Financial Stability Forum Report

as of December 31st, 2009.

Landesbank Baden-Württemberg

LBBW

Contents.

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 idea 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 functioning of the markets, increasing transparency and reducing systemic risk. 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 2009 Annual Financial Report. Detailed information on the LBBW Group's exposure to monoliners and on the leveraged finance portfolio is also included.

1 LBBW Group: Securitization Portfolio.

1.1 Remark on Risk Protection.

In view of the turbulences in the financial markets, LBBW put in place a risk shield with the state of Baden-Württemberg in the form of a guarantee structure in effect from June 30th, 2009. LBBW has been granted a guarantee in an amount of EUR 12.7 billion to secure losses on a specified reference portfolio that contains ABS securities and loans granted by LBBW to the Irish special-purpose entity Sealink Funding. Initially, the European Commission approved the risk shield provided by the state of Baden-Württemberg and the capital injection from the owners on a provisional basis. The European Commission granted final approval on December 15th, 2009 after LBBW presented its restructuring plan. At that point, the original guarantee structure in regard to LBBW's first loss position was modified in detail.

One part of the guarantee in the amount of EUR 6.7 billion covers an ABS portfolio (referred to as "guarantee portfolio") with an outstanding volume of EUR 15.3 billion (as of December 31st, 2009). LBBW will bear the first losses from this guarantee portfolio up to an amount of EUR 1.9 billion. Any losses beyond this amount will be absorbed by the guarantee. Losses exceeding a volume of EUR 8.6 billion[1] will then be borne by LBBW.

The remaining EUR 6.0 billion of the guarantee covers a loan granted by LBBW to the special-purpose entity Sealink Funding.

1 This amount is composed of the partial amount of the guarantee amounting to EUR 6.7 billion and the first loss of LBBW amounting to EUR 1.9 billion.

1.2 Performance of LBBW's Securitization Portfolio.

LBBW Group is invested in securitizations in the amount of EUR 24.5 billion[1] and holds customer transactions in the volume of EUR 1.8 billion as of December 31st, 2009. This includes the ABCP[2] conduit Lake Constance Funding Ltd./LLC (investments and customer transactions[3]) set up and managed by LBBW, the vehicle Georges Quay Funding I Ltd. and the fund investments (LAAM funds) taken over as part of the acquisition of Sachsen LB.

Since year-end 2008, Georges Quay and the LAAM funds have been included in the look-through approach. At that time, the refinancing of the underlying assets was provided by third-party banks. Recently, LBBW took over the refinancing of Georges Quay. Furthermore, in December 2009 one of the LAAM funds was fully dissolved and the underlying ABS bonds with a volume of EUR 1.2 billion were transferred to the LBBW balance sheet.

LBBW is aiming to successively reduce its securitization portfolio by not making new investments in these products. The existing portfolio will be further reduced by active portfolio management along with restructuring and amortization.

LBBW's Securitization Portfolio.

Outstanding Volume in EUR Billion	Reporting Date Dec. 31st, 2009	Changes	Reporting Date June 30th, 2009
Total securitizations	24.5	-3.1	27.6
ABS investments	18.1	-2.2	20.3
Other securitizations	6.4	-0.9	7.3
of which George's Quay	3.3	-0.5	3.8
of which LAAM funds	3.1	-0.4	3.5

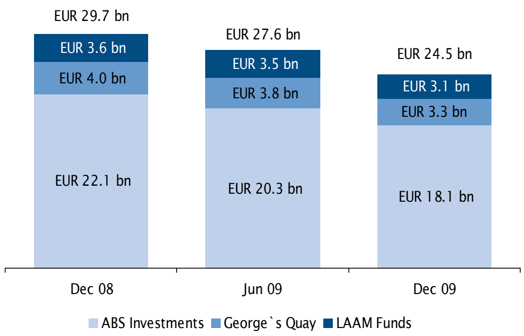
Figures may be subject to rounding differences.

Compared to the first half of 2009, LBBW's total securitization portfolio has been reduced by EUR 3.1 billion. This development is the result of repayments, changes in FX-rates and restructuring.

The total volume of Georges Quay and the remaining LAAM funds amounted to EUR 6.4 billion as of December 31st, 2009.

1 The statements concerning the risk situation are presented below based on the management approach.
2 ABCP: Asset Backed Commercial Paper.
3 Concerning the restructuring of the ABCP program see 1.7.

Development of LBBW's Securitization Portfolio.



LBBW's ABS portfolio experienced losses with the beginning of the financial market crisis. Losses on cash products in a volume of EUR 145 million include writedowns on US RMBS Alt-A transactions. In addition, ongoing (interest) payments have not been received for the structured investment vehicles (SIVs). The SIVs have already been impaired in full. The synthetic securitization portfolio experienced a total capital loss of EUR 357 million. This amount includes write-offs in the amount of EUR 187 million as of December 31st, 2009.

1.3 Development of Equity and Income Statement Effects.

Securitization Portfolio: Effects in Equity and Income Statement (IFRS[1]). .

in Million EUR	Effects in Income [2]		Effects in Equity[3]	
Asset Class	Dec. 31st, 2009	Dec. 31st, 2008	Dec. 31st, 2009	Dec. 31st, 2008
CDO	30	-847	207	-318
RMBS	-297	-127	77	-223
CMBS	-31	-10	22	-21
Other	76	-160	60	-89
Total	**-222**	**-1,144**	**366**	**-651**

1) Statement without proprietary trading
2) Recognized in income: change in income statement
3) Recognized in equity: change in equity item (revaluation reserve)

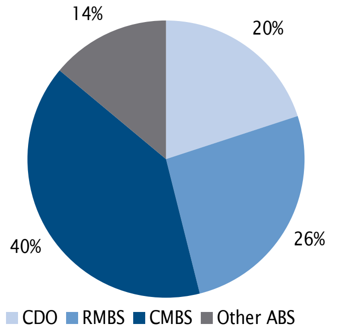
All of the above asset classes are included in LBBW's consolidated financial statements for 2009 and are subject to ongoing market assessment as well as risk valuation. Overall, positive market developments for the various securitizations were more than offset by expenses for impairments as of December 31st, 2009. The impairments contain RMBS with nearly 65% and CDOs with 30%. The remaining 5% refer to other ABS.

Since beginning of 2009, the positive development of the revaluation reserve (EUR 366 million) leads to a reduced equity relief resulting from positve changes in market values in the respective asset classes (therof 55% CDOs). As of December 31st, 2009, approximately 95% of the ABS portfolio is categorized in 'Loans and Receivables' (LaR) and approximately 5% in 'Available for Sale' (AfS).

1.4 Asset Classes in LBBW's Securitization Portfolio.

LBBW's securitization portfolio is well-diversified across various asset classes and countries mainly focused on the European and the US-market. The portfolio is distributed across the following asset classes:

Securitization Portfolio – Asset Class Distribution (Outstanding Volume EUR 24.5 Billion).



Collateralized Debt Obligations (CDO):
The term 'CDO' covers transactions based on different types of collateral.These essentially involve debt claims on companies, financial institutions and sovereigns. Also, ABS transactions form the underlying for the asset class CDO of ABS. These ABS transactions can include residential mortgage backed securities along with consumer loans, leasing receivables, commercial mortgage backed securities and CDOs.

Commercial Mortgage Backed Securities (CMBS):
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 centers or mixed use. The CMBS acquired by LBBW Group are secured by properties that are used mainly as offices or retail buildings.

Residential Mortgage Backed Securities (RMBS):
The term RMBS covers all transactions that are secured by residential properties.

Detailed information on these asset classes is provided in the following chapters. As a result of the modified guarantee structure and in contrast to June 30th, 2009, the composition of the guaranteed ABS portfolio and the not guaranteed ABS portfolio is illustrated separately. The guarantee portfolio includes the first loss of EUR 1.9 billion. On this basis, the December 2009 figures are not directly comparable with the figures of the first half of 2009.

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

1.5 Non-Guarantee Portfolio.

The portfolio not covered by the guarantee from state of Baden-Württemberg includes ABS investments with a total volume of EUR 9.2 billion.

Non-Guarantee Portfolio by Asset-Class and Rating.

Outstanding Volume in Million EUR as of December 31st , 2009	AAA	AA	A	BBB	BB to B	CCC to C	Other*	Total	
CDO	691	502	68	149	461	344	0	2,214	23.9%
RMBS	4,037	163	6	0	0	2	0	4,208	45.5%
CMBS	286	25	38	30	0	0	0	379	4.1%
Other ABS	1,148	250	915	0	0	0	134	2,446	26.5%
Total investments	**6,162**	**940**	**1,026**	**179**	**461**	**346**	**134**	**9,247**	**100.0%**
	66.6%	**10.2%**	**11.1%**	**1.9%**	**5.0%**	**3.7%**	**1.4%**	**100.0%**	

The lowest external rating was generally applied and mapped to S&P's rating scale.
Figures may be subject to rounding differences.
* "Other" refers to transactions not externally rated

This portfolio continues to feature a good rating level. The bulk of the portfolio includes AAA-rated positions, and only a minor share (10 %) is not rated in the investment grade range. Hedges are in place for 3% of the volume reported. Insurance is provided by monoline insurers (2%) and state institutions (1%).

The majority of the non-guaranteed portfolio (64%) focuses on the European market. The countries currently most affected by the financial market crisis, Portugal, Italy, Ireland, Greece and Spain represent 25% of the portfolio not coverd by the guarantee. These securities are at least investment grade rated (with 92% AAA-rated).

In the following sections, the non-guaranteed securitization portfolio is presented in detail focusing in particular on the asset classes CDO, RMBS and CMBS.

The non-guaranteed 'other ABS' portfolio contains a single credit card transaction being AAA-rated and representing 0,6% of the outstanding volume.

1.5.1 CDO Portfolio.

The portfolio not covered by the guarantee contains 24% CDO transactions, thereof 47% CLOs and 43% synthetic CDOs.

CDO Portfolio by Asset-Sub-Type and Rating.

Outstanding Volume in Million EUR as of December 31st, 2009								
Asset-Sub-Type	AAA	AA	A	BBB	BB to B	CCC to C	Total	
CDO of ABS	12	27	12	24	0	31	105	4.7%
CLO	559	413	56	3	0	0	1,031	46.5%
Synthetic CDO	82	0	0	102	448	313	945	42.7%
Other	38	62	0	20	13	0	134	6.0%
Total CDO	691	502	68	149	461	344	2,214	100.0%
	31.2%	22.7%	3.1%	6.7%	20.8%	15.5%	100.0%	

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

64% of the CDO portfolio is investment grade rated. The remaining 36% are classified as non-investment grade with main focus on synthetic CDOs.

53% of the CDO portfolio are most senior positions[1] while only 0.5% are first loss tranches. Hedges are in place for 9% of the CDO volume; these are provided by monoline insurers (5%) and sovereigns (4%).

Only a small fraction of the non-guaranteed CDO portfolio (less than 1%) indirectly contains US-subprime exposure. Thereof 99% of the disclosed portfolio is not related to the subprime market.

Taking a conservative approach, a CDO is classified as subprime-related when it is invested in a single subprime position. In this case the total volume of the single CDO transactions is allocated to US-subprime. This approach disregards available credit enhancements within the CDO structures such as subordination, protection in the form of guarantees, hedges, and insurance through monoliners.

1 Tranches with priority in repayment.

1.5.2 RMBS Portfolio.

The RMBS transactions not covered by the guarantee in the amount of EUR 4.2 billion are characterized by a high rating level. A minor fraction of 0.1% is rated below investment grade.

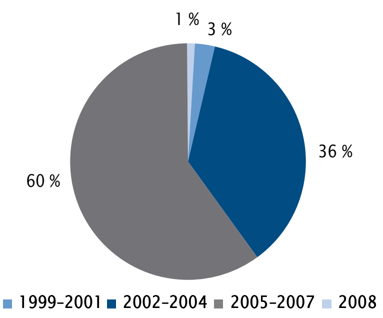
RMBS Portfolio by County and Rating.

Outstanding Volume in Million EUR as of December 31st, 2009 Country/ Asset-Subtype	AAA	AA	A	BBB	BB to B	CCC to C	Total	
USA	4	8	2	0	0	2	16	0.4%
thereof: US Alt-A	2	6	2	0	0	0	10	60.2%
thereof: US Subprime	2	2	0	0	0	0	4	26.4%
UK	773	0	0	0	0	0	773	18.4%
thereof: UK Non-Conforming	146	0	0	0	0	0	146	18.9%
Spain	1,312	25	0	0	0	0	1,337	31.8%
Other	1,948	130	4	0	0	0	2,082	49.5%
Total RMBS	**4,037**	**163**	**6**	**0**	**0**	**2**	**4,208**	**100.0%**
	95.9%	**3.9%**	**0.1%**	**0.0%**	**0.0%**	**0.1%**	**100.0%**	

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

The focus of the RMBS portfolio is primarily on 2005 to 2007 vintages (60%). A minor fraction of 1% refers to transactions issued in 2008. Monoliners insure 0,4% of the outstanding RMBS.

Distribution of RMBS by Vintage
(Outstanding Volume EUR 4.2 billion).



In addition to the described indirect subprime exposure, LBBW holds direct exposure in US Alt-A and subprime RMBS. With EUR 14 million the exposure to US Alt-A and subprime RMBS is on a relatively low level. Earlier vintages of these asset classes (2003 and 2004) perform significantly better than vintages directly affected by the subprime crisis. The exposure to US-subprime solely results from the integration of former Sachsen LB.

All UK Non-Conforming RMBS are AAA-rated and issued between 2002 and 2007 (thereof approximately 50% of the transaction being 2007 vintages). The non-guaranteed RMBS portfolio contains around 32% Spanish RMBS with good credit quality (98% AAA-rated). A single transaction that has been downgraded from AAA to AA in the second half of 2009 represents the remaining 2%.

The majority of these RMBS bonds are most senior positions. Investments in Spanish RMBS were primarily made in 2003 (22%) and 2006 (24%) vintages.

The term "Other" mainly comprises Dutch (55%), Italian (14%) and Greek RMBS (8%). The majority of these securities have AAA ratings.

1.5.3 CMBS Portfolio.

The CMBS acquired by LBBW are secured by properties mainly used as offices and retail buildings. The non-guaranteed CMBS portfolio in the volume of EUR 379 million is primarily focused on properties in European markets.

CMBS by Country and Rating.

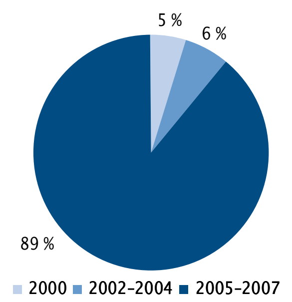
Outstanding Volume in Million EUR as of December 31st, 2009							
Asset class	Country	AAA	AA	A	BBB	Total	
CMBS	Europe*	86	25	0	25	136	35.8%
	Germany	89	0	3	6	97	25.7%
	UK	58	0	19	0	78	20.5%
	Singapore	35	0	0	0	35	9.2%
	USA	17	0	0	0	17	4.6%
	Luxembourg	0	0	16	0	16	4.1%
Total CMBS		**286**	**25**	**38**	**30**	**379**	**100%**
		75.4%	**6.6%**	**10.0%**	**8.0%**	**100.0%**	

The lowest external rating was generally applied and mapped to S&P's rating scale.
Figures may be subject to rounding differences.
*Europe: no explicit classification, due to geographic distribution across several countries

All of the above CMBS transactions are rated investment grade, with the majority being AAA-rated. Vintages from 2005 to 2007 form the largest part of this asset class - with over 50% issued in 2007, followed by 2005 (23%) and 2006 (15%) vintages, respectively.

UK CMBS comprises 20% of the CMBS portfolio. All UK CMBS transactions, with one exception, are rated AAA.

Distribution of CMBS by Vintage
(Outstanding Volume EUR 379 Million)



1.6 Guarantee Portfolio.

The guaranteed portfolio includes ABS investments amounting to EUR 15.3 billion as of December 31st, 2009. In this portfolio, LBBW holds a first loss position of EUR 1.9 billion.

The guarantee of the state of Baden-Württemberg in the amount of EUR 6.7 billion will take effect if the first loss is completely depleted. Any losses exceeding the first loss and the guarantee amount are to be borne in return by LBBW. In LBBW's annual report 2009, the first loss position has been fully consummated through the P&L.

Guarantee Portfolio by Asset-Class and Rating.

Outstanding Volume in Million EUR as of December 31st, 2009	AAA	AA	A	BBB	BB to B	CCC to C	D	Other*	Total	
CDO	595	1,026	442	354	967	418	190	110	4,101	26.9%
RMBS	2,528	1,190	229	63	191	1,523	62	0	5,786	37.9%
CMBS	1,106	834	538	390	110	63	0	0	3,041	19.9%
Other ABS	1,122	367	160	273	229	150	0	43	2,344	15.4%
Total Investments	**5,351**	**3,417**	**1,369**	**1,080**	**1,498**	**2,154**	**251**	**153**	**15,273**	**100.0%**
	35.0%	**22.4%**	**9.0%**	**7.1%**	**9.8%**	**14.1%**	**1.6%**	**1.0%**	**100.0%**	

The lowest external rating was generally applied and mapped to S&P's rating scale.
Figures may be subject to rounding differences.
* "Other" refers to transactions not externally rated

The majority of the ABS bonds in the guarantee portfolio is still of good rating quality: EUR 11.2 billion is rated in the investment grade range and 11% of the guarantee portfolio is insured via monoliners.

The guarantee portfolio focuses on the European and the US market; thereby 57% of the ABS portfolio is invested in Europe and 38% in the US. The countries currently most affected by the financial market crisis - Portugal, Italy, Ireland and Spain represent 20%, however the credit quality of these bonds remains on a good level with 97% being investment grade rated.

In the following sections, the guaranteed securitization portfolio is presented in detail focussing in particular on the asset classes CDO, RMBS, CMBS and Credit Cards.

1.6.1 CDO Portfolio.

The guaranteed CDO portfolio in the amount of EUR 4.1 billion contains 39% CLOs, 33% "other" CDOs[1] and 28% CDO of ABS.

CDO Portfolio by Asset-Sub-Type and Rating.

Outstanding Volume in million EUR as of December 31st, 2009										
Asset-Sub-Type	AAA	AA	A	BBB	BB to B	CCC to C	D	Other*	Total	
CDO of ABS	18	65	77	102	463	367	50	7	1,148	28.0%
CLO	433	734	263	96	41	0	0	36	1,603	39.1%
Other	144	227	102	156	463	51	139	68	1,350	32.9%
Total CDO	595	1,026	442	354	967	418	190	110	4,101	100.0%
	14.5%	25.0%	10.8%	8.6%	23.6%	10.2%	4.6%	2.7%	100.0%	

The lowest external rating was generally applied and mapped to S&P's rating scale.
Figures may be subject to rounding differences.
* "Other" refers to transactions not externally rated

59% of these CDO positions are rated investment grade. The remaining 41% (mainly CDO of ABS) are not investment grade rated.

A fraction of 25% of the guaranteed CDO portfolio indirectly contains US-subprime exposure. Thereof, 75% of the disclosed portfolio is not related to the subprime market. Taking a conservative approach, a CDO is classified as subprime-related when it is invested in a single subprime position. In this case, the total volume of the single CDO transactions is allocated to US-Subprime. This approach disregards available credit enhancements within the CDO structures such as subordination, protection in the form of guarantees, hedges, and insurance through monoliners.

Approximately 85% of the CDO portfolio are most senior positions[1] while only 6% are first loss tranches. Hedges are in place for 22% of the CDO volume, these are provided mainly by monoline insurers.

1 Other CDOs primarily include Trust Preferred Security CDOs, Commercial Real Estate CDOs and Collateral Bond Obligations.

1.6.2 RMBS Portfolio.

As of reporting date, the guaranteed RMBS portfolio is mainly investment grade rated (69%) amounting to EUR 5.8 billion, primarily invested in the European (66%) and the US market (34%).

RMBS by Country and Rating.

Outstanding Volume in Million EUR as of December 31st, 2009 Country/Sub-Asset Class	AAA	AA	A	BBB	BB to B	CCC to C	D	Other	
USA	7	105	44	20	191	1,523	62	1,951	33.7%
thereof: US Alt-A	7	84	38	11	102	1,322	62	1,625	83.3%
thereof: US Subprime	0	0	0	0	2	184	0	186	9.5%
UK	1,300	364	57	37	0	0	0	1,757	30.4%
thereof: UK Non-Conforming	819	305	41	37	0	0	0	1,202	68.4%
Spain	198	685	119	0	0	0	0	1,003	17.3%
Other	1,023	37	9	7	0	0	0	1,075	18.6%
Total RMBS	**2,528**	**1,190**	**229**	**63**	**191**	**1,523**	**62**	**5,786**	**100.0%**
	43.7%	**20.6%**	**4.0%**	**1.1%**	**3.3%**	**26.3%**	**1.1%**	**100.0%**	

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

The exposure to US-Alt-A and subprime mainly results from the integration of former SachsenLB. The majority of these assets has already been written down with primary focus on vintages 2006 and 2007, the worst affected by the crisis. This is also reflected in the rating downgrades.

The UK RMBS portfolio amounts to EUR 1.8 billion, thereof 68% UK Non-Conforming. Despite having experienced rating downgrades in the first half of 2009, the UK Non-Conforming portfolio is still of good quality with 68% AAA-rated transactions. There are no investments in this segment with a rating lower than investment grade. Almost 60% of the transactions are from 2006 and 2007, while the remaining 40% are 2004 and 2005 vintages.

All Spanish RMBS under the guarantee in the amount of EUR 1 billion are investment grade rated: 20% AAA and 68% AA.

Most of the RMBS investments were originated in 2006 and 2007. Some 11% are 2002 to 2005 vintages. The term ‘Other' mainly comprises Italian (8%), Portuguese (5%) and Dutch (3%) RMBS.

1.6.3 CMBS Portfolio.

The guaranteed CMBS portfolio amounts to EUR 3.0 billion. CMBS investments were made primarily in the European market with a focus on the UK.

CMBS by Country and Rating.

Outstanding Volume in Million EUR
as of December 31st, 2009

Asset Class	Country	AAA	AA	A	BBB	BB to B	CCC to C	Total	
CMBS	UK	557	474	230	277	66	63	1,667	54.8%
	Germany	0	81	231	58	0	0	370	12.2%
	Europe*	38	205	22	0	44	0	308	10.1%
	USA	182	14	22	5	0	0	223	7.3%
	France	71	39	0	50	0	0	160	5.3%
	Singapore	95	0	0	0	0	0	95	3.1%
	Netherlands	80	0	10	0	0	0	90	2.9%
	Austria	36	0	6	0	0	0	42	1.4%
	Japan	10	11	18	0	0	0	39	1.3%
	Ireland	36	0	0	0	0	0	36	1.2%
	Sweden	0	9	0	0	0	0	9	0.3%
	Italy	2	0	0	0	0	0	2	0.1%
Total CMBS		**1,106**	**834**	**538**	**390**	**110**	**63**	**3,041**	**100%**
		36.4%	**27.4%**	**17.7%**	**12.8%**	**3.6%**	**2.1%**	**100.0%**	

The lowest external rating was generally applied and mapped to S&P's rating scale.
Figures may be subject to rounding differences.
*Europe: no explicit classification, due to geographic distribution across several countries.

The CMBS portfolio is of high credit quality with 94% investment grade-rated securities. Compared with the end of 2008, the rating distribution of the CMBS portfolio has changed due to rating downgrades with the share of non-AAA-rated transactions increasing accordingly.

This is particularly due to developments in the UK. The UK CMBS investments of LBBW amounting to EUR 1.7 billion still have a good rating quality with 92% of assets in the investment grade range. At 17%, the share of the UK CMBS portfolio from 2007 can be described as moderate from a risk perspective. Instead, the focus is on the 2005 (37%) and 2006 (42%) years of issue.

1.6.4 Credit Card Portfolio.

Credit Cards account for 3% of the guaranteed LBBW securitization portfolio, containing credit card receivables from the US (62%) and the UK (38%).

These investments are in most senior tranches which, apart from a single AA-rated transaction, retain the highest rating.

1.7 ABCP Program.

During 2009 and at the beginning of 2010, LBBW restructured the ABCP program as follows. The arbitrage vehicles Mainau Funding Ltd. and Lake Constance 2 Funding Ltd. are no longer contained in the ABCP program. Bodensee 2 Funding Ltd. was closed down in July 2009, while Mainau Funding Ltd. was removed from the ABCP program in October 2009 (Mainau Funding Ltd. was included in the consolidated financial statements of LBBW, and ABS investments of Mainau Funding Ltd. are contained in LBBW Group's securitization portfolio). In addition, further changes to the structure of the ABCP program were carried out in January 2010:

- The sole purpose of the new ABCP program lies in the financing of trade receivables and interest-bearing receivables sold to the program by target customers of LBBW (largely SMEs as well as financing institutions and leasing companies).

- The special-purpose entity Weinberg 2 Funding Ltd. was renamed Weinberg Capital Ltd. in November 2009 (solely a change of name). Weinberg Capital Ltd. is now a purchasing and CP-issuing company and in this capacity is simultaneously taking on the refinancing of the second purchasing company, Weinberg Funding Ltd. The previous commercial paper (CP) issuing special-purpose entities Lake Constance Funding Ltd. and Lake Constance Funding LLC were closed down as well as the special-purpose entity Peter Pike.

- LBBW is providing liquidity lines for the two purchasing companies Weinberg Funding Ltd. and Weinberg Capital Ltd. Contrary to the previous structure, these are 'fully supported' liquidity lines that cover also asset credit risks. In the previous structure, these were covered by a letter of credit (LOC) provided by LBBW which is no longer necessary.

- The CP issued by Weinberg Capital has a short-term rating from Moody's (P-1) and Fitch (F1+). The underlying receivables portfolio can optionally be an individual receivables portfolio ('special series') or the residual number of all remaining portfolios ('general series').

As of December 31st, 2009, LBBW is providing the purchasing companies Weinberg Funding Ltd. and Weinberg Capital Ltd. with liquidity lines amounting to EUR 1.8 billion (see section 2 for details). Neither Weinberg Funding Ltd. nor Weinberg Capital Ltd. are consolidated in the LBBW consolidated financial statements for 2009.[1]

1 The individual receivables portfolios with their applicable refinancing in Weinberg Funding Ltd. and Weinberg Capital Ltd. represent 'cells' (transactions definable on the basis of opportunities and risks). Under IAS 27 in conjunction with SIC 12, Weinberg Funding Ltd. and Weinberg Capital Ltd. must be consolidated. However, as they serve merely as shells they do not fulfill the materiality criteria and are therefore not consolidated. The individual cells do not have to be consolidated. The majority of the opportunities and risks of each cell remain with the seller of the receivable or with third parties.

1.8 Sealink Funding: Loan granted by LBBW.

When Sachsen LB was acquired by LBBW, the structured portfolios Ormond Quay and Sachsen Funding I were excluded from the acquisition. These portfolios with an aggregated nominal outstanding of originally EUR 17.3 billion were transferred to the Irish special purpose vehicle, Sealink Funding Limited ("Sealink"), established in 2008.

The Free State of Saxony has issued a first loss guarantee in the amount of EUR 2.75 billion to cover losses arising from the Sealink portfolio. Losses relating to former Sachsen Funding I assets are covered by LBBW up to an amount of EUR 71.3 million (the “Special First Loss Guarantee”). LBBW has set up provisions for potential losses to be covered under the Special First Loss Guarantee for the full amount of EUR 71.3 million at the beginning of the transaction in 2008.

In addition, starting from June 30th, 2009, the State of Baden-Württemberg provided a second loss guarantee in the amount of EUR 6 billion. All losses exceeding EUR 8.75 billion (First Loss Guarantee plus Second Loss Guarantee) would have to be taken predominantly by the other Landesbanks.

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

2 LBBW Group: Customer Transactions.

In addition to the ABS-investment portfolio, LBBW is involved in the segment of customer transactions.

This category includes transactions with receivable purchase commitments in a volume of EUR 1.8 billion. Thereof approximately EUR 0.8 billion relates to trade receivables and approximately. EUR 1.1 billion to interest-bearing receivables (particularly leasing receivables).

The following table illustrates the distribution of the portfolio by rating class.

Customer Transactions by Rating.

Outstanding Volume in Million EUR as of December 31st, 2009					
Sub-Asset Class	AA	A	BBB	Total	
Trade receivables	41	547	167	755	41%
Interest-bearing receivables	204	636	239	1,079	59%
Total customer transactions	245	1,183	406	1,834	100%
	13%	64%	22%	100%	

The internal rating was mapped to S&P's rating scale.
Figures may be subject to rounding differences.

The majority of the exposure to trade and interest-bearing receivables is related to SMEs. This customer-driven business is primarily focused on the German market, with transactions solely being rated internally and in the investment grade range. The receivables are acquired by the purchasing companies Weinberg Funding Ltd. and Weinberg Capital Ltd. LBBW provides liquidity lines of EUR 1.8 billion available for this purpose. Funding is provided through LBBW's ABCP program.

LBBW is planning to expand this customer-driven business.

3 LBBW Group: Leveraged Finance Portfolio.

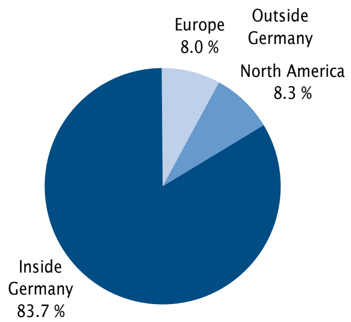
As part of its overall credit strategy, LBBW primarily incorporates financing for acquisitions involving a high degree of financial leverage (usually over 50%) into its leveraged financing. As part of its small and medium sized corporate banking business, the bank supports customers in debt-financed strategic purchase financing and succession planning. In addition, investments by financial investors in small and medium-sized corporate customers are also financed in this area of business. Investments carried out as part of these business activities are included in the leveraged finance portfolio.

LBBW performs the following services for its small and medium-sized customers as part of its strategy in business with small and medium-sized companies: origination, structuring and arrangement as a mandated lead arranger or co-lead for regional as well as national syndicated financing transactions with high commission for acquisitions. In view of its trusting and long-standing customer relationships with SMEs, LBBW assumes fixed syndicate shares in the amount of 20-25% as part of a predominantly “buy and hold” strategy.

Against the backdrop of the global economic downturn in 2009, the priority was to consolidate the portfolio. As a result of this, there were only a few isolated new transactions. Compared with the previous year, the leveraged portfolio declined by EUR 1.2 billion to EUR 6.2 billion as at the reporting date of December 31st, 2009. The average exposure per investment was around EUR 41 million.

The following overview lists the risk positions from around 150 leveraged finance corporate loans, ordered according to region, sector and rating.

Regional Distribution as of December 31st, 2009.



The main focus is on the German market, particularly in the core area of Baden-Württemberg. In order to round out the portfolio and to avoid regional clustering, transactions with a balanced risk profile were acquired in the past, particularly on the English-speaking markets in London and New York.

Leveraged Finance Portfolio by Sector as of December 31st, 2009.

Sector	
Automobile	53.6%
Non-Industry-Specific Tools and Machine Construction	5.3%
Apparel, Sporting Equipment and Luxury Goods	4.6%
Health Care	4.1%
Cross-Sector Services for Companies	3.5%
Chemicals	3.4%
Construction Industry	2.9%
Conglomerates/Conglomerate Holding Companies	2.8%
Transport and Logistics	2.1%
Food Retail and Other Non-Cyclical Consumer Goods	2.0%
Other	15.7%
	100.0%

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

Leveraged Finance Portfolio by Rating as of December 31st, 2009.

	AAA - A-	BBB+	BBB	BBB-	BB+	BB	BB-	B+	B	B-	CCC+ - C	SD/D	not rated
in %	0.0%	0.1%	3.3%	7.5%	2.7%	15.0%	6.2%	55.0%	2.8%	0.2%	0.0%	6.9%	0.3%

The average rating is B+, with 89.8% of the portfolio lying in this rating class or higher. New business is predominantly entered into in the rating classes BB+ to BB-, where it must be clear from company data on the business development of the borrower that the rating will improve rapidly as repayments progress.

The subportfolio built up on the North American market is on average somewhat better than the overall average for the portfolio.

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