Korntal-Münchingen

Württembergische Lebensversicherung AG, Stuttgart

Wüstenrot & Württembergische AG, Stuttgart

33. Legal Representatives or Employees of LBBW Occupied the Following Positions on Statutory Supervisory Boards and Similar Supervisory Bodies of Large Corporations and Banks within Germany.

Company	Position	Incumbent
AdCapital AG, Leinfelden-Echterdingen	Member of the Supervisory Board	Hans-Joachim Strüder
AKA Ausfuhrkredit GmbH, Frankfurt am Main	Member of the Supervisory Board	Joachim Landgraf
	Deputy Member of the Supervisory Board	Elvira Bergmann
Aksys-Beteiligungs GmbH, Worms	Member of the Supervisory Board	Joachim Hug until October 23, 2008
Allgaier Werke GmbH, Uhingen	Member of the Supervisory Board	Joachim E. Schielke
Asknet AG, Karlsruhe	Member of the Supervisory Board	Joachim Hug
Baden-Württembergische Investmentgesellschaft mbH, Stuttgart	Chairman of the Supervisory Board	Horst Marschall
	2nd Deputy Member of the Supervisory Board	Hans-Joachim Strüder
	Member of the Supervisory Board	Markus Gierke until December 31, 2008
	Member of the Supervisory Board	Manuel Köppel since January 12, 2009
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	Horst Marschall
	Member of the Supervisory Board	Hans-Joachim Strüder
Bürgerliches Brauhaus Ravensburg-Lindau AG, Ravensburg	Deputy Chairman of the Supervisory Board	Harald R. Pfab
Bürgschaftsbank Baden-Württemberg GmbH, Stuttgart	Deputy Chairman of the Supervisory Board	Dr. Bernhard Walter
	Member of the Supervisory Board	Jürgen Kugler
Bürgschaftsbank Sachsen GmbH, Dresden	Member of the Supervisory Board	Harald R. Pfab
DekaBank Deutsche Girozentrale, Berlin and Frankfurt am Main	2nd Deputy Chairman of the Supervisory Board	Dr. Siegfried Jaschinski
	Member of the Supervisory Board	Dr. Friedhelm Plogmann until June 30, 2008
Deutscher Sparkassenverlag GmbH, Stuttgart	Member of the Supervisory Board	Dr. Siegfried Jaschinski
Dürr AG, Stuttgart	Member of the Supervisory Board	Joachim E. Schielke
Euwax AG, Stuttgart	Deputy Chairman	Horst Marschall
	Member of the Supervisory Board	Hans-Joachim Strüder
Grieshaber Logistik AG, Weingarten	Member of the Supervisory Board	Michael Horn
Heidelberger Druckmaschinen AG, Heidelberg	Member of the Supervisory Board	Dr. Siegfried Jaschinski
HSBC Trinkaus & Burkhardt AG, Düsseldorf	Member of the Supervisory Board	Dr. Siegfried Jaschinski
Hymer AG, Bad Waldsee	Member of the Supervisory Board	Michael Horn

Company	Position	Incumbent
KfW Kreditanstalt für Wiederaufbau, Frankfurt am Main	Member of the Supervisory Board	Dr. Siegfried Jaschinski
Kreissparkasse Donnersberg, Rockenhausen	Member of the Supervisory Board	Gabriela Wildanger-Hofmeister
Sachsen Bank, Leipzig (until March 31, 2008, company traded as Landesbank Sachsen AG)	Chairman of the Supervisory Board	Michael Horn from February 24, until March 31, 2008
	Deputy Chairman of the Supervisory Board	Joachim E. Schielke from February 24, until March 31, 2008
	Member of the Supervisory Board	Dr. Peter Kaemmerer from February 24, until March 31, 2008
LBBW Asset Management (Ireland) plc., Dublin	Chairman of the Supervisory Board	Hans-Joachim Strüder
	Deputy Chairman of the Supervisory Board	Dr. Bernhard Walter
LBBW Bank CZ a.s., Prague	Chairman of the Supervisory Board	Michael Horn since September 1, 2008
	Deputy Chairman of the Supervisory Board	Dr. Peter Kaemmerer since September 1, 2008
	Member of the Supervisory Board	Andreas Fohrmann since September 1, 2008
	Member of the Supervisory Board	Harald R. Pfab since September 1, 2008
LBBW Immobilien GmbH, Stuttgart	Chairman of the Supervisory Board	Dr. Siegfried Jaschinski
	Member of the Supervisory Board	Dr. Bernhard Walter
LBBW Luxemburg S.A., Luxembourg (until August 31, 2008, the company traded as LRI Landesbank Rheinland-Pfalz International S.A.)	Chairman of the Supervisory Board	Hans-Joachim Strüder since July 1, 2008 (previously member)
	Chairman of the Supervisory Board	Dr. Friedrich Plogmann until June 30, 2008
	Member of the Supervisory Board	Alain Baustert until December 31, 2008
	Member of the Supervisory Board	Roby Haas until December 31, 2008
	Member of the Supervisory Board	Daniel Juncker until June 30, 2008
	Member of the Supervisory Board	Hubert Sühr until June 30, 2008
	Member of the Supervisory Board	Michael Horn
	Member of the Supervisory Board	Dr. Peter Kaemmerer since July 1, 2008
	Member of the Supervisory Board	Berthold Veil since July 1, 2008
LBBW (Schweiz) AG, Zurich	Chairman of the Supervisory Board	Horst Marschall
LBS Baden-Württemberg, Stuttgart and Karlsruhe	Member of the Supervisory Board	Michael Horn
	Deputy Member of the Supervisory Board	Rudolf Zipf
Rheinland-Pfalz Bank, Mainz (until June 30, 2008 LRP Landesbank Rheinland-Pfalz Girozentrale)	Chairman of the Supervisory Board	Dr. Siegfried Jaschinski until June 30, 2008
	Member of the Supervisory Board	Michael Horn until June 30, 2008
	Deputy Member of the Supervisory Board	Joachim E. Schielke until June 30, 2008
	Deputy Member of the Supervisory Board	Dr. Bernhard Walter until June 30, 2008
	Deputy Member of the Supervisory Board	Rudolf Zipf until June 30, 2008
Maschinenfabrik Esterer AG, Altötting	Member of the Supervisory Board	Claudia Diem from July 22, 2008, until October 24, 2008

Company	Position	Incumbent
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
Paul Hartmann AG, Heidenheim a. d. Brenz	Member of the Supervisory Board	Joachim E. Schielke since April 30, 2008
quirin bank AG, Berlin	Member of the Supervisory Board	Andreas Benninger since July 18, 2008
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
Schweizerische National-Versicherungs-Gesellschaft, Basel	Member of the Supervisory Board	Dr. Peter Kaemmerer
Siedlungswerk Gemeinnützige Gesellschaft für Wohnungs- und Städtebau mbH, Stuttgart	Deputy Chairman of the Supervisory Board	Michael Horn
SOTRADA, Stuttgart	Chairman of the Supervisory Board	Wolf-Dieter Ihle until June 30, 2008
	Chairman of the Supervisory Board	Ralf Menzel since June 30, 2008
	Member of the Supervisory Board	Ralf Winkelmann
Stratec biomedical Systems AG, Birkenfeld	Member of the Supervisory Board	Burkhard Wollny
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
Vorarlberger Landes- und Hypothekenbank, Bregenz	Member of the Supervisory Board	Michael Horn
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

34. Employees (Annual Averages).

	male	female	total
LBBW			
German headquarters/branches	5119	5413	10532
Foreign branches	137	98	235
Representative offices	49	25	74
LBBW total	**5305**	**5536**	**10841**
For information:			
Trainees	279	341	620

35. Total Remuneration of the Executive Bodies.

The total remuneration paid to the Board of Managing Directors of LBBW was EUR 5.7 million. The remuneration paid to the members of the Supervisory Board, the Owners' Meeting, and the Credit Committee totaled EUR 0.6 million. The total remuneration paid to former members of the Board of Managing Directors and their surviving dependents amounted to EUR 9.9 million, of which EUR 3.3 million was attributable to SLB and LRP; the provisions for pensions for former members of the Board of Managing Directors and their surviving dependents, including SLB and LRP, totaled EUR 82.5 million.

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

EUR million	Board of Managing Directors	Supervisory board	Owners' Meeting
Advances and loans	0.6	2.6	0.2
Contingent liabilities	0.0	0.0	0.0

Board of Managing Directors.

Chairman

DR. SIEGFRIED JASCHINSKI

Deputy Chairman

MICHAEL HORN

Members

DR. PETER A. KAEMMERER

JOACHIM E. SCHIELKE

HANS-JOACHIM STRÜDER

DR. BERNHARD WALTER

RUDOLF ZIPF

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 *
until April 30, 2008
Bank employee in 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
until June 3, 2008
State Secretary in the Ministry of Economic Affairs of the State of Baden-Württemberg, Stuttgart

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

WALTER FRÖSCHLE *
Employee of Landesbank Baden-Württemberg, Stuttgart

ALBERT HÄBERLE
Savings Bank Director, Chairman of the Board of Managing Directors of Kreissparkasse Waiblingen

KARLHEINZ HEINZELMANN
from May 1, 2008
Bank employee in early retirement, Besigheim

HELMUT HIMMELSBACH
Lord Mayor of the Town of Heilbronn

UDO HUMMEL*
from January 1, 2008
Employee of Landesbank Baden-Württemberg, Stuttgart

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

PROF. WOLFGANG REINHART, MdL
from June 3, 2008
Minister for Federal and European Affairs and in the Baden-Württemberg State Ministry

IRIS RIPSAM
from May 8, 2008
City Councilor, Chairwoman of the CDU Parliamentary Group in the City Council of the State Capital Stuttgart

* Elected by LBBW employees.

EUGEN SCHÄUFELE
Savings Bank Director, Chairman of the Board of Managing Directors of Kreissparkasse Reutlingen

HELMUT SCHLEWEIS
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
until December 31, 2008
Honorary Senator, Donzdorf

WILLI STÄCHELE, MdL
Finance Minister of the State of Baden-Württemberg, Stuttgart

GERHARD STRATTHAUS, MdL
until November 4, 2008
Minister (retired), President of the Führungskräfteakademie (Executives' Academy) Baden-Württemberg, Karlsruhe

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

REINHOLD UHL
until April 16, 2008
City Councilor, 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

Deputy Members

DIPL.-OEC. MUHTEREM ARAS
City Councilor, Tax Adviser, Chairwoman of the Bündnis 90/DIE GRÜNEN Parliamentary Group of the City Council of the State Capital Stuttgart

STEFAN BARG
† May 22, 2008
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
until December 31, 2008
Chairman of the Chamber of Industry and Commerce, Karlsruhe District, Managing Shareholder of b.i.g. bechtold INGENIEURGESELLSCHAFT MBH, Karlsruhe

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

ROLAND BÜRKLE
Mayor of the Town of Bad Wurzach

WOLFGANG DREXLER, MdL
until December 31, 2008
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

* Elected by LBBW employees.

DR. RAINER HAAS M.A.
Attorney at Law, 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*
until April 30, 2008
Bank employee in early retirement,
Besigheim

HORST HOFFMANN
until December 31, 2008
Savings Bank Director, Chairman of the Board of Managing Directors of Sparkasse Südliche Weinstraße in Landau, Landau

HANS GEORG JUNGINGER, MdL
until December 31, 2008
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

SABINE LEHMANN*
Employee of
Landesbank Baden-Württemberg,
Mannheim

PROF. DORIT LOOS
from July 3, 2008
City Councilor, Stuttgart

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
until December 31, 2008
Senator h.c., Honorary Consul of the Eastern Republic of Uruguay,
Chairman of the Board of Managing Directors of STINAG Stuttgart Invest AG, Stuttgart

DR. GISELA MEISTER-SCHEUFELEN
until December 31, 2008
Senator h.c., 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

CHRISTIAN ROGG*
from January 1, 2008
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

RENATE STEINER*
from May 1, 2008
Employee of
Landesbank Baden-Württemberg,
Stuttgart

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

PROF. WILLI WEIBLEN
until December 31, 2008
Director in the Ministry of Economic Affairs of the State of Baden-Württemberg, Stuttgart

CLEMENS WINCKLER
until December 31, 2008
Pensioner, Bad-Wörishofen

* Elected by LBBW employees.

Responsibility Statement.

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

Stuttgart, Karlsruhe, Mannheim, and Mainz, March 13, 2009

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

Auditor's Report.

»We have audited the annual financial statements, comprising the balance sheet, the income statement and the notes to the financial statements, together with the bookkeeping system, and the management report of the Landesbank Baden-Württemberg, Stuttgart, Karlsruhe, Mannheim, and Mainz, (LBBW) for the business year from January 1, to December 31, 2008. The maintenance of the books and records and the preparation of the annual financial statements and management report in accordance with German commercial law are the responsibility of the LBBW's Board of Managing Directors. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, and the management report based on our audit.

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

Our audit has not led to any reservations.

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

Stuttgart, March 13, 2009

PricewaterhouseCoopers
Aktiengesellschaft, Wirtschaftsprüfungsgesellschaft

WALTER SCHULDT
German Public Auditor

DR. ANDREAS RUSS
German Public Auditor