Landesbank Baden-Württemberg (LBBW) Stuttgart, Karlsruhe, Mannheim, and Mainz.

Annual financial statements and management report for the business year from 1 January to 31 December 2012.

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The following information should be read in conjunction with the annual financial statements of Landesbank Baden-Württemberg (LBBW), Stuttgart, Karlsruhe, Mannheim, and Mainz, for the fiscal year from 1 January to 31 December 2012, consisting of the balance sheet, income statement, and the notes. The 2012 annual financial statements and the 2012 management report were issued an unqualified auditor's report by KPMG Aktiengesellschaft Wirtschaftsprüfungsgesellschaft.

Business and general conditions.

Landesbank Baden-Württemberg publishes the management report of LBBW (Bank) together with a group management report as at 31 December 2012. The Bank represents the dominant part of the Group; hence, statements made in the management report of LBBW (Bank) also contain statements applicable to the Group. At the same time, the group management report may also contain individual statements and figures that are applicable only to the Bank. Statements and figures relating explicitly to LBBW (Bank) are marked accordingly (LBBW (Bank) or only Bank). Apart from that, the terms LBBW Group, LBBW, Landesbank Baden-Württemberg and Group are used synonymously.

Structure and business activities of LBBW (Bank).

LBBW (Bank) is a public law institution (rechtsfähige Anstalt öffentlichen Rechts) with four registered offices in Stuttgart, Karlsruhe, Mannheim, and Mainz. Its owners are the Savings Bank Association of Baden-Württemberg (Sparkassenverband Baden-Württemberg) with 40.534%, the state capital, Stuttgart, with 18.932% and the State of Baden-Württemberg with 40.534% of the share capital.

The State of Baden-Württemberg holds its share directly and indirectly through Landesbeteiligungen Baden-Württemberg GmbH and L-Bank.

LBBW (Bank) is a universal and commercial bank that combines the range of services of a large bank with the regional proximity of its retail banks. LBBW (Bank) is represented in its core regions of Baden-Württemberg, Rhineland-Palatinate, and Saxony, and the neighboring economic areas, under their respective brands:

- Baden-Württembergische Bank (BW-Bank) operates the private and corporate customer business in the core market of Baden-Württemberg. BW-Bank assumes the role of savings bank within the state capital of Baden-Württemberg.
- LBBW (Bank) bundles its small and medium-sized corporate customer and private customer business in Saxony and neighboring regions under the umbrella of Sachsen Bank.
- Rheinland-Pfalz Bank focuses in particular on the business with SMEs in Rhineland-Palatinate and neighboring regions.

LBBW (Bank) offers the entire range of business and services of a modern universal bank via its network of more than 200 branches and locations. The business with large corporates operating across Germany and internationally, real estate financing, the capital markets business and the function as the central bank for the savings banks in Baden-Württemberg, Rhineland-Palatinate, and Saxony are located within LBBW (Bank) itself. Essential staff and service functions are also concentrated centrally within LBBW (Bank).

LBBW (Bank) also supports its corporate customers and the savings banks with their international activities. Regional branches and representatives offices worldwide offer support with country expertise, market know-how and financial solutions. To complement this, LBBW has German centers in Beijing, Singapore, Mexico City, Delhi.Gurgaon, and Moscow, which advise German corporate customers on market entry through its local offices and networks.

The range of services and products offered by LBBW is enhanced by subsidiaries specializing in specific business areas, such as leasing, factoring, asset management, real estate, and equity funding.

Strategic profile of LBBW (Bank).

Since the restructuring initiated in 2009, the business model has been based on five pillars.

The strategic orientation of LBBW (Bank) is focused on the customer-oriented core business with growth prospects, especially in the core regions of Baden-Württemberg, Rhineland-Palatinate, Saxony, and neighboring areas. Above all, LBBW (Bank) is the partner for the corporate and private customers in those regions, as well as for the savings banks. This is flanked by efficient real estate financing and capital market products, which are also aimed at institutional customers. The Bank has always attached great value to long-term, sustainable customer relationships.

Corporate customers.

The corporate customer business focuses above all on medium-sized companies in the regional core markets. BW-Bank services corporate customers in Baden-Württemberg. Since 2011 it has also selectively supported corporate customers in Bavaria. In Rhineland-Palatinate, North Rhine Westphalia, and Hesse, this function is assumed by Rheinland-Pfalz Bank and in central Germany by Sachsen Bank.

This pillar also encompasses the business with selected large customers in Germany, Austria, and Switzerland.

LBBW (Bank) also supports its corporate customers in international business in important and emerging economic regions worldwide.

The business with corporate customers has proved itself to be a stable income basis, especially in the difficult environment for financial institutions over the last few years and will therefore be expanded gradually. On the one hand, market penetration and market share overall are to be expanded or increased further in existing core regions, with emphasis being placed on customer orientation and tailor-made solutions of the offered financial products. On the other, the Bank wants to build on the existing core markets and develop neighboring markets within the scope of growth offensives.

LBBW (Bank) sees itself primarily as a principal bank to SMEs, offering long-term, sustained support to its customers on matters concerning financial services and all the related strategic issues.

Private customers.

The private customer pillar concentrates in particular on the wealthy private customer business in the regional markets in Baden-Württemberg, Saxony, and Rhineland-Palatinate, and in the neighboring economic areas. High net-worth customers are serviced in wealth management. The services provided to this target customer group will be expanded further in the years ahead.

Additionally, savings banks duties are assumed in the area of Stuttgart, the state capital of Baden-Württemberg. As the savings bank for the city of Stuttgart, BW-Bank is open to all citizens and guarantees the provision of banking services to its customers.

In addition to tailor-made advice focused on long-term customer relationships, first-class products and services are at the core of the business philosophy. The products on offer range from classic checking accounts and credit card business through financing solutions to individual securities and pension products.

Savings banks.

The cooperation with the savings banks is a key component of the LBBW (Bank) business model.

In this business area, LBBW (Bank) acts above all as a central bank to savings banks in the core markets of Baden-Württemberg, Saxony, and Rhineland-Palatinate. It also supplies products and services to the savings banks throughout Germany. LBBW (Bank) provides the savings banks themselves with products and services, and forms a service partnership with them.

Overall, the business area caters for three essential types of cooperation:

- The support for the proprietary business of the savings banks encompasses all product categories for hedging and investment of the savings bank itself.
- In the market partner business, LBBW (Bank) products are offered for resale to the end customers of the savings banks, in addition to credit given on joint accounts.
- The services business encompasses research, securities settlement and management, international payment transactions, documentary payments etc.

LBBW (Bank) aims to further intensify the cooperation with the savings banks, for which joint initiatives on product and system development exist.

Real estate financing.

The real estate financing pillar is geared toward private and institutional investors, real estate companies, real estate corporations, project developers, open and closed-end funds, privatization agencies, REITs, and housing companies.

As an arranger or consortium bank, LBBW (Bank) also offers project, portfolio, and company-related financing structures on a selective basis. At the same time, there is a range of additional products and services.

New business in commercial real estate financing is concentrated on the defined core markets of Germany, the US, and the UK. The types of use comprise the residential, office and retail segments in particular.

Financial markets.

The financial markets segment primarily supports companies, savings banks, banks, and private and institutional customers (in particular pension funds, insurance companies, asset managers, local authorities, foundations, and churches).

Its activities are concentrated on German-speaking regions. Moreover, international customers are essentially supported on the money and foreign currency markets, and in the new issues business.

Furthermore, activities in the capital markets business are combined in the financial markets pillar. LBBW (Bank) offers its customers, in particular, solutions for the management of interest rate, credit and currency risks, as well as the procurement and investment of short-term and long-term funds via the capital markets.

LBBW (Bank) also offers support regarding the optimization of balance sheet structures and asset/liability management as well as the proprietary business of the savings banks. i. e., interest and credit products.

Credit investment.

Alongside the five pillars of the LBBW (Bank) business model, the non-strategic credit substitute business of LBBW (Bank), of the former Sachsen LB, and the former Landesbank Rheinland-Pfalz is pooled within this segment. This includes bonds, credit derivatives, securitizations, and structured products, in particular. The portfolio will be run down completely.

Restructuring process at LBBW (Bank).

Strict and continued restructuring toward becoming a pure customer-driven bank.

LBBW (Bank) started a fundamental program of restructuring in 2009 in conjunction with capital and guarantee measures by the owners and EU state aid proceedings. The consistent running down of business areas – especially the non-customer related, volatile credit substitute business – that are no longer part of the Bank’s core business, is at the heart of this restructuring, while at the same time placing a greater emphasis on the existing and traditionally strong customer business.

The non-customer related business will be scaled back in such a way that it will be oriented on LBBW (Bank) as a bank for SMEs, for wealthy private customers and as a central bank to the savings banks.

As part of the restructuring measures, the risk weighted assets and balance sheet total were reduced significantly and the capital ratios strengthened. Particularly the latter is key, given the new and more stringent capital requirements in Europe.

The restructuring is also aiming for a marked reduction in the cost base. Further measures for realizing cost savings were implemented here in line with planning. LBBW (Bank) also significantly reduced its equity investment portfolio.

Staff cuts of around 2 500 were targeted as part of the strategic realignment. The focus was on jobs in business areas that are no longer being pursued, and on downstream staff and service functions. By contrast, the customer support areas saw some new recruitment. The job cuts were carried out in a socially responsible manner. Since restructuring began, it has been possible to agree on the cutting of more than 2 400 full-time equivalent positions through voluntary redundancies.

The restructuring process was largely concluded in 2012. Open issues such as, for example, the still outstanding sale of two equity investments will be resolved carefully and consistently. Furthermore, the conversion of the legal form of LBBW (Bank) into a corporation (AG or SE – German or European law) is being prepared as part of the agreement reached with the EU within the scope of the restructuring.

In addition to the restructuring, further optimization opportunities in, for example, information technology, were analyzed.

LBBW (Bank) assumes the challenges faced by the IT infrastructure of banks are set to rise further. The key drivers are the growing demands from customers and the market, as well as more complex regulatory requirements. The Bank is therefore working on concepts to hive off IT activities to Finanz Informatik GmbH & Co. KG (FI).

Social responsibility.

Employees.

Efficient and dedicated employees are central to the success of every company. LBBW wants to attract outstanding talent and gain their long-term loyalty. It invests in the health of its workforce, supporting it with targeted personnel development measures and offers extensive solutions for achieving a very good work-life balance.

The workforce of LBBW (Bank) fell from 9 877 employees to 9 585 as at 31 December 2012. The fall is essentially the result of the direct and indirect effects of the restructuring. The rate of staff turnover, based on the BDA formula, stood at 6.2 % in the Bank in 2012 compared with 8.4 % the previous year. Adjusted for restructuring-related early retirement and severance agreements (2.6 %), the rate was 3.6 %, lower than that of the previous year (4.4 %).

The average age of employees at the Bank fell slightly during the year under review to 42.5 years (2011: 43.1 years), while the average length of service moved in the opposite direction to 16.7 years (2011: 16.4 years).

Women, with a share of 51.6% (previous year: 51.3%) were again slightly in the majority in 2012 compared with men. The proportion of part-time workers, including partial retirement, also rose within LBBW (Bank) from 23.2% to 24.0% in 2012.

Measures aimed at reducing the headcount through voluntary reorientation were once again the focus of **human resource implementation of the restructuring** in 2012. The labor agreement signed with ver.di in 2010 to secure employment and safeguard LBBW's locations within Germany, and the company agreement signed between LBBW (Bank) and the General Staff Council to shape the internal labor market have well proven their worth in this respect. Evidence of the excellent success brought about by intensifying the internal job market lies in the around 1 000 internal jobs advertised (unchanged from 2011). These were filled almost in full by taking on trainees and with employees whose positions were affected by the restructuring.

Regardless of the still challenging market environment, LBBW views the **professional qualification of young people** as an important sociopolitical and operational responsibility that it is very glad to address. At the end of 2012, 480 (2011: 506) trainees and students from universities of cooperative education were working at LBBW (Bank). The proportion of trainees (average number of trainees and students as a share of the total workforce) fell slightly from 5.2% to 5.0%.

The **qualification and further training** of managers and employees remained an important issue at LBBW in 2012. While the number of personnel development measures increased by 9.8% during the year under review against the previous year, with 12 749 seminar visits compared with 11 610 in 2011, the number of management seminar visits fell by 21.2% from 798 in 2011 to 629 in the year 2012. To support the change and restructuring processes at the Bank, 284 workshops with a total of 4 031 participants were held for management (2011: 2 935). Many executives also took advantage of the coaching services offered by the management consultancy.

In view of the demographic change, operational conditions that facilitate a **work-life balance** are extremely important to optimally foster the potential of the Bank's workforce to the mutual benefit of both parties involved. LBBW (Bank) provides its employees with extensive offers in this respect. For example, employees can rely on receiving childcare services at every primary location. Tailored solutions are available according to demand, such as day care centers, kindergartens or emergency care facilities. Flexible working time models and telecommuting also promote a healthy work-life balance. Since 2012, this is complemented by measures that regulate the care of dependants. Employees may apply for an additional six months leave of absence on top of the care period in accordance with the Care Leave Act (Pflegezeitgesetz). Employees also have the option to take ten days a year leave from work to care for dependants. The Bank pays the salary on a voluntary basis during this period. A new agreement came into force in 2012, allowing employees to reduce their working hours for a period of two years.

In 2010, LBBW was nominated as a **family-friendly company** within the scope of an audit conducted by the Hertie Foundation. The assessors certified that, despite the crisis, LBBW has continued to develop as a family-friendly business in subsequent years, too. Since an auditing process supports this positive development to a family-friendly human resources policy, LBBW has requested a reaudit in 2013.

Ever-increasing demands on employees and management make it necessary to make targeted and substantial investments in the **health** and hence the performance of its employees. LBBW's commitment to health management is seen as a strategic investment in its most important resource – the Bank's employees – whose efficiency and motivation are the key to its success. In the national German comparison of companies by EuPD Research as part of the »Corporate Health Award«, the workplace health management at LBBW has once again improved and the renowned »excellence status« was achieved in corporate health management in November 2012.

The emphasis in 2012 was especially on maintaining and strengthening mental health. Various measures were initiated as part of an initiative with the same name. These include, in particular, a series of inhouse workshops at which all the approx. 800 managers attend a one-day »workplace health management« training course.

In accordance with the regulations in section 7 and section 8 of the Remuneration Ordinance for Institutions (Instituts-Vergütungsverordnung, InstitutsVergV) dated 13 October 2010, LBBW (Bank) will produce a remuneration report for 2012 that is scheduled to be published on the LBBW website at www.LBBW.de during the second quarter of 2013.

Sustainability.

Sustainability is an integral part of the business policy of LBBW (Bank) that is based on the conviction that economic success is not achievable in the long term without responsible ecological, ethical, and social performance. LBBW's (Bank) commitment to sustainability is therefore anchored in both its strategic and the operating business.

Sustainability strategy and management.

The **LBBW (Bank) Sustainability Policy** consolidates LBBW's guiding principles on sustainable development in the areas of corporate governance, business operations, human resources, communication, and LBBW's commitment to community. LBBW (Bank) has set itself suitable goals to define its sustainability policy. The concrete orientation framework for the implementation of LBBW's sustainability goals is provided by the **Guidelines for Sustainability.** These mark out the corridor within which LBBW will pursue its sustainability goals in the investment and lending business, in human resources policy, and in stewardship of resources, and therefore form the foundation for sustainable development. In addition, the **LBBW Climate Strategy** describes the position of LBBW (Bank) on key issues relating to climate.

The standards listed apply to LBBW (Bank) including BW-Bank, Rheinland-Pfalz Bank, and Sachsen Bank as well as to the wholly-owned subsidiaries GastroEvent GmbH, LBBW Immobilien Management GmbH (incl. the integrated BW Immobilien GmbH) and LBBW Asset Management Investmentgesellschaft mbH, each of which are based in Stuttgart. These subsidiaries are integrated within the sustainability management system of the LBBW (Bank).

Comprehensive information on the commitment to sustainability of LBBW (Bank) can be found under http://www.lbbw.de/lbbwde/1000010744-en.html, which also includes the sustainability report that is updated every year.

Sustainability ratings.

In March 2012, Munich-based oekom research AG gave LBBW an overall rating of C+ on a scale of A+ to D–. This result represented a further improvement over the previous year. LBBW meets the minimum standards for sustainability management as defined by oekom research and is rated »prime«. LBBW securities traded on the market therefore qualify for investment from an ecological and social perspective.

In the Sustainalytics Sustainability Rating 2012, LBBW received 72 out of a 100 possible points (previous year: 73) and is therefore ranked 8th out of 63 in the international banking industry category for non-exchange listed banks. Among German banks, LBBW took 2nd place behind the KfW Banking Group (December 2012).

In imug's 2012 sustainability rating LBBW received a favorable rating as issuer of public covered bonds, mortgage-backed covered bonds, and uncollateralized bonds[1)].

Overall economic development.

Global economy.

The year 2012 was defined by a high level of uncertainty. The global economy is expected to have grown by 3.2% and therefore at a somewhat slower rate than the 3.9% growth level achieved the year before. Besides a slow-down in economic activity in the emerging markets, this was due in particular to the recession in the eurozone as a consequence of the euro debt crisis. The debt crisis came to a provisional head in February/March 2012 with the Greek debt restructuring that was restricted to private creditors and further eroded confidence in the eurozone's other southern European countries.

While in Asia, the Chinese economic momentum slackened off, economic growth picked up in Japan. The Japanese economy benefited from catch-up effects from 2011 (the year of the Fukushima nuclear disaster) and GDP climbed from –0.6% to 2.0%. By contrast, Chinese GDP growth slowed from 9.3% in 2011 to 7.8% in 2012; this was attributable to the more difficult international environment as well as to a more restrictive monetary policy in reaction to higher inflation and overheating of the residential real estate market. At 2.2%, GDP growth levels in the United States were close to the previous year's level (1.8%). The acceleration in growth was affected, above all, by the residential real estate sector that showed a marked recovery in 2012 after a prolonged downward spiral. Corporate investment was

1) The term »uncollateralized bonds« includes all types of uncollateralized fixed-income securities, time and savings deposits.

another contributory factor. Nonetheless, the budget dispute in the US impacted on the willingness of companies to invest. A compromise was reach at the turn of the year 2012/2013 between the government and Congress, thus avoiding the often mentioned fiscal cliff. The compromise envisages savings totaling around 1.5% of GDP and a suspension of the debt ceiling until May 2013.

The debt crisis also dominated the situation in the eurozone in 2012. The necessary budgetary consolidation measures together with the high risk premiums of various sovereigns and banks resulted in restrictive financing terms for companies and private households in some European periphery states. The eurozone as a whole slipped into recession with economic output contracting by 0.4% in 2012. The recession was particularly pronounced in Greece; with economic output falling by around 6% in 2012, the country found itself in a recession for the fifth consecutive year. Spain and Italy were also in a recession in 2012, with GDP declining by 1.4% and 2.3% respectively. France, however, managed to increase its economic output minimally in 2012, with GDP growth of 0.2%.

Germany.

Germany's economy proved comparatively robust in 2012 to the negative influences from the eurozone periphery states. However, German GDP growth clearly fell short of the figure of 3.0% for 2011. Against the background of concerns about the continued existence of the euro, the German economy showed quite respectable growth of 0.7% (0.9%, adjusted for the number of working days). Exports grew by 4.1% and were once again much stronger than imports (2.3%). Consumption acted as a support, with growth of 0.8%. Capital expenditure, on the other hand, was down 5.2%. On the labor market, the decline in unemployment stalled. Unemployment of 6.9% in December 2012 was even slightly higher than the figure of 6.8% recorded in December 2011.

Consumer prices increased by an annual average of 2.0%. Energy prices increased disproportionately by 5.7%, as did food and non-alcoholic beverages (+3.2%). Commodities increased by an average of 2.9%, while the price increase for services including rents was a moderate 1.1%.

Central bank policy.

The Federal Reserve left its key interest rate unchanged in the range of 0% to 0.25% for the fourth calendar year in succession. The central bank repeatedly explained that the economic situation necessitated the overnight rate to remain at an extremely low level until at least mid-2015. This explanation was set forth in detail in December 2012, whereby the Federal Reserve will keep interest rates near zero as long as unemployment remains above 6.5% and long-term inflation does not exceed 2%. With unemployment at 7.8% at year-end 2012, therefore, we are unlikely to see interest rate hikes on the agenda in the foreseeable future.

The ECB cut its key interest rate further to 0.75 % in mid-2012. The reason given was the difficult economic environment in the eurozone and the very high risk premiums for the periphery states and numerous banks. The ECB's first press conference in 2013, at which the ECB President adopted a comparatively optimistic stance on the euro crisis, dispersed any speculative appeal that still existed concerning further interest rate cuts in the eurozone. The ECB's announcement at the start of August that it would intervene directly on the government bond market to safeguard the irreversibility of the euro, represented a milestone in stabilizing the financial markets. The ECB's Outright Monetary Transactions program (OMT program) was then agreed at the start of September. Within the scope of these operations, the ECB would also buy bonds from the eurozone countries that still had market access but whose yields could compromise the irreversibility of the euro owing to market pressure, thus preventing the transmission of monetary policy. The ECB made no purchases within the scope of the OMT program up to year-end 2012. The mere announcement by the ECB was enough initially to significantly reduce the risk premiums of the bonds of EMU member states toward federal government bonds (Bunds).

Bond market.

The debt crisis in the EMU also dominated the bond market in 2012. The first haircut was imposed on Greek sovereign bonds in February and March. Private bondholders were requested to approve a voluntary debt swap. The public sector creditors, which included the ECB, were excluded from the swap. As part of this debt swap, the private bondholders received a package of 24 new bonds with maturities ranging between 2 023 and 2 042. The nominal value of the bonds involved in the swap was lowered by 53.5 %. This debt restructuring had the effect of reducing Greece's sovereign debt by EUR 107 billion.

However, it soon became very clear that this had not solved the country's problems. The parliamentary elections in Greece drove the uncertainty about the continued existence of the EMU to new heights, not least since it could no longer be ruled out that Spain or Italy would lose access to the capital market. Moreover in June, Spain applied for EFSF funds to recapitalize its banking sector. The Eurogroup countries approved up to EUR 100 billion for this purpose. An independent audit calculated the potential capital requirement at EUR 51 to 62 billion. In this environment, the risk premiums of 635 bp and 534 bp on 10-year Spanish and Italian sovereign bonds respectively reached new highs over comparable Bunds since the euro was launched. Ten-year Bund yields fell to a historical low of 1.16 %, while two-year Bunds even reached negative territory. Concerns about the continued existence of the eurozone persisted until the end of July before a series of events – in particular the ECB's OMT program – gradually restored confidence in the cohesion of the eurozone, resulting in a noticeable drop in the risk premiums of the periphery states over Germany. The Federal Constitutional Court, which ruled the European Stability Mechanism (ESM) as being constitutional on 12 September 2012, also prompted further stability on the markets. The ESM could then officially assume its duties in October. The risk premiums of 10-year Spanish and Italian sovereign bonds over 10-year Bunds thus tightened to 396 and 320 bp respectively by the end of 2012. 10-year Bund yields tightened slightly and ended the year 2012 at 1.30 %. A high of 2.04 % was reached at the end of March.

Currency market.

On the currency market, the EUR appreciated slightly against the USD – albeit with pronounced fluctuations. The EUR was trading at USD 1.29 at the start of 2012 and at 1.32 at year-end. The annual high was reached at the end of February with 1.34, when the EUR benefited from the anticipation of a successful haircut in Greece. The low was reached at the end of July, when a collapse of the EMU no longer seemed so unfounded and the EUR was already trading at USD 1.21.

Fluctuation vis-à-vis the other main currencies was also mostly reasonable. The CHF traded mostly around the EUR/CHF 1.20 mark – this was the official floor at which the Swiss National Bank (SNB) defended the currency through currency market intervention. As hopes emerged of an end to the euro debt crisis, the EUR could gain some ground and firmed up at EUR/CHF 1.21 at year-end. On balance, the GBP appreciated against the EUR. Having started the year at EUR/GBP 0.8350, the EUR was trading at only 0.8160 at year-end. The JPY was the exception, depreciating significantly on the currency markets at year-end 2012 as a consequence of the shift in the Bank of Japan’s policy. While the EUR/JPY traded at 100 at the start of November 2012, unchanged from the start of the year, it rose to almost 114 at year-end 2012. This price increase continued at the start of 2013, too.

Stock market.

The German equity index DAX had an extremely successful year on the stock exchange, reaching a year-end level of 7 612 points (+29.1%). The only prolonged period of weakness it experienced came in early 2012, when the market gave up almost the entire gains for the year against the backdrop of the euro debt crisis and fell by around 1 200 points to below the 6 000 mark. Growing confidence that the euro debt crisis could be contained boosted investors’ appetite for risk again and the German equity barometer climbed to over 7 600 points. The MDax, the market barometer for listed SMEs, even penetrated the 12 000 point mark for the first time in December, after trading at only just under 8 900 points at the end of 2011. The European market barometer, the Euro Stoxx 50, also rose, albeit to a lesser extent. The index stood at 2 317 points at the end of 2011. Twelve months later and influenced by easing fears about the break-up of the eurozone, the index was trading at 2 636 points. In the US, the Dow Jones Industrials made only modest gains: On balance, it moved from 12 218 to 13 104. The compromise on the so-called fiscal cliff that was only reached right at the end of 2012 impacted on North American equities.

Banking industry performance.

The banking environment was defined in 2012 mainly by the economic slowdown during the year, the ongoing debt crisis and progressing reforms of the sector's regulatory framework.

The economic tailwind from 2011 for the German banking industry weakened in the course of 2012 on the back of declining global growth momentum and the recession in the eurozone, which was felt increasingly in Germany, too. In November 2012 German Bundesbank mentioned a trend toward higher risk provisioning by the banks up to the third quarter of 2012. Given the still comparatively solid state of the German economy and private households, LBBW (Bank) believes this trend is likely to have been limited. Some banks with high exposure to ship financing posted special charges due to the protracted difficult situation on the international shipping markets.

After the still unresolved debt crisis in the eurozone reached another high in summer 2012, uncertainty and tension on the markets eased noticeably in the latter part of the year, as progress was made to overcome the crisis. However, the low interest rate environment that accompanied this progress is increasingly presenting challenges for the entire financial sector. This is especially true for the investment business, where it has become more difficult to generate returns, especially given the low propensity toward risk.

The immense regulatory pressure continued to challenge the sector in the past year. The banks had to invest further substantial capacity and funds in 2012 to overcome and adjust to the large number of new regulatory requirements that were or still remained to be implemented. The legal and business policy workup of the financial market crisis continues to occupy capacities and weigh on the sector. Against this backdrop and due to the conditions laid down by the EU Commission for various banks the process of adjusting the business models and balance sheets continued.

In the course of this adjustment, further progress has been made in stabilizing the sector. The risk-bearing capacity of the German banking industry has increased significantly since the outbreak of the financial market crisis. This is also reflected in improved capitalization. By mid-2012, all of the German banks participating in the surveys conducted by the European Banking Authority (EBA) had fulfilled (and exceeded on aggregate) the higher minimum capital requirements within the scope of the survey conducted at the end of 2011. At the same time, the large banks have also made progress since the outbreak of the financial crisis in raising finance through more stable sources.

Business performance of LBBW (Bank).

Result of operations, net assets and financial position.

LBBW (Bank) continued its positive development in the year 2012, despite the difficult economic environment for banks.

For the first time since 2008, LBBW (Bank) can service the current silent partnership contributions and profit participation rights (hybrid) as well as some of the outstanding distributions. For this reason, the income statement cannot be compared to the previous year. Table 2 on the next page therefore shows the results of operations excluding the hybrid servicing. Comments on the results of operations are up to the net profit/loss before tax on the basis of Table 2.

The Bank succeeded in generating a positive result for the third consecutive year. Net profit before tax improved significantly over the previous year, particularly due to the solid customer-driven business and the absence of major negative effects from the turbulence on financial markets. **Net profit for the year before tax** was EUR 535 million (2011: EUR 430 million).

The Bank made progress in the financial year under review in further reducing its **risk weighted assets;** these fell by 11 % or EUR 11 billion to EUR 92 billion. The credit-investment-portfolio was reduced by a nominal amount of around EUR 10 billion to EUR 11 billion. This includes a considerable decline in loans to financial institutions, companies and the public-sector entities of countries particularly affected by the European debt crisis (Greece, Spain, Italy, Portugal, and Ireland).

This reduction in risks improved the **core capital ratio** by 2.2 % to 16.7 % (previous year: 14.5 %) and the **total ratio** in accordance with the Solvency Regulation (SolvV) by 2.2 percentage points to 21.5 %.

The **financial position** of the Bank can be deemed healthy throughout the entire reporting year due to the good liquidity. The Bank was able to obtain funding on the requisite scale via the market at all times. As at 31 December 2012, the liquidity ratio was 1.64 (2011: 1.59).

Results of operations.

Table 1: Results of operations on the basis of the form relating to the Accounting Regulation for Credit Institutions and Financial Services Institutions (RechKredV) (incl. hybrid servicing).

	1 Jan. 2012 – 31 Dec. 2012	1 Jan. 2011 – 31 Dec. 2011	Change from 2011 to 2012	
	EUR million	EUR million	EUR million	in %
Net interest income	1 740	2 719	–979	–36.0
of which hybrid servicing	–343	0	–343	–
Net fee and commission income	149	174	–25	–14.4
Net fee and commission income without guarantee commission	446	472	–26	–5.5
Guarantee commission for the State of Baden-Württemberg	–297	–298	1	–0.3
Total operating income/expenses from the trading portfolio	–133	–154	21	–13.6
Administrative expenses	–1 500	–1 367	–133	9.7
Other operating income/expenses	–127	17	–144	<–100.0
Operating income before allowances for losses on loans and advances/remeasurement gain or loss	**128**	**1 390**	**–1 262**	**–90.8**
Allowances for losses on loans and advances/ remeasurement gain or loss	85	–948	1 033	<–100.0
Operating income/expenses (result from ordinary business activities)	**213**	**442**	**–229**	**–51.8**
Extraordinary result	–21	–12	–9	75.0
Partial profit transfer	–243	0	–243	–
of which hybrid servicing	–243	0	–243	–
Net profit/loss for the year before tax	**–51**	**430**	**–481**	**<–100.0**
Taxes on income	51	–27	78	<–100.0
Net pofit/loss for the year after tax	**0**	**404**	**–404**	**–100.0**

Differences of +/– one unit are due to rounding up/down.

Table 2: Results of operations excluding hybrid servicing.

	1 Jan. 2012 – 31 Dec. 2012	1 Jan. 2011 – 31 Dec. 2011	Change from 2011 to 2012	
	EUR million	EUR million	EUR million	in %
Net interest income	2 083	2 719	– 636	– 23.4
Net fee and commission income	149	174	– 25	– 14.4
Net fee and commission income without guarantee commission	446	472	– 26	– 5.5
Guarantee commission for the State of Baden-Württemberg	– 297	– 298	1	– 0.3
Total operating income/expenses from the trading portfolio	– 133	– 154	21	– 13.6
Administrative expenses	– 1 500	– 1 367	– 133	9.7
Other operating income/expenses	– 127	17	– 144	< – 100.0
Operating income before allowances for losses on loans and advances/remeasurement gain or loss	**471**	**1 390**	**– 919**	**– 66.1**
Allowances for losses on loans and advances/ remeasurement gain or loss	85	– 948	1 033	< – 100.0
Operating income/expenses (result from ordinary business activities)	**557**	**442**	**115**	**26.0**
Extraordinary result	– 21	– 12	– 9	75.0
Partial profit transfer	0	0	0	–
Net profit/loss for the year before tax	**535**	430	**105**	**24.4**

Differences of +/– one unit are due to rounding up/down.

Net interest income fell significantly against the previous year by EUR 636 million to EUR 2 083 million. This drop was largely due to the decline in the interest-bearing volume and lower interest income from own investments as a consequence of lower interest rates. In addition, the previous years contained non-recurring income from the restructuring of an individual loan commitment.

Net fee and commission income of EUR 149 million was down on the previous year's figure of EUR 174 million. The decline was due for the most part to the decrease of EUR 15 million in net fee and commission income from the derivatives business. Non-recurring effects from agency activities were EUR 15 million lower than in the previous year. On the other hand, commission from credit and trust activities increased by EUR 13 million. Net fee and commission income also included the negative effect of EUR 297 million (2011: EUR – 298 million) from the guarantee commission for the risk shield for the State of Baden-Württemberg.

Total operating income/expenses from the trading portfolio improved year-on-year from EUR – 154 million to EUR – 133 million in the current year. Positive contributions to results were generated above all on the basis of customer-related transactions in money market trading, securities and interest rate derivatives. The 2012 result was burdened by valuation adjustments for market parameters, counterparty risks and legal risks in the amount of EUR 248 million. EUR 161 million in valuation adjustments to derivatives was also realized.

Administrative expenses increased by EUR 133 million over the previous year's figure of EUR 1 367 million to a total of EUR 1 500 million. Other administrative expenses climbed by EUR 81 million. This was due mainly to the significant increase in the bank levy, which increased substantially by EUR 35 million over the previous year to EUR 92 million. In addition, expenses for IT operations and advisory expenses in connection with IT projects increased by a total of EUR 40 million over the previous year. This was due to preparations for regulatory and accounting-related requirements as part of multi-annual projects, as well as expenses incurred in conjunction with the development of the group-wide overall management of the Bank.

Other operating income/expenses were down EUR 144 million on the previous year's figure of EUR 17 million. This was due to additions to provisions for legal risks.

Allowances for losses on loans and advances/remeasurement gain or loss improved overall against the previous year by EUR 1 033 million to EUR 85 million.

- The remeasurement gain or loss from **securities, borrower's note loans and derivatives of the liquidity reserve** improved by EUR 136 million to EUR 24 million.
- The remeasurement gain or loss of the **fixed asset securities** improved by EUR 814 million to EUR 89 million. The absence of considerable burdens on results from the previous year, which arose due to write-downs on the value of Greek securities, had a particularly positive effect. The write-downs avoided on account of the risk shield totaled EUR 9 million in the year under review. There was no payment obligation for the State of Baden-Württemberg as at 31 December 2012.
- The remeasurement gain or loss also included reversals of impairment losses offset against write-downs on equity investments and shares in affiliated companies in the amount of EUR 89 million.
- **Allowances for losses on loans and advances** increased over the previous year by EUR – 73 million to EUR – 92 million. Nonetheless, the increase remained at a low level. This is largely attributable to economic developments in Germany.

In addition to the additions to provisions for pensions of EUR –27 million due to the revised BilMoG valuation rules, the **extraordinary result** also included the reversal of a provision for IT projects in conjunction with the restructuring of EUR 7 million.

Net profit for the year before tax amounted to EUR 535 million, a rise of EUR 105 million on the previous year.

The **income tax expense** stood at EUR 51 million for the 2012 financial year (2011: EUR –27 million). Tax income was generated largely from the reversals of provisions created in conjunction with the successful conclusion to a tax dispute abroad.

Owing to the servicing of the hybrid bonds in 2012, the Bank posted a **balanced net profit for the year after tax.**

Net assets and financial position.

Assets.	31 Dec. 2012 EUR million	31 Dec. 2011 EUR million	Change from 2011 to 2012 EUR million	in %
Cash and cash equivalents	2 666	5 700	- 3 034	- 53.2
Public sector debt instruments and bills of exchange eligible for refinancing at central banks	43	72	- 29	- 40.3
Loans and advances to banks	51 083	63 147	- 12 064	- 19.1
Loans and advances to customers	121 319	123 549	- 2 230	- 1.8
Debentures and other fixed-income securities	53 304	65 662	- 12 358	- 18.8
Equities and other non-fixed-income securities	480	525	- 45	- 8.6
Trading assets	108 849	112 943	- 4 094	- 3.6
Equity investments	615	806	- 191	- 23.7
Shares in affiliated companies	3 242	3 175	67	2.1
Trust assets	883	1 004	- 121	- 12.1
Intangible assets	72	77	- 5	- 6.5
Property and equipment	448	396	52	13.1
Other assets	1 039	892	147	16.5
Deferred items	1 903	2 399	- 496	- 20.7
Total assets	**345 944**	**380 346**	**- 34 402**	**- 9.0**

Differences of +/- one unit are due to rounding up/down.

Equity and liabilities.	31 Dec. 2012 EUR million	31 Dec. 2011 EUR million	Change from 2011 to 2012 EUR million	in %
Deposits from banks	65 378	81 539	- 16 161	- 19.8
Deposits from customers	92 865	87 006	5 859	6.7
Securitized liabilities	72 982	81 850	- 8 868	- 10.8
Trading liabilities	87 542	101 272	- 13 730	- 13.6
Trust liabilities	883	1 004	- 121	- 12.1
Other liabilities	1 181	705	476	67.5
Deferred items	1 767	1 938	- 171	- 8.8
Provisions	2 380	2 382	- 2	- 0.1
Subordinated liabilities	4 209	5 263	- 1 054	- 20.0
Capital generated by profit-participation certificates	914	1 354	- 440	- 32.5
Fund for general banking risks	483	483	0	0.0
Equity	15 360	15 550	- 190	- 1.2
Total liabilities and equity	**345 944**	**380 346**	**- 34 402**	**- 9.0**
Contingent liabilities	17 016	22 113	- 5 097	- 23.0
Other obligations	23 837	23 206	631	2.7
Business volume[1]	**386 797**	**425 665**	**- 38 868**	**- 9.1**

1) In addition to the balance sheet total, the business volume includes off-balance-sheet contingent liabilities and other obligations.
Differences of +/- one unit are due to rounding up/down.

Business volume.

The **business volume** of LBBW (Bank) fell year-on-year by EUR – 38.9 billion or – 9% to EUR 386.8 billion. EUR – 5.1 billion of the decline was attributable to contingent liabilities. In terms of the balance sheet total, the decline totaled EUR – 34.4 billion. On the assets side, the decline was driven above all by balance sheet items of debentures and other fixed-income securities, loans and advances to banks, trading assets and cash, and cash equivalents. On the liabilities side, the volume of deposits from banks, trading liabilities and securitized liabilities were largely responsible for the decline.

The reclassification of counterparties also had a material effect on the balance sheet items of loans and advances to, and deposits from, banks and customers.

At EUR 1 905 billion as at the end of the year, the **nominal volume of derivatives** was down 16% on the previous year's figure (EUR 2 270 billion).

Lending.

The volume of **cash and cash equivalents** declined by around EUR – 3,0 billion or – 53% on the reporting date to EUR 2.7 billion.

Loans and advances to banks decreased by EUR – 12.1 billion or – 19% in the previous year to EUR 51.1 billion. The decline was largely due to the EUR – 6.8 billion reduction in the volume of securities repurchase transactions. The reclassifying of counterparties accounted for around EUR – 5.7 billion in loans and advances to banks. Furthermore, the volume of receivables to public sector banks declined by EUR – 5.5 billion.

Loans and advances to customers contracted by EUR – 2.2 billion or around – 2% to EUR 121.3 billion. This was due to portfolio reclassifications of EUR 5.7 billion as at the reporting date. Adjusted for these reclassifying effects, loans and advances to customers would have fallen by EUR – 7.9 billion. The decline was due to a decrease of EUR – 4.5 billion in the portfolio of mortgages and public sector loans and a lower volume of EUR – 1.1 billion in securities repurchase transactions.

The portfolio of **debentures and other fixed-income securities** declined by EUR – 12.4 billion or around – 19% from the end of 2011 to EUR 53.3 billion. This development was mainly due to maturities of the debentures of non-public issuers totaling EUR – 13.9 billion in the past financial year, while a decline of EUR – 4.6 billion was attributable to the liquidation of a Group company. Among other things, the reduction in the credit-investment-portfolio was another reason for the decline. By contrast, the volume of own bonds and debentures increased by EUR 1.3 billion.

The **trading assets** declined year-on-year by a total of EUR – 4.1 billion or around – 4 % to EUR 108.8 billion. The fair value of derivatives was initially lower following the transfer of derivatives to a central liquidator and the subsequent netting of EUR – 7.7 billion. Derivatives with a fair value of EUR – 7.5 billion were also concluded in 2012. This was offset by the higher fair values of interest rate derivatives as a result of the lower interest rate level. The volume of debentures of companies domiciled in Germany increased by EUR 2.2 billion.

Funding.

Deposits from banks declined by EUR – 16.2 billion against 31 December 2011 to EUR 65.4 billion. The change is due to a EUR – 16.1 billion drop in securities repurchase transactions and a EUR – 3.4 billion reduction in money market transactions. The main factor in the significant reduction was the reclassification of counterparties into deposits from customers, with securities repurchase transactions accounting for EUR – 12.4 billion thereof. Adjusted for these reclassifications, the balance sheet item would have declined by EUR – 3.8 billion.

Deposits from customers, which is one the main funding pillars, increased by EUR 5.9 billion or 7 % year-on-year to EUR 92.9 billion. Other liabilities increased by EUR 8.1 billion. This increase was largely due to the increase in liabilities from securities repurchase transactions following the reclassification of counterparties of EUR 12.4 billion. The volume of public registered covered bonds declined by EUR – 2.7 billion. Adjusted for the reclassification effect, deposits from customers would have fallen by EUR 6.5 billion.

A further important funding pillar, **securitized liabilities,** was valued at EUR 73.0 billion as at the end of 2012, which equates to a decrease of EUR – 8.9 billion. The drop of EUR – 7.8 billion was essentially due to public covered bond maturities.

The **trading liabilities** fell against the previous year by EUR – 13.7 billion to EUR 87.5 billion. In line with the trading assets, the fair values of the derivatives were lower, following the transfer of derivatives to a central liquidator and the subsequent netting of EUR – 7.7 billion. Derivatives with a fair value of EUR – 7.5 billion were also concluded in 2012. The decline was also attributable to a reduction of around EUR – 7.1 billion in the volume of money market transactions. This was also offset by the increase in the fair values of interest rate derivatives as a result of the lower interest rate level.

Equity.

Equity as disclosed on the balance sheet.

Equity as disclosed on the balance sheet was EUR 15.4 billion as at 31 December 2012. The year-on-year difference of EUR – 190 million mainly resulted from maturing silent partnership contributions.

Own regulatory funds.

The **core capital** increased by EUR 425 million in the 2012 financial year. EUR 298 million of this amount was accounted for by the proportional appropriation of net income in 2011 to replenish the silent partnership contributions diminished in 2009 to the nominal amount. The reduction in deductible items as defined for regulatory purposes, to be charged in equal measure to the core and supplementary capital, relieved the core capital by EUR 227 million. The main contributory factors here were the decline in expected losses in the lending business as defined for the purposes of the German Solvability Ordinance, as well as the disposal of equity investments in the financial sector. In addition, the regulatory valuation adjustments carried out for the first time in 2012 for a more prudent valuation of trading book items over and above the value adjustments taken into account in the income statement, resulted in a deduction of EUR 68 million from the core capital. Silent partnership contributions of EUR 26 million were removed from the qualifying core capital as at 31 December 2012, due to falling short of the minimum remaining term of two years.

Currency-related changes to silent partnership contributions that were issued in a foreign currency had the effect of decreasing the core capital to a minor extent.

The **supplementary capital** at year-end was EUR 310 million lower than at the end of the previous year. On the one hand, maturing long-term subordinate liabilities that were still eligible at 40% in the last two years before maturity, contributed EUR 334 million to the decrease. On the other, a nominal amount of EUR 124 million was accounted under a remaining maturity of less than two years; as a result, only 40% is eligible as supplementary capital and the supplementary capital fell by EUR 74 million. A further nominal amount of EUR 50 million with a remaining maturity of less than two years, was reclassified from supplementary capital to Tier 3 capital, since it meets the requirements of the latter until maturity.

Of the total portfolio of profit participation rights eligible as supplementary capital, EUR 85 million had a remaining maturity of two years. Of this amount, EUR 60 million continue to be used as Tier 3 capital owing to legally agreed lock-in clauses, while EUR 25 million could not be included for regulatory reasons.

On the other hand, the reversal of impairment losses on profit participation rights from net profit for 2011 had the effect of increasing the volume of supplementary capital by EUR 33 million, while exchange rate-related changes to foreign currency holdings in the subordinated liabilities decreased the volume by EUR 43 million.

The regulatory deductions relieved the supplementary capital by EUR 227 million in line with the core capital, as did the EUR 16 million decrease in the utilization of market-regulating opportunities.

Tier 3 capital comprises long-term subordinated liabilities as well as profit participation rights with a remaining maturity of less than two years, but whose contractual agreements allow them to be reported under Tier 3 capital until maturity. Of the previous year's portfolio, profit participation rights of EUR 433 million and subordinated liabilities of EUR 19 million matured, while supplementary capital components whose remaining maturity fell below two years during the financial year increased the Tier 3 capital by EUR 110 million. The reversal of impairment losses on profit participation rights from net profit in 2011 to a nominal amount of EUR 50 million also had a positive effect with regard to these own-fund components. Capping the eligibility to five-sevenths of the market risk positions, which excluded EUR 37 million from the Tier 3 capital in the previous year, was no longer necessary as at 31 December 2012. Overall, the eligible Tier 3 capital fell by EUR 259 million.

The regulatory ratios of LBBW (Bank) were as follows compared with the previous year:

	31 Dec. 2012	31 Dec. 2011	Change from 2011 to 2012	
	EUR million	EUR million	EUR million	in %
Own funds[1]	**19 790**	**19 934**	**– 144**	**– 0.7**
of which core capital (Tier 1)	15 321	14 896	425	2.9
of which supplementary capital (Tier 2)	4 012	4 322	– 310	– 7.2
of which Tier 3 capital	457	716	– 259	– 36.2
Qualifying items	**91 910**	**103 048**	**– 11 138**	**– 10.8**
Core capital ratio in %	**16.7**	**14.5**		**2.2 pp**
Total ratio in accordance with the Solvency Regulation in %	**21.5**	**19.3**		**2.2 pp**

1) Since 2008: section 10 KWG in conjunction with section 2 SolvV.

Risk report.

Basic principles.

General legal conditions.

This risk report has been prepared on the basis of the German Commercial Code (HGB) and German Accounting Standards numbers 5 (Risk Reporting), 5 – 10 (Risk Reporting of Credit and Financial Services Institutions), and 15 (Management Reporting). The information provided relates, in particular, to risks arising from financial instruments. Please refer to the General section in the Notes.

Risk management in Landesbank Baden-Württemberg is conducted on a Group level. The Bank represents the dominant share within LBBW Group; hence, statements made in the management report of LBBW (Bank), particularly on the risk-bearing capacity, as well as details about the Group and specific material subsidiaries, may impact indirectly on the Bank.

Risk-oriented management of the Bank as a whole.

LBBW defines risk management as the use of a comprehensive set of tools to address risks within the scope of the risk-bearing capacity and the strategy set out by the Board of Managing Directors. Risks should be taken within the scope of the internal control process, in a deliberate and controlled manner, from a yield perspective and in view of the associated opportunities for income and growth potential.

The internal control process thus forms a core element of the group-wide system for risk-oriented management of the Bank as a whole and particularly comprises the organizational and operational structure, the risk management and control processes, and internal auditing.

Risk strategy.

The Board of Managing Directors and the Supervisory Board stipulate the principles of the risk management system by defining risk strategies that are consistent with LBBW’s business strategy.

Risk strategy guidelines are defined in the group risk strategy, which applies to the entire Group and across all risk categories; these are consolidated in the form of risk tolerance in accordance with the Minimum Requirements for Risk Management (MaRisk). It is determined through the definition of basic risk-strategy principles, strategic limits, the liquidity risk tolerance and the principles of risk management, and is observed in all business activities.

The basic risk-strategy principles reflect the conservative risk policy defined in the business strategy. The strategic limit system operationalizes the requirements and objectives defined in the business strategy for all material risk types covered by risk-bearing capacity. The liquidity risk tolerance caps the liquidity risk in the narrower meaning (i. e., it limits the risk of not meeting payment obligations). The risk guidelines for risk management represent core principles for balancing opportunities and risks within LBBW, and adhere to the basic elements of the restructuring requirements. They contribute to the creation of a uniform risk culture and – in accordance with materiality principles – form the framework for the precise organization of processes and methods of risk management.

In addition, the risk strategies document the current and target risk profile of LBBW, specify customer-, product- and market-specific guidelines and create the framework for medium-term planning together with the business strategy.

Operational implementation of these requirements is monitored by deviation analyses, business field dialogs, monthly analyses of results, and strategic and operational limit systems.

Risk capital management.
Risk types.

LBBW distinguishes between material and non-material risk types. Risk types are identified and their materiality determined on the basis of the results of the annual and ad hoc risk inventory.

The following risk types were identified and classified for 2012:

Risk types.

	Risk category	Describes possible …
Material risks	**Credit risks**	… losses arising from the default or deterioration in the credit rating of business partners. … defaults by sovereign borrowers or restrictions on payments. … losses arising from shortfall in proceeds from the liquidation of collateral.
	Market price risks	… losses caused by changes in interest rates, credit spreads, equity prices, exchange rates, commodity prices, volatility.
	Liquidity risks	… problems meeting payment obligations in the short term, or not being able to quickly close out larger positions at market value.
	Operational risks	… losses arising from the unsuitability or failure of internal processes and systems, people, or due to external events, including legal risks.
	Investment risks	… losses in the value of Group companies and equity investments not included in the above risk categories.
	Reputation risks	… losses caused by damage to the Bank's reputation.
	Business risks	… losses due to less favorable business performance than expected or from strategic errors, provided that they do not relate to other characteristic banking risks.
	Pension risks	… increase in provisions for pensions.
	Real estate risks	… losses in the value of the Group's real estate holdings.
	Development risks	… losses resulting especially from potential plan variances in the project development business of LBBW Immobilien Management GmbH.
	Funding risks	… additional expense as a result of higher funding costs.
	Model risks	… misrepresentations of actual risk.
	Dilution risks	… losses due to a lack of legal payment obligations for purchased receivables.
	Fund placement risks	… losses due to non-placement of equity components in the case of closed-end funds.

Economic capital and aggregate risk cover.

A group-wide compilation of risks across all material risk types and subsidiaries, and the comparison of this with the capital calculated from an economic perspective (aggregate risk cover) are carried out in the calculation of risk-bearing capacity (RBC) according to the so-called liquidation principle. As the parent company, LBBW (Bank) represents the dominant part here.

At LBBW, aggregate risk cover (corresponds to risk coverage potential as per MaRisk) denotes the equity restricted according to economic criteria which is available to cover unexpected potential losses. In addition to equity (as per IFRS including AfS reserves), subordinated debt, income statement results in accordance with IFRS are considered components of aggregate risk cover. Extensive conservative deductible items are also included in aggregate risk cover due to regulatory requirements.

Economic capital is calculated as a uniform risk measure at the highest level. This is deemed to constitute the amount of economic capital necessary to cover the risk exposure resulting from business activities. In contrast with the capital backing stipulated by regulatory bodies, this therefore represents the capital backing required from LBBW's point of view for economic purposes, calculated using the Bank's own risk models. It is quantified as Value-at-Risk (VaR) at a confidence level of 99.93 % and a 1-year holding period for credit, market price, real estate, development, investment and operational risks, and using simplified procedures for other risks. The confidence level was adjusted in 2012 from 99.95 % to 99.93 % in order to reflect consistently the lower external long-term rating (Moody's downgrade from A2 to A3).

By contrast, liquidity risks are managed and limited by the quantitative and procedural rules defined in the liquidity risk tolerance.

The upper risk limit for economic capital (»economic capital limit«) represents the group-wide overarching limit for all relevant quantified risk types. This limit reflects LBBW Group's maximum willingness to accept risk. In keeping with the conservative principle underlying risk tolerance it is substantially below the aggregate risk cover and thus provides scope for risks arising from unforeseeable stress situations. On the basis of the upper economic capital limit, economic capital limits are defined for the various directly quantified risk types and for the other risks not quantified within a model approach. The risk-bearing capacity is monitored by Group Risk Control by means of a traffic light system. The respective traffic light thresholds are linked to response options set out in a catalogue of measures.

In addition to management across risk types, economic risk management is implemented at segment level. LBBW's risk capital management also includes the management of regulatory capital.

Stress tests.

In addition to statistical indicators, which are ultimately based on historical data and risk measurement tools, stress scenarios play an important part in risk assessment. They analyze in advance the impact of possible economic volatility and market crises in order to establish whether LBBW is able to withstand extreme situations.

Stress tests are therefore an integral part of LBBW's risk management. The stress scenarios are arranged in such a way that extraordinary but plausible events of different degrees of severity can be considered from economic, regulatory and accounting perspectives.

For this purpose, various methods ranging from a simple sensitivity analysis to complex macroeconomic scenarios addressing multiple risk types are applied. So-called inverse stress testing is also conducted regularly to examine which scenarios could threaten the existence of the LBBW Group.

In order to ensure risk-bearing capacity and regulatory capital ratios even in a stress case, so-called RBC stress scenarios are defined for the various risk types. These stress scenarios are economically focused across different types of risk, whose definition was geared in particular to LBBW's risk concentrations. In addition to the analysis of the economic and regulatory capital in the status quo, the Group's resistance to stress is also monitored on the basis of these scenarios. Infringements are monitored and escalated by Group Risk Control using the traffic light method.

Risk situation.

The risk-bearing capacity in the Group was maintained without any restrictions during the entire 2012 financial year. The risk-bearing capacity improved significantly over the end of the year 2011. This was also associated with a significant increase in the stress resistance.

The utilization of the aggregate risk cover was 60% as at 31 December 2012. The risk-bearing capacity of the LBBW Group, which includes the figures of the parent company LBBW (Bank) as the dominant component, is illustrated below.

LBBW-Group – risk-bearing capacity.

	31 Dec. 2012		31 Dec. 2011	
EUR million	Absolute[1]	Utilization	Absolute[1]	Utilization
Aggregate risk cover	17 141	60%	18 060	70%
Economic capital limit[2]	13 600	75%	15 000	84%
Economic capital committed	10 249		12 626	
of which:				
Diversification effects	–738		–660	
Credit risk	5 622		6 565	
Market price risk	2 661		3 662	
Investment risk	192		432	
Operational risk	900		803	
Development risk	163		262	
Real estate risk	267		376	
Other risks[3]	1 182		1 186	

1) 2012 value confidence level 99.93%, comparative figure end of 2011 confidence level 99.95%.
2) The individual risk types are capped by means of economic capital limits.
3) Other risks (in particular, reputation, business, and pension risks).

During the financial year under review, utilization of the aggregate risk cover in the first half of 2012 was higher compared with the end of the year 2011, after which it improved gradually in the second half of 2012.

The decline in credit and market price risk that was evident throughout the first half of 2012 was lower than expected due to the unfavorable market development in an environment during which the euro debt crisis deteriorated further. The divestment of LBBW Immobilien's residential real estate portfolio provided slight relief.

The aggregate risk cover was reduced by larger discontinued subordinate capital items, the poor market situation and non-recurring effects.

The risk side improved considerably in the second half of 2012. This was due, in particular, to the consistent wind-down of the non-core portfolio, the positive market situation and methodical optimization such as lowering the confidence interval for determining the economic capital or the integration of the investment risk calculation in the credit portfolio model. By contrast, specified regulatory requirements, especially the modeling of the Credit Value-at-Risk (CVaR), which represents the economic capital tie-up for the credit risk, weighed on risks.

Aggregate risk cover benefited first of all from the positive market development in the second half of the year, in particular the gradual easing on the spread markets with an impact on the results and revaluation reserve. Secondly, the implementation of specific regulatory requirements, such as the complete deduction of active deferred taxes or immediate consideration of conceivable changes to the aggregate risk cover in the coming 12 months, had a negative impact.

Measures have been implemented within LBBW as part of appropriate risk management to limit or minimize all material risks. Sufficient capital was available to cover all risks.

Risk management processes and reporting.

Risk management and monitoring.

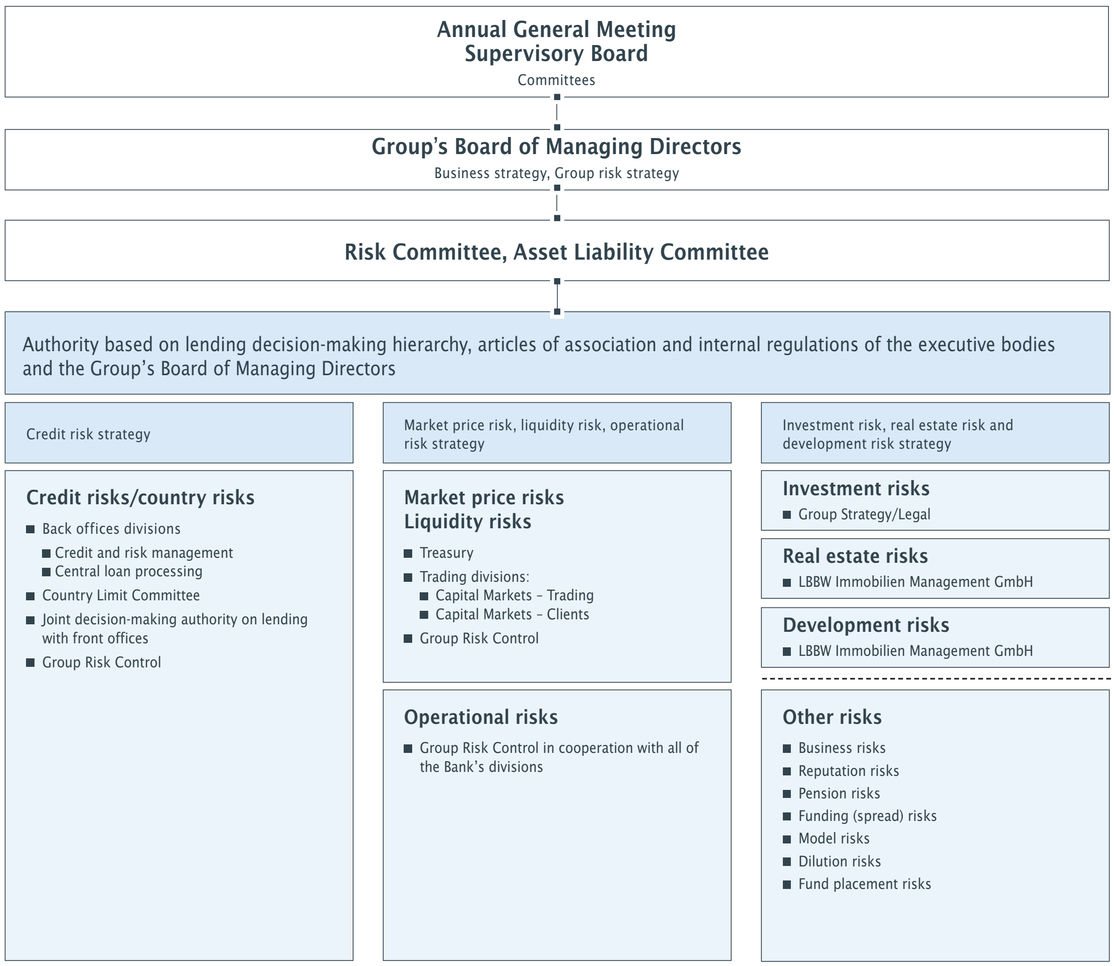
LBBW's risk management and risk monitoring are based on the guidelines of the risk strategy and the defined limits and approval powers.

At LBBW, transactions can only be entered into within clearly defined limits or approval powers, and in accordance with the principles of the risk strategy. Within the defined framework, risk management decisions are made by the departments with portfolio responsibilities, maintaining the separation of functions; these decisions are monitored by the central Group Risk Control division. The risk control and risk management system set up for this purpose covers all material risks and the details specific to the risk types.

Potential concentration of risk receives particular attention. On the one hand, concentrations tend to arise as a result of the synchronization of risk positions within one risk type. On the other hand, they can also be produced as a result of common risk factors or interactions between various risk factors of different risk types. At LBBW, appropriate processes are used to identify and to deliberately manage risk concentration. Risks to the Group's going concern status must be excluded. Differentiated monitoring processes (e. g., stress tests) and limits (e. g., sector and country limits) are available for the purpose of monitoring this strategic requirement.

An overview of the structure and individual elements of the risk management system of LBBW is given in the following chart:

Risk management structure.



Committees and reporting.

The members of the Group's Board of Managing Directors with responsibility for managing risks are supported in their decision-making by executive bodies and a comprehensive risk and subject-specific reporting system.

The Risk Committee comprises the Board members with responsibility for financial markets, operations/IT/services, and back office/finance functions, in addition to divisional managers from, among other areas, group risk control, financial controlling, and the front and back office. As an advisory committee, it prepares decisions for the Board of Managing Directors and supports it in the cross-disciplinary monitoring of the risk-bearing capacity and of material risks, as well as in complying with regulatory requirements. The monthly overall risk report and other reports prepared on specific issues as required form the basis for this.

The Asset Liability Committee works on preparing decisions for the Board of Managing Directors and supports it in ensuring the adequacy of the capital resources, asset/liability control and determining the liquidity and refinancing strategy, among other things. The resolution is passed by the Group's Board of Managing Directors. The Committee comprises the Chairman of the Board of Managing Directors, the department heads with responsibility for financial markets, operations/IT/services, back office/finance, in addition to specific divisional managers from the front office, group risk control, financial controlling and accounting, among other areas.

New product process.

New types of product at LBBW are subject to a new product process that ensures that the product is included in LBBW's various systems, such as accounting or group risk control. Any potential legal consequences are also outlined.

This generally concerns trading and credit products. The main focus is on trading products. If it is not possible to fully integrate the products into the model immediately, a step-by-step approach is taken in which the products are initially traded only under very strict supervision.

Process-independent monitoring.

The Group Auditing division is a process-independent department that monitors the 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 Group Auditing division exercises its duties autonomously. The Board of Managing Directors is informed of the results of audits in written audit reports which are discussed with the audited operating units. The Group Auditing division also monitors the measures taken in response to the audit findings.

Regulatory developments.

MaRisk.

LBBW is subject to the regulations on the Minimum Requirements for Risk Management (MaRisk). In 2012, the German Federal Financial Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht – BaFin) issued the 4th MaRisk draft for consultation and published the official and revised final version on 14 December 2012. The new minimum requirements came into force on 1 January 2013 and must by and large be implemented by 31 December 2013.

Individual issues in the draft were already implemented in 2012. The remaining issues will be realized in the course of 2013.

Basel III.

The Basel Committee on Banking Supervision, which is mandated by the G20 states to improve the resilience of the financial system, further developed the relevant regulations in 2012. The framework for capitalization, risk coverage and debt agreed in 2010 was extended in the 2012 financial year to include additional issues, such as the treatment of national systemically important banks and the capital requirements for transactions with central counterparties. The framework for liquidity was fundamentally revised after several impact studies were carried out.

A draft EU directive and regulation for transposing the Basel III framework into European law have been tabled and remains in the European legislative process, which was not concluded in the financial year. Application at European and German level, which was originally planned for 1 January 2013, has been delayed further.

At the core of the new Basel III regulations is the improvement in the loss absorption capacity of equity, the quantitative increase in equity, the expansion of risk measurement and more stringent risk weighting for specific assets, such as derivatives, loans to banks. In future, banks will therefore be required to hold considerably more equity to cover their risk weighted assets. This will be operationalized through higher minimum ratios and additional capital buffers, which will be defined by law immediately in part and otherwise at the discretion of the national authorities in line with legal requirements, such as a systemic and a counter-cyclical capital buffer.

These new regulatory developments have implications for business strategy, the strategic direction of the business areas, management metrics and technical reporting capacity. The interdependencies between the new regulatory developments and business strategy call for an integrated approach.

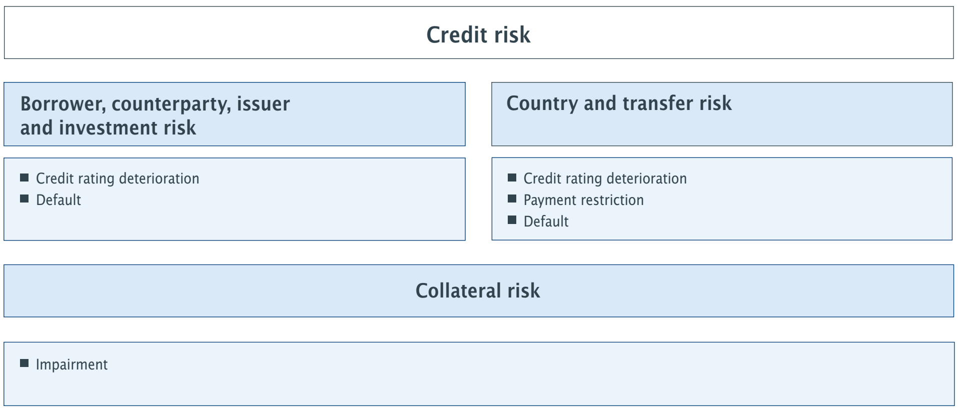
LBBW prepared intensively for implementation in the financial year with an implementation project that systematically identifies the requirements of the management control system and takes into account the effects in the strategic and operational planning process.

LBBW supported the development of the legal norms on a national as well as an international level by participating actively in the consultation process.

Credit risks.
Definition.

Credit risk is defined in LBBW as the overriding term for all components of counterparty risk. The following diagram provides an overview of the individual components, which are then explained in greater detail.

Counterparty risk components.



Borrower, counterparty, issuer, and investment risk.

These risks include the risk that a contractual partner does not meet his payment obligations or does not meet them in full within the stipulated period and that deteriorations in the credit ratings lead to a decline in value.

The counterparty risk also includes replacement and settlement risks. The replacement risk refers to the potential cost of closing outstanding items at less favorable market prices, while the settlement risk reflects the risk arising from trades in which LBBW makes advance payment but the counterparty does not render the agreed consideration.

Country and transfer risk.

These risks include a sovereign state default (as with borrower/issuer risk) and the risk that 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 the transfer of foreign currencies or other government actions.

Collateral risk.

This risk includes a systemic fall in the value of collateral, for example as a consequence of market turbulence, and the risk that the collateral will not reach the expected revenues in a particular event of liquidation.

Credit risk management.

Management for limiting credit risk is implemented as an integrated process at LBBW, and can be broken down into the three main components of risk measurement, risk monitoring and risk management:

Components of credit risk management.

Risk measurement	■ Risk classification procedures ■ Exposure ■ Liquidation and recovery ratios ■ Expected loss ■ Credit Value-at-Risk ■ Risk concentration and stress tests
Risk monitoring and reporting	■ Early-warning system ■ Limit monitoring ■ Write-downs ■ Information on risk situation
Risk management	■ Guidelines of the credit risk strategy at individual exposure and at portfolio level ■ Risk-adequate pricing ■ Observation of various portfolio limits ■ Initiation of risk-reducing measures

Risk measurement.

In order to measure risk, LBBW uses an extensive range of instruments involving quantitative measuring procedures. These are subject to ongoing quality control and undergo permanent development.

Risk classification procedures.

LBBW uses specific rating and risk classification procedures for all relevant business activities. These procedures quantify the probability of default of the individual investments. For this purpose, the counterparty risk is calculated both including and excluding the transfer risk.

The quality of the risk classification procedures in use is reviewed regularly and the procedures are refined if necessary. These procedures are maintained and updated by LBBW on its own initiative or in cooperation with Rating Service Unit GmbH & Co. KG (an associated company of the Landesbanken) or Sparkassen Rating und Risikosysteme GmbH (a subsidiary of Deutscher Sparkassen- und Giroverband – DSGV).

Most of the portfolio is valued using internal rating procedures which have been approved for the Internal Rating Based Approach (IRBA) by the banking supervisor. The rating grades are therefore not only used for internal management purposes but also to measure the regulatory capital requirements.

Exposure.

Whereas exposure is tied to a specific date for reporting purposes, future exposure is calculated to determine the CVaR and for linear offsetting, e.g., with derivatives and foreign-currency transactions. This is calculated for the most part on the basis of fair values and the corresponding add-ons. The add-on calculation takes account of the remaining maturity, product type and market factors (interest, currency etc.). Netting and collateral agreements are used for reducing risk. The capital charges for credit derivatives held in the trading book take account of the settlement payments and actual fair value losses as a result of default (jump-to-default method). (Modified) nominals are used for issuer and reference debtor risks from securities and holdings in the banking book.

Evaluating collateral.

Collateral is evaluated on the basis of its market value, which is regularly reviewed in the light of the pledged assets and adjusted in the event of any change in the relevant factors. Loss given default is estimated on the basis of the valuation of the individual items of collateral. In this respect, differentiated estimates are calculated for liquidation rates (average proceeds expected from the liquidation of collateral) and for recovery rates (proportion of the proceeds from the unsecured portion of a receivable). The estimates are based on empirical values and pool data recorded by the Bank itself and in cooperation with savings banks and other »Landesbanken«.

Expected losses.

The expected loss – as an indicator that depends on customer creditworthiness, an estimation of the loss at default and the expected exposure at default – provides the basis for the level of the standard risk costs. In preliminary costing at the individual transaction level, these are included in the calculation of risk-adequate loan terms. At the portfolio level, this indicator can be used to ensure comparability between different portfolios and to check the plausibility of projected risk costs. In connection with the calculation of impairments, the concept of the expected loss is also resorted to, for calculating general allowances for losses on loans and advances in order to estimate the incurred loss that has not yet been recognized because of delays in information.

The market price of the counterparty risk of OTC derivatives and money market loans accounted for at fair value is measured using the so-called credit value adjustment (CVA). This is included in the income statement of LBBW (Bank) as a valuation adjustment. The credit ratings of the counterparty and of LBBW (Bank) are taken into consideration.

Credit Value-at-Risk.

At LBBW, unexpected loss or CVaR represents the potential present value loss of a portfolio above its expected loss. This determines the amount that will not be exceeded by losses with a probability (confidence level) defined by parameterizing the risk-bearing capacity within a time horizon of one year. LBBW uses a credit portfolio model based on the modeling of rating migration to calculate this value. The individual borrowers are assigned default and migration probabilities corresponding to their ratings. These are modeled with the help of internal and external data in such a way that correlations between borrowers can be adequately taken into account and borrower, sector, and country concentration mapped. The credit portfolio model uses a Monte Carlo simulation approach to calculate risk. CVaR is used as the parameter for economic capital used for credit risks in the risk-bearing capacity analysis and in LBBW's management.

Risk concentration and stress tests.

One of the main tasks of credit risk management is to avoid the concentration of risks from individual commitments and also at the portfolio level. For this purpose, there are specific limit systems restricting the acceptance of commitments at the borrower, sector, and country level. Credit risk concentration is clearly identified and additionally recorded and monitored by including CVaR in the risk-bearing capacity.

In addition, extensive stress scenarios – particularly in the light of possible concentration risks – are calculated at LBBW Group level to analyze possible changes in LBBW's portfolio arising from potential developments (e. g., sector crises) or the market environment. Besides, credit risks are included in scenarios covering multiple risk types.

Risk monitoring and reporting.

Individual transaction level.

A system is in place for the early detection of risks, comprising warning signals, procedural regulations and systemgenerated signals, whose goal it is to detect any deterioration in credit ratings at an early stage.

As part of risk monitoring, the responsible risk managers continuously check compliance with the limits granted as well as any changes in information of relevance for credit ratings. This includes monitoring any irregularities in account behavior, evaluating company news and observing macro-economic and sector trends. In cases in which market data can be observed for a given company, a market data-based system is additionally used.

The early detection of any deterioration in credit ratings allows appropriate precautions, e. g., additional collateral or pre-emptive restructuring, to be taken in consultation with the customer. Depending on the level of risk, problem assets are classified as cases requiring intensified support, restructuring or liquidation and are dealt with by the departments responsible. LBBW aims to minimize losses through successful restructuring activities, in line with the Bank's own interests and those of its customers.

The reorganization of the back office was initiated in 2012. Accordingly, duties, processes and responsibilities were redefined:

- In the corporate customer business, the established regional principle will now include a sector-based approach and customers exceeding a defined revenue volume will be managed in seven sector competence centers. This means that approx. two-thirds of the exposure in the corporate customer business will be systematically analyzed and managed in a sector-based approach.
- The risk management for country and banking risks was combined. This allows even better monitoring of the high interaction between, and increased complexity of, these risks.
- In addition, the back office for domestic public sector and semi-public bodies was strengthened.

Portfolio level.

Counterparty risk is monitored at the portfolio level in the Group Risk Control division, which, from an organizational point of view, is separate from the front and operational back office divisions. This division is responsible for ensuring the suitability of rating procedures, measuring credit risk, monitoring counterparty, country and sector limits and drawing up risk reports. The limits to exposure or economic capital based on CVaR set at the various portfolio levels are monitored regularly in the monthly overall risk report.

- Compliance with country limits is monitored on a daily basis with a special limit system. The risk monitoring of countries that are still very much the focus of attention remained at a high level.
- The financial institutions' portfolio has both an overall limit and country-related limits, in addition to the country limit itself.
- Sector risks arising from the corporates portfolio are restricted and monitored through the stipulation of sector-specific limits. The limit system is based on a risk-oriented sector key designed specifically for this purpose, which combines sector segments with high dependence of losses along the value chain. For example, mechanical engineering companies whose products are sold predominantly to customers from the automotive industry are also assigned to the automotive industry.

Adjustments to problem assets.

Allowances for losses on loans and advances necessary for credit risks are calculated in accordance with uniform Group-wide measures and their appropriateness monitored on an ongoing or ad-hoc basis.

Allowances for loans and advances are set aside (or increased) if there is objective evidence that the value of an individual financial asset or group of financial assets is impaired. Objective evidence of impairment includes default events that have already occurred, such as:

- arrears/infringement > 90 days,
- unlikely repayment (doubts as to the credit rating),
- debt rescheduling/restructuring,
- impairment/partial write-down,
- sale of receivables or
- insolvency (proceedings).

Reporting.

An ad hoc reporting process is implemented for significant and extraordinary events for specific reporting to the decision-makers in charge. The most important periodic reports are as follows:

- The overall risk report presented monthly in the Risk Committee, including details about the risk situation at the portfolio level, compliance with requirements of the credit risk strategy and compliance with the material limits. The portfolio analyses additionally report on the risk situation of individual sectors for example.
- The monthly report on the ongoing development of actual risk costs and deviations from forecast or standard risk costs.
- The comprehensive credit risk report, submitted on a quarterly basis as part of the overall risk report. This contains additional detailed information on the development of allowances for losses on loans and advances, rating distributions, size classes, product types, remaining maturities, new business and risk concentration arising from individual commitments.
- The quarterly report on the business areas containing the relevant information on the management of the Bank as a whole (capital, risk, and earnings indicators) for each defined business area. This report was redesigned in 2012.

Risk management.

Credit risks are managed, in particular, through the requirements of the credit risk strategy, through the economic capital allocation to sub-portfolios with regard to the CVaR and the monitoring of concentration risks (sector, countries, individual counterparties).

Individual transaction level.

Risk management at the level of individual exposures is the duty of the credit back offices. As a rule, the upper limits are set individually by the respective holder of approval powers. This upper limit is taken into account for all of a customer's or borrower unit's risk-relevant transactions. A material part of managing individual transactions involves monitoring compliance with the requirements defined in the credit risk strategy. This determines the framework for LBBW's business strategy on the basis of the business strategy and in the light of the Group risk strategy. Particular attention is paid to avoiding concentration risks.

From an economic point of view, the question of whether a transaction will produce an adequate profit on a risk-adjusted basis is a key consideration before entering into business; for this reason, preliminary costing of all individual transactions is compulsory. In addition to the historical interest rate, the components in the calculations are the cost requirement margin (cover for processing costs), the risk range (cover for expected loss) and the capital range (interest on equity to cover unexpected loss). The results of the preliminary costing calculation form the basis of business management at customer level.

Sub-portfolio level.

The risk management measures differ depending on the respective sub portfolio level:

- Country limits are determined by the Board of Managing Directors, based on the proposals of the Country Limit Committee. If the country limit is almost fully utilized, the affected front and bank office units are notified and if the limit is exceeded a ban on business is imposed to counteract the excess. If country credit ratings deteriorate, limits are reduced and/or bans on business issued. Wind-down targets also exist for countries that are the focus of particular attention.
- The limitation on the financial institutions' portfolio and the corporates sector portfolio triggers controlling measures such as hedging transactions to reduce risk or a ban on new business if certain thresholds are exceeded.
- At the business area level, risks are limited through measures to ensure adherence to the quantitative guidelines of the credit risk strategy with regard to upper limits, rating structures and the portfolio quality, among others.

Total portfolio level.

In the management of the Group's loan portfolio, the utilization of the limit on the economic capital for credit risks based on the CVaR is monitored particularly closely. A traffic light system recognizes at an early stage if limits are close to being fully utilized and measures to mitigate risk are initiated. In addition, the results of the stress tests provide indications of potentially dangerous risk constellations which necessitate measures for the reduction of risk.

Risk situation.
Preliminary note.

The following information on the risk situation is based on the management approach, i. e., the portfolio is described on the same basis as that used in internal risk reporting to the Board of Managing Directors and the executive bodies. The deviations in the balance sheet volume are chiefly due to differences in the definition of the valuations and the consideration of obligations, particularly loan commitments.

The relevant parameter – exposure – is illustrated below. Gross exposure is defined here as the fair value or utilization plus open external loan commitments. Net exposure also includes risk-mitigating effects such as netting and collateral agreements, the hedging effect of credit derivatives or the inclusion of classic credit collateral such as real estate liens, financial collateral, guarantees or bonds.

Development of exposure and collateral.

The following table shows the performance of the two exposure variables and the risk-mitigating effects year-on-year.

Development of exposure and collateral – LBBW (Bank).

EUR million	31 Dec. 2012	31 Dec. 2011
Gross exposure	**421 761**	**448 671**
Netting/collateral	77 002	73 192
Credit derivatives (protection buy)	29 338	29 757
Classic credit collateral	42 692	45 937
Net exposure	**272 728**	**299 785**

As at 31 December 2012, gross exposure stood at EUR 422 billion, a decline of EUR 27 billion or 6 % over the previous year. The portfolio rundown actually achieved matched net exposure, which also dropped by EUR 27 billion or 9 %.

The details given below on the customer segments, portfolio quality, rating migration, regions, sectors, and size classes provide a broad overview of the relevant aspects of the LBBW (Bank) risk situation. Net exposure is illustrated on the next page.

Customer segments.

The following diagram shows net exposure by customer segment.

Customer segments – LBBW (Bank).

EUR million	Net exposure 31 Dec. 2012	Net exposure 31 Dec. 2011
Financial institutions	127 093	146 017
of which financial institutions under specific state liability	48 767	53 958
Companies	79 077	79 105
Public sector	59 001	66 224
Private individuals	7 557	8 439
Total	**272 728**	**299 785**

Net exposure to financial institutions declined by EUR 19 billion year-on-year to EUR 127 billion and confirms the reductions being targeted in the capital markets business. The figure includes a drop of approx. EUR 5 billion to EUR 49 billion in transactions under special state liability. Financial institutions under special state liability include transactions under guarantee obligation, transactions guaranteed by the State of Baden-Württemberg within the scope of risk immunization or transactions under the SoFFin (Special Financial Markets Stabilization Fund) guarantee.

The companies are the only customer segment where net exposure remained virtually constant year-on-year. Due to the declines in the other customer segments, the portfolio share increased from 26% to 29% in relative terms, thus reflecting the planned focus on these business activities.

Net exposure to public sector bodies was reduced by EUR 7 billion to EUR 59 billion, with the reduction being realized mainly abroad.

Net exposure to private individuals fell slightly year-on-year but remained constant in relative terms. The credit risk of the customer group is particularly well diversified by virtue of its high degree of granularity.

Portfolio quality.

Presenting the portfolio by external rating classes depicts how the portfolio quality has developed over the previous year.

Portfolio quality – LBBW (Bank).

Net exposure	EUR million 31 Dec. 2012	in % 31 Dec. 2012	EUR million 31 Dec. 2011	in % 31 Dec. 2011
AAA	141 202	51.8%	152 212	50.8%
AA	3 405	1.2%	5 798	1.9%
A	43 739	16.0%	45 957	15.3%
BBB	46 212	16.9%	46 247	15.4%
BB	25 316	9.3%	30 232	10.1%
B+	2 085	0.8%	2 234	0.7%
B/B–	3 496	1.3%	3 635	1.2%
C	564	0.2%	706	0.2%
Other	2 342	0.9%	6 658	2.2%
D	4 366	1.6%	6 107	2.0%
Total	**272 728**	**100.0%**	**299 785**	**100.0%**

Overall, the quality has improved slightly year-on-year. This is reflected by a high proportion of the best rating class (AAA) and an increase in the very good to good credit ratings (AA to BBB) from 32.7% to 34.2%. Investment grade ratings (AAA to BBB) therefore account for 86.0% of the portfolio (2011: 83.5%). Accordingly, the proportion of non-investment-grade rating classes (BB to C) fell from 12.3% to 11.5%. The decline of EUR 1.7 billion in the default rating class (D) was particularly due to the swap and sale of the Greek exposure.

Rating migrations.

The following diagram shows the 12-month migration of the internal rating (weighted by net exposure), which is plotted on a scale comprising a total of 24 rating classes.

Rating migrations – LBBW (Bank).

Share of net exposure in %	Share 31 Dec. 2012	Share 31 Dec. 2011
> 3 up	1.4 %	1.7 %
2 – 3 up	3.7 %	6.1 %
1 up	5.0 %	5.0 %
stable	77.0 %	72.5 %
1 down	7.1 %	4.5 %
2 – 3 down	3.5 %	6.5 %
> 3 down	2.3 %	3.8 %
Total	**100.0 %**	**100.0 %**

The share of the portfolio with an unchanged rating for the year as a whole increased from 72.5 % to 77 %. This was associated with a reduction in the downgrades from 14.7 % to 12.9 %; the drop was particularly pronounced in the case of downgrades by two or more notches.

Regions.

The share of domestic business in net exposure widened by 3%-points to 75% for the year as a whole. This reflects a focus on core markets in private, SME, and large customer business, as well as the role as a central institution of the savings banks; it also shows the reduction in the volume of business with international financial institutions and public sector bodies in particular.

Almost 90% of foreign commitments were distributed across Western Europe and North America. Total commitments in Eastern Europe, Latin America, Africa, and to supranational institutions represented less than 2% of the overall portfolio.

Regions – LBBW (Bank).

Net exposure in %	Share 31 Dec. 2012	Share 31 Dec. 2011
Germany	75.4%	72.5%
Western Europe (excluding Germany)	17.4%	18.6%
North America	4.5%	6.3%
Asia/Pacific	1.2%	1.4%
Eastern Europe	1.1%	0.8%
Latin America	0.5%	0.4%
Africa	0.0%	0.0%
Supranationals	0.0%	0.0%
Total	**100.0%**	**100.0%**

The European sovereign debt crisis continued to adversely affect the portfolio quality of LBBW (Bank). As part of country risk management, corresponding risk-mitigation measures were implemented. Attention was focused particularly on Portugal, Italy, Ireland, and Spain. Countries such as Cyprus and Hungary also find themselves under greater scrutiny.

Because of their relevance, commitments in Portugal, Italy, Ireland, and Spain are illustrated in more detail below. Loans and advances extended by LBBW (Bank) to financial institutions, companies and public sector bodies in these four countries totaled EUR 10.0 billion (2011: 12.8 billion). Owing to the targeted reduction in the Greek commitment, this no longer has any material influence on the risk situation of LBBW (Bank).

The following details are on the basis of the HGB balance sheet values per country and borrower or balance sheet category, and of the write-downs created.

Exposure to financial institutions – LBBW (Bank).

EUR million	Ireland	Italy	Portugal	Spain
Loans and advances (net)				
Balance sheet value	52.3	197.0	28.3	4.1
Cumulative depreciation				
Debentures and other fixed-income securities				
Fixed assets				
Balance sheet value	132.5	149.3	55.1	391.3
Cumulative depreciation				
Liquidity reserve				
Balance sheet value	14.6			
Trading assets				
Derivative balance sheet value	411.7	242.7	2.7	364.7
Other balance sheet value	112.3	69.6	2.6	460.4
Trading liabilities				
Derivative balance sheet value	– 527.6	– 209.0	– 5.0	– 411.9
Other balance sheet value				
Total	**195.8**	**449.6**	**83.7**	**808.6**
Derivative banking book				
CDS				
Nominals of CDS assets		64.0		33.0
Nominals of CDS liabilities				
Provision for contingent losses				

Exposure to corporates – LBBW (Bank).

EUR million	Ireland	Italy	Portugal	Spain
Loans and advances (net)				
Balance sheet value	306.9	170.0	46.9	767.2
Cumulative depreciation				- 81.2
Debentures and other fixed-income securities				
Fixed assets				
Balance sheet value	46.1	14.7		3.6
Cumulative depreciation				
Liquidity reserve				
Balance sheet value				
Trading assets				
Derivative balance sheet value	13.3	15.6	0.6	59.4
Other balance sheet value	29.8	0.2		3.5
Trading liabilities				
Derivative balance sheet value	- 5.6	- 4.0	- 0.1	- 1.4
Other balance sheet value				
Total	**390.5**	**196.5**	**47.4**	**751.1**
Derivative banking book				
CDS				
Nominals of CDS assets		94.9		8.0
Nominals of CDS liabilities		10.5		
Provision for contingent losses				

Exposure to public sector – LBBW (Bank).

EUR million	Ireland	Italy	Portugal	Spain
Loans and advances (net)				
Balance sheet value			40.0	10.3
Cumulative depreciation				
Debentures and other fixed-income securities				
Fixed assets				
Balance sheet value		2 103.0	357.0	1 175.1
Cumulative depreciation				
Liquidity reserve				
Balance sheet value	81.9	1 159.4	472.5	1 594.4
Trading assets				
Derivative balance sheet value	4.2	15.4	12.2	7.2
Other balance sheet value	0.2	5.2	0.2	41.5
Trading liabilities				
Derivative balance sheet value	-5.2	-17.6	-12.8	-7.5
Other balance sheet value				
Total	**81.1**	**3 265.4**	**869.1**	**2 821.0**
Derivative banking book				
CDS				
Nominals of CDS assets	104.2	1 262.7	546.3	1 760.4
Nominals of CDS liabilities	90.0	1 185.0	500.0	1 650.0
Provision for contingent losses				

The figures stated above on the commitments in Ireland, Italy, Portugal, and Spain do not include any loans to group companies with registered offices in these countries. They also do not include securities from group companies with registered offices in these countries. Furthermore, no ABS whose issuers have registered offices in these four countries are included.

Portfolio quality by sector.

A further breakdown of net exposure by sector and rating provides information on the scope of LBBW (Bank) business activities and the risk situation in the respective sector. The sector classification in the following observation is based on LBBW's internal risk-oriented sector key.

Portfolio by rating and sector – LBBW (Bank).

Net exposure in EUR million	AAA – BBB –	BB+ – B+	B – C	Other[1]	Default[2]	Total 31 Dec. 2012	Total 31 Dec. 2011
Financial institutions	118 527	7 412	335	358	462	127 093	146 017
Banks	98 985	2 013	81	29	117	101 225	115 015
Financial service providers	19 542	5 399	253	330	344	25 868	31 002
Companies	53 946	18 006	2 547	870	3 707	79 077	79 105
Automotive	7 146	3 017	99	15	333	10 610	10 250
Construction	3 024	1 497	275	69	330	5 195	5 809
Commercial real estate	5 027	3 051	709	153	1 394	10 334	10 468
Utilities	5 779	586	117	33	23	6 538	6 779
Housing	2 253	1 872	60	102	149	4 435	3 482
Other sectors[3]	30 717	7 983	1 286	498	1 480	41 964	42 317
Public sector	57 423	558	991	28	1	59 001	66 224
Private individuals	4 664	1 424	188	1 086	195	7 557	8 439
Total	**234 559**	**27 401**	**4 060**	**2 342**	**4 366**	**272 728**	**299 785**

1) »Other« comprises exposure which has not been classified according to risk e. g., for risk relevant reasons, and which is performing as planned.
2) »Default« refers to exposure for which a default event as defined in section 125 SolvV has occurred, e. g., 90-day default, improbability of repayment or the recognition of write-downs. The exposure is presented before allowances for losses on loans and advances/impairments.
3) »Other sectors« combine company sectors with net exposure of less than EUR 4 billion as at 31 December 2012.

Just under 80% of net exposure toward financial institutions was accounted for by banks and the rest by other financial service providers. The proportion of exposure contributed by transactions with very good to good ratings (AAA to BBB –) stood at over 93% and thus remained very high (2011: 91%).

The share of investment-grade ratings among the corporate customers increased to 68% (2011: 65%). Another positive development was the EUR 0.7 billion decline in commitments in default to EUR 3.7 billion in net exposure. In the diagram above, company sectors with net exposure of more than EUR 4 billion each (equates to 5% of the company portfolio) were shown separately. As in the previous year, automotive and commercial real estate sectors were the most important sectors in the portfolio. They will continue to be monitored closely in terms of the management of sector concentration. The »Other sectors« item includes a further 25 corporate sectors that contribute significantly to sector diversification.

Exposure to public sector bodies continued to shrink significantly over the year as a whole. The reduction in the default exposure is due to the swap and sale of the Greek exposure in the first quarter of 2012.

Size classes.

The size classes in the following diagram are shown on the basis of customer or borrower unit level (where available).

Size classes – LBBW (Bank).

Net exposure in %	Share 31 Dec. 2012	Share 31 Dec. 2011
up to EUR 10 million	10%	10%
up to EUR 50 million	11%	11%
up to EUR 100 million	6%	6%
up to EUR 500 million	22%	23%
up to EUR 1 billion	16%	15%
over EUR 1 billion	35%	36%
Total	**100%**	**100%**

27% of the portfolio is accounted for by size classes of up to EUR 100 million net exposure. These included corporate and retail customers in particular.

With shares of over 90% in both cases, very good to good credit ratings also dominated the two size classes of net exposure totaling EUR 100 million to EUR 500 million and EUR 500 million to EUR 1 billion, respectively.

The portfolio share of commitments in excess of EUR 1 billion fell by one percentage point in relative terms over the previous year to 35%. In absolute terms, it fell by EUR 10 billion. 37% of this size class comprises »Landesbanken« and savings banks (of which more than two thirds are under guarantee obligation) and a further 38% public sector bodies (particularly domestic non-central public sector entities). The remaining 25% in this size class was spread across financial institutions and companies almost exclusively with very good to good credit ratings. A further reduction in the share in the overall portfolio of the size class with net exposure of > EUR 1 billion will be achieved by means of the successive disposal of individual large exposures.

Allowances for losses on loans and advances.

The development of allowances for losses on loans and advances is shown in the table below.

Credit remeasurement gain or loss – LBBW (Bank).

EUR million	Portfolio 12/2011 (1)	Transfers (2)	Additions (3)	Reversals (4)	Utilization (5)	Direct write-offs/ input on receivables written down (6)	Currency difference (7)
Credit risks	3 470.8	-48.9	665.4	696.2	509.6	187.0	-16.8
GLLP	253.0	0.0	115.8	179.7	0.0	0.0	0.0
LBBW (Bank)	**3 723.8**	**-48.9**	**781.3**	**875.9**	**509.6**	**187.0**	**-16.8**

EUR million	P/L relevant risk costs (3)-(4)+(6)	Portfolio 12/2012 (1)+(2)+ (3)-(4)- (5)+(7)	as a % of gross exposure	Gross exposure
Credit risks	156.3	2 864.9	0.68%	421 761
GLLP	-63.9	189.1		
LBBW (Bank)	**92.4**	**3 054.0**		

At approx. EUR 92 million, the credit risk costs as at 31 December 2012 were low. This is largely attributable to the economic performance in Germany, which resulted in considerable reversals in the specific valuation allowances as well as the general valuation allowances due to improvements in the ratings. It is reflected most in the automotive sector, which featured net reversals of approx. EUR 32 million in 2012.

Market price risks.
Definition.

LBBW defines market price risks as potential losses resulting from unfavorable changes in market prices. Market price risks are broken down by influencing factors, such as equities, interest rates, and currency.

The following characteristics of market price risks arise as a result of the nature of LBBW's business activities:

Characteristics of market price risks.

Market price risks	Characteristics
Equity risks	■ General and specific price risks ■ Option risks
Interest rate risks	■ General and specific interest rate risks ■ Option risks ■ Credit spread risks
Foreign exchange/ commodities risks	■ Exchange rate risks ■ Commodity risks ■ Option risks

Risk measurement.

Risk model.

In the financial sector, the market risk of the trading and banking portfolio is represented by VaR forecasts. This VaR can be determined as part of a stochastic-mathematical model. A portfolio value distribution is arrived at by distributing the market factors, the valuation and, if necessary, simplifications affecting the market data. The VaR is determined from this as the maximum potential loss at a given confidence level.

At LBBW, it is measured on the basis of an in-house procedure involving a conventional Monte Carlo simulation. In the simulation, market-induced fluctuations in the value of complex transactions are partially approached. Historical time series for the preceding 250 days are weighted equally in the covariance matrix estimate. Backtesting analyses ensure the quality of the applied VaR estimation procedures.

The model is used for general interest rate and equity risks to determine the regulatory equity backing for market risks of the trading book[1)] (so-called SolvV portfolio). The overall risk is included in determining the economic capital.

1) Trading book excl. funds that cannot be represented transparently.

LBBW calculates the Value-at-Risk (VaR) from market price risks at a confidence level of 99% and a holding period of ten days for regulatory purposes. A 95% confidence level and a one-day holding period are applied for internal Bank management purposes. The confidence level and holding period are scaled to a level adjusted to economic capital for risk-bearing capacity purposes.

At LBBW, market price risks are, as a rule, consistently modeled in the trading book and banking book using the same VaR methodology.

Trading portfolios and the strategic interest-rate position of the banking book can be affected by potentially detrimental developments in market interest rates. In the course of the financial market crisis, credit spread risks have become an important part of LBBW's market price risk. The transactions of the trading book and the banking book that are sensitive to creditworthiness are mapped onto rating- and sector-dependent yield curves. In this way, general credit spread risks from bonds and ABS are also measured. In addition, the issuer-specific risk for securities is calculated using the spread of individual counterparties. Reference borrowers are allocated to CDS sector curves for credit spread risks from credit derivatives. For the general interest rate risk the allocated CDS sector curves are deflected, for the specific risk the remainder terms.

The calculations of VaR and sensitivities are supplemented with separate stress scenarios for the trading and the banking book on a weekly basis. Stress testing is used to examine how the value of the portfolio changes under extreme market conditions. LBBW uses both self-defined e. g., synthetic as well as historical market movements with a focus on modeling particular curve movements and spread changes. Synthetic scenarios are based mostly on selected market factor groups such as individual and combined interest shifts. Historical scenarios were generated from the data analyses of market shocks. All scenarios serve the purpose of modeling extreme events on the financial markets that are not specifically included in VaR as history-based indicator. The results are taken into consideration and are reported to the decision-makers both on a portfolio basis and with regard to their impact on the Group as a whole and on risk-bearing capacity. The changes in value simulated under stress are also integrated in the stress scenarios for multiple risk types and are therefore relevant for risk-bearing capacity.

The overall management of the Bank is complemented by StressVaR calculations. This observation period is determined on a quarterly basis for the SolvV portfolio as well as for the Group.
For this purpose, the StressVaR in the SolvV portfolio that is relevant for reporting to the supervisory authorities is calculated on a weekly basis for the relevant observation period. A second analysis simulates the increase in risk under stress for the period of relevance for the Group; this value is also included in the scenarios for multiple risks and is therefore relevant for risk-bearing capacity.

New products and further development of the risk model.

The introduction of new products aside, no structural methodological model adjustments were made in the course of the regular development of the market risk model in 2012.

For the purpose of regular quality assurance and validation, the adequacy of risk modeling and the risk factors used are reviewed regularly in addition to valuations. If certain markets and risk types become more important in the future, LBBW can flexibly expand the self-developed model.

However, there are generally limits for the valuation procedure: LBBW addresses such model risks by further analyses and limitations, as well as valuation discounts, if necessary. An appropriate amount is also included in risk-bearing capacity for model risks. Specifically, allowance is made for returns from micro issues as well as products with heavily simplified inclusion in risk and backtesting.

Validation of the risk model.

The quality of the resulting VaR forecasts must be reviewed for regulatory purposes within the scope of a regular validation process conducted by an independent organizational unit. The process starts by reviewing the model design and identifying possible model risks. Subsequently through customized validation analyses the materiality of the risk model is quantified, both isolated and combined. The backtesting analysis is particularly important in this context; on other words, the statistical backward comparison of the actual changes to the portfolio with the corresponding VaR forecasts. The pure valuation changes of the portfolio (excluding new business and intraday results – Clean-P/L) are used for these changes in portfolio value.

Since January 2012, additional backtesting on the basis of the so-called Dirty-P/L is conducted due to regulatory requirements. Dirty-P/L is the actual change in value net of interest income/expense, commission and fees. It is calculated on the basis of the economic result. At this stage of implementation, it still includes net interest income.

Risk monitoring and reporting.

The utilization of limits and compliance with the detailed risk strategy among other things defined in the portfolio characteristics, are monitored by the relevant persons with portfolio responsibilities in Group Risk Control and reported to the Group's Board of Managing Directors. Reporting comprises specifically:

- Daily report with the daily overview of the earnings and risk development
- Weekly stress test report comprising the effects of the stress scenarios
- Weekly stressed VaR report containing the results of the StressVaR calculation for the trading portfolios.
- Overall risk report that is prepared monthly and contains detailed information about earnings and risk development, as well as the effects of the stressed VaR on the economic capital and monitoring of the economic capital limit.

Risk management.

Ongoing risk management is handled by the relevant persons with portfolio responsibility in the Capital Markets and Treasury divisions within the scope of the market price risk strategy and the limits set. Limits based on VaR, loss warnings and sensitivities are set by the Board of Managing Directors. In the case of certain sub-portfolios, this authority is assigned to individual members of the Board of Managing Directors, who then further allocate this authority according to a hierarchical system of responsibilities. The loss warning trigger describes the loss limit per portfolio.

The main task assigned to the sales units involves the conclusion of 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 positions are offset without delay by transactions with Capital Markets and Treasury. The trading units of LBBW (Bank) are responsible for managing market price risks in the trading book.

The market price risks of the credit substitute business are pooled in a portfolio. The transactions are being run off gradually in accordance with the EU plan.

Interest rate risks from the transactions with customers are largely closed out by the Treasury division on a near real-time basis by means of offsetting transactions.

The guidelines for the management of market price risks in the banking book is the direct responsibility of the Board of Managing Directors.

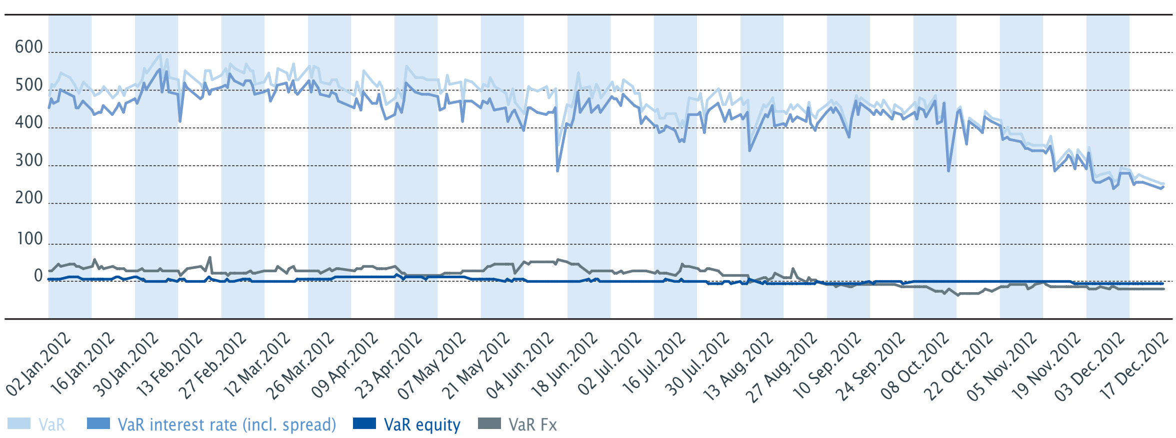
Risk situation.

Development of market price risks.

Exposure to market price risks in 2012 was always in accordance with the risk-bearing capacity of the LBBW Group. The risk limit was not exceeded in 2012 at the level of LBBW (Bank). The same applies to the limits for the corresponding division and department portfolios. The loss warning trigger was not breached either for any portfolio in 2012.

The following chart illustrates LBBW (Bank) market price risks over the course of the year.

Trends in LBBW (Bank) risk in EUR million (99%/10 days).



The market price risk of LBBW (Bank) was virtually constant in the first half of 2012, as the position run-off in the credit substitute business was offset by increased volatility of the credit spreads. Volatility eased at the end of October, which reduced risk.

LBBW's market price risks are generally characterized by interest rate risk and the credit spread risks contained therein. The overall risk is dominated by the positions in the banking book. The basis risks in the interest area between individual European sovereign and 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. Equity risks, along with currency and commodity risks, are less significant for LBBW than interest rate and spread risks. Commodity risks also include risks from precious metals and currency portfolios, which LBBW holds to only a limited degree.

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

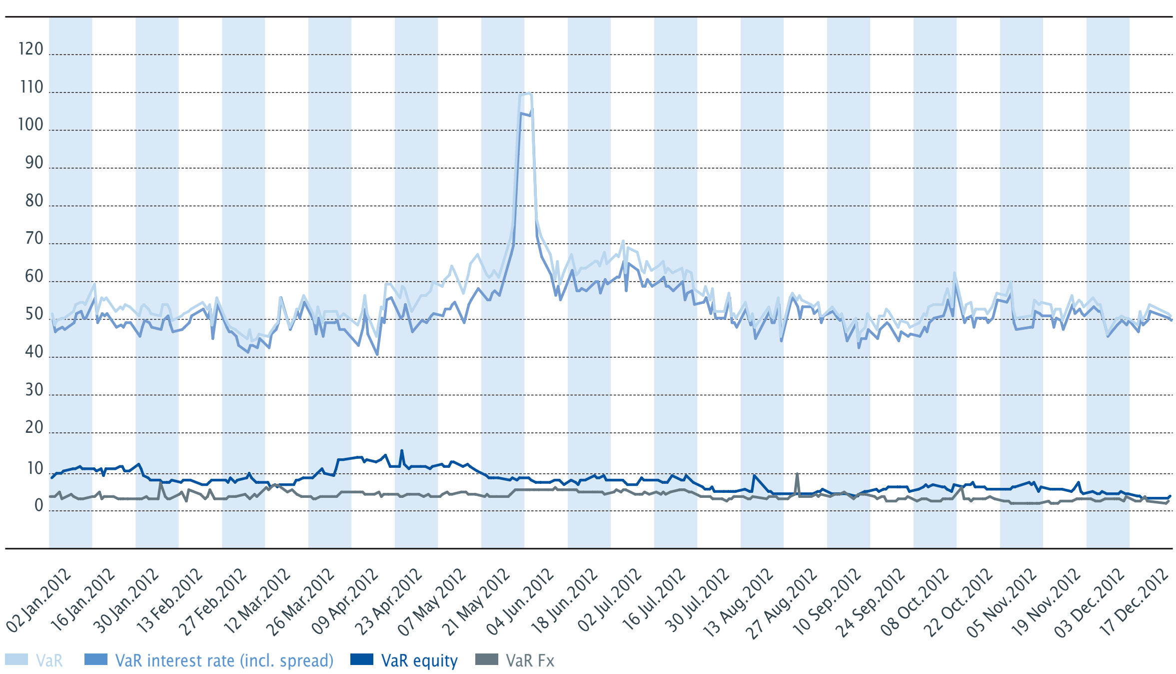
VaR 99 %/10 days.

EUR million	Average	Maximum	Minimum	28 Dec. 2012[1]	30 Dec. 2011
LBBW (Bank)	484	544	381	382	510
Interest rate risks	463	523	370	372	488
Equity risks	7	14	3	3	9
Currency risks	34	58	9	16	42

1) The last reporting day in the 2012 financial year was 28 December 2012.

The trading positions' VaR developed as follows in 2012:

Trends in trading book risk in EUR million (99%/10 days).



VaR 99 %/10 days.

EUR million	Average	Maximum	Minimum	28 Dec. 2012 [1]	30 Dec. 2011
LBBW (Bank) trading positions	**58**	**110**	**47**	**53**	**51**
Interest rate risks	54	105	43	52	47
Equity risks	7	14	2	3	9
Currency risks	3	9	1	2	4

1) The last reporting day in the 2012 financial year was 28 December 2012.

The European sovereign debt crisis had less of an effect on the trading book risks than on the banking book as a result of the lower credit spread exposure. The short-term increase in the interest rate risk (maximum EUR 105 million) resulted from the portfolio chiefly comprising exotic interest rate products and was related to the extremely low interest rates. The model was revised methodically in order to guarantee stability in such market situations.

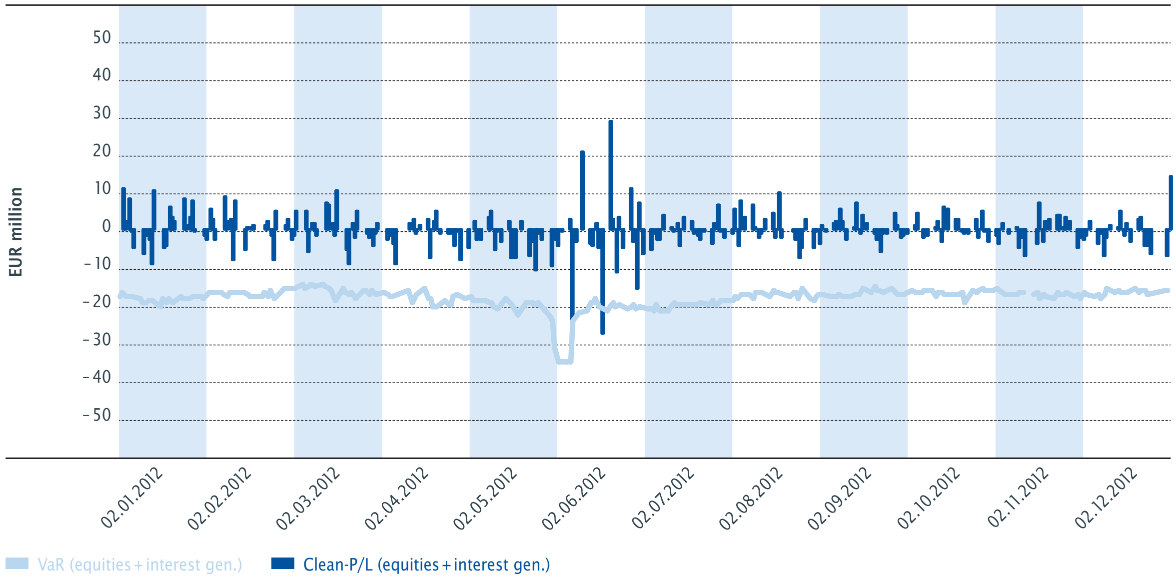
Backtesting result.

LBBW uses an internal risk model that is approved by the supervisory bodies for the SolvV portfolio to determine the capital adequacy for equity risks and general interest rate risks. The share of specific interest rate risk in the capital adequacy is not determined using the internal model.

Up to and including the last reporting date of 28 December 2012, the internal risk model indicated only one outlier in the SolvV portfolio for the preceding 250 trading days. The exception was due to a technical problem in relation to the delivery of market data. No additional equity is required for model outliers for regulatory purposes. Since five outliers are necessary to impact on the weighting factor of the internal model, it remains unchanged.

Backtesting SolvV portfolio for the period from 2 January 2012 to 28 December 2012.

VaR parameter: 99% confidence level, 1-day holding period



With regard to the overall VaR, three outliers were identified in the preceding 250 trading days for the LBBW Group due to the sharp market fluctuation (bonds and CDS spread widening) that had an impact on specific risk. The trading positions and the strategic bank positions also showed three outliers each.

No outliers arose on the basis of the Dirty-P/L.

Stress test.

In the regular review of the stress test scenarios, special ABS curves were introduced to deflect ABS bond spreads in the scenarios on the 2008 financial market crisis. As a consequence, the stress test value, in particular of the scenario that replicated the market data development during the Lehman crisis, increased slightly. However, the worst-case scenario – a scenario that reflects a widening of the bond and CDS spreads in the government and financials segment during the period from April to August 2011 – remained unchanged. A new scenario was also introduced that is based on the Bundesbank's annual market risk stress test survey. Bond spreads here are deflected absolutely depending on rating.

The effects of an interest rate shock on the strategic bank position are calculated within the scope of conducting the stress test. For this purpose, the yield curves are shifted by +/– 200 bp. The regulatory requirement stipulates that the result may not exceed a 20% share of the liable equity. This limit was never breached in 2012.

Market liquidity risks.

Market liquidity risk designates the risk that transactions cannot be closed out, or can only be closed out at a loss, due to inadequate market depth or market disruptions. For example, if a large volume were to be bought or sold quickly, then a corresponding market influence would be anticipated, potentially reducing the expected proceeds.

LBBW uses the jump-to-default method for calculating the market liquidity risk with respect to equities and equity derivatives. This is a scenario calculation in which all positions based on an underlying are remeasured by setting the latter's price to zero. The difference to the current fair value represents the utilization that is limited and monitored. Individual names overshot their limits in 2012. This was communicated and monitored in line with the internal escalation process.

Moreover, the concept of market liquidity risks also relates to potential losses in an assumed stress scenario in the sense that the liquidity of market segments may decline. This was the case in 2007 and 2008 in the area of credit spread products and especially securitizations. Since then, the sudden lack of liquidity in what up to that point were very liquid markets has made it difficult to perform market valuations in these market segments. As at 28 December 2012, the market liquidity risk of LBBW (Bank) in relation to bonds and CDS stood at EUR 456 million. The introduction of a new model, comprising bonds, credit derivatives, swaps, and equities, for calculating the market liquidity risks is planned for 2013.

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 mapped in a comparable way using historical models. This is mapped through stress tests in which the yield curves for bonds are shifted in accordance with segment and rating. The market data for CDS is adjusted specifically for each issuer.

Liquidity risks.
Definition.

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 funding shortfall, and the funding (spread) risk, which describes the adverse effects on income resulting from a possible deterioration of the funding spread.

Risk measurement.

Short-term liquidity risk in the sense of the availability of sufficient funds at any time is not an earnings risk. Hence, it cannot be quantified or analyzed appropriately as VaR by calculating a potential financial loss. It is therefore managed in LBBW using quantitative requirements and limits which have been established by the Board of Managing Directors in accordance with liquidity risk tolerance.

Determining the liquidity risk position involves:

- Calculating exact-day liquidity gaps on a daily basis.
- Calculating the potential funding available from central banks on a daily basis on the target date and over time.
- Identifying gaps for long durations on a monthly basis to analyze funding (spread) risks.
- Preparing investor lists on the basis of which any changes with regard to the diversification of the investor base can be identified.
- Monitoring, analyzing and regular quantifying of all material call risks, as well as regular stress testing. In 2012, a simulation-based method was introduced to calculate potential additional liquidity requirement for the OTC derivative collateralization, as an important methodical development.

Liquidity risk tolerance is largely defined by reference to a survival period concept, i. e., time frames are specified by management over which LBBW (Bank) is expected to remain at least solvent, even in the event of severely limited opportunities to borrow on the market, subject to different combinations of assumptions (development paths). The assumptions to be met in relation to the regular review of compliance with these guidelines, especially within the scope of stress tests, are reviewed regularly for appropriateness under current market conditions. If current developments created the need for adjustment, this is reported to the management via the Risk Committee and leads to timely adjustments when duly authorized. In addition, there is a limit system for the maximum funding requirements based on maturities from the business portfolio across various timeframes.

The following measures, amongst other things, are used for the early identification of new call risks or increased risk from known or previously immaterial call risks.

- Permanent analysis of the documented business operations (overall risk report, ALCo documents, new product processes) with regard to new or increasingly significant call risks.
- Monitoring the daily cash flows in the ECB account, with regard to major cash flows that are not from transactions due or other familiar causes of payments flows.

All key subsidiaries as defined in the risk inventory and all conduits/SIVs are included in regular reporting of liquidity risks in accordance with LBBW guidelines. The liquidity risks of subsidiaries and equity investments are judged equally and reported as liquidity risks in the balance sheet.

Risk monitoring and reporting.

The regular monitoring of liquidity risks and compliance with limits and guidelines in accordance with the liquidity risk tolerance is the responsibility of the Risk Committee of LBBW at the management level, while Liquidity Risk Control within the Group Risk Control division is responsible for daily monitoring at the operating level. As part of the overall risk report, all material aspects of liquidity risk, such as liquidity requirements, liquidity reserves and compliance with the specifications on liquidity risk tolerance including the results of the stress tests carried out, are reported in detail to the Risk Committee. Various reports are prepared daily as part of the continuous monitoring, which show the different partial aspects of liquidity and liquidity risk – such as disaggregation of the liquidity gaps by currency – in detail and are distributed in Risk Controlling and Treasury.

Risk management.

The Asset Liability Committee (ALCo) is the central committee for managing liquidity and funding. The Asset Liability Committee prepares the liquidity and funding strategy on behalf of the Group's Board of Managing Directors, and monitors the implementation of decisions. Treasury prepares all the decisions to be made by the Asset Liability Committee with the aim of active income and risk optimization while simultaneously ensuring solvency at all times and compliance with the requirements with respect to liquidity risk tolerance. The ALCo is also responsible for determining the strategy for calculating the internal settlement rates (OZ rates) and for reviewing the steering effect of the OZ rates on the business areas and the Group's liquidity and finding situation. The ALCo convenes monthly.

Treasury is responsible for the operative management of market- and risk-adequate internal transfer prices that have to be adjusted continuously to market conditions, and is a fundamental component of the management of the assets and liability sides of the balance sheet.

The purpose of LBBW's funding strategy is to diversify product and investor groups. In 2012, investments by savings banks and institutional investors within Germany constituted the main sources of medium- and long-term funding in addition to retail business. Covered bonds continue to represent a material source of funding.

Treasury is responsible for securing intraday liquidity in trading. It plans daily payments and calculates liquidity requirements up to the end of the day, while continuously taking into account payment inflows and outflows that only become known during the course of the day as well as performing the central bank function for savings banks.

A detailed emergency plan is in place for securing liquidity in acute crisis situations. The provisions made include the formation of a crisis response team bringing in members of the Board of Managing Directors. The emergency plan is reviewed at least once a year and resolved anew by the Board of Managing Directors.

Risk situation.

The liquidity situation remained comfortable during 2012. Despite another rating downgrade of LBBW (Bank) by Moody's, the funding resources available on the market were significantly higher than the funding requirement of LBBW (Bank). Liquidity risk declined again.

The following factors, amongst other things, contributed to the good liquidity situation:

- The consistent implementation of the funding plan for the medium- and long-term maturities.
- The stable customer deposit business of BW-Bank.
- The release of liquidity through the scheduled run-off of the credit substitute business and the reduction of the investment portfolio.

As at 31 December 2012, the funding requirement of LBBW (Bank) from the business portfolio stood at only EUR 0.7 billion on a 12-month horizon. There was a liquidity surplus from a three-month perspective. The potential additional requirement due to potential call risks was quantified at EUR 8.5 billion on a three-month horizon and at EUR 16.7 billion for the year as a whole. The most important call risks arise as a result of customer orders for deposits with no fixed term, from the utilization of external loan commitments and unfavorable changes in market parameters that lead to an increase in the collateral to be pledged as part of derivatives netting.

Assets eligible for monetary policy operations (liquidity reserves) of EUR 27.1 billion were available on a three-month horizon. Liquidity reserves for a one-year period, taking into account the mandatory overcollateralization from the cover registers to maintain the covered bond rating, came to EUR 36.7 billion.

Overview of funding requirement and liquidity reserves.

EUR billion	3 months	1 year
Funding requirement from the business portfolio (deterministic cash flow)	–	0.7
Material call risks (stochastic cash flow)	8.5	16.7
Free liquidity reserves	27.1	36.7

There were no breaches of any limits or other guidelines pursuant to liquidity risk tolerance in 2012. The liquidity reserves were adequate at all times to compensate for any substantial, short-term liquidity outflows. LBBW did not have to use the central bank liquidity facilities at any time to cover its funding requirements in 2012.

The requirements of the standard approach of the Liquidity Regulation (»Liquiditätsverordnung«) were exceeded significantly in the year under review. As at 31 December 2012, the liquidity ratio for LBBW (Bank) was 1.64 (2011: 1.59).

Risk management system for covered bond (Pfandbrief) operations.

A differentiated limit system was put in place to monitor risks from covered bond (Pfandbrief) operations (section 27 of the German Covered Bond Act (Pfandbriefgesetz – PfandBG)). 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 is implemented. The Board of Managing Directors and the Risk Committee are informed on a quarterly basis of compliance with the provisions of the PfandBG and the utilization of legal and internal limits. The risk management system is reviewed at least annually.

Operational risks.

Definition.

LBBW defines operational risks (OpRisk) as the risk of losses arising due to the unsuitability or failure of internal processes and systems, people, or due to external events. This definition also includes legal risks.

Risk measurement.

The standard approach is used to calculate regulatory capital requirements at LBBW. In connection with LBBW Group’s risk-bearing capacity, an operational Value-at-Risk (OpVaR) model is applied for the internal economic management.

The model is based on the loss distribution approach. Frequency and loss amount distribution is modeled separately for the individual business lines. Internal and external losses are included for the OpVaR calculation. The model is subject to ongoing further development. The scenario analysis was included in the OpVaR model in 2012.

The confidence level was lowered from 99.95% to 99.93% to calculate the OpVaR within the scope of the risk-bearing capacity.

Risk monitoring, reporting and risk management.

An independent, centralized organizational unit within the Group Risk Control division is tasked with further developing and implementing the methods and tools used by OpRisk Controlling. To the extent that this is possible and reasonable, the central Group Strategy/Legal division obtains insurance policies to cover potential losses. At LBBW, the management of operational risks is mainly the responsibility of the individual divisions and subsidiaries. In this context, the local Operational Risk Managers are very important. They support division management and managing directors in the use of operational risk controlling tools and the reporting system, serve as contacts for their respective employees regarding operational risks, and are in close contact with LBBW’s centralized OpRisk Controlling unit.

One of the main goals of the operational risk management and control activities is to identify operational risks at an early stage and to minimize the resulting losses by implementing the appropriate measures. Various tools are used to identify and assess the risk situation.

In addition to the internal and external incident database, a risk inventory is conducted annually with self-assessments and scenario analyses. In the self-assessments, the individual risks of LBBW's individual divisions are notified. The greatest risks from the self assessment are aggregated in the scenario analysis using standard scenarios. They are then analyzed extensively and measures for reducing the risks are investigated. This new method was implemented in all of LBBW's business lines in 2012. The results of the scenario analysis are used in the OpVaR model. The analysis of the risk indicators and the management of OpRisk measures also play an important role in managing operational risks. Further development is planned for the risk indicators in 2013.

The centralized OpRisk Controlling unit provides decision-makers with relevant information as part of regular risk reporting. The Risk Committee also supports the Board of Managing Directors in exercising its supervisory function.

The OpVaR model used for internal controlling is integrated into the Group's strategic limit system. There are economic stress scenarios that vary the risk parameters of the OpVaR model (frequency or amount of loss in expected future loss events). This covers the main business lines and event types. The stress scenarios for operational risk are also incorporated in the overlapping stress scenarios for risk-bearing capacity.

Risk situation.

LBBW does not expect any operational risks to its going-concern status. Despite the extensive precautionary measures taken, operational risks can never be entirely avoided. Legal risks, IT Risks and Personnel risks are explained below.

Legal risks.

The definition of operational risks also includes legal risks. Legal risks comprise economic risks due to full or partial failure to comply with the framework of rules established by legal regulations and court rulings. These risks arise, for example, 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 (incl. cases where this is unavoidable or the employee is not at fault, or as a consequence of changes in legislation, court rulings or administrative practice, particularly at national and European level).

Legal risks are managed especially by the legal departments (as part of the Group Strategy/Legal division) of LBBW (Bank). 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 efforts to limit these in a suitable manner. The legal departments have developed or examined and approved for use by business areas of LBBW (Bank) 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 publishing house. Approved, standardized contract materials are used for derivative transactions wherever possible. If legal questions arise in new areas of business or during the development of new banking products, the legal departments supervise and actively shape these processes.

Furthermore, the legal departments monitor all planned legislation, developments in court rulings, and new standards stipulated by the supervisory authorities in LBBW's key areas of activity in close cooperation with the Association of German Public Sector Banks (Bundesverband Öffentlicher Banken Deutschlands – VOB), the German Savings Bank Association (Deutscher Sparkassen- und Giroverband – DSGV), and the Association of German Pfandbrief Banks (Verband deutscher Pfandbriefbanken – VdP) in particular.

To the extent that this results in LBBW having to take 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. There are currently no legal risks liable to threaten the going-concern status of LBBW (Bank). The Group Strategy/Legal division also has no reason to believe that such risks will arise at LBBW (Bank) in the foreseeable future.

Following new recent decisions at higher and supreme court level, various banks have been exposed to sizeable legal risks in connection with customer transactions involving complex derivatives. LBBW could not shield itself from these matters either. Most of these legal risks at LBBW originate from the portfolios of former Sachsen LB. LBBW's Board of Managing Directors therefore ordered a legal portfolio analysis to be carried out, also in view of current consumer law developments. On the basis of current knowledge, sufficient precautions have been taken to cover these risks, although this will depend on future trends in court rulings and the outcome of legal disputes.

IT risks.

LBBW takes international standards into account on a continuous basis. It complies with ISO standards 27001, 27002 and 27005 and has structured the IT operations according to the IT Infrastructure Library. IT risk management for IT/Organization and for the new Data Center Services, which was set up in fall 2012, is centralized and lies in the Group IT Security Officer's area of responsibility.

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 capabilities, with the savings banks in Baden-Württemberg among others, in accordance with defined procedures. The procedure and organizational measures to be taken in the event of a crisis are described in the IT crisis management manual. IT operations have emergency plans in place for operating IT systems in an emergency; these are reviewed in regular exercises. In the context of the general Business Continuity Management of LBBW, IT emergency plans are compared against the requirements of the business continuity plans of the specialized divisions.

LBBW has independent, geographically separate data centers for the business operations, as well as the corresponding emergency and back-up concepts to meet the availability requirements of the specialized divisions. In addition, prepared backup workplaces are set up at the contingent locations for the various specialized divisions, for example, for trading, trading processing or payments.

To ensure it is best-equipped in the future to meet the growing demands of IT as a result of complex legal and regulatory requirements as well as the growing requirements of the market and customers, we plan to outsource our IT activities to a service provider that specializes in banks and savings banks. One of the primary goals related to this outsourcing is to recognize the emerging risks for IT in the event of implementation and to then take the corresponding risk-reducing measures.

Personnel risks.

LBBW's success depends materially on the commitment of its employees – and is also anchored in LBBW's mission statement: »We as employees drive the success of the Bank; with competence, knowledge, and commitment«. Personnel risk management aims to identify negative trends (risk monitoring) and evaluate suitable measures to prevent or minimize risks (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. These risks are measured by periodically evaluating and analyzing key human resources 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.

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

One focus here is developing and promoting young employees within the company. In order to address the risk of a shortage of high-performance employees (bottleneck risk), employee potential is systematically documented and analyzed. The age structure of LBBW's employees is watched particularly closely in the light of demographic changes, although there are no signs of any need for action over the next few years.

LBBW has already implemented a series of measures to address possible personnel risks. These measures range from legal protection for LBBW to ensuring that employees are qualified to perform 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 providing training in and monitoring of statutory money laundering and compliance regulations.

Since restructuring began, it has been possible to agree on the cutting of more than 2 400 full-time equivalent positions through voluntary redundancies. As the layoff process is being implemented on a controlled basis and affects only selected function groups, the risk of undesirable resignations by employees is considered low and very manageable.

Other material risks.

Investment risks.

LBBW (Bank) invests in other companies or assigns functions to subsidiaries if this appears to be appropriate in the light of strategic aims or returns.

The management of the subsidiaries is shared by the responsible staff, market, operating, and back office divisions.

The early identification of business and risk development in the subsidiaries and equity investments is particularly important to the management of equity investments. These serve the purpose of holding regular coordination meetings at the corresponding specialist levels of LBBW (Bank) and the strategically important subsidiaries. The management and monitoring at the level of these subsidiaries are performed by institutionalized supervisory boards or comparable bodies. In addition, these companies' results and planning are constantly monitored and extensive reporting produced on this issue for the Board of Managing Directors and executive bodies.

With regard to risk, the investment portfolio of LBBW (Bank) differentiates between two categories of company:

Material subsidiaries, i.e., companies in which LBBW (Bank) is the majority shareholder or has a controlling interest within the meaning of section 290 (2) no. 1 – 3 of the HGB and whose risk potential (in the main risk types, i.e., credit risk, market price risk, liquidity risk, operational risk, real estate risk, and development risk) is deemed to be material from the Group's perspective.

Non-material subsidiaries and equity investments, i.e., companies in which LBBW (Bank) is the majority shareholder or has a controlling interest within the meaning of section 290 (2) no. 1 – 3 of the HGB, but whose risk potential is deemed to be immaterial from the Group's perspective, or minority equity investments, i.e., companies in which LBBW (Bank) as the minority shareholder in the absence of a controlling interest within the meaning of section 290 (2) no. 1 – 3 of HGB does not have the equivalent position as with majority interests.

As far as possible, material subsidiaries are treated in line with the transparency principle. In accordance with the transparency principle, types of risk identified as material at the respective companies are measured according to the principles and parameters of LBBW, and included at the level of LBBW Group in an aggregation assessment. This applies specifically to the risk types of credit, market price, real estate, and development risk.

In the case of non-material and material subsidiaries, where only the liquidity and/or operational risks are material, the risk potential is quantified with the LBBW Group loan portfolio on the basis of the interest held and included as a whole in the Bank’s risk management system, using an integrated calculation. This calculation is performed using a ratings-based CVaR approach including stress testing, which is prepared by Group Risk Control and serves as the basis for recognition in the risk-bearing capacity.

LBBW pursues a selective equity investment policy. When acquisitions of companies are planned, a comprehensive risk analysis (legal, financial etc.) is normally conducted in the form of a due diligence exercise with the involvement of specialized divisions of LBBW (Bank). Of particular importance here is ensuring that inappropriate concentration of risk does not arise in the investment portfolio.

LBBW (Bank) uses transaction agreements to contractually hedge risks as far as possible. In addition, the buying process includes the valuation of the company taking into account capital-market-oriented risk premiums.

Enterprise values for the subsidiaries and equity investments of LBBW (Bank) are calculated in accordance with the guidelines issued by the Institute of Public Auditors in Germany (Institut der Wirtschaftsprüfer in Deutschland e.V. – IDW) at least once a year as part of preparatory work for the annual financial statements. For the half-year report, an impairment test of the book values is performed, using the projections for the subsidiaries and equity investments to hand if necessary. A plausibility check of the book values was performed on selected subsidiaries and equity investments as at 31 March and 30 September.

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 fair value risk due to the focus on capitalized income value in the valuation of equity investments. The main drivers here are the large strategic subsidiaries and equity investments. The investment risk of LBBW (Bank) has a strong financial focus. Accordingly, a disruption in this market segment may lead to significant losses from investments.

In addition, liability risks arise from the profit/loss transfer agreements entered into with a number of subsidiaries. Furthermore, LBBW (Bank) has signed letters of comfort with various subsidiaries. LBBW (Bank) still has guarantor’s liability and maintenance obligation with respect to former equity investments in public sector companies.

Management and monitoring systems ensure that LBBW (Bank) is continually informed about the situation at the subsidiaries and equity investments. In addition, the subsidiaries pursue a conservative risk policy synchronized with LBBW (Bank) to the extent that LBBW (Bank) can influence such policies.

LBBW (Bank) continued to make good progress in reducing its investment portfolio: In 2012, the shares in LBBW Immobilien GmbH, SV SparkassenVersicherung Holding AG, Wüstenrot & Württembergische AG, Universal-Investment-Gesellschaft mbH and Bankhaus Ellwanger & Geiger KG were sold, amongst other things. Moreover, the number of smaller equity investments was reduced further in accordance with the new business strategy. Additionally, the sales and the integration of the calculation in the credit portfolio model significantly reduced the investment risk. Further investments are to be sold off step by step by 2013 as part of the realignment.

Reputation risks, business risks, and pension risks.

Reputation risk is the risk of a loss or foregone profit due to (impending) damage to/deterioration of LBBW's reputation in the eyes of owners, customers, employees, business partners or the wider public. Reputation risk is not a component of operational risk. However, reputation risks may be caused by an incident of loss resulting from operational risk or other risk types becoming public knowledge.

As regards reputation risks, a distinction is made between transaction-based and non-transaction-based management. In non-transaction-based management, Communications/Marketing/General Secretary is responsible in particular for ensuring controlled public and press relations. The Human Resources department defines standard for all areas of business to implement the sustainability policy. Moreover, the Compliance department is responsible for ensuring that all relevant legal rules and regulations are duly observed. The transaction-based analysis of new transactions with regard to reputation risks is carried out on a decentralized basis by the front office particularly within the context of the New Product Process and the credit application process.

Business risk is the risk of unexpected falls in earnings and negative plan variances not caused by other defined risk types.

Among other things, business risk may be caused by changes in customer behavior or changes to the economic environment that are not of a legal nature. Business performance risk can be caused by lower income due to possible strategic misjudgments. The front office is responsible for taking individual measures as part of ongoing operating activities aimed at managing risks associated with business activities. Financial Controlling carries out a central comparison of planning and actual business development. The implementation of and adherence to the business strategy decided on by the Board of Managing Directors and the division-specific plans in line with this, as well as the implementation of strategic decisions made by the committees, are monitored by the relevant divisions together with Financial Controlling.

The pension risk entails the possible need to increase pension provisions on account of heightened pension expense, and in particular, valuation effects. This may particularly be caused by changes in interest rates, pensions, and salaries. Pension risks are identified by means of scenario analyses on the basis of an actuarial report.

Reputation risks, business risks, and pension risks as well as other immaterial risk positions are taken into account within the scope of the risk-bearing capacity.

Real estate risks.

Real estate risks are defined as potential negative changes in the value of the Bank's own real estate holdings due to deterioration in the general real estate market or deterioration in the particular attributes of an individual property (market influences, planning conditions or other requirements of public law etc). This does not include development risks from residential and commercial project development business, which form a separate risk category, or risks from service business. The latter are taken into consideration in the LBBW Group as part of business risk.

Real estate risks can arise in the predominantly owner-occupied portfolios of LBBW (Bank) and its subsidiaries, as well as in the commercial portfolios held by subsidiary LBBW Immobilien Management GmbH. The latter impact indirectly on the investment positions of LBBW (Bank). LBBW's real estate portfolio is managed by the subsidiary LBBW Immobilien Group.

LBBW uses a real estate Value-at-Risk (IVaR) model to measure real estate risk. The central Group Risk Control division calculates IVaR indicators for real estate risks quarterly and incorporates these into the Group's analysis of risk-bearing capacity. The input data in this model are the volatilities and correlations derived from market data histories assigned to the portfolio values.

The operating subsidiaries of LBBW Immobilien Group with operations in asset, property and facility management are also controlled using special real-estate-specific indicators such as rent increases, vacancy rates, and amounts in arrears. The real estate portfolio is monitored and analyzed for risks in the course of quarterly portfolio valuation using the fair value approach. The goal is to identify at an early stage and analyze any adverse factors occurring as part of or relating to LBBW's activities. Active risk management contributes to ensuring a viable portfolio that provides a balanced ratio of opportunities to risks.

The requirements imposed by the EU Commission in connection with the restructuring of the LBBW Group provided for the sale of the residential real estate held by the LBBW Immobilien Group. Approved in February 2012, the sale of the residential real estate portfolio comprising some 21 000 apartments held by LBBW Immobilien GmbH to a syndicate led by PATRIZIA Immobilien AG was executed with legal effect on 28 March 2012. The sale of the residential real estate holdings marks a significant change in the portfolio and the structure of investment properties. However, the decline in risk due to the reduction in the portfolio was less pronounced in relative terms. This was owing to the lower risk intensity of the residential real estate holdings sold compared with the commercial real estate assets still held. As a result of the sale, the scope for diversification by type of use will be restricted. However, diversification is still possible within commercial real estate, particularly for office and retail use, and by size class. Diversification in terms of macro-location is also reduced as the remainder of the commercial portfolio is predominantly located in Stuttgart. However, this is a stable market with relatively low rent fluctuations overall. What is more, the real estate owned by LBBW Immobilien is mostly situated in prime locations with low rental risk and leased to tenants of good credit standing. The credit rating of potential tenants is examined carefully when new properties are let and attempts are always made to ensure that the lease is as long as possible. Overall, macro-location risks are therefore considered to be manageable.

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

The customer in owner-occupied real estate business is LBBW. Most of the properties are used for office or bank purposes. The restructuring plan requires a reduction of space at all central locations of LBBW. This is largely being achieved by concentrating on properties owned by LBBW (Bank) and by avoiding rented space as much as possible. As a result, this is not expected to have a significant influence on the holdings LBBW uses itself or the real estate risk.

Development risks.

Development risks are defined as the bundle of risks that typically arise when implementing commercial and residential project developments. Development risks are assigned to the subsidiary LBBW Immobilien Management GmbH and therefore only impact on LBBW (Bank) indirectly.
The risks in this field mainly arise from planning and approval, the projected construction costs and deadline, and especially from letting and selling. Additional risks, such as the credit risk on the part of partners, the implementation of decisions regarding the partners, also apply if project developments are implemented in partner projects. The occurrence of these risks may also result in the forecast return not being generated, the invested capital not being recovered in full – or not at all in extreme cases – or the need for further equity injections, provided it is not non-recourse financing.

The regional focus is on the core markets of Baden-Württemberg, Rhineland-Palatinate, the Rhine Main region, and Munich. The LBBW Immobilien Group acts as an investor and service provider in commercial and residential real estate on these markets. Work on existing projects outside these target markets continued to proceed well in the 2012 financial year. The new projects are running on schedule and there is no evidence at present of any material risks.

The residential real estate held by the LBBW Immobilien Group for trading purposes was also sold alongside the residential real estate portfolio in accordance with EU requirements.

Since 2010, LBBW Immobilien Group uses a risk model that was validated with the assistance of an auditing company to measure development risks. Development risk is calculated quarterly by the Controlling division of the LBBW Immobilien Group. The central Group Risk Control division includes this in the LBBW Group's analysis of risk-bearing capacity. The model is based on a risk driver tree that identifies risks and shows the ranges in which these can fluctuate even before a construction project begins. From this, mark-ups and mark-downs on all future costs and revenues are determined and applied to the so-called real case calculation. A normal and extreme risk is calculated on the basis of different fluctuation ranges of risk factors.

Internal control and risk management system with regard to the accounting process.

LBBW (Bank) defines the internal control and risk management system (ICS) as a comprehensive system and applies the definitions of the Institute of Public Auditors in Germany (Institut der Wirtschaftsprüfer in Deutschland e.V. – IDW) on the accounting-related internal control system (IDW PS 261 Item 19 f.) and the risk management system (IDW PS 340 Item 4). It entails principles, processes, and measures that are aimed at the implementation, in organizational terms, of management decisions

- to ensure the efficacy and economic efficiency of the business activities (incl. the protection of assets as well as the prevention and discovery of any loss of assets),
- to safeguard the propriety and reliability of internal and external accounting, and
- to observe the statutory rules and regulations of relevance for the Bank.

The ICS for the accounting process helps to provide a true and fair view of the net assets, financial position and results of operations of LBBW (Bank). A key aim is to ensure that all transactions are recorded, processed and documented in full and correctly in accordance with legal regulations and standards, the provisions of the articles of association and other guidelines.

The accounting-related internal control and risk management system is an integral component of the ICS for the management of the Bank as a whole.

Control environment.

LBBW (Bank) has a clear organizational, corporate, and control and monitoring structure. The Board of Managing Directors takes overall responsibility for proper business organization. All strategic units are integrated by means of a clearly defined management and reporting organization. The departments involved in the accounting process conform to the quantitative and qualitative requirements. The employees tasked with the accounting process are provided with regular, comprehensive training.

Risk assessment and control activities.

The controls are geared toward ensuring that the financial statements are prepared in accordance with German commercial law and comply with ongoing internal and external financial reporting requirements.

When controls are implemented, a risk assessment is taken as a basis and the principle of economic efficiency is observed. Clear regulations are in place regarding the scope of the controls and responsibilities integrated into working processes.

In particular, the dual-control principle, the separation of functions and the assignment of authorities in line with existing decision-making regulations ought to be mentioned.

Control functions are exercised in the respective specialized department. The control targets defined at LBBW (Bank) map the identified risks in their entirety.

The preparation of the financial statements by the Accounting/Reporting/Tax division is predominantly carried out on a decentralized basis at LBBW (Bank) with the involvement of the specialized divisions. Detailed timetables and workflows are in place for all monthly, quarterly and annual financial statements, which are monitored and automatically managed centrally. Responsibilities in all areas of the accounting process are clearly assigned. The relevant activities in terms of risk are distributed across several organizational units within the organization of business processes. The principle of dual control is applied to all processes relevant to accounting, the assignment of authorities complied with and the separation of functions taken into account.

The process for the preparation of LBBW's financial statements makes use of the system landscape at LBBW (Bank) comprising the upstream systems for managing portfolios (sub-ledgers), the SAP main ledger system, the central Financial Database (FDB) and consolidation software Konsis. The specialized divisions record, process and post transactions relevant to accounting, which are mapped by the system, in the appropriate IT systems. IAS-/HGB-Mart, which is located downstream from FDB, consolidates the main data and prepares them for inclusion in the financial statements. All data of relevance for the financial statements from the SAP general ledger and IAS-HGB-Mart are provided centrally via Konsis.

Extensive ICS reconciliation steps are executed at the interfaces between the subledgers, the FDB and the SAP general ledger, where the completeness and accuracy of the data is checked and documented on a monthly basis as part of standardized reconciliation operations.

As regards the annual and semi-annual financial statements, the control processes are also discussed by the relevant system administrators in Accounting in separate quality assurance meetings. Any inconsistencies that may arise are recognized and rectified through the performance of these ICS reconciliation steps. Measures to be taken to eliminate future errors are also established on this basis.

Financial instruments recognized at fair value at the LBBW (Bank) are measured either on the basis of quoted prices for active markets (stock exchanges, brokers, price service agencies etc.) or on the basis of standard, recognized measurement methods using publicly available input data (e. g., yield curves, volatilities, spreads). In cases in which not all the input parameters can be observed directly on the market, fair values are calculated using realistic assumptions, based on market conditions. The prices used for accounting purposes are checked independently of trading and validated by the separate organizational unit, Independent Price Verification, within Group Risk Control.

Information and communication.

The risk principles of the LBBW (Bank), the organizational structure and procedures and the processes of the accounting-related ICS are set out in manuals and guidelines (e. g., accounting guidelines, operating procedures, specialist concepts etc.), which are regularly adjusted to current external and internal developments and published on the intranet of LBBW (Bank). The Basic Accounting Issues department identifies and analyzes all legal changes which have an impact on the accounting process. It informs the specialized divisions affected and ensures that these are implemented promptly and in accordance with their respective specialization. New types of products are examined in detail in the New Product Process with regard to their treatment in accordance with the German Commercial Code. This process also defines the structures and embedded derivatives for each product type. This regulation is stored in a database system (FinNexus) developed inhouse. In the case of new types of products, the correct mapping, analysis, and recognition of transaction types is also checked in a test phase.

Financial reports created in connection with accounting and sent to external parties or readers are checked for consistency by an internal records office before being sent.

Furthermore, the Board of Managing Directors has issued rules stipulating that it must be informed immediately if doubts arise in individual divisions as to proper business organization (ad hoc reporting requirement). The same also applies to accounting. If information is also significant in terms of risk aspects, the Board of Managing Directors must also forward the information to the Risk Committee of the Supervisory Board.

Monitoring.

The LBBW (Bank) current ICS is characterized by strongly decentralized responsibility of the specialized units for essential accounting-relevant processes. Within the scope of the »Strengthening the accounting-related internal control system« project, an ICS records office was established in Accounting, to guarantee the central monitoring ability of the ICS and to optimize the structure, also in terms of cost/benefit aspects.

The effectiveness and suitability of the accounting-based internal controlling system and the risk management system are regularly monitored. This ensures that potential improvements are identified and processes are adjusted accordingly where required. One form of monitoring takes place on an ongoing basis during the preparation of the annual financial statements (and half-year financial statements).

Here, bilateral and multilateral coordination talks are held at regular intervals between the employees involved in the preparation of the financial statements to discuss and analyze any problems that arise. Adequate measures are derived and incorporated into ongoing processes.

Both the Audit Committee as the committee of the Supervisory Board and Group Auditing serve as senior monitoring bodies.

Group Auditing is responsible for process-independent monitoring of business operations and, as such, is an instrument used by the entire management.

The Audit Committee, as a committee of the Supervisory Board, deals with the analysis and preparation of audit findings and informs the Supervisory Board of these activities.

Events after the reporting date.

According to a contractual agreement dated 7 December 2012, on 1 January 2013 LBBW prematurely paid back a part of the silent partnership contributions totaling EUR 2.2 billion to the State of Baden-Württemberg, the Savings Bank Association of Baden-Württemberg and the city of Stuttgart. In accordance with the decision to increase capital dated 7 December 2012 and in compliance with the capital ratios, also on 1 January 2013 the shareholders provided the amount received again to LBBW by paying in share capital and a capital reserve.

In the first quarter of 2013 LBBW (Bank) sold securities, realizing hidden burdens in a superior two-digit millions range.

Outlook.

Anticipated economic performance.

Market participants are likely to be starting 2013 with subdued confidence. For the first time in a long while there are indications of a sustained easing of the EMU debt crisis. Apart from the improved financing terms for states, banks and companies from the periphery countries, progress has also been made with regard to regaining competitiveness and reducing foreign trade deficits. At the end of January 2013 ECB President Draghi also said that the darkest clouds had passed by. Due to the fact that in the course of 2012 the structural trend towards deeper fiscal integration, according to which the indebted countries subject themselves to strict fiscal discipline, became increasingly evident, the activation of the ESM and the willingness of the ECB to buy sovereign bonds as »lender of last resort« if necessary, it proved possible to convince the financial markets that the eurozone could be maintained as a whole. Although it will still take considerable time before the crisis is finally resolved, which will only come to pass if sustainable debt ratios can be restored in the long-term, nevertheless, signs of hope are increasing at the turn of 2012/2013. Following a drop in economic output both in the eurozone and Germany in the fourth quarter of 2012, the leading indicators are gradually picking up again. Against this backdrop it seems realistic to assume that a recession in Germany will be avoided and that instead GDP will increase by around 1.0% in 2013. The main impetus can be expected to come from stronger export growth resulting from an upturn in economic activity in the emerging markets. Furthermore, given the expected stable energy prices and the still robust state of the German job market, consumer spending is also likely to make a substantial contribution to Germany's economic growth in 2013. In the euro area LBBW expects stagnation in 2013, an expectation which includes the assumption of a pick-up in economic growth within the eurozone in the second half of 2013.

In the United States concerns about drifting into a recession, which would have threatened in the event of a significant cut in government spending, have abated for the present as a result of the compromise reached between the US government under Democratic President Obama and Congress. However, this debate is likely to surface again during the spring when the (postponed) raising of the debt ceiling returns to the agenda. LBBW expects common sense to triumph and that with a compromise being reached for the current budget that is acceptable to both parties and the debt ceiling raised, the recovery of the US economy can continue in 2013. All in all, US economic output should grow by 2.0% in 2013, i.e., on similar scale to 2012.

In Asia China will probably further improve on its already dominant position, with GDP growing by around 8.2%. Ultimately, Japan is also likely to benefit from China's growth as long as the island dispute between the two countries does not lead to a continued boycott of Japanese exports. Moreover, the new government under Premier Abe has approved an economic program amounting to the equivalent of EUR 110 billion with the aim of reviving economic activity. In addition to this, the central bank is to help to at least partially correct the previous years' increase in the value of the JPY by buying up government bonds. However, this policy mix had already failed to produce the hoped-for results in the 1990s, meaning that in view of the rapidly aging population and the exceptionally high government debt of 237%, not too much should be expected of Japanese economic output in 2013. Given the aforementioned effects, on balance at around 1.5% Japan's GDP growth is likely to be slower than that of the economic program approved by the government amounting to 2% of GDP.

The main risk for the economy remains a further escalation of the euro debt crisis – something LBBW does not anticipate will happen. In the case of Asia, the conflict between China and Japan over some small islands in the China Sea has shown no sign of any easing to date, thereby provoking uncertainty. With regard to energy prices, the risk of a significant increase in crude oil prices currently seems rather limited, with the result that on balance LBBW expects these to move sideways.

Industry and competitive situation.

In view of the current only modest growth prospects for the German economy, the lingering uncertainty regarding the solution of the debt crisis in the eurozone and the ongoing debates and measures in connection with regulation, the banking sector is likely to remain in a challenging setting.

Should the global and German economy recover from their temporary weak growth in the course of 2013, as expected, this is likely to be positively reflected in the business performance of the banking sector as well. However, the debt crisis in the eurozone remains a risk both for the performance of the economy and for the sector's business and earnings trend. In spite of the progress made in resolving the crisis and the reduction of the exposures of German banks in the euro periphery, negative effects can nonetheless be expected for the German banking sector in the event of further escalations. Furthermore, a sustained policy of long-term low interest rates aimed at resolving the crisis would weaken banks' earning potential. Conversely, the German banking industry should benefit from Germany's good reputation on the international financial markets together with the relatively healthy state of the German economy and German private households, whereof the latter should further limit allowances for losses on loans and advances requirements for the banks in domestic lending operations.

In view of the expected implementation of a large number of new regulatory measures in the coming years, coping with and adapting to regulatory requirements remains a key challenge for the sector, which will continue to tie up a substantial amount of banks' capacity and resources.

In this context the easing for banks that now seems to be in the offing with regard to future liquidity regulations within the framework of Basel III is likely to reduce the pressure on banks to adapt, at least in this area. By contrast, the plans for a European banking union and the ongoing debate, among other things, surrounding the Liikanen Report on separating selected high-risk trading activities from original customer business, have raised considerations that might cause profound structural changes in the sector. For Germany the federal government further detailed the framework for such an institutional separation of banking functions in the form of a bill in February 2013. However, this bill has yet to be approved by parliament; furthermore, some questions relating to the details of the structure have yet to be clarified, with the result that it is not yet possible to make a final assessment of the effects on German banks. In addition to this, a concrete structure has yet to be provided for some other regulatory measures.

As one step towards a »Banking Union« a new European bank regulatory authority has already been approved, in which the European Central Bank (ECB) is to play a key role. In this connection the ECB and the EBA have announced a coordinated stress test for European banks in 2013, which will probably be conducted in the second half of the year, the details of which are, however, not yet known. Further regulatory measures to be mentioned are the financial transaction tax, which is yet being discussed or prepared in some European countries, regulation of derivatives trading at the European (EMIR – European Market Infrastructure Regulation) and US area (Dodd-Frank Act) and the Minimum Requirements for the Design of Recovery Plans (»MaSan«). The latter obliges selected German banks to draw up and implement restructuring plans by the end of 2013.

Apart from regulatory topics, the growing scope of regulations for the protection of consumers is also likely to continue to occupy and challenge the banks. Then the legal risks should be mentioned, which result from legislation that is increasingly critical of banks. Overall, it must be expected that the uncertainties for the sector in connection with the future regulatory framework will remain considerable for the foreseeable future. The large number of regulatory measures will result in non-recurring costs for implementation as well as a permanently higher cost burden for banks.

In addition to a convincing range of products and services for customers, against this backdrop good capital, risk and cost management will play an even greater role in the future as a key competitive factor in the sector. The process of consolidation in the balance sheets and business models is likely to continue for the foreseeable future, especially against the back-drop of increasing risk weighting and equity capital requirements for various types of receivables. The intensity of competition in the German corporate and private customer business is likely to remain strong while in investment banking a stronger process of capacity adaptation has started, which mainly reflects the changed outlook in this area of business. This might result in further shifts in the structure of competition and in the long-term to the departure of further banks.

The business strategy, opportunities and risks of LBBW (Bank).

In orienting itself to customer-based core business, LBBW (Bank) aims to establish long-term customer relations with the focus on sound products. Here the goal is to number among the three leading customer banks in Germany and to develop steadily its status as the »main bank for mid-sized companies«.

In the corporate customer business the Bank continues to focus on the mid-sized companies in its core markets in Baden-Württemberg, Rhineland-Palatinate, Saxony, and the neighboring economic areas. Apart from this, the customer portfolio also includes selected major customers from the regions of Germany, Austria, and Switzerland as well as real estate finance with conservative financing structures in the core regions of Germany, the US, and the UK in selected property categories. This means that corporate customer business will remain the Bank’s growth area in the future.

In the retail and savings bank business the focus at LBBW (Bank) remains on developing upmarket private customer business in the core markets. In addition to the branches in Stuttgart and Mannheim, further branches in Düsseldorf, Mainz, and Munich are being set up as part of the successful service provided for high-net-worth wealth management customers. LBBW operates as a savings bank in the Stuttgart area and offers its retail banking customers a wide range of financial services with a comprehensive network of branches. This business continues to face major challenges above all due to the prevailing pressure of competition, the continuing setting of low interest rates and concomitant pressure on margins.

In its core markets of Baden-Württemberg, Rhineland-Palatinate, and Saxony, LBBW (Bank) will continue to be the central bank for the savings banks, which in turn number among the most important customer groups. In addition to joint market cultivation – for instance in corporate customer business – the provision of services for the savings banks accounts for a significant share of activities within the SparkassenFinanzgruppe. On the basis of this successful collaboration so far, this partnership, which is strategically important for both parties, is being further developed, above all in the areas of liquidity and funding.

The continuous development of customer-driven capital markets business should also constitute the focus in the financial markets business and provide stable contributions to earnings in the coming years. Nonetheless, the volatility on the financial markets will continue to impact on business.

LBBW (Bank) stringently implemented the measures defined within the framework of the EU procedure with the result that restructuring has already been largely completed. The measures not yet implemented are being worked through systematically. Apart from this, the portfolio of activities defined as not being part of core business, which has already been substantially reduced, is gradually being completely wound down, which should contribute to the further consolidation of total assets over the next few years.

Although the situation of the sector is likely to remain challenging and in spite of the fact that the Bank cannot remain unaffected by the numerous regulatory requirements expected, LBBW (Bank) projects growth of its operating income in 2013 and 2014 compared to 2012. Resolute cost management should lead to a slight reduction of administrative expenses in 2013. However, an increase is to be expected for 2014 – in particular as a result of an anticipated higher bank levy and planned additional expenditure for the EU deposit guarantee scheme. Substantial charges from the IT outsourcing to be implemented as of 2013 are included both for 2013 and 2014. The expenditure for IT outsourcing is accompanied by expected synergy effects and concomitant medium-term cost savings. Against the backdrop of the still subdued prospects for the overall economic performance in the coming year, taking a conservative approach LBBW (Bank) anticipates that allowances for losses on loans and advances will be higher than the cyclically moderate level of the year 2012.

In 2012 the Bank was able to partly catch up on interest payments on hybrid capital not effected in the previous years thanks to its positive result for the year. Given the aforementioned underlying conditions, LBBW (Bank) expects the remaining interest payments due to be completed at the latest in 2014 – in accordance with the respective contract terms.

In preparation for the much stricter regulatory capital requirements for banks in future, LBBW (Bank) is already able to achieve a marked improvement in the quality of its capital by the conversion of its owners' silent partnership contributions amounting to EUR 2.2 billion as at 1 January 2013. As a consequence, this will also be reflected in the Bank's higher common equity ratio.

Furthermore, investments are planned due to the further implementation of statutory respectively regulatory requirements and the ongoing development of steering instruments for the Bank as a whole. Accordingly, the investment volume of LBBW (Bank) for 2013 is projected to be higher than that in the previous year.

Material risks for planning consist in the debt crisis of the European Monetary Union, which has been de-escalated but not resolved yet, and the future development of which could continue to impact on both the stability of the financial markets and the confidence of banks in each other.

If the economy performs contrary to expectations, this could result in slower earnings growth for LBBW (Bank) or a sharper increase in allowances for losses on loans and advances than planned. Likewise, should interest rates remain at a low level, this could put pressure on the Bank's expected earning situation in both its deposit-taking business and equity investment.

Furthermore, the tighter regulatory requirements announced could have a negative impact on the performance of LBBW (Bank). As the exact nature of the new regulatory regime is still not final in many respects, future developments are still dominated by a high level of uncertainty. Overall, however, the regulatory initiatives of the Basel Committee and German legislation will lead to greater liquidity and capital requirements in the coming years.

Should there be signs of a long-term solution to the sovereign debt crisis and if the consolidation on the financial markets evidenced in the second half of 2012 proves viable, this might provide opportunities for the Bank. As a consequence of this, growing confidence might lead to an upturn in the economy and likewise have a positive effect on the customers of LBBW (Bank). This should probably be reflected in more business and earnings generation for the Bank. Furthermore, stronger economic growth in Germany, in particular, could contribute to lower allowances for losses on loans and advances than conservatively assumed.

All in all, LBBW (Bank) is confident of being well positioned for the future with its customer-oriented and sustainable business model. For this reason, a great deal of effort will likewise be dedicated to the consequent implementation of all resolved measures in the coming years. Also in the future, the Bank will continue to assist its customers as an efficient business partner and provide its support on all questions relating to the banking business.

Financial statements.

Balance sheet

as at 31 December 2012.

Assets.

EUR million	Explanation in the Notes (chapter)			31 Dec. 2012	31 Dec. 2011
Cash and cash equivalents					
a) Cash			122		132
b) Balances with central banks			2 544		5 568
including: with Deutsche Bundesbank		1 101			4 906
				2 666	**5 700**
Public sector debt instruments and bills of exchange eligible for refinancing at central banks					
a) Treasury bills and discounted treasury notes, as well as similar public sector debt instruments			43		72
				43	**72**
Loans and advances to banks	7, 8, 11, 13, 17				
a) Mortgage loans			154		111
b) Public sector loans			37 750		44 000
c) Other receivables			13 180		19 036
of which: payable on demand		2 597			2 467
				51 083	**63 147**
Loans and advances to customers	7, 8, 11, 13, 17				
a) Mortgage loans			28 643		31 842
b) Public sector loans			24 654		25 944
c) Other receivables			68 022		65 763
of which: collateralized by securities		0			0
				121 319	**123 549**
Debentures and other fixed-income securities	7, 8, 9, 11, 13, 17				
a) Money market instruments					
aa) issued by public sector borrowers		0			0
of which: eligible as collateral with Deutsche Bundesbank		0			0
ab) issued by other borrowers		1			1
of which: eligible as collateral with Deutsche Bundesbank		0			0
			1		1
b) Bonds and debentures					
ba) issued by public sector borrowers		9 971			9 673
of which: eligible as collateral with Deutsche Bundesbank		9 666			6 737
bb) issued by other borrowers		34 026			47 942
of which: eligible as collateral with Deutsche Bundesbank		25 254			31 678
			43 997		57 614
c) Own debentures			9 306		8 046
Nominal amount		9 291			8 053
				53 304	**65 662**

Differences in the amount of +/– one unit in the balance sheet, income statement and the notes are due to rounding.

Assets.

EUR million	Explanation in the Notes (chapter)			31 Dec. 2012	31 Dec. 2011
Equities and other non-fixed-income securities	9, 11, 13, 17			**480**	**525**
Trading portfolio	4, 11, 17			**108 849**	**112 943**
Equity investments	9, 13, 14			**615**	**806**
of which: in banks		495			500
of which: in financial services companies		0			0
Shares in affiliated companies	9, 14			**3 242**	**3 175**
of which: in banks		686			602
of which: in financial services companies		243			178
Trust assets	13			**883**	**1 004**
of which: trust loans		771			770
Intangible assets	14				
a) Internally generated industrial property rights and similar rights and assets			1		0
b) Concessions, industrial property rights and similar rights and assets, and licenses to such rights and assets			52		54
c) Advances paid			19		22
				72	**77**
Property and equipment	13, 14			**448**	**396**
Other assets	15			**1 039**	**892**
Deferred items	16				
a) From issuing and lending business			733		866
b) Other			1 170		1 533
				1 903	**2 399**
Total assets				**345 944**	**380 346**

Differences in the amount of +/– one unit in the balance sheet, income statement and the notes are due to rounding.

Equity and liabilities.

EUR million	Explanation in the Notes (chapter)			31 Dec. 2012	31 Dec. 2011
Deposits from banks	7, 8, 13, 20				
a) Mortgage-backed registered covered bonds issued			439		723
b) Public registered covered bonds issued			3 814		4 092
c) Other liabilities			61 124		76 724
of which: payable on demand		4 938			2 867
				65 378	**81 539**
Deposits from customers	7, 8, 13, 20				
a) Mortgage-backed registered covered bonds issued			1 211		1 261
b) Public registered covered bonds issued			9 263		11 922
c) Savings deposits					
ca) with an agreed notice period of three months		5 970			5 573
cb) with an agreed notice period of more than three months		982			917
			6 952		6 490
d) Other liabilities			75 440		67 333
of which: payable on demand		28 830			29 885
				92 865	**87 006**
Securitized liabilities	7, 8, 20				
a) Issued debentures					
aa) Pfandbriefe (mortgage-backed covered bonds)		6 103			4 802
ab) Pfandbriefe (public covered bonds)		17 164			24 910
ac) Other bonds		48 005			50 613
			71 271		80 325
b) Other securitized liabilities			1 710		1 526
of which: money market instruments		1 710			1 526
				72 982	**81 850**
Trading portfolio	4, 20			**87 542**	**101 272**
Trust liabilities	13			**883**	**1 004**
of which: trust loans		771			770
Other liabilities	19			**1 181**	**705**
Deferred items	16				
a) From issuing and lending business			904		1 099
b) Other			863		838
				1 767	**1 938**
Provisions					
a) Provisions for pensions and other post-employment benefits			1 392		1 295
b) Tax provisions			181		265
c) Other provisions			807		822
				2 380	**2 382**
Subordinated liabilities	7, 21			**4 209**	**5 263**

Differences in the amount of +/- one unit in the balance sheet, income statement and the notes are due to rounding.

Equity and liabilities.

EUR million	Explanation in the Notes (chapter)			31 Dec. 2012	31 Dec. 2011
Capital generated by profit-participation rights	26			**914**	**1 354**
of which: maturing in less than two years		388			860
Fund for general banking risks				**483**	**483**
of which: transfers in accordance with section 340e (4) HGB		0			0
Equity	22, 26				
a) Subscribed capital					
aa) Share capital		2 584			2 584
ab) Silent partnership contributions		4 417			4 607
			7 001		7 190
b) Capital reserve			6 910		6 910
c) Retained earnings					
ca) Other retained earnings		1 449			1 449
			1 449		1 449
d) Unappropriated profit/loss			0		0
				15 360	**15 550**
Total liabilities and equity				**345 944**	**380 346**
Contingent liabilities	20, 23				
a) Liabilities from guarantees and indemnity agreements			17 016		22 113
				17 016	**22 113**
Other obligations	23				
a) Placement and underwriting commitments			0		80
b) Irrevocable loan commitments			23 837		23 126
				23 837	**23 206**

Differences in the amount of +/– one unit in the balance sheet, income statement and the notes are due to rounding.

Income statement

for the period from 1 January to 31 December 2012.

EUR million	Explanation in the Notes (chapter)			1 Jan. – 31 Dec. 2012	1 Jan. – 31 Dec. 2011
Interest income from	27, 32				
a) Credit and money market transactions		34 679			41 255
b) Fixed-income securities and book-entry securities		1 852			2 306
			36 531		**43 561**
Interest expense			**– 35 093**		**– 41 124**
				1 438	**2 437**
Current income from	32				
a) Equities and other non-fixed-income securities			48		74
b) Equity investments			24		56
c) Shares in affiliated companies			102		98
				174	**228**
Income from profit-pooling, profit transfer and partial profit transfer agreements				**127**	**54**
Fee and commission income	32		**571**		**605**
Fee and commission expense			**– 422**		**– 430**
including: guarantee commission for the State of Baden-Württemberg		– 297			– 298
				149	**174**
Total operating income/ expenses from the trading portfolio				**– 133**	**– 154**
Other operating income	28, 32			**173**	**189**
General administrative expenses					
a) Total staff costs					
aa) Wages and salaries		– 634			– 590
ab) Social security contributions and expenses for pensions and other benefits		– 173			– 162
of which: pension costs		74			– 62
			– 807		– 752
b) Total other administrative expenses			– 609		– 528
				– 1 416	**– 1 280**
Depreciations and write-downs of intangible assets and property and equipment				**– 85**	**– 87**

Differences in the amount of +/– one unit in the balance sheet, income statement and the notes are due to rounding.

EUR million	Explanation in the Notes (chapter)			1 Jan. – 31 Dec. 2012	1 Jan. – 31 Dec. 2011
Other operating expenses	28			**–294**	–167
Depreciations and write-downs of loans and certain securities, as well as additions to provisions for credit risks			–68		–131
Income from reversals of impairment losses on loans and certain securities, as well as from the reversals to provisions for credit risks			0		0
				–68	–131
Depreciations and write-downs of equity investments, shares in affiliated companies and securities treated as fixed assets			0		–784
Income from reversals of impairment losses on equity investments, shares in affiliated companies and securities treated as fixed assets			178		0
				178	–784
Expenses from loss transfer				**–24**	–33
Result from normal operations				**219**	**447**
Extraordinary income	30		7		19
Extraordinary expenses	30		–28		–30
Extraordinary result	30		**–21**		**–12**
				198	**435**
Taxes on income	31		51		–27
Other taxes, unless reported under other operating expenses			–6		–5
				45	**–32**
Profit transferred as a result of profit-pooling, profit transfer or a partial profit transfer agreement				**–243**	**0**
Net profit				**0**	**404**
Replenishment of silent partnership contributions	26		0		–312
Replenishment of profit participation capital	26		0		–92
				0	**–404**
Unappropriated profit/loss	22, 26			**0**	**0**

Differences in the amount of +/– one unit in the balance sheet, income statement and the notes are due to rounding.

Notes

for the period from 1 January to 31 December 2012.

General.

1. Principles governing the preparation of the annual financial statements.

The annual financial statements for the financial year 2012 of Landesbank Baden-Württemberg (LBBW (Bank)) with headquarters in Stuttgart, Karlsruhe, Mannheim, and Mainz were drawn up in compliance with the provisions of the German Commercial Code (Handelsgesetzbuch – HGB), in particular the Supplemental Regulations for Banks (sections 340 et seq. HGB), the German Accounting Regulation for Banks and Financial Service Institutions (Verordnung über die Rechnungslegung der Kreditinstitute und Finanzdienstleistungsinstitute – RechKredV), the German Banking Act (Kreditwesengesetz – KWG) and the German Pfandbrief Act (Pfandbriefgesetz – PfandBG).

For the purpose of transparency, the values are stated in EUR millions.

2. General accounting and valuation methods.

Allowances for losses on loans and advances and receivables.

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

Loans and advances to banks and customers are stated at their nominal value, where necessary after deduction of the applicable write-downs. Differences between acquisition costs and nominal amount which are related to interest are allocated to deferred items and recognized proportionally in net interest income over the period. Deferred interest is reported directly in loans and advances to banks and customers.

Allowances for losses on loans and advances were deducted from the other receivables in the net amount.

Provisions for specific allowances for losses on loans and advances have been recognized for significant loans (loan volume > EUR 1 million per individual borrower) 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. In the case of insignificant loans (loan volume of less than EUR 1 million per individual borrower), for which objective evidence indicating an impairment has been identified, collective write-downs on individual risks are recognized by using a statistically calculated default amount. Collective write-downs 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 statistically calculated default probabilities and loss ratios 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. Country risks in the form of transfer and/or conversion risks are taken into account.

Within the scope of a guarantee structure with a guarantee company of the State of Baden-Württemberg, the Bank's and various Group companies' securitization portfolio with a residual nominal value of EUR 9.1 billion as at 31 December 2012 was hedged by a maximum guarantee amount of EUR 6.7 billion. A deductible was agreed up to an amount of EUR 1.9 billion (first loss) for losses on assets in the securitization portfolio, at the Bank's or Group companies' expense.

At the level of LBBW (Bank), securitizations in the amount of EUR 2.5 billion held by the Bank benefited directly from the hedging effect of the guarantee, since this is guaranteed fully by the Bank, while the Bank's loans and advances in the amount of EUR 5.5 billion to various special purpose entities are indirect beneficiaries. A nominal amount of EUR 1.2 billion of the portfolio of securitized products is held by an affiliated company. The hedging effect of the guarantee is taken into consideration directly in the valuation of the securitizations and indirectly in the valuation of the Bank's loans and advances to special purpose entities, so that no more provisions are created for expected default risks that exceed the Bank's first loss of EUR 1.9 billion. The expected default risks of EUR 1.9 billion as at 31 December 2012 were addressed adequately through the creation of write-downs on securities or receivables.

Equity investments and affiliated companies.

Sales profit or loss from investment transactions is recorded in other operating income or expenses on the basis of section 340c (2) sentence 2 HGB. For a list of shareholdings in accordance with section 285 no. 11 HGB, refer to section 36.

Following the decision by the Board of Managing Directors in 2012 concerning the merger of LBBW Luxemburg S.A. with LBBW, the valuation of the equity investment was changed from an objectivized enterprise value with intent to liquidate to a subjective enterprise value with intent to hold for the assets to be transferred. The change in valuation led to the reversal of impairment losses on the carrying amount of the equity investment totaling EUR 112 million.

Fixed assets.

Acquired intangible assets are carried at acquisition cost less scheduled depreciations and, where necessary, write-downs.

Internally generated intangible assets held as long-term investments will be recognized in accordance with the option described in section 248 (2) HGB.

Tangible assets are carried at acquisition or production cost less scheduled depreciations and, where necessary, write-downs.

Depreciation is effected at the rates permitted by tax laws since, in our opinion, these correspond to the economic life.

Deferred taxes.

With the introduction of BilMoG, the normal international balance sheet-based concept (temporary concept) has been incorporated in HGB and the previously applicable income statement-based timing concept abandoned. There is a recognition option for net lending positions resulting from the overall view of deferred tax assets and liabilities and a recognition obligation for net borrowing position. Accordingly, LBBW (Bank) has not exercised the option in section 274 (1) sentence 2 HGB regarding the recognition of deferred tax assets.

Deferred tax liabilities from the carrying amount of debentures, shares in affiliated companies, other liabilities, the trading portfolio and deferred items varying in terms of tax were calculated with deferred tax assets on tax variations of loans and advances to banks, securitized liabilities, provisions and loss carryforwards. Deferred tax assets beyond the scope of offsetting were not recognized as assets, exercising the option referred to in section 274 (1) sentence 2 HGB.

Company-specific tax rates were used in the recognition of deferred taxes. For the domestic consolidated group, the corporate income tax was recognized at 15.83% including the solidarity surcharge. The average trade tax rate of 14.51% for the tax entity was also used for the domestic tax entity. Deferred taxes for the foreign branches were recognized at the statutory tax rates applicable in those locations, ranging from 12.00% to 44.88%.

Liabilities.

Liabilities are recognized at the settlement amount as per section 253 (1) HGB.

Prepaid expenses and deferred income.

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

Provisions.

Provisions for pensions are calculated on the basis of actuarial principles pursuant to section 253 HGB and the 2005 G mortality tables (Richttafeln 2005 G, Heubeck-Richttafeln-GmbH, Cologne 2005).

The projected unit credit method was used as an actuarial calculation method. Accrual allocation of benefit payments during employment and actuarial assumptions are used for the assessment. The discount rate for pension obligations is 5.07%, expected wage and salary increases are 2.0%, plus a career trend of 0.5% based on an age up to 50. Company-specific fluctuation of 5.5% is still assumed.

According to Article 67 (1) sentence 1 of the BilMoG transitional regulations (EGHGB), this addition amount for provisions for pensions can be spread over 15 years, resulting from the initial application of BilMoG. LBBW (Bank) has used this option and added EUR 27 million (1/15) to the provisions for pensions in the past financial year. The remainder amounts to EUR 318 million and at least EUR 27 million must be added annually until 31 December 2024.

Plan assets of EUR 11 million were set up in the 2012 annual financial statements for the obligation for settlement arrears from partial retirement contracts. This corresponds to the fair value of the plan asset as at 31 December 2012. The provisions for settlement arrears from partial retirement contracts amounting to EUR 14 million were offset against the plan assets in line with section 246 (2) sentence 2 HGB. Expenses of EUR 2 million were offset against income of EUR 0.1 million.

Plan assets with a fair value of EUR 30 million as at 31 December 2012 are in place to meet obligations from the LBBW Flexiwertkonto (working time account). Acquisition costs are EUR 27 million. The provisions from obligations for the Flexiwertkonto amounting to EUR 34 million were offset against the plan assets at fair value. Expenses of EUR 5 million (higher obligations in 2012) were offset against income of EUR 5 million (increase in plan assets in 2012).

Other provisions are calculated under consideration of all contingent liabilities and anticipated losses from pending transactions on the basis of conservative commercial assessment. Provisions with a residual term of over one year are discounted at the interest rates published by Deutsche Bundesbank in accordance with section 253 (2) HGB.

The continuation option for provisions as part of the BilMoG conversion balance in line with Article 67 (1) EGHGB is exercised. Overcollateralization amounts to EUR 12 million as at 31 December 2012.

Loss-free valuation in the banking book.

The business activities of the banks within the scope of the banking book do not permit regular immediate reciprocal allocation of individual financial instruments. However, regardless of this, there is an economic link between these transactions (funding partnership) due to their objective (achieving an interest margin). Accordingly, the Bank manages the interest margin/change in present value of all interest-bearing transactions as a whole in the banking book. This (internal) management of the banking book also provides the framework for the application of the imparity principle in commercial law.

A provision that might be required in line with section 340a in conjunction with section 249 (1) sentence 1, 2nd alternative HGB (provision for onerous contracts) thus extends to all interest-bearing financial instruments in the banking book. The valuation of the interest-rate position of the entire banking book and the associated risk and administrative costs must be included in the calculation of negative excess liability, if any, as part of the loss-free valuation of interest-bearing transactions of the banking book. The Institute of Public Auditors in Germany (Institut der Wirtschaftsprüfer – IDW) has answered individual questions on the procedure in a statement issued on this topic (IDW RS BFA 3).

The Bank applied statement IDW RS BFA 3 as at the reporting date. LBBW (Bank) uses the net present value method. No negative excess liability existed. Accordingly, no provisions were created.

Financial instruments.

On-balance-sheet products and derivative financial instruments of the trading portfolio are subject to fair value changes. Financial instruments in the trading portfolio that are traded on active markets are recognized at market prices. Financial transactions for which market prices are not available are recognized at prices determined with the help of valuation models or on the basis of indicative quotations and parameters obtained from market data providers. Market prices, quotations and parameters are largely validated by LBBW (Bank) by means of statistical methods or as part of the independent price verification process. The Mark-to-market result is reduced by the value-at-risk for these portfolios determined in line with regulatory requirements (10-day holding period, 99.0% confidence level, 250-day observation period). On the balance sheet, the reduction affects the balance sheet item of trading assets.

The absolute amount of the risk discount is EUR 81 million for LBBW (Bank) as at 31 December 2012 (2011: EUR 63 million).

This procedure ensures that the income statement drawn up in line with the German Commercial Code takes into account any potentially remaining realization risks in line with the conservatism principle.

Owing to negative net loss from the trading portfolio for the 2012 financial year, as in the previous year no allocation was made to the fund for general banking risks in line with section 340e (4) HGB. There was no reversal of the special item for general banking risks created in 2010 in accordance with section 340g HGB.

Observable parameters are used for valuation methods for financial instruments in and outside the trading portfolio, if available. The application of these models and the use of these parameters require assumptions and estimates on the part of the management, the extent of which depends on the transparency and availability of market data information and the complexity of the instrument in question. These involve a certain level of uncertainty and may be subject to change. Therefore, actual results and values may differ from these assumptions and estimates.

The main parameters used in the valuation models of LBBW (Bank) are listed in the following table:

Derivatives/ financial instruments	Valuation models	Main parameters[1]
Interest rate swaps and options	Net present value method, Black-Scholes, replication and Copula-based model, Markov functional model and further interest structure models	Yield curves, swaption volatility, cap volatility, correlations
Forward rate agreements	Net present value method	Yield curves
Forward commodity agreements, currency forwards	Net present value method	Commodity rates/exchange rates, yield curves
Stock/index options	Black-Scholes, local volatility model	Equity prices, share volatility, dividends, interest rates (swap, repo)
Currency options	Garman-Kohlhagen (modified Black-Scholes)	FX rates, yield curves, FX volatility
Commodity options	Garman-Kohlhagen (modified Black-Scholes)	Commodity rates, yield curves, volatility
Credit derivatives	Intensity model, Copula model	Credit spreads, yield curves and index tranche prices for the Copula models
Money market transactions	Net present value method	Credit spreads[2], yield curves
Securities, borrower's note loans, loans	Net present value method	Credit spreads, yield curves
Forward security agreements	Net present value method	Stock prices, yield curves
Securitizations	Net present value method	Liquidity spreads, yield curves, prepayments, arrears and failure rates, losses

1) For the counterparty default risk of OTC derivatives a credit value adjustment is calculated using credit spreads, taking into account collateral and netting agreements.
2) Credit spreads are not currently considered during valuation in the trading systems. Consideration takes place on a transitional basis by means of credit valuation adjustments.

The valuation methods include all factors and parameters which LBBW (Bank) believes would also be considered by market participants. If the valuation methods do not take individual factors into account, valuation adjustments are conducted. Value adjustments are determined by Risk Controlling and documented in a valuation adjustment policy. Significant value adjustments made affect valuation adjustments for the counterparty default risk of OTC derivatives (counterparty valuation adjustment) and valuation adjustments for derivatives to take into account bid/ask spreads. Furthermore, LBBW (Bank) makes valuation adjustments, for example, to take account of model weaknesses and individual valuation uncertainties (model valuation adjustments), including when determining the fair value of cash CDOs and certain interestrate and credit derivatives or as day-1 P&L valuation adjustments. Value adjustments were also made for valuation uncertainties resulting from legal risks. Collateralized OTC derivatives were mostly discounted on the basis of EONIA rates.

The key issue in recognizing derivative financial instruments in the annual financial statements of LBBW (Bank) is whether they are components of valuation units (micro hedges) or are used in the course of trading or are used for the (internal) management of the interest margin of the interest-bearing transactions of the banking book (loss-free valuation in the banking book).

Credit derivatives outside the trading portfolio.

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 statement IDW RS BFA 1, the treatment of credit derivatives differs depending on the purpose.

Protection seller transactions in the non-trading portfolio are included below the line in Contingent liabilities, subitem a) Liabilities from guarantees and warranties.

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 (Bank). 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 in the non-trading portfolio that do not fulfill these conditions are valued separately. Unrealized valuation gains are offset only if the credit risk relates to one and the same reference debtor Provisions for anticipated losses from pending transactions are created for unrealized valuation losses, if necessary after netting unrealized valuation gains. The results are included in depreciations and write-downs of loans and certain securities, as well as additions to provisions for credit risks. Any valuation gains remaining after netting are not recognized. The risk report in accordance with section 289 HGB contains information about the scope and development of the Bank's market price risks.

Securities.

Securities in the liquidity reserve are measured at cost observing the principle of strict lower-of-cost-or-market, or at the lower quoted/market price or fair value (if lower) as at the balance sheet date.

Securities held as long-term investments, equity participations and shares in affiliated companies are carried at cost or the fair value on the reporting date (if lower) in the case of continued impairment losses. Provided the reasons for impairment in earlier financial years have elapsed, reversals of impairment losses up to the amount of the fair value are carried out to a maximum of the acquisition costs.

Securities arising from asset swap combinations are valued as a valuation unit; for securities in the liquidity reserve from asset swap combinations, market-induced impairment losses due to credit risks are recognized in income.

GPBW GmbH & Co. KG extends a financial guarantee for certain securitizations (for further explanations see Allowances for losses on loans and advances and receivables on page 90).

For impaired securitizations and for synthetic CDOs, the fair value on the balance sheet date was calculated using the discounted cash flow method, as no quoted or market prices were available, owing to mostly illiquid markets.

For certain securities for which the fair value on the balance sheet date is not based solely on observable market prices or valuation parameters that can be observed on the market (cash CDOs), valuation adjustments were carried out in order to take into account uncertainty regarding the balance sheet valuation.

Notes to the balance sheet.

3. Derivatives.

The following tables provide information on derivative financial instruments pursuant to section 285 nos. 19 and 20 HGB in conjunction with section 36 RechKredV that existed at LBBW (Bank) as at the balance sheet date.

With due regard to accounting practice statement IDW RS HFA 22, issued by the Main Committee (Hauptfachausschuss) of the Institute of Public Auditors in Germany (IDW), 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 structured instruments and are therefore included as assets or liabilities in the corresponding balance sheet items. The tables also exclude internal derivative financial instruments as well as netting and collateral agreements which mitigate default risks.

In addition to the main valuation parameters already named in General Accounting and Valuation Methods, there are further influencing factors for derivatives which determine the extent, time and collateral of future cash flows. In the case of options in particular, there are transaction-related payment terms (e.g., trigger for exotic options, redemption date for premiums, structuring the option as American or European). Upfront or balloon payments can be agreed for interest rate swaps. Furthermore, the creditworthiness of the counterparties and the Bank or the resulting default risk has a significant effect on future cash flows. For this purpose, the Bank draws up a credit valuation adjustment (CVA) or reaches collateral agreements with counterparties. Furthermore, LBBW (Bank) is a direct clearing member for the purposes of clearing interest rate swaps via a central counterparty.
The variation margin is offset against the fair values. In the case of standardized derivatives traded at derivatives exchanges, margining can be agreed which hedges payments between counterparties.

Derivative transactions – Product structure – Recognized at fair value.

EUR million	Nominal values		Positive fair value[1)2)3)]		Negative fair value[1)2)3)]	
	31 Dec. 2012	31 Dec. 2011	31 Dec. 2012	31 Dec. 2011	31 Dec. 2012	31 Dec. 2011
Interest rate swaps	1 132 978	1 458 955	47 019	53 293	43 578	49 838
FRAs	87 932	165 402	33	52	37	57
Interest rate options	67 876	66 094	2 242	533	4 102	3 960
Purchases	26 220	25 230	2 154	468	89	17
Sales	41 657	40 864	88	66	4 013	3 942
Caps, floors, collars	47 245	51 781	585	652	355	391
Other interest rate contracts	84	155	51	0	55	1
Exchange-traded interest rate products	91 680	38 983	0	0	0	0
Interest rate risks – overall	**1 427 795**	**1 781 369**	**49 930**	**54 531**	**48 126**	**54 247**
Currency forwards	145 193	181 741	1 846	3 466	1 780	3 740
Cross-currency interest rate swaps	35 135	31 982	1 563	1 098	1 758	1 149
Currency options	4 231	8 085	71	171	39	109
Purchases	2 288	4 048	71	171	0	0
Sales	1 943	4 037	0	0	39	109
Currency risks – total	**184 560**	**221 808**	**3 479**	**4 735**	**3 577**	**4 998**
Stock options	114 125	66 428	58	215	–99	237
Purchases	56 792	32 952	58	215	0	–20
Sales	57 333	33 475	0	0	–99	257
Exchange-traded equities and index products	9 061	6 359	234	264	398	579
Commodities	3 664	2 225	54	107	57	103
of which exchange-traded	1 179	1 087	16	35	17	63
Equity and other price risks – overall	**126 850**	**75 012**	**346**	**587**	**355**	**919**
Credit derivatives (protection seller)	24 410	25 218	249	61	87	1 103
Credit derivatives (protection buyer)	20 469	22 070	153	1 079	482	103
Credit derivatives	**44 878**	**47 287**	**402**	**1 140**	**569**	**1 205**
Risks – overall	**1 784 083**	**2 125 476**	**54 157**	**60 992**	**52 627**	**61 369**

1) Including interest deferral (dirty price).
2) The reported fair value of interest swaps cleared via a central counterparty and of exchange-traded futures is guided by their recognition.
Accordingly, when reporting these derivatives the variation margins are offset against the fair values.
3) The positive and negative fair values do not include the premiums of internal transactions. This can, in individual cases, result in the reporting of negative values.

Derivative transactions – Product structure – Not recognized at fair value.

EUR million	Nominal values		Positive fair value[1)2)3)]		Negative fair value[1)2)3)]	
	31 Dec. 2012	31 Dec. 2011	31 Dec. 2012	31 Dec. 2011	31 Dec. 2012	31 Dec. 2011
Interest rate swaps	87 514	102 033	6 216	4 475	6 849	2 364
Interest rate options	3 217	4 100	241	300	8	2 594
Purchases	2 805	3 405	241	300	0	49
Sales	412	695	0	0	8	2 544
Other interest rate contracts	1 222	1 221	0	72	0	83
Exchange-traded interest rate products	1 781	5 488	0	2	1	0
Caps, floors, collars	0	0	0	0	0	0
Interest rate risks – overall	**93 735**	**112 843**	**6 457**	**4 849**	**6 857**	**5 041**
Currency forwards	0	0	0	5	0	0
Cross-currency interest rate swaps	14 436	15 181	478	1 606	202	1 337
Currency risks – total	**14 436**	**15 181**	**478**	**1 611**	**202**	**1 337**
Stock options	0	0	31	0	303	0
Purchases	0	0	31	0	0	0
Sales	0	0	0	0	303	0
Equity forward contracts	0	26	0	0	0	0
Equity and other price risks – overall	**0**	**26**	**31**	**0**	**303**	**0**
Credit derivatives (protection seller)	5 904	10 320	6	34	284	357
Credit derivatives (protection buyer)	6 762	5 694	111	1 201	197	1 564
Credit derivatives	**12 665**	**16 014**	**117**	**1 235**	**481**	**1 921**
Risks – overall	**120 836**	**144 064**	**7 084**	**7 696**	**7 843**	**8 299**

1) Including interest deferral (dirty price).
2) The reported fair value of interest swaps cleared via a central counterparty and of exchange-traded futures is guided by their recognition. Accordingly, when reporting these derivatives the variation margins are offset against the fair values.
3) The positive and negative fair values do not include the premiums of internal transactions. This can, in individual cases, result in the reporting of negative values.

Most of the transactions referred to above are concluded to cover interest rate, exchange rate or market price fluctuations, as well as for customer transactions and hedging these customer transactions.

With regard to the valuation models used, refer to the information under section 2 General Accounting and Valuation Methods.

Please refer to the data presented in the Other assets and Other liabilities items for information on the carrying amount of options in the form of option premiums.

Protection seller transactions in the non-trading portfolio are included below the line in Contingent liabilities, subitem a) Liabilities from sureties and guarantee agreements and amount to EUR 5 737 million (2011: EUR 9 878 million).

Derivative transactions – maturity structure (by remaining maturity).

Nominal values EUR million	Up to 3 months	More than 3 months to 1 year	More than 1 year to 5 years	More than 5 years	Total
Interest rate risks					
31 Dec. 2012	180 578	345 149	532 993	462 810	1 521 529
31 Dec. 2011	212 660	447 358	668 626	565 569	1 894 212
Currency risks					
31 Dec. 2012	98 367	46 323	43 687	10 620	198 996
31 Dec. 2011	126 615	54 272	44 870	11 232	236 989
Equities and other price risks					
31 Dec. 2012	1 662	116 721	6 733	1 735	126 850
31 Dec. 2011	1 968	66 564	4 529	1 977	75 038
Credit derivatives					
31 Dec. 2012	2 019	15 641	37 442	2 442	57 544
31 Dec. 2011	1 829	8 606	48 996	3 870	63 301
Risks – overall					
31 Dec. 2012	**282 625**	**523 833**	**620 854**	**477 607**	**1 904 919**
31 Dec. 2011	**343 071**	**576 800**	**767 022**	**582 647**	**2 269 540**

Derivative transactions – by counterparty.

	Nominal values		Positive fair value[1]		Negative fair value[1]	
EUR million	31 Dec. 2012	31 Dec. 2011	31 Dec. 2012	31 Dec. 2011	31 Dec. 2012	31 Dec. 2011
Banks in the OECD	1 569 515	1 918 729	51 288	57 468	53 437	61 550
Banks outside the OECD	17 018	10 902	79	49	383	161
Public sector agencies in OECD countries	40 594	33 138	4 549	3 497	1 912	1 426
Other counterparties	277 793	306 771	5 325	7 673	4 737	6 530
Counterparties – total	**1 904 919**	**2 269 540**	**61 241**	**68 688**	**60 470**	**69 668**

1) Including interest deferral (dirty price).

4. Trading portfolio.

The trading portfolio is composed as follows:

	Trading assets		Trading liabilities	
EUR million	31 Dec. 2012	31 Dec. 2011	31 Dec. 2012	31 Dec. 2011
Derivative financial instruments	54 157	60 576	52 627	60 784
Receivables/liabilities	32 252	32 050	34 915	40 489
Debentures and other fixed-income securities	21 857	19 708	–	–
Equities and other non-fixed-income securities	480	414	–	–
Other assets	102	195	–	–
	108 849	**112 943**	**87 542**	**101 272**

5. Valuation units.

In the case of valuation units, underlying transactions (assets, debt and derivatives separable from the balance sheet) are linked with hedging transactions (derivative financial instruments and some on-balance sheet assets) to hedge market price risks (hereinafter referred to as micro hedge).

The hedged risks include general and structured interest rate risks, equity risks, credit risks and currency risks.

The following table illustrates the amount by which assets and liabilities are incorporated to hedge whatever risks in valuation units as at 31 December 2012.

	Micro hedge						
		Negative change in value			Positive change in value		
EUR million	Carrying amount$_{UT}$	Change in value$_{UT}$	Change in value$_{HT}$	Loss peak	Change in value$_{UT}$	Change in value$_{HT}$	Profit peak
Assets							
General interest rate risk	13 576	589	-590	-1	1 200	-1 197	3
Structured interest rate risk and other market price risk	4 079	384	-384	0	0	0	0
Liabilities							
General interest rate risk	-29 050	-462	452	-10	-899	900	1
Structured interest rate risk and other market price risk	-6 427	-1 013	1 013	0	0	0	0
Contracts in progress							
Structured interest rate risk and other market price risk	-227	-8 235	8 235	0	0	0	0
Total				-11			4
				Provisions loss peak			Profit peak

UT = underlying transaction; HT = hedging transaction

This results in a EUR 52 million reduction in the profit peak compared with 31 December 2011. The loss peak remains unchanged over the previous year.

LBBW (Bank) includes two types of hedge relationships under micro hedges. In the first, individual underlying transactions are hedged by individual hedging transactions. In the other, one or more underlying transactions are hedged by one or more hedging transactions.

Both types of micro hedge are documented by means of clear referencing of the underlying and hedging transactions.

Methods of measuring effectiveness.

When a valuation unit is formed and on each reporting date, a check is carried out prospectively as to whether effective hedging is in place. The micro hedges, in particular, which are created for the purpose of hedging structured interest-rate and other market price risks, are structured in such a way as to ensure that the main factors (hedged risk, nominal amount, currency, and duration) receive the same or almost the same coverage. In the case of these valuation units and, in general, when a valuation unit is formed a check is carried out for the compensatory settlement of hedged risks for underlying and hedging transactions; to this end, a comparison between these factors in the underlying and hedging transactions is carried out. In the case of micro hedges that hedge the general interest rate risk a regression analysis is carried out on each reporting date to investigate the compensatory effect. If the above-mentioned comparison or regression analysis is positive, effectiveness (between the change in the value of the underlying transactions and hedging transactions with reference to the hedged risk) is also expected for the future (the remaining maturity of the transactions).

Retrospective valuation of effectiveness takes place on each reporting date with the help of the dollar-offset method. According to this method, the underlying transaction is valued for the hedged risk and compared with the valuation of the hedging transaction for the hedged risk (e. g. interest rate risk). This also forms the basis for calculating the previous invalidity and any loss peak. The procedure is already applied for the majority of valuation units formed for the purpose of hedging the general interest rate risk and all valuation units where the underlying is a derivative (this refers to embedded derivatives that are carried separately from the host instrument). In the case of all other valuation units formed for the purpose of hedging the structured interest rate risk or other market price risks, the valuation of the hedged risk of the underlying is derived from the valuation of the hedging transaction.

The changes in value of hedging and underlying transactions are calculated on the balance sheet for the effective part using the net hedge presentation method, with only a loss peak applied on the balance sheet as a provision for valuation units. The loss peak (ineffectiveness from the hedged risk) is taken into account in the income statement.

Brokered, structured derivatives, from which the market price risk is eliminated, are treated as economic hedges in risk management. These transactions are allocated to the trading book (so-called back-to-back operations) in the financial statements pursuant to German law.

For recognition of market price risks, refer to the chapter on market price risks in the management report (risk report) for the 2012 annual financial statements.

6. Currency translation.

Foreign currency assets worth EUR 40.9 billion (2011: EUR 42.8 billion) and foreign currency liabilities worth EUR 28.3 billion (2011: EUR 35.0 billion), as well as income and expenses included in the financial statements were translated in compliance with section 256a and section 340h HGB. Assets and liabilities do not include any assets or liabilities from pending transactions. They are included in the derivatives tables in section 3. 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 (Bank) offsets foreign currency assets and foreign currency liabilities arising from on-balance and off-balance sheet transactions by currency.

Assets and liabilities are translated at the mid-spot exchange rate as at the reporting date. Differences resulting from the translation of hedged assets and liabilities at the mid-spot exchange rate correspond to the balance of the fair values of the currency forwards, cross-currency/interest-rate swaps and currency swaps. Currency forwards, cross-currency/interest-rate swaps and currency swaps, provided that they do not form part of a valuation unit and are not concluded for the purpose of liquidity management of the banking book, are allocated to the trading portfolio. These are recognized in the balance sheet at fair value as part of the positive or negative fair values in trading assets/liabilities.

The swap points are accrued and shown in interest income or interest expense for currency forwards.

7. Relationship with affiliated companies and companies in which equity interests are held, and with affiliated savings banks (Sparkassen).

The following balance sheet items include receivables and liabilities to affiliated companies or companies in which an equity investment is held:

EUR million	31 Dec. 2012	31 Dec. 2011
Loans and advances to banks[1]	**51 083**	**63 147**
of which to affiliated companies	142	76
of which to companies in which equity interests are held	1 785	1 284
of which to affiliated savings banks (Sparkassen)	24 144	28 081
Loans and advances to customers[1]	**121 319**	**123 549**
of which to affiliated companies	7 836	8 716
of which to companies in which equity interests are held	694	818
Debentures and other fixed-income securities	**53 304**	**65 662**
of which from affiliated companies	118	4 717
of which from companies in which equity interests are held	8	4
Deposits from banks[1]	**65 378**	**81 539**
of which to affiliated companies	21	14
of which to companies in which equity interests are held	16	44
of which to affiliated savings banks (Sparkassen)	9 681	10 194
Deposits from customers[1]	**92 865**	**87 006**
of which to affiliated companies	3 116	2 635
of which to companies in which equity interests are held	808	964
Securitized liabilities	**72 982**	**81 850**
of which to affiliated companies	0	0
of which to companies in which equity interests are held	0	9
Subordinated liabilities	**4 209**	**5 263**
of which to affiliated companies	100	590
of which to companies in which equity interests are held	0	0

1) Portfolio reclassification from counterparties to loans and advances to banks totaling EUR 5.7 billion and to deposits from banks and customers totaling EUR 12.4 billion took place during the financial year.

8. Maturity structure of the balance sheet items.

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

EUR million	31 Dec. 2012	31 Dec. 2011
Loans and advances to banks[1]	**51 083**	**63 147**
up to 3 months	11 741	16 862
more than 3 months to 1 year	7 466	7 235
more than 1 year to 5 years	24 059	27 099
more than 5 years	7 817	11 952
Loans and advances to customers[1]	**121 319**	**123 549**
up to 3 months	26 476	22 521
more than 3 months to 1 year	12 822	14 642
more than 1 year to 5 years	28 913	31 605
more than 5 years	53 091	54 678
with unlimited maturity	16	103
Debentures and other fixed-income securities	**53 304**	**65 662**
of which due in the following year	5 238	7 351
Deposits from banks with agreed duration or withdrawal notice[1]	**60 440**	**78 672**
up to 3 months	8 234	23 704
more than 3 months to 1 year	15 915	13 478
more than 1 year to 5 years	21 971	14 618
more than 5 years	14 321	26 872
Savings deposits to customers with an agreed notice period of more than three months	**982**	**917**
more than 3 months to 1 year	247	230
more than 1 year to 5 years	735	687
more than 5 years	0	0
Other deposits from customers with an agreed duration or notice period, including mortgage-backed registered covered bonds and public registered covered bonds issued[1]	**57 084**	**50 631**
up to 3 months	19 068	7 675
more than 3 months to 1 year	4 865	3 836
more than 1 year to 5 years	25 055	29 324
more than 5 years	8 096	9 797
Securitized liabilities	**72 982**	**81 850**
a) Issued debentures	**71 271**	**80 325**
of which due in the following year	13 618	16 110
b) Other securitized liabilities	**1 710**	**1 526**
up to 3 months	595	905
more than 3 months to 1 year	1 115	621
more than 1 year to 5 years	0	0
more than 5 years	0	0

1) Portfolio reclassification from counterparties to loans and advances to banks totaling EUR 5.7 billion and to deposits from banks and customers totaling EUR 12.4 billion took place during the financial year.

9. Securities and equity investments.

The assets items below include negotiable securities as well as equity investments and affiliates measured at the less strict lower-of-cost-or-market principle:

EUR million	31 Dec. 2012	31 Dec. 2011
Debentures and other fixed-income securities		
marketable	53 304	65 386
of which listed	49 377	59 617
No write-down due to temporary impairment		
Carrying amount	12 779	29 005
Fair value	12 522	27 600
Equities and other non-fixed-income securities		
marketable	480	525
of which listed	105	150
No write-down due to temporary impairment		
Carrying amount	0	158
Fair value	0	0
Equity investments		
marketable	378	530
of which listed	368	483
No write-down due to temporary impairment		
Carrying amount	366	70
Fair value	366	69
Shares in affiliated companies		
marketable	380	312
of which listed	0	0
No write-down due to temporary impairment		
Carrying amount	276	35
Fair value	276	35

With micro-hedged transactions, as a result of the net hedge presentation method the carrying amounts shown above do not include any corresponding adjustments to the book values for hedged risks (see section 5 Valuation units). Including these carrying amount adjustments increases the write-downs not carried out on the bonds and other fixed-income securities by EUR 1 108 million (2011: EUR 1 033 million).

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 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, price quotations from market data providers or recognized valuation methods (income value or discounted cash flow method).

In the case of impairments which are expected not to be permanent, the option of section 253 (3) sentence 4 HGB is exercised in conjunction with section 340e (1) HGB, so that no write-downs are recognized on the lower fair value (less strict lower-of-cost-or-market principle).

Securities in the liquidity reserve are measured at cost observing the principle of strict lower-of-cost-or-market, or at the lower quoted/market price or fair value (if lower) as at the balance sheet date.

In the case of securities lending agreements, it is assumed that economic ownership is not transferred to the borrower. Securities that are lent are therefore still shown in the securities portfolio and accounted for accordingly (analogous application of the corresponding regulations for transactions with firm repurchase agreements in section 340b (4) sentence 1 HGB).

The Bank did not create write-downs on securities in the amount of EUR 23 million (2011: EUR 32 million), owing to the guarantee agreement with the State of Baden-Württemberg.

10. Shares in investment fund assets.

The value of the shares in investment fund assets is determined on the reporting date on the basis of published redemption prices in the case of retail funds and the fair values provided in the case of special funds.

EUR million Investment objective	Name	Fair value	Difference to carrying amount	Distribution for the financial year	Daily return possible	Write-downs omitted
German open near-money market funds	LBBW EuroLiquid	11	0	0	yes	no
German mixed investment funds (less than 70% equity)	BWI-Fonds 106	70	8	0	yes	no
German mixed investment funds (less than 70% equity)	BWInvest-TR6	60	6	0	yes	no
Mixed funds: all foreign/German with up to 70% equity share	Humboldt Mul.Inv.B-S.Lbk Dep.A	44	0	0	yes	no
Open investment fund ABS fund	Panacea Tr.-Lev. Accr.A.Mgmt	0	– 59	0	yes	no[1]
Open investment fund ABS fund	Panacea Tr.-Lev. Accr.A.Mgmt II	0	– 74	0	yes	no[1]
Bond fund ABS fund	Pivot Master Tr.-LAAM XI	0	– 38	0	yes	no[1]
Bond fund	Synapse High Grade ABS Fd No.1	0	0	0	yes	no
Bond fund	Fisch U.-Fisch CB-Int. Conv.Ex.	15	0	0	yes	no
Bond fund	Johannes Führ Ren. Wachst. AMI	3	0	0	yes	no
Mixed funds: all foreign/German with up to 70% equity share	LBBW Pro-Fund Credit I	11	1	0	yes	no
Bond fund	Fr.Temp.Inv.Fds-T.Gl.Tot. Ret.	6	0	0	yes	no
Bond fund	Fr.Temp.Inv.Fds-T.Gl.Tot. Ret.	7	0	0	yes	no
Bond fund	Brookfield-High Yld Europe Pl.	24	0	1	yes	no
Bond fund	Brookfield-High Yld Europe Fd.	29	0	2	yes	no
Bond fund	LBBW Pro-Fd Absol. Return Rates	10	0	0	yes	no
Bond fund	OP-Fonds SKP[2]	138	61	30	yes	no
Venture capital fund – closed end fund investment	F&C European Cap. Partn.B Ltd.[2]	24	– 4	0	no	no
Equity fund	ATHENA UIInhaber-Anteile	101	0	0	yes	no
		553	**– 99**	**33**		

1) For the fund units a write-down on the lower fair value is performed in the context of a look-through. The calculated fair value for the fund units lies below the value resulting from the look-through.
2) The fund units form part of an asset-linked note, that is, the holder of the associated LBBW (Bank) issue is entitled to the performance from the fund units.

11. Subordinated assets.

Subordinated assets are included in the following asset items:

EUR million	31 Dec. 2012	31 Dec. 2011
Loans and advances to banks	340	428
Loans and advances to customers	947	6 004
Debentures and other fixed-income securities	756	2 405
Equities and other non-fixed-income securities	17	16
Trading assets	27	889

In the previous year, loans and advances to customers included EUR 4 694 million in equity-substituting shareholder loans.

12. Transactions with firm repurchase agreements.

The carrying amount of securities sold to other banks and non-banks under repurchase agreements as of the balance sheet date was EUR 29 994 million (2011: EUR 40 646 million).

13. Trust activities.

The following table contains a breakdown of trust assets and trust liabilities:

EUR million	31 Dec. 2012	31 Dec. 2011
Trust assets	**883**	**1 004**
Loans and advances to banks	544	560
Loans and advances to customers	227	210
Debentures and other fixed-income securities	4	5
Equities and other non-fixed-income securities	2	1
Equity investments	90	86
Property and equipment	10	19
Other trust assets	6	122
Trust liabilities	**883**	**1 004**
Deposits from banks	776	895
Deposits from customers	107	109

14. Fixed assets.

The following table shows the changes in fixed assets:

EUR million	Cost of acquisition	Additions	Disposals	Reclassi-fications	Reversals of im-pairment losses	Cumulative write-downs and deprecia-tions	Write-downs and deprecia-tions during the financial year	Accrued interest	Carrying amount 31 Dec. 2012	Carrying amount 31 Dec. 2011
Equity investments	1 071	2	-224	0	2	-234	-7	0	615	806
Shares in affiliated companies	3 913	76	-103	0	136	-644	-43	0	3 242	3 175
Securities allocated to fixed assets	58 869	56	-14 583	0	614	-296	-41	161	44 206	57 933
Intangible assets	482	38	-3	-4	0	-441	-39	0	72	77
Land and buildings	492	81	-14	-1	0	-273	-9	0	284	215
of which: land and buildings used commercially	325	4	-11	-1	0	-179	-6	0	138	142
Other equipment, operating and office equipment	574	16	-32	6	0	-400	-36	0	164	181
Total assets	65 409	268	-14 959	0	751	-2 288	-175	161	**48 591**	**62 387**

The option described in section 248 (2) HGB is being exercised. Development costs in the 2012 financial year, which were accounted for fully by the internally-generated intangible assets, amounted to EUR 1 million (2011: EUR 0.4 million).

15. Other assets.

Items of particular significance included in the other assets of LBBW (Bank) are option premiums of EUR 373 million (2011: EUR 258 million), tax refund claims of EUR 179 million (2011: EUR 270 million) and other assets in affiliated companies and companies in which an equity investment is held totaling EUR 238 million (2011: EUR 139 million).

The tax refund claims primarily include domestic income tax assets from past financial years amounting to EUR 111 million (2011: EUR 131 million), tax assets from the current financial year in the amount of EUR 49 million (2011: EUR 67 million) as well as other tax receivables, comprising mainly VAT prepayments of EUR 18 million. The refund claims stand in contrast to tax provisions amounting to EUR 181 million (2011: EUR 265 million).

16. Deferred items.

Deferred items include the following amounts:

EUR million	31 Dec. 2012	31 Dec. 2011
Prepaid expenses	**1 903**	**2 399**
Discount from liabilities in line with section 250 (3) HGB	337	430
Premium from receivables in line with section 340e (2) sentence 3 HGB	76	102
Deferred income	**1 767**	**1 938**
Discount from receivables in line with section 340e (2) sentence 2 HGB	145	190

Deferred items also include one-off payments from cross-currency interest rate swaps of EUR 35 million (2011: EUR 53 million) on the assets side and EUR 104 million (2011: EUR 94 million) on the liabilities side.

17. Coverage for the mortgage and public sector lending business.

The liabilities below are covered as follows:

EUR million	31 Dec. 2012	31 Dec. 2011
Public covered bonds issued pursuant to PfandBG	30 357	40 656
To cover certain assets	43 478	52 079
Loans and advances to banks	17 265	21 769
Loans and advances to customers	18 380	20 178
Debentures and other fixed-income securities	7 715	10 050
Equities and other non-fixed-income securities	36	37
Trading assets	51	0
Trust assets	31	45
Depth of coverage	**13 121**	**11 423**
Mortgage-backed covered bonds issued pursuant to ÖPG and PfandBG	7 987	6 675
To cover certain assets	13 549	12 971
Loans and advances to banks	152	104
Loans and advances to customers	12 963	12 415
Debentures and other fixed-income securities	426	441
Trading assets	8	10
Depth of coverage	**5 562**	**6 296**

18. Transparency provisions for public covered bonds (öffentliche Pfandbriefe) and mortgage-backed covered bonds (Hypothekenpfandbriefe) pursuant to section 28 PfandBG.

A) Transparency provisions for public covered bonds (öffentliche Pfandbriefe) pursuant to section 28 PfandBG.

EUR million	31 Dec. 2012	31 Dec. 2011
a) Cover fund for public covered bonds		
Nominal value	43 478	52 079
Present value	47 440	55 711
Present value (+250 bp and currency stress)	44 424	52 440
Present value (–250 bp)	49 614	59 195
Circulation of public covered bonds		
Nominal value	30 357	40 656
Present value	33 277	43 659
Present value (+250 bp and currency stress)	31 512	41 467
Present value (–250 bp)	34 393	45 915
Depth of coverage		
Nominal value	13 121	11 423
Present value	14 163	12 052
Present value (+250 bp and currency stress)	12 912	10 973
Present value (–250 bp)	15 221	13 280
Depth of coverage/proportion of circulation – nominal value[1]	13 119	n/a
as a % of circulating volume of public covered bonds	43	n/a
Depth of coverage/proportion of circulation – present value[1]	14 161	n/a
as a % of circulating volume of public covered bonds	43	n/a
Additional cover assets	45	45
b) Proportion of derivatives in cover fund	0	0

1) First-time use of vdp credit quality differentiation model for EU and EEA countries.

c) Term structure of public covered bonds:

EUR million	Up to 1 year	More than 1 year to 2 years	More than 2 years to 3 years	More than 3 years to 4 years	More than 4 years to 5 years	More than 5 years to 10 years	More than 10 years	**Total**
Cover fund								
31 Dec. 2012	12 492	7 161	10 930	2 079	1 149	4 614	5 053	**43 478**
31 Dec. 2011	10 925	10 004	7 228	11 945	2 102	4 642	5 233	**52 079**
Circulation of public covered bonds								
31 Dec. 2012	10 078	5 947	5 808	2 347	897	3 160	2 120	**30 357**
31 Dec. 2011	10 788	10 133	5 952	5 843	2 344	3 531	2 065	**40 656**

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

EUR million	State	Regional government	Local government	Other debtors 1)	Total
			31 Dec. 2012		
Austria	73	0	2	0	75
Belgium	0	0	0	15	15
Canada	0	16	0	0	16
Czech Republic	15	0	0	0	15
Federal Republic of Germany	1 773	7 259	5 624	27 317	41 973
Great Britain	163	0	0	0	163
Hungary	24	0	0	0	24
Italy	32	34	22	0	88
Japan	250	0	0	0	250
Latvia	30	0	67	0	97
Luxembourg	21	0	0	0	21
Poland	22	0	0	0	22
Spain	0	133	42	0	175
Sweden	1	0	0	0	1
Switzerland	0	275	0	0	275
United States of America (incl. Puerto Rico)	145	99	0	24	268
Total	**2 549**	**7 816**	**5 757**	**27 356**	**43 478**

1) The item includes savings banks and Landesbanken with guarantor's liability in the amount of EUR 20 901 million (2011: EUR 27 062 million) and the development banks in the amount of EUR 2 326 million (2011: EUR 2 995 million).

EUR million	State	Regional government	Local government	Other debtors 1)	Total
			31 Dec. 2011		
Austria	27	0	2	0	29
Canada	0	16	0	0	16
Czech Republic	15	0	0	0	15
Federal Republic of Germany	1 673	8 232	6 089	34 367	50 361
France incl. Monaco	0	1	3	0	4
Great Britain	181	0	0	0	181
Hungary	24	0	0	0	24
Italy	35	36	22	0	93
Japan	250	0	0	0	250
Latvia	30	0	67	0	97
Poland	22	0	0	0	22
Spain	0	172	42	0	214
Switzerland	0	468	0	0	468
United States of America (incl. Puerto Rico)	159	122	0	24	305
Total	**2 416**	**9 047**	**6 225**	**34 391**	**52 079**

1) The item includes savings banks and Landesbanken with guarantor's liability in the amount of EUR 20 901 million (2011: EUR 27 062 million) and the development banks in the amount of EUR 2 326 million (2011: EUR 2 995 million).

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

There were no payments outstanding by at least 90 days as at either 31 December 2012 or 31 December 2011.

B) Transparency provisions for mortgage-backed covered bonds (Hypothekenpfandbriefe) pursuant to section 28 PfandBG.

EUR million	31 Dec. 2012	31 Dec. 2011
a) Cover fund for mortgage-backed covered bonds		
Nominal value	11 504	10 365
Present value	12 819	11 315
Present value (+250 bp and currency stress)	11 924	10 416
Present value (–250 bp)	13 291	12 105
Circulation of mortgage-backed covered bonds		
Nominal value	7 429	5 896
Present value	7 927	6 259
Present value (+250 bp and currency stress)	7 537	5 853
Present value (–250 bp)	8 127	6 614
Depth of coverage		
Nominal value	4 075	4 469
Present value	4 892	5 056
Present value (+250 bp and currency stress)	4 387	4 563
Present value (–250 bp)	5 164	5 491
Additional cover assets	418	433
b) Proportion of derivatives in cover fund	0	0

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

EUR million	Up to 1 year	More than 1 year to 2 years	More than 2 years to 3 years	More than 3 years to 4 years	More than 4 years to 5 years	More than 5 years to 10 years	More than 10 years	Total
Cover asset pool								
31 Dec. 2012	1 838	1 374	2 056	945	1 270	3 351	670	**11 504**
31 Dec. 2011	1 533	1 302	1 125	1 673	817	3 216	699	**10 365**
Circulating mortgage-backed covered bonds								
31 Dec. 2012	1 438	986	1 292	703	1 051	1 795	164	**7 429**
31 Dec. 2011	1 155	1 135	660	542	574	1 747	83	**5 896**

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

EUR million	31 Dec. 2012	31 Dec. 2011
Up to EUR 300 000	4 448	3 862
Between EUR 300 000 and EUR 5 million[1]	2 789	2 737
More than EUR 5 million[2]	4 267	3 766
Total	**11 504**	**10 365**

1) The item includes further cover in the amount of EUR 5 million (2011: EUR 5 million).
2) The item includes further cover in the amount of EUR 413 million (2011: EUR 428 million).

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

EUR million	Federal Republic of Germany	Netherlands	France	Belgium	USA	Great Britain/ Northern Ireland/ Channel Islands	Total
	31 Dec. 2012						
Apartments	1 446	0	0	0	0	0	**1 446**
Single-family houses	2 093	0	0	0	0	0	**2 093**
Apartment blocks	2 529	0	0	0	0	0	**2 529**
Office buildings	1 260	57	134	29	250	42	**1 772**
Trade buildings	901	0	14	0	0	0	**915**
Industrial buildings	79	0	0	0	0	0	**79**
Other commercially used buildings	1 873	0	0	0	127	0	**2 000**
Incomplete and not profitable new buildings	234	0	0	0	0	0	**234**
Building sites	18	0	0	0	0	0	**18**
Other cover[1)]	418	0	0	0	0	0	**418**
Total	**10 851**	**57**	**148**	**29**	**377**	**42**	**11 504**

1) Including: depth of coverage of EUR 203 million (2011: EUR 145 million) and liquidity support in the amount of EUR 215 million (2011: EUR 273 million).

EUR million	Federal Republic of Germany	Netherlands	France	Belgium	USA	Great Britain/ Northern Ireland/ Channel Islands	Total
	31 Dec. 2011						
Apartments	1 280	0	0	0	0	0	**1 280**
Single-family houses	1 793	0	0	0	0	0	**1 793**
Apartment blocks	2 432	0	0	0	0	0	**2 432**
Office buildings	1 081	59	31	33	174	33	**1 411**
Trade buildings	841	0	14	0	0	0	**855**
Industrial buildings	89	0	0	0	0	0	**89**
Other commercially used buildings	1 836	0	0	0	0	18	**1 854**
Incomplete and not profitable new buildings	203	0	0	0	0	0	**203**
Building sites	15	0	0	0	0	0	**15**
Other cover[1)]	433	0	0	0	0	0	**433**
Total	**10 003**	**59**	**45**	**33**	**174**	**51**	**10 365**

1) Including: depth of coverage of EUR 203 million (2011: EUR 145 million) and liquidity support in the amount of EUR 215 million (2011: EUR 273 million).

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

There were no payments outstanding by at least 90 days as at either 31 December 2012 or 31 December 2011.

g) Number of pending foreclosures and compulsory administration procedures carried out in the financial year.

There were no foreclosures or compulsory administration procedures pending as at either 31 December 2012 or 31 December 2011. No compulsory administration procedures were carried out in the 2012 financial year.

h) Acquisition of land to prevent losses.

There was no acquisition of land to prevent losses in either the 2012 or 2011 financial year.

i) Total amount of outstanding interest.

There was no outstanding interest in either the 2012 or 2011 financial year.

19. Other liabilities.

The most important individual components of the other liabilities item are option premiums totaling EUR 369 million (2011: EUR 335 million), distributions from silent partnership contributions amounting to EUR 469 million (2011: EUR 0 million) and taxes to be transferred amounting to EUR 188 million (2011: EUR 195 million). Most of these are liabilities from capital gains tax and sales tax self-assessment returns.

20. Assets assigned as collateral for own liabilities.

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

EUR million	31 Dec. 2012	31 Dec. 2011
Deposits from banks	39 045	53 368
Deposits from customers	14 345	1 265
Securitized liabilities	101	0
Trading liabilities	8 240	17 525
Contingent liabilities	76	104
Total amount of collateral transferred	**61 807**	**72 262**

Portfolio reclassifications from counterparties to deposits from banks and customers took place during the financial year, which affected the transferred collateral in the amount of EUR 11.7 billion.

21. Subordinated liabilities.

The subordinated liabilities were raised in the form of borrower's note loans and issues denominated in EUR, CHF, JPY and USD. No new issues were launched this year. None of the issues is greater than 10% of the balance sheet item.

In the 2012 financial year EUR 1 024 million were repaid. EUR 190 million (2011: EUR 1 049 million) will mature within the next two years. The last subordinated liabilities will be repaid in 2041. The rate of interest ranges between 0.39% and 8.21%.

With the exception of issues with a nominal volume of EUR 0.246 million, the subordinated liabilities complied with the requirements of section 10 (5a) KWG.

In the year under review, interest expense of EUR 222 million (2011: EUR 280 million) was incurred for subordinated liabilities.

22. Equity.

The equity of LBBW (Bank) developed as follows in the financial year under review:

EUR million	
Equity as at 31 December 2011	**15 550**
./. price-related changes in the silent partnership contributions	– 7
./. repayment of silent partnership contributions	– 182
+ unappropriated profit 2011	0
Equity as at 31 December 2012	**15 360**

Due to silent partnership contributions falling due, equity was reduced by EUR 182 million in the 2012 financial year.

23. Items below the line.

EUR million	31 Dec. 2012	31 Dec. 2011
Contingent liabilities – liabilities from guarantees and warranties	**17 016**	**22 113**
of which credit default swaps	5 737	9 878
Number of individual transactions	165	337
London Branch	4 228	6 444
Main institution in Stuttgart	1 509	3 059
New York Branch	0	367
Singapore Branch	0	8
of which from affiliated companies	1 735	1 848
Other commitments – irrevocable loan commitments	**23 837**	**23 126**
of which external loan commitments	23 837	23 126
of which delivery commitments arising from forward transactions	1 213	196
Borrower's note loans	226	97
Term money	986	99
of which from affiliated companies	1 665	842

Two individual transactions within contingent liabilities are of material importance: LBBW (Bank) guarantees the securities issue of an affiliated company with EUR 550 million and a domestic company with EUR 525 million.

The material irrevocable loan commitments are two items towards a domestic company totaling EUR 600 million and against a foreign company totaling EUR 524 million.

The total contingent liabilities including the credit default swaps for which LBBW (Bank) provides no collateral, is described under section 3 Derivatives.

Risk assessment.

As part of its lending and guarantee business, the Bank issues loan commitments and provides its customers with guarantees, warranties, and other contingent liabilities.

The potential legal claim should – if it cannot be expected with certainty on the reporting date – be reported below the line. If a claim is expected, a provision or liability must be recognized in the balance sheet and the item below the line must be reduced by this amount.

If a guarantee is drawn on, there is a risk for the Bank that its claim (for recourse) against the guarantee holder or borrower less the collateral is not valuable.

The issue of (guarantee) lines and the management of risks – especially if creditworthiness deteriorates – takes place in the Bank as part of the regulated lending process and is subject to the requirements for on-balance sheet transactions (e. g., loan transactions).

If there are valid reasons for expected claim, the Bank creates customer-specific write-downs, provided that imminent loss is expected. As a result of latent risks in (off-)balance sheet lending and guarantee transactions, the Bank creates provisioning on a portfolio basis.

The following tables show the maximum (lending) risk from the items entered into under contractual agreement.

EUR million	31 Dec. 2012	31 Dec. 2011
Contingent liabilities	**17016**	**22113**
From guarantees and warranties	17016	22113
Credit default swaps	5737	9865
Other guarantees, warranties and indemnities	8137	7599
Credit guarantees	2730	2992
Letters of credit	413	1657
Other obligations	**23837**	**23206**
Placement and underwriting commitments	0	80
Irrevocable loan commitments	23837	23126

Contingent liabilities from warranties, guarantees and indemnities are generally noted in full. They are reduced only by cash cover and write-downs.

In the case of credit default swaps for which LBBW (Bank) is the protection seller, the Bank takes on the risk of a loan default of one or more assets by the protection buyer. LBBW (Bank) recognizes credit default swaps from the investment portfolio in the contingent liabilities item. The provisions put in place as a result of negative performance of the swaps are deducted from the volume.

All binding and as yet unutilized credit commitments are recognized below the line. Loan commitments which the Bank has the option to terminate unconditionally and without prior notice are not included. In addition to loan commitments, forward purchases of fixed-income securities, borrower's note loans and pledged transactions concluded on a forward basis which are not classified as part of the trading portfolio are recognized in this item.

24. Letter of comfort.

LBBW has issued a letter of comfort, which reads as follows, in favor of the wholly-owned subsidiaries Landesbank Baden-Württemberg Capital Markets Plc, London, LBBW Asset Management Investmentgesellschaft mbH, Stuttgart, BW Capital Markets Inc., New York, LBBW Dublin Management GmbH, Mainz, LBBW Luxemburg S.A., Luxembourg and SüdFactoring GmbH, Stuttgart:

»Except for political risks and for the duration of an equity investment, LBBW ensures that the companies are in a position to cover their liabilities, regardless of the amount of the interest held by the Bank.«

LBBW has issued a letter of comfort, which reads as follows, in favor of the wholly-owned subsidiaries BW Bank Capital Funding LLC I, Wilmington and BW Bank Capital Funding LLC II, Wilmington:

»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.«

25. Guarantor's liability.

In its capacity as guarantor, LBBW (Bank) 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 18 July 2005 (elimination of the guarantor's liability), in certain cases depending on the time when the liabilities arose and upon their term; however, LBBW (Bank) 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: the former Landesbank Schleswig-Holstein Girozentrale, Kiel; Westdeutsche ImmobilienBank AG, Mainz; the former SachsenLB Landesbank Sachsen Girozentrale, Leipzig; and the former LRP Landesbank Rheinland-Pfalz, Mainz.

LBBW (Bank) will also release the trustors and former guarantors of SachsenLB inter partes from all claims for liabilities arising from the guarantors' liability (Gewährträgerhaftung) and maintenance obligation (Anstaltslast) they have assumed for SachsenLB that are asserted against the trustors and former guarantors of SachsenLB for the first time after 31 December 2007. This applies only and insofar as and to the extent that the guarantor's liability exists due to claims by LBBW (Bank) or affiliates of LBBW (Bank) within the meaning of section 15 et seq. of the German Stock Corporation Act (Aktiengesetz – AktG) in connection with the Ormond Quay structure including one or more Castle View vehicles to the extent that these entities have assets that were originally included in the Ormond Quay portfolio (Issuer Valuation Agreement dated 6 May 2004 as amended 7 July 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 (Bank) will also release the trustors and former guarantors of SachsenLB inter partes from all claims for liabilities arising from the guarantor's liability and maintenance obligation they assumed for SachsenLB that are asserted against the trustors and former guarantors of SachsenLB for the first time after 31 December 2010.

26. Other financial obligations.

Other financial obligations that neither appear on the balance sheet nor below the line amounted to EUR 601 million (2011: EUR 472 million) at LBBW (Bank). EUR 140 million per year thereof is accounted for by long-term rental, leasing and IT service contracts, while EUR 76 million is attributable to an obligation to contribute to Liquiditäts- und Konsortialbank GmbH, Frankfurt am Main. An obligation to make further contributions of EUR 143 million arises from default funds with central counterparties. There are also obligations to make further contributions of EUR 230 million to the reserve fund of the Landesbanken and the Girozentralen (central savings banks). In the event of support being needed, further contributions can be demanded immediately.

EUR 20 million (2011: EUR 18 million) of the other financial obligations relate to affiliated companies.

Pursuant to section 5 (10) of the bylaws of the German Deposit Protection Fund, we undertook to indemnify the Federal Association of German Banks (Bundesverband Deutscher Banken e.V., Berlin) against any and all losses incurred by the latter as a result of assistance provided to banks that are majority-owned by Landesbank Baden-Württemberg.

Following the full replenishment of capital generated by profit participation certificates and silent partnership contributions in the 2011 financial year, in 2012 current income was distributed and part of the payment of distributions made good. The conditional obligation to make good payments not yet made stems from the financial years 2009 to 2011. It has now been met at 40.80% per silent partnership contributions/profit participation capital. The repayment of capital generated by profit participation rights and the conversion of silent partnership contributions in 2013 results in the expiry of EUR 243 million of the conditional obligation.

The remaining obligation to make good the payments not yet made amounts to EUR 239 million. In the event of a positive result in the 2013 financial year, servicing the distribution of current income would take priority over the carrying forward of suspended dividends.

Notes on the income statement.

27. Net interest income.

In the wake of the conversion of silent partnership contributions in share capital and the capital reserve, agreements governing the contributions of silent partners who are also shareholders of LBBW (Bank) were amended with the approval of BaFin. The dividends and suspended dividends carried over from previous years that were accounted for by contributions converted as at 1 January 2013 totaling EUR 227 million were therefore reported under interest expense for the first time in the current annual financial statements.

The compounding effect for all provisions with a term of more than 12 months is reported under interest expense.

Net interest income also reports current interest income and expense in the trading portfolio. This procedure is in line with the Bank's internal controlling.

28. Other operating income and expenses.

EUR 35 million (2011: EUR 98 million) of other operating income is accounted for by capital gains on the sale of equity investments and shares in affiliated companies, as well as income from renting and leasing land and buildings. Income from refunds of expenses from third parties amounted to EUR 44 million (2011: EUR 48 million) and reversals of provisions came to EUR 31 million (2011: EUR 13 million). Other operating income totaling EUR 30 million (2011: EUR 9 million) essentially comprised reversals of provisions for legal risks.

Other operating expenses essentially comprised allocations to provisions of EUR 191 million (2011: EUR 68 million) which are mainly attributable to legal disputes. Expenses for non-banking business consist of operating expenses amounting to EUR 19 million (2011: EUR 22 million), expenses for land and buildings of EUR 16 million (EUR 2011: EUR 15 million) and of staff costs for employees seconded to third parties totaling EUR 18 million (2011: EUR 19 million). Cafeteria expenses amount to EUR 9 million (2011: EUR 9 million).

29. Auditors' fee.

The total amount of auditors' fees in accordance with section 285 sentence 1 no. 17 HGB was not reported, since these amounts are disclosed in the consolidated financial statements of Landesbank Baden-Württemberg, Stuttgart, Karlsruhe, Mannheim, and Mainz includes this amount.

30. Extraordinary result.

The negative extraordinary result of EUR 21 million (2011: EUR 12 million) comprises extraordinary income in the amount of EUR 7 million and extraordinary expenditure of EUR 28 million.

Extraordinary income represents in full reversals of provisions for restructuring expenses, essentially from IT projects amounting to EUR 5 million. Extraordinary expenditure mainly includes appropriations to provisions for pensions arising from the BilMoG conversion in the amount of EUR 27 million.

31. Taxes on income.

Periodic tax income of EUR 5 million (2011: EUR 43 million expense) is mainly attributable to corporation tax income. Non periodic tax income totaling EUR 43 million (2011: EUR 16 million expense) was reported in the 2012 financial year, essentially due to reversals of tax provisions in connection with the successful conclusion to a fiscal dispute abroad. In addition, income from the discounting of tax provisions amounted to EUR 3 million.

Overall, tax income totaling EUR 51 million (2011: EUR 27 million expense) was reported.

32. Breakdown of income according to geographic markets.

The total amount from the income statement items

- interest income,
- current income from shares and other non-fixed-income securities, equity investments and shares in affiliated companies,
- fee and commission income,
- other operating income

is distributed across the geographical markets below as follows:

EUR million	31 Dec. 2012	31 Dec. 2011
Federal Republic of Germany	36 020	42 922
Europe (EU states excluding Germany)	1 121	1 167
Asia	87	172
America	221	322
Total	**37 449**	**44 583**

33. Administrative and intermediary services.

Services provided to third parties relate primarily to the administration of securities accounts, trustee loans, equity investments, and of investment and real estate investment funds.

Other information.

34. Off-balance-sheet transactions.

For off-balance-sheet transactions the type and purpose as well as risks and benefits of transactions not appearing in the balance sheet are to be stated in as much as this is necessary for assessment of the financial situation. These include all, not only pending transactions, which are not included in the commercial balance sheet from the outset, or which may result in the permanent removal of assets or debts from the commercial balance sheet.

Revocable loan commitments.

The granting of overdraft facilities that can be terminated by the Bank at any time allows customers to overdraw their checking accounts within the scope of the loan commitment, without generally having to provide collateral. The Bank itself benefits from this product, which is standardized and customary for the market, through higher interest income if the commitment is utilized or exceeded by the customer. At the same time, however, there are risks arising from a deterioration in the financial situation of the borrower. At the end of the year, there were revocable loan commitments amounting to EUR 23 billion, which do not have to be reported either on the balance sheet or below the line.

Special-purpose entities/securitizations.

LBBW (Bank) has business relationships with various special-purpose entities following different business models. These business relationships are all accounted for on the balance sheet (receivables, securities, write-downs, interest deferrals, valuations) or in the form of other obligations in the financial statements.

The purchase of trading and leasing receivables by special-purpose entities serves primarily to finance SMEs. The special-purpose entities obtain their funding by issuing asset backed commercial paper (ABCP), among other sources. LBBW (Bank) provides these special-purpose entities with loans and liquidity lines.

Other special-purpose entities invest in (securitized) securities. LBBW (Bank) assumes risks by funding the companies through commercial paper, loans and securities repurchase transaction and by providing liquidity lines. LBBW (Bank) concluded some derivatives transactions with the special-purpose entities.

The transactions with special-purpose entities are subject to risks (such as credit and market risks) that could lead to write-downs in the future.

35. Distribution block.

In accordance with section 268 sentence 8 HGB, a distribution block applies in connection with the option to recognize internally generated intangible assets held as long-term investments, the option to recognize deferred tax assets and the obligation for fair value measurement of pension-related assets.

Landesbank Baden-Württemberg reported distribution-blocked amounts totaling EUR 1 million on the balance sheet in the 2012 financial year (2011: EUR 0.4 million). These correspond at least to the freely available reserves after profit distribution plus the unappropriated profit/loss.

36. List of shareholdings.

In the annual financial statements as at 31 December 2011, and pursuant to section 285 No. 11 HGB, Landesbank Baden-Württemberg lists the shareholdings with details pursuant to section 285 No. 11a HGB in the Notes.

Name	Place of business	Share of capital in %	Non-prop. voting rights in %	Currency	Equity EUR th.	Result EUR th.
I. Companies included in the consolidated financial statements						
a. Fully consolidated subsidiaries						
Alpha Real Estate (Luxembourg) S.à.r.l. [1) 17)]	Luxembourg, Luxembourg	100.00		EUR	-33.04	-17.37
ALVG Anlagenvermietung GmbH [1) 4a)]	Stuttgart	100.00		EUR	19 000.00	0.00
Austria Beteiligungsgesellschaft mbH [17)]	Stuttgart	66.67		EUR	35 350.61	2 028.54
Bahnhofplatz Objekt-GmbH & Co. KG [1) 4a) 17)]	Stuttgart	100.00		EUR	13 441.51	0.00
Bahnhofplatz Objektverwaltungs-GmbH [1) 17)]	Stuttgart	100.00		EUR	13.70	-2.52
Bahnhofplatz-Gesellschaft Stuttgart AG [1) 4a) 17)]	Stuttgart	93.22		EUR	4 452.44	0.00
Bauwerk-Stuttgart GmbH [1) 17)]	Stuttgart	75.00		EUR	-184.06	-184.06
BETA REAL ESTATE (Luxembourg) S.à.r.l. [1) 17)]	Luxembourg, Luxembourg	100.00		EUR	7.94	-6.02
BW-Immobilien GmbH [1) 4a) 17)]	Stuttgart	100.00		EUR	3 200.07	0.00
CFH Beteiligungsgesellschaft mbH [1) 17)]	Leipzig	100.00		EUR	93 886.04	1 782.63
Château de Beggen Participations S.A. [1) 17)]	Luxembourg, Luxembourg	100.00		EUR	37.90	-6.52
Dritte Industriehof Objekt-GmbH & Co. KG [1) 4a) 17)]	Stuttgart	100.00		EUR	701.91	0.00
Einkaufszentrum Stachus München GmbH [1) 4a) 17)]	Stuttgart	100.00		EUR	25.00	0.00
Employrion Komplementär GmbH [1) 17)]	Weil	100.00		EUR	26.75	0.22
Entwicklungsgesellschaft Grunewaldstraße 61 - 62 mbH & Co. KG [1) 17)]	Stuttgart	94.84	94.90	EUR	-4 810.96	579.70
Entwicklungsgesellschaft Uhlandstraße 187 GmbH & Co. KG [1) 17)]	Stuttgart	94.90		EUR	-2 617.58	-659.35
Erste IMBW Capital & Consulting Komplementär GmbH [1) 17)]	Weil	100.00		EUR	26.74	-1.02
Erste Industriehof Objekt-GmbH & Co. KG [1) 4a) 17)]	Stuttgart	100.00		EUR	450.16	0.00
EuroCityCenterWest GmbH & Co. KG [1) 3a) 17)]	Stuttgart	100.00		EUR	-14 021.13	-3 055.76
EuroCityCenterWest Verwaltungs-GmbH [1) 17)]	Stuttgart	94.80		EUR	34.59	-0.72
FOM/LEG Verwaltungs GmbH [1) 7)]	Heidelberg	50.00		EUR	26.63	1.50
Fünfte Industriehof Objekt-GmbH & Co. KG [1) 4a) 17)]	Stuttgart	100.00		EUR	634.23	0.00
Gewerbepark Königstraße Kaiserslautern GmbH [1) 17)]	Stuttgart	100.00		EUR	93.12	-201.81
Grundstücksgesellschaft Einkaufszentrum Haerder-Center Lübeck mbH & Co. KG [1) 8)]	Stuttgart	94.00		EUR	-21 002.86	k.A.
Grunewaldstraße 61 - 62 GmbH [1) 17)]	Stuttgart	100.00		EUR	25.76	0.22
HIRP Housing Initiative Rheinland-Pfalz Management- und Entwicklungsgesellschaft mbH i. L. [1) 17)]	Mainz	79.90		EUR	65.15	-34.85
IMBW Capital & Consulting GmbH [1) 4a) 17)]	Stuttgart	100.00		EUR	250.00	0.00
Immobilienvermittlung BW GmbH [17)]	Stuttgart	100.00		EUR	2 721.48	222.99
Industriehof Objektverwaltungs-GmbH [1) 17)]	Stuttgart	100.00		EUR	36.45	3.30
Industriehof-Aktiengesellschaft [1) 4a) 17)]	Stuttgart	93.63		EUR	23 281.64	0.00
IRP Immobilien-Gesellschaft Rheinland-Pfalz mbH [1) 17)]	Mainz	51.41		EUR	618.47	-936.51
Kiesel Finance Management GmbH [1)]	Baienfurt	90.00		EUR	29.51	2.11
Kommunalbau Rheinland-Pfalz GmbH [1) 17)]	Mainz	51.40		EUR	1 198.58	95.88
Landesbank Baden-Württemberg Capital Markets Plc [3) 17)]	London, Great Britain	100.00		EUR	5 978.00	250.00
LBBW Asset Management Investmentgesellschaft mbH [3) 17)]	Stuttgart	100.00		EUR	29 170.07	9 393.44
LBBW Bank CZ a.s. [17)]	Prague 5, Czech Republic	100.00		CZK	109 234.06	720.29
LBBW Dublin Management GmbH [3) 4) 17)]	Mainz	100.00		EUR	20 845.91	0.00
LBBW Grundstücksverwaltungsgesellschaft mbH & Co. KG Objekt am Pariser Platz Stuttgart [17)]	Stuttgart	100.00		EUR	56 524.47	-3 525.92
LBBW Immobilien Capital Fischertor GmbH & Co. KG [1) 17)]	Munich	93.98	94.00	EUR	-5 113.66	-1 130.50

Name	Place of business	Share of capital in %	Non-prop. voting rights in %	Currency	Equity EUR th.	Result EUR th.
LBBW Immobilien Capital GmbH [1) 17)]	Stuttgart	100.00		EUR	–2 856.19	–933.28
LBBW Immobilien Development GmbH [1) 4a) 17)]	Stuttgart	94.90		EUR	15 783.69	0.00
LBBW Immobilien GmbH & Co. Beteiligung KG [1) 17)]	Stuttgart	100.00		EUR	60 537.50	829.03
LBBW Immobilien Kommunalentwicklung GmbH [1) 4a) 17)]	Stuttgart	81.62		EUR	2 016.51	0.00
LBBW Immobilien Luxembourg S. A. [1) 17)]	Luxembourg, Luxembourg	100.00		EUR	–75 471.31	–725.93
LBBW Immobilien Management Gewerbe GmbH [1) 4a) 17)]	Stuttgart	94.90		EUR	3 303.97	0.00
LBBW Immobilien Management GmbH [1) 4a) 17)]	Stuttgart	100.00		EUR	425 694.37	0.00
LBBW Immobilien Romania S.R.L. [1) 17)]	Bucharest, Romania	100.00		EUR	–21 667.44	–3 910.45
LBBW Immobilien Versicherungsvermittlung GmbH [1) 4a) 17)]	Stuttgart	100.00		EUR	25.00	0.00
LBBW Immobilien-Holding GmbH [4) 17)]	Stuttgart	100.00		EUR	959 050.54	0.00
LBBW Leasing GmbH [4) 17)]	Mannheim	100.00		EUR	283 488.54	0.00
LBBW Luxemburg S. A. [3) 18)]	Munsbach, Luxembourg	100.00		EUR	269 621.00	–23.70
LBBW Service GmbH [4) 17)]	Stuttgart	100.00		EUR	25.00	0.00
LBBW Spezialprodukte-Holding GmbH [4) 17)]	Stuttgart	100.00		EUR	101 871.73	0.00
LBBW US Real Estate Investment LLC [6)]	Wilmington, Delaware, USA	100.00		USD	74 812.06	3 295.45
LBBW Venture Capital GmbH [17)]	Stuttgart	100.00		EUR	28 412.43	–267.87
LEG Baden-Württemberg Verwaltungs-GmbH [1) 17)]	Stuttgart	100.00		EUR	24.39	–0.87
LEG Projektgesellschaft 2 GmbH & Co. KG [1) 17)]	Stuttgart	100.00		EUR	–1 414.84	95.85
LEG Projektgesellschaft 4 GmbH & Co. KG [1) 17)]	Stuttgart	100.00		EUR	–45 102.98	–6 164.40
LEG Verwaltungsgesellschaft 2 mbH [1) 17)]	Stuttgart	100.00		EUR	27.51	0.57
LOOP GmbH [1) 17)]	Stuttgart	100.00		EUR	129.87	–81.98
LRP Capital GmbH [1) 17)]	Stuttgart	100.00		EUR	14 000.00	0.00
Mannheim O 4 Projektgesellschaft mbH & Co. KG [1) 17)]	Stuttgart	100.00		EUR	–12.94	6 006.19
MANUKA Grundstücks-Verwaltungsgesellschaft mbH [1) 17)]	Stuttgart	100.00		EUR	58.44	1.68
MKB Mittelrheinische Bank GmbH [17)]	Koblenz	100.00		EUR	47 737.77	6 469.36
MKB Versicherungsdienst GmbH [1) 4a) 17)]	Koblenz	100.00		EUR	27.05	0.00
MMV Leasing GmbH [1) 4a) 17)]	Koblenz	100.00		EUR	21 000.00	0.00
MMV-Mobilien Verwaltungs- und Vermietungsgesellschaft mbH [1) 4a) 17)]	Koblenz	100.00		EUR	26.00	0.00
Nagatino Property S.à.r.l. [1) 8)]	Luxembourg, Luxembourg	100.00		EUR	–42 226.74	–13 993.04
Parc Helfent Participations S. A. [1) 17)]	Luxembourg, Luxembourg	100.00		EUR	1 045.76	–2.05
Projekt 20 Verwaltungs GmbH [1) 17)]	Munich	100.00		EUR	31.45	1.03
Projektgesellschaft Bockenheimer Landstraße 33 – 35 GmbH & Co. KG [1) 17)]	Kronberg i. T.	94.00	50.00	EUR	–672.07	88.15
Rebstockpark 7.1 Entwicklungsgesellschaft mbH & Co. KG [1) 17)]	Stuttgart	100.00		EUR	0.80	–0.20
Schlossgartenbau Objekt-GmbH & Co. KG [1) 4a) 17)]	Stuttgart	100.00		EUR	18 548.97	0.00
Schlossgartenbau Objektverwaltungs-GmbH [1) 17)]	Stuttgart	100.00		EUR	11.64	0.97
Schlossgartenbau-Aktiengesellschaft [1) 4a) 17)]	Stuttgart	92.68		EUR	6 592.42	0.00
Schockenried GmbH & Co. KG [1) 17)]	Stuttgart	100.00		EUR	–4 142.44	43.87
Schockenriedverwaltungs GmbH [1) 17)]	Stuttgart	94.80		EUR	25.43	0.72
Sechste Industriehof Objekt-GmbH & Co. KG [1) 4a) 17)]	Stuttgart	100.00		EUR	307.51	0.00
SG Management GmbH [1) 17)]	Stuttgart	100.00		EUR	7 638.23	–126.18
SGB – Hotel GmbH & Co. KG [1) 17)]	Stuttgart	100.00		EUR	–1 261.91	–97.24
SLN Maschinen-Leasing Verwaltungs-GmbH [1)]	Stuttgart	100.00		EUR	1 039.32	38.17
SLP Mobilien-Leasing Verwaltungs-GmbH [1)]	Mannheim	100.00		EUR	5 174.58	308.60
Süd Beteiligungen GmbH [17)]	Stuttgart	100.00		EUR	152 634.81	51 538.09
Süd KB Unternehmensbeteiligungsgesellschaft mbH [1) 17)]	Stuttgart	100.00		EUR	48 720.58	132.50
SüdFactoring GmbH [3) 4) 17)]	Stuttgart	100.00		EUR	5 000.00	0.00
Süd-Kapitalbeteiligungs-Gesellschaft mbH [1) 4a) 17)]	Stuttgart	100.00		EUR	88 981.87	0.00
SüdLeasing Finance-Holding GmbH [1)]	Stuttgart	100.00		EUR	189.36	18.80
SüdLeasing GmbH [2) 4a) 17)]	Stuttgart	100.00		EUR	32 085.00	0.00
Turtle Beteiligungs-Ehningen II GmbH [1) 7)]	Frankfurt a. M.	100.00		EUR	25.41	0.36
Turtle Beteiligungs-Hannover-City GmbH [1) 7)]	Frankfurt a. M.	100.00		EUR	22.31	–1.07
Turtle Beteiligungs-Portfolio GmbH [1) 7)]	Frankfurt a. M.	100.00		EUR	25.62	2.27
Turtle Ehningen II GmbH & Co. KG [1) 7)]	Frankfurt a. M.	100.00		EUR	–30.55	–10.97
Turtle Portfolio GmbH & Co. KG [1) 7)]	Frankfurt a. M.	100.00		EUR	–41 611.64	–36 296.81
Turtle 1. Verwaltungs-GmbH [1) 7)]	Frankfurt a. M.	100.00		EUR	36.21	9.02

Name	Place of business	Share of capital in %	Non-prop. voting rights in %	Cur-rency	Equity EUR th.	Result EUR th.
Uhlandstraße 187 GmbH [1) 17)]	Stuttgart	100.00		EUR	24.97	0.43
Vermietungs- und Verwaltungsgesellschaft Sendlinger Straße GmbH & Co. KG [1) 3a) 17)]	Stuttgart	99.00		EUR	53 010,68	13 715.90
Vermietungs- und Verwaltungsgesellschaft Sendlinger Straße mbH [1) 17)]	Stuttgart	100.00		EUR	21.54	–3.47
Vierte Industriehof Objekt-GmbH & Co. KG [1) 4a) 17)]	Stuttgart	100.00		EUR	1 176.78	0.00
VVS II GmbH & Co. KG [1) 17)]	Stuttgart	99.00		EUR	–3 603.30	530.98
VVS II Verwaltungs-GmbH [1) 17)]	Stuttgart	100.00		EUR	18.64	–1.69
VVS III GmbH & Co. KG [1) 17)]	Stuttgart	99.00		EUR	–5 033.84	734.67
VVS III Verwaltungs-GmbH [1) 17)]	Stuttgart	100.00		EUR	18.10	–1.70
Zorilla Mobilien-Leasing GmbH [1)]	Mannheim	100.00		EUR	62.82	–15.28
Zweite IMBW Capital & Consulting Komplementär GmbH [1) 17)]	Stuttgart	100.00		EUR	28.84	–3.50
Zweite Industriehof Objekt-GmbH & Co. KG [1) 4a) 17)]	Stuttgart	100.00		EUR	19 825.72	0.00
Zweite LBBW US Real Estate GmbH [17)]	Leipzig	100.00		EUR	48 000.68	–7 577.36
b. Fully consolidated subsidiaries (SIC 12)						
aiP Gärtnerplatz GmbH & Co. KG [1) 17)]	Oberhaching	45.00	50.00	EUR	–13 183.20	–5 082.79
aiP Isarauen GmbH & Co. KG [1) 3a) 17)]	Oberhaching	45.00	50.00	EUR	–582.11	–48.49
BWInvest-TR6-Fonds [17)]	Stuttgart	100.00	0.00	EUR	60 917.14	–1 605.27
Employrion Immobilien GmbH & Co. KG [1) 17)]	Weil	35.00	50.00	EUR	–1 601.83	1 338.01
Erste IMBW Capital & Consulting Objektgesellschaft mbH & Co. KG [1) 17)]	Weil	40.00	50.00	EUR	–16 932.11	–1 918.93
FOM/LEG Generalübernehmer GmbH & Co. KG [1) 7)]	Heidelberg	50.00		EUR	–1 295.57	–563.69
Georges Quay Funding I Limited [17)]	Dublin 1, Ireland			EUR	9.23	0.36
Grundstücksgesellschaft Einkaufszentrum Kröpeliner-Tor-Center Rostock mbH & Co. KG [1) 17)]	Berlin	39.94	50.00	EUR	0.00	–529.89
Humboldt Multi Invest B SICAV-FIS Sachsen LB Depot A [11)]	Hesperange, Luxembourg	99.99	99.99	EUR	92 185.15	–1 702.09
Kyma Grundstücksverwaltungsgesellschaft mbH & Co. Objekt Löhr's Carré KG [17)]	Haar			EUR	–3 290.54	3 814.75
LAAM-Fonds I (LAAM Subtrust I) [17)]	George Town, Cayman Islands	100.00	0.00	EUR	86 988.60	4 280.35
LAAM-Fonds II [17)]	George Town, Cayman Islands	100.00	0.00	EUR	86 384.15	2 717.54
LAAM-Fonds XI [17)]	George Town, Cayman Islands	100.00	0.00	EUR	46 188.13	3 766.41
LBBW EuroLiquid [19)]	Stuttgart	83.32	0.00	EUR	54 852.56	1 212.65
Parcul Banatului SRL [1) 17)]	Bucharest, Romania	50.00		EUR	–14 766.75	–4 134.94
Spencerview Asset Management Ltd. [17)]	Dublin 2, Ireland			EUR	1.00	0.00
Turtle Vermögensverwaltungs-GmbH & Co. KG [1) 7)]	Frankfurt a. M.	49.00	50.00	EUR	–65.33	–19.26
2. Joint ventures accounted for using the equity method						
ARGE ParkQuartier Berg [1) 17)]	Stuttgart	50.00		EUR	476.61	11.06
Bad Kreuznacher Entwicklungsgesellschaft mbH (BKEG) [1) 17)]	Bad Kreuznach	50.00		EUR	–549.22	1 668.64
LHI Leasing GmbH [1) 17)]	Pullach	51.00		EUR	46 192.24	3 594.25
TCD LEG/FOM GbR [1) 17)]	Stuttgart	50.00		EUR	188.99	52.73
Verwaltungsgesellschaft Filderbahnstraße mbH i. L. [1) 25)]	Stuttgart	50.00		EUR	–0.02	–1.68
Verwaltungsgesellschaft Hauptstraße mbH i. L. [1) 25)]	Stuttgart	50.00		EUR	0.07	–2.79
3. Associates accounted for using the equity method						
Altstadt-Palais Immobilien GmbH & Co. KG [1) 17)]	Weil	40.00	50.00	EUR	–484.35	–3.65
Bauland Kruft Süd GmbH [1) 17)]	Mainz	51.00		EUR	–1 161.35	–130.15
BWK GmbH Unternehmensbeteiligungsgesellschaft [1) 17) 28)]	Stuttgart	40.00		EUR	231 072.89	49 738.59
EGH Entwicklungsgesellschaft Heidelberg GmbH & Co. KG [1) 17)]	Heidelberg	33.33		EUR	1 010.61	–575.60
EGH Projektgesellschaft Heidelberg GmbH [1) 17)]	Heidelberg	33.33		EUR	32.14	0.80
SGB – Hotel – Verwaltung GmbH [1) 17)]	Stuttgart	50.00		EUR	–3.98	–6.70
Vorarlberger Landes- und Hypothekenbank AG [1) 17)]	Bregenz, Austria	25.00		EUR	607 740.92	61 051.21
II. Companies not included in the consolidated financial statements due to being of minor significance						
1.1. Subsidiaries not included						
ABS Kompakt GmbH i. L. [1) 27)]	Stuttgart	100.00		EUR	39.78	–3.79
aiP Gärtnerplatz Verwaltungs GmbH [1) 17)]	Oberhaching	100.00		EUR	21.93	–0.51
aiP Hirschgarten 1 Verwaltungs GmbH [1) 17)]	Oberhaching	100.00		EUR	27.95	–0.10
aiP Isarauen Verwaltungs GmbH [1) 17)]	Oberhaching	100.00		EUR	24.20	0.40

Name	Place of business	Share of capital in %	Non-prop. voting rights in %	Currency	Equity EUR th.	Result EUR th.
Atlas Beteiligungs-GmbH i. L. [4) 10) 27)]	Mannheim	100.00		EUR	25.56	0.00
Atlas Weyhausen Services GmbH & Co. KG i. L. [1) 17)]	Mannheim	100.00		EUR	95.87	0.00
B. & C. Leasing GmbH & Co. KG [1) 17)]	Mannheim		75.00	EUR	1 721.91	20.38
Baden-Württembergische Equity Gesellschaft mit beschränkter Haftung [17)]	Stuttgart	100.00		EUR	1 029.48	202.06
Britta Grundstücksverwaltungsgesellschaft mbH [1) 4a) 17)]	Mannheim	100.00		EUR	38 276.09	0.00
BW Bank Capital Funding LLC I [1) 3) 17)]	Florham Park, New Jersey, USA	100.00		EUR	50 004.00	2 371.73
BW Bank Capital Funding LLC II [1) 3) 17)]	Florham Park, New Jersey, USA	100.00		EUR	50 003.00	1 961.86
BW Bank Capital Funding Trust I [1)]	Florham Park, New Jersey, USA		100.00		Not specified	Not specified
BW Bank Capital Funding Trust II [1)]	Florham Park, New Jersey, USA		100.00		Not specified	Not specified
BW Capital Markets Inc. [3) 17)]	Florham Park, New Jersey, USA	100.00		USD	1 821.24	2 621.21
BW Leasing GmbH & Co. KG [1) 17)]	Mannheim	100.00		EUR	140.45	132.35
BW Mergers & Acquisitions GmbH i. L. [17)]	Stuttgart	100.00		EUR	1 144.92	–9.96
CARGO SL Mobilien-Leasing GmbH & Co. KG [1) 17)]	Mannheim		75.00	EUR	475.56	269.51
cellent AG [1) 9)]	Vienna, Austria	100.00		EUR	3 007.22	613.92
cellent AG [17)]	Stuttgart	100.00		EUR	13 057.00	–39.98
Cellent Finance Solutions AG [17)]	Stuttgart	100.00		EUR	1 257.04	–3 053.12
cellent Mittelstandsberatung GmbH [1) 17)]	Böblingen	100.00		EUR	1 572.31	523.34
Centro Alemán de Industria y Comercio de México S. de R.L. de C.V. [2) 17)]	México, D. F., Mexico	100.00		MXN	–13 872.35	–3 233.99
CIM Real Estate Verwaltungs GmbH i. L. [1) 17)]	Munich	100.00		EUR	4.31	–5.57
DBW Advanced Fiber Technologies GmbH [1) 17)]	Bovenden	100.00		EUR	24 280.95	2 467.89
DBW Fiber Corporation [1) 17)]	Summerville, South Carolina, USA	100.00		USD	1 295.95	95.42
DBW Holding GmbH [1) 17)]	Bovenden	99.16	94.64	EUR	22 071.05	0.67
DBW Hungary KFT [1) 17)]	Tapolca, Hungary	100.00		HUF	3 226.26	1 824.49
DBW Ibérica Industria Automoción, S. A. [1) 17)]	Vall d'Uxo Castellón, Spain	100.00		EUR	684.56	121.73
DBW Metallverarbeitung GmbH [1) 4a) 17)]	Ueckermünde	100.00		EUR	1 233.88	0.00
DBW Polska Sp.z. o.o. [1) 8)]	Cigacice, Poland	100.00		PLN	1 716.96	611.35
DBW Sudogda [1) 6)]	Sudogda, Russia	100.00		EUR	–4.36	–5.18
DBW-Fiber-Neuhaus GmbH [1) 4a) 17)]	Neuhaus am Rennweg	100.00		EUR	3 000.00	0.00
Deutsche Mittelstandsinformatik GmbH i. L. [15)]	Stuttgart	90.00		EUR	–1 465.90	–151.92
Dritte LBBW US Real Estate GmbH [17)]	Leipzig	100.00		EUR	1 033.47	–2 217.11
Euro Leasing AG [1) 7)]	Luxembourg, Luxembourg	100.00		EUR	162.39	–0.31
Financial ServiceS GmbH [1) 17)]	Leipzig	100.00		EUR	182.29	18.10
Finclusive Alfmeier Leasing Services GmbH & Co. KG i. L. [1) 17)]	Mannheim	100.00		EUR	60.20	–40.50
FIRKO Betreuungs GmbH [1) 17)]	Leipzig	100.00		EUR	448.59	16.65
FIRKO Betreuungs GmbH & Co. Windpark Zaulsdorf KG [17)]	Leipzig	100.00		EUR	42.66	40.95
FLANTIR PROPERTIES LIMITED [1) 17)]	Nicosia, Cyprus	100.00		EUR	–5 839.94	870.40
Franca Grundstücksverwaltungsgesellschaft mbH [1) 4a) 17)]	Mannheim	100.00		EUR	525.81	0.00
Franca Grundstücksverwaltungsgesellschaft mbH & Co. Immobilien KG [17)]	Mannheim	100.00		EUR	2 334.79	–2.02
FRONTWORX Informationstechnologie AG [1) 17)]	Vienna, Austria	100.00		EUR	–583.41	–274.73
German Centre for Industry and Trade Beijing Co., Ltd. [17)]	Beijing, China	100.00		CNY	1 741.60	253.77
German Centre for Industry and Trade GmbH, Beteiligungsgesellschaft [4) 17)]	Stuttgart	100.00		EUR	3 942.99	0.00
German Centre for Industry and Trade Pte. Ltd. Singapore [1) 17)]	Singapore, Singapore	100.00		SGD	14 275.67	2 036.15
Gmeinder Lokomotivenfabrik GmbH i. L. [1) 17)]	Mosbach	90.00		EUR	306.00	–641.00
Grundstücks-, Vermögens- und Verwaltungs-GbR Nr. 41 Leinfelden/Echterdingen [1) 17)]	Stuttgart	52.95		EUR	25 708.45	–1 083.56
GVZ NORD PLANT GmbH [1) 17)]	Leipzig	100.00		EUR	19.29	–18.68
Haerder-Center Lübeck Verwaltungsgesellschaft mbH [1) 8)]	Stuttgart	100.00		EUR	28.39	1.10
Heurika Mobilien-Leasing GmbH [1) 3a) 17)]	Mannheim	100.00		EUR	–1 075.47	–565.22
HÜCO Circuit Technology GmbH [1) 17)]	Espelkamp	90.00		EUR	113.41	12.92

Name	Place of business	Share of capital in %	Non-prop. voting rights in %	Currency	Equity EUR th.	Result EUR th.
Hüco electronic GmbH [1) 4a) 8)]	Espelkamp	90.00		EUR	3 333.39	0.00
Ina Grundstücksverwaltungsgesellschaft mbH i. L. [1) 17)]	Mannheim	100.00		EUR	4.41	0.22
Iris Grundstücksverwaltungsgesellschaft mbH i. L. [1) 17)]	Mannheim	100.00		EUR	4.40	0.42
Janina Grundstücksverwaltungsgesellschaft mbH i. L. [1) 4a) 17)]	Mannheim	100.00		EUR	24.13	0.00
John Deere Leasing GmbH [1) 17)]	Mannheim	100.00		EUR	– 705.60	2 102.54
Karin Mobilien-Leasing GmbH i. L. [1) 17)]	Mannheim	100.00		EUR	881.31	101.33
KB Projekt GmbH [1) 17)]	Mainz	100.00		EUR	22.29	– 1.54
Kiesel Finance GmbH & Co. KG [1) 17)]	Baienfurt		75.00	EUR	540.46	266.92
Kröpeliner-Tor-Center Rostock Verwaltungsgesellschaft mbH [1) 17)]	Berlin	100.00		EUR	16.69	1.86
KURIMA Grundstücksgesellschaft mbH & Co. KG [1) 17)]	Grünwald	1.00	84.00	EUR	4.72	– 3.84
LA electronic Holding GmbH [1) 17)]	Espelkamp	100.00		EUR	– 11 349.61	– 843.93
Laurus Grundstücksverwaltungsgesellschaft mbH [1) 17)]	Mannheim	100.00		EUR	1 634.20	– 4.80
LBBW Asset Management (Ireland) plc [14)]	Dublin 2, Ireland	100.00		EUR	9 298.00	– 6 963.00
LBBW Equity Partners GmbH & Co. KG [8)]	Munich	100.00		EUR	1 656.03	– 15.90
LBBW Equity Partners Verwaltungs GmbH [8)]	Munich	100.00		EUR	15.08	– 4.39
LBBW Gastro Event GmbH [4) 17)]	Stuttgart	100.00		EUR	130.00	0.00
LBBW Grundstücksverwaltungsgesellschaft mbH [4) 17)]	Stuttgart	100.00		EUR	25.99	0.00
LBBW Grundstücksverwaltungsgesellschaft mbH & Co. KG Objekt Stiftstraße Stuttgart [17)]	Stuttgart	100.00		EUR	6 200.74	– 12.34
LBBW Grundstücksverwaltungsgesellschaft mbH & Co. KG Objekt Am Hauptbahnhof Stuttgart [17)]	Stuttgart	100.00		EUR	– 41 343.10	574.69
LBBW GVZ Entwicklungsgesellschaft Leipzig mbH [17)]	Leipzig	100.00		EUR	2 438.18	130.88
LBBW México [2) 17)]	México, Mexico	100.00		MXN	2 612.32	371.85
LBBW Pensionsmanagement GmbH [4) 17)]	Stuttgart	100.00		EUR	25.00	0.00
LBBW Repräsentanz São Paulo Ltda. [2) 17)]	Itaim-Bibi/São Paulo, Brazil	100.00		BRL	163.31	6.24
LBBW (Schweiz) AG [17)]	Zurich, Switzerland	100.00		CHF	12 090.77	136.71
LBBW Trust GmbH i. L. [17)]	Stuttgart	100.00		EUR	2 809.10	10.64
LBBW Verwaltungsgesellschaft Leipzig mbH [1) 17)]	Leipzig	100.00		EUR	13.11	– 9.40
LBBW Verwaltungsgesellschaft Leipzig mbH & Co. Parking KG [17)]	Leipzig	100.00		EUR	294.23	216.05
LBBW Verwaltungsgesellschaft Leipzig mbH & Co. REKIM KG [17)]	Leipzig	100.00		EUR	8 327.38	65.94
LEG Osiris 4 GmbH [1) 17)]	Stuttgart	100.00		EUR	35.46	– 0.57
LEG Osiris 5 GmbH [1) 17)]	Stuttgart	100.00		EUR	20.14	– 0.68
LEG Verwaltungsgesellschaft 4 mbH [1) 17)]	Stuttgart	100.00		EUR	27.66	0.65
LG Grundstücksanlagen-Gesellschaft mbH [17)]	Stuttgart	100.00		EUR	25.64	– 5.37
LG Grundstücksanlagen-Gesellschaft mbH & Co. KG – Immobilienverwaltung – [17)]	Stuttgart	100.00		EUR	23 888.50	24 076.62
LGZ-Anlagen-Gesellschaft mbH [4) 17)]	Mainz	100.00		EUR	110.00	0.00
L-Immobilien GmbH [4) 17)]	Mannheim	100.00		EUR	180.95	0.00
LLC German Centre for Industry and Trade [17)]	Moscow, Russia	100.00		RUB	2 331.93	– 223.26
LRI Support Personenvereinigung [2)]	Luxembourg, Luxembourg	100.00			Not specified	Not specified
Mannheim O4 Verwaltungsgesellschaft mbH [1) 17)]	Stuttgart	100.00		EUR	26.89	0.19
MDL Mitteldeutsche Leasing GmbH [1) 17)]	Leipzig	100.00		EUR	– 20 782.90	– 138.90
Meridian Vermögensverwaltungsgesellschaft mbH i. L. [17)]	Mainz	100.00		EUR	81.65	– 5.17
MKL GmbH & Co. KG i. L. [1) 17)]	Mannheim	100.00		EUR	– 32.40	8.40
MLG GmbH & Co. KG i. L. [1) 17)]	Mannheim	100.00		EUR	– 8.74	– 7.62
MLP Leasing GmbH & Co. KG i. L. [1) 17)]	Mannheim	100.00		EUR	– 19.00	– 2.50
MLP Verwaltungs GmbH [1) 17)]	Mannheim	100.00		EUR	117.74	– 1.63
MLS GmbH & Co. KG [1) 17)]	Mannheim	100.00		EUR	– 272.12	861.94
MMV-Mittelrheinische Leasing GmbH [1) 4a) 17)]	Koblenz	100.00		EUR	26.43	0.00
Mogon Vermögensverwaltungs GmbH i. L. [17)]	Mainz	100.00		EUR	149.22	0.00
Pollux Vierte Beteiligungsgesellschaft mbH [17)]	Stuttgart	100.00		EUR	22.62	– 0.24
Radon Verwaltungs-GmbH [17)]	Stuttgart	100.00		EUR	20 746.35	797.17
Remseck Grundstücksverwaltungsgesellschaft mbH in Stuttgart [1) 4a) 17)]	Stuttgart	100.00		EUR	36 476.81	0.00
Rhenus Mobilien GmbH & Co. KG [1) 17)]	Holzwickede		51.00	EUR	250.00	0.00
Rhenus Mobilien II GmbH & Co. KG [1) 17)]	Holzwickede		51.00	EUR	340.79	0.00
Rhin-Neckar S. A. [17)]	Munsbach, Luxembourg	100.00		EUR	304.54	83.93
Sachsen LB FIRKO Betreuungs GmbH & Co. Windpark Reichenbach KG [17)]	Leipzig	95.77		EUR	1 013.30	327.96

Name	Place of business	Share of capital in %	Non-prop. voting rights in %	Currency	Equity EUR th.	Result EUR th.
Sachsen V.C. GmbH & Co. KG [1) 17)]	Leipzig	75.19		EUR	3 927.35	–698.51
Sachsen V.C. Verwaltungsgesellschaft mbH [1) 17)]	Leipzig	100.00		EUR	18.22	–9.08
SachsenFonds International Equity Holding I GmbH [1) 17)]	Aschheim-Dornach	100.00		EUR	4 470.38	1 416.31
SachsenFonds International Equity I GmbH & Co. KG [1) 17)]	Leipzig	96.15		EUR	11 601.22	1 901.12
SBF Sächsische Beteiligungsfonds GmbH [1) 17)]	Leipzig	100.00		EUR	–101.17	–29.23
Schiffsfinanzierungsgesellschaft Danubia 1 GmbH i. L. [1) 17)]	Basle, Switzerland	100.00		CHF	213.23	–13.56
Schiffshaltergesellschaft Albia 1 GmbH i. L. [1) 22) 27)]	Basle, Switzerland	100.00		CHF	337.06	–1.35
Schiffshaltergesellschaft Moenum 1 GmbH i. L. [1) 22) 27)]	Basle, Switzerland	100.00		CHF	337.13	–1.24
Schmidt W & K Leasing GmbH & Co. KG i. L. [1) 20)]	Mannheim	100.00		EUR	–47.22	–5.22
SDD Holding GmbH [1) 8)]	Stuttgart	100.00		EUR	–3 179.23	–200.50
SDT Stanz- und Dämmtechnik GmbH [1) 4a) 17)]	Berga	100.00		EUR	138.40	0.00
SKH Beteiligungs Holding GmbH [17)]	Stuttgart	100.00		EUR	–2 529.44	–40.81
SL Bayern Verwaltungs GmbH [1)]	Mannheim	100.00		EUR	1 014.51	–9.70
SL Bremen Verwaltungs GmbH [1) 17)]	Mannheim	100.00		EUR	1 758.60	225.70
SL BW Verwaltungs GmbH [1) 17)]	Mannheim	100.00		EUR	1 056.90	54.80
SL Düsseldorf Verwaltungs GmbH [1) 17)]	Mannheim	100.00		EUR	561.22	39.23
SL ENERCON Verwaltungs GmbH i. L. [1) 17)]	Mannheim	100.00		EUR	10.70	–3.78
SL FINANCIAL MEXICO, S. A. DE C.V., SOFOM, E. N. R. [1)]	Col. Lomas de Santa Fe, Mexico	100.00		MXN	380.99	80.42
SL Financial Services Corporation [1) 17)]	Norwalk, USA	100.00		USD	–2 772.79	–0.46
SL Mobilien-Leasing GmbH & Co. ENERCON KG [1) 17)]	Mannheim		80.00	EUR	29 133.29	2 880.70
SL Mobilien-Leasing GmbH & Co. Hafis KG [1) 17)]	Mannheim		90.00	EUR	2 026.10	10.90
SL Nordlease GmbH & Co. KG [1) 17)]	Mannheim		60.00	EUR	–2 910.08	833.44
SL Operating Services GmbH i. L. [1) 17)]	Mannheim	100.00		EUR	70.81	–8.47
SL Rail Services GmbH i. L. [1) 17)]	Mannheim	100.00		EUR	12.21	3.08
SL RheinMainSaar Verwaltungs GmbH [1)]	Mannheim	100.00		EUR	510.26	–2.47
SL Schleswig-Holstein Verwaltungs GmbH [1) 17)]	Mannheim	100.00		EUR	126.56	3.85
SL Ventus GmbH & Co. KG [1) 17)]	Mannheim	100.00		EUR	–745.22	960.05
SLKS GmbH & Co. KG [1) 17)]	Stuttgart	100.00		EUR	4 958.82	3 415.97
SLN Maschinen Leasing GmbH & Co. OHG [1) 17)]	Stuttgart		75.00	EUR	–269.19	–310.87
SLP Mobilien-Leasing GmbH & Co. OHG [1) 17)]	Mannheim		75.00	EUR	989.46	233.21
SPI SüdProject International GmbH i. L. [12)]	Stuttgart	100.00		EUR	5 121.75	22.09
Städtische Pfandleihanstalt Stuttgart Aktiengesellschaft, Gemeinnützige Kreditanstalt [17)]	Stuttgart	100.00		EUR	5 929.47	374.36
Steelcase Leasing GmbH & Co. KG [1) 17)]	Mannheim	100.00		EUR	252.24	–13.19
Stuttgarter Aufbau Bau- und Verwaltungs-Gesellschaft mbH [4) 17)]	Stuttgart	100.00		EUR	153.39	0.00
Süd Mobilien-Leasing GmbH [1) 4a)]	Stuttgart	100.00		EUR	28.28	0.00
Süddeutsche Allgemeine Finanz- und Wirtschaftsgesellschaft mbH [1) 4a) 17)]	Mannheim	100.00		EUR	511.29	0.00
SüdImmobilien GmbH [4) 17)]	Mannheim	100.00		EUR	2 574.87	0.00
SüdLeasing Beteiligungsgesellschaft P GmbH & Co. KG i. L. [1) 17)]	Mannheim	100.00		EUR	–58.29	0.00
SüdLeasing d.o.o. Zagreb i. L. [1) 17)]	Zagreb, Croatia	100.00		HRK	1 499.67	–60.98
SüdLeasing Kft. [1) 17)]	Szekszard, Hungary	100.00		HUF	334.13	–472.96
SüdLeasing s.r.o. (Prag) [1) 3a)]	Prague 1, Czech Republic	100.00		CZK	1 266.66	475.52
SüdLeasing Structured Finance GmbH i. L. [1) 17)]	Mannheim		100.00	EUR	0.00	0.00
SüdLeasing Suisse AG [1) 3a)]	Unterengstringen, Switzerland	100.00		CHF	17 820.60	–9.10
SÜDRENTING ESPANA, S.A. [1)]	Barcelona, Spain	100.00		EUR	19 857.45	148.54
SuedLeasing Romania IFN S.A. i. L. [1) 17)]	Bucharest, Romania	100.00		RON	847.55	–28.25
Tacita Mobilien-Leasing GmbH i. L. [1) 17)]	Mannheim	100.00		EUR	12.20	–3.00
Tamaris Mobilien-Leasing GmbH i. L. [1) 23) 27)]	Mannheim	100.00		EUR	16.91	2.10
Technologiegründerfonds Sachsen Verwaltung GmbH [1) 17)]	Leipzig	100.00		EUR	20.25	–3.21
Thömen Leasing GmbH & Co. KG i. L. [1) 17)]	Mannheim		75.00	EUR	1 086.00	65.50
Truck Trailer Leasing GmbH & Co. KG i. L. [1) 17)]	Mannheim		60.00	EUR	–5.08	–9.69
Wachstumsfonds Mittelstand Sachsen Verwaltung GmbH [1) 17)]	Leipzig	100.00		EUR	25.35	–7.43
WM Mobilien-Leasing GmbH & Co. KG [1) 17)]	Mannheim		75.00	EUR	1 616.17	892.47
Yankee Properties II LLC	Wilmington, Delaware, USA		100.00		Not specified	Not specified
Yankee Properties LLC [17)]	Wilmington, Delaware, USA	100.00		USD	8 906.97	1 038.44
YOZMA III GmbH & Co. KG [1) 17)]	Munich	77.14		USD	5 398.82	2 878.62

Name	Place of business	Share of capital in %	Non-prop. voting rights in %	Cur-rency	Equity EUR th.	Result EUR th.
Zenon Mobilien-Leasing GmbH [1]	Mannheim	100.00		EUR	398.84	45.90
Zweite Karl-Scharnagl-Ring Immobilien Verwaltung GmbH [1,17]	Munich	100.00		EUR	31.70	1.27
1.2. Subsidiaries not included, no consolidation (SIC 12)						
AROSA FUNDING LIMITED, Serie 2006-10 [17]	St. Helier, Jersey, Great Britain			EUR	0.00	0.00
AROSA FUNDING LIMITED, Serie 2007-4 [17]	St. Helier, Jersey, Great Britain			EUR	0.00	0.00
ASPEN Lucian Ltd. [17]	George Town, Cayman Islands			EUR	0.00	0.00
Cairn Company Jersey No. 6 Limited [17]	St. Helier, Jersey, Great Britain			EUR	0.00	0.00
Cloverie Public Limited Company [17]	Dublin 1, Ireland			EUR	0.00	0.00
HG ABS Fund plc	Dublin 1, Ireland	100.00	0.00		Not specified	Not specified
Hirschgarten GÜ GmbH & Co. KG [1,17]	Oberhaching	45.00	50.00	EUR	126.55	–17.88
Kopal Grundstücksverwaltungsgesellschaft mbH & Co. Objekt Löhr's Carré OHG [17]	Mainz	94.00	24.00	EUR	–12 447.57	613.87
LBBW Pro-Fund Absolute Return Rates	Stuttgart				Not specified	Not specified
Mainau Funding Ltd. [8]	Dublin 2, Ireland			EUR	10.75	1.50
M-Korb Funding No.1 Ltd. [8]	Dublin 2, Ireland			EUR	–18 975.47	–402.63
Peter Pike Funding LLC/Rathlin Loan Ltd. [8]	Dublin 2, Ireland			EUR	0.00	0.00
Platino S. A. [17]	Luxembourg, Luxembourg			EUR	60.00	35.27
S-Fix 1 GmbH [17]	Frankfurt			EUR	26.27	1.18
Weinberg Capital LLC	Wilmington, Delaware, USA				Not specified	Not specified
Weinberg Capital Ltd. [8]	Dublin 2, Ireland			EUR	38.21	36.46
Weinberg Funding Ltd. [17]	St. Helier, Jersey, Great Britain			EUR	5.05	0.00
Xelo Plc (früher Xelo V Plc) [17]	Dublin 2, Ireland			EUR	0.00	0.00
2. Joint ventures not accounted for using the equity method						
Aaron Grundstücksverwaltungsgesellschaft mbH [1,17]	Oberursel	50.00		EUR	–2 051.65	–1 350.53
Bietigheimer Wohnungsprivatisierungsgesellschaft mbH [17]	Bietigheim-Bissingen	50.00		EUR	13 276.86	1 138.55
Dresden Fonds GmbH [1,17]	Dresden	50.05		EUR	5 065.98	591.20
German Centre for Industry and Trade India Holding-GmbH [1,17]	Munich	50.00		EUR	2 309.94	–155.04
LBBW Immobilien Verwaltung GmbH [1,17]	Stuttgart	50.00		EUR	35.04	–4.94
MIG Immobiliengesellschaft mbH i. L. [16,27]	Mainz	36.36		EUR	33.14	6 755.42
Residenzpost Planen + Bauen GmbH & Co. KG [1,17]	Munich	50.00		EUR	–1.21	–2.85
Residenzpost Planen + Bauen Verwaltung GmbH [1,17]	Munich	50.00		EUR	8.18	–3.99
RN Beteiligungs-GmbH i. L. [17]	Stuttgart	50.00		EUR	1 290.09	–44.78
SachsenFonds Immobilien GmbH [1,17]	Aschheim-Dornach	49.00		EUR	59.20	–559.21
SHS Gesellschaft für Beteiligungen mbH & Co. Mittelstand KG [1,17]	Tübingen	75.02		EUR	4 833.00	340.00
SHS Venture Capital GmbH & Co. KG [1,17]	Tübingen	95.45		EUR	1 323.00	–296.00
SüdLeasing GUS Financial Holding GmbH [1,17]	Stuttgart	50.00		EUR	21 657.55	–112.40
3. Associates not accounted for using the equity method						
Abrosa Grundstücksverwaltungsgesellschaft mbH & Co. Objekt Sachsen I KG [17]	Wiesbaden, Mz-Kastel	100.00	50.00	EUR	–3 204.28	264.39
Alida Grundstücksverwaltungsgesellschaft mbH & Co. Vermietungs-KG [1,17]	Pullach	99.89	50.00	EUR	2 821.27	2 438.19
B+S Card Service GmbH [24]	Frankfurt a. M.	25.10		EUR	20 775.55	3 350.57
Bubbles and Beyond GmbH [1,17]	Leipzig	27.50		EUR	105.00	–67.00
Cäcilienpark am Neckar GbR [1,17]	Heilbronn	33.33		EUR	1 932.53	1 035.54
CheckMobile GmbH – The Process Solution Company [1,17]	Stuttgart	41.13		EUR	0.00	–681.00
Corporateworld Managementgesellschaft für Buchungs- und Abrechnungssysteme mbH i. L. [1,21]	Hamburg	22.47		EUR	241.00	220.00
Cortex Biophysik GmbH [1,17]	Leipzig	47.70		EUR	–770.16	142.24
Doughty Hanson & Co. Funds III Partnership No.15 [1,17]	London, Great Britain	21.74		USD	8 954.88	–18.34
Egerland Lease GmbH & Co. KG [1,17]	Mannheim		50.00	EUR	1 615.54	266.13
FEAG GmbH [1,17]	Forchheim	20.00		EUR	8 472.06	1 401.75
GLB-Verwaltungs-GmbH [17]	Frankfurt a. M.	30.00		EUR	39.44	2.62

Name	Place of business	Share of capital in %	Non-prop. voting rights in %	Currency	Equity EUR th.	Result EUR th.
Global Teleport GmbH i. L. [1) 17)]	Leipzig	21.42		EUR	–2 261.03	7.24
Grundstücks-, Vermögens- und Verwaltungs-GbR Nr. 33 Leinfelden-Echterdingen/Stuttgart-Möhringen [1) 17)]	Stuttgart	23.28		EUR	54 261.75	–1 426.07
Grundstücks-, Vermögens- und Verwaltungs-GbR Nr. 34 Wolfstor 2, Esslingen [1) 17)]	Stuttgart	26.27		EUR	10 696.74	390.91
Grundstücks-, Vermögens- und Verwaltungs-GbR Nr. 36 Stuttgart/Leinfelden-Echterdingen [1) 17)]	Stuttgart	23.17		EUR	33 865.94	–451.38
Grundstücks-, Vermögens- und Verwaltungs-GbR Nr. 38 Stuttgart-Filderstadt [1) 17)]	Stuttgart	20.05		EUR	28 633.03	–543.20
Grundstücks-, Vermögens- und Verwaltungs-GbR Nr. 39 Stuttgart-Fellbach [1) 17)]	Stuttgart	37.63		EUR	27 788.41	–350.10
Grundstücks-, Vermögens- und Verwaltungs-GbR Nr. 40 Ludwigsburg »Am Schloßpark« [1) 17)]	Stuttgart	37.76		EUR	28 332.42	331.30
GUMES Verwaltung GmbH & Co. Objekt Rostock KG [17)]	Pullach	49.50	25.00	EUR	25.56	0.39
HM Grundstücks GmbH & Co. KG i. L. [1) 17)]	Leipzig	49.00		EUR	–0.01	Not specified
Keßler Real Estate Solutions GmbH [1) 17)]	Leipzig	27.97		EUR	282.99	122.06
Kreditgarantiegemeinschaft in Baden-Württemberg Verwaltungs-GmbH [17)]	Stuttgart	20.00		EUR	1 022.58	0.00
LIVIDA MOLARIS Grundstücks-Vermietungsgesellschaft mbH & Co. Landesfunkhaus Erfurt KG [17)]	Erfurt	99.77	24.00	EUR	–12 129.36	545.31
M Cap Finance Deutsche Mezzanine Fonds Zweite GmbH & Co. KG [1) 17)]	Leipzig	49.75		EUR	36 308.21	3 696.13
Mittelständische Beteiligungsgesellschaft Sachsen mbH [17)]	Dresden	25.27		EUR	32 561.68	2 507.96
MOLWANKUM Vermietungsgesellschaft mbH & Co. Objekt Landkreis Hildburghausen KG [17)]	Düsseldorf	94.00	49.00	EUR	–1 157.11	337.46
MSC Investoren GmbH [1) 17)]	Stutensee	37.50		EUR	117 652.91	–2 554.35
pe Diagnostik GmbH i. L. [1) 5)]	Leipzig	30.06		EUR	–440.00	–45.00
Prime 2006-1 Funding L.P. [12)]	St. Helier, Jersey, Great Britain	47.50		EUR	–1 264.77	–3 035.21
RESprotect GmbH [1) 17)]	Dresden	32.80		EUR	–1 185.96	–502.99
Rhein-Neckar Wohnwerte Beteiligungs-Unternehmergesellschaft (haftungsbeschränkt) [1) 17)]	Heidelberg	33.33		EUR	–0.31	–0.70
Rhein-Neckar Wohnwerte Projekt-Unternehmergesellschaft (haftungsbeschränkt) & Co. KG [1) 17)]	Heidelberg	33.33		EUR	–493.01	–181.91
Ritterwand Metall-Systembau Beteiligungs GmbH [1) 17)]	Nufringen	49.97		EUR	6 617.78	1 036.75
Siedlungswerk gemeinnützige Gesellschaft für Wohnungs- und Städtebau mbH [17)]	Stuttgart	25.00		EUR	201 145.30	7 513.23
SLB Leasing-Fonds GmbH & Co. Portos KG i. L. [1) 13)]	Pöcking	35.12		EUR	31 890.98	25 547.45
Stollmann Entwicklungs- und Vertriebs GmbH [1) 17)]	Hamburg	29.00		EUR	1 801.77	696.74
svt Holding GmbH [1) 17)]	Seevetal	25.00	27.78	EUR	8 896.00	2 163.00
TC Objekt Bonn Beteiligungs-GmbH [1) 17)]	Soest	25.00		EUR	22.75	–2.25
TC Objekt Darmstadt Beteiligungs-GmbH [1) 17)]	Soest	25.00		EUR	22.87	–2.13
TC Objekt Münster Nord Beteiligungs-GmbH [1) 17)]	Soest	25.00		EUR	22.63	–2.37
TC Objekt Münster Süd Beteiligungs-GmbH [1) 17)]	Soest	25.00		EUR	22.55	–2.45
Technologiegründerfonds Sachsen Holding GmbH & Co. KG [1) 17)]	Leipzig	0.00	100.00	EUR	0.00	0.00
Technologiegründerfonds Sachsen Initiatoren GmbH & Co. KG [1) 17)]	Leipzig	25.00		EUR	2.47	–0.24
Technologiegründerfonds Sachsen Management GmbH & Co. KG [1) 17)]	Leipzig	25.00		EUR	4.00	1 063.62
Technologiegründerfonds Sachsen Seed GmbH & Co. KG [1) 17)]	Leipzig	3.34		EUR	4 180.27	1 530.62
Technologiegründerfonds Sachsen Start up GmbH & Co. KG [1) 17)]	Leipzig	10.83		EUR	7 182.96	–3 988.53
Viola Grundstücksverwaltungs-GmbH & Co. Verpachtungs KG [17)]	Pullach	99.41	50.00	EUR	2 674.67	653.72
Wachstumsfonds Mittelstand Sachsen GmbH & Co. KG [1) 17)]	Leipzig	27.55		EUR	25 003.38	2 161.85
Wachstumsfonds Mittelstand Sachsen Initiatoren GmbH & Co. KG [1) 17)]	Leipzig	25.00		EUR	0.57	–0.25
Wachstumsfonds Mittelstand Sachsen Management GmbH & Co. KG [1) 17)]	Leipzig	25.00		EUR	3.00	592.56
Wachstumsfonds Mittelstand Sachsen Plus GmbH & Co. KG [1) 19) 26)]	Leipzig	12.72	13.72	EUR	602.00	Not specified
Wolff & Müller Wohnbau GmbH & Co. Objekt Fürth KG [17)]	Pullach	5.00	25.00	EUR	–1 570.33	73.70
4. Investments with a capital share of 20% and more						
Bürgschaftsbank Sachsen GmbH [17)]	Dresden	27.96	18.44	EUR	30 574.18	1 954.25
Candover 2001 GmbH & Co. KG [1) 17)]	Frankfurt a. M.	25.64		EUR	5 434.58	561.52

Name	Place of business	Share of capital in %	Non-prop. voting rights in %	Cur-rency	Equity EUR th.	Result EUR th.
Dr. Gubelt Immobilien Vermietungs-Gesellschaft mbH & Co. Objekt Feuerwache Dresden KG [17]	Düsseldorf	90.00	15.00	EUR	– 4 191.92	123.21
FP Lux Investments S.A. SICAV-SIF [1]	Luxembourg, Luxembourg	28.55	15.15		Not specified	Not specified
Gaschler Fachmarktzentrum Wolfstein GmbH & Co. KG [1) 17]	Hergatz	20.00		EUR	0.00	0.00
GLB GmbH & Co. OHG [17]	Frankfurt a. M.	30.05		EUR	812.90	92 038.09
Helmut Fischer GmbH i. L. [1]	Talheim	48.35	0.00		Not specified	Not specified
Humboldt Multi Invest B S.C.A., SICAV-FIS [2]	Luxembourg, Luxembourg	100.00			Not specified	Not specified
INULA Grundstücks-Verwaltungsgesellschaft mbH & Co. KG [17]	Grünwald	80.00	18.25	EUR	– 37 220.78	2 554.91
Korin Grundstücksgesellschaft mbH & Co. Projekt 19 KG [1) 17]	Grünwald	80.00	19.00	EUR	162.00	87.37
LBBW Immobilien Landsiedlung GmbH [1) 17]	Stuttgart	85.97	85.67	EUR	63 033.01	141.93
LIVIDA MOLARIS Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt Polizei Nordhausen KG [17]	Erfurt	100.00	15.00	EUR	– 6 403.71	367.40
LUTEA MOLARIS Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt Flöha KG [17]	Berlin	100.00	15.00	EUR	– 5 029.27	565.86
MBG Mittelständische Beteiligungsgesellschaft Rheinland-Pfalz mbH [17]	Mainz	21.74		EUR	8 923.30	1 016.84
Palmsche Park GbR Esslingen [1) 17]	Stuttgart	92.78	50.00	EUR	– 486.69	– 486.69
Paramount Group Real Estate Fund I, L.P. [1) 17]	Wilmington, Delaware, USA	29.13	28.29	USD	252 746.80	– 7 525.76
Paramount Group Real Estate Fund II, L.P. [1) 17]	Wilmington, Delaware, USA	29.13	28.29	USD	114 098.79	339.32
Paramount Group Real Estate Fund V (Core) [1) 17]	Wilmington, Delaware, USA	24.51	4.99	USD	108 497.09	– 1 375.17
5. Investments in major corporations with a share of voting rights of at least 5 % pursuant to section 340a HGB						
Clean Car AG [1) 12]	Meerbusch	15.00		EUR	19 227.68	3 031.76
Deutscher Sparkassen Verlag GmbH [17]	Stuttgart	8.11		EUR	122 649.00	13 686.00
HSBC Trinkaus & Burkhardt AG [17]	Düsseldorf	18.66		EUR	1 133 345.16	102 869.23
Imagelinx plc [1) 17]	Kirkby-in-Ashfield, Nottinghamshire, Great Britain	7.46		GBP	9 305.45	– 505.01
Südwestdeutsche Salzwerke AG [17]	Heilbronn	6.40		EUR	88 395.00	12 630.00
VITA 34 AG [1) 17]	Leipzig	13.84		EUR	9 780.21	1 186.20
Württembergische Lebensversicherung AG [17]	Stuttgart	8.48		EUR	232 530.00	45 000.00

1) Held indirectly.
2) Including shares held indirectly.
3) A letter of comfort exists on the part of LBBW for the duration of the equity investment.
3a) A letter of comfort exists on the part of a Group subsidiary for the duration of the equity investment.
4) A profit transfer and/or control agreement has been concluded with the company.
4a) A profit transfer and/or control agreement has been concluded with another company.
5) Data available only as of 31 December 2005.
6) Data available only as of 31 December 2008.
7) Data available only as of 31 December 2009.
8) Data available only as of 31 December 2010.
9) Data available only as of 30 April 2011.
10) Data available only as of 30 June 2011.
11) Data available only as of 31 July 2011.
12) Data available only as of 30 September 2011.
13) Data available only as of 17 November 2011.
14) Data available only as of 30 November 2011.
15) Data available only as of 13 December 2011.
16) Data available only as of 16 December 2011.
17) Data available only as of 31 December 2011.
18) Data available only as of 1 January 2012.
19) Data available only as of 31 January 2012.
20) Data available only as of 31 March 2012.
21) Data available only as of 30 April 2012.
22) Data available only as of 31 May 2012.
23) Data available only as of 24 September 2012.
24) Data available only as of 30 September 2012.
25) Data available only as of 26 November 2012.
26) Opening balance sheet (newly founded company).
27) Closing liquidation balance sheet.
28) Capital and share of voting rights pursuant to HGB/IFRS 45 % for regulatory purposes 40 % (UBBG).

37. Positions held.

Offices held by legal representatives of LBBW (Bank) and members of the AidA Board of Managing Directors[1)] on statutory supervisory boards and similar supervisory bodies of large companies and major banks, as well as offices held by employees of LBBW (Bank) on statutory supervisory boards of large companies and banks are listed below:

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
Allgaier Werke GmbH, Uhingen	Member of the Supervisory Board	Hans-Jörg Vetter
B+S Card Service GmbH, Frankfurt am Main	Member of the Supervisory Board	Rudolf Zipf up to 31 March 2012
	Member of the Supervisory Board	Michael Horn since 23 May 2012
Bankhaus Ellwanger & Geiger KG, Stuttgart	Member of the Board of Directors	Michael Horn up to 2 August 2012
börse-Stuttgart AG, Stuttgart	Member of the Supervisory Board	Hans-Joachim Strüder
Bürgerliches Brauhaus Ravensburg-Lindau AG, Ravensburg	Deputy Chairman of the Supervisory Board	Prof. Harald R. Pfab up to 13 July 2012
Bürgschaftsbank Baden-Württemberg GmbH, Stuttgart	Member of the Supervisory Board	Claudia Diem up to 25 April 2012
	Member of the Supervisory Board	Jürgen Kugler
Bürgschaftsbank Sachsen GmbH, Dresden	Member of the Board of Directors	Prof. Harald R. Pfab
cellent AG, Stuttgart	Chairman of the Supervisory Board	Rudolf Zipf up to 15 March 2012
	Chairman of the Supervisory Board	Dr. Martin Setzer Member of the Supervisory Board since 1 July 2012 (Chairman since 23 July 2012)
	Deputy Chairman of the Supervisory Board	Andreas Zimber
	Deputy Chairman of the Supervisory Board	Thomas Zeler up to 15 March 2012
	Deputy Chairman of the Supervisory Board	Günter Mattinger Member of the Supervisory Board since 24 April 2012 (Deputy Chairman since 23 July 2012)
Deutscher Sparkassenverlag GmbH, Stuttgart	Member of the Supervisory Board	Hans-Jörg Vetter
European Commodity Clearing AG, Leipzig	Deputy Chairman of the Supervisory Board	Prof. Harald R. Pfab
Euwax AG, Stuttgart	Member of the Supervisory Board	Hans-Joachim Strüder
Grieshaber Logistik AG, Weingarten	Member of the Supervisory Board	Michael Horn
Herrenknecht AG, Schwanau	Chairman of the Supervisory Board	Hans-Jörg Vetter Member of the Supervisory Board since 11 January 2011 (Chairman since 24 September 2012)
HSBC Trinkaus & Burkhardt AG, Düsseldorf	Member of the Supervisory Board	Hans-Jörg Vetter
LBBW Asset Management Investmentgesellschaft mbH, Stuttgart	Chairman of the Supervisory Board	Hans-Joachim Strüder
	Deputy Chairman of the Supervisory Board	Dr. Peter M. Haid
	Member of the Supervisory Board	Helmut Dohmen
	Member of the Supervisory Board	Dr. Peter Merk
LBBW Bank CZ a.s., Prague	Chairman of the Supervisory Board	Michael Horn
	Member of the Supervisory Board	Ingo Mandt
	Member of the Supervisory Board	Andreas Fohrmann up to 29 February 2012
	Member of the Supervisory Board	Prof. Harald R. Pfab
	Member of the Supervisory Board	Anastasios Agathagelidis since 1 April 2012
LBBW Immobilien GmbH, Stuttgart	Chairman of the Supervisory Board	Hans-Jörg Vetter up to 28 March 2012
	Member of the Supervisory Board	Ingo Mandt up to 28 March 2012
	Member of the Supervisory Board	Rudolf Zipf up to 28 March 2012

1) The Managing Directors of BW-Bank, Sachsen Bank, and Rheinland-Pfalz Bank are designated Managing Directors of an »institution within the institution« (Anstalt in der Anstalt – AidA).

Company	Position	Incumbent
LBBW Luxemburg S.A., Luxembourg	Chairman of the Supervisory Board	Ingo Mandt
	Deputy Member of the Supervisory Board	Hans-Joachim Strüder
	Member of the Supervisory Board	Berthold Veil
LBBW (Schweiz) AG, Zurich	Chairman of the Board of Directors	Dr. Peter M. Haid
LHI Leasing GmbH, Pullach	Chairman of the Supervisory Board	Hans-Jörg Vetter
	Member of the Supervisory Board	Rudolf Zipf up to 31 March 2012
	Member of the Supervisory Board	Ingo Mandt
	Member of the Supervisory Board	Karl Manfred Lochner since 1 April 2012
MKB Mittelrheinische Bank GmbH, Koblenz	Chairman of the Supervisory Board	Karl Manfred Lochner since 1 April 2012
	Deputy Chairman of the Supervisory Board	Michael Horn up to 30 June 2012
	Deputy Chairman of the Supervisory Board	Ingo Mandt Supervisory Board Member since 1 April 2011 (Deputy Chairman since 14 September 2012)
	Member of the Supervisory Board	Stefan Zeidler since 1 July 2012
MMV-Leasing GmbH, Koblenz	Chairman of the Advisory Board	Karl Manfred Lochner since 1 April 2012
	Deputy Chairman of the Advisory Board	Michael Horn up to 30 June 2012
	Deputy Chairman of the Advisory Board	Ingo Mandt Member of the Advisory Board since 1 April 2011 (Deputy Chairman since 14 September 2012)
	Advisory Board	Stefan Zeidler since 1 July 2012
Schlossgartenbau AG, Stuttgart	Chairman of the Supervisory Board	Achim Kern
	Member of the Supervisory Board	Dieter Hildebrand
Schweizerische National-Versicherungs-Gesellschaft, Basel	Member of the Board of Directors	Hans-Hörg Vetter
Siedlungswerk Gemeinnützige Gesellschaft für Wohnungs- und Städtebau mbH, Stuttgart	Deputy Chairman of the Supervisory Board	Michael Horn
SOTRADA AG i. L., Stuttgart	Chairman of the Supervisory Board	Dr. Armin Brendle up to 11 April 2012
SüdFactoring GmbH, Stuttgart	Chairman of the Supervisory Board	Karl Manfred Lochner Member of the Supervisory Board since 1 January 2012 (Chairman since 12 March 2012)
	Deputy Chairman of the Supervisory Board	Ingo Mandt Member of the Supervisory Board since 1 January 2012 (Deputy Chairman since 8 February 2012)
	Member of the Supervisory Board	Norwin Graf Leutrum von Ertingen since 2 February 2012
SüdLeasing GmbH, Stuttgart	Chairman of the Supervisory Board	Karl Manfred Lochner Member of the Supervisory Board since 1 January 2012 (Chairman since 12 March 2012)
	Deputy Chairman of the Supervisory Board	Ingo Mandt Member of the Supervisory Board since 1 January 2012 (Deputy Chairman since 12 March 2012)
	Member of the Supervisory Board	Norwin Graf Leutrum von Ertingen since 2 February 2012
Universal-Investment-Gesellschaft mbH, Frankfurt am Main	Member of the Supervisory Board	Hans-Joachim Strüder
Vorarlberger Landes- und Hypothekenbank, Bregenz	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	Michael Horn from 15 February 2012 to 5 September 2012

38. Employees (annual averages).

	2012			2011		
	Male	Female	Total	Male	Female	Total
German headquarters/regional offices	4 533	4 868	9 400	4 774	5 068	9 842
Company officers	247	20	267	259	19	277
Other staff	4 286	4 848	9 133	4 516	5 049	9 565
Foreign branches	124	82	206	125	84	208
Company officers	4	0	4	6	0	6
Other staff	120	82	202	119	84	202
Representative offices	11	13	25	17	14	31
Company officers	0	0	0	0	0	0
Other staff	11	13	25	17	14	31
LBBW (Bank) total	**4 669**	**4 963**	**9 631**	**4 916**	**5 165**	**10 080**
For information purposes:						
Trainees	273	207	480	263	248	511

39. Total remuneration of the executive bodies.

In 2012 total remuneration for the Board of Managing Directors came to EUR 4 million, as in the previous year. Former members of the Board of Managing Directors and their surviving dependants received EUR 11 million (2011: EUR 10 million) in 2012. The Supervisory Board received fixed remuneration (including fees per meeting) of EUR 1 million in 2012 (2011: EUR 1 million).

Provisions for pensions for former members of the Board of Managing Directors and their surviving dependants were formed for an amount of EUR 124 million (2011: EUR 120 million).

40. Advances and loans to and contingent liabilities assumed in favor of the executive bodies of LBBW (Bank) and their predecessors.

As at 31 December 2012 loans granted to members of the Board of Managing Directors and members of the Supervisory Board came to EUR 3 million (2011: EUR 4 million), with the Board of Managing Directors accounting for EUR 14 000 (2011: EUR 144 000). In addition, as in the previous year a guarantee in the amount of EUR 800 000 is currently in place for a member of the Supervisory Board.

Advances to members of the Board of Managing Directors came to EUR 22 000 (2011: EUR 0). No advances were made to members of the Supervisory Board as at the balance sheet date.

LBBW (Bank) Board of Managing Directors and Supervisory Board.

Board of Managing Directors.

Chairman.

HANS-JÖRG VETTER

Deputy Chairman.

MICHAEL HORN

Members.

KARL MANFRED LOCHNER

INGO MANDT

HANS-JOACHIM STRÜDER

RUDOLF ZIPF
(up to 31 March 2012)

Supervisory Board of LBBW.

Chairman.

HANS WAGENER
Auditor, tax consultant

Deputy Chairman.

DR. NILS SCHMID MdL
Deputy Minister-President,
Finance Minister of the State of Baden-Württemberg

Members.

HANS BAUER
Employee representative of
Landesbank Baden-Württemberg

HARALD COBLENZ
Employee representative of
Landesbank Baden-Württemberg

WOLFGANG DIETZ
Lord Mayor of the town of
Weil am Rhein

WALTER FRÖSCHLE
Employee representative of
Landesbank Baden-Württemberg

HELMUT HIMMELSBACH
Chairman of the Supervisory Board of
Südwestdeutsche Salzwerke AG

PROFESSOR DR. SC. TECHN. DIETER HUNDT
Chairman of the Supervisory Board of
Allgaier Werke GmbH

JENS JUNGBAUER
Employee representative of
Landesbank Baden-Württemberg

BETTINA KIES-HARTMANN
Employee representative of
Landesbank Baden-Württemberg

FRITZ KUHN
from 7 January 2013
Lord Mayor of the State Capital of Stuttgart

KLAUS-PETER MURAWSKI
State Secretary in the State Ministry of
Baden-Württemberg and Head of the State
Chancellery

GÜNTHER NOLLERT
Employee representative of
Landesbank Baden-Württemberg

DR. FRITZ OESTERLE
Attorney at law, law firm Oesterle

MARTIN PETERS
Managing Partner of the Eberspächer
Group

NORBERT H. QUACK
Attorney at law, notary,
law firm Quack Gutterer & Partner

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

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

PROFESSOR DR. WOLFGANG SCHUSTER
until 6 January 2013
Retired Lord Mayor of the State Capital
of Stuttgart

DR.-ING. HANS-JOCHEM STEIM
Chairman of the Supervisory Board of
Hugo Kern und Liebers GmbH & Co. KG

VOLKER WIRTH
Savings Bank Director, Chairman of the
Board of Managing Directors of Sparkasse
Singen-Radolfzell

NORBERT ZIPF
Employee representative of Landesbank
Baden-Württemberg

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, 26 March 2013

The Board of Managing Directors

HANS-JÖRG VETTER
Chairman

MICHAEL HORN
Deputy Chairman

KARL MANFRED LOCHNER

INGO MANDT

HANS-JOACHIM STRÜDER

Auditor's report.

»We have audited the annual financial statements – comprising the balance sheet, income statement and the notes to the financial statements – including the bookkeeping system, and the management report of the Landesbank Baden-Württemberg, Stuttgart, Karlsruhe, Mannheim, and Mainz (LBBW (Bank)) for the financial year from 1 January to 31 December 2012. The maintenance of the books and the preparation of the annual financial statements and management report in accordance with German commercial law are the responsibility of the LBBW's (Bank) 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 in accordance with section 317 of the German Commercial Code (Handelsgesetzbuch – HGB) and the German generally accepted standards for the audit of financial statements promulgated by the Institute of Auditors in Germany (Institut der Wirtschaftsprüfer – IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the assets, liabilities, financial position, and profit or loss 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 within the framework of the audit. When planning the audit, the effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the bookkeeping system, the annual financial statements and the management report, are examined primarily on a test basis. The audit includes a judgement of the accounting principles used and significant estimates made by the Board of Managing Directors of LBBW, 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 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 the German principles of proper accounting. The management report is consistent with the annual financial statements and as a whole provides a suitable view of LBBW's (Bank) position and adequately conveys the opportunities and risks of future development.«

Stuttgart, 27 March 2013

KPMG AG, Wirtschaftsprüfungsgesellschaft

KOCHOLL	**EISELE**
Wirtschaftsprüfer	Wirtschaftsprüfer