Financial Stability Forum Report

as of December 31, 2008.

Banking – Made in Germany.

LBBW

Content.

Financial Stability Forum Report.

The Financial Stability Forum (FSF) was founded in 1999 on the initiative of the G7, in order to ensure financial market stability on an international level. The basic thinking behind the FSF is the regular exchange of information and international cooperation between central banks, regulatory authorities and international financial institutions with the aim of improving the functionality of the markets, increasing transparency and reducing system risks. Germany is represented in this forum by Bundesanstalt für Finanzdienstleistungsaufsicht (BaFIN – Federal Financial Supervisory Authority) among other organizations.

In view of the financial market crisis that has been continuing since 2007, the Financial Stability Forum has recommended additional disclosures on portfolios that could be affected by market disruptions. Although the disclosure of the information is currently voluntary, LBBW is fulfilling the main recommendations of the FSF by publishing this report.

The information on the LBBW Group's securitization portfolio supplements the explanations in the Risk Report of the 2008 Annual Report. Detailed information on the LBBW Group's exposure to monoliners and on the leveraged finance portfolio is also included.

1 The LBBW Group's securitization portfolio.

1.1 Preliminary remark.

LBBW has a securitization portfolio of EUR 26.8 billion as at December 31, 2008[1]. This includes the ABCP[2] vehicle Lake Constance Funding Ltd./LLC (investments and customer transactions), set up and managed by LBBW, the vehicle taken over as part of the acquisition of Sachsen LB (Georges Quay Funding I Ltd.) and the fund investments (LAAM funds) with the LBBW risk share (via equity and liquidity lines [margin calls]).

1.1.1 Transfer of previous method of presentation

Change in the portfolio of securitized products from December 31, 2008 versus June 30, 2008

EUR billion	Dec. 31, 2008	Changes	June 30, 2008
	on the basis of presentation on June 30, 2008	risk-relevant	
Investments – ABS/MBS[3]	22.1	– 1.8	23.9
Other securitizations	2.5	0.9	1.6
of which LBBW risk LAAM funds	1.1	0.2	0.9
of which LBBW risk Georges Quay	1.4	0.7	0.7
Total securitizations	24.6	– 0.9	25.5
Customer transactions	2.2	0.6	1.6
Total	**26.8**	**– 0.3**	**27.1**

[1] The statements concerning the risk situation are presented below based on the management approach (see also page 119 et seq. of the 2008 Annual Report of the LBBW Group)
[2] ABCP: Asset Backed Commercial Paper
[3] ABS: Asset Backed Securities, MBS: Mortgage Backed Securities

Following the presentation of LBBW risk so far, the volume of ABS/MBS transactions decreased by EUR 1.8 billion to EUR 22.1 billion as a result of repayments, restructurings and fluctuations in exchange rates. LBBW is also involved in the business area of customer transactions. These increased from EUR 1.6 billion to EUR 2.2 billion. This was due both to the expansion of exisiting transactions and to new business, essentially with small and medium-sized German customers. In this area of business trade receivables and interest-bearing receivables (e. g. leasing receivables) are purchased in particular. One way in which LBBW supports this purchasing is by providing liquidity lines.

The risk to LBBW from the LAAM funds and Georges Quay has risen by EUR 0.9 billion to EUR 2.5 billion owing to additional margin payments. In total, there is therefore a net reduction compared with June 30, 2008 of EUR 0.3 billion to EUR 26.8 billion.

In order to improve the transparency of reporting further and thus fulfill the requirements of the Financial Stability Forum, a look-through presentation will be given of the LAAM funds and the vehicle Georges Quay as of the reporting date of December 31, 2008. Until now, presentation has been purely on the basis of the risk to LBBW, i. e. the part financed by third-parties was not classified as LBBW risk.

Taking into account the look-through approach, the total volume has increased by EUR 5.1 billion to EUR 29.7 billion, as all assets of Georges Quay and the LAAM funds are now attributed to the LBBW Group's securitization portfolio, regardless of the fact that these assets are financed by third-party banks.

Securitization Portfolio as at December 31, 2008, taking into account the look-through approach – methodical transfer

EUR billion	Dec. 31, 2008	Changes	Dec. 31, 2008
	incl. look-through approach	methodical	on the basis of presentation on June 30, 2008
Total securitizations	29.7	5.1	24.6
Investments – ABS/MBS	22.1	0.0	22.1
Other securitizations	7.6	5.1	2.5
of which look-through approach LAAM funds	3.6	2.5	1.1
of which look-through approach Georges Quay	4.0	2.6	1.4

The presentations below under section 1 on Lake Constance Funding and Georges Quay relate to securitizations incl. the look-through approach (total securitizations EUR 29.7 billion). Customer transactions are not part of these presentations.

Details of these are shown in section 2. Further information on Lake Constance Funding, Georges Quay and fund investments can be found in sections 1.2.5 to 1.2.7.

1.1.2 Breakdown of asset classes and ratings

The LBBW Group's portfolio has only a minimum direct exposure to subprime products. The financial market crisis has led to a decline in market values and rating changes in the securitization portfolio. The LBBW Group's portfolio nevertheless still has a high rating level.

Securitization portfolio by asset classes and rating categories

Outstanding volume in EUR million
as at Dec. 31, 2008

Asset class	AAA	AA	A	BBB	Lower than BBB	Total	
CDO[1]	5 226	1 655	335	747	1 377	9 339	31.4 %
RMBS[2]	9 724	517	168	383	664	11 456	38.5 %
CMBS[3]	3 429	230	57	33	0	3 749	12.6 %
Other	3 058	1 111	318	383	321	5 192	17.5 %
of which: Auto Loans	432	46	95	2	0	575	1.9 %
of which: Consumer Loans	514	66			0	581	1.9 %
of which: CPPI	36	902	90		0	1 028	3.5 %
of which: Credit Cards	675				0	675	2.3 %
of which: Future Flow			21	87	0	108	0.4 %
of which: Leasing	740	2	97	134	0	972	3.3 %
of which: Other ABS	68	9	15	140	168	400	1.3 %
of which: SIV				21	153	174	0.6 %
of which: Student Loans	594	87			0	680	2.3 %
Total	**21 437**	**3 513**	**878**	**1 546**	**2 361**	**29 735**	**100.0 %**
	72.1 %	11.8 %	3.0 %	5.2 %	7.9 %	100.0 %	

Of the entire portfolio, 92 % is in the investment grade range (includes ratings from AAA to BBB). Only 8 % is non-investment grade. The asset classes are broadly diversified.

The RMBS product type represents the largest share of the portfolio at around 39 %, followed by CDO (31 %) and CMBS (13 %). The remainder of the portfolio is distributed across a large number of different asset classes.

[1] CDO: Collateralized Debt Obligations
[2] RMBS: Residential Mortgage Backed Securities
[3] CMBS: Commercial Mortgage Backed Securities

The allocation to the different rating categories was carried out on the basis of information from external providers. The lowest available rating from Moody's, Standard & Poor's or Fitch Ratings was applied in each case.

In the first half of 2008, the former Sachsen LB Group was integrated into the LBBW Group. Already before the acquisition, off-balance sheet structured financing investments with a par value of EUR 17.3 billion were transferred to the newly formed Irish special-purpose entity Sealink Funding Ltd, which is not required to be consolidated. LBBW provides loans to this SPE amounting to EUR 8.8 billion. These are mainly subordinated loans. A guarantee issued by the Free State of Saxony totaling EUR 2.75 billion bears the first loss. As at December 31, 2008 the guarantee had not been drawn. For 2009, the manager of Sealink expects losses in the portfolio amounting to a double-digit million Euro amount, which would be covered by the guarantee.

1.1.3 Development of equity and income statement effects

Equity and income statement effects from the securitization portfolio according to IFRS

EUR Mio.	Recognized in income[1]		Recognized in equity[2]	
Asset class	**2008**	**2007**	**2008**	**2007**
CDO	– 847	– 277	– 317	– 400
RMBS	– 127	0	– 223	– 87
CMBS	– 10	0	– 21	– 90
Other	– 160	– 179	– 90	– 54
Total	**– 1 144**	**– 456**	**– 651**	**– 631**

The majority of the income statement effects in 2008 and 2007 were due to remeasurement gains or losses from the measurement of the portfolios at the balance sheet date. Around half of the income statement effects shown in 2008 were due to impairments that had to be carried out. While almost 55% of these impairments affected the CDO portfolios, about 30% related to RMBS and the remaining 15% to other securitized products.

95% of securitizations were classified as »Available for Sale (AfS)« as at December 31, 2007. As a result of the reclassification in accordance with IAS 39.50 that was carried out in the second half of 2008, over 50% of securitizations are now in the «Loans and Receivables (LaR)« category as at the reporting date of December 31, 2008.

[1] Recognized in income: change in income statement
[2] Recognized in equity: change in equity item (revaluation reserve)

1.2 Portfolio in detail.

1.2.1 CDO portfolio

The term »CDO« covers transactions based on different types of debts (underlying). These essentially involve debt claims on companies, financial service providers and governments. A special case are CDO of ABS, for which ABS transactions form the underlying. These ABS transactions can include residential mortgage backed securities, along with consumer loans, leasing receivables, commercial mortgage backed securities and CDO.

Breakdown of CDO by sub-asset classes and rating categories

Outstanding volume of CDO
in EUR million as at Dec. 31, 2008

Sub-asset class	AAA	AA	A	BBB	Lower than BBB	Total	
CLO[1]	2 569	242	88	41	36	2 976	31.9 %
CDO Synthetic	1 249	322	51	193	840	2 655	28.4 %
CDO of ABS	397	892	159	292	427	2 167	23.2 %
CDO of TruPS[2]	435	104	34	154	69	796	8.5 %
Other CDO	576	95	3	67	4	745	8.0 %
Total CDO	**5 226**	**1 655**	**335**	**747**	**1 376**	**9 339**	**100.0 %**
	56.0 %	17.7 %	3.6 %	8.0 %	14.7 %	100.0 %	

Of the entire CDO portfolio, 85 % are in the investment grade range. The remaining 15 % are non-investment grade, with a focus on synthetic CDO.

Some of the CDO have a connection to the US subprime market. This part represents 13 % of the overall volume of CDO, which means that 87 % of the CDO reported are not exposed to the subprime market.

To act with caution, each CDO is classified as subprime-related when it is invested in a single subprime position. In this case, the whole volume of the CDO position held is classified as subprime-related. This approach disregards available credit enhancements within the CDO structures like subordination and protection in the form of hedges, insurance through monoliners etc. Almost 68 % of the CDO transactions are most senior positions, with only 5.5 % classified as first loss positions.

Hedges are in place for 21.3 % of the volume of CDO reported. Insurance is provided by monoline insurers (12.6 %), banks (7.7 %) and state/supranational institutions (1.0 %).

[1] CLO: Collateralized Loan Obligation
[2] TruPS: Trust Preferred Securities

1.2.2 RMBS portfolio

The term RMBS covers all transactions that are secured by privately used or managed properties.

Breakdown of RMBS by countries and rating categories

Outstanding volume of RMBS in EUR million as at Dec. 31, 2008	AAA	AA	A	BBB	Lower than BBB	Total	
USA	894	142	126	383	664	2 209	19.3 %
of which: US Alt-A	868	108	126	208	542	1 852	16.2 %
of which: US Subprime	25			70	99	194	1.7 %
UK	2 591	166	16			2 773	24.2 %
of which: UK Non-Conforming	1 289	109				1 398	12.2 %
Spain	2 522	172	9			2 703	23.6 %
Other	3 717	37	17			3 771	32.9 %
Total RMBS	**9 724**	**517**	**168**	**383**	**664**	**11 456**	**100.0 %**
	84.9 %	4.5 %	1.5 %	3.3 %	5.8 %	100.0 %	

The volumes listed under the »Other« item include mainly RMBS with underlying mortgage loans from the Netherlands (38 %), Italy (26 %) and Portugal (9 %). Of the entire RMBS portfolio, 94 % is in the investment grade range. Only 6 % is non-investment grade.

The subportfolios US Alt-A, US Subprime, UK Non-Conforming and Spain are discussed in more detail below.

US Alt-A and US Subprime

In addition to the indirect subprime risk positions in CDO presented above, the LBBW Group also holds US subprime and Alt-A positions directly. The term Alt-A refers to debtors who have a higher credit rating than subprime debtors.

Outstanding volume of US Alt-A RMBS and US subprime RMBS by vintages and rating categories

Outstanding volume of US Alt-A RMBS and US Subprime RMBS
in EUR million as at Dec. 31, 2008

Sub-asset class	Vintage	AAA	AA	A	BBB	Lower than BBB	Total	
US RMBS Alt-A	2003	14					14	0.8 %
	2004	32	1				33	1.8 %
	2005	208			29		237	12.8 %
	2006	483	74	56	85	90	788	42.5 %
	2007	131	33	70	94	452	780	42.1 %
Total US Alt A		**868**	**108**	**126**	**208**	**542**	**1 852**	**100.0 %**
US RMBS Subprime	2003	5					5	2.6 %
	2006	20			39	26	85	43.8 %
	2007				31	73	104	53.6 %
Total US Subprime		**25**			**70**	**99**	**194**	**100.0 %**
Total US Alt-A and Subprime		**893**	**108**	**126**	**278**	**641**	**2 046**	
		43.6 %	5.3 %	6.2 %	13.6 %	31.3 %	100.0 %	

The investments in US Alt-A and Subprime RMBS stemming mainly from the integration of former Sachsen LB assets. The focus is on the most affected vintages of 2006 and 2007. This is also reflected in the rating downgrades that have already taken place.

UK Non-Conforming

Of the EUR 2.8 billion in UK RMBS, around half are attributed to the Non-Conforming segment. Non-conforming means that the debtor has not fulfilled the stringent guidelines for classification as a prime debtor. These guidelines relate, for example, to criteria such as employment status, proof of income and payment history for previous debts. However, they also include financing for the acquisition of property with the intention of letting (Buy-to-Let).

Outstanding volume of UK Non-Conforming RMBS by vintages and rating categories

Outstanding volume of UK Non-Conforming RMBS in EUR million as at Dec. 31, 2008					
Sub-asset class	**Vintage**	**AAA**	**AA**	**Total**	
UK Non-Conforming RMBS	2002	8		8	0.6 %
	2003	2		2	0.1 %
	2004	201	39	240	17.2 %
	2005	401	5	406	29.0 %
	2006	402	30	432	30.9 %
	2007	275	35	310	22.2 %
Total UK Non-Conforming RMBS		**1 289**	**109**	**1 398**	**100.0 %**
		92.2 %	7.8 %	100.0 %	

Almost 50% of the transactions are from the 2005 or earlier vintages.

RMBS Spain

Outstanding volume of RMBS Spain by vintages and rating categories

Outstanding volume of RMBS Spain
in EUR million as at Dec. 31, 2008

Sub-asset class	Vintage	AAA	AA	A	Total	
RMBS Spain	1998	3			3	0.1 %
	1999	36			36	1.3 %
	2000	15			15	0.5 %
	2001	30		1	31	1.1 %
	2002	149			149	5.5 %
	2003	367			367	13.6 %
	2004	225		7	232	8.6 %
	2005	220		1	221	8.2 %
	2006	668	74		742	27.5 %
	2007	809	98		907	33.6 %
Total RMBS Spain		**2 522**	**172**	**9**	**2 703**	**100.0 %**
		93.3 %	6.4 %	0.3 %	100.0 %	

The portfolio only has ratings in the investment grade range; over 93 % of the assets have a rating of AAA. Although a large share is from the years 2006 and 2007, the majority of these investments are in most senior positions. These tranches will be given priority in repayments.

1.2.3 CMBS-Portfolio

The term CMBS covers all transactions that are secured by commercially used or managed properties. This can include office, retail or multi-family properties, shopping centres or mixed use. The CMBS acquired by the LBBW Group are secured by properties that are used mainly as office or retail buildings.

Breakdown of CMBS by countries and rating categories

Outstanding volume of CMBS
in EUR million as at Dec. 31, 2008

Asset class	Country	AAA	AA	A	BBB	Total	
CMBS	Austria	38	6			44	1.2 %
	Europe*	544				544	14.5 %
	France	187				187	5.0 %
	Germany	449	26	1	0	476	12.7 %
	Ireland	36				36	1.0 %
	Italy	23				23	0.6 %
	Japan	45				45	1.2 %
	Luxembourg	16				16	0.4 %
	Netherlands	94				94	2.5 %
	Singapore	228	4			232	6.2 %
	Spain	11				11	0.3 %
	Sweden	14	13			27	0.7 %
	UK	1 519	181	33	33	1 766	47.1 %
	USA	225		23		248	6.6 %
Total CMBS		**3 429**	**230**	**57**	**33**	**3 749**	**100.0 %**
		91.5 %	6.1 %	1.5 %	0.9 %	100.0 %	

*Europe: no definite classification possible, due to geographical distribution across several countries

The CMBS portfolio has a high credit rating, with the share of AAA-rated investments at over 91 %. LBBW has only a few investments in Ireland and Spain, which were particularly severely affected by the financial crisis. Of the UK CMBS, over 98 % of the assets have a rating of A or higher. No purchases took place in 2008, and the share of the 2007 vintage can be classified as moderate, at only 17%.

The table below gives an overview of the breakdown of the CMBS portfolio by vintages.

Breakdown of CMBS by vintages

Outstanding volume of CMBS
in EUR million as at Dec. 31, 2008

Asset class	Vintage	AAA	AA	A	BBB	Total	
CMBS	2000	17				17	0.5 %
	2001	35				35	0.9 %
	2002	53				53	1.4 %
	2003	61				61	1.6 %
	2004	141	20	1	0	162	4.3 %
	2005	1 076	6			1 082	28.9 %
	2006	1 108	179	33		1 320	35.2 %
	2007	938	25	23	33	1 019	27.2 %
Total CMBS		**3 429**	**230**	**57**	**33**	**3 749**	**100.0 %**
		91.5 %	6.1 %	1.5 %	0.9 %	100.0 %	

The following table presents the breakdown of the UK CMBS portfolio according to year of issue.

Outstanding volume of UK CMBS by vintages and rating categories

Outstanding volume of UK CMBS
in EUR million as at Dec. 31, 2008

Asset class	Vintage	AAA	AA	A	BBB	Total	
CMBS	2002	7				7	0.4 %
	2004	65	2			67	3.8 %
	2005	722				722	40.9 %
	2006	455	179	33		667	37.8 %
	2007	270			33	303	17.1 %
Total UK CMBS		**1 519**	**181**	**33**	**33**	**1 766**	**100.0 %**
		86.0 %	10.2 %	1.9 %	1.9 %	100.0 %	

1.2.4 Credit card portfolio

Outstanding volume of Credit Card portfolio by countries and rating categories

Outstanding volume of credit cards in EUR million
as at Dec. 31, 2008

Sub-asset class	Country	AAA	Total
Credit Cards	Japan	94	94
	UK	200	200
	USA	381	381
Total credit cards		**675**	**675**

The asset class of credit cards accounts for only 2.3% of the LBBW Group's entire securitization portfolio. On the reporting date of December 31, 2008, the investments are exclusively AAA-rated most senior tranches. The available surplus (Excess Spread) in the underlying portfolios can offset increasing delinquency and default rates.

1.2.5 ABCP program Lake Constance Funding

As one part of its ABS business, LBBW uses the vehicles Bodensee 2 Funding Ltd. and Mainau Funding Ltd, which it set up and manages. Both special-purpose entities were included in LBBW's consolidated financial statements and are taken into account in the overviews presented.
Consolidation ensures that all material risks are reflected in the consolidated financial statements of the LBBW Group.

Bodensee 2 Funding and Mainau Funding invest in ABS transactions. The ABS transactions in the portfolio are almost all AAA-rated, while no asset has a rating below AA. The purchases for the ABS transactions are financed through loans from the special-purpose entity Lake Constance Funding.
In addition to Bodensee 2 Funding and Mainau Funding, Lake Constance Funding also provides financing for the non-consolidated vehicles Weinberg Funding Ltd. and Weinberg 2 Funding Ltd.[1]

Lake Constance Funding refinances itself by issuing asset backed commercial papers (ABCPs). As a result of the financial market crisis, it became increasingly difficult to place ABCPs in the money market. LBBW therefore decided to purchase the ABCPs itself. Market conditions improved towards the end of 2008, so that Lake Constance Funding was able to place some of the ABCPs in the market again.

As at December 31, 2008, LBBW had provided liquidity lines of EUR 1.4 billion for Bodensee 2 Funding and Mainau Funding; for Weinberg Funding and Weinberg 2 Funding (see section 2 for details), liquidity lines of EUR 2.0 billion were provided. There will only be draws of the liquidity lines when it is no longer possible to issue ABCPs. This has not been necessary so far. LBBW also provides a letter of credit, through which the bank accepts liability for losses arising from the underlying assets.

[1] The vehicles Weinberg Funding and Weinberg 2 Funding are so-called multi-seller conduits for the securitization of trade receivables and interest bearing receivables. Within this structure, these vehicles acquire receivables portfolios, most of which come from small and medium-sized German companies. In Weinberg and Weinberg 2, the individual receivables portfolios represent so-called »cells«, i.e. there is no cross liability of reserves in individual transactions. In accordance with IAS 27 in conjunction with SIC 12, Weinberg must be consolidated. However, as Weinberg serves merely as a shell that passes on the proceeds from the issue of Lake Constance ABCPs to the sellers of receivables and thus cquires the receivables, Weinberg does not fulfill the materiality criteria and is therefore not consolidated. In general, the cells do not have to be consolidated. They are not controlled by LBBW, while there is also material risk assumption by third parties in the form of reserves, overcollateralization and trade credit insurance.

1.2.6 Fund investments

In this investment class, the bank has recorded fund investments (equity and liquidity lines [margin calls]), amounting to EUR 1.1 billion. The underlying portfolios of these funds have assets with a total volume of EUR 3.6 billion. These contain almost exclusively AAA-rated or AA-rated ABS transactions, while the proportion of transactions with lower ratings is very small at 0.9%. Although the LBBW Group bears risks amounting to only EUR 1.1 billion, the look-through approach so far include these portfolios (i.e. with EUR 3.6 billion). This look-through approach was reported for the first time on December 31, 2008.

The following table shows an overview of the portfolio distribution of the fund investments.

Portfolio distribution of the fund investments

Outstanding volume of fund investments in EUR million as at Dec. 31, 2008

Asset Type	AAA	AA	A	BBB	Total	
CDO	307	23			330	9.1 %
RMBS	1 886	16		28	1 930	52.9 %
CMBS	605	53			658	18.0 %
Other	642	84	5		731	20.0 %
of which: Auto Loans	81				81	2.2 %
of which: Consumer Loans	108	46			154	4.2 %
of which: Credit Cards	80				80	2.2 %
of which: Leasing	243				243	6.7 %
of which: Other ABS		3	5		8	0.2 %
of which: Student Loans	130	35			165	4.5 %
Total	**3 440**	**176**	**5**	**28**	**3 649**	**100.0 %**
	94.3 %	4.8 %	0.1 %	0.8 %	100.0 %	

1.2.7 Georges Quay

Through the acquisition of Sachsen LB, the vehicle Georges Quay was also taken over by LBBW. The portfolio has a total volume of EUR 4.0 billion. The investment by LBBW totaled EUR 1.4 billion as at December 31, 2008. The remaining part is financed by a third party.

96% of the ABS transactions included in Georges Quay have a rating in the investment grade range. Although the LBBW Group bears risks amounting to only EUR 1.4 billion, the overviews presented so far include this portfolio (i.e. with EUR 4.0 billion). This look-through approach was reported for the first time on December 31, 2008.

The following table shows an overview of the portfolio distribution of the vehicle Georges Quay.

Portfolio distribution of Georges Quay by asset class and rating categories

Outstanding volume of Georges Quay in EUR million as at Dec. 31, 2008							
Asset class	**AAA**	**AA**	**A**	**BBB**	**Lower than BBB**	**Total**	
CDO	59					59	1.5%
RMBS	1 752	142	99	135	159	2 287	57.3%
CMBS	941					941	23.6%
Other	592	41	39	33		705	17.6%
of which: Auto Loans	16	41	39			95	2.4%
of which: Consumer Loans	201					201	5.0%
of which: Credit Cards	106					106	2.7%
of which: Leasing	153			7		160	4.0%
of which: Other ABS	68			26		94	2.3%
of which: Student Loans	48					48	1.2%
Total	**3 344**	**183**	**138**	**168**	**159**	**3 991**	**100.0%**
	83.8%	4.6%	3.4%	4.2%	4.0%	100.0%	

1.2.8 Exposure to monoliners

For the LBBW Group the risk of losses in connection with the exposure to monoliners is limited. Of the LBBW's Group securitization portfolio, EUR 2.2 billion is insured by monoliners. The direct exposure to monoliners is low and amounts to only EUR 12.0 million.

The following table shows a matrix, from which the rating distribution of both the monoliners and the underlying assets can be seen. As in the previous tables, the allocation to the different rating categories was carried out on the basis of information from external providers. The lowest available rating from Moody's, Standard & Poor's or Fitch Ratings was applied in each case.

Rating distribution of monoliners and underlying assets

Outstanding volume in connection with monoliners in EUR million as at Dec. 31, 2008	**Lowest transaction rating**						
Lowest monoliner rating	**AAA**	**AA**	**A**	**BBB**	**Lower than BBB**	**Total**	
AAA						0	0.0%
AA	276	64				340	15.2%
A						0	0.0%
BBB	448	215	249	634		1 546	69.3%
Lower than BBB	64	5	87	131	59	346	15.5%
Total	**788**	**284**	**336**	**765**	**59**	**2 232**	**100.0%**
	35.3%	12.7%	15.1%	34.3%	2.6%	100.0%	

Of the insured transactions, 97.4% are still in the investment grade range, while almost two thirds (66.1%) have a better rating than the lowest rating of the respective monoliner. Owing to the subprime crisis, the limits of all monoliners have been reduced or cut since October 2007. In case of a monoline wrapped transaction, a double trigger is in effect, that means a loss would only occur if both – the transaction and the monoliner – are defaulting.

2 Customer transactions.

This investment category includes transactions totaling EUR 2.2 billion. Of the entire portfolio, trade receivables account for EUR 0.9 billion, interest bearing receivables for EUR 1.1 billion (particularly leasing receivables) and the financing of commercial real estate for EUR 0.2 billion. The following table shows a breakdown of the portfolio according to rating classes.

Rating distribution of customer transactions

Outstanding volume of customer transactions in EUR million
as at Dec. 31, 2008

Sub-asset class	AA	A	BBB	Total	
trade receivables		758	143	901	41.6 %
interest bearing receivables	306	691	102	1 099	50.8 %
Commercial real estate		164		164	7.6 %
Total customer transactions	**306**	**1 613**	**245**	**2 164**	**100.0 %**
	14.2 %	74.5 %	11.3 %	100.0 %	

The investment in trade receivables and interest bearing receivables is mostly in connection with small and medium-sized companies. This customer-driven business has only ratings in the investment grade range. This investment comes almost exclusively from Germany. The loans are purchased via the special purpose entities Weinberg Funding and Weinberg 2 Funding. LBBW provides liquidity lines of EUR 2.0 billion for this. The special-purpose entities Weinberg Funding and Weinberg 2 Funding are refinanced via LBBW's ABCP program (see 1.2.5). The remaining customer transactions are financed via a loan from LBBW. LBBW is planning to expand this customer-driven business.

3 Leveraged finance portfolio.

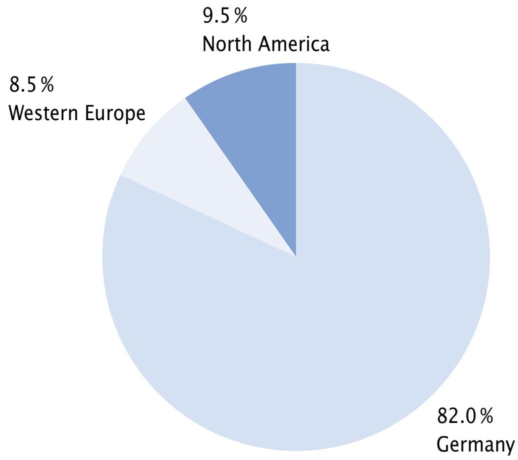
As part of the LBBW Group's overall credit strategy, the bank also supports its small and medium-sized corporate customers in leveraged finance activities. Along with financing for acquisitions for customers of the LBBW Group, the leveraged finance portfolio includes investments by financial investors in small and medium-sized companies, starting at approximately EUR 15 million.

As part of its strategy in business with small and medium-sized companies, LBBW also aims for lead management mandates with higher commission, with a target syndicate share of 20–30%. In the interests of long-term support for corporate customers, investments are generally made in accordance with the »buy and hold« approach. If LBBW is not awarded the lead management, it tries to maintain its relationship with the customer by taking over participations in such management groups. For risk diversification reasons, the bank also takes part in international transactions, in order to achieve an appropriate mix in the portfolio.

Owing to the takeover of the portfolio of Sachsen LB in the first half of 2008 and plans for the gradual expansion of the lead management business and two large-volume loan commitments with closing of the transactions in 2009, the overall portfolio totaled EUR 7.4 billion at the end of 2008 (with commitments of EUR 2.7 billion that were not called upon, largely parts of working capital lines that were not provided and transaction lines not yet paid out). The average exposure per investment is around EUR 45 million.

The following graph summarizes the risk positions from around 160 different leveraged finance corporate loans, ordered according to region, sector and rating.

Regional distribution as at December 31, 2008



To avoid regional concentrations of risk, progress was made in the past by expanding the market share in Western Europe and North America. However, there is still a strong focus on business in Germany, particularly in Baden-Württemberg. Good quality growth was and is a priority.

Distribution by sector as at December 31, 2008

1. Automotive	53.7 %
2. Non-sector-specific machinery and tool production	5.0 %
3. Clothing, sports goods and luxury goods	4.2 %
4. Chemicals	3.6 %
5. Health care	3.6 %
6. Cross-sector services for companies	3.4 %
7. Conglomerates/conglomerate holding companies	2.8 %
8. Construction industry	2.6 %
9. Telecommunications	2.4 %
10. Electronics, IT	2.3 %
11. Various (15 other different sectors)	16.4 %
	100.0 %

The sector portfolio shows a high proportion in the automotive sector, partly due to one large-volume transaction.

Rating distribution for overall volume of leveraged finance as at December 31, 2008

Distribution of overall volume of leveraged finance	AAA – A–	BBB+	BBB	BBB–	BB+	BB	BB–	B+	B	B–	CCC+ – C–	SD/D	nr[1]
in %	0.1	1.5	3.5	7.5	4.4	65.3	6.5	6.5	1.2	0	0	2.9	0.5

The average rating in the portfolio is BB. This means that 82 % of the portfolio is in this or a better portfolio rating class. New business is entered into in the rating classes BB to BB– if it is clear from the medium-term projection of the company data that the rating will improve rapidly as repayments progress. The subportfolio built up on the North American market via the New York branch is on average slightly better than the overall average for the portfolio.

[1] nr: not rated

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