

# Financial Stability Board Report

as of June 30, 2011.

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# Financial Stability Board Report.

The Financial Stability Board (FSB) was established in 1999 at the initiative of the G7 to safeguard financial market stability on an international level. The idea behind the FSB (formerly the Financial Stability Forum - FSF) is the regular exchange of information and international cooperation between central banks, regulatory authorities and international financial institutions with the aim of ensuring functioning markets, creating transparency and reducing systemic risk. Germany is represented in this forum by Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin – Federal Financial Supervisory Authority) among other organizations.

In response to the financial market crisis, the FSB recommended extended disclosures on portfolios likely to be exposed to market disruptions. Although the disclosure of the information is currently voluntary, LBBW is fulfilling the main recommendations of the FSB by publishing this report.

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

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

# 1 The LBBW Group's Securitization Portfolio.

## 1.1 Preliminary Remarks on the Risk Shield.

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

A partial amount of the guarantee amounting to EUR 6.7 billion serves to secure a securitization portfolio (guarantee portfolio) with a currently outstanding nominal volume of EUR 11.5 billion as of June 30, 2011. LBBW bears the first loss on the guarantee portfolio up to an amount of EUR 1.9 billion. Losses beyond this amount will be absorbed by the guarantee. Any further losses arising after the guarantee has been utilized in full are borne by LBBW. LBBW has set aside appropriate provisions to cover the remaining first loss. As of June 30, 2011, the first loss was placed in full on the balance sheet.

The remaining EUR 6.0 billion of the guarantee covers loans granted by LBBW to the special-purpose entity Sealink (section 1.8).

## 1.2 Development of Securitization Portfolios and Customer Transactions.

LBBW's securitization portfolio (including the guarantee portfolio) features a volume of around EUR 17.1 billion\* as of June 30, 2011. This includes the George's Quay Funding I Ltd. vehicle and fund investments (LAAM funds) acquired from the former Sachsen LB. LBBW is also exposed to customer transactions amounting to EUR 2.2 billion via the ABCP vehicle Weinberg Capital Ltd.

The following sections describe the non-guaranteed portfolio (section 1.5) and the guaranteed portfolio (section 1.6) as well as customer transactions (section 2) with regard to their volume and ratings in selected asset classes.

### Development of the securitization portfolio and customer transactions year on year as of June 30, 2011.

Outstanding volume in EUR billion	Reporting date June 30, 2011	Absolute change over the previous period	Reporting date December 31, 2010	Absolute change over the previous period	Reporting date June 30, 2010
Total securitization	17.1	-3.9	21.0	-2.7	23.7
Customer transactions	2.2	0.1	2.1	0.1	2.0

Figures may be subject to rounding differences.

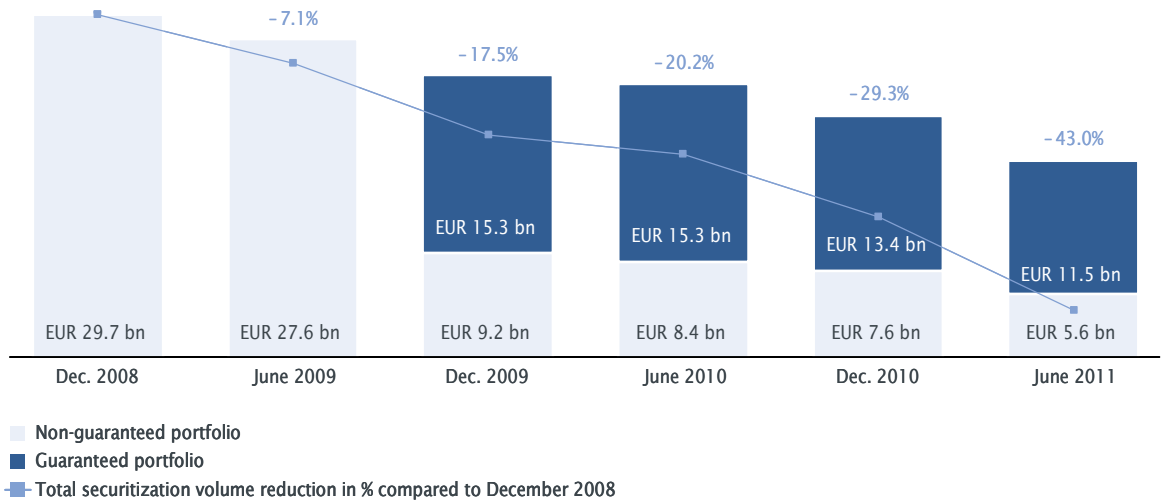
As such, the securitization portfolio has been continuously reduced by roughly EUR 3.9 billion from EUR 21.0 billion in December 31, 2010. The volume decline of approximately EUR 3.3 billion is a result of repayments, write-downs and sales (repayment effect). The remaining difference of around EUR 0.6 billion is a result of favorable exchange-rate trends (currency effect) which arose from an increase in the nominal exchange rate of EUR against the US dollar, yen and pound sterling. This resulted in an additional decline in the volume of assets denominated in a foreign currency.

The vast majority of the portfolio (some 74%) is characterized by securitization positions categorized as investment grade (rating class AAA to BBB). 28% of the exposure (amounting to EUR 4.8 billion) has the highest rating.

In a comparison with the first reporting period (December 2008), the overall securitization portfolio volume declined by EUR 12.6 billion (42.6 %). As such, LBBW systematically continues to pursue restructuring goals of gradually reducing risk through the orderly reduction of the securitization volume and opportunistic sales.

\* Statements concerning the risk situation below are based on the management approach.

**Development of the LBBW securitization portfolio volume for the period from December 2008 to June 2011.**



Figures may be subject to rounding differences.

The financial market crisis had led to a significant decline in market values in LBBW's securitization portfolio since 2007. The positive trend discernible over the last year of stabilizing average market prices continued in the period under review, although market liquidity being still only partly in evidence.

Customer transaction volumes rose again over 2010 by EUR 0.1 billion from EUR 2.1 billion to EUR 2.2 billion. Looking forward to the second half of 2011, LBBW plans to continue the successful expansion of its customer-driven business (see section 2).

## 1.3 Development of Equity and Income Statement Effects.

### Equity and income statement effects from the securitization portfolio in accordance with IFRS.<sup>1)</sup>

EUR million	Effects in Income <sup>2)</sup>			Effects in Equity <sup>3)</sup>
	June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010
Asset class				
CDO	30	37	71	60
RMBS	-49	45	23	60
CMBS	-17	26	11	8
Other ABS	28	44	23	9
<b>Total</b>	<b>-9</b>	<b>152</b>	<b>127</b>	<b>137</b>

1) Excluding proprietary trading

2) Recognized in income: change in income statement (P&L).

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

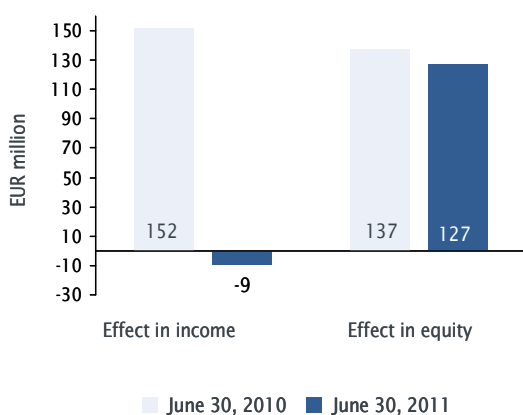
Figures may be subject to rounding differences.

All the securitized products are included in LBBW's consolidated interim financial statements for the first half of 2011 and are subject to ongoing market and risk assessment.

As of June 30, 2011, positive earnings contributions from favourable foreign exchange rate changes were more than offset by impairment expense, resulting in a negative earnings contribution of EUR -9 million in the income statement. The allocation to impairments chiefly arose in the RMBS and CMBS asset classes.

The aforementioned result recognized in income does not include the positive net interest contributions from amortized cost. The eased on equity of EUR 127 million as of the reporting date is chiefly due to the expiry of reclassified holdings in the individual asset classes; in this respect, CDO portfolios accounted for around 55%, RMBS and CMBS portfolios for a further 27% and others for 18%. In addition, fluctuation in market values and the recognition of impairments contributed to the change in the revaluation reserve.

### Equity and income statement effects year on year.



**Definitions:****Collateralized Debt Obligations (CDO):**

The term »CDO« covers transactions based on different types of receivables (underlying or collateral transactions). These essentially involve claims on companies, financial service providers (»trust preferred security«) and sovereigns. One special case is »CDO of ABS«, in which ABS transactions form the underlying transaction. These ABS transactions may include residential mortgage backed securities along with consumer loans, leasing receivables, commercial mortgage backed securities and CDOs.

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

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

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

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

**Rating:**

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

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

In view of the guarantee structure, the securitization portfolio is reported separately for the non-guaranteed and guaranteed sub-portfolios in the following chapters. The sub-categories of the asset classes (sub-asset classes), the respective distribution of ratings and changes to these are also analyzed in greater detail.



## 1.4 Assets of the Entire Securitization Portfolio.

The LBBW securitization portfolio amounting to EUR 17.1 billion (December 2010: EUR 21.0 billion) is presented on an aggregated basis for four product categories (asset classes) in the present report.

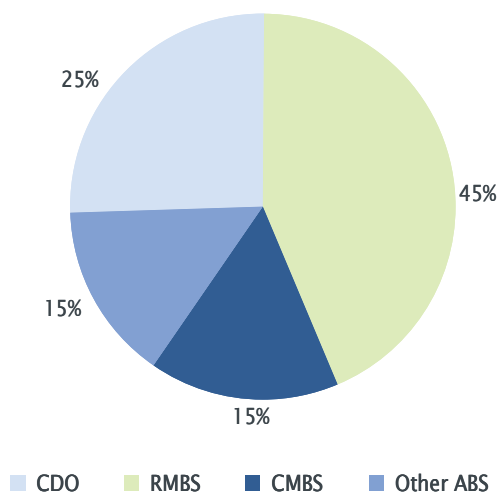
### Securitization portfolio - outstanding volume per asset class (outstanding volume EUR 17.1 billion).

Outstanding volume in EUR million as of June 30, 2011	AAA	AA	A	BBB	BB to B	CCC to C	D	NR	Total	
CDO	269	1,400	390	370	698	835	189	114	4,264	25.0%
RMBS	3,533	1,090	963	186	525	1,137	281	0	7,715	45.2%
CMBS	321	681	1,061	303	107	134	2	0	2,609	15.3%
Other ABS	686	644	389	417	149	74	28	107	2,494	14.6%
<b>Total investments</b>	<b>4,809</b>	<b>3,815</b>	<b>2,803</b>	<b>1,276</b>	<b>1,479</b>	<b>2,181</b>	<b>499</b>	<b>220</b>	<b>17,082</b>	<b>100.0%</b>
	28.2%	22.3%	16.4%	7.5%	8.7%	12.8%	2.9%	1.3%	100.0%	

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

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

### Securitization portfolio - relative asset class distribution (outstanding volume EUR 17.1 billion).



The two asset classes RMBS and CDO continued to constitute the largest shares of the portfolio. RMBS transactions account for EUR 7.7 billion (45%) and chiefly originate from Spain (26%), the United Kingdom (25%) and the United States (20%). The volume of CDO transactions comes to EUR 4.3 billion (25%).

The majority of CMBS transactions involve positions in the United Kingdom (50%) and Germany (19%). The asset class Other ABS most notably includes American student loans (19%) and American/UK credit card securitizations (10%) in addition to leases.

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

The nominal securitization volume not protected by the guarantee of the State of Baden-Württemberg dropped by 26% compared with December 31, 2010 to some EUR 5.6 billion. This decline was due to redemptions and write-downs of EUR 2.0 billion predominantly in the CDO (45%) and Other ABS (38%) asset classes. The higher nominal euro exchange rate during the reporting period likewise contributed to the reduction of the portfolio volume by way of moderate currency effects to the tune of EUR 53 million.

As was the case in the previous periods, the vast majority (EUR 5.2 billion, 94%) of the non-guaranteed portfolio volume is characterized by an investment-grade rating. The average rating level overall improved slightly during the reporting period.

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

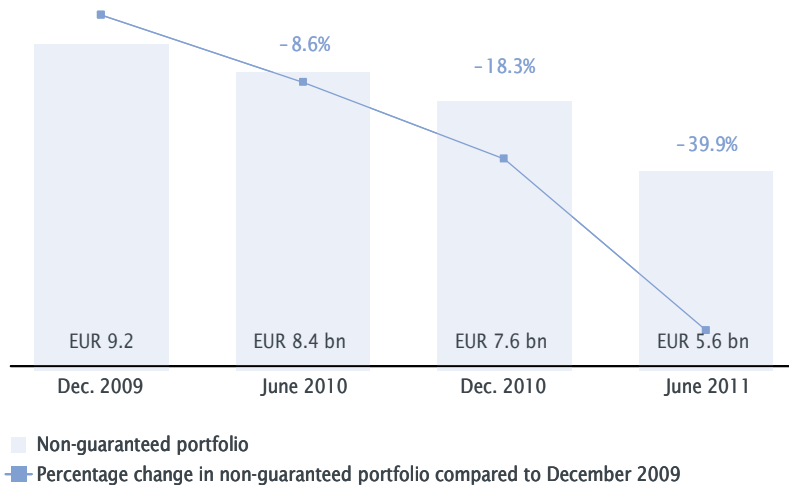
Outstanding volume in EUR million as of June 30, 2011	AAA	AA	A	BBB	BB to B	CCC to C	D	NR	Total	
CDO	91	510	141	124	104	27	0	5	1,002	18.0%
RMBS	2,294	432	120	85	132	1	0	0	3,064	55.2%
CMBS	22	122	84	20	23	0	0	0	271	4.9%
Other ABS	480	293	241	150	0	0	0	54	1,218	21.9%
<b>Total investments</b>	<b>2,887</b>	<b>1,357</b>	<b>585</b>	<b>379</b>	<b>259</b>	<b>28</b>	<b>0</b>	<b>59</b>	<b>5,555</b>	<b>100.0%</b>
	52.0%	24.4%	10.5%	6.8%	4.7%	0.5%	0.0%	1.1%	100.0%	

The lowest external rating was generally applied and mapped to S&P's rating scale. Figures may be subject to rounding differences.

With respect to regional diversification, it should be noted that non-guaranteed transactions are primarily concentrated in Europe (64%). The securitization volume attributable to the countries heavily affected by the debt crisis, namely Portugal, Italy, Ireland, Greece and Spain (peripheral countries) comes to EUR 1.7 billion (compared with EUR 1.9 billion as of December 31, 2010), of which EUR 1.2 billion is attributable to Spain. A detailed presentation of LBBW's exposure to the peripheral countries can be found in section 1.7.

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

**Development of the non-guaranteed portfolio volume for the period from December 2009 to June 2011.**



Figures may be subject to rounding differences.

The following section examines the three major asset classes in greater detail.

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

The CDO transactions in the non-guaranteed portfolio, amounting to EUR 1.0 billion (18%), are distributed heterogeneously across the various sub-asset classes. Of this figure, the largest volumes are attributable to CLOs backed by corporate loans of around EUR 0.7 billion (66%), and synthetic securitizations of EUR 0.3 billion (28%).

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

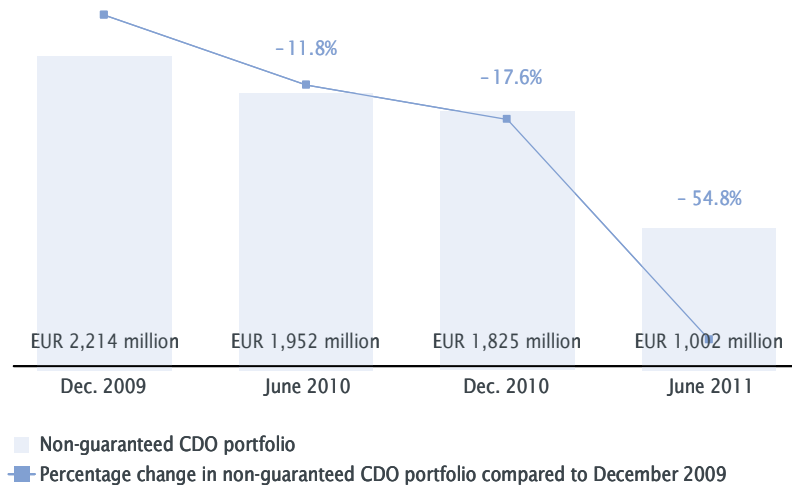
Outstanding volume in EUR million EUR as of June 30, 2011	AAA	AA	A	BBB	BB to B	CCC to C	D	NR	Total	
Sub-asset class										
CDO of ABS	0	0	0	5	22	0	0	0	27	2.7%
CLO	87	428	140	0	3	0	0	0	658	65.7%
Synthetic CDO	0	82	0	99	66	27	0	5	279	27.9%
Other CDO	4	0	0	20	13	0	0	0	37	3.7%
<b>Total CDO</b>	<b>91</b>	<b>510</b>	<b>141</b>	<b>124</b>	<b>104</b>	<b>27</b>	<b>0</b>	<b>5</b>	<b>1,002</b>	<b>100.0%</b>
	9.1%	50.9%	14.0%	12.3%	10.4%	2.7%	0.0%	0.5%	100.0%	

The lowest external rating was generally applied and mapped to S&P's rating scale. Figures may be subject to rounding differences.

With regard to the rating level, it should be noted that the majority of the product category, namely 86%, exhibits an investment grade rating. The average rating of the sub-portfolio in question improved primarily as a result of the sale of synthetic CDO and synthetic CDO of ABS (formerly BB to B and CCC to C ratings).

This is also reflected in the improved seniority structure. 66% of the CDO volume comprises most senior tranches and only 1.0% first-loss positions.

**Development of the non-guaranteed CDO portfolio volume for the period from December 2009 to June 2011.**



Figures may be subject to rounding differences.

The sub-portfolio under review is dominated by transactions issued in 2005 to 2007 (77%).

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

As of the reporting date, the volume of RMBS transactions in the non-guaranteed sub-portfolio amounted to around EUR 3.1 billion (55%) and is thus down by around EUR 0.4 billion (12%) compared with December 2010. The vast majority of the volume - both in total and in relation to the individual sub-asset classes - has the highest rating (AAA). A moderate volume of around EUR 133 million (4%) has a non-investment grade rating.

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

Outstanding volume in EUR million as of June 30, 2011	AAA	AA	A	BBB	BB to B	CCC to C	D	NR	Total	
Country/sub-asset class										
USA	1	2	2	6	1	1	0	0	13	0.4%
thereof: US Alt-A	1	2	0	6	0	0	0	0	9	69.2%
thereof: US Subprime	0	0	2	0	0	0	0	0	2	15.4%
UK	481	8	22	0	0	0	0	0	512	16.7%
thereof: UK Non-Conforming	85	8	0	0	0	0	0	0	94	18.3%
Spain	737	324	46	0	0	0	0	0	1,107	36.1%
Other	1,075	98	50	79	131	0	0	0	1,432	46.7%
<b>Total RMBS</b>	<b>2,294</b>	<b>432</b>	<b>120</b>	<b>85</b>	<b>132</b>	<b>1</b>	<b>0</b>	<b>0</b>	<b>3,064</b>	<b>100.0%</b>
	74.9%	14.1%	3.9%	2.8%	4.3%	0.0%	0.0%	0.0%	100.0%	

The lowest external rating was generally applied and mapped to S&P's rating scale.  
Percentages in »thereof« lines relate to the volume reported for the respective country.  
Figures may be subject to rounding differences.

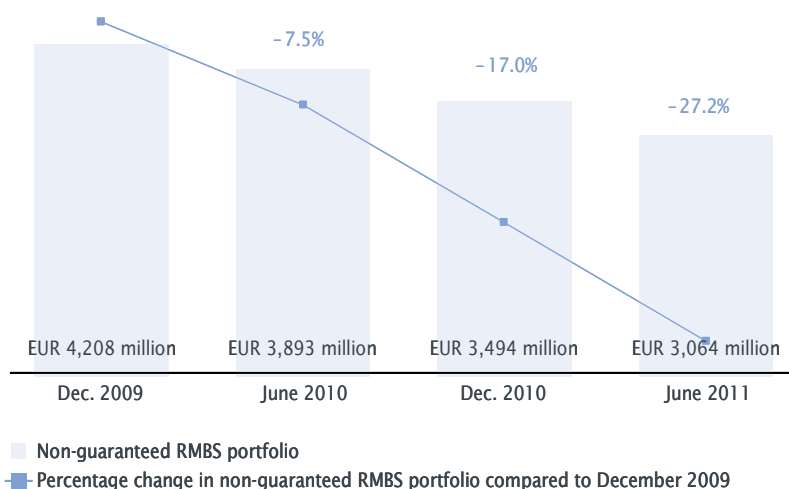
LBBW has only minor and diminishing exposure to the United States (EUR 13 million), particularly in the Alt-A and subprime segment, predominantly investments issued in 2003 and 2004.

In addition, nearly all of the UK investments have AAA ratings, with the greatest proportion issued in 2006 (62%).

The Spanish RMBS portfolio amounting to EUR 1.1 billion - mainly most senior positions (85%) issued in 2003 (16%) and 2006 (25%) - continues to constitute the greatest portion of the non-guaranteed RMBS portfolio (36%). These securities still predominantly have a very good rating (AAA).

Securities in the category Other RMBS mostly have investment grade ratings and are primarily attributable to European countries such as the Netherlands (27%) and Italy (6%). Compared with the previous report (December 2010), asset-backed securities from Greece with a volume of EUR 131 million (4%) migrated from BBB to the BB to B category.

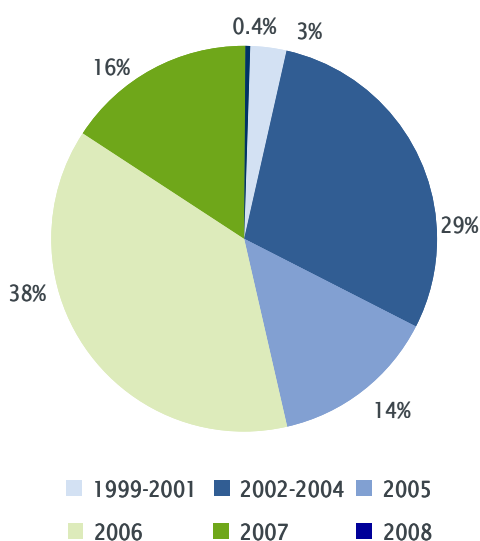
**Development of the non-guaranteed RMBS portfolio volume for the period from December 2009 to June 2011.**



Figures may be subject to rounding differences.

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

**Non-guaranteed RMBS portfolio distribution by year of issue** (outstanding amount EUR 3.1 billion).



The non-guaranteed RMBS portfolio has the largest volume for 2005-2007 (EUR 2.1 billion) and the smallest volume for 2008 (EUR 13 million).

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

The share of CMBS investments not covered by the guarantee issued by the State of Baden-Württemberg amounts to EUR 271 million and is chiefly backed by real estate used as office and retail buildings in Europe.

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

Outstanding volume in EUR million June 30, 2011		AAA	AA	A	BBB	BB to B	CCC to C	D	NR	Total	
Asset class	Country										
CMBS	Europe*	0	0	29	0	23	0	0	0	52	19.1%
	Spain	0	36	0	0	0	0	0	0	36	13.1%
	Germany	0	44	44	20	0	0	0	0	108	39.8%
	UK	22	16	11	0	0	0	0	0	48	17.9%
	Singapore	0	28	0	0	0	0	0	0	28	10.2%
<b>Total CMBS</b>		<b>22</b>	<b>122</b>	<b>84</b>	<b>20</b>	<b>23</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>271</b>	<b>100.0%</b>
		8.1%	45.1%	30.8%	7.5%	8.5%	0.0%	0.0%	0.0%	100.0%	

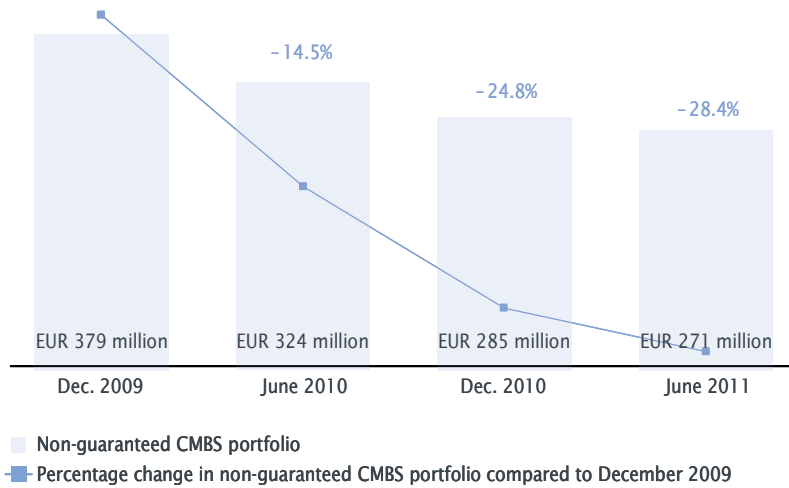
The lowest external rating was generally applied and mapped to S&P's rating scale.

Europe\*: No explicit classification possible due to geographic distribution across several countries. CMBS from Luxembourg were added to Germany as the underlying loans originated in Germany. Figures may be subject to rounding differences.

Most of the non-guaranteed CMBS portfolio is rated investment grade. Of this, 87% comprises most senior positions.



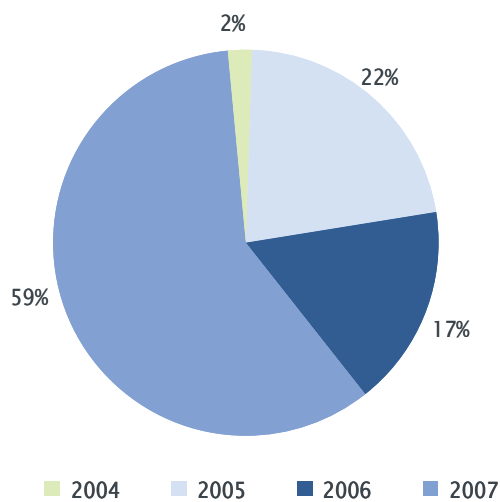
**Development of the non-guaranteed CMBS portfolio volume for the period from December 2009 to June 2011.**



Figures may be subject to rounding differences.

In addition, this asset class comprises almost solely issues from 2005 to 2007 valued at EUR 265 million with a regional concentration on Germany (around 40%) and the United Kingdom (around 18%).

**Non-guaranteed CMBS portfolio distribution by year of issue** (outstanding volume EUR 271 million).



## 1.6 Assets secured by the state risk shield - guarantee portfolio.

As of the reporting date, the guarantee portfolio contains securitization positions with an outstanding nominal volume of EUR 11.5 billion. Compared with the previous year (June 2010), the outstanding guarantee portfolio thus contracted from EUR 15.3 billion by EUR 3.8 billion evenly over the two halves of the year. Compared with the previous period (December 31, 2010), the volume has continued to decline substantially by EUR 1.9 billion over the past six months (overall effect). This overall effect is a result of repayments and write-downs of EUR 1.4 billion and the currency effects aligned with the portfolio reduction in the amount of EUR 0.5 billion (devaluation of foreign currencies and appreciation of the EUR).

The assets underlying the investments originate predominantly from Europe (58%) and America (37%). For the guaranteed portfolio, the shares attributable to the peripheral countries amount to approximately EUR 2.1 billion (around 18% of the guaranteed portfolio), with Spain accounting for the largest volume of approximately EUR 1.1 billion within this group of countries (see also section 1.7).

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

Outstanding volume in EUR million June 30, 2011	AAA	AA	A	BBB	BB to B	CCC to C	D	NR	Total	
Asset sub-type										
CDO	178	890	249	246	594	809	189	109	3,262	28.3%
RMBS	1,239	658	843	101	393	1,136	281	0	4,651	40.3%
CMBS	299	558	977	283	84	134	2	0	2,337	20.3%
Other ABS	206	351	148	268	149	74	28	52	1,276	11.1%
<b>Total Investments</b>	<b>1,922</b>	<b>2,458</b>	<b>2,217</b>	<b>897</b>	<b>1,220</b>	<b>2,153</b>	<b>499</b>	<b>161</b>	<b>11,527</b>	<b>100.0%</b>
	16.7%	21.3%	19.2%	7.8%	10.6%	18.7%	4.3%	1.4%	100.0%	

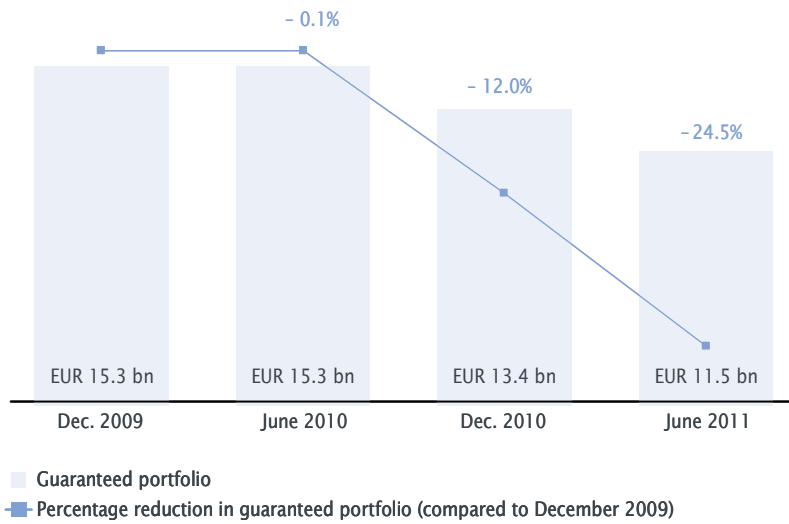
The lowest external rating was generally applied and mapped to S&P's rating scale. Figures may be subject to rounding differences.

In the guarantee portfolio, the majority of the investments (EUR 7.5 billion, 65%) are nearly unchanged with investment grade ratings.

#### Guarantee structure:

The guarantee structure provides for LBBW to assume the first losses from the reference assets up to a total amount of EUR 1.9 billion (»first loss«). Losses in excess of the first loss are absorbed by the guarantee of the State of Baden-Württemberg, which amounts to EUR 6.7 billion. Aggregate losses from the guaranteed portfolio which exceed the figure of EUR 8.6 billion are in turn borne by LBBW. As of June 30, 2011, the first loss was placed in full on the balance sheet.

**Development of the guaranteed portfolio volume for the period from December 2009 to June 2011.**



Figures may be subject to rounding differences.

The following sections examine the secured assets in the same way as the above presentation.

### 1.6.1 CDO portfolio for secured assets.

The CDO portfolio volume secured by the guarantee was valued at around EUR 3.3 billion on the reporting date. This nominal volume, which as a whole continued to decline (December 2010: EUR 3.7 billion vs. June 2010: EUR 4.2 billion) particularly comprises the CLO sub-asset class.

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

Outstanding volume in EUR million June 30, 2011	AAA	AA	A	BBB	BB to B	CCC to C	D	NR	Total	
Sub-asset class										
CDO of ABS	15	10	25	13	372	308	81	14	838	25.7%
CLO	159	765	200	73	17	0	0	35	1,248	38.3%
Synthetic CDO	0	0	0	0	0	0	50	60	110	3.4%
CDO of TruPS	2	97	0	5	64	477	58	0	703	21.5%
Other CDO	2	18	24	155	140	24	0	0	363	11.1%
<b>Total CDO</b>	<b>178</b>	<b>890</b>	<b>249</b>	<b>246</b>	<b>594</b>	<b>809</b>	<b>189</b>	<b>109</b>	<b>3,262</b>	<b>100.0%</b>
	5.4%	27.3%	7.6%	7.5%	18.2%	24.8%	5.8%	3.3%	100.0%	

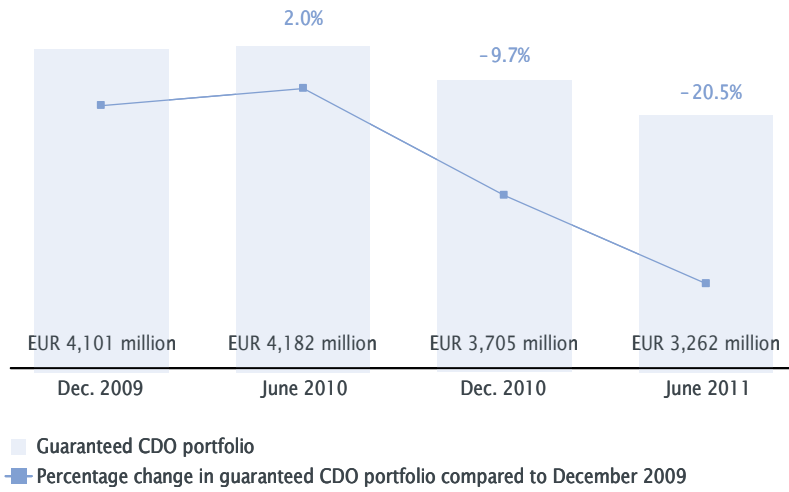
The lowest external rating was generally applied and mapped to S&P's rating scale. Figures may be subject to rounding differences.

Almost half of the guaranteed CDO portfolio has an investment grade rating (48%). It is dominated by CLO positions, which have continued to stabilize since last year at a currently high average rating (AA).

In the non-investment grade range, by contrast, the focus is on CDO of TruPS and CDO of ABS, which sustained the greatest decline in volume in the portfolio under review compared with December 2010. As before, approximately 83% are most senior positions with only a very small proportion encompassing first loss investments (around 1%).

Finally, commercial real estate CDOs and collateral bond obligations are aggregated within Other CDOs. In the period under review, positions migrated within the investment grade segment, predominantly from the A to BBB rating category.

**Development of the guaranteed CDO portfolio volume for the period from December 2009 to June 2011.**



Figures may be subject to rounding differences. The moderate increase in June 2010 is due to exchange-rate effects

## 1.6.2 RMBS portfolio for secured assets.

As of the reporting date, the largest share of the guaranteed securitization portfolio was accounted for by RMBS transactions valued at EUR 4.7 billion. The majority of these have investment grade ratings (61%). The RMBS portfolio continues to primarily reference the US (33%), the British (31%) and the Spanish market (19%). The focus is primarily on investments issued in 2006 and 2007, which constitute a volume of EUR 3.7 billion.

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

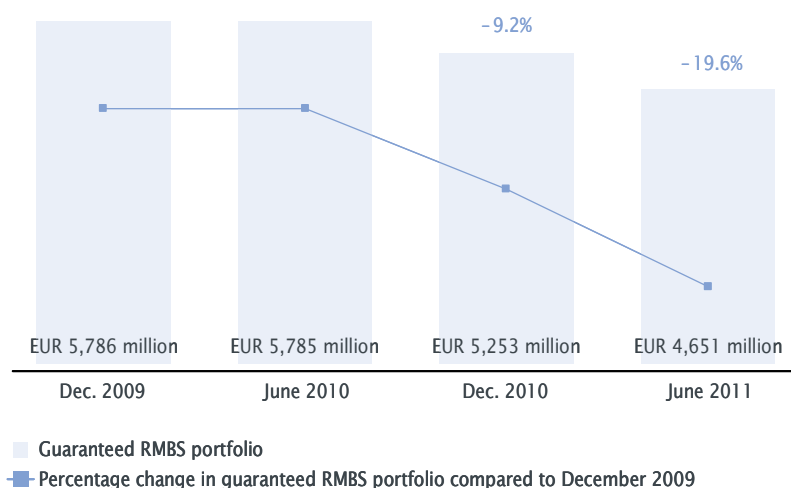
Outstanding volume in EUR million June 30, 2011	AAA	AA	A	BBB	BB to B	CCC to C	D	NR	Total	
Country/sub-asset class										
USA	0	16	14	18	87	1,129	281	0	1,545	33.2%
thereof: US Alt-A	0	0	10	18	36	926	281	0	1,271	82.2%
thereof: US Subprime	0	0	0	0	0	173	0	0	173	11.2%
UK	902	298	201	0	36	0	0	0	1,438	30.9%
thereof: UK Non-Conforming	660	253	189	0	36	0	0	0	1,138	79.2%
Spain	63	225	253	61	269	0	0	0	870	18.7%
Other	275	119	375	22	0	7	0	0	798	17.2%
<b>Total RMBS</b>	<b>1,239</b>	<b>658</b>	<b>843</b>	<b>101</b>	<b>393</b>	<b>1,136</b>	<b>281</b>	<b>0</b>	<b>4,651</b>	<b>100.0%</b>
	26.6%	14.2%	18.1%	2.2%	8.5%	24.4%	6.0%	0.0%	100.0%	

The lowest external rating was generally applied and mapped to S&P's rating scale.  
Percentages in »thereof« lines relate to the volume reported for the respective country.  
Figures may be subject to rounding differences.

The US RMBS investments (Alt-A and Subprime) chiefly originate from the takeover of the former Sachsen LB by LBBW and have already been largely written down.

The volume of non-investment-grade securitizations (39%) chiefly comprises the rating classes CCC to C and D. In this connection, the crisis issue years of 2006 (valued at EUR 650 million) and 2007 (EUR 550 million) constitute the bulk of the guaranteed RMBS sub-portfolio.

**Development of the guaranteed RMBS portfolio for the period from December 2009 to June 2011.**

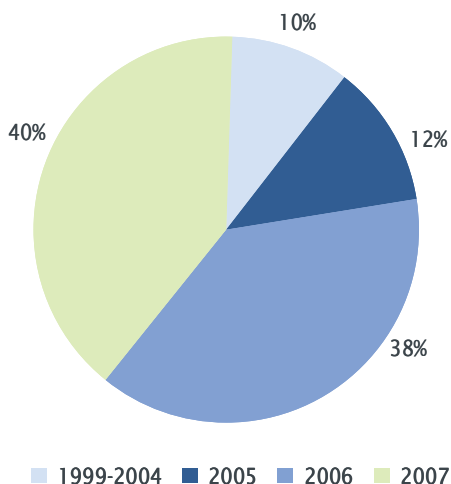


Figures may be subject to rounding differences.

As before, the UK RMBS volume amounting to around EUR 1.4 billion is largely very highly rated (63% rated AAA). The bulk of the UK transaction volume (EUR 968 million) comprises 2006 and 2007 issues.

Valued at EUR 0.9 billion, the guaranteed Spanish RMBS volume is continuing to decline; most of it is classified as investment grade. Even so, there have been migrations to the non-investment-grade segment (migration volume of around EUR 270 million) over the past six months. Other positions with a very good rating contain underlying loans from Italy (7%) and Portugal (6%), please additionally refer to section 1.7.

**Guaranteed RMBS portfolio distribution by year of issue (amounting to EUR 4.7 billion).**



### 1.6.3 CMBS portfolio for secured assets.

CMBS positions (roughly EUR 2.3 billion) form the third largest asset class (after RMBS and CDO) in the guaranteed securitization portfolio and maintained their high rating levels across all the countries involved, with approximately 91% of the securities rated investment grade.

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

Outstanding volume in EUR million June 30, 2011		AAA	AA	A	BBB	BB to B	CCC to C	D	NR	Total	
Country/ asset class											
CMBS	UK	90	448	379	214	30	91	0	0	1,251	53.5%
	Germany	0	1	318	57	0	0	0	0	376	16.1%
	The Netherlands	74	0	10	0	0	0	0	0	84	3.6%
	Europe*	0	41	173	0	0	44	0	0	258	11.0%
	USA	79	39	47	12	5	0	0	0	181	7.8%
	France	13	28	0	0	50	0	0	0	91	3.9%
	Austria	34	0	6	0	0	0	0	0	40	1.7%
	Ireland	0	0	36	0	0	0	0	0	36	1.5%
	Japan	8	0	9	0	0	0	2	0	19	0.8%
	<b>Total CMBS</b>		<b>299</b>	<b>558</b>	<b>977</b>	<b>283</b>	<b>84</b>	<b>134</b>	<b>2</b>	<b>0</b>	<b>2,337</b>
		<b>12.8%</b>	<b>23.9%</b>	<b>41.8%</b>	<b>12.1%</b>	<b>3.6%</b>	<b>5.7%</b>	<b>0.1%</b>	<b>0.0%</b>	<b>100.0%</b>	

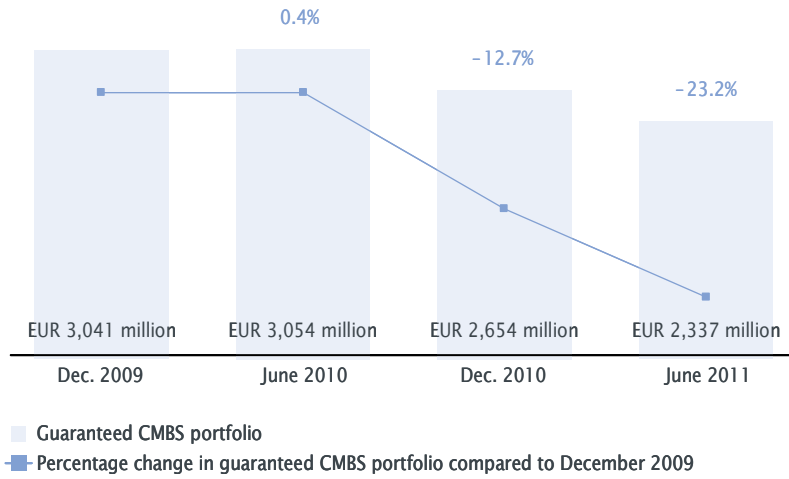
The lowest external rating was generally applied and mapped to S&P's rating scale.

Europe\*: No explicit classification possible due to geographic distribution across several countries. CMBS from Luxembourg were added to Germany as the underlying loans originated in Germany. Figures may be subject to rounding differences.

Most of the CMBS portfolio is focused on the British (54%) and the German market (16%).



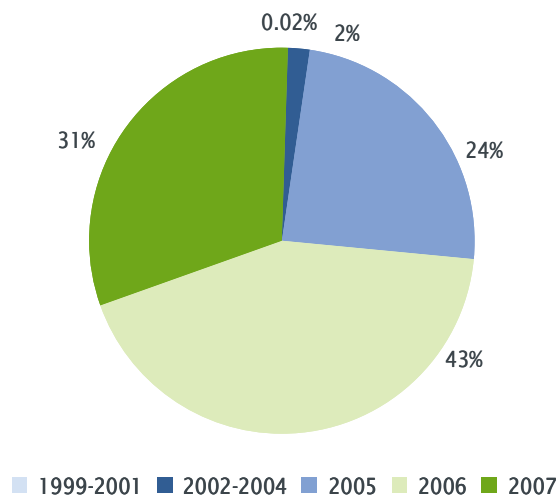
**Development of the guaranteed CMBS portfolio volume for the period from December 2009 to June 2011.**



Figures may be subject to rounding differences.

The sub-portfolio in question chiefly comprises securities issued in 2005 and 2007. The outstanding British CMBS volume was mainly issued in 2005 to 2006, while the German CMBS volume was issued in 2006 to 2007.

**Guaranteed CMBS portfolio distribution by year of issue (outstanding volume EUR 2.3 billion).**



## 1.7 Exposure to Peripheral Countries.

In the period under review, economic conditions in Portugal, Ireland, Greece and Spain (peripheral countries) remained difficult. As a result, there was further rating migration (downgrades) for the individual countries. LBBW has sizeable, yet steadily declining exposure to these countries across various asset classes of a total of EUR 3.8 billion, equivalent to around 22% of its total securitization volume.

The corresponding securities have on average a high rating (investment grade segment EUR 3.4 billion, 88%). In addition, most of the investment volume (EUR 2.1 billion) is guaranteed (December 2010 EUR 2.3 billion).

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

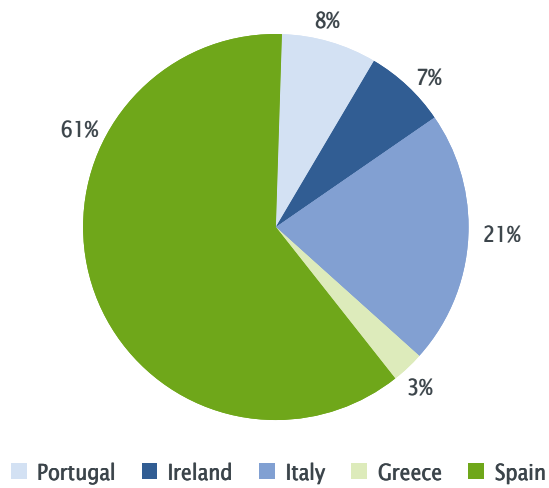
Outstanding Volume in EUR million as of June 30, 2011		AAA	AA	A	BBB	BB to B	CCC to C	Total	Country /asset class share	As of Dec. 31, 2010	Country /asset class share
Asset class	Country										
CDO	Portugal	0	0	13	20	0	0	33	10.4%	45	11.8%
	Ireland	0	0	0	0	0	0	0	0.0%	0	0.0%
	Italy	0	0	0	90	0	0	90	28.6%	90	23.9%
	Greece	0	0	0	0	0	0	0	0.0%	0	0.0%
	Spain	38	51	88	15	0	0	192	61.0%	243	64.3%
<b>Total CDO</b>		<b>38</b>	<b>51</b>	<b>101</b>	<b>124</b>	<b>0</b>	<b>0</b>	<b>314</b>	<b>100.0%</b>	<b>377</b>	<b>100.0%</b>
RMBS	Portugal	0	2	258	0	0	0	260	8.4%	274	8.3%
	Ireland	0	0	132	101	0	7	240	7.8%	243	7.3%
	Italy	340	133	12	0	0	0	486	15.7%	567	17.1%
	Greece	0	0	0	0	131	0	131	4.2%	139	4.2%
	Spain	800	549	299	61	269	0	1,977	63.9%	2,091	63.1%
<b>Total RMBS</b>		<b>1,140</b>	<b>684</b>	<b>701</b>	<b>162</b>	<b>400</b>	<b>7</b>	<b>3,094</b>	<b>100.0%</b>	<b>3,315</b>	<b>100.0%</b>
CMBS	Portugal	0	0	0	0	0	0	0	0.0%	0	0.0%
	Ireland	0	0	36	0	0	0	36	49.7%	36	49.6%
	Italy	0	1	0	0	0	0	1	1.1%	1	1.3%
	Greece	0	0	0	0	0	0	0	0.0%	0	0.0%
	Spain	0	36	0	0	0	0	36	49.1%	36	49.0%
<b>Total CMBS</b>		<b>0</b>	<b>36</b>	<b>36</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>72</b>	<b>100.0%</b>	<b>73</b>	<b>100.0%</b>
Other ABS	Portugal	0	0	0	0	0	0	0	0.0%	0	0.0%
	Ireland	0	0	0	0	0	0	0	0.0%	0	0.0%
	Italy	124	93	0	0	0	0	217	66.5%	316	66.8%
	Greece	0	0	0	0	0	0	0	0.0%	0	0.0%
	Spain	11	33	25	3	38	0	109	33.5%	156	33.2%
<b>Total Other ABS</b>		<b>135</b>	<b>126</b>	<b>25</b>	<b>3</b>	<b>38</b>	<b>0</b>	<b>326</b>	<b>100.0%</b>	<b>473</b>	<b>100.0%</b>
<b>Total investments of the peripheral countries</b>		<b>1,313</b>	<b>898</b>	<b>862</b>	<b>289</b>	<b>438</b>	<b>7</b>	<b>3,807</b>	<b>100.0%</b>	<b>4,238</b>	<b>100%</b>
		<b>34.5%</b>	<b>23.6%</b>	<b>22.7%</b>	<b>7.6%</b>	<b>11.5%</b>	<b>0.2%</b>	<b>100.0%</b>			

The lowest external rating was generally applied and mapped to S&P's rating scale. Figures may be subject to rounding differences.

In terms of volume, the greatest country exposure is to Spain, amounting to EUR 2.3 billion (61%), followed by Italy at around EUR 0.8 billion (21%). Relative to the total exposure to the peripheral countries, LBBW is exposed to only a minor extent to Greece (around EUR 131 million) and it has underlying assets associated with Portugal of EUR 293 million.

**Securitization portfolio - share of the peripheral countries in the non-guaranteed and guaranteed portfolio**

(outstanding volume EUR 4.3 billion).



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

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

The currency-congruent refinancing of the securities denominated in EUR, USD, and GBP is carried out using subordinate financing by LBBW and the senior loan from a syndicate of state banks.

The Free State of Saxony has issued a first loss guarantee in the amount of EUR 2.75 billion to cover losses arising from the Sealink portfolio. The next losses to accrue for the subordinate financing of LBBW will be covered by the state of Baden-Württemberg up to an amount of EUR 6.0 billion as part of the risk shield in place since June 30, 2009.

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

## 2 Customer transactions.

In addition to the ABS investment portfolio previously shown, LBBW is involved in the segment of customer transactions as part of the Weinberg Asset Backed Commercial Paper program (ABCP program).

The sole purpose of the Weinberg ABCP program is to finance trade receivables and interest-bearing receivables sold to the program by target customers of LBBW (largely SMEs as well as financing institutions and leasing companies). All the internal ratings for these transactions are investment grade.

The receivables are bought by Weinberg Funding Ltd. or Weinberg Capital Ltd. and funded by issuing ABCPs. For this purpose, Weinberg Capital Ltd. simultaneously acts as the issuing entity. The ABCPs issued by Weinberg Capital Ltd. have short-term ratings of P-1 (Moody's) and F1+ (Fitch). As long as no »program termination event« has occurred, the ABCPs can be backed by either an individual receivables portfolio (»special series«) or the residual number of all remaining portfolios (»general series«).

As of June 30, 2011, LBBW is providing the purchasing companies Weinberg Funding Ltd. and Weinberg Capital Ltd. with liquidity lines amounting to EUR 2.2 billion, roughly EUR 1.0 billion of which pertains to transactions with trade receivables and some EUR 1.2 billion to transactions with interest-bearing receivables (above all leasing receivables). Neither Weinberg Funding Ltd. nor Weinberg Capital Ltd. are consolidated in the LBBW half-yearly financial statements as of June 30, 2011.\*

Additionally, LBBW is invested in a senior tranche backed by auto loans in the amount of around EUR 20.4 million. This term bond was structured by LBBW for a key account customer in the automotive sector.

LBBW is planning to expand this customer-driven business.

\* The individual receivables portfolios with the applicable refinancing via Weinberg Funding Ltd. and Weinberg Capital Ltd. represent »cells« (transactions definable on the basis of opportunities and risks). Under IAS 27 in conjunction with SIC 12, Weinberg Funding Ltd. and Weinberg Capital Ltd. must be consolidated. However, as they serve merely as shells they do not fulfill the materiality criteria and are therefore not consolidated. The individual cells do not have to be consolidated. The majority of the opportunities and risks of each cell remain with the seller of the receivable or with third parties.

# 3 Leveraged Finance Portfolio.

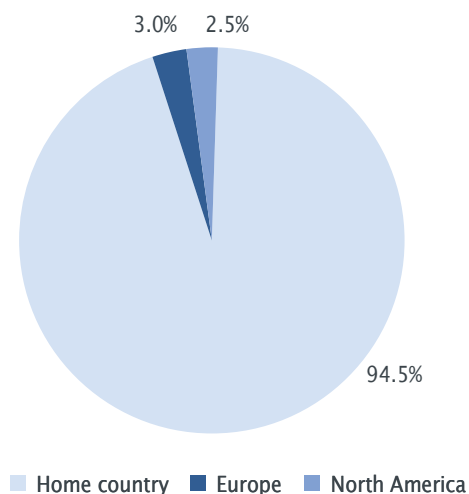
As part of its general credit strategy, LBBW primarily provides finance for acquisitions involving a high degree of leverage (usually over 50 %). In connection with its small and medium-sized corporate banking business, the bank supports customers in debt-financed strategic purchase finance and succession planning. Moreover, investments by financial investors in small and medium-sized corporate customers are financed in this area of business. In addition to SMEs, the Bank also offers acquisition finance to large corporates that are already corporate customers. Investments executed as part of these business activities are included in the acquisition finance portfolio provided that they are materially based on free cash flows.

LBBW provides the following services for its small and medium-sized customers as part of its strategy for this customer group: origination, structuring and arrangement as a mandated lead arranger or co-lead for regional as well as national syndicated acquisition financing transactions with high commission. In view of its trusting and longstanding customer relationships with SMEs, LBBW assumes fixed syndicate shares of 20 to 25% as part of a primarily »buy and hold« strategy.

In 2011, the acquisition finance market in Germany has picked up again, resulting in new business for LBBW in this segment. As a result of simultaneous reductions in the portfolios in the rest of Europe and North America, the acquisition finance portfolio contracted again slightly by EUR 0.2 billion to EUR 4.8 billion as of June 30, 2011. The average exposure per investment was around EUR 40 million.

The following overview lists the risk positions from around 110 leveraged finance corporate loans, according to region, sector and rating.

**Regional breakdown of the leveraged finance portfolio as of June 30, 2011** (total volume EUR 5.0 billion).



**Sector distribution of leveraged finance portfolios as of June 30, 2011.**

Sector	
Automobile	62.7%
Non-industry-specific tools and mechanical engineering	5.7%
Health care	4.0%
Clothing, sporting equipment and luxury goods	3.5%
Chemicals	3.3%
Construction	2.9%
Cross-sector services for companies	2.2%
Conglomerates/conglomerate holding companies	2.1%
Transport and logistics	1.8%
Food retail and other non-cyclical consumer goods	1.6%
Other	10.3%
<b>Total</b>	<b>100.0%</b>

Figures may be subject to rounding differences.

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

**Rating distribution of leveraged finance portfolios as of June 30, 2011.**

Rating	AAA - A-	BBB+	BBB	BBB-	BB+	BB	BB-	B+	B	B-	CCC+ - C	SD/D	NR
in %	0.7%	4.2%	9.4%	4.9%	4.9%	59.6%	2.9%	5.2%	1.7%	0.0%	0.9%	5.5%	0.0%

The average rating improved to BB, with 84% of the portfolio in this rating class or higher. New business is predominantly entered into in the rating classes BB + to BB-. In this connection, it must be clear from company data on the borrower's business development that the rating will improve as repayments progress.

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