Financial Stability Forum Report

as of June 30, 2009.

Banking – Made in Germany.

LBBW

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Financial Stability Forum Report.

The Financial Stability Forum (FSF) was founded in 1999 by G7, in order to ensure financial market stability on an international level. The basic reason for the creation of the FSF is for regular exchange of information and international cooperation between central banks, regulatory authorities and international financial institutions with the aim of improving market functions, 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 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, by publishing this report LBBW is fulfilling the main recommendations of the FSF.

The information on the LBBW Group's securitization portfolio supplements the explanations in the Risk Report of the 2009 Half-Yearly Financial 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 on the Guarantee.

Considering the turbulence in the financial markets, LBBW arranged risk protection with the state of Baden-Württemberg in the form of a guarantee structure in effect from June 30, 2009. A guarantee of EUR 12.7 billion is to be granted to LBBW to hedge for losses on a specified reference portfolio that contains securities at risk. This reference portfolio with a nominal amount of EUR 17.6 billion (as of April 30, 2009) is secured with a guarantee of EUR 6.7 billion. The remaining EUR 6.0 billion of the guarantee relates to a loan granted by LBBW to the special-purpose entity Sealink Funding.

In accordance with the contract as of June 30, 2009, LBBW will bear a first loss up to an amount of EUR 1.9 billion for assets already at risk of default at the time of the guarantee. Losses of up to EUR 6.7 billion from assets so far not at risk of default are secured through the guarantee accordingly. Losses exceeding this amount will be sustained by LBBW.

The risk shield from the state of Baden-Württemberg and the capital injection from the owners were provisionally approved by the European Commission for six months on the above reporting date. However, the decision on approval is linked to conditions involving the presentation of a comprehensive restructuring plan by LBBW to the European Commission.

The European Commission is currently examining the structure of the guarantee with regard to the first loss position.

1.2 Securitization Portfolio.

The LBBW Group is invested in securitizations of EUR 27.6 billion and holds customer transactions with an amount of EUR 2.1 billion as of June 30, 2009. This includes the ABCP[1)] conduit Lake Constance Funding Ltd./LLC (investments and customer transactions), 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, without taking into account the fact that the refinancing of the assets is provided by third-party banks.

The total volume of these vehicles amounts to EUR 7.2 billion as of June 30, 2009. Excluding the actual LBBW exposure of EUR 3.0 billion (LBBW risk share), including equity shares and margin calls.

Compared to year end 2008, LBBW's entire securitization portfolio has been reduced by EUR 2.1 billion. This development is a result of repayments, currency effects and restructuring.

Securitization portfolio as at June 30, 2009, taking into account the look-through approach.

EUR billion	Dec. 31, 2008 incl. look-through approach	Changes	June 30, 2009 incl. look-through approach
Total securitizations	29.7	–2.1	27.6
Investments – ABS/MBS	22.1	–1.8	20.3
Other securitizations	7.6	–0.3	7.3
of which LAAM funds	3.6	–0.1	3.5
of which George's Quay	4.0	–0.2	3.8

The following section deals with the entire ABS investment portfolio of LBBW and with the part of the portfolio that is not covered by the guarantee provided by the state of Baden-Württemberg. This is followed by a detailed analysis of the entire securitization portfolio, including a presentation of the risks in the respective asset classes. Customer transactions are illustrated in a separate section in this report.

1) ABCP: Asset Backed Commercial Paper

1.2.1 LBBW's ABS/MBS Investment Portfolio.

The LBBW Group holds only small direct exposure in the subprime market. The financial market crisis has led to a decline in market values and to rating changes in the securitization portfolio.

In the first half of 2009, rating agencies again methodically adjusted their rating models. This led to rating downgrades within the ABS/MBS portfolio. However the ratings of LBBW Group's portfolio remain still on good level.

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

Securitization portfolio by asset class and rating category.

Outstanding volume in EUR million as of June 30, 2009	AAA	AA	A	BBB	BB to B	CCC to C	D	Other*	Total	
CDO	**3 804**	**787**	**348**	**586**	**1 675**	**870**	**128**	**20**	**8 218**	**29.8%**
thereof: CLO	2 287	377	85	68	71	0	0	6	2 894	35.2%
thereof: CDO of ABS	38	174	135	136	428	398	38	7	1 356	16.5%
thereof: synthetic securitizations	1 064	125	16	175	636	470	90	8	2 583	31.4%
RMBS	**7 442**	**1 268**	**139**	**118**	**346**	**1 513**	**4**	**0**	**10 830**	**39.3%**
thereof: US ALT-A	10	99	44	68	247	1 304	4	0	1 776	16.4%
thereof: US subprime	3	2	0	0	3	187	0	0	194	7.5%
CMBS	**2 717**	**574**	**204**	**242**	**88**	**0**	**0**	**0**	**3 825**	**13.9%**
Other ABS	**2 508**	**1 030**	**420**	**309**	**194**	**136**	**0**	**86**	**4 682**	**17.0%**
Total investments	**16 471**	**3 659**	**1 111**	**1 256**	**2 302**	**2 518**	**132**	**106**	**27 555**	**100.0%**
Share of total	**59.8%**	**13.3%**	**4.0%**	**4.6%**	**8.4%**	**9.1%**	**0.5%**	**0.4%**	**100.0%**	

The lowest external rating was generally applied
Figures may be subject to rounding differences
*These volumes relate to non-rated investments

82 % of the entire portfolio is rated investment grade (this includes ratings from AAA to BBB) and 18 % as non-investment grade.

The securitization portfolio is broadly diversified. The asset class RMBS represents the largest share of the portfolio with approx. 39 %, followed by CDOs[1] (30 %) and CMBSs[2] (14 %). The remainder of the portfolio is distributed across a large number of »different asset classes«, of which the largest share in the entire portfolio relates to the product type CPPI[3] (4 %). This is followed by the asset classes leasing receivables with 3 % and credit card receivables as well as student loans (2 % each).

In the first half of 2008, the former Sachsen LB was integrated into the LBBW Group. Before the acquisition, off-balance sheet structured finance investments with a par value of EUR 17.3 billion were transferred to the Irish special-purpose entity Sealink (not consolidated). LBBW has provided loans to this SPE in the amount of EUR 8.9 billion. These are mainly subordinated loans. A guarantee issued by the Free State of Saxony totaling EUR 2.75 billion bears the first loss, while a further EUR 6.0 billion is guaranteed by the risk shield. A part of the guarantee was drawn for the first time in amount of EUR 1.7 million on June 30, 2009. For 2009, the manager of Sealink expects defaults in the portfolio in double digits, which are covered by the guarantee.

[1] CDO: Collateralized Debt Obligations
[2] CMBS: Commercial Mortgage Backed Securities
[3] CPPI: Constant Proportion Portfolio Insurance

1.2.2 LBBW Group: Portfolio not guaranteed by state of Baden-Württemberg.

The following table illustrates the securitization portfolio not guaranteed by the risk shield. This also includes the assets attributed to the first loss of the risk shield. As the first loss position relates to assets at risk of default, a large proportion has already been written down.

Securitization portfolio not guaranteed by the risk shield by asset class and rating category.

Outstanding volume in EUR million as of June 30, 2009	AAA	AA	A	BBB	BB to B	CCC to C	D	Other*	Total	
CDO	2 240	198	20	268	714	843	128	15	4 425	36.0%
thereof: CLO	1 054	41	0	14	30	0	0	0	1 139	25.7%
thereof: CDO of ABS	18	29	4	59	34	374	38	7	563	12.7%
thereof: synthetic securitizations	1 064	125	16	175	636	470	90	8	2 583	58.4%
RMBS	4 536	13	6	0	10	820	4	0	5 389	43.9%
thereof: US ALT-A	2	6	2	0	0	661	4	0	675	12.5%
thereof: US subprime	3	2	0	0	0	148	0	0	152	5.9%
CMBS	361	6	0	0	0	0	0	0	366	3.0%
Other ABS	896	678	314	0	0	131	0	86	2 105	17.1%
Total investments	8 032	895	340	268	725	1 795	132	100	12 285	100.0%
Share of total	65.4%	7.3%	2.8%	2.2%	5.9%	14.6%	1.1%	0.8%	100.0%	

The lowest external rating was generally applied
Figures may be subject to rounding differences
*These volumes relate to non-rated investments

1.2.3 Development of equity and income statement effects.

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

EUR million	Recognized in income[1]		Recognized in equity[2]	
Asset class	June 30, 2009	Dec. 31, 2008	June 30, 2009	Dec. 31, 2008
CDO	74	–847	73	–317
RMBS	–85	–127	42	–223
CMBS	–14	–10	6	–21
Other	–16	–160	42	–90
Total	**–41**	**–1 144**	**163**	**–651**

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

All the securitized products listed are included in LBBW's consolidated financial statements for the first half of 2009 and are subject to ongoing market price and risk valuation. Overall, positive market developments for the various securitized products were more than offset by expenses for impairments as at June 30, 2009. Almost 75% of impairments related to the RMBS asset class (almost exclusively US RMBSs), while around 20% related to CDO portfolios and the remaining 5% to other securitized products.

The easing of pressure on the revaluation reserve by EUR 163 million since the beginning of 2009 is the result of positive changes in market value in the individual asset classes, with a share of around 50% relating to CDOs. As at the reporting date of June 30, 2009, over 95% of ABS securitizations are in the »Loans and Receivables« (LaR) category and around 5% are in the »Available for Sale« (AfS) category.

1.3 The LBBW Group's securitization portfolio in detail.

This section presents LBBW's entire securitization portfolio including the guarantee share with regards to the asset classes CDO, RMBS, CMBS and Credit Cards in more detail. In addition this chapter also includes the ABCP Program Lake Constance Funding as well as the part of LBBW's investment portfolio insured by monoliners.

1.3.1 CDO portfolio.

The term CDO covers transactions based on different types of collateral. These essentially involve debt claims on companies, financial service providers and governments. 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.

Breakdown of CDOs by sub-asset class and rating category.

Outstanding volume in EUR million as at June 30, 2009 Sub-Assetklasse	AAA	AA	A	BBB	BB to B	CCC to C	D	Other*	Total	
CLO	2 287	377	85	68	71	0	0	6	2 894	35.2%
CDO Synthetic	1 064	125	16	175	636	470	90	8	2 583	31.4%
CDO of ABS	38	174	135	136	428	398	38	7	1 356	16.5%
CDO of Trups	72	63	0	158	494	2	0	0	789	9.6%
Other CDO	342	49	111	49	46	0	0	0	597	7.3%
Total CDO	**3 804**	**787**	**348**	**586**	**1 675**	**870**	**128**	**20**	**8 218**	**100.0%**
	46.3%	**9.6%**	**4.2%**	**7.1%**	**20.4%**	**10.6%**	**1.6%**	**0.2%**	**100.0%**	

The lowest external rating was generally applied
Figures may be subject to rounding differences
*These volumes are non-rated investments

67% of the CDO portfolio is rated investment grade. The remaining 33% are rated non-investment grade, with the main focus on synthetic CDOs. Compared to year end 2008, the volume of CDOs has been reduced by more than EUR 1 billion.

Only a minor fraction of the entire CDO volume (14%) contains subprime exposure. Therefore 86% of the disclosed CDO portfolio are not related to the subprime market.

Taking a conservative approach, a CDO is classified as subprime-related when it is invested in as little as a single subprime position. This approach disregards available credit enhancements within the CDO structures such as subordination, protection in the form of guarantees, hedges, and insurance through monoliners. Almost 67% of the CDO portfolio are most senior positions, while 7% are first loss tranches. Hedges are in place for approx. 15% of the CDO volume, these are provided by monoline insurers (13.4%), state/supranational institutions (1.4%) and banks (share <0.1%).

1.3.2 RMBS portfolio.

The term RMBS covers all transactions that are secured by residential properties.

RMBS by Country of Underlying.

Outstanding volume in EUR million as of June 30, 2009	AAA	AA	A	BBB	Lower than BBB	Total	
USA	12	129	44	80	1 859	2 123	19.6%
thereof: US Alt-A	10	99	44	68	1 556	1 776	16.4%
thereof: US Subprime	3	2	0	0	189	194	1.8%
UK	2 397	274	16	39	0	2 726	25.2%
thereof: UK Non-Conforming	1 194	214	0	39	0	1 447	13.4%
Spain	1 629	831	31	0	0	2 491	23.0%
Other	3 404	34	48	0	4	3 490	32.2%
Total RMBS	**7 442**	**1 268**	**139**	**118**	**1 863**	**10 830**	**100.0%**
	68.7%	**11.7%**	**1.3%**	**1.1%**	**17.2%**	**100.0%**	

The lowest external rating was generally applied
Figures may be subject to rounding differences

The term »Other« mainly contains Dutch RMBS (39%), Italian RMBS (25%) and Portuguese RMBS (9%).

The RMBS portfolio consists 83% investment grade rated transaction.

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

US Alt-A and US Subprime.

In addition to the described indirect subprime exposure in CDOs, LBBW Group holds direct exposure in US subprime and Alt-A RMBS. The term Alt-A refers to debtors with a higher credit rating than subprime debtors.

US Alt-A and US Subprime Portfolio by Vintage.

Outstanding volume in EUR million as of June 30, 2009 Sub-asset class	Vintage	AAA	AA	A	BBB	BB to B	CCC to C	D	Total	
US RMBS Alt-A	2003	8	5	0	0	0	0	0	13	0.7 %
	2004	2	14	9	1	5	0	0	31	1.7 %
	2005	0	80	35	41	50	3	0	208	11.7 %
	2006	0	0	0	0	125	635	4	765	43.1 %
	2007	0	0	0	26	67	666	0	760	42.8 %
Total US Alt-A		**10**	**99**	**44**	**68**	**247**	**1 304**	**4**	**1 776**	**100.0 %**
US RMBS Subprime	2003	3	2	0	0	0	0	0	5	2.4 %
	2006	0	0	0	0	3	83	0	85	44.0 %
	2007	0	0	0	0	0	104	0	104	53.6 %
Total US Subprime		**3**	**2**	**0**	**0**	**3**	**187**	**0**	**194**	**100.0 %**
Total US Alt-A and Subprime		**13**	**101**	**44**	**68**	**250**	**1 491**	**4**	**1 970**	
		0.6 %	**5.1 %**	**2.2 %**	**3.5 %**	**12.7 %**	**75.7 %**	**0.2 %**	**100.0 %**	

The lowest external rating was generally applied
Figures may be subject to rounding differences

The exposure to US Alt-A and Subprime RMBS at LBBW mainly results from the integration of the former Sachsen LB. The majority of these assets have 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.

UK Non-Conforming.

LBBW's UK RMBS volume amounts to EUR 2.7 billion, thereof approx. 50 % belong to the non-conforming segment.

A non-conforming borrower has not fulfilled the stringent guidelines to be classified 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 renting it (Buy-to-Let).

Outstanding volume of UK Non-Conforming RMBSs by vintage and rating category.

Outstanding volume
in EUR million as of June 30, 2009

Sub-asset class	Vintage	AAA	AA	A	BBB	Total	
UK Non-Conforming RMBS	2002	9	0	0	0	9	0.6 %
	2003	2	0	0	0	2	0.1 %
	2004	230	6	0	39	274	19.0 %
	2005	381	5	0	0	386	26.7 %
	2006	307	126	0	0	433	29.9 %
	2007	265	77	0	0	343	23.7 %
Total UK Non-Conforming RMBS		**1 194**	**214**	**0**	**39**	**1 447**	**100.0 %**
		82.5 %	**14.8 %**	**0.0 %**	**2.7 %**	**100.0 %**	

The lowest external rating was generally applied
Figures may be subject to rounding differences

Despite further rating downgrades in the first half of 2009, the portfolio is still of good quality, with 83 % AAA-rated transactions. There are no investments in this segment rated lower than investment grade. Almost 50 % of the transactions are from early vintages prior to 2005.

Compared to year end 2008, the Euro-volume of the RMBS UK non-conforming portfolio has increased slightly. This development results from fluctuations in exchange rates. Repayments were offset by effects from fluctuations in exchange rates. There were no new investments in this area.

Spanish RMBS.

Spanish RMBS Portfolio by Vintage.

Outstanding volume
in EUR million as of June 30, 2009

Asset class	Vintage	AAA	AA	A	Total	
Spanish RMBS	1998	2	0	0	2	0.1%
	1999	33	0	0	33	1.3%
	2000	14	0	0	14	0.6%
	2001	28	0	1	28	1.1%
	2002	139	0	0	139	5.6%
	2003	342	0	0	342	13.7%
	2004	222	0	7	229	9.2%
	2005	149	11	2	161	6.5%
	2006	357	347	0	704	28.2%
	2007	343	473	22	838	33.6%
Total Spanish RMBS		**1629**	**831**	**31**	**2491**	**100.0%**
		65.4%	**33.3%**	**1.3%**	**100.0%**	

The lowest external rating was generally applied
Figures may be subject to rounding differences

The portfolio has been reduced by more than EUR 200 million compared to year end 2008. All RMBS transactions in the Spanish portfolio are at least investment grade rated and 65% of the assets are AAA-rated. In the first half of 2009, Spanish RMBS experienced further downgrades. In LBBW's Spanish RMBS portfolio, this development is particularly reflected through the increase of AA-rated positions.

The majority of Spanish RMBS transactions are issued in 2006 and 2007. However, these investments are primarily in the most senior tranches that receive priority in repayments.

1.3.3 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 centers or mixed property use. The CMBS acquired by the LBBW Group are secured by properties that are mainly used as offices or retail buildings.

CMBS Portfolio by Country of Underlying.

Outstanding volume in EUR million as of June 30, 2009 Asset class	Country	AAA	AA	A	BBB	BB to B	Total	
CMBS	Austria	36	6	0	0	0	42	1.1%
	Europe*	325	171	0	0	0	496	13.0%
	France	161	0	0	0	0	161	4.2%
	Germany	445	26	1	0	0	472	12.3%
	Ireland	36	0	0	0	0	36	0.9%
	Italy	2	0	0	0	0	2	0.1%
	Japan	22	19	0	0	0	41	1.1%
	Luxembourg	16	0	0	0	0	16	0.4%
	Netherlands	91	0	0	0	0	91	2.4%
	Singapore	228	0	0	0	0	228	6.0%
	Sweden	14	11	0	0	0	25	0.7%
	UK	1 117	341	181	242	88	1 969	51.5%
	USA	224	0	23	0	0	246	6.4%
Total CMBS		**2 717**	**574**	**204**	**242**	**88**	**3 825**	**100%**
		71.0%	**15.0%**	**5.3%**	**6.3%**	**2.3%**	**100.0%**	

The lowest external rating was generally applied (if no external ratings were available, internal ratings were mapped to S&P)
Figures may be subject to rounding differences
*Europe: no explicit classification, due to geographical distribution across several countries

The CMBS portfolio is of high credit quality with 98% investment-grade rated assets. Referring to year end 2008, the rating distribution of the CMBS portfolio has changed due to rating downgrades. Thereby the part of non-AAA rated assets has increased accordingly due to developments in the UK.

The table below gives an overview of the entire CMBS portfolio by vintage.

CMBS Portfolio by Vintage.

Outstanding volume in EUR million as of June 30, 2009 Sub-asset class	Vintage	AAA	AA	A	BBB	BB to B	Total	
CMBS	2000	18	0	0	0	0	18	0.5%
	2001	35	0	0	0	0	35	0.9%
	2002	1	8	0	0	0	9	0.2%
	2003	41	0	1	0	0	42	1.1%
	2004	134	14	0	0	0	148	3.9%
	2005	960	65	0	127	0	1 152	30.1%
	2006	850	268	157	12	88	1 375	35.9%
	2007	677	220	46	103	0	1 046	27.3%
Total CMBS		**2 717**	**574**	**204**	**242**	**88**	**3 825**	**100.0%**
		71.0%	**15.0%**	**5.3%**	**6.3%**	**2.3%**	**100.0%**	

The lowest external rating was generally applied
Figures may be subject to rounding differences

The following table presents an overview of the UK CMBS portfolio by vintage.

UK CMBS Portfolio by Vintage.

Outstanding volume in EUR million as of June 30, 2009 Asset class	Vintage	AAA	AA	A	BBB	BB to B	Total	
UK CMBS	2002	0	8	0	0	0	8	0.4%
	2004	70	3	0	0	0	73	3.7%
	2005	610	59	0	127	0	797	40.5%
	2006	279	219	157	12	88	755	38.3%
	2007	157	53	23	103	0	337	17.1%
Total UK CMBS		1117	341	181	242	88	1969	100.0%
		56.7%	17.3%	9.2%	12.3%	4.5%	100.0%	

The lowest external rating was generally applied
Figures may be subject to rounding differences

LBBW's UK CMBS exposure is of good rating quality, where 95% of the assets are investment grade rated. The risk in UK CMBS is moderate, with 17% of UK CMBS portfolio invested in 2007 vintage transactions.

The euro volume of the UK CMBS portfolio has increased compared with year end closing 2008. This development is mainly a result of fluctuations in exchange rates. Repayment effects were offset by effects from fluctuations in exchange rates. There were no new investments in this area.

1.3.4 Credit Card Portfolio.

Credit Card Portfolio by County of Underlying.

Outstanding volume in EUR million as of June 30, 2009					
Sub-asset class	Country	AAA	AA	Total	
Credit cards	Japan	80	0	80	12.1%
	UK	198	0	198	30.0%
	USA	365	16	382	57.9%
Total credit cards		643	16	659	100.0%
		97.5%	2.5%	100.0%	

The lowest external rating was generally applied
Figures may be subject to rounding differences

The asset class credit cards accounts for only 2% of the LBBW Group's entire securitization portfolio. These investments are in the most senior tranches.

The credit card portfolio contains AAA-rated assets, apart from a single transactions that is AA-rated as of the reporting date June 30, 2009.

1.3.5 ABCP program Lake Constance Funding.

As part of its ABS business, LBBW set up the vehicles Mainau Funding Ltd, Weinberg Funding Ltd. and Weinberg 2 Funding Ltd. Since the beginning of 2009, no assets were booked in Bodensee 2 Funding Ltd.

Mainau Funding Ltd. was included in LBBW's consolidated financial statements and its assets are included in LBBW's total securitization portfolio. Mainau Funding Ltd. invests in ABS transactions which are predominantly (93%) AAA-rated. The remaining ABS transactions possess a rating of at least AA. Consolidation ensures that all material risks are reflected in the consolidated financial statements of the LBBW Group. The ABS transactions in Mainau Funding Ltd. are currently being refinanced via the liquidity line provided by LBBW.

Lake Constance Funding 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 (ABCP). Since end of May 2009, LBBW holds 100% of these ABCPs.

As of June 30, 2009, LBBW had provided liquidity lines of EUR 1.35 billion for Mainau Funding Ltd.; LBBW also provides liquidity lines of EUR 1.9 billion for Weinberg Funding Ltd. and Weinberg 2 Funding Ltd. (see section 2 for details). This liquidity line can be drawn upon occurrence of a termination event in the respective customer transaction (e.g. in a seller's event of insolvency or an extreme deterioration in portfolio performance). In addition LBBW provides a letter of credit, whereby 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 portfolios of receivables, most from small and medium-sized German companies. In Weinberg and Weinberg 2, the individual portfolios represent so-called »cells«, i.e. there is no cross-liability of reserves in individual transactions.
Under 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 acquires 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.

1.3.6 Exposure to monoliners.

LBBW Group‘s risk of losses in connection with the exposure to monoliners is limited. An amount of EUR 2.1 billion of LBBW‘s securitization portfolio, is insured by monoliners. The direct exposure to monoliners is only EUR 12.4 million.

The following table shows a matrix, where 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 based on 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 EUR million as of June 30, 2009	Lowest transaction rating							
Lowest monoliner rating	AAA	AA	A	BBB	BB to B	CCC to CC	Total	
AA	146	166	0	0	0	0	312	15.2%
Lower than BBB	217	82	259	451	559	172	1 740	84.8%
Total	**363**	**248**	**259**	**451**	**559**	**172**	**2 052**	**100.0%**
	17.7%	**12.1%**	**12.6%**	**22.0%**	**27.3%**	**8.4%**	**100.0%**	

The lowest external rating was generally applied
Figures may be subject to rounding differences

64% of the monoline insured transactions are still investment grade rated, while half of the transactions contain a better rating than the worst rating of the respective monoliner. As a result of the subprime crisis, the credit limits to all monoliners have been reduced or cut since October 2007. In regard to a monoline wrapped ABS transaction, a double trigger is in effect, therefore a loss would only occur if both – the transaction and the monoliner – are defaulting.

2 Customer transactions.

This category includes customer transactions totaling EUR 2.1 billion. These transactions are in trade receivables of EUR 0.7 billion, interest bearing receivables of EUR 1.2 billion (particularly leasing receivables) and financing of commercial real estate of EUR 0.2 billion.

The following table shows a breakdown of the portfolio according to rating classes.

Rating distribution of customer transactions.

Outstanding volume in EUR million as of June 30, 2009 Sub-asset class	AA	A	BBB	Total	
Commercial real estate	0	164	0	164	7.9%
Trade receivables	41	559	143	743	36.0%
Interest-bearing receivables	306	647	204	1 157	56.1%
Total customer transactions	**347**	**1 370**	**347**	**2 063**	**100.0%**
	16.8%	**66.4%**	**16.8%**	**100.0%**	

The lowest external rating was generally applied
Figures may be subject to rounding differences

LBBW's exposure in this sector contains trade and interest bearing receivables primarily from SMEs. The ratings in this customer-driven business are all in the investment grade range. The exposure is almost exclusively in Germany. The loans are purchased via the special purpose entities Weinberg Funding Ltd. and Weinberg 2 Funding Ltd. LBBW provides liquidity lines of EUR 1.9 billion for these SPEs. Weinberg Funding Ltd. and Weinberg 2 Funding Ltd. are refinanced via LBBW's ABCP program (Lake Constance Funding – see 1.3.5).

The remaining customer transactions (commercial real estate) are financed via a loan from LBBW.

LBBW is planning to expand business sector customer transactions.

3 The LBBW Group's leveraged finance portfolio.

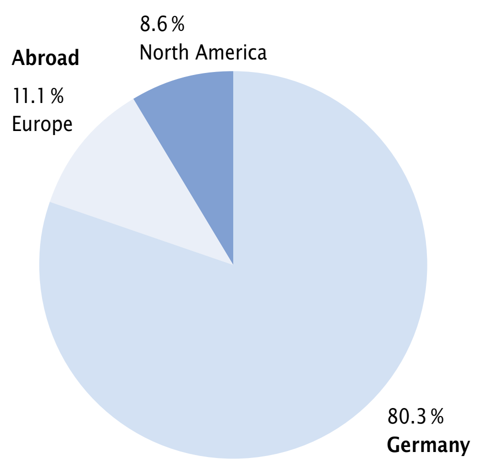
As part of its overall credit strategy, LBBW primarily incorporates financing for acquisitions including a high degree of financial leverage (usually over 50%) into its leveraged financing. As part of its small and medium-sized corporate banking business, the Bank supports customers in debt-financed 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. When participating in international transactions, the investment strategy is geared towards industry and risk diversification in the interest of achieving a qualitative mix in the portfolio that will increase income.

Against the backdrop of the global economic downturn in the fourth quarter of 2008, the effects of which were particularly felt in the first half of 2009, the priority was to consolidate the portfolio. As a result of this, there were only a few isolated new transactions. As at the reporting date, the leveraged portfolio declined by EUR 0.6 billion to EUR 6.8 billion. The average exposure per investment is around EUR 40 million.

The following overview gives the risk positions from around 180 leveraged finance corporate loans, ordered according to region, sector and rating.

Regional distribution as at June 30, 2009.



The market focus is on Germany, 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. However, general market activity on these markets has also remained rather quiet so far in 2009.

Distribution by sector as at June 30, 2009:

1. Automobile	50.2 %
2. Non Industry-speficic Tools and Machine Construction	5.2 %
3. Chemicals	4.3 %
4. Apparel, Sporting Equipment and Luxury Goods	4.2 %
5. Corporate Services	3.7 %
6. Health Care	3.7 %
7. Conglomerate Holding	2.8 %
8. Food Retail and other Non Cyclical Consumer Goods	2.8 %
9. Non Industry-specific Industrial Goods	2.8 %
10. Construction	2.7 %
11. Other	17.5 %
	100.0 %

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

Rating distribution as at June 30, 2009:

	AAA to A–	BBB+	BBB	BBB–	BB+	BB	BB–	B+	B	B–	CCC+ to C–	SD/D	nr[1]
%	0.0	0.5	4.3	7.7	3.9	17.8	49.0	9.4	3.1	0.2	0.0	3.6	0.5

The average rating is BB–, with 83.2 % 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 slightly better than the overall average for the portfolio.

[1] not rated

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