Financial Stability Board Report

as of 30 June 2012.

Landesbank Baden-Württemberg

Contents.

Financial Stability Board Report.

The Financial Stability Board (FSB) was established in 1999 at the initiative of the G7 to safeguard financial market stability at 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 improving the markets' ability to function, creating transparency and reducing systemic risks. Germany is represented on this forum by the Federal Financial Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht, BaFin) 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 information is currently voluntary, LBBW is fulfilling the main recommendations of the FSB by publishing this report.

Detailed information on exposure to the periphery 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 risk protection.

In view of the turbulence on the financial markets, the LBBW Group (hereinafter referred to as LBBW) has arranged risk protection with the State of Baden-Württemberg in the form of a guarantee structure that has been in effect since 30 June 2009 to hedge losses on securities at risk. A guarantee totaling EUR 12.7 billion was granted to LBBW to hedge 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 15 December 2009.

A partial amount of the guarantee amounting to EUR 6.7 billion serves to secure the Bank's own securitization portfolio (guaranteed portfolio) with a currently outstanding nominal volume of EUR 10.5 billion as of 30 June 2012.

LBBW bears the first loss from the guarantee portfolio up to an amount of EUR 1.9 billion. Losses beyond this amount will be absorbed initially by the guarantee. Any further losses arising after the guarantee has been utilized in full are borne by LBBW. As of 30 June 2012, 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 the securitization portfolio and customer transactions.

The LBBW securitization portfolio (including the guarantee portfolio) had a volume of around EUR 13.5 billion as of 30 June 2012.[1] This includes the Georges 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 2.4 billion via the ABCP vehicle Weinberg Capital.

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

Development of the securitization portfolio and customer transactions compared to the previous period as of 30 June 2012.

Outstanding volume in EUR billion	30 June 2012	Absolute change over the previous period	31 Dec. 2011	Absolute change over the previous period	30 June 2011
Total securitization volume	13.5	–1.8	15.3	–1.7	17.1
Customer transactions	2.4	0.1	2.3	0.1	2.2

Figures may be subject to rounding differences.

Compared with 31 December 2011, the securitization portfolio continued to contract steadily by a total of around EUR 1.8 billion from EUR 15.3 billion, despite volatile and heavily counteracting exchange rate effects. On the one hand, this decline in the volume is due to repayments, write-downs, and sales of around EUR 2.0 billion (repayment effect). On the other hand, the remaining difference of around EUR 0.2 billion is a result of counteracting exchange-rate trends (currency effect). The latter stems from a decline in the nominal EUR exchange rate against the USD, the JPY, and GBP, which led to a delayed reduction in the volume of assets denominated in the foreign currency in question.

The greater part of the portfolio (some 67%) is characterized by securitization positions categorized as investment grade (rating class AAA to BBB). 7% of the positions (equivalent to EUR 0.9 billion) are rated AAA.

1) Statements concerning the risk situation below are based on the management approach.

In a comparison with the first reporting period (December 2008), the overall securitization portfolio volume declined by EUR 16.2 billion (some 55 %). As such, LBBW systematically continues to pursue the defined restructuring goals of gradually reducing risk through the orderly reduction of the securitization volume and opportunistic sales.

Development of the LBBW securitization portfolio volume for the period from December 2008 to June 2012.

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 of stabilizing average market prices discernible for more than one year continued in the period under review, although market liquidity is still limited.

Customer transaction volumes rose compared to the previous period by a total of EUR 0.1 billion, climbing from EUR 2.3 billion to EUR 2.4 billion. As a result, LBBW again achieved the growth targets which had been set in the past. Looking forward, 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.[1)]

	Effects in income[2)]		Effects in equity[3)]	
EUR million	30 June 2012	30 June 2011	30 June 2012	30 June 2011
CDO	41	30	35	71
RMBS	-48	-49	20	23
CMBS	5	-17	4	11
Other ABS	13	28	8	23
Total	**11**	**-9**	**67**	**127**

1) Statement without 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 financial statements and are subject to ongoing market and risk assessment.

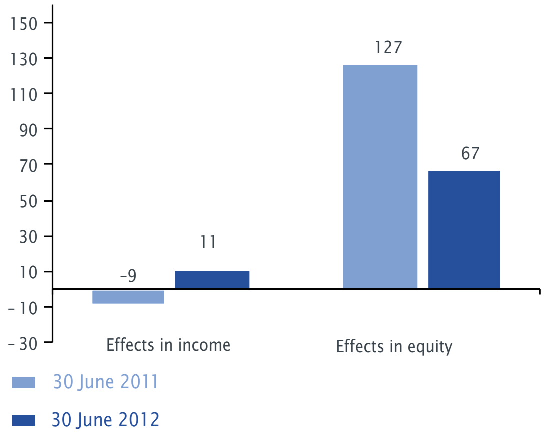
A positive earnings contribution totaling EUR 11 million was achieved in the first half of 2012 as a result of the solid earnings development. The result was burdened above all, by losses from disposals in the RMBS asset class. The spread tightening based on business lists that was determined during the reporting period led to this reversal of impairment losses and therefore to a positive result among the other asset classes.

The effects of EUR 67 million reported in equity was chiefly due in the first half of 2012 also to the expiry of recategorized portfolios or partial repayments that had already taken place of holdings categorized as AfS. In addition, fluctuation in market values and the recognition of impairments impacted on the change in the revaluation reserve.

The CDO asset class contributed around 52% to this overall effect, RMBS and CMBS together around 36% and Other ABS around 12%. As of the balance sheet date, almost 98% of the securitizations were allocated to the »Loans and Receivables« (LaR) category and around 2% to the »Available for Sale« (AfS) category.

Equity and income statement effects year on year.

In EUR million



Definitions.

Collateralized Debt Obligations (CDO):

The term »CDO« refers to transactions based on different types of receivables (underlying or collateral transactions). These essentially involve amounts owing by companies, financial service providers (»trust preferred security« or »TruPS«) and sovereigns. One special case is the »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 backed by property that is used or managed for commercial purposes. This may include office or retail properties, multiple dwellings, shopping centers, and mixed use.

Residential Mortgage Backed Securities (RMBS):

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

Rating:

The individual rating classes were allocated 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 any external rating but with an internal credit rating, the lowest internal rating was transferred to the corresponding S&P rating.

The NR (»not rated«) transactions 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 held in the overall securitization portfolio.

In this report, LBBW's securitization portfolio with a volume of around EUR 13.5 billion (December 2011: EUR 15.3 billion) is presented in aggregated form for four product categories (asset classes).

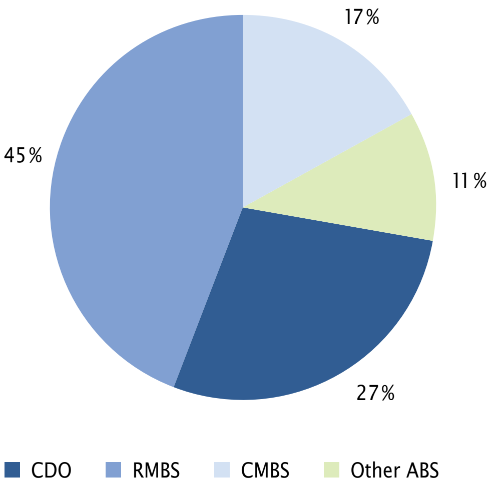
Securitization portfolio – outstanding volume per asset class (around EUR 13.5 billion).

Outstanding volume in EUR million as of 30 June 2012	AAA	AA	A	BBB	BB to B	CCC to C	D	NR	Total	
CDO	258	1 210	270	153	970	465	230	140	3 697	27.5 %
RMBS	370	1 170	2 025	421	607	736	642	0	5 973	44.4 %
CMBS	136	438	899	465	203	110	40	0	2 292	17.0 %
Other ABS	135	483	356	178	242	53	0	55	1 501	11.1 %
Total investments	**900**	**3 301**	**3 551**	**1 216**	**2 023**	**1 365**	**912**	**195**	**13 462**	**100.0 %**
	6.7 %	24.5 %	26.4 %	9.0 %	15.0 %	10.1 %	6.8 %	1.5 %	100.0 %	

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

The portfolio volume breaks down by asset class as follows:

Securitization portfolio – relative asset class distribution (around EUR 13.5 billion).



The two asset classes RMBS and CDO constitute the largest shares of the portfolio. RMBS transactions account for EUR 6.0 billion (45 %) and chiefly originate from Spain (30 %), the United Kingdom (23 %) and the United States (25 %). The volume of CDO transactions comes to EUR 3.7 billion (27 %).

The majority of CMBS transactions involve positions in the United Kingdom (51 %) and Germany (20 %). The Other ABS asset class most notably includes American student loans (28 %) and US/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 provided by the State of Baden-Württemberg dropped by 28% over the comparison date (31 December 2011) to some EUR 3.0 billion. This decline was due to repayments and sales of EUR 1.2 billion, predominantly in the RMBS (31%) and CDO (28%) asset classes. The reduction in the portfolio volume was offset by moderately counteracting currency effects of EUR 11 million in the wake of the lower nominal EUR exchange rate in the period under review.

As was the case in the previous periods, the vast majority (EUR 2.9 billion, 94.5%) of the non-guaranteed portfolio volume is again characterized by investment-grade ratings. Despite the repayment and migration of investments with predominantly the highest rating, the average rating dropped only slightly in the period under review.

Assets not secured by the state risk shield – securitization portfolio by asset class and rating.

Outstanding volume in EUR million as of 30 June 2012	AAA	AA	A	BBB	BB to B	CCC to C	D	NR	Total	
CDO	41	384	108	3	3	0	0	0	538	17.7%
RMBS	310	278	1011	20	100	0	0	0	1719	56.5%
CMBS	0	104	19	79	10	0	0	0	213	7.0%
Other ABS	135	159	185	40	44	0	0	10	573	18.8%
Total investments	**486**	**924**	**1323**	**142**	**157**	**0**	**0**	**10**	**3043**	**100.0%**
	16.0%	**30.4%**	**43.5%**	**4.7%**	**5.2%**	**0.0%**	**0.0%**	**0.3%**	**100.0%**	

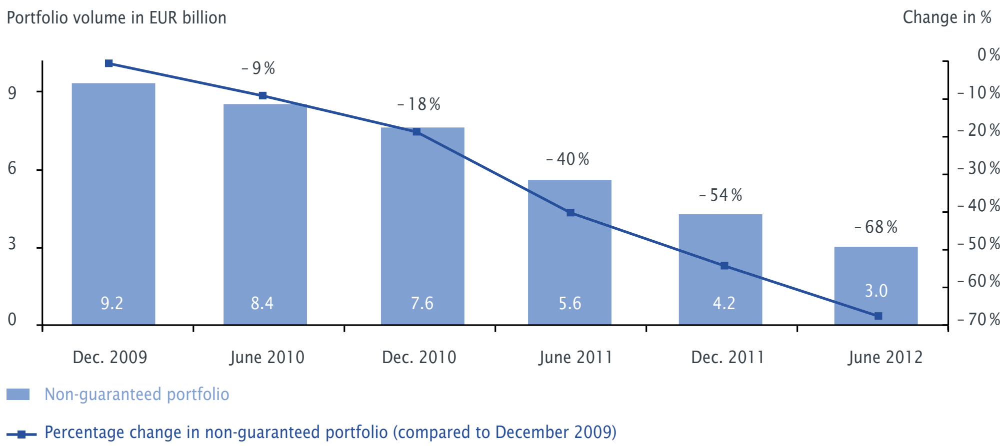
The lowest external rating was generally applied and mapped to S&P's rating scale.
Figures may be subject to rounding differences.

With respect to regional diversification, it should be noted that non-guaranteed transactions are primarily concentrated in Europe (excluding the UK) (75%).

The securitization volume attributable to the countries severely affected by the debt crisis, namely Portugal, Italy, Ireland, Greece, and Spain (periphery countries), comes to EUR 1.3 billion (compared with EUR 1.5 billion as of 31 December 2011). At around EUR 1.1 billion, Spain continues to account for the largest share. A detailed description of LBBW's exposure in the periphery countries follows in section 1.7.

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

Development of the non-guaranteed portfolio volume for the period from December 2009 to June 2012.



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 portfolio for non-secured assets with a volume of around EUR 0.5 billion now consists virtually exclusively of the CLOs (99.2 %) backed by corporate loans. The remaining 0.8 % (EUR 4 million) break down into CDOs on ABS and Other CDOs, whereas the portfolio of synthetic securitizations, formerly accounting for some 14 %, was reduced.

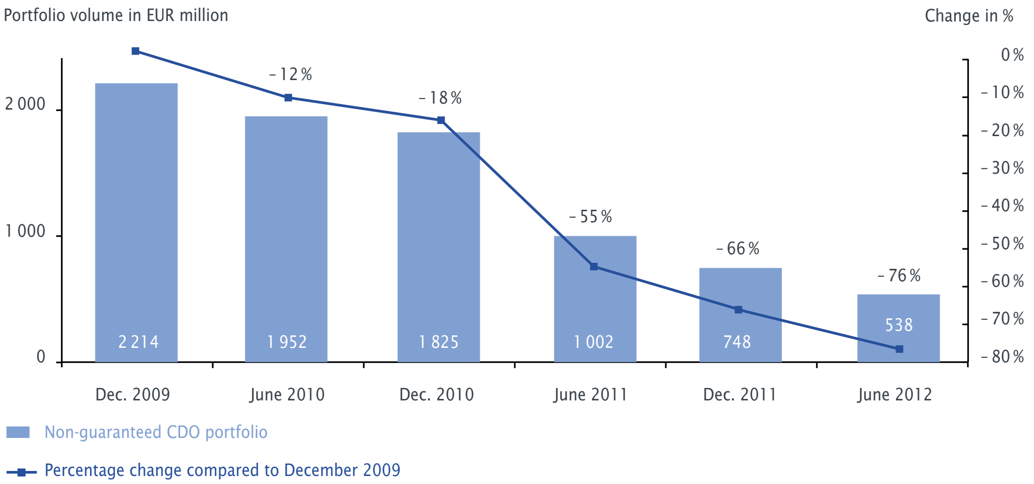
Assets not secured by the state risk shield – CDO breakdown by sub-asset class and rating.

Outstanding volume in EUR million as of 31 Dec. 2011 Sub-asset class	AAA	AA	A	BBB	BB to B	CCC to C	D	NR	Total	
CDO of ABS	0	0	0	3	0	0	0	0	3	0.5 %
CLO	40	384	108	0	3	0	0	0	534	99.2 %
Synthetic CDO	0	0	0	0	0	0	0	0	0	0.0 %
Other CDO	1	0	0	0	0	0	0	0	1	0.3 %
Total CDO	**41**	**384**	**108**	**3**	**3**	**0**	**0**	**0**	**538**	**100.0 %**
	7.6 %	**71.4 %**	**20.0 %**	**0.5 %**	**0.5 %**	**0.0 %**	**0.0 %**	**0.0 %**	**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 terms of ratings, it should be noted that most of the product categories, accounting for 99.5 % of the volume, is now concentrated in the investment-grade range.

Development of the non-guaranteed CDO portfolio volume for the period from December 2009 to June 2012.



Figures may be subject to rounding differences.

All the remaining CDO transactions were issued between 2005 and 2007.

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 1.7 billion (57%) and is thus down by around EUR 0.8 billion (31%) compared with December 2011.

Apart from EUR 100 million, the entire volume of the non-guaranteed RMBS portfolio is in the investment-grade range, mostly with an A rating. The change to A from the AAA rating in the previous report is attributable principally to the downgrade of the Spanish RMBS transactions.

Assets not secured by the state risk shield – RMBS breakdown by country and rating.

Outstanding volume in EUR million as of 30 June 2012 Country/sub-asset class	AAA	AA	A	BBB	BB to B	CCC to C	D	NR	Total	
USA	1	2	0	0	0	0	0	0	2	0.1%
of which US Alt-A	1	2	0	0	0	0	0	0	2	100.0%
of which US subprime	0	0	0	0	0	0	0	0	0	0.0%
UK	16	13	103	0	0	0	0	0	132	7.7%
of which UK non-conforming	0	13	0	0	0	0	0	0	13	10.2%
Spain	0	85	871	20	0	0	0	0	976	56.8%
Other RMBS	294	177	37	0	100	0	0	0	608	35.4%
Total RMBS	**310**	**278**	**1 011**	**20**	**100**	**0**	**0**	**0**	**1 719**	**100.0%**
	18.1%	**16.2%**	**58.8%**	**1.2%**	**5.8%**	**0.0%**	**0.0 %**	**0.0 %**	**100.0%**	

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

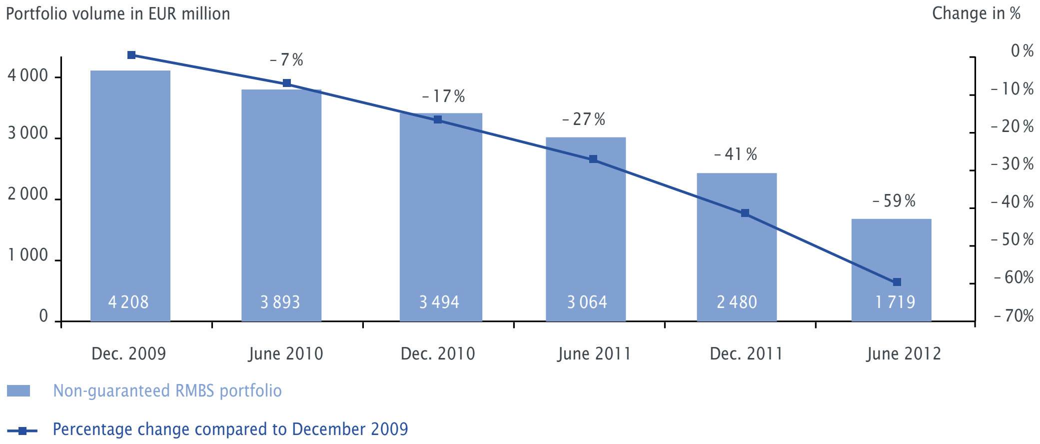
In this segment, LBBW now has only minor exposure to the United States (EUR 2.5 million), particularly in the US Alt-A and subprime segment, predominantly investments issued in 2003 and 2004.

Furthermore, securitizations with a UK reference all have investment-grade ratings. All the remaining transactions originate from 2006.

The Spanish RMBS portfolio of approx. EUR 1.0 billion – predominantly most senior positions (84%) and issue years 2003 (22%) and 2006 (26%) – continues to constitute the most significant proportion of the non-guaranteed RMBS portfolio (60%).

Securities in the Other RMBS category mostly have investment-grade ratings and are primarily attributable to European countries such as the Netherlands (42 %) and Italy (18 %). The portfolio volume of asset-backed securities with Irish reference continues to decline to a current outstanding volume of EUR 100 million (cf. December 2011: EUR 103 million), with ratings in the BB category. The portfolio of Greek RMBS, which was put at EUR 123 million in December 2011, was completely wound down in the period under review.

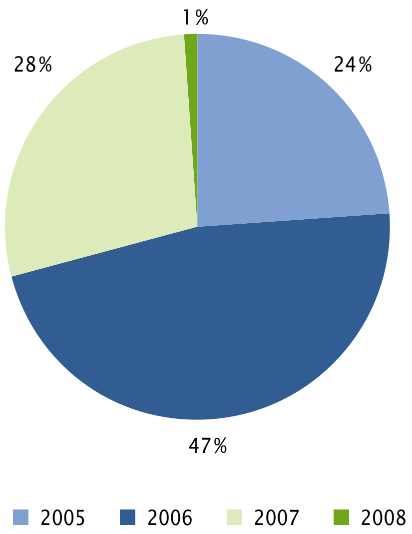
Development of the non-guaranteed RMBS portfolio volume for the period from December 2009 to June 2012.



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 (EUR 1.7 billion).



At EUR 1.0 billion (December 2011 EUR 1.6 billion), the non-guaranteed RMBS portfolio has the largest volume for issue years 2005 – 2007 and the lowest volume for 2008 at EUR 10.8 million.

1.5.3 CMBS portfolio for non-secured assets.

The CMBS portfolio volume not guaranteed by the State of Baden-Württemberg (7 % of the portfolio) dropped by EUR 53 million compared with December 2011 to EUR 213 million. It is chiefly backed by real estate used for office and retail purposes in Europe.

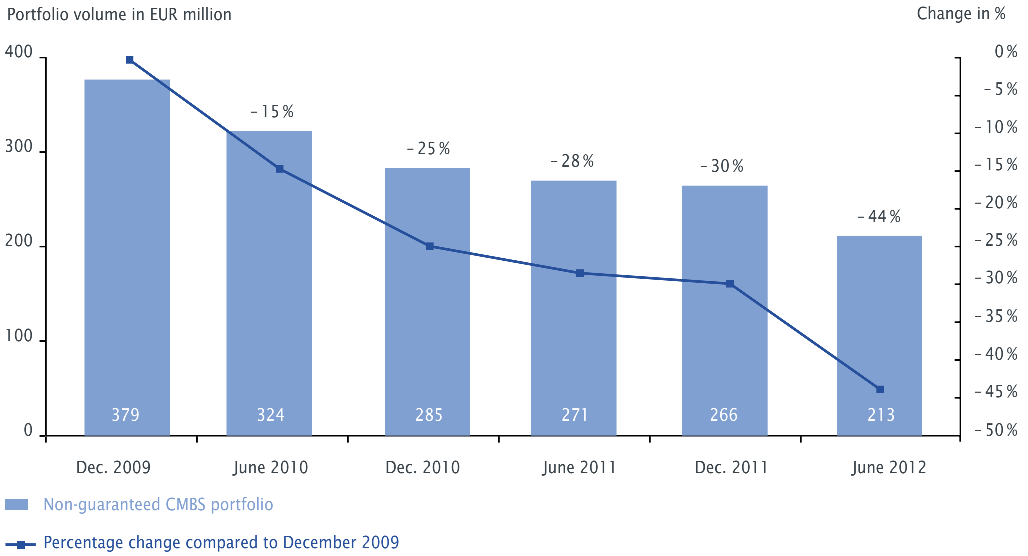
Assets not secured by the state risk shield – CMBS breakdown by country and rating.

Outstanding volume in EUR million as of 30 June 2012 Asset class	Country	AAA	AA	A	BBB	BB to B	CCC to C	D	NR	Total	
CMBS	Europe*	0	0	5	22	10	0	0	0	37	17.2 %
	Spain	0	12	0	0	0	0	0	0	12	5.5 %
	Germany	0	40	3	58	0	0	0	0	101	47.5 %
	UK	0	20	12	0	0	0	0	0	32	14.9 %
	Singapore	0	32	0	0	0	0	0	0	32	14.9 %
Total CMBS		**0**	**104**	**19**	**79**	**10**	**0**	**0**	**0**	**213**	**100.0 %**
		0.0 %	**48.8 %**	**9.1 %**	**37.3 %**	**4.9 %**	**0.0 %**	**0.0 %**	**0.0 %**	**100.0 %**	

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

Most of the non-guaranteed CMBS portfolio under consideration is rated investment grade (95 %). Of this, 83 % comprises most senior positions.

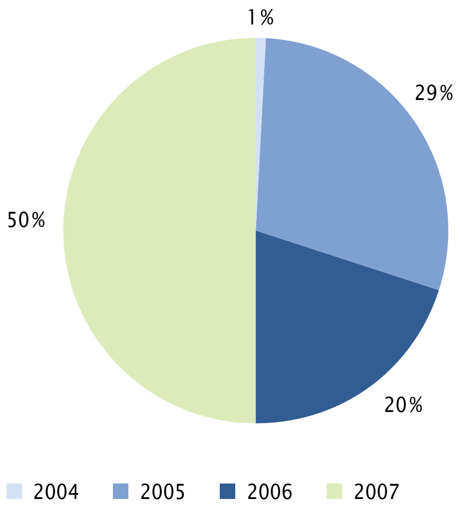
Development of the non-guaranteed CMBS portfolio volume for the period from December 2009 to June 2012.



Figures may be subject to rounding differences.

In addition, this asset class comprises almost solely issues from 2005 to 2007 amounting to EUR 210 million with a regional concentration on Germany (48%) and the United Kingdom (15%).

Non-guaranteed CMBS portfolio distribution by year of issue (EUR 213 million).



1.6 Assets secured by the state risk shield – guarantee portfolio.

As of the reporting date, the guaranteed portfolio contains securitization positions with an outstanding nominal volume of EUR 10.5 billion. A full year comparison (since December 2011) thus reveals a further reduction in the outstanding guaranteed volume from EUR 11.1 billion by a total of EUR 0.7 billion. This overall effect is the result of repayments and write-downs of around EUR 0.9 billion as well as currency effects moving in the opposite direction to the portfolio reduction amounting to EUR 0.2 billion (appreciation of foreign currencies, depreciation in EUR, respectively).

The assets underlying the transactions originate predominantly in Europe (55%) and America (42%). The portfolio under review continues to include assets with a reference to the periphery countries of around EUR 1.7 billion (17%), with Spain making the largest contribution of around EUR 0.9 billion within the country group selected (see section 1.7).

Assets secured by the state risk shield – securitization portfolio by asset class and rating.

Outstanding volume in EUR million as of 30 June 2012 Sub-asset class	AAA	AA	A	BBB	BB to B	CCC to C	D	NR	Total	
CDO	217	826	163	150	968	465	230	140	3159	30.3%
RMBS	60	892	1014	401	507	736	642	0	4253	40.8%
CMBS	136	335	880	385	193	110	40	0	2078	19.9%
Other ABS	0	324	171	138	197	53	0	45	928	8.9%
Total investments	**414**	**2377**	**2227**	**1074**	**1865**	**1365**	**912**	**185**	**10419**	**100.0%**
	4.0%	**22.8%**	**21.4%**	**10.3%**	**17.9%**	**13.1%**	**8.8%**	**1.8%**	**100.0%**	

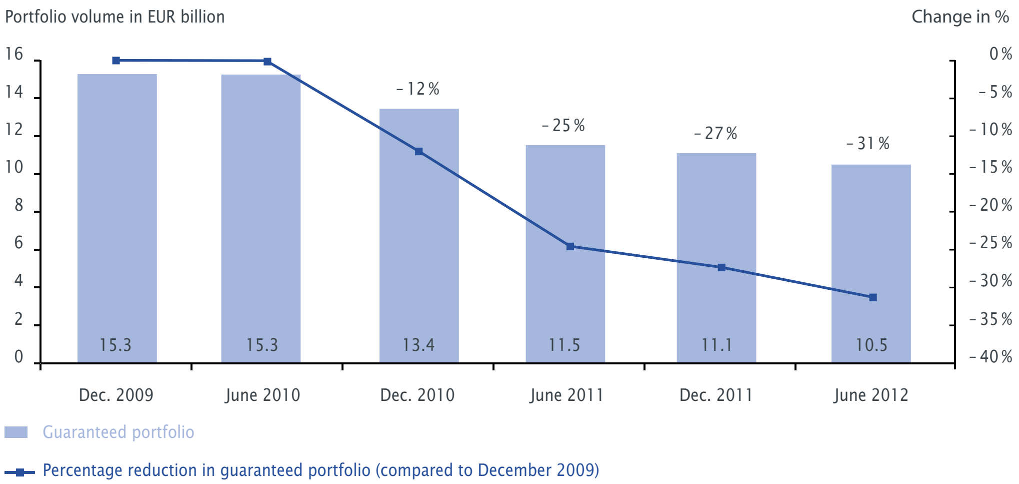
The lowest external rating was generally applied and mapped to S&P's rating code following the internal rating method.
Figures may be subject to rounding differences.

In the guarantee portfolio, the majority of investments (EUR 6.1 billion, 59%) continue to have 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 30 June 2012, 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 2012.



Figures may be subject to rounding differences.

The same presentational approach and differentiation applied to the non-guaranteed sub-portfolio will subsequently be used for the guaranteed assets.

1.6.1 CDO portfolio for secured assets.

At around EUR 3.2 billion, the CDO portfolio volume covered by the guarantee remained almost unchanged due to counteracting exchange rate effects compared with December 2011. The nominal volume continues to chiefly comprise the CLO sub-asset class.

Assets secured by the state risk shield – CDO breakdown by sub-asset class and rating.

Outstanding volume in EUR million as of 30 June 2012 Sub-asset class	AAA	AA	A	BBB	BB to B	CCC to C	D	NR	Total	
CDO of ABS	0	5	15	8	339	289	114	46	816	25.8%
CLO	214	724	130	51	4	0	0	34	1157	36.6%
Synthetic CDO	0	0	0	0	0	0	50	60	110	3.5%
CDO of TruPs	0	96	0	27	384	122	66	0	695	22.0%
Other CDO	3	1	18	64	241	55	0	0	382	12.1%
Total CDO	**217**	**826**	**163**	**150**	**968**	**465**	**230**	**140**	**3159**	**100.0%**
	6.9%	**26.1%**	**5.1%**	**4.7%**	**30.6%**	**14.7%**	**7.3%**	**4.4%**	**100.0%**	

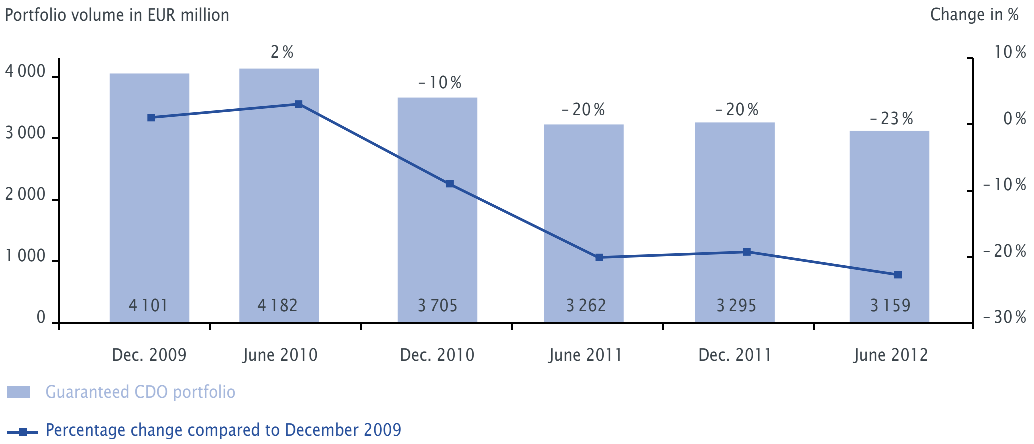
The lowest external rating was generally applied and mapped to S&P's rating code following the internal rating method.
Figures may be subject to rounding differences.

Around 43% of the guaranteed CDO portfolio has an investment-grade rating. The trend observable in earlier periods continued, i. e. the dominating CLO positions (37%) remained stable at a high average rating (AA).

The focus in the non-investment-grade segment was again on the CDO of ABS and CDO of TruPS sub-asset classes. The seniority structure of the guaranteed CDO positions remained constant with most senior tranches (76%) and very limited exposure to first-loss investments (approx. 2%).

Finally, commercial real estate CDOs and collateral bond obligations are aggregated within Other CDOs. There were no changes in the quality of the rating level in the period under review. Rather, there was a shift in the relative weighting of the individual rating category as a result of repayments and exchange-rate induced volume growth.

Development of the guaranteed CDO portfolio volume for the period from December 2009 to June 2012.



The moderate increase in volumes in June 2010 and December 2011 is the result of exchange rate effects.
Figures may be subject to rounding differences.

1.6.2 RMBS portfolio for secured assets.

As of the reporting date, the largest share in the guaranteed securitization portfolio was accounted for by RMBS transactions valued at around EUR 4.3 billion. The majority of these have investment-grade ratings (56 %). The RMBS portfolio again primarily refers to the US (35 %), the UK (30 %), and the Spanish market (19 %). In addition, the main issue years were 2006 and 2007 which contributed a cumulative total amount of EUR 3.3 billion.

Assets secured by the state risk shield – RMBS breakdown by country and rating.

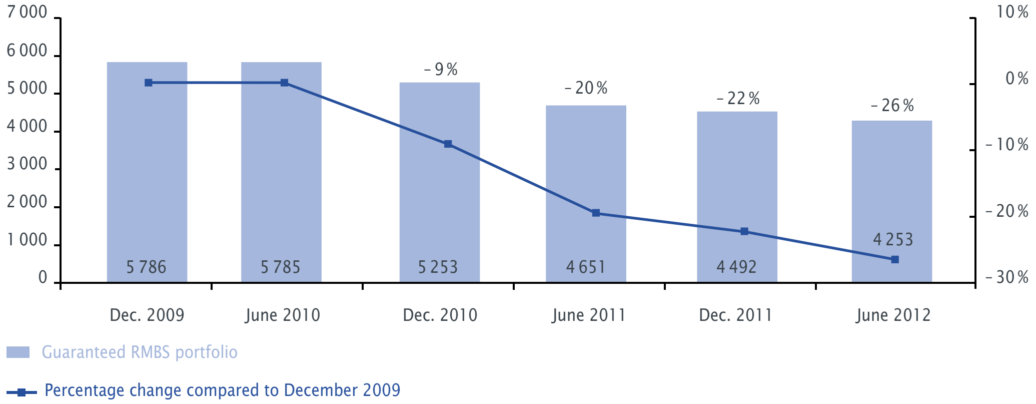
Outstanding volume in EUR million as of 30 June 2012 Country/sub-asset class	AAA	AA	A	BBB	BB to B	CCC to C	D	NR	Total	
USA	0	15	6	13	99	729	642	0	1 503	35.3 %
of which US Alt-A	0	0	4	12	49	530	623	0	1 218	81.1 %
of which US subprime	0	0	0	0	0	172	19	0	191	12.7 %
UK	60	625	536	0	41	0	0	0	1 262	29.7 %
of which UK non-conforming	39	621	391	0	41	0	0	0	1 091	86.5 %
Spain	0	11	401	79	310	0	0	0	802	18.9 %
Other RMBS	0	242	71	309	57	7	0	0	686	16.1 %
Total RMBS	**60**	**892**	**1 014**	**401**	**507**	**736**	**642**	**0**	**4 253**	**100.0 %**
	1.4 %	**21.0 %**	**23.8 %**	**9.4 %**	**11.9 %**	**17.3 %**	**15.1 %**	**0.0 %**	**100.0 %**	

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

The US RMBS investments – especially the Alt-A and subprime sub-asset classes – chiefly originate from the takeover of the former Sachsen LB by LBBW. These have already been largely written down.

The volume of non-investment-grade securitizations (44 %) chiefly comprises the rating classes CCC to C and D for transactions with American reference assets. The rating categories selected are concentrated on the years 2006 (EUR 0.8 billion) and 2007 (EUR 0.5 billion) in the sub-portfolio under review.

Development of the guaranteed RMBS portfolio for the period from December 2009 to June 2012.



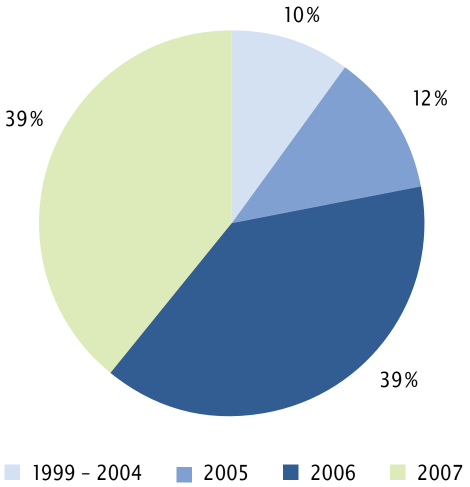
Figures may be subject to rounding differences.

Even after rating migrations, most of the UK RMBS volume of around EUR 1.3 billion has high ratings in the AAA to AA category (97 % investment grade). The bulk of the UK transaction volume (EUR 870 million) comprises 2006 and 2007 issues.

Most of the guaranteed Spanish RMBS volume amounting to EUR 802 million is classified as investment grade (61 %). Furthermore, there have been only marginal migrations to the non-investment-grade segment in the past six months.

Other RMBS positions maintained their very good ratings and partially refer to underlying loans in Italy (8 %) and Portugal (6 %); see also section 1.7.

Guaranteed RMBS portfolio breakdown by year of issue (EUR 4.3 billion).



1.6.3 CMBS portfolio for secured assets.

CMBS positions (roughly EUR 2.1 billion) form the third largest asset class (after RMBS and CDO) in the guaranteed securitization portfolio and have maintained their high rating levels across all the countries involved, with approximately 83% of the securities rated investment grade.

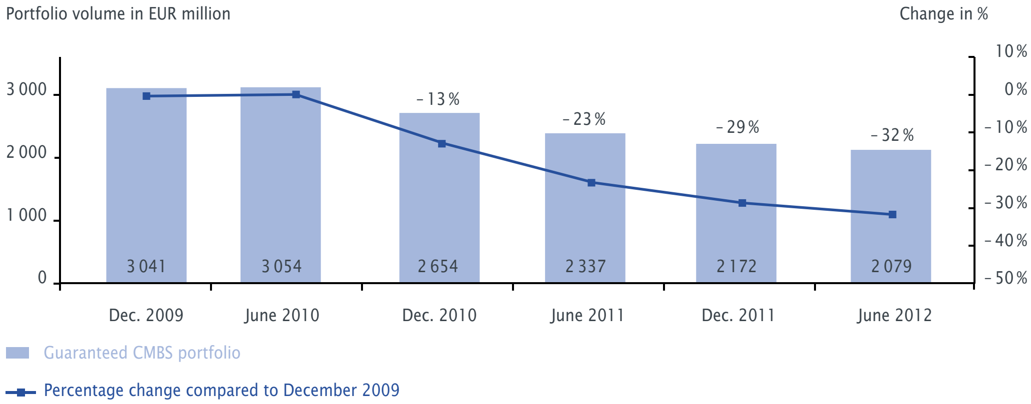
Assets secured by the state risk shield – CMBS breakdown by country and rating.

Outstanding volume in EUR million as of 30 June 2012 country/asset class	Country	AAA	AA	A	BBB	BB to B	CCC to C	D	NR	Total	
CMBS	UK	0	268	435	209	122	62	40	0	1 135	54.6%
	Germany	0	0	243	117	0	0	0	0	360	17.3%
	The Netherlands	0	0	0	10	0	0	0	0	10	0.5%
	Europe*	0	0	155	0	9	44	0	0	208	10.0%
	USA	91	39	40	13	12	5	0	0	200	9.6%
	France	12	28	0	0	50	0	0	0	90	4.3%
	Austria	33	0	6	0	0	0	0	0	39	1.9%
	Ireland	0	0	0	36	0	0	0	0	36	1.7%
	Japan	0	0	0	0	0	0	0	0	0	0.0%
	Other	0	0	1	0	0	0	0	0	1	0.0%
Total CMBS		**136**	**335**	**880**	**385**	**193**	**110**	**40**	**0**	**2 079**	**100.2%**
		6.6%	**16.1%**	**42.3%**	**18.5%**	**9.3%**	**5.3%**	**1.9%**	**0.0%**	**100.0%**	

The lowest external rating was generally applied and mapped to S&P's rating code following the internal rating method.
Figures may be subject to rounding differences.
*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.

Most of the guaranteed CMBS portfolio is focused on the UK (49%) and German markets (17%).

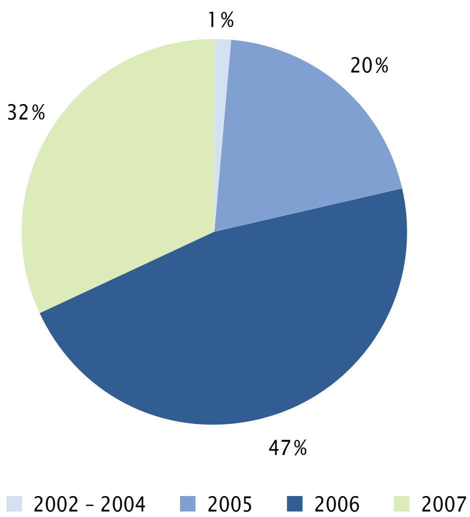
Development of the guaranteed CMBS portfolio volume for the period from December 2009 to June 2012.



Figures may be subject to rounding differences.

Most of the sub-portfolio considered comprises issues from 2005 to 2007. The outstanding UK CMBS volume was chiefly issued between 2005 and 2006, while the German CMBS volume comprises 2006 and 2007 issues.

Guaranteed CMBS portfolio breakdown by year of issue (EUR 2.1 billion).



1.7 Exposure to periphery countries.

In the wake of the European sovereign debt crisis, economic conditions have remained difficult in the periphery countries of Spain, Ireland, Italy, and particularly Greece and Portugal even beyond the period under review. Rating migrations were therefore observed again in the first half of 2012 (rating downgrades of the respective country credit) for individual countries to differing extents.

LBBW has sizeable, yet steadily declining exposure to these countries across various asset classes of a total of EUR 3.0 billion. This portfolio volume equates to around 22% of its total securitization volume. Moreover, the bulk of EUR 1.7 billion is guaranteed.

Securitization portfolio for the periphery countries by asset class and rating, periods compared.

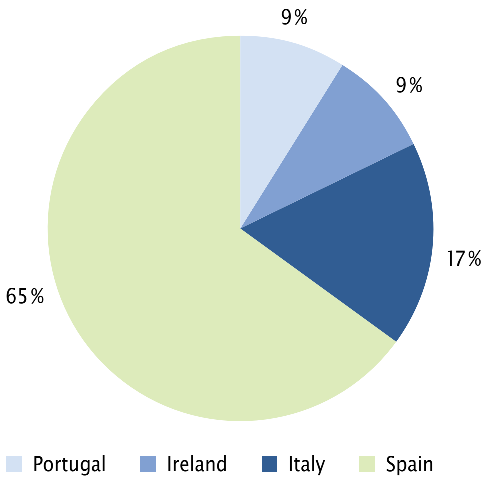
Outstanding volume in EUR million as of 30 June 2012 Country/Asset class		AAA	AA	A	BBB	BB to B	CCC to C	D	NR	Total	Country/asset class share	Volume as of 31 Dec. 2011	Country/asset class share
CDO	Portugal	0	0	0	15	0	0	0	0	15	6.8%	23	8.7%
	Ireland	0	0	0	0	0	0	0	0	0	0.0%	0	0.0%
	Italy	0	0	0	0	90	0	0	0	90	39.9%	90	33.4%
	Greece	0	0	0	0	0	0	0	0	0	0.0%	0	0.0%
	Spain	0	5	109	6	0	0	0	0	120	53.3%	156	57.9%
Total CDO		**0**	**5**	**109**	**22**	**90**	**0**	**0**	**0**	**226**	**100.0%**	**269**	**100.0%**
RMBS	Portugal	0	0	0	239	0	0	0	0	239	9.2%	249	8.6%
	Ireland	0	0	0	70	157	7	0	0	234	9.0%	237	8.2%
	Italy	0	268	81	0	0	0	0	0	350	13.4%	406	14.1%
	Greece	0	0	0	0	0	0	0	0	0	0.0%	123	4.3%
	Spain	0	96	1 273	99	310	0	0	0	1 779	68.4%	1 869	64.8%
Total RMBS		**0**	**365**	**1 354**	**408**	**468**	**7**	**0**	**0**	**2 602**	**100.0%**	**2 885**	**100.0%**
CMBS	Portugal	0	0	0	0	0	0	0	0	0	0.0%	0	0.0%
	Ireland	0	0	0	36	0	0	0	0	36	74.4%	36	49.8%
	Italy	0	0	1	0	0	0	0	0	1	1.3%	1	1.0%
	Greece	0	0	0	0	0	0	0	0	0	0.0%	0	0.0%
	Spain	0	12	0	0	0	0	0	0	12	24.3%	36	49.2%
Total CMBS		**0**	**12**	**1**	**36**	**0**	**0**	**0**	**0**	**48**	**100.0%**	**72**	**100.0%**
Other ABS	Portugal	0	0	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	0.0%
	Italy	0	72	0	0	0	0	0	0	72	60.0%	105	58.8%
	Greece	0	0	0	0	0	0	0	0	0	0.0%	0	0.0%
	Spain	0	11	13	0	24	0	0	0	48	40.0%	74	41.2%
Total Other ABS		**0**	**83**	**13**	**0**	**24**	**0**	**0**	**0**	**120**	**100.0%**	**179**	**100.0%**
Total investments of the peripheral countries		**0** **0.0%**	**464** **15.5%**	**1 477** **49.3%**	**466** **15.6%**	**581** **19.4%**	**7** **0.2%**	**0** **0.0%**	**0** **0.0%**	**2 996** **100.0%**	**100.0%**	**3 406**	**100.0%**

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

The securities with a proportionate volume of EUR 2.4 billion (80%) have, on average, a high investment-grade rating (AAA – BBB). During the period under review, there were minor rating downgrades, particularly in the investment-grade segment.

The largest exposure by country in terms of volume was again Spain at EUR 2.0 billion (65%), followed by Italy at approx. EUR 0.5 billion (17%) whereas the Greek position was completely wound down. LBBW still has an exposure of around EUR 255 million with underlying collateral referring to Portugal.

Securitization portfolio – share of the periphery countries in the non-guaranteed and guaranteed portfolio (EUR 3.0 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 a business volume of an original EUR 17.3 were transferred to an Irish special-purpose entity, 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 30 June 2009.

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

2 Customer transactions.

In addition to the securitization portfolio presented above, LBBW is also involved in customer transactions. This category chiefly comprises the liquidity facilities provided by LBBW in connection with 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 LBBW's target customers (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. The commercial paper issued by the »Weinberg« multiseller conduit takes the form of either EUR commercial paper (issuer: Weinberg Capital Ltd., Dublin) or, since 2011, US commercial paper (issuer: Weinberg Capital Ltd., Dublin with the co-issuer Weinberg Capital LLC, Delaware). The ABCPs have a short-term rating of P-2 (Moody's) and F1+ (Fitch). Moreover, as long as no program termination even has occurred, the ABCPs can be backed either by an individual receivables portfolio (special series) or by the residual number of all remaining portfolios (general series).

As of 30 June 2012, LBBW is providing the purchasing companies Weinberg Funding Ltd. and Weinberg Capital Ltd. with liquidity lines amounting to EUR 2.45 billion, roughly EUR 1.16 billion of which pertains to transactions with trade receivables and some EUR 1.29 billion to transactions with interest-bearing receivables (above all leasing receivables). Neither Weinberg Funding Ltd. nor Weinberg Capital Ltd. are consolidated in the LBBW's annual financial statements for 2012.[1)]

LBBW is planning to expand this customer-driven business.

Additionally, in the advances to customers category, LBBW has invested in a senior tranche of a security backed by auto loans for an amount of around EUR 6.8 million. This term bond was structured by LBBW for a key account customer in the automotive sector.

1) The individual portfolios of receivables with the respective funding in Weinberg Funding Ltd. and Weinberg Capital Ltd. constitute so-called »cells« (transactions that can be limited in terms of reward and risk). Pursuant to IAS 27 in conjunction with SIC-12, Weinberg Funding Ltd. and Weinberg Capital Ltd. (as pure shells) are subject to consolidation requirements, but immaterial, and are therefore not to be included in the Consolidated Financial Statements. The individual cells are not subject to consolidation requirements. The seller of the receivable or third parties retain most of the rewards and risks.

3 Leveraged finance portfolio.

The general uncertainty on the financial and capital markets resulting from the sovereign debt crisis in which some southern European countries are embroiled and their unpredictable effects also impacted on the acquisition finance business in Germany. Players are acting with extreme caution, as a consequence of which less business was observed on the market overall. This also resulted in fewer new transactions by LBBW in the first half of 2012.

In connection with its overall credit strategy, LBBW is aligning its acquisition finance business to customer-oriented business in its German core market. By acquisition finance LBBW primarily understands finance for acquisitions involving a high degree of leverage (usually over 50%). This business area comprises both strategic purchase-price finance and succession arrangements as well as investments by financial investors in SMEs and large corporates. 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.

For its corporate customers LBBW provides the following services as part of its SME strategy: origination, structuring and arrangement as a mandated lead arranger or co-lead for regional as well as national high-commission syndicated acquisition financing transactions. In view of its trusting and long-standing relationships with SMEs, LBBW assumes fixed syndicate shares of 20–25% as part of a predominantly conservative »buy and hold«-strategy.

The acquisition finance portfolio was reduced by a further EUR 0.9 billion to EUR 3.8 billion on 30 June 2012 compared to the end of the previous year. This was principally the result of the syndication of a sizeable exposure, which was thus placed on a broader base. The focus of this business on Germany is shown by the fact that this region accounts for 95% of business transacted. The average exposure per investment was around EUR 40 million.

The following table lists the risk positions from around 100 acquisition finance corporate loans, according to sector and rating.

Sector distribution of leveraged finance portfolios as of 30 June 2012 (EUR 3.8 billion).

Sector	
Automobile	57.2%
Non-Industry-Specific Tools and Machine Construction	6.2%
Health Care	5.3%
Apparel, Sporting Equipment and Luxury Goods	4.6%
Chemicals	3.8%
Construction Industry	3.3%
Cross-Sector Services for Companies	3.1%
Conglomerates/Conglomerate Holding Companies	2.6%
Transport and Logistics	2.2%
Food Retail and Other Non-Cyclical Consumer Goods	1.8%
Other	9.9%
Total	**100.0%**

Figures may be subject to rounding differences.

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

Rating breakdown of the leveraged finance portfolio as of 30 June 2012.

	AAA to A–	BBB+	BBB	BBB–	BB+	BB	BB–	B+	B	B–	CCC+ to C	SD/D	NR	
Rating in %	2.1	3.2	16.3	7.1	8.8	48.9	2.3	1.8	1.1	0.0	1.0	7.5	0.0	100.0

Figures may be subject to rounding differences.

The rating in the portfolio continued to improve in the year 2012 under review. The average rating is now BB, with 86% of the portfolio in this rating class or higher. New business is mainly conducted in the BB to BB– rating classes. In this connection, however, 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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