

Landesbank Baden-Württemberg
Stuttgart, Karlsruhe, and Mannheim.

Financial Statements
and Management Report
for the Business year 2005.

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Landesbank Baden-Württemberg Management Report.

Economic Environment.

Global Economy

Growth Stable, But Less Dynamic

At 4.3%, global economic growth proved robust in 2005. However, the rise in oil prices resulted in somewhat less dynamic growth than in the previous year. The largest economy in the world, the USA, grew by 3.6%. After ten years of stagnation, Japan was able to report positive performance for the second year in a row at 2.2%.

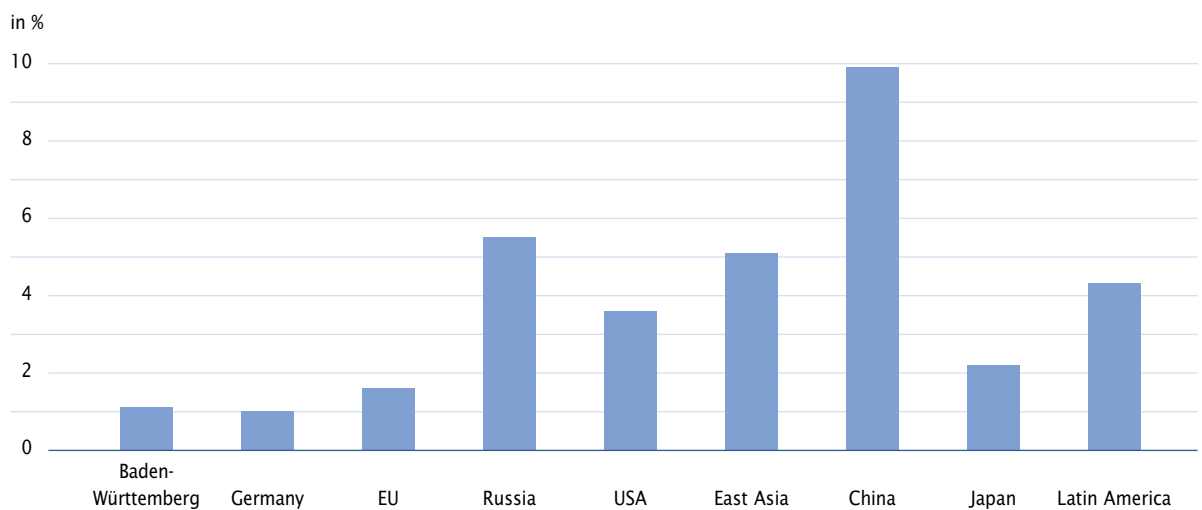
Euroland and Germany

Booming Exports, Soft Domestic Demand

Starting in the summer of 2005, signs increasingly pointed to an economic revitalization in Euroland and Germany. Nonetheless, economic expansion was only modest, particularly in the large EU member states, compared to other countries worldwide.

Germany's GDP growth in 2005 was one percent. The main reason for the continued, comparatively slow pace of growth in Germany was a lack of domestic impetus. Although exports benefited from the global economic situation, domestic demand stagnated.

Growth in Real GDP in 2005*



Source: Thomson Financial Datastream

* This chart is not part of the audited Management Report

The reluctance of Germany's citizens to spend, which is the result of the difficult situation on Germany's labor market, exerted downward pressure here. The number of unemployed persons rose further despite labor market reforms and – for the first time since reunification – broke the five million mark. Another factor contributing to weak domestic demand was the low level of construction investments.

Baden-Württemberg

Lively Economy, Strong Exports

In summer 2005, Baden-Württemberg's economic prospects began to brighten as well. The economy here saw sales abroad rise sharply. The key reason for this growth was the strong demand from countries in Euroland.

Domestic business also experienced an upturn that extended to all segments of industry, except consumer goods manufacturers. Private household spending continued to put a brake on growth, however.

On the whole, Baden-Württemberg's GDP grew by 1.1 % over the previous year; this growth was somewhat better than the German average. Baden-Württemberg is one of Germany's highest growth states.

Price Development

Rising Inflation, Higher Energy Costs

Raw materials and fuels were significantly more expensive than in the prior year. As a result, prices rose in numerous industrialized countries. However, with the exception of higher energy costs, price levels continued to be favorable.

Foreign Currency Markets

Euro Loses, US Dollar Gains

The single European currency began 2005 with a record high: the euro was worth USD 1.36. The trend that followed was all downhill, however, initially due to the economic situation in Europe and in the second half of the year to the growing interest rate gap between the USA and Europe. In contrast, even after an upswing in the second half of the year, the exchange rate between the euro and the Japanese yen saw almost no net change.

EUR/USD Development 2005*



* This chart is not part of the audited Management Report

Bond Market

Key Interest Rates Up, Positive Yields

In 2005, the bond markets saw new historical lows in the yields of European government bonds. In the second six months of the year, bond performance improved, because ultimately inflation concerns subsequent to the oil price increase were more permanent than the associated worries about the economy. Moreover, yields were positive for papers with short maturities. The tone here was set by the central banks. The US Federal Reserve increased the key interest rate incrementally from 2.25% to 4%, and the European Central Bank also raised the key interest rate in Euroland for the first time since 2003 – by 0.25 points to 2.25% at the end of the year.

Performance of the REX (German Bond Index) in 2005*

in points



* This chart is not part of the audited Management Report

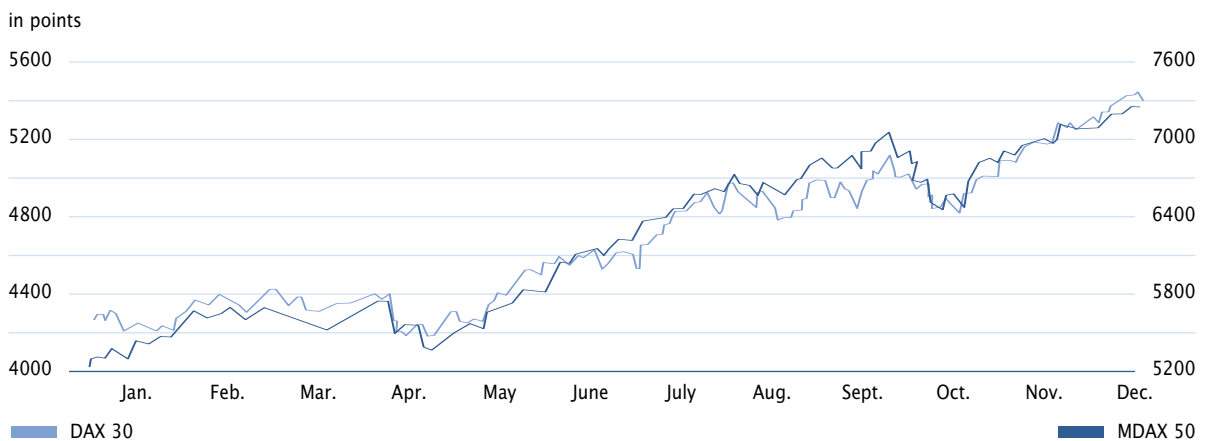
Stock Markets

Buoyant Mood, Stock Prices on the Rise

The stock markets can look back on a mostly favorable year. The Deutsche Aktienindex (DAX) picked up speed in spring and summer after a cautious start to the year. The rally pushed the index up from 4,200 to over 5,200 points, providing investors with the highest level in three years. The MDAX even reached a high for the year of 7,234 points. The key reason for this positive performance was the robust profit

forecasts of German companies. They benefited from the stabilization of the global economy and from an increase in efficiency in past years. In Germany, the main winners were banks, insurance companies, and utility companies, as well as automobile manufacturers; internationally, the stock prices of oil industry companies also grew sharply. Technology companies were less successful, and the performance of telecommunications companies slipped into the negative. The stocks of companies in the retail sector saw little demand.

Performance of the DAX and the MDAX in 2005*



* This chart is not part of the audited Management Report

Source: Datastream

Banking Industry Performance.

Increased Efficiency, Stricter Operating Environment

The improved economic climate compared to the previous year had a positive effect on the banking industry's business and earnings situation. In 2005, German banks benefited from the measures they had initiated in past years: systematic cost management and stricter attention paid to risks improved efficiency. These positive factors were, however,

countered by the difficult market environment. Fierce competition and the rising expectations of customers continued to typify market activity.

One stressor was the continued high level of formal requirements that arose due to the new legal environment, e. g., MaRisk (Minimum Requirements for Risk Management), Basel II, IAS, as well as anti-money-laundering measures. Moreover, banks had to successfully operate in an environment that is characterized

by continuing consolidation and globalization. An example of this was the takeover of HypoVereinsbank by Italy's Unicredit, the first major cross-border merger on the German banking market.

Legal Environment.

New Guarantee System, New Mortgage Bond Act (Pfandbriefgesetz)

On July 17, 2001, the representatives of public-sector banks reached agreement with the EU Commission in Brussels about a reorganization of the German public-sector banks' guarantee systems (including the guarantor's liability, or Gewährträgerhaftung, and maintenance obligation, or Anstaltslast). The agreement included a transition period of four years, which expired on July 18, 2005. Since then, public-sector credit institutions have no longer been able to issue bonds that include the guarantor's liability and maintenance obligation.

For existing liabilities that were entered into up to and including July 18, 2001, the guarantor's liability is valid until maturity. If the term of the liability does not extend beyond December 31, 2015, the guarantor's liability is also valid for liabilities that arose during the four-year transition period ending July 18, 2005. LBBW's guarantors will immediately meet their obligations arising from the guarantor's liability with respect to creditors for liabilities agreed up to July 18, 2005, after they have determined, formally and in writing, upon maturity of the liabilities that the creditors of these liabilities cannot be satisfied from the institution's assets. The maintenance obligation expired for all of LBBW's liabilities as of July 18, 2005.

In July 2005, the Allgemeines Pfandbriefgesetz (APG - German General Mortgage Bond [Pfandbrief] Act) was introduced. This was the result of the consolidation of the Hypothekendarstellungsgesetz (HBD - Mortgage Bank Act) and the Gesetz über Pfandbriefe und verwandte Schuldverschreibungen öffentlich-rechtlicher Kreditanstalten (ÖPG - Act on Mortgage Bonds [Pfandbriefe] and Related Bonds Issued by Public-sector Credit Institutions). The largest segment of the European bond market is now therefore operating in a new legal environment. The legislation aims to further boost the quality of mortgage bonds, as well as to ensure greater transparency. One of the key features is the elimination of the "specialist bank principle" (under which the activities of mortgage banks were limited). In the future, any bank will be able to apply for a license to issue mortgage bonds as long as it meets certain minimum requirements.

Key Events in the Year Under Review.

In the history of LBBW, 2005 was a very important year. The integration of two new subsidiaries into the LBBW Group and the elimination of the maintenance obligation and guarantor's liability create challenges for the future, but along with them, major opportunities.

Acquisition of Landesbank Rheinland-Pfalz

As of January 1, 2005, Landesbank Rheinland-Pfalz (LRP) became a wholly owned subsidiary of Landesbank Baden-Württemberg. This move created one of the five largest commercial banks in Germany with total assets of over EUR 400 billion. Before this, LBBW held a 20% stake in the Mainz-based institution.

The Savings Bank and Giro Association of Rhineland-Palatinate contributed its 80% interest in Landesbank Rheinland-Pfalz to LBBW by way of a non-cash contribution in return for the granting of shares.

Merger with BW Bank

Preparations had been underway for the merger of BW Bank AG and Landesbank Baden-Württemberg since 2003. On April 8, 2005, LBBW's Guarantors' Meeting passed the final resolution on the integration of this institution as a legally dependent institution under public law. After a squeeze-out of its minority shareholders, BW Bank assumed responsibility for LBBW's retail and corporate customer business in its core market as of August 1, 2005. At the same time, BW Bank performs the services of a savings bank for LBBW in the territory of the state capital of Stuttgart, while LBBW provides wholesale banking services as a universal and international commercial bank. This includes serving national and international, corporate and institutional customers, as well as trading on the money, securities, and forex markets. Moreover, LBBW serves as a central bank to the savings banks in Baden-Württemberg and exercises the same function together with Landesbank Rheinland-Pfalz for the savings banks in Rhineland-Palatinate.

Changes in LBBW's Ownership Structure

With the contribution to LBBW of the BW Bank shares held by BW Holding, in which the state of Baden-Württemberg and L-Bank held an interest in addition to the majority stake held by LBBW, and the acquisition of LRP, the ownership structure of LBBW changed as of January 1, 2005. The following owners now hold interests in LBBW's nominal capital:

- the state of Baden-Württemberg: 35.611 % (previously: 39.5 %)
- Sparkassenverband Baden-Württemberg (Savings Bank Association of Baden-Württemberg): 35.611 % (previously: 39.5 %)

- the state capital of Stuttgart: 18.932 % (previously: 21 %)
- Landeskreditbank Baden-Württemberg – Förderbank: 4.923 % (new)
- Sparkassen- und Giroverband Rheinland-Pfalz (Savings Bank and Giro Association of Rhineland-Palatinate): 4.923 % (new)

Staff.

The main issue driving human resources planning and development in 2005 was the process of integration between BW Bank and LBBW.

Structural and Functional Integration

Due to the consolidation of the retail and regional corporate customer business at BW Bank, transfers of employees from both institutions were undertaken. As a result, 3,167 LBBW employees were shifted to the Retail and Investment Customer, Corporate Customer, and Back Office units of BW Bank. In contrast, 1,007 BW Bank employees were assigned to the Corporate Center, Finance, Settlement and IT, Back Office, and Trading units of the new LBBW. As a result,

Employees

	LBBW Group	LBBW Bank
Female employees	51 %	52 %
Part-time employees	18 %	19 %
Employees over 50		18 %
Employees 41 to 50 years old		29 %
Employees 31 to 40 years old		32 %
Employees under 31		21 %

BW Bank had 4,178 employees as of August 1, 2005. Not including the subsidiaries or sub-group companies, LBBW had 5,412 employees as of the same date. As of December 31, 2005, 12,551 people were employed by the LBBW Group overall, 9,565 of whom worked for LBBW Bank.

Staff Transition Plan

The staff transition plan was the framework for the restructuring process. At the core of this plan was the transfer of all of BW Bank's existing employment relationships to LBBW. Until August 1, 2005, the focus was on setting up the new bank. After the successful integration, the priorities for the rest of the year were preparing for staff integration and merging the processes of the two predecessor institutions into a new organization. The staff integration and consolidation phase began in early 2006. The goal of this project is to align staff levels with the harmonized processes of the new bank. As in the past, LBBW will make every effort to implement integration and consolidation measures in an employee-friendly and socially acceptable manner. This phase will be completed by December 31, 2007.

The integration made it necessary to also standardize employer-employee agreements. The key works agreements were converted to service agreements by mutual agreement with employee representatives.

Social Plan: The integration of BW Bank into LBBW resulted in the reorganization of some business units. The reconfiguration of organizational structures resulted in the elimination of jobs in some cases. In order to mitigate or compensate for possible disadvantages affecting the employees in question, the Social Plan for Integration and a corresponding agreement were signed with the representative body for executive staff (Sprecherausschuss). The top social priority of both of these agreements is to preserve jobs.

Change Management Concept: In order to ensure professional management of the LBBW-BW Bank integration process, an integration workshop concept was developed and implemented. This workshop was initially only aimed at the second and third management levels. Between the start of the integration process in June 2005 and the end of the year, 153 integration measures were performed. These included discussions on clarifying responsibilities with section heads, one-day or multi-day integration workshops, and personal advising and coaching discussions with managers.

New Management Structure

After this restructuring, LBBW's Board of Managing Directors now has six members. As a legally dependent entity of Landesbank Baden-Württemberg, BW Bank has a Board of Managing Directors with five members, plus two members from LBBW's Board of Managing Directors. LBBW has six divisions, to which 22 sections and 2 staff departments are assigned. BW Bank's seven divisions are broken down into 14 sections and one staff department.

Compensation

New Collective Agreement and Standardized Systems

The Tarifvertrag öffentlicher Dienst (TVöD – Public-sector Employees Collective Salary Agreement) entered into force on October 1, 2005. This agreement replaces the Bundes-Angestellten Tarif (BAT – Federal Employees Collective Salary Agreement) previously in force. Employees receiving compensation in line with BAT are automatically transferred to TVöD. The new collective agreement was simplified and non-performance-related compensation systems, such as age brackets, were eliminated. In contrast, the new rules include variable compensation components and flexible working hour models.

Standardization of the compensation systems of BW Bank and LBBW began in 2005 and continues in 2006. In 2007, a new uniform compensation model will be implemented in practice.

Training at LBBW

For a Solid Foundation

The goal of enabling as many young people as possible to have a positive start to their careers is important for reasons other than social and societal concerns. Apprentices at LBBW form the foundation for a successful human resources policy, which is a key success factor in the banking industry, as well as other sectors. As of December 31, 2005, a total of 581 entry-level employees were in the process of apprenticeships in the LBBW Group, 52 of whom were in the sub-group companies and 529 at LBBW Bank.

Out of the 581 young apprentices, 181 LBBW Group students were registered at a Berufsakademie (German institutions of higher education that combine professional classroom and in-company training), 19 of whom were from the sub-group companies and 162 from LBBW Bank.

400 apprentices at the LBBW Group were apprenticing in the following professions:

Banking specialist (Bankkauffrau/-mann)	301
Office communication specialist (Kauffrau/-mann für Bürokommunikation)	33
IT specialist (Fachinformatiker/-in)	26
Other business-related professions	35
Cook (at LBBW Gastro Event GmbH)	5

Continuing Education at LBBW

Excellent Preparation for Difficult Markets

Dynamic markets require highly competent employees who face current challenges with confidence and motivation. In this context, "life-long learning" is more than just a catchphrase. Transferring of knowledge is important, but knowledge must be managed as well. In the year under review, LBBW provided employees at all levels many continuing education opportunities.

And employees took advantage of these opportunities in large numbers. In total, continuing education activities increased in 2005 over the previous year. The program took into account both the company's requirements, as well as the needs of employees. A particular focus here was, of course, the process of integrating BW Bank into the LBBW organization. A joint continuing education program for management development and methodologies has existed since early 2005. At the end of July, IT-related training sessions concentrated on the ProfIS and Kordoba banking systems relevant to the integration process. Moreover, additional sessions attended by large groups of employees covered processes and products. For the first time, a Financial Consultant qualification course was offered to high net-worth customer advisors at LBBW.

In 2005, employees of LBBW and BW Bank attended a total of 11,896 seminars; 1,886 sessions attended were accounted for by BW Bank employees, while 10,010 sessions were attended by LBBW employees. In terms of internal personnel development measures, the majority of these (over 80%) were accounted for by the general training program. Other measures included specially bought-in in-house seminars, and long-term seminars, such as specialist and bank career-oriented courses of study, and high-level development programs for specialists and executive staff.

Job Security and the Social Services Department Focus on the Individual

In 2005, LBBW again invested in improving the health and performance of its employees and reducing absences and disruptions, for example due to conflicts and dissatisfaction.

The occupational health office moved into new, more spacious quarters in 2005. In the course of the move, units previously housed at different locations were brought together under one roof. The work of the occupational health office focused on uncomplicated, workplace assistance to employees with acute health problems. The above-average number of flu shots given in the past year served preventive health care purposes. In terms of workplace safety, LBBW's and BW Bank's occupational safety experts and occupational physicians offered advising on renovation and construction issues, as well as the introduction of new hardware and software. The duties of the social services department included coaching of senior executives and office holders on psychosocial issues. This advising served to preserve or to re-establish an employee's ability to work and perform.

Compliance.

The main duty of the Compliance section in 2005 was to continue implementing the merger of compliance organizations within the LBBW Group that was initiated in 2004. In addition, the section was responsible for coordinating the compliance activities of LBBW and all affected subsidiaries. The integration process produced benefits here as well. Firstly, this enabled employees to specialize and therefore reach a higher level of expertise. Secondly, it enabled LBBW to optimize the use of resources and to therefore limit the rising costs associated with increased supervisory requirements.

Securities Compliance

Investor Protection Measures

One priority here was the implementation of the Anlegerschutzverbesserungsgesetz (AnSVG – Investor Protection Improvement Act), which entered into force at the end of 2004. The main goals of this act are the correct performance of securities transactions and, wherever possible, the elimination (but at the very least the disclosure) of conflicts of interest. In order to ensure this, extensive new regulations were implemented for the preparation of financial analyses, as were registers of persons with access to insider information.

Moreover, a process for submitting reports of suspicious activity in accordance with § 10 Wertpapierhandelsgesetz (WpHG – German Securities Trading Act) was put into place, and the process for submitting ad hoc disclosures was reorganized. The level of staff in the securities compliance unit was increased with a view to tighter integration of the branches abroad and intensive monitoring of capital market activities.

Money Laundering Prevention

Uniform Guidelines, Standardized Procedures

After extensive preparatory work, a uniform electronic research system that had previously only existed at LBBW was introduced at BW Bank as of the end of 2005. The aim here was to comply with the increased supervisory regulations more efficiently, securely, and as cost-effectively as possible by standardizing procedures. Another focus of these activities was to coordinate anti-money-laundering measures throughout the entire LBBW Group. In this case, the priority was to apply the same type of guidelines and to ensure standardized procedures in practice.

Financial Intelligence Activities

Educating Customers and Employees

LBBW's financial intelligence activities serve to prevent wire transfer fraud. These activities concentrated on raising awareness among employees about such offenses, as well as expanding these procedures by adding plausibility testing. New measures greatly increased the detection rate of wire transfer frauds and prevented financial losses for customers and the Bank.

LBBW's conscientious approach to this issue also included educating customers when they attempted to enter into monetary transactions with suspicious recipients they mistakenly trusted. LBBW refused to accept the corresponding wire transfers to prevent financial losses for customers and to disrupt criminal structures. Moreover, business customers were warned of fraudulent manipulation of transactions valued in the millions. In the course of these efforts, LBBW made use of its membership in international organizations aiming to combat fraud, such as the Financial Investigation Bureau. In addition, LBBW has also expanded its anti-credit fraud measures, including stepping up cooperation with the financial intelligence units of other banks. On the one hand, LBBW raised awareness among employees so that they could identify fraud attempts, while on the other pressing criminal charges in order to put a stop to serial offenders. LBBW will continue to concentrate on educating employees and customers as much as possible, as well as on utilizing intelligent IT-based prevention programs to prevent losses.

Data Protection

New Reporting Database and Data Protection Audits

In order to optimize its data protection organization, LBBW guidelines were instituted at SüdLeasing and its sales companies, and new data protection officers were appointed. In 2006, the LBBW data protection training program will also be offered to the employees of SüdLeasing and its sales companies, and the necessary training obligations fulfilled.

In addition, the LBBW Group's data protection organization was improved. A regularly scheduled meeting was introduced that guarantees a continual exchange of information among all data protection officers. The standardization of BW Bank's and LBBW's rules ensures the necessary uniformity. The goal for 2006 is to simplify data exchange within the Group.

Another project on the schedule in the year under review was the introduction of a data protection reporting database for IG projects and contracts. To this end, a streamlined new process was developed in accordance with the legal requirements, which allows weak points in compliance with data protection laws to be identified early on, thereby preventing additional costs from being incurred later.

LBBW increasingly carried out internal data protection audits in order to verify the preservation of customers' and employees' rights to personal privacy. The subjects of this verification process were the following:

- the topicality and justification of VIP and employee authorizations,
- data processing in the occupational health office,
- the topicality of internally stored customer warning notices,

- video monitoring of compliance with identification and deletion deadlines,
- justifications for data transfer within the LBBW Group.

External service providers who work on behalf of LBBW were also reviewed for compliance with data protection rules. The focus here was on service providers who shred documents and destroy data storage media, as well as on human resources service providers. In 2006, LBBW plans to optimize and modify the standards for drafting uniform contracts with external service providers.

Sustainability.

In October 2005, LBBW's Board of Managing Directors resolved to successively introduce a sustainability management organization. Sustainable business practices have been one of LBBW's basic corporate principles for many years; as early as 1999, the newly merged institution made a commitment to environmental management, as its predecessor institutions had. The establishment of an environmental department with an environmental working group, the publication of environmental reports, and LBBW's status as the first German bank to receive the EMAS designation (Eco-Management and Audit Scheme, better known as the "Eco Audit") are expressions of this commitment. However, in the future this issue will become even more important for LBBW. LBBW has therefore defined "long-term, sustainable economic, ecological, and social development" as the goal of its sustainability management organization.

Increasingly a Competitive Factor

It is important for a corporation with international operations to not only support and document its ecological activities, but also its sustained commitment to economic, social, and ethical issues. Even today, the emphasis on a comprehensive commitment to sustainability is a competitive factor, just like participation in the corresponding rating processes and receiving a positive assessment. In view of the positioning of LBBW in the European and international markets, a stance that corresponds to international standards, such as the Global Reporting Initiative, is important. Moreover, the number of companies whose internal regulations only permit ethically unobjectionable financial investments is increasing, particularly in the English-speaking world. Reputation risks can arise in international finance deals as well, if ecological, ethical, and social aspects are not taken into account in the lending process. In addition to institutional investors, high net-worth private customers are also increasingly showing an interest in sustainable investments that ensure a clear conscience along with returns.

Ecology

Doing Business Responsibly

As in the past, ecology continues to be an integral part of LBBW's sustainability efforts. All sites in Germany are covered by the environmental management system, which aims to identify and prevent potential environmental damage early on. For example, the three new buildings at Pariser Platz were certified in accordance with ISO 14,001 and validated according to EMAS for the first time in 2005.

In the year under review, environmental balance sheet data was prepared for the first time using SoFi, a software package for the preparation of environmental balance sheets developed under LBBW's leadership. This program enables data to be entered in a distributed manner by each specialized section locally. In 2005, the SoFi module was expanded to include sustainability issues. In technical terms, environmental balance sheets can now be extended to cover social and societal aspects.

The focus by LBBW on sustainability was also expressed in the past year in the increased sale of sustainable investments, such as the Swisscanto Green Invest and Deka-Stiftung Balance open-ended funds, and investments in wind energy funds. The project financing strategy is also set up for sustainability. One special environmental measure taken by LBBW was to increase financing for renewable energy projects. As part of its foundation management services, LBBW assisted potential founders and advised them on considering ecological, social, and ethical factors. LBBW's sustainability experts also used their know-how in consulting on public-sector grant resources, such as building renewal programs, environmentally friendly construction, and solar energy. LBBW is a member of UNEP FI, an initiative of financial services providers in the UN's environmental and sustainability organization, the United Nations Environment Programme.

Detailed information about LBBW's ecology activities are included in the Environmental Report 2005, which can be downloaded from the LBBW Web site in PDF format.

Business Development.

Results of Operations

Statement of Income of LBBW					
	Items	2005 EUR million	2004** EUR million	Change 2004/2005	
				EUR million	in %
1. Interest income	(1, 2, 3, 4)	1 862.4	1 860.8	1.6	0.1
2. Commission income	(5, 6)	372.4	333.0	39.4	11.8
3. Net income from financial transactions	(7)	61.0	91.6	-30.6	-33.4
4. Administrative expenses *	(10, 11)	-1 009.9	-1 031.3	21.4	-2.1
5. Other operating income/ expenses	(8, 12, 24)	39.1	9.7	29.4	-
6. Operating income before risk provision/ valuation result		1 325.0	1 263.8	61.2	4.8
7. Risk provision/ valuation result	(9, 13, 14, 15, 16, 17, 18)	-333.8	-387.4	53.6	-13.8
8. Operating income (profit from ordinary activities)		991.2	876.4	114.8	13.1
9. Extraordinary result	(20, 21, 22, 25, 26)	-759.4	-282.9	-476.5	-
10. Net income before tax		231.8	593.5	-361.7	-60.9
11. Tax	(23)	-145.8	-161.9	16.1	-9.9
12. Net income	(27)	86.0	431.6	-345.6	-80.1

* In fiscal 2005, extraordinary write downs amounting to EUR 63.4 million due to the carryover of reserves in accordance with §6b EStG (German Income Tax Act) were offset in administrative expenses against the gains from the release of the special item with partial reserve character and the gains arising in 2005 from buildings and land in other operating income.

** The current year under review includes the earnings contributed by the former BW Bank from August 2005 onward. For purposes of comparability, 5/12 of BW Bank's results for 2004 were added to the previous year's figures.

In fiscal year 2005, Landesbank Baden-Württemberg was able to maintain income at the level of the previous year, while some expense items were down sharply as of the end of the year. In 2005, the Bank's earnings situation benefited in particular from increased commission income, reduced administrative expenses, and a significant drop in expenses for risk provisions. In contrast, the performance of the interest income and net income from financial transactions items was restrained.

As of the end of the year, net interest income was almost unchanged year-on-year. After increasing EUR 1.6 million, this item totaled EUR 1,862.4 million. The effects of a flat yield curve, which were observed industry-wide, a low interest rate levels overall, and a reluctance to invest were the main factors putting the brakes on earnings.

Commission income rose noticeably by 11.8% (EUR 39.4 million) to EUR 372.4 million. The principal reason for this positive development was the development of commission from lending and trust operations, which grew by 64.1%, or EUR 25.5 million.

Net income from financial transactions amounted to EUR 61.0 million, which was down from the excellent results of previous years. Fortunately, the only moderate growth in the first six months of the year was offset in part by the significant increases in the second half of the year. In this case, it must be noted that the interest income from trading and forex transactions was reported in the interest income item. In the year under review, the portfolio valuation process was updated to a risk-adjusted mark-to-market valuation approach. The mark-to-market result of these portfolios is reduced by the value-at-risk calculated for these portfolios in accordance with parameters stipulated by the supervisory authorities (10-day holding period, 99% confidence level).

Administrative expenses declined by 2.1% (EUR 21.4 million) to EUR 1,009.9 million. The key reasons for the decrease were a decline in other administrative expenses and a drop in write downs on intangible fixed and tangible assets. Personnel expenses were maintained at the previous year's level. The main factor here was a reduction in the workforce during the year, the effect of which was offset entirely by an increase in expenses due to increases in collectively agreed wages and the allocation of employees to higher service-year and age-group brackets.

Operating Income and Net Income

Due to the events occurring after the 2005 fiscal year described here, operating income before risk provision/valuation result was slightly higher than in the prior year. The increase amounted to 4.8%, or EUR 61.2 million, for operating income before risk provision/valuation result of EUR 1,325.0 million.

After continuing to cover risks systematically as in previous years, the Bank's risk provision/valuation result declined again in 2005. This item declined by 13.8%, or EUR 53.6 million. Whereas the risk provisions in the lending business decreased substantially mostly due to lower allocations to specific provisions for bad debts, the rise in expenses from write downs on fixed-interest securities resulting from interest rate increases offset this effect somewhat.

Operating income (profit from ordinary activities) rose accordingly by 13.1%, or EUR 114.8 million, over the previous year's figure to EUR 991.2 million.

The extraordinary result was EUR -759.4 million, which corresponded to an increase in expenses of EUR 476.5 million. This item was mostly affected in 2005 by non-recurring expenses totaling EUR 496.7 million, which resulted from the accounting expense attributable to the accrual of Baden-Württembergische Bank Anstalt des öffentlichen Rechts & Co. KG pursuant to § 24 UmwG (German Transformation Act) as of August 1, 2005. LBBW did not opt to capitalize the goodwill from this transaction. Moreover, LBBW also incurred restructuring and integration expenses of EUR 45.4 million.

The net income for the year after tax, which was affected by the accrual, amounted to EUR 86.0 million, underperforming last year's figure by 80.1 %, or EUR 345.6 million.

Proposal for the Appropriation of Profits

As in recent years, LBBW's Owners' Meeting will again propose distributing 6% on LBBW's nominal capital of EUR 1.42 billion.

Net Assets and Financial Position

Business Volume

Compared to the previous year, LBBW's business volume rose by 18.3%, or EUR 61.0 billion, to EUR 394.6 billion. Total assets also grew by 12.0%, or EUR 35.9 billion, to EUR 333.5 billion. It must be noted here that the comparative figures were not increased by the volume attributable to the former BW Bank AG due to insignificance.

The nominal volume of derivative transactions also rose over the previous year for an increase of EUR 395.2 billion. More than three-quarters of this increase was the result of the rise in the interest rate derivative volume.

Out of the aggregate derivatives volume of EUR 1,259.1 billion, around EUR 937.2 million was attributable to trading portfolios, which corresponds to a share of total assets of 281.0% compared to 196.4% in the prior year. However, trading transactions include largely closed-out positions from offsetting derivatives and open positions from trading portfolios within the stipulated risk limits. The classification as proprietary trading transactions is based on rules handed down by the Board of Managing Directors.

Lending

Landesbank Baden-Württemberg's claims on banks increased by 11.4%, or EUR 14.9 billion, to EUR 145.8 billion in the year under review. The primary reason for the increase again in 2005 was the utilization of LBBW's funding opportunities on German and international financial markets. The savings banks in Baden-Württemberg accounted for 23.5%, or EUR 34.2 billion, of total claims on banks. Claims on customers saw a percentage increase of 12.4%, which was almost identical to the rise in claims on banks. After amounting to EUR 89.2 billion in 2004, total claims on customers totaled EUR 100.2 billion in the past fiscal year. The increase was largely due to the non-adjustment of the previous year's total to include the volume of claims on customers accounted for by the former BW Bank.

The portfolio of loan claims on customers is well-diversified. At 62.1%, companies and private individuals in Germany were the most important customer groups measured by the volume of claims on customers. In terms of industries, the largest share of claims was accounted for by the service sector (33.1%), followed by residential housing companies (8.8%), and retail/wholesale (5.7%). Non-self-employed persons and private individuals account for 27.5% of all claims.

The LBBW Group's total loan volume, which includes bills of exchange, as well as guarantee credits reported below the line and irrevocable loan commitments in addition to claims on banks and customers, amounted to EUR 307.1 billion as of December 31, 2005, which corresponds to an increase of 19.9%, or EUR 51.0 billion, compared to the figure at the previous year's reporting date. In addition to higher claims on banks and customers, the increase resulted mainly from the growth in the volume of guarantee credits.

In the past year, the volume of bonds and other fixed-interest securities also rose. As of the reporting date, this item was up 10.7%, or EUR 7.2 billion, to EUR 75.1 billion, with the portfolio of own issues in particular rising sharply. Debenture bonds and bonds are allocated primarily to the liquidity reserve.

Funding

Liabilities to banks and customers and certificated liabilities are the basis for LBBW's funding. In the past year, LBBW's liabilities to banks grew by 24.1%, or EUR 20.9 billion, to EUR 107.7 billion. Of this amount, 13.4% (EUR 14.4 billion) is accounted for by liabilities to Baden-Württemberg's savings banks. Liabilities to customers also increased, rising 18.4%, or EUR 13.6 billion, to EUR 87.1 billion. The increase was mainly attributable to the non-adjustment of the previous year's total to include the portfolios of the former BW Bank.

Certificated liabilities accounted for the majority of funding once again in the past year. The volume of this item was EUR 117.8 billion, which was only 0.1% lower than in the previous year. In addition to unsecured bonds, LBBW also issued mortgage bonds (Pfandbriefe) and municipal bonds on the German capital market. The target groups for issues placed directly were primarily insurance companies, pension and investment funds, other banks and savings banks, and private customers. In addition, bonds were also issued on the international capital markets.

LBBW issues bonds under the auspices of a EUR 50 billion EMTN (Euro Medium Term Note) program, a EUR 20 billion euro commercial paper and euro certificate-of-deposit program, as well as a AUD 15 billion MTN (Medium Term Note) program on the Stuttgart, London, Singapore, and New York markets. Moreover, other issuing programs exist for MTNs (USD 15 billion) and commercial paper (USD 2 billion). In addition, Landesbank Baden-Württemberg's issues under a global public-sector mortgage bond (Pfandbrief) program amounted to EUR 8.3 billion.

LBBW's issuing volume in the past fiscal year totaled EUR 106.3 billion, which represents growth of 10.0%, or EUR 9.7 billion, compared to the previous year. The volume of new issues in 2005 amounted to EUR 94.2 billion, for an increase of 17.0%, or EUR 13.7 billion, over 2004. With a share of 61.3%, the sale of issues denominated in foreign currencies exceeded that of euro-denominated issues. The share of the total issuing volume accounted for by issues denominated in foreign currencies was 55.0% in 2005 (58.0% in 2004).

Balance Sheet Equity

As of December 31, 2005, LBBW reported equity on its balance sheet (equity less distributable profit including subordinated liabilities and capital generated by profit participation certificates) of EUR 16,196 million (previous year: EUR 13,926 million). The increase resulted on the one hand from the contribution by the Savings Bank and Giro Association of Rhineland-Palatinate of its shares in Landesbank Rheinland-Pfalz as part of the 100% acquisition of LRP. On the other, equity rose due to the contribution of the shares in the former BW Bank AG held by Landeskreditbank - Förderbank Karlsruhe as part of the accrual of the former BW Bank. The silent partners' contributions qualifying as Tier 1 capital amounted to EUR 3,544 million after totaling EUR 3,291 million as of December 31, 2004. The increase over the previous year is mostly attributable to the accrual of BW Bank which involved silent partners' contributions of the former BW Bank of EUR 200 million passing to LBBW. The remaining share of the increase, which amounted to EUR 53 million, was due to translation of the silent partners' contributions at the relevant USD rate at the reporting date.

Regulatory Ratios

The regulatory ratios of LBBW were as follows as of the end of the year:

	2005	2004	Change 2004/2005	
	EUR million	EUR million	EUR million	in %
Regulatory capital (§ 10 KWG – German Banking Act)	17 053	15 460	1 593	10.3
thereof Tier 1 capital	10 003	8 642	1 361	15.7
thereof Tier 2 capital	7 074	6 826	248	3.6
Qualifying items (Principle I)	145 565	128 091	17 474	13.6
	2005	2004		Change
	%	%		%-Points
Total Principle I ratio	11.7	12.1		-0.4
Equity ratio	14.7	15.0		-0.3

The capital backing for qualifying items of at least 8% stipulated by Principle I was exceeded at all times in the past fiscal year.

Risk Report.

Risk-oriented Management of the Bank as a Whole.

Our responsibility to our customers requires us to carefully manage the risks inherent in the banking business. LBBW therefore always prioritizes taking a conservative approach over assuming incalculable risks. LBBW enters into quantifiable risks only within the scope of clearly defined limits. These ultimate guidelines for our actions form the foundation of our risk policy and provide a framework for our business activities. These guidelines are implemented with the help of detailed risk management and risk controlling processes.

Risk Policy

The basic principles of our risk policy are laid down by the Board of Managing Directors and the Supervisory Board. The first step is to determine LBBW's risk-bearing potential and the approach to calculating the weighting for various types of risk. This then forms the basis for stipulating business strategies and performance targets for the commercial banking and back office sections. The concept of risk-bearing potential describes LBBW's ability to absorb possible unanticipated losses using current earnings and assets. This value is then broken down into levels that are based on the different degrees of availability of the capital.

Using this value, the Board of Managing Directors sets a maximum limit for losses, which is the upper limit for all currently quantifiable risks. The maximum loss limit reflects LBBW's maximum willingness to take risks and is set well below LBBW's overall risk-bearing potential in line with our conservative

risk policy. Global limits for the various quantifiable risk categories are derived from this maximum limit for losses. Losses actually incurred are taken into account along with risks in the sense of potential losses during monitoring of LBBW's risk-bearing potential.

Within the prescribed framework, risk management decisions are made by the departments bearing portfolio responsibility or the sections decentrally; these decisions are the focus of Risk Controlling's monitoring efforts. The risk controlling and management system set up for this purpose covers all relevant risks. The goal of the Bank is to set up a limit system covering all risk categories based on measuring all of the LBBW Group's risk potentials by means of comparable value-at-risk indicators (VaR).

Included in these processes are the transactions of LBBW's branches abroad and, for the most part, those of the key subsidiaries. The transparency principle applies as much as possible to their risks. This means that the relevant individual risk positions of the respective subsidiaries should be included completely in these risk analyses. BW Bank was integrated into the risk management and controlling functions of LBBW.

Overview of Risk Categories

		Risk Category	Describes possible
		Risk-bearing potential	
	Country risks		<ul style="list-style-type: none"> losses arising from transfer problems with a business partner's country of domicile
	Market price risks		<ul style="list-style-type: none"> losses in portfolio value caused by changes in interest rates; share, foreign currency and commodities prices; volatilities, etc.
	Operational risks		<ul style="list-style-type: none"> losses due to the failure of internal processes, people, and systems, or to external influences, including legal risks
	Liquidity risks		<ul style="list-style-type: none"> problems meeting payment obligations in the short term, or not being able to optimally close out larger market positions quickly
Other, currently not quantified	Investment risks		<ul style="list-style-type: none"> losses in value of Group companies and equity investments
	Real estate risks		<ul style="list-style-type: none"> losses in value of the Bank's real estate holdings
	Strategic risks		<ul style="list-style-type: none"> losses in value due to strategic decisions
	Business performance risks		<ul style="list-style-type: none"> losses in value due to less favorable business performance than expected
	Reputation risks		<ul style="list-style-type: none"> losses in value due to a damaged reputation with respect to customers, employees ...

Risk Management

Risk management, which is defined at LBBW as management in the broader sense, is performed by various sections. Risk information flows into operational and strategic decisions in lending and trading operations, as well as subsidiaries, etc. in order to ensure an optimal risk/profit profile for the relevant portfolio.

LBBW divides the management of risks into the macro level, i. e., risk management at a general level (Group, Bank, section or portfolio level), and the micro level, i. e., risk management at the level of individual transactions or situations.

Macro Level

The Board of Managing Directors controls and limits the Bank's overall risk position within global limits and LBBW's risk-bearing potential. The majority of the global limits relate to credit risks, and in addition to managing individual transactions, the overall position is managed by measuring and limiting risk.

Managing portfolios of capital market-eligible positions is the responsibility of the Capital Market Investments section. With the help of credit indices and portfolio transactions, systematic portfolio risks are hedged, and new positions are entered into as part of risk/return optimization.

The country risks (transfer risks) arising from the business activities of the commercial banking sections and individual subsidiaries of LBBW are documented using a country limit system. The relevant country limits are determined in conjunction with the proposal set forth by the Board of Managing Directors' country limit committee.

The Board of Managing Directors has delegated the management of market price risks at the macro level and strategic structuring of market price risk positions to its treasury management committee. These strategic risk positions relate mainly to the investment of own funds and specific maturity transformations in euros and foreign currencies. In addition to interest rate positions, other positions are held in foreign currencies and stocks. The proposals developed by the Treasury

section for strategic positioning are presented for the approval of the Board of Managing Directors' treasury management committee as part of its monthly meetings. This committee, which is composed of three members of the Board of Managing Directors and, in an advisory capacity, the heads of the Controlling, Accounting, Research, Treasury, Equity, and Capital Markets Trading and Sales sections, as well as one member of the Board of Managing Directors of BW Bank, reports to the Group's full Board of Managing Directors.

The Treasury section is responsible for monitoring and managing the Bank's liquidity across business segments. It also regularly calculates funding requirements for various planning intervals and ensures a broad and well-diversified funding base.

Decisions about the acquisition and sale of equity investments and the associated risks are made by LBBW's supervisory bodies or by the Board of Managing Directors, depending on the volume and/or importance of each transaction. The responsibility of the Group Strategy and Legal section is to prepare acquisitions and sales of equity investments and to develop proposals for the strategic positioning of equity investments.

The Board of Managing Directors and senior executives are tasked in particular with ensuring that LBBW's corporate culture actively deals with operational risks.

Risk Management Structure

Owners' Meeting Supervisory Board Committees				
Board of Managing Directors				
Authority based on lending decision-making hierarchy	Country limit committee	Board of Managing Directors' treasury committee	Risk Committee	Authority pursuant to the statutes and bylaws of the executive bodies and the Board of Managing Directors
Credit risk strategy		Trading strategy/Operational risk strategy		Investment strategy
Credit risks Country risks Back office sections: ■ Wholesale/credit risk management ■ Key account risk management ■ Credit management, Regional business I and II ■ Central loan processing Joint decision-making authority on lending with commercial banking sections		Market price risks Liquidity risks ■ Treasury ■ Trading sections - Equity - Capital Markets Trading and Sales - Capital Market Investments ■ Controlling		Investment risks ■ Group strategy/Legal
		Operational risks ■ Controlling in cooperation with all of the Bank's sections		Real estate risks ■ Administration
				Gen. business risks ■ Board of Managing Directors

Micro Level

The management of credit risks is the duty of the back office sections. These sections make decisions within the framework of the credit risk strategy and their hierarchical authority, thereby addressing the various risks of individual transactions. Customer bank accounts are managed, decisions are made about commitments, and credit lines binding for the Bank as a whole are set up and monitored in the back office sections. The creditworthiness of borrowers and trading counterparties is assessed with the help of the tools made available by credit risk controlling.

The operational management of market price risks is the duty of the trading sections and Treasury. Interest rate risks from new transactions with customers are closed out by the Treasury section in near-real time via offsetting transactions.

The Capital Markets Trading and Sales and Equity sections are home to the Bank's trading and sales units organized in accordance with responsibility for the relevant products:

- The main responsibilities of the sales units are to conclude trading transactions with customers, as well as to build and maintain relationships with institutional investors. They do not enter into any risk positions above and beyond these responsibilities.
- The trading units are primarily responsible for the Bank's proprietary trading. In addition, the market price risks arising from transactions concluded by the sales groups that will not be hedged by Treasury are assigned to the trading books. The trading books are maintained at the micro level within the VaR limits approved by the Board of Managing Directors. The trading units carry responsibility for market price risk and earnings in this regard.

The Capital Market Investments section conducts active portfolio management to control the spread risks associated with capital market-eligible loan and securities portfolios. Credit derivatives are the primary tool used at the micro level here to implement the corresponding hedging measures and to take on planned risks.

Avoidance or minimization of operational risks at LBBW is primarily the responsibility of the affected specialized sections in close cooperation with the relevant staff departments (including IT/Organization and Human Resources). All employees are encouraged to handle operational risks responsibly. The Legal departments in the Group Strategy and Legal section are in charge of identifying and managing legal risks. They are supported in this effort by the specialized sections and staff departments, which also provide them with the relevant information.

Risk Controlling

The risk controlling function at LBBW is defined as the development and operation of systems and processes with which various risks can be analyzed, quantified, and limited. Information about risk parameters and the monitoring of the limits set is prepared daily or monthly for decision-makers.

The Risk committee assists the Board of Managing Directors in monitoring market price risks and operational risks, and with compliance with supervisory requirements (MaH – Minimum Requirements for the Trading Activities of Credit Institutions/MaRisk – Minimum Requirements for Risk Management). This committee's members comprise two members of the Board of Managing Directors and various section heads. The committee generally meets monthly.

The Controlling section also selects or develops suitable systems for uniform, bank-wide valuation of positions, for measuring and monitoring risks, and for calculating business results. Daily market values (mark-to-market) and results are calculated for trading portfolios, the strategic positions of the Board of Managing Directors, and the nostro securities portfolios. At the same time, risk indicators for market price risks (VaR, worst case scenarios) are calculated and offset against the corresponding portfolio limits. Moreover, the management of assets and liabilities is supported by the calculation of overall bank-wide interest rate risks also included in the limit system. LBBW uses backtesting analyses to ensure the quality of the estimation methods applied.

Among other things, the Operational Risks group collects and analyzes incidents of loss centrally, as well as reviewing existing processes for their susceptibility to these risks, and supporting the corresponding risk-prevention process adjustments. Decision-makers receive information about the existing risks. The development of VaR approaches for operational risks is underway.

The Wholesale/Credit Risk Management section is responsible for controlling credit risk and monitoring country limits using the bank-wide country limit system. The mathematical-statistical rating procedure developed by this section is the core element in the risk assessment process. The result of this assessment, a rating score, reflects a standardized estimation of a customer's creditworthiness and includes quantitative, as well as qualitative, factors.

Operational monitoring of credit risks at the level of individual transactions is assigned in general to the various central and regional back-office departments.

Credit risks at the macro level are identified by the Controlling section, which monitors LBBW's risk-bearing potential and calculates economic capital based on VaR.

Risk in Overall Bank Management

Although currently overall bank management is based on regulatory capital (Principle I and in part Basel II), preparations are underway to include risk models in the risk/return-oriented overall bank management process in the future. Economic capital is used to uniformly present risk parameters.

In contrast to the capital required by regulatory bodies, this represents the capital backing required by LBBW for business purposes that is calculated using VaR models or other risk measurement procedures.

Other sections independent of commercial banking activities also exercise important overall risk management functions:

- The Group Strategy and Legal section monitors the development of equity investments and reports to the Board of Managing Directors and the responsible divisions.
- The Back Office Financial Markets section, which is a settlement and control unit, is responsible, among other things, for the quality of the data from data supply systems to be utilized in risk measurement processes.
- The IT/Organization section must primarily ensure the flawless functioning of all IT systems.
- The Internal Auditing section is a process-independent department that monitors all operations and business workflows, risk management and controlling, and the Internal Control System (ICS) with the aim of safeguarding the Bank's assets and boosting its operating performance. The Internal Auditing section exercises its duties autonomously. The Board of Managing Directors is informed about the results of audits in a timely manner by way of written audit reports discussed with the audited operating units. Internal Auditing also monitors the resolution of unresolved audit findings and the implementation of recommendations.

Implementation of Supervisory Requirements Mindestanforderungen an das Kreditgeschäft der Kreditinstitute (MaK – Minimum Requirements for the Lending Activities of Credit Institutions)

MaK specifies the banking supervisory authorities' requirements for the management, monitoring, and control of credit risks, proper business organization, and particular documentation requirements in lending. The final deadline for implementation of MaK was June 30, 2004. The banking supervisory authorities gave credit institutions until December 31, 2005 to finish implementing the IT systems necessary to comply with the regulations.

The key requirements comprising MaK are the determination of a credit risk strategy, the implementation of a risk classification process, and the monitoring of credit risks at the portfolio level, as well as group-wide credit risk reporting. Additional key requirements relate to the existing organizational structure and workflows in the lending business and the documentation of the underlying processes.

The supervisory requirements were fulfilled and documented at LBBW, and BW Bank by June 30, 2004. The remaining IT systems requirements were implemented in full by the deadline of December 31, 2005. The corresponding implementation in processes will follow soon.

Basel II

Starting in 2007, LBBW will further adjust the capital charges for LBBW's lending operations to more closely approach economic risk as part of the implementation of the new capital adequacy requirements (Basel II/Capital Requirements Directive/German

Solvency Regulation – SolvV) for credit, market price, and operational risks. The required developments or updates for this purpose will be completed in time. At this time, evidence of Basel II-readiness under production conditions is being documented by way of the QIS 5 (Quantitative Impact Study 5 for the banking supervisory authorities). During these projects, we utilized the opportunity to make basic changes to our system architecture. These changes have already proved useful for meeting Basel II requirements, as well as other specialized requirements, such as compliance with IFRS.

LBBW aims to receive recognition for its internal rating processes (IRBA approval) from the supervisory authorities. The testing for authorization to use the IRB approach (as of January 1, 2007) will begin on March 1, 2006.

Currently, LBBW is preparing to meet the regulations required by the supervisory authorities and the Solvabilitätsverordnung (SolvV – German Solvency Regulation) being drafted by the German legislature. The necessary activities to this end are on schedule. After completion of the activities associated with the Basel II project as of March 30, 2006, the SolvV project activities will ensure the required results by the end of 2006.

MaRisk (Minimum Requirements for Risk Management)

The Minimum Requirements for Risk Management, shortened to "MaRisk" in German, replace the existing Minimum Requirements for Trading Activities (MaH), the Minimum Requirements for Lending Activities (MaK), and the Minimum Requirements for Internal Auditing (MaIR).

At the same time, the bulk of the requirements for the supervisory monitoring process formulated in Pillar 2 of Basel II is implemented in German law through MaRisk. To this end, the general regulations concerning risk management were expanded and requirements regarding liquidity risks, operational risks, and interest rate risks were stipulated that exceed the minimum requirements to date. Among other things, lawmakers require that credit institutions determine a strategy, prepare a comprehensive plan describing their risk-bearing potential, and set up suitable internal control processes. Ultimately, the aim here is to ensure that sufficient internal capital is available to cover key risks.

The requirements of MaRisk therefore function as the measuring stick for qualitative banking supervision as part of the supervisory review and evaluation process.

MaRisk was updated as part of a consultation process by an expert committee on MaRisk. The final version of MaRisk was published by BaFin on December 20, 2005. The requirements of MaRisk that were regulated to date in the existing minimum requirements, including comments, entered into force immediately. New requirements will generally enter into force on January 1, 2007.

Based on the requirements of the Basel and Brussels papers, comprehensive analyses of the need for action at LBBW have already been conducted. A Basel II project that aims to implement the new requirements by the end of 2006 was launched in spring 2005.

Risk Management System for Mortgage Bond (Pfandbrief) Operations

With the entry into force of the Pfandbriefgesetz (PfandBG - German Mortgage Bond Act) on July 19, 2005, a risk management system must be in place pursuant to § 27 Mortgage Bond Act to ensure identification, assessment, management, and monitoring of the risks associated with this business segment. In order to meet these requirements, a risk management system was implemented that covers credit, interest rate, foreign exchange and other market price risks, operational risks, and liquidity risks.

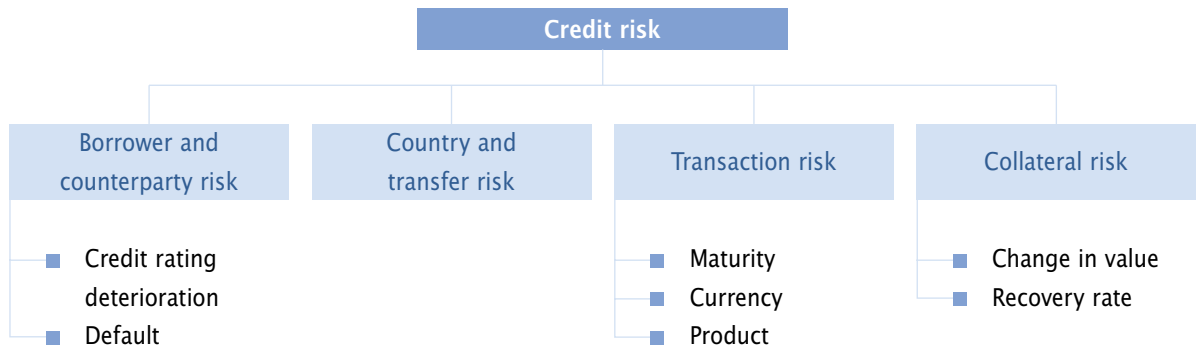
A multi-tiered limit system is in place for the various risk types. Regular stress tests were conducted with regard to excess present-value cover. In the event that the limits fixed are reached, a process for lowering the risks was determined. Reports are submitted regularly to the Board of Managing Directors about limit utilization. The plan is to annually test the risk management system.

External publications in accordance with § 28 Mortgage Bond Act (transparency rules) are posted quarterly to LBBW's Web site.

Credit Risks.

At LBBW, credit risks are defined as possible losses that result from deterioration in the credit ratings of borrowers, other counterparties, or equity investments; from changes in the value of collateral, or due to the effects of cross-border limitations in currency transfer (transfer risks).

Credit Risk Structure



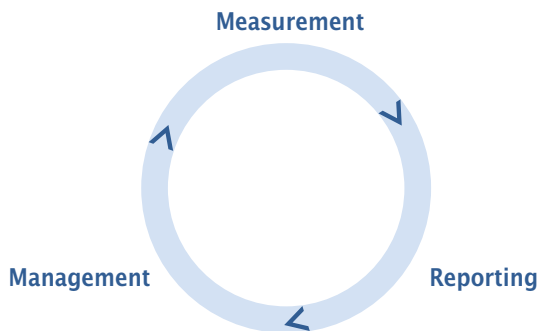
Credit risks are addressed at two levels. The credit-worthiness of individual borrowers or borrower units is assessed at the customer level (micro level) on the one hand. On the other, transaction-specific risks (maturity, currency, product) and collateral that is intended to reduce risk are evaluated. In order to ensure the adequate management of individual risks, the business-oriented commercial banking units work with back-office units, which are assigned comprehensive decision-making authority. In organizational terms, a system of decentralized risk management was selected for the business with LBBW's numerous smaller and medium-sized corporate customers. This ensures short communication channels, close proximity to customers, rapid and justifiable decision-making, and ongoing management of commitments. A centralized risk management approach was realized

for the wholesale business (financial markets and structured financing), as well as for key accounts, corporate customers, freelancers, and retail clients (particularly private individuals). The strengths of this approach lie in the bundling of information and expertise, as well as in the efficient processing of the mass-market business concentrated in the Retail Clients business segment.

At the second level (macro level), the focus is on sub-portfolios (including country and industry risks) or on the portfolio as a whole. We use quantitative models to calculate the risk potential that arises from the interplay among individual risks. Risk management at the portfolio level is generally centralized in organizational terms.

Credit Risk Management

LBBW manages risks in three closely integrated, interactive phases:



Risk measurement	<ul style="list-style-type: none"> ■ Risk classification process/rating procedure (individual borrower level) ■ Early warning procedure for credit risks ■ Analysis of transactions and collateral ■ Credit portfolio models (portfolio level)
Risk management	<ul style="list-style-type: none"> ■ Credit risk strategy ■ Management of individual transactions (risk management/limitation of individual risks) ■ Pricing of transactions/customer relationships with adequate risk/capital coverage ■ Portfolio limitation ■ Specific bad debt provisions
Risk monitoring and reporting	<ul style="list-style-type: none"> ■ Credit reporting ■ Monitoring lists ■ Regular credit risk reporting ■ Ad-hoc reporting ■ Portfolio analyses

Measurement at the micro level

Borrower and Counterparty Risk: The creditworthiness of existing and new customer accounts is primarily assessed using rating procedures, the aim of which is to estimate the probability of default and allocation to a corresponding rating class.

LBBW Master Scale

Rating class	Ave. PD	
AAAA	0.00%	
AAA	0.01%	
AA+	0.02%	
AA	0.03%	
AA-	0.04%	Investment grade
A+	0.05%	
A	0.07%	
A-	0.09%	
2	0.12%	
3	0.17%	
4	0.26%	
5	0.39%	
6	0.59%	
7	0.88%	
8	1.32%	
9	1.98%	Non-investment grade
10	2.96%	
11	4.44%	
12	6.67%	
13	10.00%	
14	15.00%	
15	20.00%	
16	100.00%	Default classes
17	100.00%	
18	100.00%	

The foundation for this process is an analysis of the financial circumstances to be investigated. Depending on the customer group, this must, however, also include an assessment of market conditions, product quality, the competitive situation, management, as well as cash flow and forward-looking data. In addition to changes in total debt, account transactions, and industry forecasts, other suitable internal and external sources of information are regularly used to identify heightened default risks or credit rating deterioration at an early stage.

The above-mentioned processes are fully integrated into LBBW's lending processes. Their application and further development are central responsibilities of the employees of the back office sections. Our

internal risk classification and rating procedures have proven to be an effective active risk management tool in recent years. Among the evidence of this is the relatively low number of defaults in our lending business due to our lending policies, which focus on creditworthiness and cash flow. The forecast quality of our rating procedures, each individual rating component, and the interaction among these rating components are regularly backtested. These quality controls, which are based on observed default rates, confirm not only compliance with minimum standards, but also uncover the weaknesses in the systems, thereby generating impetus for improvements.

Country and Transfer Risk: Country risks at LBBW are measured using a Basel II-compliant country rating and monitored via a country risk early warning system. The key factors in the rating procedure are the economic situation, political environment, and domestic and foreign trade developments in each individual country.

Transaction Risk: This category includes uncertain changes in net payments due to exchange rate-induced revaluations of future incoming and outgoing payments, as well as maturity-related and product-specific risks.

All of the risks translated into credit equivalents for a single borrower unit – including real estate financing, if materially relevant – are combined into a total exposure. The credit equivalent amount represents the costs that arise upon default by a counterparty to replace the transactions entered into with this counterparty. Depending on the type of loan in question, estimates are prepared of the exposure at default (EAD) or the credit conversion factor (CCF) using historical data.

Collateral Risk: In the past year, we further refined the methods for valuing various types of collateral. During this process, lending values are calculated using the fair value of the collateral, the historical recovery rates, and a collateral-specific haircut. We have also updated our collateral management system and integrated it into the loan approval process to a great extent.

The technical collection of complete collateral data and a realistic assessment of the proceeds from the liquidation of collateral, as well as the EAD, will in the future form the foundation for forecasting the loss given default (LGD). Supplementing customer default probabilities with this value enables LBBW to quantify potential losses from individual loan commitments in a detailed way. In a joint project with the DSGV (the German Savings Bank Association), we developed a methodology for ex-ante estimates of EAD and LGD in the private construction financing segment based on liquidated loans in past years. The launch is scheduled for the second quarter of 2006. The corresponding procedures are already part of transaction valuations in project financing, including ship and aircraft financing. In terms of the other business areas (corporates; business customers; international central, regional, and local authorities; real estate companies; financial institutions), we will continue to take our conservative approach to date concerning collateral until the implementation of robust statistical models.

Measurement at the Macro Level

LBBW's credit risks are measured and limited at the macro level using credit value-at-risk (CVaR). VaR represents the potential market value loss of a portfolio that will not be exceeded with a pre-determined probability (confidence level) over a time horizon of one year.

The Bank uses a credit risk model based on the modeling of ratings migration to calculate VaR. The individual borrowers are assigned default probabilities corresponding to their ratings. These in turn are modeled using systematic (economic) fluctuations, which adequately addresses credit rating correlations. Moreover, all credit exposures on the risk horizon, which is usually one year, are subjected to a mark-to-model valuation.

This approach measures and takes into account unexpected losses, as well as expected losses. Concentration risks play a particularly important role in this regard. The aforementioned modeling of default rates provides a picture of industry concentrations. At the same time, volume concentrations caused by individual borrowers can also be identified by the simulation mode. The credit risk model uses a Monte Carlo simulation approach for this purpose.

The calculations to date using the risk model indicate that LBBW holds a well-diversified loan portfolio. Concentration exists in the banks/financial institutions segment in line with the focus of LBBW's business.

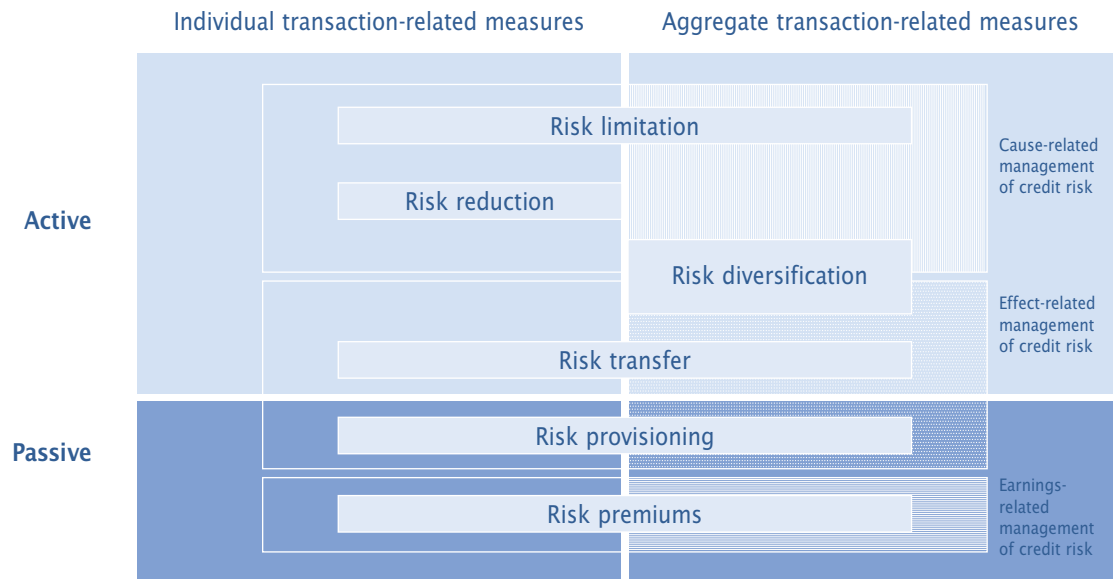
However, no major concentration risks exist from the overall portfolio standpoint. LBBW is not subject to any credit risks at the overall bank level that would endanger its continued existence.

Management

The credit risk strategy is the basis for Group-wide credit risk management at LBBW. Designed for a rolling planning horizon of three years in each case, the credit risk strategy is continually updated. This

strategy's objective is to convert LBBW's risk tolerance based on its corporate goals and the expectations of its owners into concrete plans for action for our lending business. The credit risk strategy is oriented to current overall economic conditions, taking into account the Bank's risk-bearing potential. Key components of this strategy are quantitative, risk/return and business segment-specific standards for individual transactions, or business areas and sub-portfolios.

Breakdown of Management Options



Risk Limitation: Limits are firstly placed at the individual transaction level based on the general practice of only granting loans to borrowers with a minimum level of creditworthiness. In addition, the loan amount, and its term and collateral structure are linked to the credit rating of the relevant borrower and to the risk-bearing potential of our institution. Last year, LBBW's existing limit system for monitoring and managing credit risks was again updated successively. To this end, the Global Limit System introduced in 2001 for trading products was expanded to cover limit monitoring for the lending business. This process applies a multi-dimensional limitation approach in which both soft (flexibility in borderline cases) and firm (no room for maneuver) limits are possible depending on risk relevance and LBBW's corporate policy considerations. The basis for the limits is the nominal loan volume.

Risk Reduction: The collateral strategy is becoming increasingly important for risk management purposes. Collateral arrangements are increasingly being made particularly when lending to borrowers in the weaker credit rating classes to effectively limit potential losses. Credit risks are reduced further via the systematic use of netting master agreements and collateral agreements with our business partners that stipulate coverage with cash payments or other liquid collateral for the net positions from OTC derivatives, for example, calculated using the mark-to-market approach.

Risk Transfer: Risks are transferred at LBBW by way of syndicated, ABS, or synthetic transactions. At the individual transaction level, syndicated transactions offer the opportunity to distribute a loan proportionally among several credit institutions, which as a rule have the same ranking in insolvency proceedings in the event of default of the loan. In transferring risks through synthetic transactions, credit default swaps, among other instruments, are used to separate credit risks from the underlying positions and to transfer them separately to other market participants. Synthetic transactions enable us to hedge credit risks at the level of individual transactions, as well as at portfolio level, without subsequently influencing the relationship with the customer.

Risk Premium: During the preliminary product pricing process, a risk-adjusted pricing procedure is used in line with LBBW's value-oriented overall bank management approach. During the pricing process, the value contributed by a transaction is included as a key determining factor. The value contribution consists of net interest and commission income, less sales and administrative costs (cost range), as well as risk and

Interest and commission income

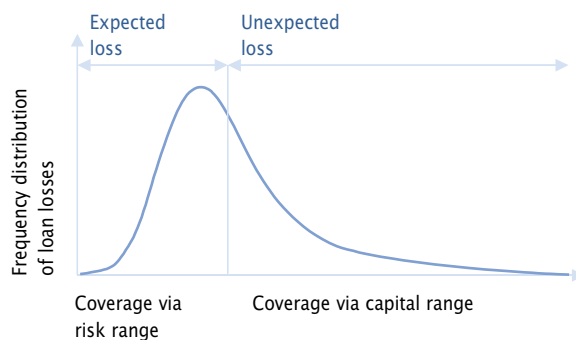
- Cost range

- Risk range

- Capital range

= Value contribution

capital costs. The risk range taken into account when determining the price of a loan depends, among other things, on LBBW's estimate of the borrower's creditworthiness, and the amount and term of the loan. This corresponds to the calculable, expected risk costs of a loan transaction and is derived from the average values of actual past loan defaults. The costs of the capital required to cover unexpected losses from loan defaults are included in pricing in the form of the capital range. The capital range also depends largely on the assessment of the creditworthiness of the borrower; in addition, collateral deposited reduces the capital range.



In the course of the merger of LBBW and BW Bank, all of the aforementioned influencing factors were reviewed again, some were adjusted, and the pricing methods of the two banks were harmonized.

The approach taken to ensure market-driven pricing and preliminary costing according to business principles has proven successful – and thereby guarantees prices in our lending business that adequately cover our expenses and that are ultimately in our customers' interests as well.

Risk Provisioning: As a tool of passive risk management, LBBW's risk provisioning strategy aims to absorb probable losses incurred in the lending business by implementing suitable capital adequacy measures. Non-performing commitments and those requiring restructuring are generally forwarded for further processing to the Central Loan Processing section. This section is then in charge of the decision about what further action will be taken regarding the loan commitment, or whether the commitment will be terminated or collection measures initiated. Due to their specific features, international commitments, wholesale loans, and commercial real estate financing remain the responsibility of the relevant specialized section. However, this department is required to obtain the approval of the Central Loan Processing section on the matter. If the value of the collateral does not cover the commitment, the amount of the necessary specific bad debt provision is calculated. In each individual case, the considerations and circumstances that led to setting up the specific bad debt provision are documented. During this process, restructuring projections and break-up considerations are added to information about the borrower's current situation.

Monitoring and Reporting

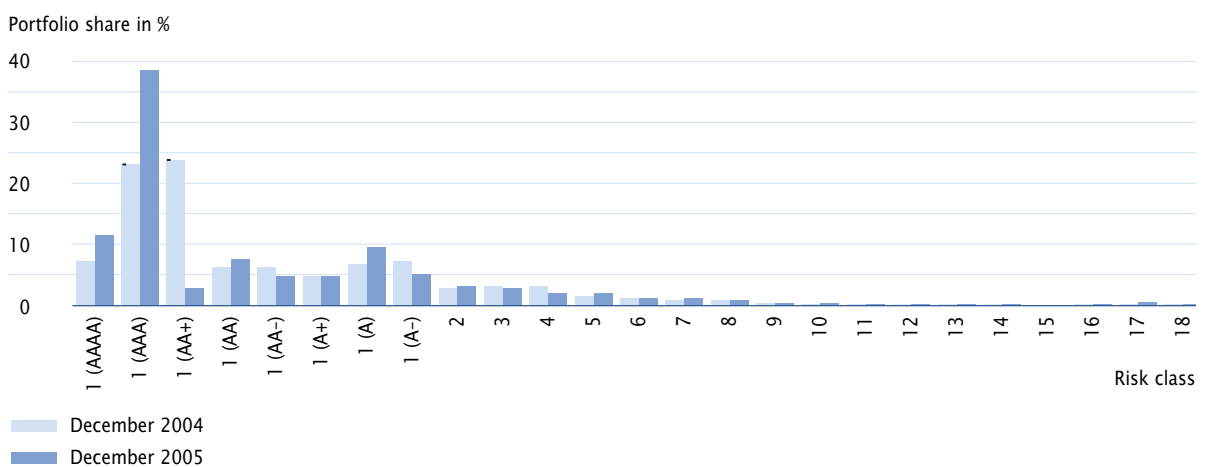
It is the duty of the risk manager responsible in each case to work with the corresponding commercial banking sections to determine the strategy at the individual customer level in line with the credit risk strategy of the Bank overall. Moreover, they also monitor implementation. This information is documented in the regularly scheduled credit reports or – in the event of significant risks – in watch lists. LBBW also prepares comprehensive reports that present the overall risk situation, which regularly inform the managers of the commercial banking and back office units, in addition to the Board of Managing Directors, about current developments. Using this information, analyses are performed that take into account business considerations, as well as the legal requirements, and enable LBBW to quickly introduce countermeasures to economic influences and undesirable portfolio changes. In addition, ad hoc reports are also issued to quickly notify the responsible decision-makers about important or extraordinary events/risks. The degree of detail and scope of these analyses and reports are updated continually.

Summary

The successful direction we have taken to date with our credit risk management activities is reflected in particular by the excellent quality of our portfolio. Around 95% of the rated net portfolio of claims is rated investment grade, while about 4.5% of these claims are deemed non-investment grade, and only 0.7% are being restructured or liquidated. In addition, the ratio of credit risk costs to gross earnings is in healthy proportion (7.5%).

The basis for maintaining, as well as improving, our excellent credit portfolio structure and risk/return ratio is to pursue a strategy of forward-looking, active risk management that is adaptable in near real-time to new requirements. We view this as a dynamic process that addresses and, if possible, anticipates rapidly changing market situations.

Distribution of claims by risk classes



Risk Situation

Bank Overall

Once again in the past year, the overall economic environment improved only slightly. According to Deutsche Bundesbank, the German economy grew in spring 2005, but this development was driven solely by strong exports, a trend that did not carry through the year. One bright spot was the decline in the number of corporate insolvencies in the past year. However, this development was countered by a net negative number of new businesses with considerably more businesses de-registered and fewer new businesses registered compared to previous years. The economic and financial situations of private households could again be deemed unfavorable. According to Creditreform, the number of personal bankruptcies rose dramatically in 2005. The high degree of uncertainty about employment prospects and the sustainability of the social net continue to cloud the prospects of private households.

As an export powerhouse, Baden-Württemberg was able to benefit in particular from increased demand abroad for German products. This resulted in the economy in Germany's southwest returning to a path of recovery, albeit a moderate one, according to IHK Stuttgart (Stuttgart Chamber of Industry and Commerce). The unemployment rate in LBBW's core market continues to remain low compared to the rest of Germany.

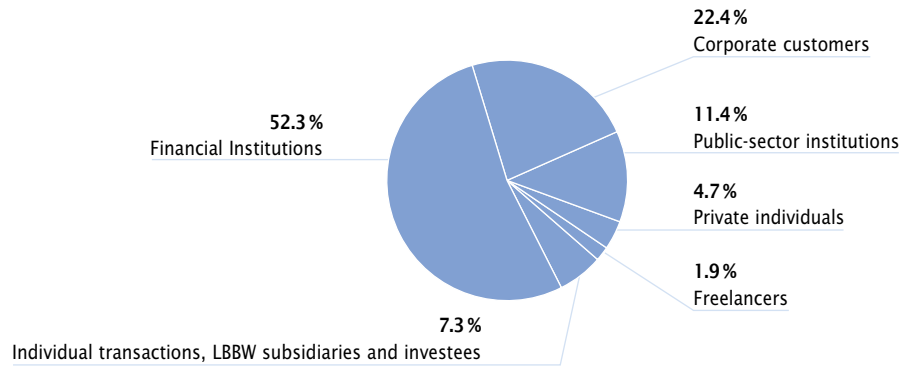
LBBW's overall portfolio is distributed among various volume classes. In line with our risk policy, large commitments are entered into only with partners in the best credit rating classes.

Distribution of Claims by Volume Class and Individual Borrowers

December 2005			
up to EUR ... million	in %	aggregate %	Cluster %
0.5	5.9	5.9	26.1
1	1.1	7.0	
5	3.8	10.9	
10	3.0	13.9	
50	12.2	26.1	31.7
100	7.8	33.9	
500	24.0	57.9	
1 000	13.8	71.7	42.1
2 000	12.8	84.5	
3 000	10.3	94.9	
5 000	3.7	98.5	
>5 000	1.5	100.0	
Total	100.0	100.0	100.0
LBBW Group	0.0	0.0	0.0
BW Bank (former)	0.0	0.0	0.0
Total	100.0	100.0	100.0

Despite the rather subdued economic developments and general economic climate in Germany, LBBW's credit portfolio is low in risk thanks to its conservative risk policy, its risk management activities tailored to economic requirements, and the diversification of the portfolio. The integration of BW Bank further increased the diversity of LBBW's customer base.

Distribution of claims by business areas



Financial Institutions

The term “financial institutions” includes banks and savings banks, insurance companies, non-bank financials, home savings and loan associations, and brokers, as well as structured credit risk products. In addition to trading transactions and structured trading facilities, and international trade and export financing, the financial institutions business area mainly includes bilateral or national/international syndicated loan and securities transactions.

The uneven development of the market and credit ratings of LBBW’s partners evident in previous years continued in fiscal year 2005.

LBBW’s risk management activities are typified by conservative risk-limiting guidelines and control parameters. Ongoing fundamental and qualitative analyses of the creditworthiness of our partners, conducted on site if necessary, and active risk-limiting measures enabled LBBW to maintain a well-diversified, regionally balanced portfolio featuring partners with good credit ratings again in 2005.

As in the past, the vast majority of commitments are rated investment grade.

Corporate Customers

In the past year, the general economic climate for companies improved slightly, but on the whole, the willingness to invest in Germany continued to be very low. When investments were made, these focused on replacement equipment. Companies financed investments largely from the cash flow they generated, while uncommitted funds were mostly used to repay loans. In 2005, these developments initially led to weak demand for loans by companies, although this demand stabilized again in the second half of the year. Despite the unfavorable overall economic conditions, the volume of loans granted to companies remained almost steady.

Detailed Breakdown of Companies and Organizations

	Total December 2005
Industry distribution	in %
Energy, utilities	8.7
Food, consumer goods and durables	1.8
Chemicals, plastics	2.4
Metal, mechanical engineering	4.5
Automobile manufacture	3.1
Electrical engineering, communication, IT	4.2
Construction, housing	15.7
Retail/wholesale	5.7
Transportation, logistics	3.5
Media, entertainment	1.3
Services	15.3
Financial services (not incl. credit institutions and insurance co.)	19.7
Insurance industry	3.5
Other	10.6
Total	100.0

Retail Customers and Freelancers

Real estate transactions dominated LBBW's business with retail customers and freelancers. Based on the uncertain labor market situation, customers held back on long-term commitments, such as real estate purchases, in 2005. Accordingly, the market for new construction was sluggish. The market for portfolio properties, particularly in attractive locations, performed well, however. All of these trends had an effect on the construction industry, as well as the development of new business at credit institutions offering mortgage loans. Despite increased competition, particularly on the part of direct banks, LBBW was able to boost its new business in this area.

Country Risks

In 2005, country risks were reduced further, although the significant improvement of the previous year was not matched. Seven countries were assigned to a better risk group, while only three countries deteriorated over the prior year. This LBBW-specific development

was in line with a slight improvement in the "global average" category in the country risk survey conducted by Institutional Investor from 42.9 percent in March 2005 to 44.1 percent in September 2005.

Thanks to our conservative country risk policy and the excellent functionality of the analytical systems we use, LBBW was not affected either by Argentina's debt rescheduling in June 2005 or by the liquidity crisis that arose in the Dominican Republic in 2003/2004. In these cases, neither using existing risk provisions nor setting up new risk provisions was necessary.

LBBW's international portfolio continues to carry a notably low level of transfer risk due to the concentration on countries with particularly good ratings. As of September 30, 2005, a share of 95 percent of total country risks was assigned to rating class 1 (A-) or better. LBBW manages country risks by approving basic business policies and making individual decisions on risk in the case of individual transactions. The country limit committee makes decisions on individual business-related issues in exceptional cases and regularly recommends the limits for each country to be approved by the Board of Managing Directors.

LBBW		
Region	Utilization	Share of total volume
	in EUR million	in %
W. Europe	104 279	67.0
E. Europe	2 052	1.3
Asia/Pacific	11 373	7.3
Africa	59	0.0
N. America	37 000	23.8
Latin America	891	0.6
Supranational	35	0.0
Total	155 689	100.0

Risk Provisioning

The downturn in risk costs reflects an overall improvement in the risk situation. Compared to the previous year, total required risk provisions declined further in all segments. Improved rating and early risk identification procedures contributed to this result, in addition to economic factors.

A number of loan claims were contested as the result of the court decision on consumer loans, which was detrimental to lenders. The high volume of specific bad debt provisions used in the Retail Clients segment was largely due to the resulting composition agreements.

Risk Provisioning					
Segment in EUR million	Specific bad debt provisions Dec. 31, 2005 (1)	Claims (2)	Specific bad debt provision ratio (1)/(2)	Utilization of specific bad debt provisions in 2005	Direct write-offs as of Dec. 31, 2005
Financial Markets	11.2	234 638	0.00 %	7.1	0.2
Corporate Finance	1 334.7	59 587	2.24 %	133.3	7.1
Retail Clients	417.1	28 772	1.45 %	126.7	6.5
Corporate Items	15.1	44 937	0.03 %	3.4	2.0
LBBW Bank	1 778.1	367 934	0.48 %	270.5	15.8

Investment Risks.

LBBW invests in other companies or assigns functions to subsidiaries, if this appears to be a logical choice after consideration of strategic aims or returns.

LBBW's portfolio of equity investments can be broken down as follows by the degree of Group affiliation of the subsidiaries/equity investments:

■ Core LBBW Group

The equity investments of the core LBBW Group include subsidiaries (generally wholly owned subsidiaries) that are managed as sections/ departments of LBBW. Support functions, such as controlling, accounting, and human resources, are handled directly by the responsible organizational units at LBBW.

■ Extended LBBW Group

The companies in the extended LBBW Group comprise subsidiaries that have their own management and support functions. These companies are managed by way of LBBW's position as majority shareholder and via LBBW representatives in their supervisory bodies.

■ Minority Interests

LBBW influences the business activities of minority interests through representation in shareholder and supervisory bodies, in some cases exercising veto rights on key decisions.

Early identification of business and risk developments at LBBW's subsidiaries and equity investments is particularly important for investment controlling purposes. To this end, regular coordination meetings are held at the corresponding management levels of the Bank and the subsidiary/equity investment, particularly in the case of the key companies. In addition, these

companies' results and planning are continually monitored by the organizational unit responsible for equity investment management in the Group Strategy and Legal section at LBBW. The companies that are subject to risks material for the LBBW Group are successively being integrated into the relevant management systems at LBBW (transparency principle).

Risk Situation: LBBW pursues a selective equity investment policy. As a rule, a comprehensive risk analysis (of legal, financial, etc. risks) in the form of due diligence is performed, generally in conjunction with the Bank's specialized sections, before equity investments are acquired.

LBBW aims to use transaction agreements to hedge risks as much as possible contractually, such as through option agreements. In addition, the buying process includes valuing equity investments taking into account capital market-oriented risk premiums.

Fair market values for LBBW's equity investments are calculated in accordance with the guidelines issued by the Institut der Wirtschaftsprüfer (IDW – the German Institute of Certified Public Accountants) at least once a year as part of preparatory work for the annual financial statements. For the semi-annual report, a plausibility check of the book values is performed using calculations pro-rated for the period.

In addition to the usual risks inherent in equity interests resulting from the investment of capital, liability risks also arise from the profit and loss transfer agreements concluded with some subsidiaries and from the responsibility for fulfilling the maintenance obligation (Anstaltslast) and guarantor's liability

(Gewährträgerhaftung) for equity investments in public-sector banks. Furthermore, the Bank has signed letters of comfort with various equity interests. There is also a risk that the Bank will receive an insufficient return or no return at all on its investments.

The overall return on the equity investment portfolio exceeded the return that could have been achieved with alternative no-risk investments (public-sector fixed-interest securities) taking into account the profit retention in investee companies.

Management and monitoring systems ensure that LBBW is continually informed about the situation in the equity interests. Moreover, the subsidiaries and major equity investments follow a conservative risk policy synchronized with LBBW to the extent that LBBW can influence such policies.

Liquidity Risks.

Liquidity risk is broken down at LBBW into liquidity risk in the narrower sense (short-term liquidity risk) and funding risk (long-term liquidity risk). The liquidity risk in the narrower sense is the risk of insolvency due to an acute lack of funds.

The funding risk (risk associated with the Bank's own creditworthiness) describes the risk of an increase in the Bank's funding costs for short-term refinancing of long-term assets. In addition, the market liquidity risk is an expression of the danger that due to inadequate market depth or to market disruptions, capital market positions can only be closed out at a loss.

Liquidity Risk (Narrow Definition) and Funding Risk

Liquidity management at LBBW is viewed as a cross-disciplinary responsibility and is performed by the Treasury section. Funding risks are managed by way of regular discussions and decisions on possible measures as part of the funding strategy.

Short-term liquidity is monitored using regular projections that take into account all of the cash activities of the Bank. The risk of an acute shortage of funds is minimized using a limit system in which the limit is derived from the available liquidity reserve. The Treasury section actively manages the liquidity reserve. The Treasury section also reports to the Board of Managing Directors quarterly as part of a comprehensive liquidity report on all issues associated with guaranteeing the Bank's liquidity. In addition, a detailed emergency plan is in place to manage all types of crisis situations.

LBBW maintains a broad and well-diversified funding base. The deterioration in ratings as the result of the elimination of the guarantor's liability (Gewährträgerhaftung) on July 19, 2005 had only a very minimal effect on the funding environment in money market maturities.

Thanks to consistent management of its liquidity reserves, the Bank is well secured in the event of unforeseeable interruptions in its market sources of liquidity and unexpected outflows of liquidity or defaults on expected incoming payments. The Bank's available potential funding with same-day availability via central banks (ECB and the Fed), defined at LBBW as the liquidity reserve in the narrower sense, amounted to EUR 9.5 billion as of December 31, 2005.

The liquidity requirements defined in Principle II of the KWG (German Banking Act) were substantially exceeded at all times in 2005. The liquidity ratios of LBBW was 1.32 (2004: 1.40) as of December 31, 2005.

Market Liquidity Risk

Market liquidity risks relate to potential losses from the trading of larger portfolios of less liquid securities. If a large volume were disposed of quickly, then a corresponding significant influence on the markets is to be anticipated, which would result in pressure on prices, thereby reducing the expected proceeds.

LBBW addresses such risks by monitoring bid-offer spreads in the securities held in the portfolio. These are compared with the associated volumes traded. This correlation is then transferred to the volume in LBBW's portfolio and converted to a potential loss value.

Risk Situation: Market liquidity risks are not of material significance to the Bank. The risks arising from illiquid stocks in the trading portfolio are minimized through use of a separate limit. Otherwise, trading must be limited mainly to products and markets that indicate sufficient liquidity based on market development to date.

Market Price Risks.

Market Price Risk Monitoring Organization

The monitoring of market price risks at LBBW is based on a hierarchical limit system. The authority to set limits in this case rests with the full Board of Managing Directors, which also decides on permanent changes in limits. This authority was delegated to individual members of the Board of Managing Directors with regard to temporary measures and certain sub-portfolios.

Market price risks are measured across the board using value-at-risk (VaR) indicators. A complete system of VaR limits has been put in place, and the level of utilization of these limits is reported to the full Board of Managing Directors daily. Aggregate losses in the course of the year reduce the available VaR limit of the trading unit in question and therefore ensure an absolute limitation of losses throughout the year as a whole. This limitation of losses corresponds to the stop-loss limit that is assigned to each VaR limit. In addition to daily reports, the Board of Managing Directors also receives more detailed information monthly about the effects of market price risks on the risk and earnings situation. A more in-depth discussion of the Bank's exposures based on various stress scenarios is also conducted in this forum.

Procedures

At LBBW, the VaR from market price risks is calculated at a confidence level of 99 percent and a holding period of ten days. This calculation is based on a procedure involving a scenario-based Monte Carlo simulation (SiRA), an approach that combines precise measure-

ments with efficient calculations. The simulation enables LBBW in most cases not only to estimate market-induced value fluctuations, even in complex transactions, but also to measure them exactly. In addition, the breakdown of potential market developments into scenarios boosts efficiency by reducing the number of portfolio valuations.

Market price risks are broken down at LBBW into the sub-categories listed below.

- Interest rate risks as potentially detrimental developments in market interest rates influence trading portfolios, as well as the strategic interest rate position of the investment portfolio. In this regard, it is not only parallel shifts in yield curves, but also factors such as twists, that can have a significant impact on the Bank's interest rate position. These types of developments are included in full in the simulations used in calculating VaR. Moreover, basis risks that arise due to relative movements of various interest rate markets in relation to each other are included in risk calculations.
- The VaR calculations are supplemented with separate stress scenarios that include curve movements and spread changes in particular, and therefore reflect changes in the value of the portfolio in the event of extreme market movements.
- The interest rate shock of 200 basis points assumed under Basel II is also calculated regularly. Experience shows that the change in present value as its effects falls within the thresholds defined there.

- Foreign exchange, commodities, and equity risks are less significant than interest rate risks. The former also include risks from precious metals and currency portfolios, which LBBW only holds to a limited degree.
- In addition to market price risks, LBBW also measures and limits market liquidity risks. Market liquidity risks relate to the potential risk of loss from holding larger portfolios of less liquid securities. More information on this is available in the section on liquidity risks.

Risk Situation

LBBW remained within the global limit for market price risks at all times. The market price risks entered into were therefore fully within LBBW's risk-bearing potential.

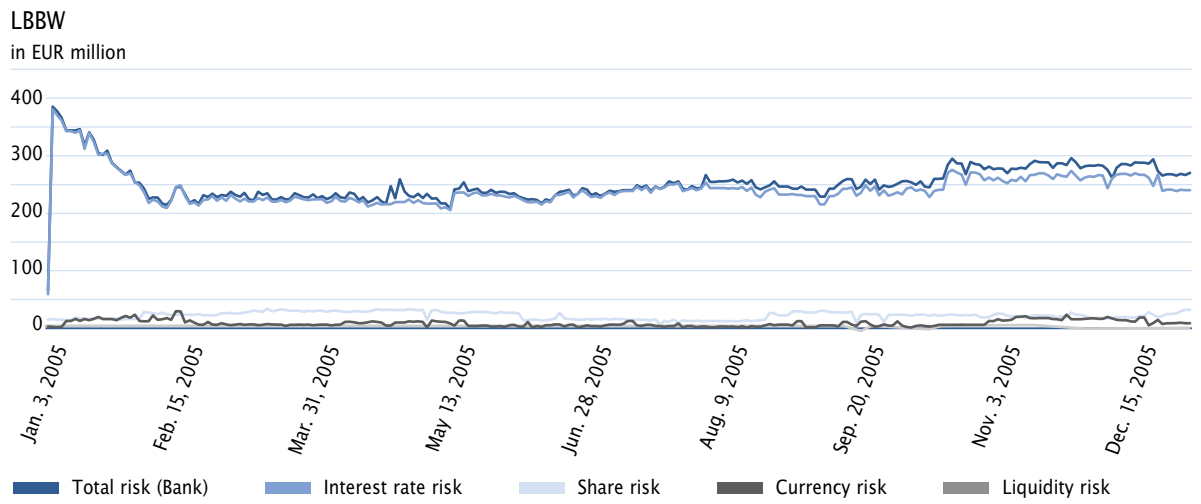
LBBW's market price risks are heavily influenced overall by interest rate risks. The following table illustrates their composition by risk types at the overall bank level:

Risk types at the overall bank level					
in EUR million	Average	Maximum	Minimum	Dec. 31, 2005	Dec. 31, 2004
Interest rate risks	243	381	59	240	62
Share risks	22	34	7	35	15
Currency risks	9	30	1	9	4
LBBW Bank	253	385	66	270	69

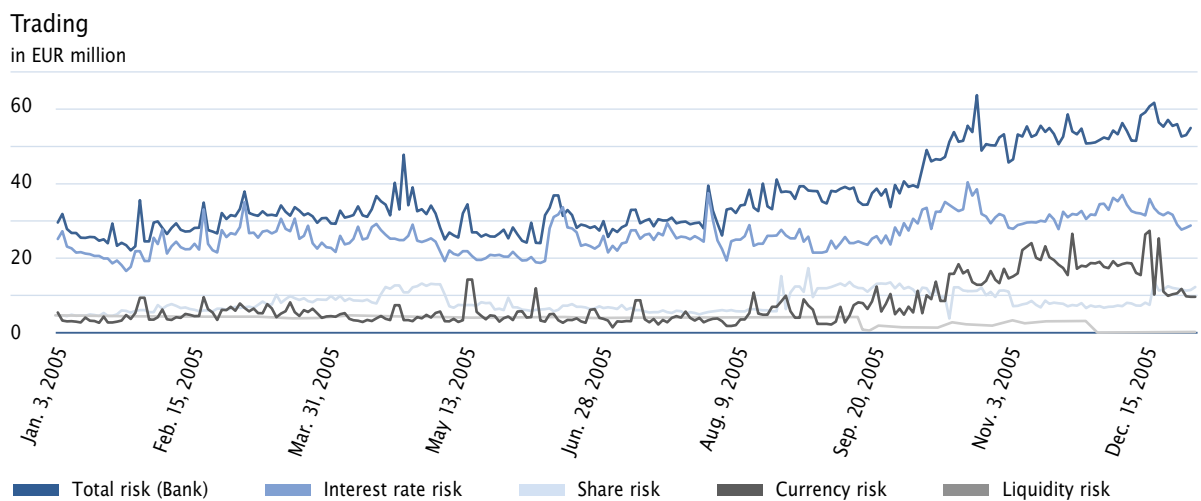
The following is the breakdown for the trading positions:

Trading positions					
in EUR million	Average	Maximum	Minimum	Dec. 31, 2005	Dec. 31, 2004
Interest rate risks	26	40	17	44	29
Share risks	8	17	4	12	5
Currency risks	8	27	1	10	3
LBBW Bank	37	64	22	55	33

The following graphics illustrate LBBW Bank's market price risks over the course of the year.



The rise in interest rate risk at the beginning of the year is attributable to the addition of credit spread risks in the investment portfolio to the risk calculation. These have been taken into account in the market price risk VaR since January 3, 2005.



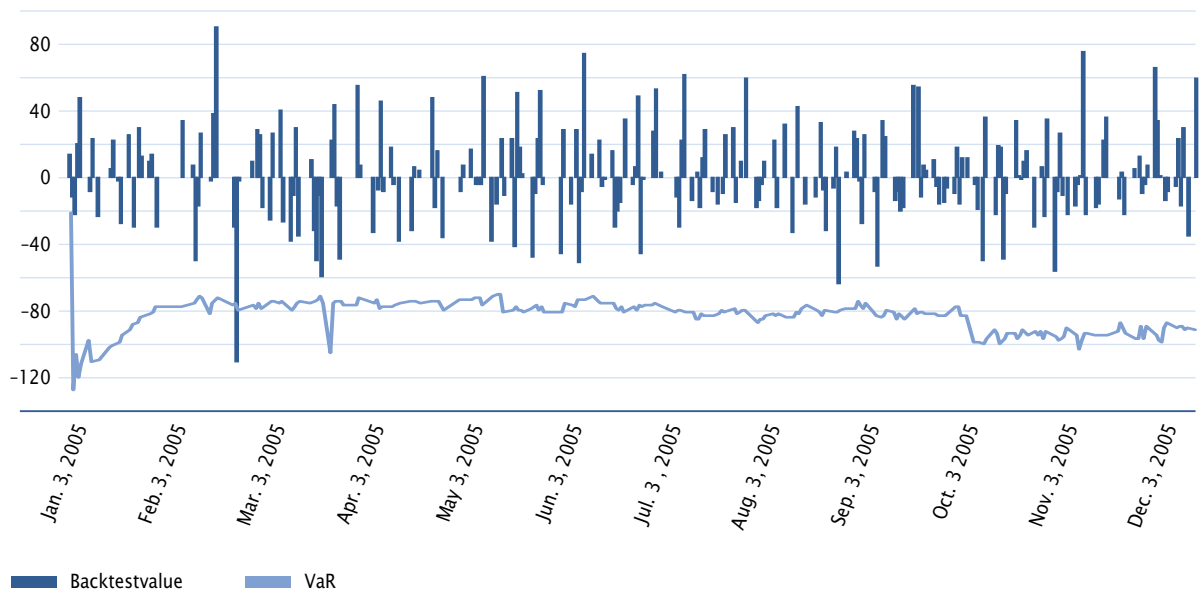
Backtesting

The VaR value calculated by the risk model (SiRA) represents a statistical forecast on future portfolio losses from market price risks. In order to verify the suitability of the model, it is necessary to test the quality of forecasts. This process is called “backtesting”. In concrete terms, this process involves counting the number of times VaR is exceeded by actual portfolio value changes (called “outliers”). Even in the case of a perfect model, this number is subject

to statistical fluctuations. For this reason, the supervisory authorities have set a limit of five outliers up to which the model cannot be rejected. LBBW’s backtesting time series indicate only one outlier each for the Bank overall and for the trading book, placing LBBW well within this limit.

Backtesting (Bank overall) for the test period
from Jan. 3, 2005 – Dec. 30, 2005
VaR parameters: 99% confidence level,
1-day holding period, backtesting ratio = 0.43 %

in EUR million



Further Development of the Risk Model

Due to rapid change on the capital markets, LBBW's risk model is also continually confronted with new challenges. New products are constantly being created for which adequate risk assessment must be ensured. LBBW develops the necessary valuation procedures itself. This gives the Bank control and, if necessary, enables us to flexibly react to variations in product structure. The Bank is aware that the valuation process is subject to limitations. In addition to valuations, the adequacy of risk modeling is also reviewed regularly. If certain markets and risk types were to become more important in the future, we can therefore expand the model we have developed when needed.

All types of modeling are simplified compared to reality. LBBW generally addresses this type of "model risk" by setting conservative parameters. In certain cases, special limits are also set. Sometimes valuation haircuts are taken if uncertainties exist with regard to the associated valuation procedures.

Operational Risks.

LBBW defines operational risks as "risks that arise due to the unsuitability or failure of internal processes, people, or systems, or due to external influences". This definition includes legal risks and corresponds to the supervisory authorities' interpretation of operational risks.

The focus of LBBW's central operational risk controlling activities was the further development of methods and tools for identifying, assessing, and analyzing operational risks. A primary concern is the early identification of operational risks and the mitigation of the resulting losses. The causes and events are classified according to the following categories:



At LBBW, the existing incident database was replaced with a Web-based system for collecting incident data in the year under review. The transparency created thanks to the incident database enables LBBW to prepare detailed analyses of quantifiable operational risks that have reached a critical stage. The results of the incident analyses are integrated into the planning of preventive measures and allow LBBW to derive the appropriate pricing concepts.

In addition to internal incident data, external incident data is also required for the application of mathematical-statistical methods for quantifying operational risks. Within the auspices of Bundesverband Öffentlicher Banken (the Federal Association of Public-Sector Banks in Germany), LBBW is participating in building a data consortium aimed at collecting incident data and exchanging it in anonymized form.

LBBW further developed its qualitative methods used to identify and evaluate risks. In order to determine risk potential, moderated risk inventories have now been introduced throughout the Bank. Thanks to the integration of employees working in each area of business, the knowledge of decentralized technical experts is being used for thorough business area-specific scenario design and risk analysis. Risk inventories are a suitable platform for raising the risk awareness of employees and therefore ultimately reducing operational risks. The results gleaned from risk inventories will aid the further development of a comprehensive controlling and management concept for identifying, measuring, managing, and monitoring operational risks.

Operational risk management at LBBW is the responsibility of the sections; in other words, the question of which operational risks to bear or to reduce is decided in a decentralized manner. The decentral Operational Risk Managers fulfill a very important function as multipliers for operational risk issues and as an important link in the incident reporting process. The risk committee assists the Board of Managing Directors in fulfilling its operational risk monitoring function. In particular, this includes promoting a risk-aware corporate culture, as well as taking note of and discussing section-specific incident reports and risk inventory results.

Despite all of these precautionary measures, operational risks cannot be avoided entirely. This is true, for example, in cases such as catastrophic risk – catastrophes have a low probability of occurrence, but have the potential to result in a high level of loss if they do occur. To the extent that this is possible and reasonable, the central Group Strategy section obtains insurance policies to cover potential losses.

As the explanations in the sections below illustrate, LBBW does not anticipate any operational risks that could endanger its existence to arise with a high probability of occurrence. Furthermore, promoting a risk-aware corporate culture and bank-wide sensitivity to operational risks remain key objectives.

IT Risks

An external assessment performed in compliance with ISO standard 17,799 for IT security indicates a high level of quality that can only be found at few German companies. A centralized process was stipulated for IT risk management. The risk awareness of employees is additionally promoted by means of measures such as the announcement of an idea competition for IT risks as part of the company's employee suggestion program.

LBBW has set up a special IT crisis response team to ensure that its business operations are maintained and it can function in the event that IT systems fail; in the event of an emergency, this team will coordinate all activities and provide centralized communications capability, with the savings banks in Baden-Württemberg among others, in accordance with defined procedures. Emergency plans for maintaining operations manually are available in the various departments.

After the merger of LBBW and BW Bank, LBBW currently operates four data centers. Pairs of two data centers provide backups for each other. In the medium term, BW Bank's operations are being transferred to LBBW's systems, which include two independent, geographically separate data centers for testing and production operations. In terms of its mainframes, LBBW has set up a backup operation during working hours that provides emergency backup requiring downtime of around four hours. A backup system has also been set up for trading systems. In addition, backup workstations have been set up for trading and processing trading transactions.

At this time, LBBW does not face any unusual IT risks. LBBW has ensured well-organized IT operations for the future by constantly updating and improving its IT environment.

Personnel Risks

LBBW views its employees as a key success factor, and this idea is anchored in LBBW's mission statement: "We as employees drive the success of the Bank. Thanks to our expertise, knowledge and commitment." The objective of comprehensive personnel risk management is to identify negative trends (risk monitoring) and to evaluate measures suitable for preventing or minimizing risk (risk management).

The human resources department distinguishes between various types of personnel risk for purposes of risk monitoring and management. Bottleneck, resignation, adjustment, and motivation risks are to be identified early on, and the resulting costs, such as staff recruitment, termination, and staff turnover expenses minimized. Periodically evaluating and analyzing key personnel indicators, such as turnover rates, absences, or data concerning personnel development measures (particularly management training measures), as well as comparing these indicators across the Group, creates transparency in terms of risks.

In the risk category of “resignation risk”, an analysis of external fluctuations, for example, did not indicate any abnormalities, even compared to other Landesbanken:

Analysis of external Fluctuations							
	1999	2000	2001	2002	2003	2004	2005
LBBW	7.1 %	6.0 %	6.0 %	5.0 %	6.8 %	6.7 %	4.9 %
Reference value (VöB)	6.5 %	7.1 %	6.1 %	5.9 %	6.9 %	6.4 %	-

In order to address what is called “bottleneck risk”, which is the risk of the Bank experiencing a lack of high-performance employees, employee potential is systematically documented and analyzed with regard to the parameter of “management suitability”. A benchmarking survey on the issue of personnel development requirements initiated by LBBW itself led to an increase of approximately 40 percent in the planned value for personnel development measures in the “adjustment risk” category.

In addition to these traditional indicators, qualitative indicators must be included so that personnel risks are not simply extrapolated from past experience, but can be projected into the future and analyzed. LBBW intends to step up the search for valid qualitative indicators for risk monitoring in the future. To this end, we are already in negotiations with other institutions, particularly in terms of risk controlling and monitoring in the “motivation risk” risk category.

LBBW has already implemented a series of measures to counter possible personnel risks. These measures range from legal protection for the Bank to ensuring that employees are qualified to do the jobs assigned to them. Among other things, a target group-oriented specialist training program is offered annually.

The second component is a dedicated department responsible for education concerning and monitoring of statutory money laundering and compliance regulations.

No developments that could endanger the existence of LBBW were identified in 2005. In order to ensure that a sufficient number of potential specialists and executive staff continues to be available in the future, LBBW will continue its commitment to offering training courses and apprenticeships in 2006.

Legal Risks

The legal departments of the Bank provide advice on legal matters to the Bank and its German and foreign subsidiaries, branches, and representative offices. In addition, their responsibilities include early identification of legal risks in business units and central sections, and limiting these in a suitable manner. The National Legal and International Legal sections have themselves developed or examined and approved for use by the Bank’s sections a variety of contract forms and sample contracts in order to minimize legal risks and simplify the work of the commercial banking and trading sections. Approved, standardized contract materials are used for all derivative transactions.

If legal questions arise in new areas of business or the development of new banking products, the legal departments supervise and actively participate in these processes.

Furthermore, the Legal departments monitor all planned legislation, developments in court rulings, and new standards stipulated by the supervisory authorities in LBBW's key areas of activity in close cooperation with the Federal Association of Public-Sector Banks in Germany (VÖB) and the German Savings Bank Association (DSGV).

To the extent that this results in LBBW having to act or adapt its policies, the Group Strategy and Legal section is instrumental in disseminating information quickly and implementing measures within the Bank.

No legal risks currently exist at LBBW that could threaten its existence. The Group Strategy and Legal section also has no reason to believe that such risks will arise at LBBW in the foreseeable future.

Summary of the Risk Situation.

LBBW pursues a conservative risk policy. Measures have been implemented to limit or minimize all major risks and account for all identifiable risks by setting up prudent risk provisions.

A bank-wide compilation of risks across all quantifiable risk categories is being prepared, but aggregation on the basis of VaR values and other parameters is very challenging in view of the different degrees of methodological progress being made in the individual risk categories, although implementation efforts continue.

The minimum capital ratio of 8% required by the supervisory authorities for all risk assets and market risk positions was met at all times in the past year for both the Bank and the Group as a whole. As of December 31, 2005, the Bank's ratio was 11.7% (December 31, 2004: 12.1%).

The procedures for evaluating the creditworthiness of LBBW's business partners have proven to be stable. The rating processes developed and introduced in past years have continued to prove successful in use. Apart from the loans for which provisions against bad debt have been set up, the loan and securities portfolios contain neither a concentration on particular sectors, nor acute risks from individual commitments.

The risk provisions necessitated by credit and country risks, developed as follows over the past four years:

LBBW				
in Mio. EUR	Credit risks		Country risks (transfer risks)	
	Risk provisions - Claims*	Risk provisions - Securities	Risk provisions - Claims	Risk provisions - Securities
Dec. 31, 2002	1 688.8	52.7	50.8	5.0
Dec. 31, 2003	1 539.9	53.2	19.6	2.2
Dec. 31, 2004	1 612.2	9.1	14.5	2.0
Dec. 31, 2005	1 778.1	41.5	17.5	0.0

*Figures as of August 1, 2005 include BW Bank

The overall difficult economic situation from 2002 to 2004 also affected LBBW's risk provisions. In 2005, however, LBBW's situation improved again considerably. This trend was driven by a slight economic upturn, a decrease in corporate insolvencies, and in particular by LBBW's policy of active risk management.

The increase in risk provisions at the end of 2005 is the result of the integration of the portfolios of BW Bank AG as of August 1, 2005. Adjusted for this effect, this item would have declined by approximately 4%.

In 2006, we anticipate the domestic economy to improve and demand for exports to remain strong. This will have a positive effect on LBBW's risk situation. Regardless of this fact, LBBW will continue to develop its risk management policies to address unfavorable trends early on.

LBBW's continued positive ratings are based on the various pillars of the Bank, its regional strength, and the fact that LBBW has relatively few high-risk transactions on its books and generally possesses sufficient liquidity at all times when it is required. The elimination of the maintenance obligation (Anstaltslast) and guarantor's liability (Gewährträgerhaftung) in July 2005 has to date had little effect on the Bank's funding costs. Due to the new Pfandbriefgesetz (Mortgage Bond Act), LBBW reorganized its coverage register (Deckungsregister). This enabled LBBW to secure this top-rated funding source for the future.

Due to LBBW's continued commitment to its conservative risk policy, no extraordinary developments are anticipated either in terms of market price risks or liquidity risks. Operational risks are being addressed with the aforementioned risk-limiting measures. In addition, LBBW continues to further develop its risk strategy to ensure sustainable profitability for the future.

Outlook.

Solid Growth, Positive Trend in Germany.

The global economy is expected to see an overall upturn in 2006. In the United States, growth will slow slightly, while the robust growth of the Japanese and Chinese economies is anticipated to continue unabated. Growth in the global economy of 4.3% is considered possible.

Favorable prospects are predicted for the economies of Euroland and Germany; compared to last year, a slight acceleration in growth is expected here. Forecasts include a resumption in corporate investments along with continued dynamic growth in exports. The Munich-based Institut für Wirtschaftsforschung e. V. (ifo – Institute for Economic Research) expects Euroland's economy to grow by 2.0%. The signs of an upswing have been multiplying since the end of the year under review in Germany as well. Exports will continue to be the primary driver. However, investments in capital goods and other equipment will increase considerably due to improved depreciation conditions. The prospects are better than in the previous year even for private consumption, the main problem child of Germany's domestic economy. The planned hike in the value-added tax as of January 1, 2007 could be the catalyst for pull-forward effects. Economic growth could therefore be somewhat higher in 2006 than in 2005.

Based on an overall positive economic trend, investors can expect rising stock prices. The bond market will see increases in yield and therefore dropping prices.

Ongoing Major Challenges for the Banking Industry.

Even in the event of improved general economic conditions on the whole, the banking industry continues to be marked by fierce competition and thus a further increase in cost pressure. After the elimination of state guarantees, public-sector credit institutions in particular must continue to operate successfully despite the pressures of more expensive funding, greater competition, and rising service expectations on the part of customers. A clear profile and the leveraging of synergies are tools for developing new, stable sources of income.

LBBW: Expansion of Business Areas.

Against this backdrop, LBBW will further grow its defined business areas and equity investments with the goal of improving its market penetration and competitiveness further, as well as boosting earnings. One priority is expanding LRP's business with small and medium-sized companies in Rhineland-Palatinate. In the Capital Markets segment, LBBW plans primarily to expand the equities business, as well as credit trading and structuring, in order to strengthen the non-interest business.

Strengthening the Contractual Service Partnership.

In view of the changes in the competitive situation, LBBW intends to further strengthen its partnership with the savings banks again in 2006. The newly staffed savings bank key account manager positions offer all-around, needs-based, and cross-disciplinary advisory services to the savings banks, ensuring that the potential of the contractual service partnership in Baden-Württemberg is utilized even more. The development of additional business areas will serve to further reinforce the contractual service partnership.

In Rhineland-Palatinate, LBBW and LRP will further optimize the interfaces in their contractual service partnership, which was initiated in 2005.

Planning.

LBBW is optimistic about being able to generate a satisfactory result in the coming two years and achieve a sustainable return on equity of over 15%. A moderate increase in interest rates and a slight economic upturn were the assumptions underlying earnings planning. If the general operating environment changes, this could have a corresponding effect on the LBBW Group's earnings trend.

The consolidation of the product and advisory expertise of two strong partners at BW Bank put the right conditions in place for long-term value creation. The integration makes it possible to develop new customer potential and extend the product and service

range in the business with retail and investment customers. This enables the bank to better utilize existing strengths in the high-end segment, such as investment services, structured products, or asset management, and thereby generate earnings from new sources.

The result in the Financial Markets segment will improve slightly again due to satisfactory growth in gross income. This will be achieved, among other things, by strong expansion in issues of structured products and intensification of the capital market-oriented customer business.

In the Corporate Finance segment, we expect growth in gross earnings. In addition to the selective acquisition of new customers, our goal is to increase utilization of the potential in existing customer relationships. Another cornerstone of the effort to increase gross earnings is stepping up joint market development with the savings banks in Baden-Württemberg.

LBBW's costs will be affected by the integration of BW Bank in the coming years. The integration of BW Bank enables the harmonization of structures and processes, as well as the merger of IT systems, and will generate the corresponding efficiency advantages. Synergy effects from the integration of BW Bank are anticipated as of 2006. This will allow LBBW to continue to cap the increase in personnel and material costs.

Investments in tangible assets will again settle to a normal level for a banking group of our size in the coming years. No major investments are currently planned for 2006/2007.

Balance Sheet as of December 31, 2005 of Landesbank Baden-Württemberg, Stuttgart, Karlsruhe, and Mannheim.

Assets				
Explanation in the Notes	EUR thousand	EUR thousand	EUR thousand	Dec. 31, 2004 EUR thousand
1. Cash funds				
a) cash on hand			120 418	97 422
b) balances with central banks			452 630	388 733
thereof:				
with Deutsche Bundesbank	444 141			378 495
c) balances with postal giro accounts			0	0
			573 048	486 155
2. Public-sector debt instruments and bills of exchange eligible for refinancing with central banks				
a) treasury bills and non-interest treasury notes as well as similar public-sector debt instruments			0	0
thereof:				
eligible for refinancing with Deutsche Bundesbank	0			0
b) bills of exchange			58 832	40 752
thereof:			58 832	40 752
eligible for refinancing with Deutsche Bundesbank	58 832			40 752
3. Claims on banks (6,9,15)				0
a) payable on demand			6 966 313	6 086 825
b) other claims (7)			138 793 909	124 815 125
			145 760 221	130 901 950
4. Claims on customers (6,7,9,15)			100 229 407	89 199 610
thereof:				
secured by mortgages	16 382 608			12 851 387
municipal loans	24 829 051			26 827 510
5. Bonds and other fixed-interest securities (6,7,8,9,10,15)				
a) money market instruments				
aa) issued by public-sector borrowers		24 895		33 661
thereof:				
eligible as collateral for Deutsche Bundesbank advances	0			0
ab) issued by other borrowers		6 518 711		4 423 975
thereof:			6 543 606	4 457 636
eligible as collateral for Deutsche Bundesbank advances	81 9603			263 565
b) bonds				
ba) issued by public-sector borrowers		11 369 696		7 745 465
thereof:				
eligible as collateral for Deutsche Bundesbank advances	10 580 357			5 408 838
bb) issued by other borrowers		46 470 545		46 730 686
thereof:			57 840 240	54 476 151
eligible as collateral for Deutsche Bundesbank advances	27 666 930			29 338 740
c) own bonds			10 713 372	8 930 672
			75 097 218	67 864 459
nominal Amount	10 144 336			5 530 842
Amount carried forward to next page			321 718 727	288 492 926

Liabilities				
Explanation in the Notes	EUR thousand	EUR thousand	EUR thousand	Dec. 31, 2004 EUR thousand
1. Liabilities to banks (6,18)				
a) payable on demand			7 246 600	5 136 344
b) with contractual term or period of notice (7)			100 451 748	81 680 638
			107 698 347	86 816 982
2. Liabilities to customers (6,18)				
a) savings deposits				
aa) with agreed period of notice of three months		6 621 153		4 713 360
ab) with agreed period of notice of more than three months (7)		531 473		554 250
			7 152 626	5 267 610
b) other liabilities				
ba) payable on demand		17 266 275		8 915 217
bb) with contractual term or period of notice (7)		62 686 409		59 366 451
			79 952 684	68 281 668
			87 105 311	73 549 278
3. Certificated liabilities (6,7,15,18)				
a) bonds issued			106 383 155	103 285 334
b) other certificated liabilities			11 430 482	14 592 249
thereof:			117 813 636	117 877 583
money market instruments	11 430 482			14 592 249
own acceptances and promissory notes outstanding	593			0
4. Liabilities held on a trust basis (11)			125 839	66 222
thereof:				
loans granted on a trust basis at third-party risks	73 552			14 657
5. Other liabilities (17)			1 880 885	2 860 541
6. Deferred items (14)			1 345 443	947 809
7. Provisions				
a) provisions for pensions and similar commitments			612 368	518 701
b) provisions for taxes			242 030	189 396
c) other provisions			336 467	344 071
			1 190 865	1 052 168
8. Special items with partial reserve character (19)			60 945	118 855
9. Subordinated liabilities (6,20)			3 636 502	3 184 446
10. Capital generated by profit participation certificates				
thereof:			2 210 269	1 981 703
maturing in less than two years	478 802			259 784
Amount carried forward to next page			323 068 041	288 455 587

Assets				
Explanation in the Notes	EUR thousand	EUR thousand	EUR thousand	Dec. 31, 2004 EUR thousand
Amount carried forward from previous page			321 718 727	288 492 926
6. Shares and other non-fixed interest securities (8,9)			2 626 287	1 895 108
7. Companies in which an equity interest is held (8,12)			621 355	552 848
thereof:				
in banks	200 876			134 115
in financial services institutions	0			0
8. Shares in affiliated companies (8,12)			3 660 782	3 435 248
thereof:				
in banks	825 449			126 759
in financial services institutions	9 055			0
9. Assets held on a trust basis (11)			125 839	66 222
thereof:				
loans granted on a trust basis at third-party risk	73 552			14 657
10. Recovery claims on the public sector including bonds resulting from their exchange			0	15 073
11. Intangible assets (12)			95 504	95 493
12. Tangible assets (12)			575 765	495 580
13. Unpaid contributions to subscribed capital			0	0
thereof:				
amount called in	0			0
14. Own shares or equity interests			0	0
nominal amount	0			0
15. Other assets (13)			2 834 425	1 615 902
16. Deferred items (14)			1 244 095	981 135
Total assets			333 502 778	297 645 535

Liabilities				
Explanation in the Notes	EUR thousand	EUR thousand	EUR thousand	Dec. 31, 2004 EUR thousand
Amount carried forward from previous page			323 068 041	288 455 587
11. Fund for general bank risks			0	0
12. Equity (21)				
a) subscribed capital				
aa) nominal capital		1 419 800		1 280 000
ab) silent partners' contributions (Stille Einlagen)		3 544 484		3 291 402
			4 964 284	4 571 402
b) capital reserve			3 073 821	2 231 114
c) revenue reserves				
ca) legal reserves		0		0
cb) other revenue reserves		2 310 632		1 958 250
			2 310 632	1 958 250
d) distributable profit			86 000	429 182
			10 434 737	9 189 948
Total liabilities			333 502 778	297 645 535
1. Contingent liabilities				
a) contingent liabilities from rediscounted bills of exchange			3 818	3 371
b) liabilities from guarantees and indemnity agreements (18,22,23,24)			32 905 125	14 190 232
c) liabilities from the granting of collateral for third-party liabilities			0	0
			32 908 942	14 193 603
2. Other commitments				
a) transactions without firm repurchase agreement (Unechtes Pensionsgeschäft)			0	0
b) placing and underwriting commitments (22)			0	0
c) irrevocable loan commitments (22)			28 180 644	21 774 161
			28 180 644	21 774 161

Statement of Income for the Period January – December 2005 of
Landesbank Baden-Württemberg, Stuttgart, Karlsruhe, and Mannheim.

Explanation in the Notes	EUR thousand	EUR thousand	EUR thousand	Jan. 1, to Dec. 31, 2004 EUR thousand
1. Interest income from (30)				
a) lending and money market transactions	10 259 740			
b) fixed-interest securities and debt register claims	2 479 009	12 738 749		11 733 256
2. Interest expenses		11 216 683		10 141 392
			1 522 066	1 591 864
3. Current income from (30)				
a) shares and other non-fixed interest securities		170 103		64 713
b) equity interests		5 304		4 458
c) shares in affiliated companies		48 497		33 700
			223 904	102 871
4. Income from profit pooling, profit transfer or partial profit transfer agreement			116 406	79 601
5. Commission income (30,31)		478 931		360 503
6. Commission expenses		106 535		69 658
			372 396	290 845
7. Net income from financial transactions (30)			61 048	62 221
8. Other operating income (26,30)			132 519	112 113
9. Income from the writing back of special items with partial reserve character			55 861	19 231
10. General administrative expenses				
a) personnel expenses				
aa) wages and salaries	4 586 04			3 928 85
ab) compulsory social security contributions, expenses for pensions and other employee benefits	1 344 85			1 320 21
		593 089		524 906
thereof:				
for pensions 59 456				63 086
b) other administrative expenses		313 093		290 538
			906 182	815 444
11. Write-downs and adjustments to intangible and tangible assets			167 126	131 558
12. Other operating expenses			81 870	94 061
13. Write-downs and adjustments to claims and certain securities as well as allocation to provisions for possible loan losses			325 480	229 171
14. Income generated by additions to claims and certain securities as well as from the release of provisions for possible loan losses			0	0
			- 325 480	- 229 171
Amount carried forward to next page			1 003 543	988 512

Explanation in the Notes	EUR thousand	EUR thousand	EUR thousand	Jan. 1, to Dec. 31, 2004 EUR thousand
Amount carried forward from previous page			1 003 543	988 512
15. Write-downs of and adjustments to equity interests, shares in affiliated companies and securities listed under fixed assets			6 219	79 872
16. Income from addition to equity interests, shares in affiliated companies and securities listed under fixed assets			0	0
			- 6 219	- 79 872
17. Expenses from assumption of losses			2 180	35 754
18. Allocation to special items with partial reserve character			0	11 893
19. Profit on ordinary activities			995 144	860 993
20. Extraordinary income		0		25
21. Extraordinary expenses (28)		546 415		71 849
22. Extraordinary net income (28)			- 546 415	- 71 824
23. Taxes on income (28, 29)		145 752		150 482
24. Other taxes not shown under item 12		3 995		3 963
			149 747	154 445
25. Income from the assumption of losses			0	0
26. Profits transferred under the term of profit pooling, profit transfer or partial profit transfer agreements			212 981	205 542
Net income			86 000	429 182

Notes to the Financial Statements of Landesbank Baden-Württemberg, Stuttgart, Karlsruhe, and Mannheim as of December 31, 2005.

(1) Introductory Note

On the occasion of an extraordinary general meeting on July 13, 2005, the resolution was passed to transform BW Bank into "Baden-Württembergische Bank Anstalt des öffentlichen Rechts & Co. KG" with registered office in Stuttgart.

In doing so, Landesbank Baden-Württemberg assumed the position of the general partner, while BW Holding GmbH was the limited partner. On July 31, 2005, the limited partnership was registered in the commercial register under No. HR A 14,292.

Immediately upon passing the transformation resolution, BW Holding GmbH withdrew from the limited partnership as a limited partner subject to the condition precedent of the registration of the change of legal form being entered in the commercial register. The result was that "Baden-Württembergische Bank Anstalt des öffentlichen Rechts & Co. KG" passed to Landesbank Baden-Württemberg by way of universal succession through accrual with the transfer of all assets and liabilities without liquidation. This was effected on August 1, 2005.

The accrual of Baden-Württembergische Bank Anstalt des öffentlichen Rechts & Co. KG was conducted analogously to a merger pursuant to § 24 UmwG (the German Transformation Act). The fair value of the shares of the acquired company was applied as the cost of acquisition of the assets taken over. In keeping with a merger during which the transferring legal entity (Baden-Württembergische Bank Anstalt des öffentlichen Rechts & Co. KG) is exclusively owned by the parent company (Landesbank Baden-Württemberg), the fair value of the absorbed shares was calculated conservatively. The difference of EUR 496.7 million between the book value of the equity interest plus the fair values of the individual assets acquired less the fair values of the individual liabilities represents goodwill, which was immediately expensed against the extraordinary result in compliance with § 255 (4) HGB (the German Commercial Code).

The accrual of Baden-Württembergische Bank Anstalt des öffentlichen Rechts & Co. KG represents a merger of consolidated companies that does not affect the economic substance but only the legal independence of the company included. As a result, the consolidated financial statements are left unaffected by the accrual.

(2) Principles Governing the Preparation of the Financial Statements

The financial statements for the 2005 fiscal year of Landesbank Baden-Württemberg (LBBW) with headquarters in Stuttgart, Karlsruhe, and Mannheim were drawn up in compliance with the provisions of the Handelsgesetzbuch (HGB, the German Commercial Code), in particular the "Supplemental Regulations for Banks" (§ 340 ff. HGB) and Verordnung über die Rechnungslegung der Kreditinstitute und Finanzdienstleistungsinstitute (RechKredV, the German Accounting Regulation for Banks and Financial Service Institutions).

LBBW's audited single-entity financial statements for 2005 and a separate list entitled "Substantial Subsidiaries and Affiliates of Landesbank Baden-Württemberg" pursuant to § 285, No. 11 and § 313 (2) HGB have been filed with the local courts of Stuttgart, Karlsruhe, and Mannheim, where they can be inspected.

The figures for the previous year are the amounts presented in Landesbank Baden-Württemberg's single-entity financial statements as of December 31, 2004.

Receivables and payables, as well as expenses and income, between Landesbank Baden-Württemberg and Baden-Württembergische Bank Anstalt des öffentlichen Rechts & Co. KG were eliminated.

(3) General Accounting and Valuation Methods

Bills and forfaiting transactions held in the portfolio are stated at their discounted face amount, less individual value adjustments.

Claims on banks and customers are stated at their nominal value.

Adequate individual value adjustments for credit risks, as well as value adjustments for country risks, are made for identifiable risks connected with outstanding claims. In addition, a global bad-debt provision has been set up for the remaining claims pursuant to § 6 EStG (the German Income Tax Act) in order to cover the general credit risk. Borrower's note loans in the trading portfolio are valued at the acquisition cost, or at the quoted/market price or fair value (if lower).

Securities are reported in compliance with the strict lower-of-cost-or-market principle at the acquisition cost, or at the quoted/market price or fair value as of the balance sheet date (if lower). Securities arising from asset swap combinations are valued on a linked basis; impairment losses due to credit risks are recognized in income.

Companies in which an equity interest is held and shares in affiliated companies are stated at acquisition cost or carried at book value.

Acquired intangible assets are valued at acquisition cost less scheduled and – where necessary – non-scheduled amortization. Scheduled write downs are taken over the useful life of the assets using the rates allowed by tax regulations.

Tangible assets are valued at acquisition or production cost less scheduled and – where necessary – non-scheduled depreciation. Depreciation on tangible assets of domestic offices is calculated for wear and tear on the basis of tax provisions. Low-value assets are fully written off in the year of their acquisition.

Depreciation on buildings is governed by the rates allowed by tax law.

Liabilities are valued at the repayable amount.

Premiums and discounts relating to outstanding claims and liabilities are allocated to prepaid expenses and deferred income, respectively, and released over their term.

Provisions for pension obligations are calculated on the basis of actuarial principles pursuant to § 6a EStG and the "Richttafeln 2005 G" (2005 G mortality tables), Heubeck-Richttafeln-GmbH, Cologne 2005.

The adjustment to the new Heubeck mortality tables was fully recognized in the statement of income in 2005. Pension commitments are always accrued in compliance with the relevant tax provisions.

Other provisions are calculated under consideration of all contingent liabilities and anticipated losses from pending transactions on the basis of conservative commercial assessment.

(4) Derivatives

The following tables provide information on derivative financial instruments pursuant to § 285, No. 18 HGB in conjunction with § 36 RechKredV that existed at LBBW as of the balance sheet date.

With due regard to the accounting practice statement RH BFA 1003 issued by the Bankenfachausschuss (BFA, the Banking Panel of Experts) of the Institut der Wirtschaftsprüfer (IDW, the German Institute of Certified Public Accountants), ancillary agreements of a derivative nature included in portfolio-related management of trading positions are disclosed separately from the underlying transactions and are included in the following tables in the same way as derivative transactions that are concluded independently.

The tables exclude ancillary agreements of a derivative nature that are not reported separately on the balance sheet, but that are instead components of compound instruments and are therefore included as assets or liabilities in the corresponding balance sheet items. Ancillary agreements of a derivative nature not reported separately do not result in market price risk positions due to the setting up of micro hedges.

The tables also exclude internal derivative financial instruments.

Derivative transactions – Product structure

in EUR million	Nominal values	Nominal values	Positive market value*	Negative market value	2005 Option premiums paid	2005 Option premiums received
	Dec. 31, 2005	Dec. 31, 2004	Dec. 31, 2005	Dec. 31, 2005		
Interest rate risks						
Interest rate swaps	845 470.3	593 918.0	16 048.1	- 14 909.9		
FRA's	72 414.6	35 292.5	29.2	- 8.4		
Interest rate options					256.2	565.4
- purchases	11 044.8	6 751.7	413.4	0.0		
- sales	29 186.6	18 420.0	0.0	- 1 310.3		
Caps, Floors	34 094.6	25 787.0	243.2	- 174.3	184.1	136.1
Interest rate futures	80 099.4	70 844.8	28.2	- 9.0		
Other					17.5	14.4
interest rate forwards	17 772.4	13 521.9	13.8	- 58.9		
Total interest rate risks	1 090 082.7	764 535.9	16 775.9	- 16 470.8	457.8	715.9
Currency risks						
Currency forwards	93 951.4	52 092.3	1 205.2	- 924.2		
Currency swaps, cross-currency interest-rate swaps	24 493.6	22 764.7	783.0	- 1 452.4		
Currency options					92.5	79.5
- purchases	7 001.2	2 627.6	67.4	0.0		
- sales	3 643.2	1 964.8	6.7	- 41.6		
Currency futures	0.0	0.0	0.0	0.0		
Other currency forwards	0.0	0.0	0.0	0.0		
Total currency risks	129 089.4	79 449.4	2 062.3	- 2 418.2	92.5	79.5
Share and other price risks						
Stock futures	50.2	200.6	0.9	- 0.4	4.6	4.6
Stock forwards	0.1	0.0	0.0	0.0		
Stock options					547.3	351.9
- purchases	967.0	2 236.7	257.0	0.0		
- sales	544.0	1 685.6	0.0	- 21.0		
Other	62.0	4.0	2.7	- 3.2		
Total share and other price risks	1 623.3	4 126.9	260.6	- 24.6	551.9	356.5
Credit derivatives						
Credit Default Swaps						
- protection buyer	8 893.8	4 396.2	48.1	- 30.0		
- protection seller	28 108.2	10 812.5	71.4	- 73.4		
Credit Linked Notes						
- protection buyer	723.8	336.7	20.4	- 22.2		
- protection seller	0.0	0.0	0.0	0.0		
Credit Linked Swaps						
- protection buyer	0.0	0.0	0.0	0.0		
- protection seller	387.3	297.3	38.4	- 40.0		
Principal Protected Swaps						
- protection buyer	0.0	0.0	0.0	0.0		
- protection seller	118.0	0.0	7.2	- 6.0		
Total Return Swaps						
- protection buyer	42.2	0.0	0.0	- 0.5		
- protection seller	42.2	0.0	0.5	0.0		
Total credit derivatives	38 315.5	15 842.7	186.0	- 172.1		
Total risks	1 259 110.9	863 954.9	19 284.8	- 19 085.7	1 102.2	1 151.9

* Including accrued interest ("dirty price")

Derivative transactions - Trading transactions				
in EUR million	Nominal values	Nominal values	Positive market values	Negative market values
	Dec. 31, 2005	Dec. 31, 2004	Dec. 31, 2005	Dec. 31, 2005
Interest rate risks	908 966.7	569 998.6	11 563.1	-10 697.9
Currency risks	16 016.3	7 798.7	203.5	-186.2
Share and other price risks	1 509.7	2 838.5	258.3	-18.8
Credit derivatives	10 692.7	3 831.9	58.4	-57.4
Total trading transactions	937 185.4	584 467.7	12 083.3	-10 960.3

Derivative transactions - Maturity structure (according to residual terms)					
Nominal values in EUR million	up to 3 months	more than 3 months to 1 year	more than 1 year to 5 years	more than 5 years	Total
Interest rate risks					
Dec. 31, 2005	328 500.7	202 983.7	294 109.1	264 489.2	1 090 082.7
Dec. 31, 2004	205 285.7	132 007.7	240 932.8	186 309.7	764 535.9
Currency risks					
Dec. 31, 2005	68 978.9	36 229.0	17 559.0	6 322.5	129 089.4
Dec. 31, 2004	40 584.1	20 188.6	12 580.9	6 095.8	79 449.4
Share and other price risks					
Dec. 31, 2005	426.6	360.5	193.2	643.0	1 623.3
Dec. 31, 2004	1 378.6	1 871.8	384.8	491.7	4 126.9
Credit derivatives					
Dec. 31, 2005	1 253.2	3 083.7	18 681.9	15 296.7	38 315.5
Dec. 31, 2004	1 266.5	1 884.3	8 561.1	4 130.8	15 842.7
Total risks					
Dec. 31, 2005	399 159.4	242 656.9	330 543.2	286 751.4	1 259 110.9
Dec. 31, 2004	248 514.9	155 952.4	262 459.6	197 028.0	863 954.9

Derivative transactions - Structure of counterparties				
in EUR million	Nominal values	Nominal values	Positive market values	Negative market values
	Dec. 31, 2005	Dec. 31, 2004	Dec. 31, 2005	Dec. 31, 2005
Banks in OECD countries	1 101 066.4	638 139.4	14 938.6	-15 025.2
Banks in non-OECD countries	4 836.1	6 639.3	41.3	-36.4
Public-sector agencies in OECD countries	15 597.1	11 628.9	919.2	-570.4
Other counterparties	137 611.3	207 547.3	3 385.7	-3 453.7
Total counterparties	1 259 110.9	863 954.9	19 284.8	-19 085.7

The market values of the derivatives are not synonymous with the Bank's or the Group's market price risks which result from the development of interest rates, exchange rates, stock prices, or changes in credit standing, as risk class management relies on both on-balance sheet and derivative transactions. The risk report in compliance with § 289 HGB contains information about the scope and development of the Bank's market price risks.

The market values calculated as of the balance sheet date are values at which it would be possible to liquidate or transfer the position or to conclude an offsetting transaction. In this context, the negative market values represent the amount that would be required for a potential liquidation of the derivative financial instruments as of the balance sheet date irrespective of their intended purpose.

In contrast, the positive market values include the amount that would accrue from a potential liquidation as of the balance sheet date. Except for futures contracts as well as options sold that are free of counterparty risk, a positive market value at the same time reflects the maximum potential counterparty-related default risk from derivative financial instruments which existed as of the balance sheet date. The tables exclude netting and collateral agreements which mitigate default risks as these agreements benefit several types of products.

Valuation of derivative financial instruments

The market value (fair value) of derivatives is based on stock market prices, fair value analyses, observable market transactions in comparable instruments, or acknowledged actuarial pricing models.

Product group	Major valuation model
Interest rate swaps	Net present value method
Interest rate forwards	Net present value method
Interest rate options	Black-Scholes, Black 76 (on Yield)
Stock/index options	Black-Scholes, Cox Ross Rubinstein
Currency options	German Kohlhagen, mod. Black Scholes
Credit derivatives	Intensity model

These models take the current market and contract prices of the underlying financial instruments, as well as fair value considerations, yield curves and volatility factors, into account. In addition, the determination of the fair value takes into consideration expected market risks, model risks, credit risks, and administrative costs.

Recognition of valuation results in the balance sheet

The key issue in recognizing derivative financial transactions in the annual financial statements of LBBW is whether they are components of hedging relationships (micro or macro hedges) or are used in the course of trading operations.

Micro and macro hedges (excluding credit derivatives)

For micro hedges, individual assets or liabilities are linked with derivative financial instruments for the purpose of hedging against market price risks.

With macro hedges, derivatives are used to hedge against interest rate risks in the course of global asset and liability management.

The valuation of micro and macro hedges is compensatory in view of the suitable application of the general valuation principles pursuant to § 252 (1) HGB (particularly the imparity principle and the principle of single-unit valuation) and with due regard to statements No. 2/1993 and No. 2/1995 issued by the BFA of the IDW.

For micro hedges, this value compensation is achieved by treating the underlying transactions and the hedging transactions as a valuation unit as of the balance sheet date. The income and expenses resulting from hedging transactions are included in the corresponding item of the results generated by the underlying transaction and hence present a true and fair view from a business-accounting perspective.

Valuation results from derivative financial instruments used for macro-hedging purposes are not recognized in the statement of income because the value compensation results from LBBW's global asset and liability structure.

Trading transactions

Trading transactions are subject to the oversight of the trading sections within the framework of the predetermined risk limits.

On-balance sheet products, derivative financial instruments and similar ancillary agreements that are split off from on-balance sheet products of the trading portfolio are subject to portfolio valuation. To this end, financial instruments in the trading portfolio that are traded in active markets are valued at market prices, while financial transactions for which market prices are not available are valued at prices determined with the help of valuation models. For accounting purposes, the individual values thus calculated are pooled at the portfolio level. In the year under review, the portfolio valuation method was further developed into a risk-adjusted mark-to-market valuation method. This method reduces the mark-to-market result of these portfolios by the value-at risk for these portfolios determined in line with regulatory requirements (10-day holding period, 99% confidence level).

This approach ensures that the statement of income drawn up in line with the German commercial law does not record any pending profits from high-risk portfolios. In order to reflect the risk-adjusted mark-to-market method, an adjustment item was set up on the balance sheet and reported under the "Other assets" or "Other liabilities" items.

Credit derivatives, non-trading

Credit derivatives are used outside the trading portfolio in the form of credit default swaps and products with ancillary agreements of a credit default swap nature for risk assumption, arbitrage, hedging, and efficient portfolio management with regard to credit risks.

In accordance with IDW RS BFA statement 1, the treatment of credit derivatives differs depending on the respective intended purpose.

Protection seller transactions outside the trading portfolio that are not offset by specific compensating balances within the "Liabilities to banks" or "Liabilities to customers" balance sheet items are included below the line in "Contingent liabilities", sub-item b "Liabilities from guarantees and indemnity agreements".

For micro hedges, individual assets or liabilities are linked with credit derivatives for the purpose of hedging against credit risks. With regard to credit risks, the valuation of on-balance sheet transactions and credit derivatives is compensatory.

Credit derivatives used for portfolio management purposes with regard to credit risks are not valued using the mark-to-market method provided the credit default swap does not constitute an original lending transaction for LBBW. A prerequisite in this respect is the intention to hold the investment to maturity, and the credit default swap must not contain structures that cannot be part of the original lending transaction. Credit derivatives outside the trading portfolio that do not fulfill these conditions

are valued separately. Unrealized valuation profits are offset only if the credit risk relates to one and the same reference debtor. Provisions for anticipated losses from pending transactions are set up for unrealized valuation losses – if necessary after offsetting against unrealized valuation profits. The results are included in write-downs of and adjustments to claims and certain securities, as well as allocations to provisions for possible loan losses. Any valuation profits remaining after offsetting are not recognized.

(5) Foreign Currency Translation

Foreign currency assets worth EUR 56.7 billion (2004: EUR 64.2 billion) and foreign currency liabilities worth EUR 98.0 billion (2004: EUR 75.9 billion), as well as income and expenses, included in the financial statements were translated in compliance with § 340h (1) HGB and under consideration of statement No. 3/1995 issued by the BFA. The risk of exchange rate movements associated with balance sheet items denominated in foreign currencies, including precious metals, is primarily covered by off-balance sheet hedging transactions.

In order to determine the currency position, LBBW offset foreign currency assets and foreign currency liabilities arising from on-balance and off-balance sheet transactions by currency.

Assets and liabilities – except for insignificant equity interests in fixed assets which were not funded with matching currencies – were translated at the mean spot rate as of December 30, 2005. Differences resulting from the translation of hedged assets and liabilities at the mean spot rate were allocated to the foreign currency adjustment item, which was included in other liabilities. The adjustment item primarily corresponds to the balance of the market values of the currency forwards, cross-currency interest-rate swaps, and currency swaps.

LBBW made consistent use of the option to split the forward rate into spot rate and swap rate for all currency forwards. Except for strategic foreign currency positions, LBBW valued assets, liabilities, and pending transactions (currency forwards/currency options) in line with the risk-adjusted mark-to-market method described above.

Notes to the Balance Sheet.

(6) Relationships with Affiliated Companies and Companies in Which an Equity Interest Is Held (as far as can be determined)

The following balance sheet items include claims on and liabilities to affiliated companies or companies in which an equity interest is held:

in EUR million	31. 12. 2005	31. 12. 2004
A3. Claims on banks	145 760.2	130 902.0
thereof: on affiliated companies	2 656.2	642.5
thereof: on companies in which an equity interest is held	35 093.4	35 785.0
thereof: on savings banks in Baden-Württemberg	34 205.7	35 785.0
A4. Claims on customers	100 229.4	89 199.6
thereof: on affiliated companies	6 282.5	4 362.7
thereof: on companies in which an equity interest is held	199.9	147.2
A5. Bonds and other fixed-interest securities	75 097.2	67 864.5
thereof: claims on affiliated companies	2 404.2	2 203.0
thereof: claims on companies in which an equity interest is held	3 115.7	1 842.5
L1. Liabilities to banks	107 698.3	86 817.0
thereof: to affiliated companies	1 472.2	168.4
thereof: to companies in which an equity interest is held	14 489.2	13 509.2
thereof: to savings banks in Baden-Württemberg	14 417.8	13 509.2
L2. Liabilities to customers	87 105.3	73 549.3
thereof: to affiliated companies	15 737.7	12 792.7
thereof: to companies in which an equity interest is held	99.6	84.5
L9. Subordinated liabilities	3 636.5	3 184.4
thereof: to affiliated companies	308.5	285.6
thereof: to companies in which an equity interest is held	-	-

Because the "Certificated liabilities" balance sheet item (liability item No. 3) is primarily made up of bearer bonds, the holders of which were not known to LBBW as the issuer as of the balance sheet date, information on liabilities to affiliated companies and liabilities to companies in which an equity interest is held is not provided here.

(7) Maturity Structure of the Balance Sheet Items

The residual terms of claims and liabilities (including pro rata interest) are as follows:

in EUR million	Dec. 31, 2005	Dec. 31, 2004
A3. b) Other claims on banks	138 793.9	124 815.1
- up to 3 months	45 217.3	38 643.0
- more than 3 months to 1 year	25 960.9	17 706.5
- more than 1 year to 5 years	39 856.5	43 235.3
- more than 5 years	27 759.2	25 230.3
A4. Claims on customers	100 229.4	89 199.6
- up to 3 months	20 084.6	16 114.1
- more than 3 months to 1 year	10 787.0	9 572.7
- more than 1 year to 5 years	23 167.6	22 505.7
- more than 5 years	42 075.1	38 834.3
- without a fixed term	4 115.1	2 172.8
A5. Bonds and other fixed-interest securities	75 097.2	67 864.5
- thereof: maturing in the subsequent year	20 562.7	15 978.0
L1. b) Liabilities to banks with agreed term or period of notice	100 451.7	81 680.6
- up to 3 months	50 889.1	37 771.3
- more than 3 months to 1 year	15 477.8	12 083.9
- more than 1 year to 5 years	12 824.9	11 503.7
- more than 5 years	21 259.9	20 321.7
L2. a) ab) Savings deposits with agreed period of notice of more than 3 months	531.5	554.2
- up to 3 months	52.0	62.1
- more than 3 months to 1 year	257.8	160.0
- more than 1 year to 5 years	166.7	268.6
- more than 5 years	55.0	63.5
L2. b) bb): Other liabilities to customers with agreed term or period of notice	62 686.4	59 366.5
- up to 3 months	21 467.8	19 151.7
- more than 3 months to 1 year	4 613.5	4 225.1
- more than 1 year to 5 years	15 631.7	14 398.1
- more than 5 years	20 973.4	21 591.6
L3. Certificated liabilities		
a) Bonds issued	106 383.2	103 285.3
- thereof: maturing in the subsequent year	24 548.9	26 757.1
b) Other certificated liabilities	11 430.5	14 592.3
- up to 3 months	8 835.6	9 822.3
- more than 3 months to 1 year	2 594.9	4 770.0
- more than 1 year to 5 years	0.0	0.0
- more than 5 years	0.0	0.0

(8) Securities Eligible for Stock Exchange Trading

The assets below include securities eligible for stock exchange trading as follows:

in EUR million	Dec. 31, 2005	Dec. 31, 2004
A5. Bonds and other fixed-interest securities	75 097.2	67 864.5
- thereof: listed	61 323.8	57 485.8
A6. Shares and other non-fixed interest securities	1 164.5	557.8
- thereof: listed	1 139.3	531.6
A7. Equity interests	63.8	69.2
- thereof: listed	13.9	4.0
A8. Shares in affiliated companies	94.1	193.5
- thereof: listed	0.0	97.8

(9) Subordinated Assets

Subordinated assets are included in the following asset items:

in EUR million	Dec. 31, 2005	Dec. 31, 2004
A3. Claims on banks	0.0	0.0
A4. Claims on customers	182.1	255.7
A5. Bonds and other fixed-interest securities	458.9	194.9
A6. Shares and other non-fixed interest securities	77.9	34.3

(10) Transactions with Firm Repurchase Agreements and Open-Market Transactions

As of the balance sheet date, bonds with a value of EUR 3,724.2 million were pledged under repurchase agreements in the course of open-market transactions with Deutsche Bundesbank (2004: EUR 4,000.0 million).

The book value of securities sold to other banks and non-banks under repurchase agreements as of the balance sheet date was EUR 6,623.6 million (2004: EUR 10,235.5 million; of this amount, EUR 7,422.1 million in securities had previously been purchased under agreements to resell).

(11) Fiduciary Transactions

The following table contains a breakdown of trust assets (asset item A9) and trust liabilities (liability item L4):

in EUR million	Dec. 31, 2005	Dec. 31, 2004
Trust assets	125.8	66.2
Claims on customers	73.5	12.1
Tangible assets	52.3	51.5
Other assets	0.0	2.6
Trust liabilities	125.8	66.2
Liabilities to banks	71.6	10.2
Liabilities to customers	54.2	56.0

(12) Fixed Assets

The changes in fixed assets are shown in the following Statement of Fixed Asset Additions and Disposals:

in EUR million	Cost of acquisition/ production (LBBW only)	Additions due to accrual BW Bank	Cost of acquisition LBBW	Additions	Disposals	Reclassifications	Write-ups	Cumulative depreciation/ amortization and value adjustments	Depreciation/amortization and value adjustments in the fiscal year	Book value Dec. 31, 2005	Book value Dec. 31, 2004
Equity interests	641.1	20.5	661.6	105.3	69.0	12.3	4.5	93.3	1.0	621.4	552.8
Shares in affiliated companies	3 501.2	733.3	4 234.5	2 336.3	2 805.9	-12.3	0.0	91.8	9.6	3 660.8	3 435.2
Intangible assets	279.9	52.4	332.3	29.3	22.6	119.7	0.0	363.2	56.2	95.5	95.5
Land and buildings	575.5	152.4	727.9	61.0	8.1	0.0	0.0	362.6	78.6	418.2	352.7
Thereof: land and buildings used by LBBW	398.4	143.1	541.5	60.4	3.8	-2.0	0.0	276.3	75.4	319.8	250.0
Other equipment, fixtures, furniture, and office equipment	551.2	150.1	701.3	44.8	75.9	-119.7	0.0	393.0	32.3	157.5	142.9
Total fixed assets	5 548.9	1 108.7	6 657.6	2 576.7	2 981.5	0.0	4.5	1 303.9	177.6	4 953.4	4 579.1

(13) Other Assets

Items of particular significance included in LBBW's other assets are option premiums totaling EUR 1,102.2 million (2004: EUR 577.0 million), adjustment items of EUR 604.2 million (2004: EUR 376.5 million) relating to portfolio valuation, and tax refund claims amounting to EUR 184.6 million (2004: EUR 206.3 million).

The tax refund claims mainly include claims of EUR 95.9 million relating to past fiscal years; in addition, tax deposits at foreign revenue authorities amounted to EUR 48.2 million. The tax refund claims stand in contrast to tax provisions amounting to EUR 242.0 million (2004: EUR 189.4 million).

(14) Deferred Items

Deferred items include the following amounts:

in EUR million	Dec. 31, 2005	Dec. 31, 2004
Prepaid expenses	917.7	675.2
Discounts from liabilities pursuant to § 250 (3) HGB	697.7	459.8
Premiums from claims pursuant to § 340 e (2), sentence 3 HGB	220.0	215.4
Deferred income	139.7	150.9
Discounts from claims pursuant to § 340 e (2), sentence 2 HGB	139.7	150.9

Deferred items additionally include nonrecurring payments from interest rate swaps and cross-currency interest-rate swaps amounting to EUR 127.0 million (2004: EUR 161.9 million) on the assets side and EUR 544.2 million (2004: EUR 531.6 million) on the liabilities side which resulted from asset- and liability-swap combinations.

(15) Coverage of Mortgage and Municipal Loan Transactions

The liabilities below are covered as follows:

in EUR million	Dec. 31, 2005	Dec. 31, 2004
Mortgage-backed bonds (Hypothekendarlehenbriefe) issued pursuant to the ÖPG (German Act on Mortgage Bonds and Related Bonds Issued by Public-sector Credit Institutions) and the PfandBG (German Mortgage Bond Act)	6 303.8	6 834.0
Assets serving as collateral	8 936.9	9 521.7
A3. Claims on banks	805.6	895.1
A4. Claims on customers	8 131.3	8 626.6
Excess coverage	2 633.1	2 687.7
Public-sector mortgage bonds (Pfandbriefe) issued pursuant to the PfandBG (German Mortgage Bond Act)	76 074.1	81 290.7
Assets serving as collateral	91 382.8	97 446.7
A3. Claims on banks	58 201.3	65 538.8
A4. Claims on customers	18 559.6	19 771.5
A5. Bonds and other fixed-interest securities	14 621.9	12 136.4
Excess coverage	15 308.7	16 156.0

(16) Transparency Provisions for Public-sector Mortgage Bonds (Pfandbriefe) and Mortgage-backed Bonds (Hypothekendarlehenbriefe) pursuant to § 28 PfandBG (German Mortgage Bond Act)

A) Transparency provisions for public-sector mortgage bonds pursuant to § 28 PfandBG					
in EUR million	Dec. 31, 2005				
a) Cover pool for public-sector mortgage bonds					
Nominal value	91 383				
Net present value	97 382				
Net present value (+250 BP)	90 536				
Net present value (-250 BP)	105 469				
Volume of public-sector mortgage bonds outstanding					
Nominal value	76 074				
Net present value	80 630				
Net present value (+250 BP)	74 833				
Net present value (-250 BP)	87 638				
Excess coverage					
Nominal value	15 309				
Net present value	16 752				
Net present value (+250 BP)	15 703				
Net present value (-250 BP)	17 831				
b) Share of derivatives in the cover pool	0				
c) Maturities of public-sector mortgage bonds outstanding					
in EUR million	Dec. 31, 2005				
	up to 1 year	>1 year to 5 years	>5 years to 10 years	>10 years	Total
Cover pool	15 884	37 723	34 105	3 671	91 383
Outstanding public-sector mortgage bonds	12 257	38 750	24 220	847	76 074

A) Transparency provisions for public-sector mortgage bonds pursuant to § 28 PfandBG

d) Total nominal value of the cover pools broken down by country/type

in EUR million

Dec. 31, 2005

	State	Regional	Local	Other debtors	Total
Federal Republic of Germany	330	6 009	7 798	73 021	87 158
Finland	36	0	0	0	36
France incl. Monaco	0	0	131	0	131
Greece	732	0	0	0	732
Italy	884	132	22	0	1 038
Japan	300	0	0	0	300
Canada	0	78	0	0	78
Austria	13	0	0	0	13
Portugal incl. Azores and Madeira	0	59	0	0	59
Switzerland	0	1 351	26	0	1 377
Spain	7	392	0	0	399
United States of America (incl. Puerto Rico)	0	62	0	0	62
Total	2 302	8 083	7 977	73 021	91 383

e) Total amount of payments at least 90 days in arrears broken down by country/type

in EUR million

Dec. 31, 2005

	State	Regional	Local	Other debtors	Total
Federal Republic of Germany	0	0	0	0	0
Finland	0	0	0	0	0
France incl. Monaco	0	0	0	0	0
Greece	0	0	0	0	0
Italy	0	0	0	0	0
Japan	0	0	0	0	0
Canada	0	0	0	0	0
Austria	0	0	0	0	0
Portugal incl. Azores and Madeira	0	0	0	0	0
Switzerland	0	0	0	0	0
Spain	0	0	0	0	0
United States of America (incl. Puerto Rico)	0	0	0	0	0
Total	0	0	0	0	0

B) Transparency provisions for mortgage-backed bonds (Hypothekendarlehenbriefe) pursuant to § 28 PfandBG					
in EUR million					Dec. 31, 2005
a) Cover pool for mortgage-backed bonds					
Nominal value					2 051
Net present value					2 222
Net present value (+250 BP)					2 001
Net present value (-250 BP)					2 497
Volume of mortgage-backed bonds outstanding					
Nominal value					101
Net present value					104
Net present value (+250 BP)					94
Net present value (-250 BP)					115
Excess coverage					
Nominal value					1 950
Net present value					2 118
Net present value (+250 BP)					1 907
Net present value (-250 BP)					2 382
b) Share of derivatives in the cover pool					0
c) Maturities of mortgage-backed bonds pursuant to PfandBG					
in EUR million					Dec. 31, 2005
	up to 1 year	>1 year to 5 years	>5 years to 10 years	>10 years	Total
Cover pool	306	817	775	153	2 051
Outstanding mortgage-backed bonds	0	90	11	0	101
d) Total nominal value of the cover pools broken down by amount of the individual cover pools					
in EUR million					Dec. 31, 2005
up to EUR 300 thousand					221
more than EUR 300 thousand up to EUR 5 million					1 010
more than EUR 5 million					820
Total					2 051
e) Total nominal value of the cover pools broken down by type of use/country					
in EUR million					Dec. 31, 2005
					Federal Republic of Germany
Real estate used for commercial purposes					0
Real estate used for residential purposes					0
Apartments					52
Single-family homes					83
Multi-unit homes					1 141
Office buildings					254
Retail buildings					92
Industrial buildings					0
Other buildings used for commercial purposes					380
Buildings under construction not yet commercially viable					45
Building sites					1
Other cover					3
Total					2 051

B) Transparency provisions for mortgage-backed bonds (Hypothekendarlehenbriefe) pursuant to § 28 PfandBG

f) Total amount of payments at least 90 days in arrears broken down by country
in EUR million

	Dec. 31, 2005	
	Federal Republic of Germany	
Total	0	

g) Number of pending foreclosure and administrative receivership proceedings, as well as the number of foreclosures performed during the fiscal year
Number

	Dec. 31, 2005	
	Real estate used for commercial purposes	Real estate used for residential purposes
Pending foreclosure proceedings	0	0
Pending administrative receivership proceedings	0	0
Foreclosures performed	0	0
Total	0	0

h) Takeovers of real estate to prevent losses
Number

	Jan. 1, 2005 - Dec. 31, 2005	
	Real estate used for commercial purposes	Real estate used for residential purposes
Total	0	0

i) Total arrears in interest payments
in EUR million

	Dec. 31, 2005	
	Real estate used for commercial purposes	Real estate used for residential purposes
Total	0	0

j) Total amount of repayments on mortgages
in EUR million

	Jan. 1, 2005 - Dec. 31, 2005	
	Real estate used for commercial purposes	Real estate used for residential purposes
Repayment through amortization	19	13
Repayment through other methods	4	13
Total	23	26

(17) Other Liabilities

The most important individual components of the "Other liabilities" item are option premiums totaling EUR 1,151.8 million (2004: EUR 713.5 million) and foreign currency adjustment items amounting to EUR 436.2 million (2004: EUR 1,946.7 million).

(18) Assets Assigned as Collateral for Own Liabilities

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

in EUR million	Dec. 31, 2005	Dec. 31, 2004
Liabilities to banks	8 022.7	8 346.8
Liabilities to customers	2 917.1	2 279.5
Certificated liabilities	91.9	82.1
Subordinated liabilities	10.3	7.4
Contingent liabilities	113.9	86.2
Liabilities from securities lending transactions	3 011.2	2 607.2
Total amount of collateral assigned	14 167.1	13 409.2

(19) Special Item with Partial Reserve Character

The existing special item with partial reserve character amounting to EUR 60.9 million (§ 247 (3) in conjunction with § 273 HGB) was set up and used in compliance with the provisions of § 6b EStG. In the 2005 fiscal year, EUR 55.9 million was released from the reserve pursuant to § 6b EStG.

EUR 55.9 million was transferred to the Pariser Platz site acquired in 2005. During the same period EUR 7.5 million in gains on the sale of land and buildings held as fixed assets were transferred directly. On balance, the transfer led to extraordinary depreciation on buildings of EUR 63.4 million in the "Write-downs of and adjustments to intangible and tangible assets" item of the statement of income (item No. 11).

(20) Subordinated Liabilities

Expenses for subordinated liabilities totaled EUR 195.0 million (2004: EUR 193.9 million) in the fiscal year under review.

Except for a borrower's note loan (EUR 1.5 million), the subordinated liabilities of EUR 3,636.5 million recorded on the balance sheet comply with the requirements of § 10 (5a) KWG after deduction of pro rata interest (EUR 65.9 million) and of three-fifths of EUR 281.4 million (EUR 168.8 million), as well as after corrections (EUR 0.8 million). In this respect, only two-fifths (EUR 112.6 million) of EUR 281.4 million (previous year: EUR 115.7 million) were taken into account because these liabilities might fall due within the two-year period stipulated in § 10 (5a), sentence 2 KWG. After deduction of the discount (EUR 14.5 million) and plus further corrections (EUR 0.8 million), a total of EUR 3,385.8 million of the subordinated liabilities as of December 31, 2005 were counted towards supplementary capital pursuant to § 10 (5a) KWG.

An MTN issue of USD 500 million (EUR 420.2 million) with an interest rate of 6.35% and maturing on April 1, 2012, as well as an MTN issue of EUR 397.2 million with an interest rate of 4.75% and maturing on December 30, 2015, exceeded the limit of 10% of the total subordinated liabilities. The MTN issue fulfilled the requirements of § 10 (5a) KWG for being recognized as supplementary capital.

(21) Equity

LBBW's equity developed as follows in the fiscal year under review:

in EUR million	Dec. 31, 2005
Equity as of December 31, 2004	9 189.9
./. Distribution from the 2004 distributable profit	76.8
Addition to nominal capital (January 1, 2005)	
+ Sparkassen- und Giroverband Rheinland-Pfalz	69.9
+ Landeskreditbank – Förderbank Karlsruhe	69.9
+ Price-related changes in silent partners' contributions (Stille Einlagen)	54.9
./. Repayment of silent partners' contributions (Sparkasse Biberach)	1.8
+ Addition of silent partners' contributions due to migration BW Bank (Beteiligungsgesellschaft des Landes Baden-Württemberg mbH)	200.0
Addition to capital reserve (January 1, 2005)	
+ Sparkassen- und Giroverband Rheinland-Pfalz – premium	421.3
+ Landeskreditbank – Förderbank Karlsruhe – premium	421.4
+ 2005 distributable profit	86.0
Equity as of December 31, 2005	10 434.7

(22) Items Below the Line

Credit default swaps amounting to EUR 22,042.0 million (2004: EUR 8,491.6 million) for which LBBW provides the counterparties with collateral similar in nature to a guaranty are reported below the line. The total portfolio, including the credit default swaps for which LBBW provides no collateral, is described under item No. 3 Derivatives.

Irrevocable loan commitments are exclusively made up of external commitments. As of the balance sheet date, delivery commitments arising from forward deposits totaled EUR 896.6 million (2004: EUR 613.5 million).

As in the previous year, LBBW was not called upon during the fiscal year to place or assume financial instruments under its guarantees to issuers.

(23) Letter of Comfort

Except for political risks, LBBW ensures that the companies listed in the section entitled "Substantial Subsidiaries and Affiliates of Landesbank Baden-Württemberg" and marked by an "L" are in a position to cover their liabilities, regardless of the amount of the interest held by the Bank.

LBBW has issued letters of comfort in favor of BW Bank Capital Funding LLC I and BW Bank Capital Funding LLC II, which rank lower than all of LBBW's senior and subordinate liabilities including the capital generated by profit participation certificates.

(24) Guarantors' Liability (Gewährträgerhaftung)

In its capacity as guarantor, LBBW was liable for the liabilities of DekaBank Deutsche Girozentrale, Berlin, and Frankfurt am Main, Landesbank Rheinland-Pfalz Girozentrale, Mainz, as well as LBS Landesbausparkasse Baden-Württemberg, Stuttgart, and Karlsruhe, until the elimination of the guarantors' liability (July 18, 2005).

This also applies externally to the liabilities of the following credit institutions provided that these liabilities arose during the time when LBBW was a guarantor of these credit institutions: former Landesbank Schleswig-Holstein Girozentrale, Kiel (LB Kiel), Westdeutsche Immobilienbank Mainz, and SachsenLB Landesbank Sachsen Girozentrale, Leipzig.

(25) Other Financial Obligations

Other financial obligations that appear neither on the balance sheet nor below the line amounted to EUR 183.0 million (2004: EUR 157.5 million) at LBBW. EUR 72.8 million per year thereof is accounted for by long-term rental and leasing contracts, while EUR 51.8 million was accounted for by a liability to contribute to Liquiditäts- und Konsortialbank GmbH, Frankfurt am Main.

EUR 42.4 million (2004: EUR 45.3 million) of the other financial obligations relate to affiliated companies.

Pursuant to § 5 (10) of the bylaws of the German Deposit Protection Fund, LBBW undertook to indemnify Bundesverband deutscher Banken e.V., Berlin, against any and all losses incurred by the latter as the result of assistance provided to credit institutions that are majority-owned by Landesbank Baden-Württemberg.

Notes to the Statement of Income.

(26) Other Operating Income

EUR 68.2 million of the other operating income item is accounted for by capital gains on the sale of equity interests and real estate held as fixed assets, as well as by income from renting and leasing land and buildings.

(27) Auditors' Fees

The auditors' fees recognized as an expense in the fiscal year were exclusively for services provided by PricewaterhouseCoopers AG Wirtschaftsprüfungsgesellschaft.

in EUR million	Dec. 31, 2005
Audit of the financial statements	2.2
Other auditing and valuation services	0.1
Tax advisory services	-
Other services	0.4
Total	2.7

(28) Extraordinary Result

The extraordinary result primarily reflects an expenditure of EUR 496.7 million incurred as a result of the accrual of Baden-Württembergische Bank Anstalt des öffentlichen Rechts & Co. KG. In addition, restructuring and integration expenses of EUR 45.4 million were recorded.

(29) Taxes on Income

The accrual of Baden-Württembergische Bank Anstalt des öffentlichen Rechts & Co. KG to Landesbank Baden-Württemberg was tax neutral.

The tax rate to be applied to the income taxable within Germany continues to amount to 38.9%.

in EUR million	Dec. 31, 2005	Dec. 31, 2004
Federal Republic of Germany	11 489.0	10 611.6
Europe	1 330.0	1 210.8
Asia	343.7	285.8
America	472.5	262.8
Total	13 635.2	12 371.0

(31) Administrative and Intermediary Services

Services provided to third parties relate primarily to the administration of securities accounts, of trustee loans, and of investment and real estate investment funds, as well as related intermediary services.

(30) Breakdown of Income According to Geographic Markets

The total of the following items of the statement of income

- No. 1: Interest income
- No. 3: Current income from shares and other non-fixed interest securities, equity interests, and shares in affiliated companies
- No. 5: Commission income
- No. 7: Net income from financial transactions
- No. 8: Other operating income

are broken down according to geographic markets as follows:

Other Information.

(32) Interests Exceeding Five Percent of the Voting Rights Held by LBBW in Large Corporations and Major Banks Within Germany and Abroad

Atos Processing Services GmbH, Frankfurt am Main
B+S Card Service GmbH, Frankfurt am Main
Baden-Württembergische Kapitalanlagegesellschaft mbH, Stuttgart
Baden-Württemberg L-Finance N.V., Amsterdam
BWK GmbH Unternehmensbeteiligungsgesellschaft, Stuttgart
Cellent AG, Stuttgart
Deutscher Sparkassenverlag GmbH, Stuttgart
HSBC Trinkaus & Burkhardt KGaA, Düsseldorf
Landesbank Baden-Württemberg Capital Markets plc, London
LBBW Bank Ireland plc, Dublin
Landesbank Rheinland-Pfalz, Mainz
LBBW Spezialprodukte-Holding GmbH, Stuttgart
LEG Landesentwicklungsgesellschaft Baden-Württemberg mbH, Stuttgart
MKB Mittelrheinische Bank GmbH, Koblenz
Siedlungswerk Gemeinnützige Gesellschaft für Wohnungs- und Städtebau mbH, Stuttgart
SüdKA SüdKapitalanlagegesellschaft mbH, Frankfurt am Main
SüdLeasing GmbH, Stuttgart and Mannheim
Südwestdeutsche Salzwerke AG, Heilbronn
Universal Investment Gesellschaft mbH, Frankfurt am Main
VBH Holding AG, Korntal-Münchingen
Vorarlberger Landes- und Hypothekenbank AG, Bregenz
Württembergische Lebensversicherung AG, Stuttgart
Wüstenrot & Württembergische AG, Stuttgart

(33) Legal Representatives or Employees of LBBW Occupied the Following Positions on Statutory Supervisory Boards and Similar Supervisory Bodies of Large Corporations and Major Banks Within Germany and Abroad

Company	Position	Incumbent
AdCapital AG, Leinfelden-Echterdingen	Member of the Supervisory Board	Dr. Siegfried Jaschinski until July 15, 2005
	Member of the Supervisory Board	Hans-Joachim Strüder since July 16, 2005
AIG International Real Estate GmbH & Co. KGaA, Frankfurt am Main	Member of the Supervisory Board	Patrick Walcher
Baden-Württembergische Bank AG, Stuttgart	Deputy Chairman of the Supervisory Board	Dr. Siegfried Jaschinski until July 31, 2005
Baden-Württembergische Kapitalanlagegesellschaft mbH, Stuttgart	Chairman of the Supervisory Board	Horst Marschall
	Member of the Supervisory Board	Jürgen Bockholt
Baden-Württemberg L-Finance N. V., Amsterdam	Member of the Supervisory Board	Heinrich Lichtl until February 24, 2005
	Member of the Supervisory Board	Wolf-Dieter Ihle since February 24, 2005
B+S Card Service GmbH, Frankfurt am Main	Member of the Supervisory Board	Rudolf Zipf
Bürgerliches Brauhaus Ravensburg-Lindau AG, Ravensburg	Deputy Chairman of the Supervisory Board	Harald R. Pfab

Company	Position	Incumbent
Bürgschaftsbank Baden-Württemberg GmbH, Stuttgart	Chairman of the Supervisory Board	Dr. Karl Heidenreich until April 25, 2005
	Deputy Chairman of the Supervisory Board	Dr. Bernhard Walter since May 1, 2005
	Member of the Supervisory Board	Michael Horn
	Member of the Guarantee Committees	Andreas Claus
	Deputy Member of the Guarantee Committees	Jürgen Kugler
	Deputy Chairman of the Guarantee Committees of the retail/wholesale, professions, industrial, transport and hospitality, and horticulture liability groups	Ulrich Vrede
	Deputy Member of the Guarantee Committees of the trades liability group	Ulrich Vrede
	Member of the Guarantee Committees	Georg Wolber until July 31, 2005
Cellent AG, Stuttgart	Member of the Supervisory Board	Rudolf Zipf from June 30, 2005 until October 19, 2005
	Chairman of the Supervisory Board	Rudolf Zipf since October 20, 2005
	Member of the Supervisory Board	Thomas Loetto until June 30, 2005
	Deputy Chairman of the Supervisory Board	Andreas Zimber and Thomas Zeler since October 20, 2005
DekaBank Deutsche Girozentrale, Berlin and Frankfurt am Main	Member of the Supervisory Board	Dr. Siegfried Jaschinski
DekaBank Deutsche Girozentrale Luxemburg S.A., Luxembourg	Member of the Supervisory Board	Ralf Menzel
Deka Immobilien Investment GmbH, Frankfurt am Main	Member of the Supervisory Board	Dr. Karl Heidenreich until April 30, 2005
	Member of the Supervisory Board	Dr. Bernhard Walter since July 1, 2005
Deka Investment GmbH, Frankfurt am Main	Member of the Supervisory Board	Michael Horn
DekaSwiss Privatbank AG, Zurich	Member of the Supervisory Board	Hans-Joachim Strüder
	Member of the Supervisory Board	Michael Horn since April 1, 2005
Dekra SüdLeasing Services GmbH, Stuttgart	Chairman of the Supervisory Board	Dr. Martin Starck
	Member of the Supervisory Board	Peter Bach
Dürr AG, Stuttgart	Member of the Supervisory Board	Joachim E. Schielke
Ficosa International S.A., Barcelona	Member of the Supervisory Board	Juan-Miguel Lopez Rueda
Grieshaber AG, Bad Säckingen and Weingarten	Member of the Supervisory Board	Michael Horn until September 19, 2005
Grieshaber Logistik AG, Weingarten	Member of the Supervisory Board	Michael Horn since September 19, 2005
GWG Gesellschaft für Wohnungs- und Gewerbebau AG, Stuttgart	Member of the Supervisory Board	Hermann Zondler until March 31, 2005
Hypo SüdLeasing GmbH, Dornbirn	Chairman of the Supervisory Board	Dr. Martin Starck
Karlsruher Versicherung AG, Karlsruhe	Deputy Chairman of the Supervisory Board	Horst Marschall

Company	Position	Incumbent
K + S Aktiengesellschaft, Kassel	Member of the Supervisory Board	Dr. Karl Heidenreich as a Member of the Board of Managing Directors of LBBW until April 30, 2005
Landesbank Rheinland-Pfalz Girozentrale, Mainz	Chairman of the Supervisory Board	Dr. Siegfried Jaschinski
	Member of the Supervisory Board	Michael Horn (previously Deputy Member)
	Deputy Member of the Supervisory Board	Dr. Bernhard Walter since May 1, 2005
	Deputy Member of the Supervisory Board	Dr. Karl Heidenreich until April 30, 2005
	Deputy Member of the Supervisory Board	Joachim E. Schielke
LBBW Ireland plc, Dublin	Deputy Member of the Supervisory Board	Rudolf Zipf
	Chairman of the Board of Directors	Stephan Ziegler until September 14, 2005
	Chairman of the Board of Directors	Hans-Joachim Strüder since September 15, 2005
	Deputy Chairman of the Board of Directors	Horst Marschall until September 2, 2005
	Deputy Chairman of the Board of Directors	Dr. Bernhard Walter since September 15, 2005
	Member of the Board of Directors	Dr. Bernhard Walter until September 14, 2005
	Member of the Board of Directors	Hansjörg Müller-Hermann until September 2, 2005
	Member of the Board of Directors	Stephan Ziegler from September 15, 2005 until December 5, 2005
	Member of the Board of Directors	Dr. Peter Kaemmerer from September 15, 2005 until December 5, 2005
	Member of the Board of Directors	Guido Paris since September 15, 2005
	Member of the Board of Directors	Frank O'Riordan
	LBS Baden-Württemberg, Stuttgart	Member of the Supervisory Board
	Deputy Member of the Supervisory Board	Rudolf Zipf
LEG Landesentwicklungsgesellschaft Baden-Württemberg mbH, Stuttgart	Chairman of the Supervisory Board	Dr. Siegfried Jaschinski since February 24, 2005
	Member of the Supervisory Board	Dr. Karl Heidenreich until April 30, 2005
	Member of the Supervisory Board	Dr. Bernhard Walter since May 1, 2005
LHS Besitz GmbH, Stuttgart	Chairman of the Supervisory Board	Dr. Martin Starck
	Member of the Supervisory Board	Peter Bach
LHS Leasing- und Handelsgesellschaft Deutschland mbH, Stuttgart	Chairman of the Supervisory Board	Dr. Martin Starck
	Member of the Supervisory Board	Peter Bach
LRI Landesbank Rheinland-Pfalz International S.A., Luxembourg	Member of the Supervisory Board	Michael Horn since March 31, 2005
MKB Mittelrheinische Bank GmbH, Koblenz	Chairman of the Supervisory Board	Joachim E. Schielke
	Deputy Chairman of the Supervisory Board	Dr. Karl Heidenreich until April 30, 2005
	Deputy Chairman of the Supervisory Board	Michael Horn since May 1, 2005
	Member of the Supervisory Board	Dr. Bernhard Walter since May 1, 2005

Company	Position	Incumbent
MMV-Leasing GmbH, Koblenz	Chairman of the Advisory Board	Joachim E. Schielke
	Deputy Chairman of the Advisory Board	Dr. Karl Heidenreich until April 30, 2005
	Deputy Chairman of the Advisory Board	Michael Horn since May 1, 2005
	Member of the Advisory Board	Dr. Bernhard Walter since May 1, 2005
Rohwedder AG, Bermatingen	Member of the Supervisory Board	Dr. Siegfried Jaschinski until July 7, 2005
	Member of the Supervisory Board	Dr. Peter Kaemmerer since July 8, 2005
Siedlungswerk gemeinnützige Gesellschaft für Wohnungs- und Städtebau GmbH, Stuttgart	Deputy Chairman of the Supervisory Board	Michael Horn
	Member of the Supervisory Board	Hermann Zondler until March 31, 2005
Stratec biomedical Systems AG, Birkenfeld	Member of the Supervisory Board	Burkhard Wollny
Stuttgarter Messe- und Kongressgesellschaft mbH, Stuttgart	Member of the Supervisory Board	Rudolf Zipf until July 17, 2005
SüdKA SüdKapitalanlagegesellschaft mbH, Frankfurt am Main	Chairman of the Supervisory Board	Dr. Siegfried Jaschinski until September 30, 2005
	Chairman of the Supervisory Board	Hans-Joachim Strüder since November 7, 2005
	Member of the Supervisory Board	Michael Horn until September 30, 2005
	Member of the Supervisory Board	Dr. Peter Merk
SüdWert Wohnungsprivatisierungs-GmbH, Bietigheim-Bissingen	Deputy Chairman of the Supervisory Board	Rainer Konopka
	Deputy Member of the Supervisory Board	Rudolf Klenk
	Member of the Supervisory Board	Dr. Frank Schwertfeger
Südwestdeutsche Salzwerke AG, Heilbronn	Member of the Supervisory Board	Rudolf Zipf
SV Sparkassen-Versicherung Baden-Württemberg Holding AG, Stuttgart	Member of the Supervisory Board	Michael Horn
tiscon Aktiengesellschaft Infosystems, Neu-Ulm	Member of the Supervisory Board	Norbert Floegel until October 25, 2005
Universal-Investment-Gesellschaft mbH, Frankfurt am Main	Member of the Supervisory Board	Horst Marschall
Vorarlberger Landes- und Hypothekenbank AG, Bregenz	Member of the Supervisory Board	Dr. Siegfried Jaschinski until January 26, 2005
	Member of the Supervisory Board	Michael Horn since January 27, 2005
Wampfler AG, Weil am Rhein	Deputy Chairman of the Supervisory Board	Harald R. Pfab
WestInvest Gesellschaft für Investmentfonds mbH, Frankfurt am Main	Member of the Supervisory Board	Hans-Joachim Beuth until December 31, 2005
	Member of the Supervisory Board	Helmut Dohmen since January 1, 2006
Württembergische Lebensversicherung AG, Stuttgart	Member of the Supervisory Board	Michael Horn since May 31, 2005
Wüstenrot Bank AG, Ludwigsburg	Member of the Supervisory Board	Hans-Joachim Strüder since April 1, 2005
Wüstenrot & Württembergische AG, Stuttgart	Member of the Supervisory Board	Manfred Rube until December 31, 2005
	Member of the Supervisory Board	Joachim E. Schielke since January 1, 2006

(34) Employees (Annual Averages)

	Male	Female	Total
LBBW			
Domestic headquarters/branches	4 036	4 334	8 370
Foreign branches	85	69	154
Representative offices	25	27	52
Total LBBW	4 146	4 430	8 576
For information only:			
Trainees	217	228	445

(35) Total Remuneration of the Executive Bodies

The total remuneration paid to the members of the Board of Managing Directors of LBBW amounted to EUR 3.7 million. The remuneration paid to the members of the Supervisory Board, the Owners' Meeting, and the Credit Committee totaled EUR 0.5 million. The total remuneration paid to former members of the Board of Managing Directors and their surviving dependents amounted to EUR 6.0 million; provisions for pensions for former members of the Board of Managing Directors and their surviving dependents totaled EUR 49.3 million.

(36) Advances and Loans to and Contingent Liabilities Assumed in Favor of the Executive Bodies of LBBW and its Predecessors (in EUR million)

in EUR million	Board of Managing Directors	Supervisory Board	Owners' Meeting
Advances and loans	0.6	4.5	0.1
Contingent liabilities	-	-	-

**(37) Board of Managing Directors and
Supervisory Board**

Board of Managing Directors.

Dr. Siegfried Jaschinski

Chairman

Michael Horn

Deputy Chairman

Dr. Karl Heidenreich

- until April 30, 2005 -

Joachim E. Schielke

Hans-Joachim Strüder

- since April 1, 2005 -

Dr. Bernhard Walter

- since May 1, 2005 -

Rudolf Zipf

Supervisory Board.

Chairman

Heinrich Haasis

Senator h. c.
President of Sparkassenverband
Baden-Württemberg (the Savings Bank
Association of Baden-Württemberg),
Stuttgart

1st Deputy Chairman

Günther H. Oettinger

Member of the State Parliament
of Baden-Württemberg
until May 12, 2005
Prime Minister of the State of
Baden-Württemberg, Stuttgart

Stefan Mappus

Member of the State Parliament
of Baden-Württemberg
since July 6, 2005
Chairman of the CDU Parliamentary
Group in the State Parliament of
Baden-Württemberg, Stuttgart
(Member of the Supervisory Board
since May 11, 2005)

2nd Deputy Chairman

Dr. Wolfgang Schuster

Lord Mayor of the State Capital Stuttgart

Full Members

Thomas Berreth*

Employee of Landesbank
Baden-Württemberg, Stuttgart

Siegfried Bessey*

Employee of Landesbank
Baden-Württemberg, Stuttgart

Harald Coblenz*

Employee of Landesbank
Baden-Württemberg, Karlsruhe

Wolfgang Daum

until April 30, 2005
Savings Bank Director (retired)
Niefern-Öschelbronn

Georg Denzer

until May 31, 2005
District Administrator (retired),
Tauberbischofsheim

Bernd Doll

Lord Mayor of the Town of Bruchsal,
Chairman of the Supervisory Board
of Sparkasse Kraichgau, Bruchsal

Dr.-Ing. h. c. Heinz Dürr

Chairman of the Supervisory
Board of Dürr AG, Stuttgart

Dr. Susanne Eisenmann

until June 30, 2005
Mayor of the State Capital Stuttgart

Walter Fröschle*

Employee of Landesbank
Baden-Württemberg, Stuttgart

Jürgen Hilse

Senator h. c.
Savings Bank Director, Chairman
of the Board of Managing Directors
of Kreissparkasse Göppingen

Helmut Himmelsbach

Lord Mayor of the Town of Heilbronn

Dr. Dieter Hundt

Senator h. c.
President of the Confederation
of German Employers' Associations,
Managing Partner of ALLGAIER-WERKE
GmbH, Uhingen

Jens Jungbauer*

Employee of Landesbank
Baden-Württemberg, Stuttgart

Dipl.-Ing. (FH) Manfred Kanzleiter

City Councilor, Chairman of the SPD
Parliamentary Group in the City Council
of the State Capital Stuttgart

Lian Lie Liem*

Employee of Landesbank
Baden-Württemberg, Stuttgart

Dr. Horst Mehrländer

State Secretary in the Ministry
of Economic Affairs of the State
of Baden-Württemberg, Stuttgart

Ulrich Müller

Member of the State Parliament
of Baden-Württemberg
from January 1, 2005
until May 10, 2005
Minister (retired), Ravensburg

Günther Nollert*

Employee of Landesbank
Baden-Württemberg, Mannheim

Gerhard Nübling

Savings Bank Director, Chairman
of the Board of Managing Directors
of Kreissparkasse Rottweil

Prof. Dr. Wolfgang Reinhart

Member of the State Parliament
of Baden-Württemberg
until May 10, 2005
Minister, Authorized Representative
of the State of Baden-Württemberg
with the Federal Government, Berlin

Nils Schmid

Member of the State Parliament
of Baden-Württemberg
Attorney at law, Spokesman for
financial policy of the SPD Parliamentary
Group in the State Parliament of
Baden-Württemberg, Stuttgart

Claus Schmiedel

Member of the State Parliament
of Baden-Württemberg
Spokesman for economic policy of the
SPD Parliamentary Group in the State
Parliament of Baden-Württemberg,
Stuttgart

Hermann Seimetz

Member of the State Parliament
of Baden-Württemberg
Senator h. c., School Principal (retired),
Deputy Chairman of the CDU
Parliamentary Group in the State
Parliament of Baden-Württemberg,
Stuttgart

Willi Stächele

Member of the State Parliament
of Baden-Württemberg
since May 11, 2005
Minister at the Ministry of the Prime
Minister and Minister responsible
for European Affairs of the State
of Baden-Württemberg, Stuttgart

* elected by LBBW employees

Gerhard Stratthaus

Member of the State Parliament of Baden-Württemberg since May 11, 2005
Minister of Finance of the State of Baden-Württemberg, Stuttgart

Hans Otto Streuber

since January 1, 2005
President of Sparkassen- und Giroverband Rheinland-Pfalz (the Savings Bank and Giro Association of Rhineland-Palatinate), Budenheim

Jürgen Teufel

since June 29, 2005
Senator h. c., Savings Bank Director, Chairman of the Board of Managing Directors of Sparkasse Pforzheim Calw, Pforzheim

Gabriele Tietz*

Employee of Landesbank Baden-Württemberg, Stuttgart

Reinhold Uhl

since July 1, 2005
City Councillor, Chairman of the CDU Parliamentary Group in the City Council of the State Capital Stuttgart

Werner Unfried*

Employee of Landesbank Baden-Württemberg, Stuttgart

Kurt Widmaier

since June 29, 2005
District Administrator of the Ravensburg District, Chairman of the Supervisory Board of Kreissparkasse Ravensburg

Norbert Zipf*

Employee of Landesbank Baden-Württemberg, Stuttgart

Deputy Members

Dipl.-Oec. Muhterem Aras

City Councillor, tax adviser, Stuttgart

Stefan Barg

City Councillor, Senior Principal, Ministry of the Prime Minister of the State of Baden-Württemberg, Stuttgart

Hans Bauer*

Employee of Landesbank Baden-Württemberg, Stuttgart

Dipl.-Wirtsch.-Ing. (FH) Bernd Bechtold

Chairman of the Chamber of Industry and Commerce, Karlsruhe District, Managing Partner of b.i.g. bechtold INGENIEURGESELLSCHAFT MBH, Karlsruhe

Christian Brand

since July 18, 2005
Chairman of the Board of Managing Directors of Landeskreditbank Baden-Württemberg - Förderbank -, Karlsruhe

Klaus Czernuska

until October 19, 2005
District Administrator (retired), Bad Wimpfen

Wolfgang Drexler

Member of the State Parliament of Baden-Württemberg
Senior official of the Office of District Attorney (retired), Chairman of the SPD Parliamentary Group in the State Parliament of Baden-Württemberg, Stuttgart

Gundolf Fleischer

Member of the State Parliament of Baden-Württemberg
Attorney at law, State Secretary (retired), Deputy Chairman of the CDU Parliamentary Group in the State Parliament of Baden-Württemberg, Stuttgart

Michael Föll

First Mayor of the State Capital Stuttgart

Armin Freundl*

Employee of Landesbank Baden-Württemberg, Stuttgart

Jochen Haaga

until April 13, 2005
Savings Bank Director, Chairman of the Board of Managing Directors of Sparkasse Salem-Heiligenberg, Salem

Dr. Rainer Haas

District Administrator of the Ludwigsburg District, Chairman of the Supervisory Board of Kreissparkasse Ludwigsburg

Eberhard Häge*

Employee of Landesbank Baden-Württemberg, Stuttgart

Dr. Rainer Hägele

Director general in the Ministry of Finance of the State of Baden-Württemberg, Stuttgart

Martin Haible*

Employee of Landesbank Baden-Württemberg, Stuttgart

Karlheinz Heinzelmann*

Employee of Landesbank Baden-Württemberg, Stuttgart

Horst Hoffmann

since January 1, 2005
Savings Bank Director, Chairman of the Board of Managing Directors of Sparkasse Südliche Weinstrasse in Landau, Landau

Udo Hummel*

Employee of Landesbank Baden-Württemberg, Stuttgart

Hans Georg Junginger

Member of the State Parliament of Baden-Württemberg since December 8, 2005
Attorney at law, Weinheim

* elected by LBBW employees

Timo Klein*

Employee of Landesbank
Baden-Württemberg, Karlsruhe

Heinz-Jürgen Koloczek

Lord Mayor (retired), Tuttlingen

Sabine Lehmann*

Employee of Landesbank
Baden-Württemberg, Mannheim

Thomas Lützelberger

Savings Bank Director, Chairman of
the Board of Managing Directors of
Sparkasse Schwäbisch Hall-Crailsheim

Hermann Mader

since October 19, 2005
District Administrator of the Heidenheim
District, Chairman of the Supervisory
Board of Kreissparkasse Heidenheim

Peter May

Senator h. c.
Honorary Consul of Uruguay,
Chairman of the Board of Managing
Directors of Stuttgarter Hofbräu AG,
Stuttgart

Herbert Moser

Member of the State Parliament
of Baden-Württemberg
until December 8, 2005
Director principal (retired), Managing
Director of Landesstiftung Baden-
Württemberg gGmbH, Stuttgart

Heribert Rech

Member of the State Parliament
of Baden-Württemberg
until July 18, 2005
Minister of the Interior of the State
of Baden-Württemberg, Stuttgart

Siegfried Rieg

District Councilor, Lord Mayor (retired),
Giengen

Dieter Rösler*

Employee of Landesbank
Baden-Württemberg, Stuttgart

Johann Roth

since April 13, 2005
Savings Bank Director, Chairman
of the Board of Managing Directors
of Bezirkssparkasse Reichenau

Peter Schneider

Member of the State Parliament
of Baden-Württemberg
until June 29, 2005
District Administrator of the Biberach
District, Chairman of the Supervisory
Board of Kreissparkasse Biberach

Gerd Siebertz*

Employee of Landesbank
Baden-Württemberg, Stuttgart

Joachim Walter

since June 29, 2005
District Administrator of the Tübingen
District, Chairman of the Supervisory
Board of Kreissparkasse Tübingen

Prof. Dr. Willi Weiblen

Director in the Ministry of
Economic Affairs of the State
of Baden-Württemberg, Stuttgart

Clemens Winckler

Member of the State Parliament
of Baden-Württemberg, Stuttgart

* elected by LBBW employees

Stuttgart, Karlsruhe, and Mannheim,
March 10, 2006

The Board of Managing Directors



Dr. Siegfried Jaschinski



Michael Horn



Joachim E. Schielke



Hans-Joachim Strüder



Dr. Bernhard Walter



Rudolf Zipf

Independent Auditor's Report.

"We have audited the annual financial statements, consisting of the balance sheet, statement of income, and notes, and including the accounting and the management report of Landesbank Baden-Württemberg, Stuttgart, Karlsruhe, and Mannheim (LBBW), for the fiscal year from January 1 to December 31, 2005. The accounting and preparation of the annual financial statements and management report in accordance with the provisions of the German Commercial Code are the responsibility of the Board of Managing Directors of LBBW. Our responsibility is to express an opinion based on our audit on the annual financial statements, including the accounting, and on the management report.

We conducted our audit of the annual financial statements in accordance with § 317 HGB (German Commercial Code) in conjunction with the German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW, the German Institute of Certified Public Accountants). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the presentation of the net assets, financial position, and results of operations in the annual financial statements drawn up in accordance with German generally accepted accounting principles, and in the management report, are free of material misstatement. Knowledge of the business activities and the economic and legal environment of LBBW and evaluations of possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the internal accounting control system and the evidence supporting the disclosures

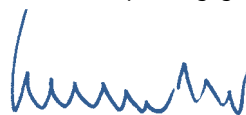
in the accounting, the annual financial statements, and the management report are primarily examined on a test basis within the framework of the audit. The audit includes assessing the accounting principles applied and the significant estimates made by the Board of Managing Directors, along with the overall presentation of the annual financial statements and the management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit did not lead to any objections.

In our opinion, based on the conclusions reached during the audit, the annual financial statements comply with the legal regulations and give a true and fair view of the net assets, financial position, and results of operations of LBBW in accordance with German generally accepted accounting principles. The management report reflects the annual financial statements, presents a true and fair view of the situation of the Group overall, and accurately reflects the opportunities and risks of future development."

Stuttgart, March 10, 2006

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft



(Schuldt)
Wirtschaftsprüfer



(Bucksch)
Wirtschaftsprüfer