Financial Stability Board Report

as of 31 December 2011.

Landesbank Baden-Württemberg

Content.

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 improving the markets' ability to function, creating transparency and reducing systemic risk. 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 of EUR 12.7bn 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 a securitization portfolio (guarantee portfolio) with a currently outstanding nominal volume of EUR 11.1bn as of 31 December 2011. LBBW bears the first loss from the guarantee portfolio up to an amount of EUR 1.9bn. 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. As of 31 December 2011, the first loss was placed in full on the balance sheet.

The remaining EUR 6.0bn 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 15.3bn as of 31 December 2011.[1] 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 2.3bn 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) 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 year on year as of 31 December 2011.

Outstanding volume in EURbn	31 December 2011	Absolute change over the previous period	30 June 2011	Absolute change over the previous period	31 December 2010
Total securitization	15.3	- 1.7	17.1	- 3.9	21.0
Customer transactions	2.3	0.1	2.2	0.1	2.1

Figures may be subject to rounding differences.

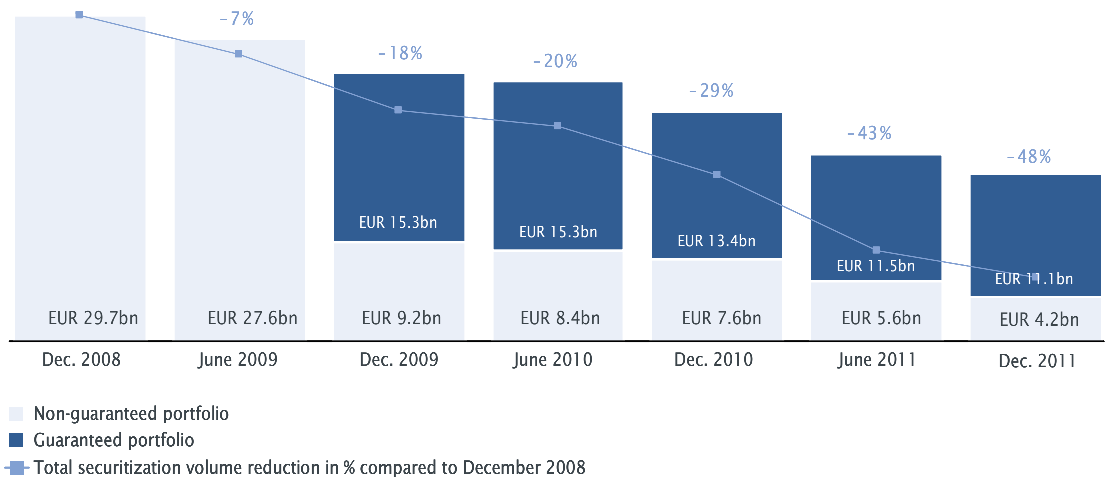
Compared with 30 June 2011, the securitization portfolio continued to contract steadily by a total of around EUR 1.7bn from EUR 17.1bn despite volatile and heavily counteracting exchange rate effects. On the one hand, the decline in the volume is due to repayments, write-downs and sales of around EUR 2.4bn (repayment effect). On the other hand, the remaining difference of around EUR 0.7bn is a result of counteracting exchange-rate trends (currency effect) resulting 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 majority of the portfolio (some 70 %) is characterized by securitization positions categorized as investment grade (rating class AAA to BBB) on the basis of the lowest ratings available in each case. 17 % of the positions (equivalent to EUR 2.5bn) 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 14.4bn (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.

Development of the LBBW securitization portfolio volume for the period from December 2008 to December 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 of stabilizing average market prices discernible for more than one year continued in the period under review, although market liquidity was still limited.

Customer transaction volumes rose again over 2010 as a whole by EUR 0.3bn, climbing from EUR 2.0bn to EUR 2.3bn. 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 statements effects.

Equity and income effects from the securitization portfolio in accordance with IFRS.[1)]

EUR m	Effects in income[2)]		Effects in equity[3)]	
Asset class	31.12.2011	31.12.2010	31.12.2011	31.12.2010
CDO	43	24	90	149
RMBS	46	31	41	89
CMBS	- 52	42	17	16
Other ABS	35	- 48	27	31
Total	**72**	**49**	**175**	**285**

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.

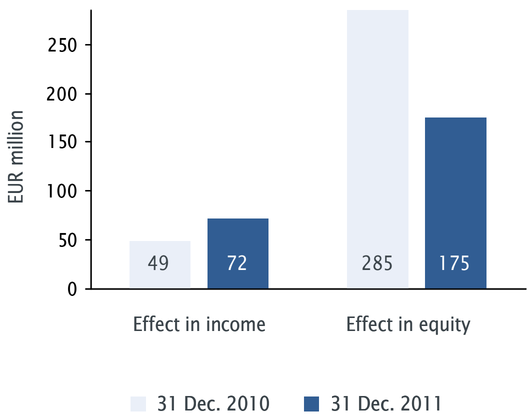
All the securitized products are included in LBBW's consolidated financial statements and are subject to ongoing market and risk assessment.

A positive earnings contribution of EUR 72m was achieved as a result of the generally favorable performance of the market in 2011 and the inclusion of the refund claim. In the case of the CMBS asset class, the necessary additions to impairments more than offset the contribution to earnings made by this class.

The effects of EUR 175m, reported in equity as of the end of the year chiefly arise from the expiry of recategorized holdings and partial repayments of holdings categories as AfS. The CDO asset class contributed around 52 % to this overall effect, RMBS and CMBS around 33 % and ABS around 15 %. As of the balance sheet date, almost 97 % of the securitizations were allocated to the »Loans and Receivables« (LaR) category and around 3 % to the »Available for Sale« (AfS) category.

In addition, fluctuation in market values and the recognition of impairments contributed to the change in the revaluation reserve.

Equity and income effects year on year.



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 EUR 15.3bn (June 2011: EUR 17.1bn) is presented in aggregated form for four product categories (asset classes).

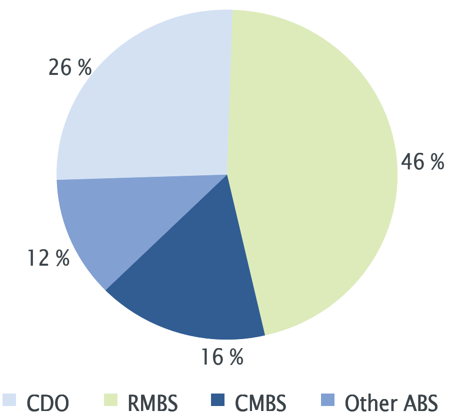
Securitization portfolio - outstanding volume per asset class (EUR 15.3bn).

Outstanding volume in EUR m as of 31 December 2011	AAA	AA	A	BBB	BB to B	CCC to C	D	NR	Total	
CDO	301	1,239	313	229	780	812	230	139	4,043	26.3 %
RMBS	1,711	1,778	1,051	371	594	1,054	412	0	6,971	45.4 %
CMBS	208	594	985	391	113	146	0	0	2,438	15.9 %
Other ABS	311	509	370	337	230	41	31	65	1,894	12.3 %
Total Investments	**2,531**	**4,121**	**2,719**	**1,328**	**1,717**	**2,053**	**673**	**204**	**15,347**	**100.0 %**
	16.5 %	**26.9 %**	**17.7 %**	**8.7 %**	**11.2 %**	**13.4 %**	**4.4 %**	**1.3 %**	**100.0 %**	

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

The portfolio volume breaks down by asset class as follows:

Securitization portfolio - relative asset class distribution (EUR 15.3bn).



The two asset classes RMBS and CDO continued to constitute the largest shares of the portfolio. RMBS transactions account for EUR 7.0bn (45 %) and chiefly originate from Spain (27 %), the United Kingdom (22 %) and the United States (23 %). The volume of CDO transactions comes to EUR 4.0bn (26 %).

The majority of CMBS transactions involve positions in the United Kingdom (48 %) and Germany (19 %). The asset class Other ABS most notably includes American student loans (25 %) and US/UK credit card securitizations (11 %) 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 24 % over the comparison date (30 June 2011) to some EUR 4.2bn. This decline was due to sales, repayments and write-downs of EUR 1.4bn predominantly in the RMBS (19 %) and Other ABS (38 %) asset classes. The reduction in the portfolio volume was offset by moderately counteracting currency effects of EUR 46m 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 3.9bn, 93 %) 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 m as of 31 December 2011	AAA	AA	A	BBB	BB to B	CCC to C	D	NR	Total	
CDO	59	415	118	77	78	0	0	0	748	17.6 %
RMBS	1,471	586	187	96	139	1	0	0	2,480	58.4 %
CMBS	0	141	62	44	19	0	0	0	266	6.3 %
Other ABS	193	198	203	100	47	0	0	10	750	17.7 %
Total Investments	**1,723**	**1,340**	**571**	**316**	**283**	**1**	**0**	**10**	**4,244**	**100.0 %**
	40.6 %	**31.6 %**	**13.4 %**	**7.5 %**	**6.7 %**	**0.0 %**	**0.0 %**	**0.0 %**	**100.0 %**	

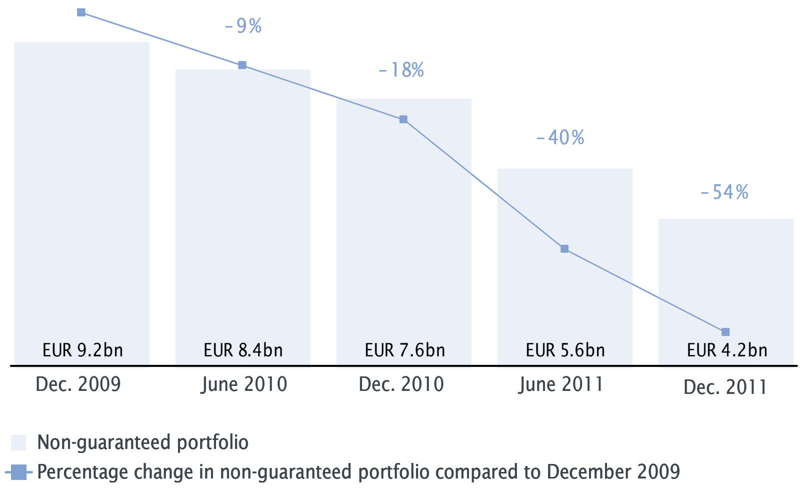
The lowest external rating was generally applied and mapped to S&P's rating scale. Figures may be subject to rounding differences.

With respect to regional diversification, it should be noted that non-guaranteed transactions are primarily concentrated in Europe (excluding the UK) (71 %).

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 1.5bn (compared with EUR 1.7bn as of 30 June 2011). At around EUR 1.1bn, Spain continues to account for the largest proportion. A detailed presentation of LBBW's exposure to the periphery countries can be found 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 December 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 roughly EUR 0.7bn (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 0.6bn (79 %), and synthetic securitizations of EUR 0.1bn (14 %).

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

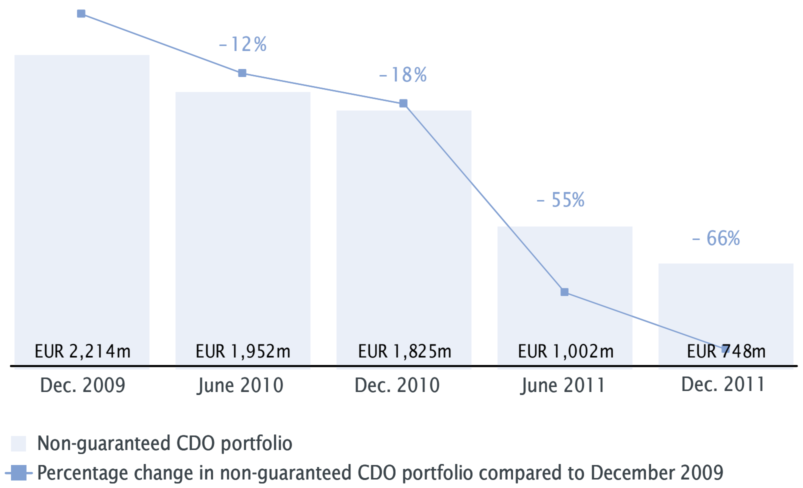
Outstanding volume in EUR m as of 31 December 2011	AAA	AA	A	BBB	BB to B	CCC to C	D	NR	Total	
Sub-asset class										
CDO of ABS	0	0	0	4	12	0	0	0	15	2.1 %
CLO	58	415	118	0	3	0	0	0	593	79.4 %
Synthetic CDO	0	0	0	53	50	0	0	0	103	13.8 %
Other CDO	2	0	0	20	14	0	0	0	36	4.8 %
Total CDO	**59**	**415**	**118**	**77**	**78**	**0**	**0**	**0**	**748**	**100.0 %**
	7.9 %	55.5 %	15.8 %	10.3 %	10.5 %	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 improved slightly over the previous period and that 89 % of the volume is now investment grade. The, on average, high rating levels of the sub-portfolio analyzed here particularly stabilized through the sale of synthetic CDOs - positions rated BBB or CCC to C.

This is also reflected in the improved seniority structure. 77 % of the CDO volume comprises most senior tranches.

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



Figures may be subject to rounding differences.

The sub-portfolio under review is dominated by transactions issued in 2005 to 2007 (78 %).

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 2.5bn (58 %) and is thus down by around EUR 0.6bn (19 %) compared with June 2011.

The vast majority of the volume - both as a total and relative to the individual sub-asset classes - continues to have the highest rating (AAA). A moderate volume of around EUR 140m (6 %) has a non-investment-grade rating.

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

Outstanding volume in EUR m as of 31 December 2011	AAA	AA	A	BBB	BB to B	CCC to C	D	NR	Total	
Country/sub-asset class										
USA	1	2	2	7	2	1	0	0	14	0.6 %
of which US Alt-A	1	2	0	7	0	0	0	0	9	64.3 %
of which US subprime	0	0	2	0	0	0	0	0	2	14.3 %
UK	116	21	92	0	0	0	0	0	229	9.2 %
of which UK non-conforming	3	21	0	0	0	0	0	0	24	10.5 %
Spain	524	448	58	0	0	0	0	0	1,031	41.6 %
Other RMBS	829	115	36	89	137	0	0	0	1,206	48.6 %
Total RMBS	**1,471**	**586**	**187**	**96**	**139**	**1**	**0**	**0**	**2,480**	**100.0 %**
	59.3 %	**23.6 %**	**7.6 %**	**3.9 %**	**5.6 %**	**0.1 %**	**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.

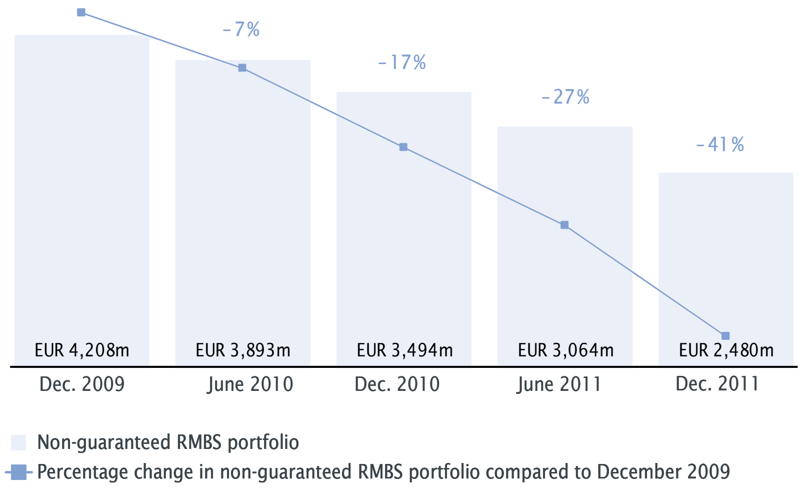
In this segment, LBBW has only minor exposure to the United States (EUR 14m), particularly in the US Alt-A and subprime segment, predominantly investments issued in 2003 and 2004.

Securitizations with a UK reference all have investment-grade ratings, with the largest portion of the volume issued in 2006 (48 %).

The Spanish RMBS portfolio of approx. EUR 1.0bn - predominantly most senior positions (84 %) and issue years 2003 (22 %) and 2006 (25 %) - continues to constitute the most significant proportion of the non-guaranteed RMBS portfolio (42 %). In addition, these securities again exhibit high ratings.

Securities in the Other RMBS category mostly have investment-grade ratings and are primarily attributable to European countries such as the Netherlands (27 %) and Italy (5 %). The portfolio volume of asset-backed securities with Greek and Irish reference has continued to decline to a current outstanding volume of EUR 226m (June 2011: EUR 237m), with ratings unchanged in the BB and BB to B categories.

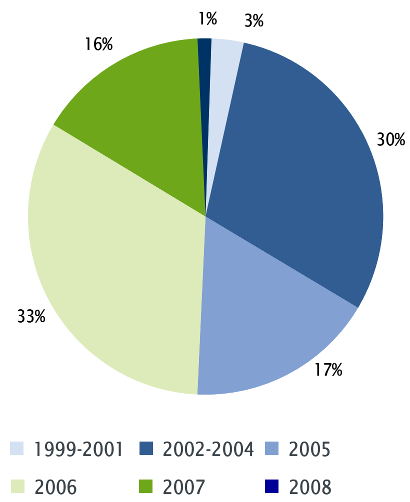
Development of the non-guaranteed RMBS portfolio volume for the period from December 2009 to December 2011.



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 (EUR 2.5bn).



The non-guaranteed RMBS portfolio has the largest volume for issue years 2005-2007 (EUR 1.6bn; June 2011 EUR 2.1bn) and the lowest volume for 2008 at a virtually unchanged EUR 13m.

1.5.3 CMBS portfolio for non-secured assets.

The CMBS portfolio volume not guaranteed by the State of Baden-Württemberg (6 % of the portfolio) dropped by EUR 5m compared with June 2011 to EUR 266m and is chiefly backed by real estate used for office and retail purposes in Europe.

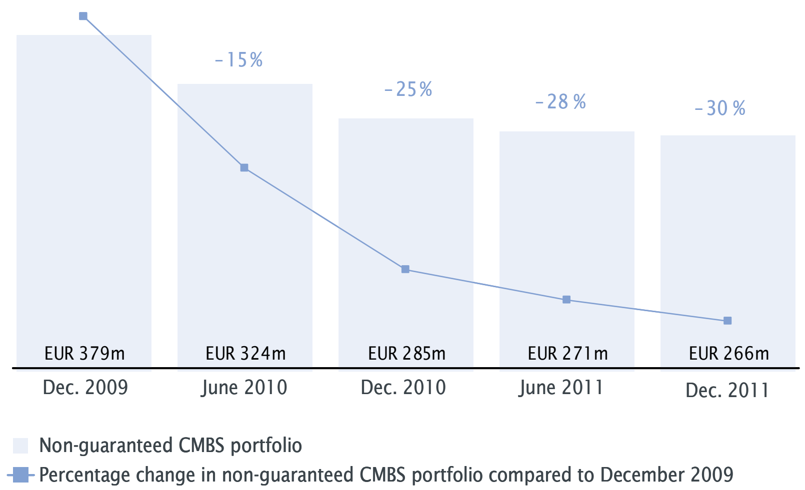
Assets not secured by the state risk shield - CMBS breakdown by country and rating.

Outstanding volume in EUR m as of 31 December 2011		AAA	AA	A	BBB	BB to B	CCC to C	D	NR	Total	
Asset class	Country										
CMBS	Europe*	0	0	5	24	19	0	0	0	48	17.9 %
	Spain	0	36	0	0	0	0	0	0	36	13.4 %
	Germany	0	42	43	20	0	0	0	0	104	39.2 %
	UK	0	33	15	0	0	0	0	0	48	17.9 %
	Singapore	0	31	0	0	0	0	0	0	31	11.6 %
Total CMBS		**0**	**141**	**62**	**44**	**19**	**0**	**0**	**0**	**266**	**100.0 %**
		0.0 %	52.9 %	23.4 %	16.5 %	7.2 %	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 under consideration is rated investment grade (93 %). Of this, 87 % comprises most senior positions.

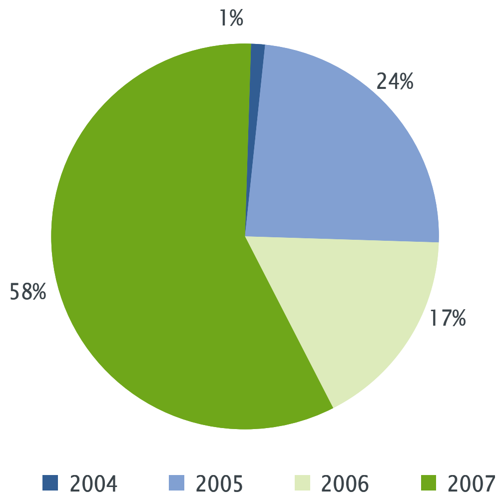
Development of the non-guaranteed CMBS portfolio volume for the period from December 2009 to December 2011.



Figures may be subject to rounding differences.

In addition, this asset class comprises almost solely issues from 2005 to 2007 of EUR 262m with a regional concentration on Germany (39 %) and the United Kingdom (18 %).

Non-guaranteed CMBS portfolio distribution by year of issue (EUR 266m).



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 11.1bn. A full year comparison (since December 2010) thus reveals a further substantial reduction in the outstanding guaranteed volume from EUR 13.4bn by EUR 2.3bn. In the wake of volatility in the foreign exchange market, the second half of the year in particular saw a more moderate decline of EUR 0.4bn in the portfolio (overall effect). This overall effect is the result of repayments and write-downs of around EUR 1.0bn as well as currency effects moving in the opposite direction to the portfolio reduction amounting to EUR 0.6bn (appreciation of foreign currencies depreciation in EUR, respectively).

The assets underlying the investments originate predominantly in Europe (55 %) and America (40 %). The portfolio under review continues to include assets with a reference to the periphery countries of around EUR 1.9bn (17 %), with Spain making the largest contribution of around EUR 1.0bn 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 m as of 31 December 2011	AAA	AA	A	BBB	BB to B	CCC to C	D	NR	Total	
Sub-asset class										
CDO	242	823	195	152	702	812	230	139	3,295	29.7 %
RMBS	240	1,193	864	276	455	1,052	412	0	4,492	40.5 %
CMBS	208	454	923	348	94	146	0	0	2,172	19.6 %
Other ABS	119	311	167	237	183	41	31	55	1,144	10.3 %
Total Investments	**808**	**2,781**	**2,149**	**1,012**	**1,434**	**2,052**	**673**	**194**	**11,103**	**100.0 %**
	7.3 %	**25.0 %**	**19.4 %**	**9.1 %**	**12.9 %**	**18.5 %**	**6.1 %**	**1.7 %**	**100.0 %**	

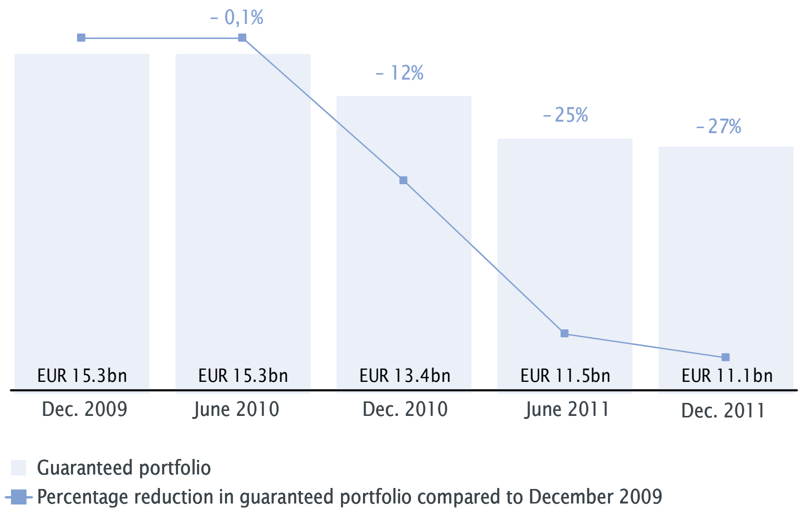
The lowest external rating was generally applied and mapped to S&P's rating scale. Figures may be subject to rounding differences.

In the guarantee portfolio, the majority of investments (EUR 6.8bn, 61 %) 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 1.9bn (»First Loss«). Losses in excess of the first loss are absorbed by the guarantee of the State of Baden-Württemberg, which amounts to EUR 6.7bn. Aggregate losses from the guaranteed portfolio which exceed the figure of EUR 8.6bn are in turn borne by LBBW. As of 31 December 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 December 2011.



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.

The CDO portfolio volume covered by the guarantee at around EUR 3.3bn remained almost unchanged due to counteracting exchange rate effects compared with June 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 m as of 31 December 2011	AAA	AA	A	BBB	BB to B	CCC to C	D	NR	Total	
Sub-asset class										
CDO of ABS	7	7	20	6	367	292	116	45	859	26.1 %
CLO	228	711	154	77	9	0	0	34	1,213	36.8 %
Synthetic CDO	0	0	0	0	0	0	50	60	110	3.3 %
CDO of TruPS	2	98	0	2	88	467	64	0	722	21.9 %
Other CDO	5	8	22	66	238	53	0	0	392	11.9 %
Total CDO	**242**	**823**	**195**	**152**	**702**	**812**	**230**	**139**	**3,295**	**100.0 %**
	7.3 %	**25.0 %**	**5.9 %**	**4.6 %**	**21.3 %**	**24.6 %**	**7.0 %**	**4.2 %**	**100.0 %**	

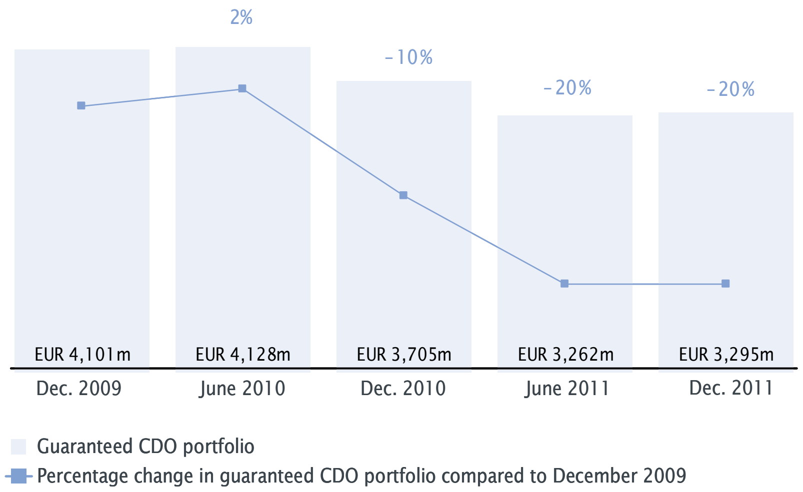
The lowest external rating was generally applied and mapped to S&P's rating scale. Figures may be subject to rounding differences.

Almost half of the guaranteed CDO portfolio has an investment-grade rating (43 %). 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 asset classes. Despite ongoing repayments for the particular sub-portfolio, the outstanding volume rose slightly in the current period as a consequence of counteracting exchange rate effects. Moreover, the seniority structure of the guaranteed CDO positions remained relatively 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 December 2011.



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

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 4.5bn. The majority of these have investment-grade ratings (57 %). The RMBS portfolio again primarily refers to the US (36 %), the UK (29 %) and the Spanish market (19 %). In addition, the main issue years were 2006 and 2007 which contributed a cumulative total amount of EUR 3.5bn.

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

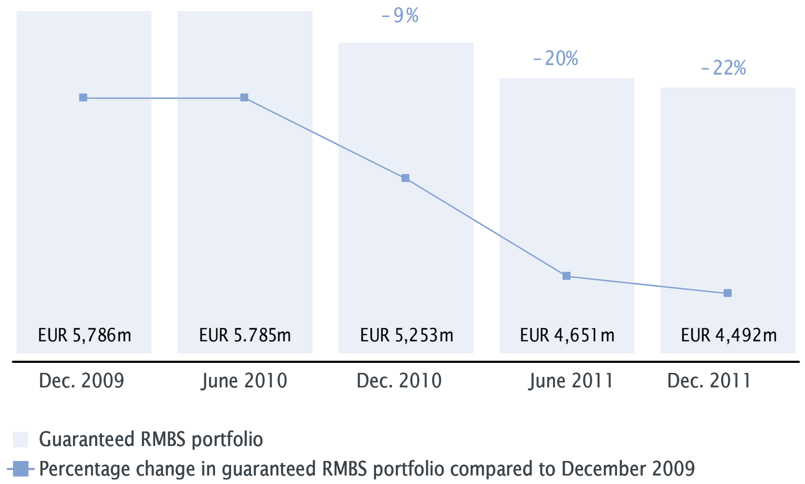
Outstanding volume in EUR m as of 31 December 2011	AAA	AA	A	BBB	BB to B	CCC to C	D	NR	Total	
Country/sub-asset class										
USA	0	16	10	19	95	1,045	412	0	1,597	35.5 %
of which US Alt-A	0	0	7	19	42	824	412	0	1,304	81.7 %
of which US subprime	0	0	0	0	0	190	0	0	190	11.9 %
UK	127	774	379	0	39	0	0	0	1,319	29.4 %
of which UK non-conforming	95	770	213	0	39	0	0	0	1,118	84.8 %
Spain	48	174	289	7	321	0	0	0	839	18.7 %
Other RMBS	65	229	187	249	0	7	0	0	737	16.4 %
Total RMBS	**240**	**1,193**	**864**	**276**	**455**	**1,052**	**412**	**0**	**4,492**	**100.0 %**
	5.3 %	26.6 %	19.2 %	6.1 %	10.1 %	23.4 %	9.2 %	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 and have already been largely written down.

The volume of non-investment grade securitizations (43 %) chiefly comprises the rating classes CCC to C and D. Moreover, the majority of these transactions refer to US underlyings. Furthermore, issues from the crisis years of 2006 (EUR 0.9bn) and 2007 (EUR 0.8bn) account for most of the volume within the guaranteed RMBS portfolio.

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



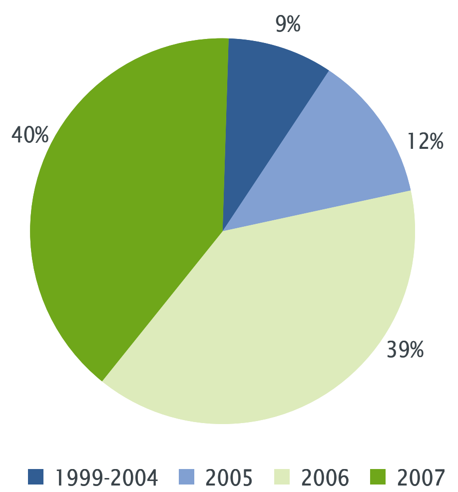
Figures may be subject to rounding differences.

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

Most of the guaranteed Spanish RMBS volume amounting to EUR 839m is classified as investment grade (62 %). 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 %); please additionally refer to section 1.7.

Guaranteed RMBS portfolio distribution by year of issue **(EUR 4.5bn).**



1.6.3 CMBS portfolio for secured assets.

CMBS positions (roughly EUR 2.2bn) 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 89 % of the securities rated investment grade.

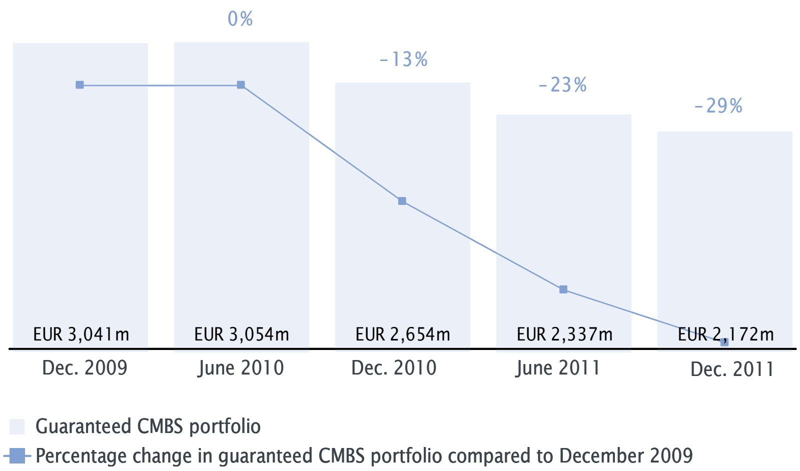
Assets secured by the state risk shield - CMBS breakdown by country and rating.

Outstanding volume in EUR m as of 31 December 2011 Country/asset class		AAA	AA	A	BBB	BB to B	CCC to C	D	NR	Total	
CMBS	UK	0	384	369	242	31	98	0	0	1,124	51.8 %
	Germany	0	0	310	57	0	0	0	0	367	16.9 %
	The Netherlands	73	0	10	0	0	0	0	0	83	3.8 %
	Europe*	0	0	187	0	0	44	0	0	230	10.6 %
	USA	89	41	39	13	12	5	0	0	198	9.1 %
	France	13	28	0	0	50	0	0	0	90	4.2 %
	Austria	34	0	6	0	0	0	0	0	40	1.8 %
	Ireland	0	0	0	36	0	0	0	0	36	1.7 %
	Japan	0	0	3	0	0	0	0	0	3	0.1 %
Total CMBS		**208**	**454**	**923**	**348**	**94**	**146**	**0**	**0**	**2,172**	**100.0 %**
		9.6 %	20.9 %	42.5 %	16.0 %	4.3 %	6.7 %	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 CMBS portfolio is focused on the UK (52 %) and German markets (17 %).

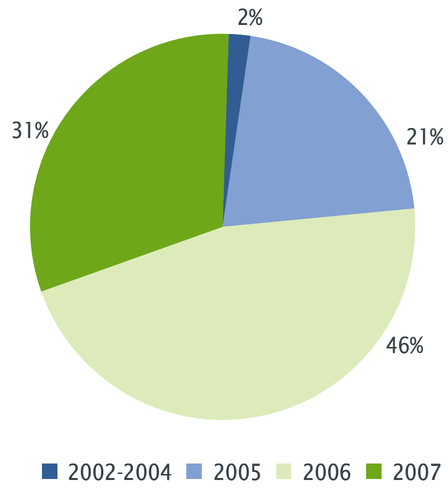
Development of the guaranteed CMBS portfolio volume for the period from December 2009 to December 2011.



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 in 2005 and 2006, while the German CMBS volume comprises 2006 and 2007 issues.

Guaranteed CMBS portfolio distribution by year of issue (EUR 2.2bn).



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. Particularly Greece and Portugal even beyond the period under review. As a result, rating migrations arose again in the second half of 2011 (country credit rating downgrade) 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 3.4 billion, equivalent to around 22 % of its total securitization volume. Moreover, the bulk of EUR 1.9bn is guaranteed.

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

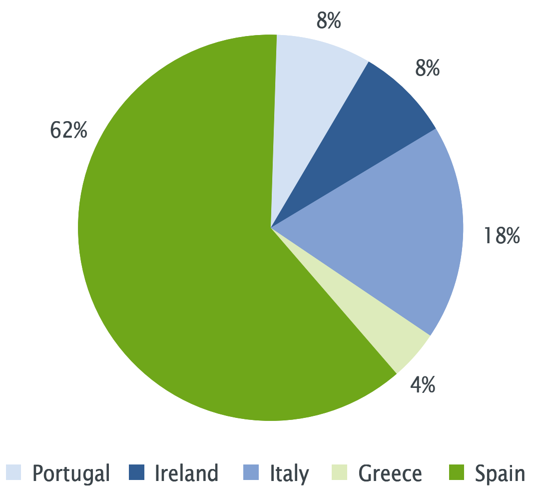
Outstanding volume in EUR m as of 31 December 2011 Country/Asset class		AAA	AA	A	BBB	BB to B	CCC to C	D	NR	Total	Country /asset class share	As of 30 June 2011	Country /asset class share
CDO	Portugal	0	0	0	23	0	0	0	0	23	8.7 %	33	10.4 %
	Ireland	0	0	0	0	0	0	0	0	0	0.0 %	0	0.0 %
	Italy	0	0	0	0	90	0	0	0	90	33.4 %	90	28.6 %
	Greece	0	0	0	0	0	0	0	0	0	0.0 %	0	0.0 %
	Spain	29	28	89	10	0	0	0	0	156	57.9 %	192	61.0 %
Total CDO		**29**	**28**	**89**	**34**	**90**	**0**	**0**	**0**	**269**	**100.0 %**	**314**	**100.0 %**
RMBS	Portugal	0	0	92	157	0	0	0	0	249	8.6 %	260	8.4 %
	Ireland	0	0	35	181	14	7	0	0	237	8.2 %	240	7.8 %
	Italy	176	168	63	0	0	0	0	0	406	14.1 %	486	15.7 %
	Greece	0	0	0	0	123	0	0	0	123	4.3 %	131	4.2 %
	Spain	572	623	347	7	321	0	0	0	1,869	64.8 %	1,977	63.9 %
Total RMBS		**748**	**791**	**536**	**346**	**458**	**7**	**0**	**0**	**2,885**	**100.0 %**	**3,094**	**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	49.8 %	36	49.7 %
	Italy	0	1	0	0	0	0	0	0	1	1.0 %	1	1.1 %
	Greece	0	0	0	0	0	0	0	0	0	0.0 %	0	0.0 %
	Spain	0	36	0	0	0	0	0	0	36	49.2 %	36	49.1 %
Total CMBS		**0**	**36**	**0**	**36**	**0**	**0**	**0**	**0**	**72**	**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	24	81	0	0	0	0	0	0	105	58.8 %	217	66.5 %
	Greece	0	0	0	0	0	0	0	0	0	0.0 %	0	0.0 %
	Spain	4	22	17	0	31	0	0	0	74	41.2 %	109	33.5 %
Total Other ABS		**28**	**103**	**17**	**0**	**31**	**0**	**0**	**0**	**179**	**100.0 %**	**326**	**100.0 %**
Total investments of the peripheral countries		**805**	**958**	**642**	**415**	**579**	**7**	**0**	**0**	**3,406**	**100.0%**	**3,807**	**100.0 %**
		23.6	28.1%	18.9%	12.2%	17.0%	0.2 %	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.

The securities with a proportionate volume of EUR 2.8bn (83 %) 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 2.1bn (62 %), followed by Italy at approx. EUR 0.6bn (18 %). In comparison to the total periphery volume, LBBW is exposed to only a minor extent to Greece (around EUR 123m) and assets with underlying collateral referring to Portugal (around EUR 272m).

Securitization portfolio – share of the periphery countries in the non-guaranteed and guaranteed portfolio (EUR 3.4bn).



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 17.3bn 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 2.75bn 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 papers issued by the »Weinberg« multiseller conduit take the form of either EUR commercial papers (issuer: Weinberg Capital Ltd., Dublin) or, since 2011, US commercial papers (issuer: Weinberg Capital Ltd., Dublin with the co-issuer Weinberg Capital LLC, Delaware). The ABCPs have a short-term rating of P-1 (Moody's) and F1+ (Fitch). Moreover, as long as no »program termination event« 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 31 December 2011, LBBW is providing the purchasing companies Weinberg Funding Ltd. and Weinberg Capital Ltd. with liquidity lines amounting to EUR 2.3bn, roughly EUR 1.1bn of which pertains to transactions with trade receivables and some EUR 1.2bn 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 2011.[1]

LBBW is planning to expand this customer-driven business.

Additionally, LBBW is invested in a senior tranche backed by auto loans in the amount of around EUR 12.8m. This term bond was structured by LBBW for a key account customer in the automotive sector.

[1] The individual portfolios of receivables with the related funding in Weinberg Funding Ltd and Weinberg Capital Ltd. constitute »cells« (transactions which can be delineated by opportunities and risks). In accordance with IAS 27 in connection with SIC-12, Weinberg Funding Ltd. and Weinberg Capital Ltd. (as pure mantles) must be consolidated but are of subordinate importance and are therefore not included in the consolidated financial statements. The individual cells are not subject to compulsory consolidation. Most of the opportunities and risks accruing to each cell remain with the seller of the receivables or third parties.

3 Leveraged finance portfolio.

In connection with its overall credit strategy, LBBW is also aligning its acquisition finance business to customer-oriented business. With the general recovery in the German economy in 2011, the acquisition finance market gained some momentum, with new transactions up on the previous years. The growing economic uncertainties towards the end of the year - particularly as a result of the European debt crisis - caused the market to weaken again.

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 banking business with large corporates, the bank supports customers in debt-financed strategic acquisition finance and succession planning. Moreover, investments by financial investors in small and medium-sized corporate customers and in large corporates are financed in this area of business. 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 long-standing relationships with SMEs, LBBW assumes fixed syndicate shares of 20 to 25 % as part of a predominantly »buy and hold« strategy.

The acquisition finance portfolio contracted again by EUR 0.3bn to EUR 4.8bn as of 31 December 2011. This result can be traced back to a further reduction in the share of exposure to Europe (excluding Germany) and North America transactions as well as the moderate volume growth in new business. With a share of 95 %, Germany accounts for the bulk of this business. The average exposure per investment was around EUR 46 million.

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

Sector distribution of leveraged finance portfolios as of 31 December 2011 (EUR 4.8bn).

Sector	
Automotive	64.1 %
Non-industry-specific tools and mechanical engineering	5.9 %
Health care	4.0 %
Construction	2.4 %
Clothing, sporting equipment and luxury goods	2.5 %
Conglomerates/conglomerate holding companies	2.9 %
Chemicals	3.6 %
Cross-sector services for companies	2.1 %
Food retail and other non-cyclical consumer goods	1.8 %
Agriculture and food production	1.8 %
Other	8.8 %
Total	**100.0 %**

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 31 December 2011.

Rating	AAA - A-	BBB+	BBB	BBB-	BB+	BB	BB-	B+	B	B-	CCC+ - C	SD/D	NR
in %	0.6 %	3.2 %	12.5 %	5.1 %	6.0 %	59.1 %	3.2 %	3.1 %	0.2 %	0.1 %	0.7 %	6.1 %	0.0 %

The average rating was unchanged at BB, with 87 % 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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