Financial Stability Board Report

as of 31 December 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 German 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 fulfills the main recommendations of the FSB by publishing this report.

Detailed information on the securitization portfolio attributable to the periphery countries (Portugal, Ireland, Italy, Greece and Spain) and on 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 granted 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 an outstanding nominal volume of EUR 9.1 billion as at 31 December 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 at 31 December 2012, the first loss was recognized 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 11.5 billion as at 31 December 2012.[1] This includes the Georges Quay Funding I Ltd. vehicles and fund investments (LAAM funds) acquired from the former Sachsen LB. LBBW is also exposed to customer transactions amounting to EUR 2.3 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) 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 at 31 Dec. 2012.

Outstanding volume in EUR billion	31 Dec. 2012	Absolute change over the previous period	30 June 2012	Absolute change over the previous period	31 Dec. 2011
Total securitization volume	11.5	-2.0	13.5	-1.8	15.3
Customer transactions	2.3	-0.1	2.4	0.1	2.3

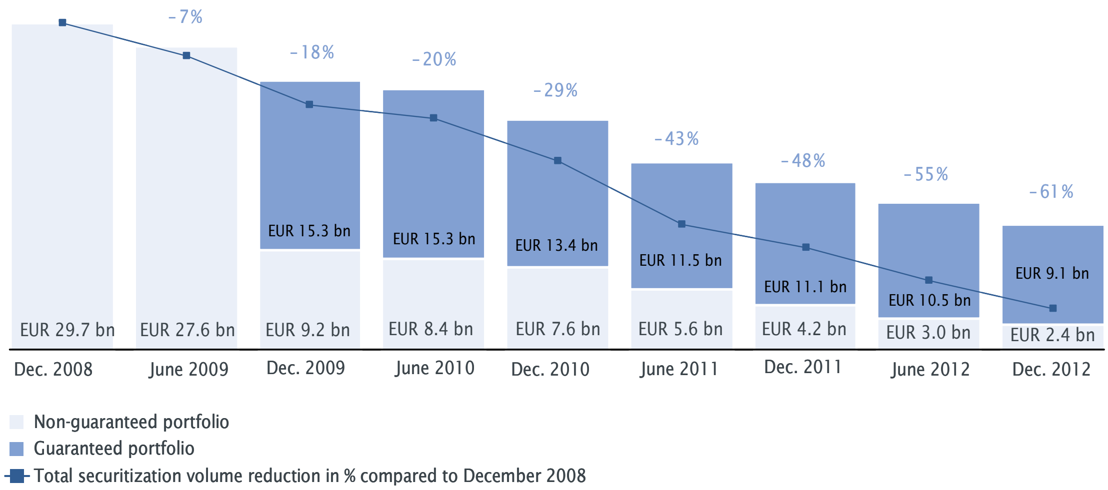
Figures may be subject to rounding differences.

Compared with 30 June 2012, the securitization portfolio continued to contract steadily by a total of around EUR 2.0 billion from EUR 13.5 billion, despite volatile exchange rate effects. On the one hand, this decline in the volume is due to repayments, write-downs and sales of around EUR 1.74 billion (repayment effect). The remaining difference of around EUR 0.21 billion is a result of counteracting exchange-rate trends (currency effect). The currency effect stems from a rise in the nominal EUR exchange rate against the USD and GBP, which led to a further reduction in the volume of assets denominated in the foreign currency in question. The greater part of the portfolio (some 61%) is characterized by securitization positions categorized as investment grade (rating class AAA to BBB). 4.9 % of the positions (equivalent to EUR 0.6 billion) are rated AAA.

In a comparison with the first reporting period (December 2008), the overall securitization portfolio volume declined by EUR 18.2 billion (some 61%). As such, LBBW continues to pursue the defined restructuring goals of gradually reducing risk through the orderly reduction of the securitization volume and opportunistic sales.

1) 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 December 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 declined compared to the previous period by a total of EUR 0.1 billion, falling from EUR 2.4 billion to EUR 2.3 billion. LBBW plans to continue the successful expansion of its customer-driven business (see section 2).

1.3 Development of equity and profit and loss effects.

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

EUR million	Effects in income[2)]		Effects in equity[3)]	
Asset class	31 Dec. 2012	31 Dec. 2011	31 Dec. 2012	31 Dec. 2011
CDO	51	43	82	90
RMBS	- 70	46	35	41
CMBS	- 10	- 52	9	17
Other ABS	43	35	15	27
Total	**14**	**72**	**141**	**175**

1) Statement without proprietary trading. 2) Recognized in income: change in profit and loss account (P&L). 3) Recognized in equity: change in equity item (revaluation reserve).
Figures may be subject to rounding differences.

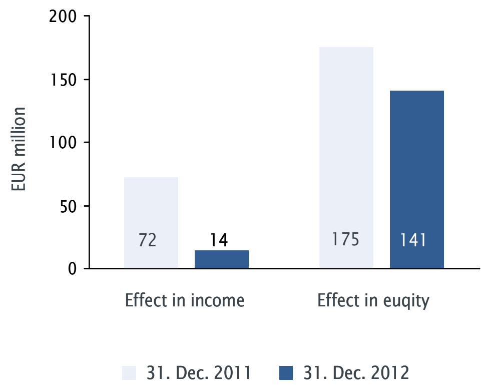
All the securitized products are included in LBBW's consolidated financial statements and are subject to ongoing market and risk assessment.

A positive earnings contribution totaling EUR 14 million was achieved in the financial year. While CDO profits stabilized, the overall result was burdened above all by losses from disposals in RMBS. The spread tightening based on business and sovereign names that was determined during the second half of the year, in particular, led to reversals of impairment losses and therefore to a positive result among the other asset classes.

In the 2012 financial year too, the effect of EUR 141 million reported in equity was due chiefly to the expiry of recategorized portfolios and/or partial repayments of holdings categorized as AfS that had already been effected. In addition, the positive market development and the partial recognition of impairments impacted on the change in the revaluation reserve. The decision taken by the European Central Bank in September to stabilize the monetary union had a huge influence on the market situation.

The CDO asset class contributed around 58% to the changes in the revaluation reserve, RMBS and CMBS together around 31% and Other ABS around 11%. As a result of the strategically targeted run-down, as at the balance sheet date 99% of the securitizations were allocated to the »Loans and Receivables« (LaR) category and only 1% to the »Available for Sale« (AfS) category.

Equity and P&L 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 receivables from 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 sections. 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 11.5 billion (June 2012: EUR 13.5 billion) is presented in aggregated form for four product categories (asset classes).

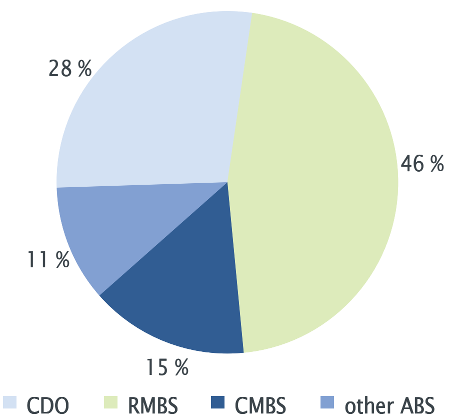
Securitization portfolio – outstanding volume per asset class (EUR 11.5 billion).

Outstanding volume in EUR million as of 31 December 2012	AAA	AA	A	BBB	BB to B	CCC to C	D	NR	Total	
CDO	318	900	306	141	697	623	146	78	3,210	27.9%
RMBS	76	639	1,654	729	919	925	300	0	5,242	45.5%
CMBS	45	356	472	392	264	167	39	0	1,736	15.1%
Other ABS	125	374	372	149	166	94	0	42	1,323	11.5%
Total Investments	**564**	**2,269**	**2,805**	**1,412**	**2,046**	**1,809**	**485**	**120**	**11,511**	**100.0%**
	4.9%	**19.7%**	**24.4%**	**12.3%**	**17.8%**	**15.7%**	**4.2%**	**1.0%**	**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 portfolio volume breaks down by asset class as follows:

Securitization portfolio – relative asset class distribution (around EUR 11.5 billion).



The two asset classes RMBS and CDO constitute the largest shares of the portfolio. RMBS transactions account for EUR 5.2 billion (46%) and chiefly originate from Spain (32%), the United Kingdom (25%) and the United States (25%). The volume of CDO transactions comes to EUR 3.2 billion (28%).

The majority of CMBS transactions involve positions in the United Kingdom (53%) and Germany (22%). The Other ABS asset class most notably includes American student loans (26%) and US/UK credit card securitizations (2%) 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 20% over the comparison date (30 June 2012) to some EUR 2.4 billion. This overall effect is the result of repayments and sales of EUR 0.6 billion, predominantly in the RMBS (63%) and CDO (15%) and CMBS (15%) asset classes together with currency effects totaling some EUR 7 million (foreign currency devaluation and EUR appreciation).

As was the case in the previous periods, the vast majority (EUR 2.2 billion, 92.6%) of the non-guaranteed portfolio volume is again characterized by investment-grade ratings. Despite the re-payment 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 31 December 2012	AAA	AA	A	BBB	BB to B	CCC to C	D	NR	Total	
CDO	47	189	194	16	2	0	0	0	448	18.5%
RMBS	49	139	767	279	100	0	0	0	1,334	54.9%
CMBS	0	41	4	43	35	0	0	0	124	5.1%
Other ABS	125	130	181	44	42	0	0	0	522	21.5%
Total Investments	**222**	**500**	**1,145**	**382**	**180**	**0**	**0**	**0**	**2,429**	**100.0%**
	9.1%	**20.6%**	**47.2%**	**15.7%**	**7.4%**	**0.0%**	**0.0%**	**0.0%**	**100.0%**	

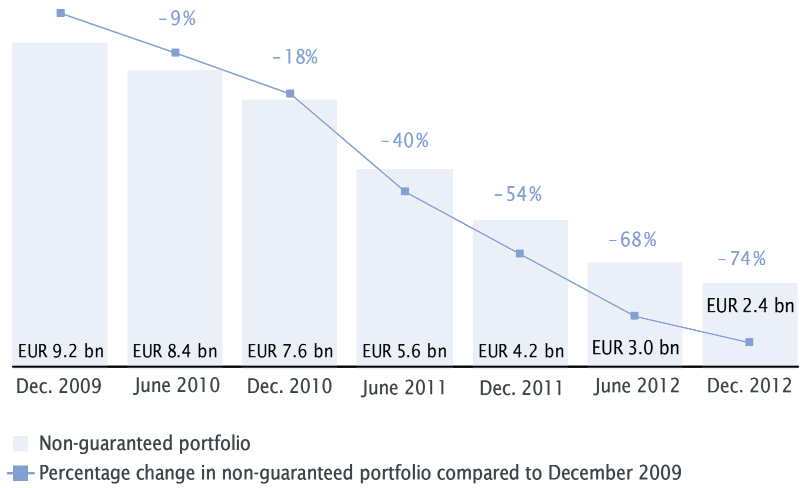
The lowest external rating was generally applied and mapped to S&P's rating scale.
Figures may be subject to rounding differences.

With respect to regional diversification, it should be noted that non-guaranteed transactions are primarily concentrated in Europe (excluding the UK) (74.6%).

The securitization volume attributable to the countries severely affected by the debt crisis, namely Portugal, Italy, Ireland, Greece and Spain (periphery countries) is virtually unchanged over the previous period at EUR 1.2 billion (compared with EUR 1.3 billion as at 30 June 2012). At around 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 December 2012.



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 0.4 billion now consists virtually exclusively of the CLOs (99.6%) backed by corporate loans.

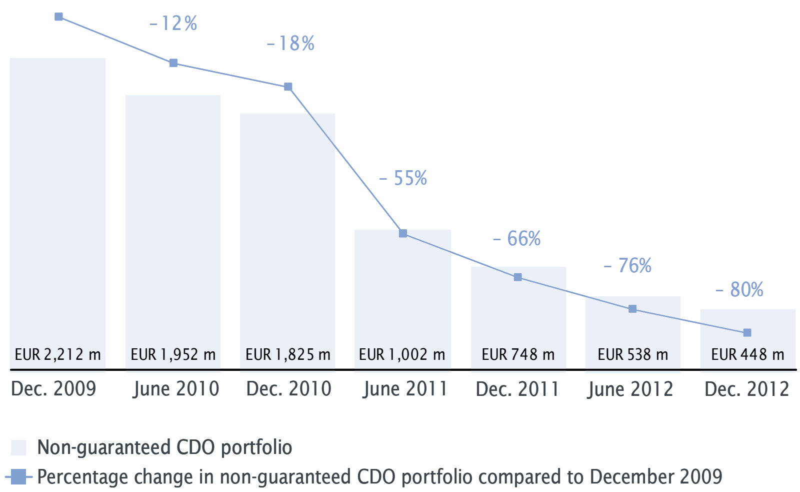
Assets not secured by the state risk shield - CDO breakdown by sub-asset class and rating as at 31 December 2012.

Outstanding volume in EUR million as of 31 December 2012 Sub-Asset Class	AAA	AA	A	BBB	BB to B	CCC to C	D	NR	Total	
CDO of ABS	0	0	0	2	0	0	0	0	2	0.4%
Other CDO	47	189	194	14	2	0	0	0	447	99.6%
Total CDO	**47**	**189**	**194**	**16**	**2**	**0**	**0**	**0**	**448**	**100.0%**
	10.5%	**42.1%**	**43.3%**	**3.5%**	**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 December 2012.



Figures may be subject to rounding differences.

Most of 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 1.3 billion (55%) and is thus down by around EUR 0.4 billion (22.4%) compared with the June 2012 figure of EUR 1.7 billion.

Apart from EUR 100 million, the entire volume of the non-guaranteed RMBS portfolio is in the investment-grade range, mostly with a rating of A or above. The substantial increase in the percentage with a BBB rating compared with 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 31 December 2012 Country/Sub-Asset Class	AAA	AA	A	BBB	BB to B	CCC to C	D	NR	Total	
USA	0	0	2	0	0	0	0	0	2	0.1%
of which US Alt-A	0	0	2	0	0	0	0	0	2	100.0%
of which US subprime	0	0	0	0	0	0	0	0	0	0.0%
UK	0	7	105	0	0	0	0	0	112	8.4%
of which UK non-conforming	0	7	0	0	0	0	0	0	7	6.6%
Spain	0	81	566	278	3	0	0	0	928	69.6%
Other RMBS	49	51	94	1	97	0	0	0	292	21.9%
Total RMBS	**49**	**139**	**767**	**279**	**100**	**0**	**0**	**0**	**1,334**	**100.0%**
	3.7%	**10.4%**	**57.5%**	**20.9%**	**7.5%**	**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.
Percentages in the »of which« lines refer to the volume reported for the country in question.

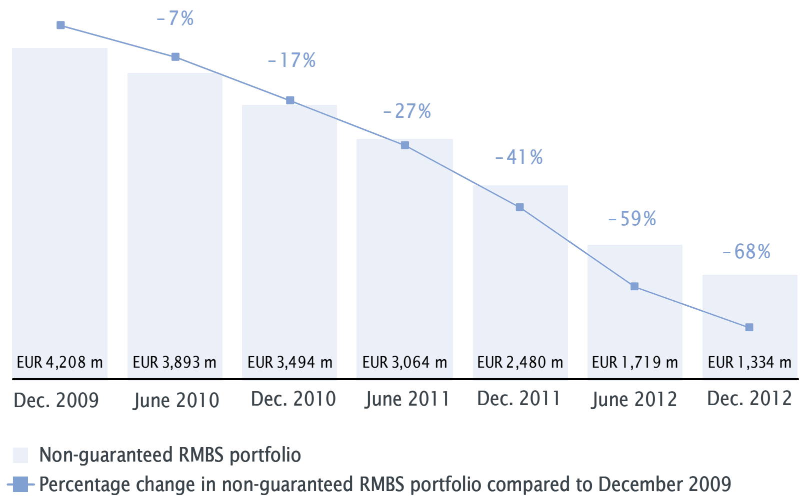
In this segment, LBBW now has only minor exposure to the United States (EUR 2 million), exclusively in the US Alt-A segment, predominantly investments issued between 2002 and 2004.

Furthermore, securitizations with a UK reference all have investment-grade ratings. The remaining transactions originate from the years 2002 to 2006.

The Spanish RMBS portfolio of approx. EUR 0.9 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 (70%).

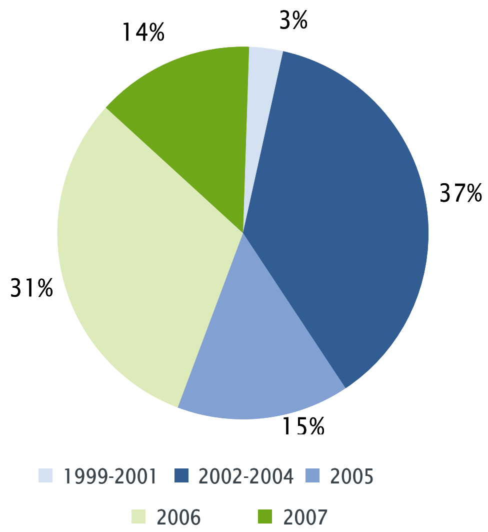
Securities in the Other RMBS category mostly have investment-grade ratings and are primarily attributable to European countries such as Ireland (33%), France (13%) and Italy (29%). The portfolio volume of asset-backed securities with Irish reference continues to decline to a current out-standing volume of EUR 97 million (cf. June 2012: EUR 100 million), with ratings in the categories BB to B.

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



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

Non-guaranteed RMBS portfolio distribution by year of issue (EUR 1.3 billion).



At EUR 0.8 billion (June 2012 EUR 1.0 billion), the non-guaranteed RMBS portfolio has the largest volume for issue years 2005 – 2007 and the lowest volume for the years 1999-2001 at EUR 40.7 million.

1.5.3 CMBS portfolio for non-secured assets.

The CMBS portfolio volume not guaranteed by the State of Baden-Württemberg (5% of the portfolio) dropped by EUR 89 million compared with June 2012 to EUR 124 million. It is chiefly backed by real estate used for office and retail purposes in Europe.

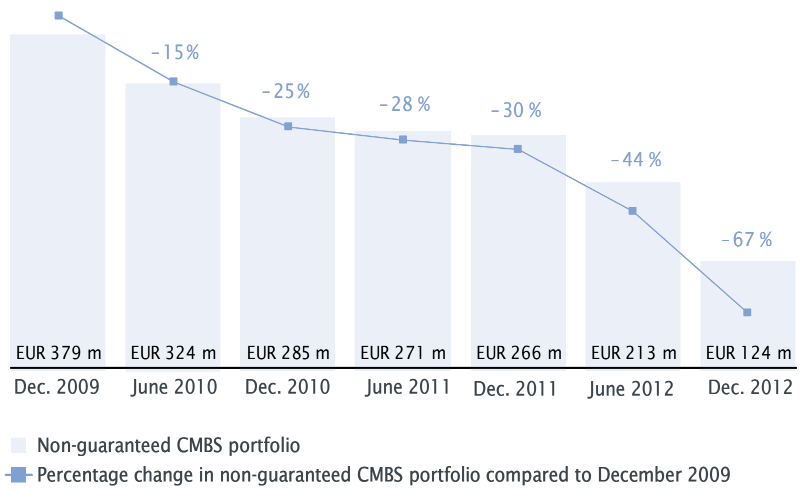
Assets not secured by the state risk shield - CMBS breakdown by country and rating.

Outstanding volume in EUR million as of 31 December 2012 Asset Class	Country	AAA	AA	A	BBB	BB to B	CCC to C	D	NR	Total	
CMBS	Europe*	0	0	0	0	22	0	0	0	22	17.5%
	Spain	0	0	0	0	0	0	0	0	0	0.0%
	Germany	0	40	3	43	14	0	0	0	100	80.7%
	UK	0	2	1	0	0	0	0	0	2	1.8%
	Singapore	0	0	0	0	0	0	0	0	0	0.0%
Total CMBS		**0**	**41**	**4**	**43**	**35**	**0**	**0**	**0**	**124**	**100.0%**
		0.0%	**33.5%**	**3.0%**	**35.1%**	**28.5%**	**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.
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 non-guaranteed CMBS portfolio under consideration is rated investment grade (72%).

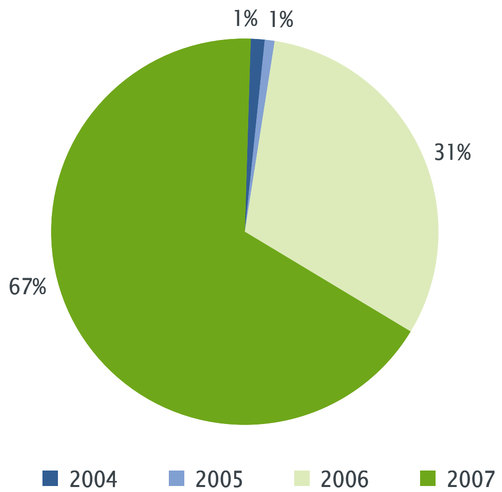
Development of the non-guaranteed CMBS portfolio volume for the period from December 2009 to December 2012.



Figures may be subject to rounding differences.

In addition, this asset class comprises almost solely issues from 2006 and 2007 amounting to EUR 121 million with a regional concentration on Germany (81%).

Non-guaranteed CMBS portfolio distribution by year of issue (EUR 124 million).



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

As at the reporting date, the guaranteed portfolio contains securitization positions with an outstanding nominal volume of EUR 9.1 billion. In the reporting period the outstanding guaranteed volume has thus seen a further reduction from EUR 10.5 billion by a total of EUR 1.4 billion. This overall effect is the result of repayments and write-downs of around EUR 1.1 billion as well as currency effects amounting to EUR 0.2 billion (appreciation of foreign currencies and depreciation in EUR).

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 1.6 billion (17.6%), with Spain making the largest contribution of around EUR 0.8 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 31 December 2012 Sub-asset class	AAA	AA	A	BBB	BB to B	CCC to C	D	NR	Total	
CDO	271	711	112	126	695	623	146	78	2,762	30.4%
RMBS	27	500	887	450	819	925	300	0	3,908	43.0%
CMBS	45	315	469	349	229	167	39	0	1,612	17.7%
Other ABS	0	244	191	105	124	94	0	42	800	8.8%
Total Investments	**343**	**1,769**	**1,660**	**1,030**	**1,866**	**1,809**	**485**	**120**	**9,082**	**100.0%**
	3.8%	**19.5%**	**18.3%**	**11.3%**	**20.5%**	**19.9%**	**5.3%**	**1.3%**	**100.0%**	

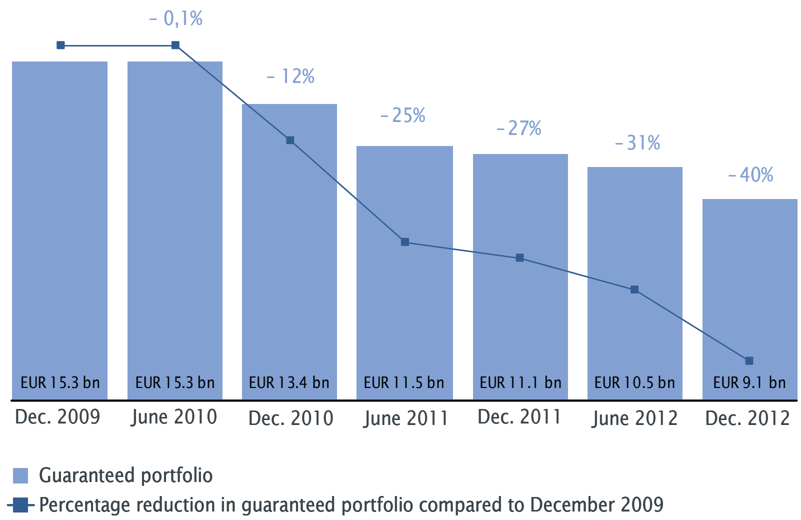
The lowest external rating was generally applied and mapped to S&P's rating scale.
Figures may be subject to rounding differences.

In the guarantee portfolio, the majority of investments (EUR 4.8 billion, 53%) 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 at 31 December 2012, the first loss was recognized in full on the balance sheet.

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

The CDO portfolio volume covered by the guarantee decreased by EUR 0.4 billion to around EUR 2.8 billion at the reporting date. 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 31 December 2012 Sub-Asset Class	AAA	AA	A	BBB	BB to B	CCC to C	D	NR	Total	
CDO of ABS	0	4	8	4	160	416	71	44	709	25.7%
CLO	269	621	97	39	2	0	0	34	1,062	38.5%
Synthetic CDO	0	0	0	0	0	0	12	0	12	0.4%
CDO of TruPS	1	86	0	25	404	90	63	0	669	24.2%
Other CDO	0	0	7	57	129	116	0	0	310	11.2%
Total CDO	271	711	112	126	695	623	146	78	2,762	100.0%
	9.8%	25.7%	4.1%	4.5%	25.2%	22.6%	5.3%	2.8%	100.0%	

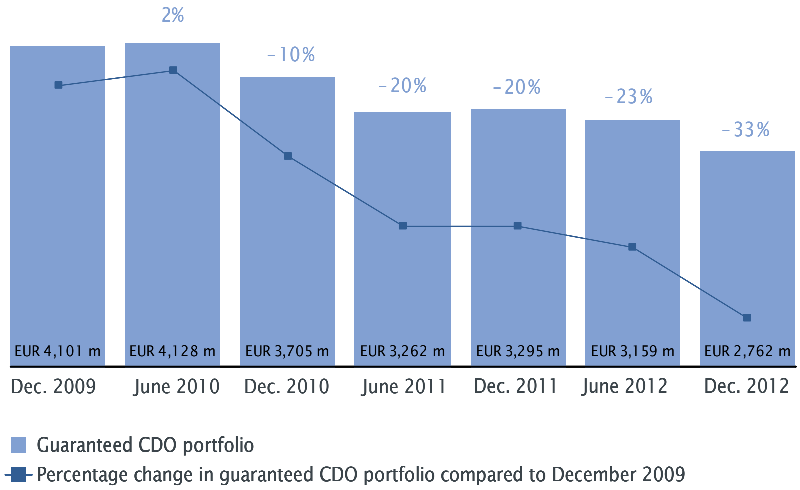
The lowest external rating was generally applied and mapped to S&P's rating scale.
Figures may be subject to rounding differences.

Around 44% of the guaranteed CDO portfolio has an investment-grade rating. The trend observable in earlier periods continued, i.e. the dominating CLO positions (38.5%) 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.

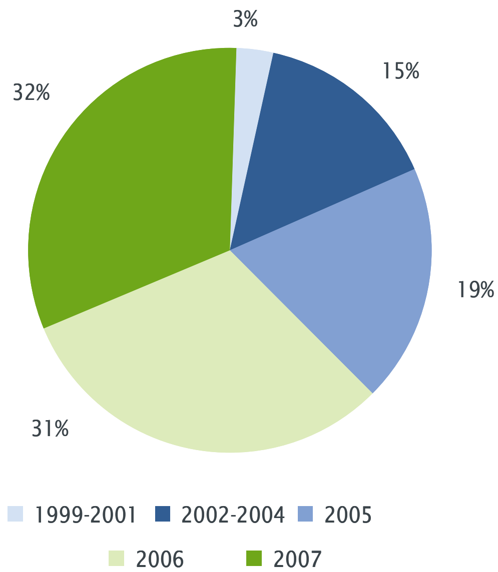
Development of the guaranteed CDO portfolio volume for the period from December 2009 to 2012.



Figures may be subject to rounding differences.

This asset class comprises mostly issues from 2006 and 2007.

Guaranteed CDO portfolio distribution by year of issue (EUR 2.8 billion).



1.6.2 RMBS portfolio for secured assets.

As at the reporting date, the largest share in the guaranteed securitization portfolio was accounted for by RMBS transactions valued at around EUR 3.9 billion. Around half of these have investment-grade ratings (48%). The RMBS portfolio again primarily refers to the US (34%), the UK (30%) and the Spanish market (20%). In addition, the main issue years were 2006 and 2007, which contributed a cumulative amount of EUR 3.1 billion.

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

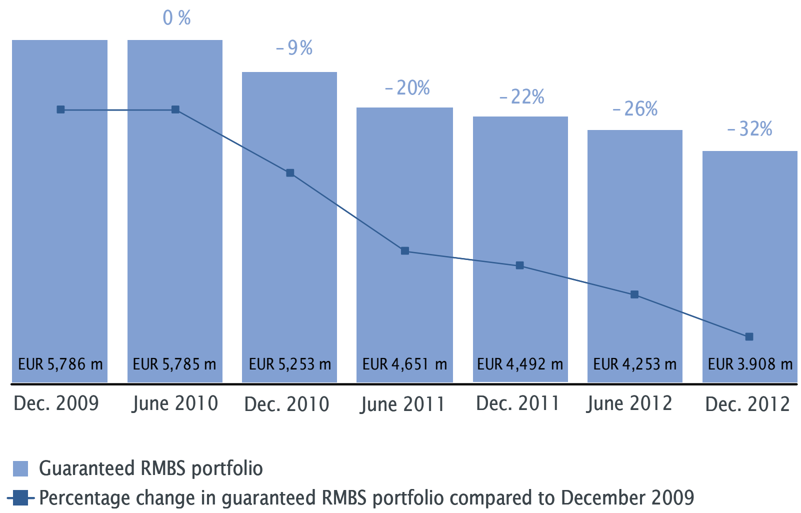
Outstanding volume in EUR million as of 31 December 2012 Country/Sub-Asset-Class	AAA	AA	A	BBB	BB to B	CCC to C	D	NR	Total	
USA	0	12	0	18	78	918	300	0	1,327	34.0%
of which US Alt-A	0	0	0	18	54	716	282	0	1,069	80.6%
of which US subprime	0	0	0	0	0	160	18	0	178	13.4%
UK	27	471	635	0	39	0	0	0	1,172	30.0%
of which UK non-conforming	17	467	502	0	39	0	0	0	1,025	87.4%
Spain	0	11	89	273	394	0	0	0	768	19.6%
Other RMBS	0	5	163	159	307	7	0	0	641	16.4%
Total RMBS	**27**	**500**	**887**	**450**	**819**	**925**	**300**	**0**	**3,908**	**100.0%**
	0.7%	**12.8%**	**22.7%**	**11.5%**	**20.9%**	**23.7%**	**7.7%**	**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 (52%) 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 0.7 billion) and 2007 (EUR 0.4 billion) in the sub-portfolio under review.

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



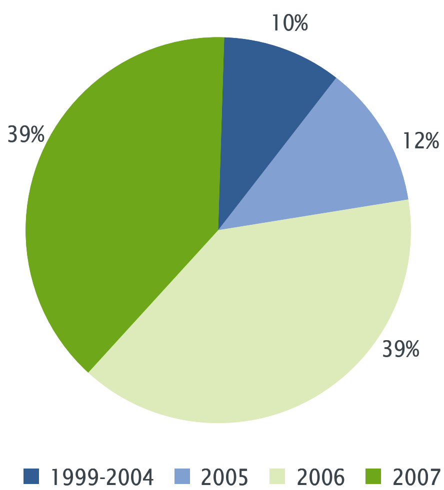
Figures may be subject to rounding differences.

Even after rating migrations, most of the UK RMBS volume of around EUR 1.2 billion has high ratings in the AAA to AA category (97% investment grade). The bulk of the UK transaction volume comprises 2006 and 2007 issues.

Nearly half of the guaranteed Spanish RMBS volume amounting to EUR 768 million is classified as investment grade (49%).

Other RMBS positions maintained their good ratings and partially refer to underlying loans in Italy (5%) and Portugal (6%); see also section 1.7.

Guaranteed RMBS portfolio distribution by year of issue (EUR 3.9 billion).



1.6.3 CMBS portfolio for secured assets.

CMBS positions (roughly EUR 1.6 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 73% of the securities rated investment grade.

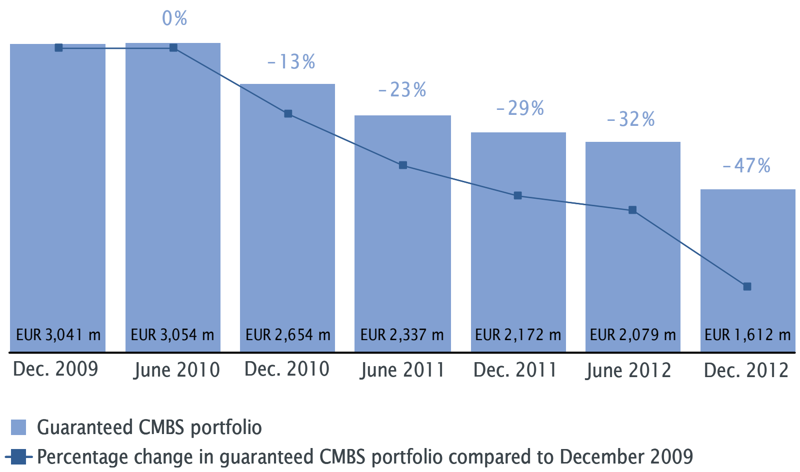
Assets secured by the state risk shield – CMBS breakdown by country and rating.

Outstanding volume in EUR million as of 31 December 2012 Country/Asset Class		AAA	AA	A	BBB	BB to B	CCC to C	D	NR	Total	
CMBS	UK	0	182	318	202	118	61	39	0	921	57.1%
	Germany	0	100	80	109	0	0	0	0	290	18.0%
	The Netherlands	0	0	0	10	0	0	0	0	10	0.6%
	Europe*	0	0	64	28	9	52	0	0	153	9.4%
	USA	0	33	0	0	11	4	0	0	48	3.0%
	France	12	0	0	0	50	0	0	0	62	3.9%
	Austria	33	0	6	0	0	0	0	0	39	2.4%
	Ireland	0	0	0	0	36	0	0	0	36	2.2%
	Japan	0	0	0	0	0	0	0	0	0	0.0%
	Other	0	0	1	0	5	49	0	0	55	3.4%
Total CMBS		45	315	469	349	229	167	39	0	1,612	100.0%
		2.8%	19.5%	29.1%	21.6%	14.2%	10.3%	2.4%	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.
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 concentrated on the UK (57%) and German (18%) markets.

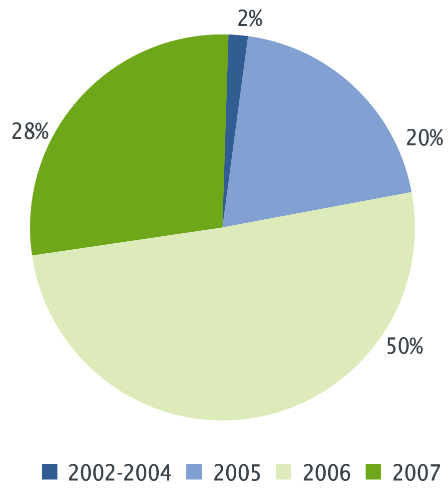
Development of the guaranteed CMBS portfolio volume for the period from December 2009 to December 2012.



Figures may be subject to rounding differences.

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

Guaranteed CMBS portfolio distribution by year of issue (EUR 1.6 billion).



1.7 Exposure to the 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 second 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 2.8 billion. This portfolio volume equates to around 24% of its total securitization volume. Moreover, approx. 58% of the investment volume (EUR 1.6 billion) is guaranteed.

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

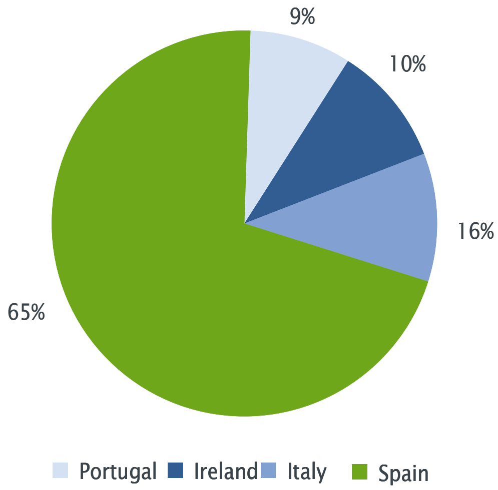
Outstanding volume in EUR million as of 31 December 2012 Country/Asset Class		AAA	AA	A	BBB	BB to B	CCC to C	D	NR	Total	Country /asset class share	Volume as of 31 Dec. 2011	Country /asset class share	
CDO	Portugal	0	0	0	9	0	0	0	0	9	5.0%	15	6.8%	0.5%
	Ireland	0	0	0	0	0	0	0	0	0	0.0%	0	0.0%	0.0%
	Italy	0	0	0	0	90	0	0	0	90	48.4%	90	39.9%	3.0%
	Greece	0	0	0	0	0	0	0	0	0	0.0%	0	0.0%	0.0%
	Spain	0	3	66	17	0	0	0	0	87	46.6%	120	53.3%	4.0%
Total CDO		**0**	**3**	**66**	**27**	**90**	**0**	**0**	**0**	**186**	**100.0%**	**226**	**100.0%**	**7.5%**
RMBS	Portugal	0	0	0	49	181	0	0	0	230	9.4%	239	9.2%	8.0%
	Ireland	0	0	0	0	223	7	0	0	230	9.4%	234	9.0%	7.8%
	Italy	0	14	169	110	0	0	0	0	293	12.0%	350	13.4%	11.7%
	Greece	0	0	0	0	0	0	0	0	0	0.0%	0	0.0%	0.0%
	Spain	0	91	656	551	397	0	0	0	1,695	69.2%	1,779	68.4%	59.4%
Total RMBS		**0**	**105**	**824**	**711**	**801**	**7**	**0**	**0**	**2,449**	**100.0%**	**2,602**	**100.0%**	**86.8%**
CMBS	Portugal	0	0	0	0	0	0	0	0	0	0.0%	0	0.0%	0.0%
	Ireland	0	0	0	0	36	0	0	0	36	98.3%	36	74.4%	1.2%
	Italy	0	0	1	0	0	0	0	0	1	1.7%	1	1.3%	0.0%
	Greece	0	0	0	0	0	0	0	0	0	0.0%	0	0.0%	0.0%
	Spain	0	0	0	0	0	0	0	0	0	0.0%	12	24.3%	0.4%
Total CMBS		**0**	**0**	**1**	**0**	**36**	**0**	**0**	**0**	**37**	**100.0%**	**48**	**100.0%**	**1.6%**
Other ABS	Portugal	0	0	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%	0.0%
	Italy	0	0	45	0	4	0	0	0	49	62.0%	72	60.1%	2.4%
	Greece	0	0	0	0	0	0	0	0	0	0.0%	0	0.0%	0.0%
	Spain	0	5	7	0	19	0	0	0	30	38.0%	48	39.8%	1.6%
Total Other ABS		**0**	**5**	**52**	**0**	**22**	**0**	**0**	**0**	**79**	**100.0%**	**120**	**99.9%**	**4.0%**
Total investments of the peripheral countries		**0**	**114**	**943**	**738**	**949**	**7**	**0**	**0**	**2,750**	**100.0%**	**2,996**	**100%**	**100.0%**
		0.0%	**4.1%**	**34.3%**	**26.8%**	**34.5%**	**0.3%**	**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 1.8 billion (65%) 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 in terms of volume by country was again Spain at EUR 1.8 billion (65%), followed by Italy at approx. EUR 0.4 billion (16%). LBBW still has an exposure of around EUR 239 million with underlying collateral referring to Portugal.

Securitization portfolio – share of the periphery countries in the non-guaranteed and guaranteed portfolio (EUR 2.8 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 transaction volume of an original EUR 17.3 billion 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 at 31 December 2012, LBBW is providing the purchasing companies Weinberg Funding Ltd. and Weinberg Capital Ltd. with liquidity lines amounting to EUR 2.24 billion for the issue of ABCPs, roughly EUR 1.13 billion of which pertains to transactions with trade receivables and some EUR 1.11 billion to transactions with interest-bearing receivables (above all leasing receivables).[1)]

LBBW is planning to expand this customer-driven business.

Additionally, in the loans and advances to customers category, LBBW has invested in a senior tranche of a security backed by auto loans for an amount of around EUR 2.2 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 easing of the situation on the financial and capital markets in the second half of 2012 resulted in increased possibilities for new business in LBBW's acquisition finance business despite the persistent uncertainty regarding the economic trend in the European economic area. Major new transactions with reputable names were signed at the end of the year, mainly as a result of stable business expectations on the German core market. The year as a whole was marked by a high degree of caution due to the general uncertainty caused by the sovereign debt crisis in some southern European countries.

In connection with the realignment of its overall credit strategy, LBBW is focusing its acquisition finance business primarily on customer-oriented business in its German 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 private equity investment in SMEs and large corporates.

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 1.3 billion to EUR 3.5 billion on 31 December 2012 compared to the end of the previous year. This was principally the result of the syndication of a sizeable exposure. The average exposure per investment was around EUR 40 million.

The following table lists the risk positions from around 90 acquisition finance corporate loans, according to sector and rating.

Sector distribution as at 31 December 2012.

Sector	in %
Automobile	57.5%
Health Care	6.5%
Non-Industry-Specific Tools and Machine Construction	5.3%
Apparel, Sporting Equipment and Luxury Goods	4.8%
Conglomerates/Conglomerate Holding Companies	4.3%
Chemicals	4.1%
Construction Industry	3.4%
Cross-Sector Services for Companies	2.5%
Agriculture and Food Production	1.9%
Food Retail and Other Non-Cyclical Consumer Goods	1.8%
Other	7.9%
Total	**100.0%**

The high concentration in the automotive sector is still due to a single, large-volume transaction. Its share is steadily decreasing as a result of syndication.

Rating breakdown as at 31 December 2012.

Rating	AAA to A-	BBB+	BBB	BBB-	BB+	BB	BB-	B+	B	B-	CCC+ to C	SD/D	
in %	3.2%	0.2%	20.4%	11.0%	1.5%	50.4%	3.7%	1.2%	1.7%	0.0%	0.0%	6.7%	100%

The favorable economic trend in the operational core markets and the fact that liquidity on the capital markets remains sufficient have overall led to a further improvement in the portfolio quality in the year 2012 under review. The average rating is now BB, with 87% of the portfolio in this rating class or higher. New business is mainly conducted in the BB- rating class. 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 and income generally increases.

Landesbank Baden-Württemberg
Headquarters

Stuttgart
70144 Stuttgart
Am Hauptbahnhof 2
70173 Stuttgart
Phone +49 (0) 711 127-0
Fax +49 (0) 711 127-43544
www.LBBW.de
kontakt@LBBW.de

Karlsruhe
76245 Karlsruhe
Ludwig-Erhard-Allee 4
76131 Karlsruhe
Phone +49 (0) 0721 142-0
Fax +49 (0) 721 142-23012
www.LBBW.de
kontakt@LBBW.de

Mannheim
P. O. Box 10 03 52
68003 Mannheim
Augustaanlage 33
68165 Mannheim
Phone +49 (0) 621 428-0
Fax +49 (0) 621 428-72591
www.LBBW.de
kontakt@LBBW.de

Mainz
55098 Mainz
Grosse Bleiche 54 – 56
55116 Mainz
Phone +49 (0) 6131 64-37800
Fax +49 (0) 6131 64-35701
www.LBBW.de
kontakt@LBBW.de

Landesbank Baden-Württemberg