

Landesbank Baden-Württemberg Stuttgart, Karlsruhe, and Mannheim.

Financial Statements and Management Report for the Business year 2006.

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The following information should be read in conjunction with the financial statements and associated notes. As in the previous year, the financial statements and the 2006 Management Report were issued an unqualified audit opinion by PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft.

Management Report.

Business Activities of Landesbank Baden-Württemberg.

As a universal bank and international commercial bank, Landesbank Baden-Württemberg offers its customers a full range of modern banking services. The LBBW Group pursues a clear brand strategy in its market operations: the Landesbank Baden-Württemberg (LBBW), Baden-Württembergische Bank (BW Bank), and Landesbank Rheinland-Pfalz (LRP) brands and LBBW's individual product-oriented subsidiaries are known for first-rate quality and a wide range of services in their respective markets. Landesbank Baden-Württemberg has full freedom to conduct business and establish branches. LBBW's main offices are located in Stuttgart, Karlsruhe, and Mannheim, Germany.

With consolidated total assets of EUR 428 billion, over 12 250 employees, 217 branches, three representative offices, four Centers for Financial Services, and numerous self-service locations in Germany, as well as 23 offices across the globe, the LBBW Group is one of the top banks in Germany, and one of the 50 largest banks in the world. With a worldwide network of representative offices and branches in New York, London, Singapore, and Guernsey, the LBBW Group offers medium-sized companies global services where they do business. In terms of capital market activities, LBBW holds a leadership position in German jumbo mortgage bond issues and European jumbo covered bonds.

Moreover, LBBW serves as a central bank to the savings banks in Baden-Württemberg and exercises the same function together with LRP (a wholly owned subsidiary of LBBW) for the savings banks in Rhineland-Palatinate. As an operational unit of the LBBW Group, BW Bank also functions as a savings bank in the territory of the state capital of Stuttgart.

LBBW is the parent company of the LBBW Group and exercises support and settlement functions. Within the Group, LBBW operates the Financial Markets business field, as well as providing balance sheet and portfolio advising, developing financial market products, conducting trading and sales activities on the international capital markets, exercising Group treasury functions, and conducting research activities. Moreover, LBBW provides advisory services to the Group's nationwide and international corporate customers, institutional capital market customers, and public-sector institutions. Within the Group, LBBW is responsible for the international banking and real estate businesses, and selected special products.

Baden-Württembergische Bank (BW Bank) operates the retail and corporate customer businesses in the core market of Baden-Württemberg, as well as in Halle, Leipzig, and Dresden, Germany. BW Bank's product range for corporate customers is tailored to small and medium-sized companies. In addition to the traditional lending business, BW Bank's services include a number of innovative forms of financing. The focus in the retail customer business is on customer-tailored, long-term financial advising, and a comprehensive range of products and services. BW Bank's retail activities generally concentrate on high-net worth private individuals.

By drawing on the product range and international network of the LBBW Group, Landesbank Rheinland-Pfalz (LRP) concentrates on advising small- and medium-sized businesses and savings banks in Rheinland-Palatinate and neighboring regions. LRP is also the Group's center of excellence for real estate in the Benelux region and France. Via its subsidiary LRI Landesbank Rheinland-Pfalz International S.A. (Luxembourg), LRP also offers international private banking services.

LBBW offers special financial and other services, such as leasing and factoring, fund administration and management, financing for equity investments, financial services for municipalities, and a comprehensive range of real estate services through specialized subsidiaries and affiliated companies.

Management of the LBBW Group.

Financial strength is one of the key success factors in the highly competitive banking industry. For this reason, reinforcing our financial power is at the heart of LBBW's corporate strategy and ongoing management activities. The financial strength of a credit institution is most clearly expressed by its capital adequacy, which in our case not only noticeably exceeds German and international minimum requirements, but also reflects very satisfactory return compared to our competitors.

In order to ensure solid capital adequacy and return on equity, the LBBW Group strongly focuses on profitability, while taking into account key business conditions. These include in particular guaranteeing a level of service quality that is oriented to our customers and their specific needs. At LBBW, managing the Group with a view to profitability also means ensuring our market success with an innovative product range that simultaneously generates attractive contribution margins.

One of the core tasks involved in securing and improving LBBW's financial strength is minimizing our funding costs. The main focus at the operations level at LBBW is strict control of all costs involved in operating our daily business and an efficient risk management system. As a result, LBBW boasts a very low cost-income ratio compared to our competitors. We also continually make improvements to our ability to successfully manage risks.

Excellent credit ratings issued by independent rating agencies are vital external criteria for obtaining competitive funding terms from our investors. LBBW therefore takes into account the requirements for receiving first-rate ratings as a factor in overall Group management. This also directly includes creating and guaranteeing the necessary transparency in LBBW's processes and financial structure.

Economic Environment.

Global Economy.

Robust Growth Despite Sharp Rise in Oil Prices.

In 2006, the global economy expanded substantially: The real global growth rate was 4.4%. With growth of 10.5%, China again proved to be an engine for economic growth, while Japan appeared to have permanently overcome its long stagnation phase. Japan's economy expanded by 2.0%, which put its growth rate around last year's level. In the United States, continued robust consumer demand led to an increase in the gross domestic product (GDP) by 3.4%. In view of the price of oil, which had shot up in the meanwhile to a record high of nearly US\$ 80 per barrel, this performance by the global economy was extremely strong.

Euroland and Germany.

Self-sustaining Upswing.

In Euroland, the upswing at the beginning of the year lagged somewhat, but then gathered considerable momentum. GDP in real terms in Euroland grew by 2.6% in 2006 after only 1.4% in the previous year. The economies of the United Kingdom and the other European Union member states were also robust. The 25 EU states to date saw growth of 2.8% in 2006 after 1.7% in 2005.

Germany's growth rate, the pace of which was unexpected for many economists, is also part of this picture. Although economic research institutes had corrected their GDP forecasts downward in their fall 2005 reports, they revised their expectations for 2006 upward twice during the year, ultimately settling

at 2.3%. Germany's exports, which have been booming for several years, extended their effect to the domestic economy; this in turn released a self-sustaining upswing. Private investments and consumer spending developed equally into growth drivers. The German labor market benefited from this trend as well: The number of registered unemployed persons dropped by around 700 000 to below four million, and the several-year decline in employment subject to social insurance contributions was brought to a halt.

Baden-Württemberg.

Broad-based Upturn.

The economic upturn in Baden-Württemberg was the result of both exports and all segments of domestic demand. Baden-Württemberg's exporters again set records in 2006. The automobile manufacturing and electrical engineering sectors saw growth rates of 18% each, while the mechanical engineering industry grew by 9%. The growth rates of the metal/iron goods and chemical industries were 24% and 20% respectively.

In view of the sharp increase in capacity utilization, companies invested heavily and even spent considerable amounts on expansion. Moreover, companies paid down their debt loads considerably. In 2006, Baden-Württemberg experienced its highest growth in the past 14 years, and at 3.2% recorded a growth rate well over the German average, enabling the state to function as the engine for the economy of Germany as a whole. Baden-Württemberg also had the lowest unemployment rate of all German states – under 6%.

Price Development.

Moderate Inflation Despite Record-high Oil Prices.

Worldwide price development was influenced by two opposing effects in 2006. On the one hand, the US Federal Reserve's consistent policy of interest rate hikes put a damper on the economy, thereby also limiting price increases in the United States. On the other hand, raw materials prices, especially the price of oil, reached new record-highs around mid-year. On the whole, the worldwide upturn in prices proved to be moderate, and in Germany the net inflation rate even declined. Although it was well over 2% at the beginning of the year, it had dropped to 1.5% by the end of the year. 01

Foreign Currency Markets.

Value of the Euro up Significantly.

Foreign currency markets saw three different developments in 2006. The first few months of 2006 were marked by the decline in value of the US dollar against the euro, with the value of the euro climbing from US\$ 1.18 to nearly US\$ 1.30. Subsequently, the euro rate hovered between US\$ 1.25 and US\$ 1.29 until the dollar finally reached new lows for the year against the euro in the last two months of 2006. The US dollar

always weakened when indications appeared that interest rates were going to be lowered in the United States and gained when the markets expected the opposite. Despite the interest rate increase by the Bank of Japan and the end of deflation, a somewhat surprising development was the weakness of the Japanese yen, which reached an all-time low against the euro of around 156 yen.

Against the backdrop of a robust economy and the expectation of increases in key interest rates, the British pound gained against the euro, although this movement was quite moderate. In addition, the British pound also benefited from once again being in greater demand as an international reserve currency. 02

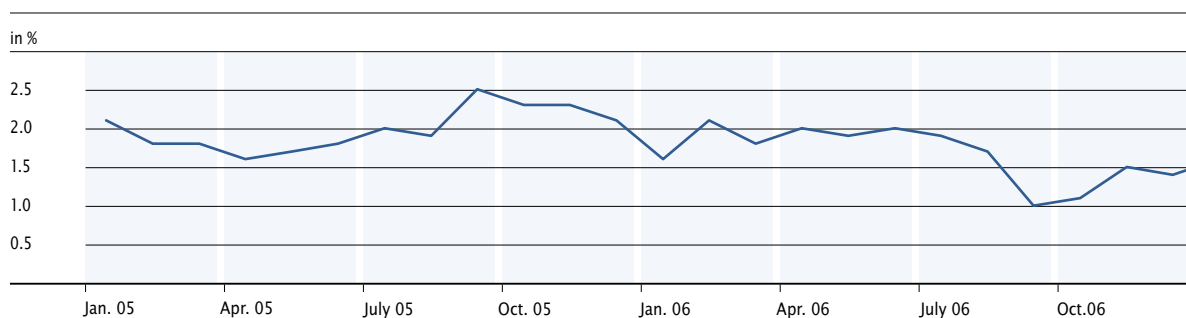
Bond Market.

Central Banks and US Economy Set the Pace.

The major central banks continued their policy of tightening monetary policy during 2006. Across the Atlantic, the US Federal Reserve raised its key interest rate from 4.50% to 5.25%. In Euroland, the ECB also saw reason to act due to high money supply and credit growth, as well as growing inflation risks. To date the ECB has raised the key interest rate for the euro

Change in Consumer Prices in Germany compared to Previous Year.

01



area by a total of 150 basis points to 3.50%. The revival of the British real estate market and excellent economic data made an interest rate increase of 25 basis points to 4.75% necessary in the UK. Even in Japan, the central bank deemed it necessary to end its long-term zero-interest-rate policy with an interest rate increase of 0.25% due to the fact that Japan had overcome its deflation phase.

The restrictive signals sent by the major central banks led to a drop in prices on bond markets in the first half of the year. Yields on 10-year German federal

government bonds ("Bunds") climbed from almost 3.30% at the beginning of the year to a little over 4.10% by early July. However, weaker US real estate market data and the rise of apprehension about the US economy put a stop to the downswing on the bond markets. Despite a robust economy in Euroland and the prospect of further hikes in key interest rates by the ECB, the yields of 10-year German federal government bonds dropped sharply again in the fall months, closing out the year at 3.95%. The influence of the US markets dominated yields in Germany as well. 03

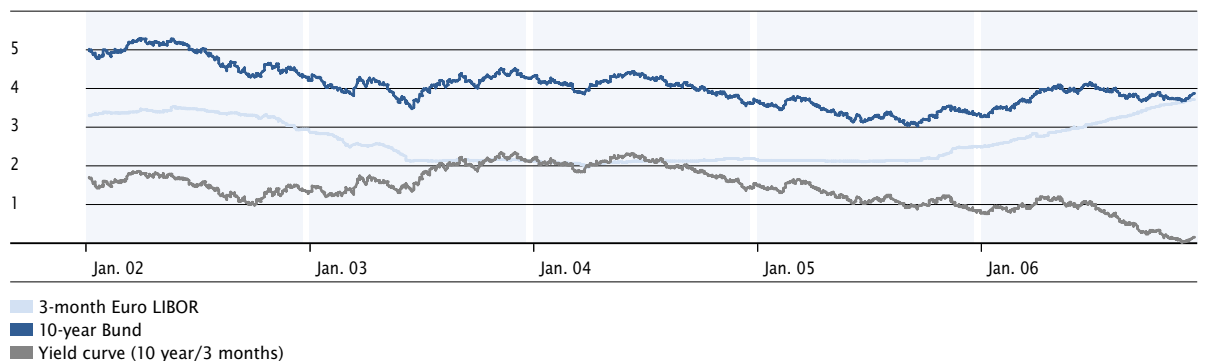
US dollar/Euro Exchange Rate.

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Short- and Long-Term Interest Rates in Europe, 2002-2006.

03



Stock Markets.

Net Upward Movement.

Early in the year, the stock markets were up on news of the robust global economy, invigorated corporate profits, and well-filled order books. This environment helped the DAX get off to a good start. This key German index rose from around 5 300 points in January to over 6 100 points in April. Unfortunately, the German stock market rally was then brought to an abrupt halt. Growing fears of continued tightening of US monetary policy and the monetary about-face in Japan led to a sudden market correction. The DAX index and the second-tier stock indices fell back to their levels at the beginning of the year.

The subsequent indication of a pause in interest rate increases by the US Federal Reserve signaled the beginning of a new rally for market players in August that led the German stock market to new highs for the year. At its highest point, Germany's stock market barometer, the DAX, hit nearly 6 630 points, again attaining the level reached in 2001. Among the biggest winners in this situation were stocks of industrial companies that were the focus of takeover speculation. Internationally, utilities and banks saw the largest gains. Energy companies, whose stocks had been favored early in the year, suffered at the end of the year due to a downturn in prices of oil company stocks. Despite an impressive last-minute rally, the performance of telecommunications stocks was again below average in 2006. 04

The German Stock Market in 2006.

04



Banking Industry Performance.

Banks Benefit from the Capital Markets.

Improved economic performance had a positive effect on demand for banking services. Retail and institutional investors were very active on the capital markets in 2006. In addition, demand for structured, capital market-oriented products rose further, and as a result, capital market performance stimulated earnings growth in the German banking industry overall. Additional demand was driven by companies.

Competition increased again last year. Retail and SME customers in particular were again in the sights of major banks and foreign competitors.

The favorable economic situation led to an improved risk situation, which in turn further improved the risk situation of German banks. In contrast, market risks trended upward due to overall greater involvement in the stock market and a significantly flatter yield curve. After the elimination of the maintenance obligation (Anstaltslast) and guarantor's liability (Gewährträgerhaftung) in 2005 and rather moderate issuing activity by the Landesbanken in 2006, rising funding costs cannot be ruled out in the current year. For this reason, banks will continue to make an effort to cap administrative expenses.

Regulators continue to place high demands on banks. For instance, the process of implementing the New Basel Capital Accord (Basel II) and its implementation in national law (SolvV – the German Solvency Regula-

tion) was in high gear in the German banking industry in 2006. Among other things, banks had to invest heavily in the necessary IT systems in preparation for Basel II.

Legal Environment.

Top Issues: MaRisk and MiFID.

At the end of 2005, the Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin – Federal Financial Supervisory Authority) published the Minimum Requirements for Risk Management (MaRisk) and updated these continually during the subsequent year. MaRisk represents the implementation in national law of the qualitative requirements of Basel II and the Capital Requirements Directive (CRD). Based on § 25a KWG (German Banking Act), MaRisk draws together the existing Minimum Requirements for Trading Activities (MaH), Minimum Requirements for Lending Activities (MaK), and Minimum Requirements for Internal Auditing (MaIR) into a uniform, binding set of rules. These rules are supplemented with rules on areas not covered to date, such as interest rate, operational, and liquidity risks.

MaRisk will have a material influence on the structuring of risk management, strategies, and internal control procedures at banks. However, the general wording of these requirements by the Federal Financial Supervisory Authority offers these institutions some freedom to shape their own policies. In 2006, the LBBW Group completed the necessary preparations for implementing these requirements.

A second core issue in 2006 was the EU's Markets in Financial Instruments Directive (MiFID). MiFID sets up uniform rules for securities services in the European Economic Area (EEA), which comprises the EU, Liechtenstein, Iceland, and Norway. These rules harmonize competitive conditions for stock exchanges and financial services providers, and serve to protect investors, as well as to preserve the efficiency and integrity of the European financial market. The LBBW Group began early to ensure timely implementation of these requirements, although to date only a draft of the law has been available from the German federal government.

Key Events During the Fiscal Year.

Integration of BW Bank AG Completed Successfully.

The integration of BW Bank AG into the LBBW Group was the Group's highest priority in fiscal 2006. After structural integration activities had been wrapped up successfully in the previous year, the focus in 2006 was on continuing operational and technical integration. As early as fall 2005, 395 000 sets of customer master data and BW Bank AG's custody business had been transferred to LBBW's system. The planned migration of customer accounts from the "old" BW Bank AG to LBBW's IT platform followed in 2006. Specifically, 300 000 checking, savings, term deposit, foreign currency, and bill of exchange accounts, as well as interest income tax (Zinsabschlagsteuer) processing for 200 000 customers and 44 000 loan and guarantee accounts were transferred. The

necessary adjustments were also made to payment processing systems, online banking, and Web sites.

Since April 2006, all trading transactions have been settled uniformly on LBBW's systems. Moreover, the trading division's IT systems have been optimized for new products and processes. The required Group management data and systems were also successfully consolidated, and the interfaces and processes of our offices abroad adapted accordingly. In November 2006, BW Bank AG's legacy systems were taken offline, and all data and programs archived in accordance with the statutory and regulatory requirements. This marked the successful completion of the migration.

International Business under Unified Management.

The systematic expansion of our international business takes on special strategic importance in view of the LBBW Group's efforts to keep pace with the spread of globalization in our corporate customer business. In this context, Dr. Peter A. Kaemmerer, who had previously been head of the International Business division at LBBW, accepted a new position as member of the LBBW Group's Board of Managing Directors at the Mannheim office as of May 1. He is now responsible for LBBW's international business, our business with German and European companies outside of Baden-Württemberg and Rhineland-Palatinate, and the Real Estate business field. At the same time, the international business was reorganized within the Group and split geographically into two business areas.

Subsidiaries More Focused and Effective.

Asset management responsibilities were also restructured within the Group. On July 1, the two new subsidiaries LBBW Asset Management and Baden-Württembergische Investmentgesellschaft (BWInvest) were formed from three predecessor companies. This step enabled the Group to consolidate its expertise in private and institutional customer asset management, fund set-up, fund management, and settlement. Product development and sales were reinforced and customer service improved thanks to close cooperation with the Financial Markets business field, and LBBW's and BW Bank's customer service teams.

LBBW Leasing GmbH was founded in August for the purpose of consolidating and coordinating the LBBW Group's leasing activities. This new company is the parent of three operating companies: SüdLeasing GmbH (SüdLeasing) and MKB Mittelrheinische Bank GmbH/MMV Leasing GmbH (MKB/MMV), both of which are wholly owned LBBW subsidiaries, and LHI Leasing GmbH (LHI), in which LBBW holds a 51 % equity interest.

In another step toward consolidating specialized services within the LBBW Group, the Board of Managing Directors of LBBW resolved in the fourth quarter to develop LEG Landesentwicklungsgesellschaft Baden-Württemberg into the Group's center of excellence for real estate. As one of the largest service providers in Germany, the scope of the company's responsibilities will be expanded further to include all aspects of real estate. In line with the LBBW Group's clear brand

strategy, the company's name was changed to LBBW Immobilien GmbH on January 1, 2007, bringing its market presence much more in line with the LBBW brand.

LBBW's equity investment companies were brought together under the umbrella of a single management company in early 2007.

Business Development.

Results of Operations.

Statement of Income of LBBW.

05

		2006	2005*	Change 2005/2006	
	Items	EUR million	EUR million	EUR million	in %
1. Interest income	(1,2,3,4)	1 874.3	1 985.2	- 110.9	- 5.6
2. Commission income	(5,6)	457.4	435.5	21.9	5.0
3. Net income from financial transactions	(7)	175.0	102.5	72.5	70.7
4. Administrative expenses	(10,11)	- 1 177.3	- 1 166.6	- 10.7	0.9
5. Other operating income/expenses	(8,12,25)	10.0	47.4	- 37.4	- 78.9
6. Operating income before risk provision/valuation result		1 339.4	1 404.0	- 64.6	- 4.6
7. Risk provision/valuation result	(9,13,14,15,16,17,18,19)	- 342.2	- 328.2	- 14.0	4.3
8. Operating income (profit from ordinary activities)		997.2	1 075.8	- 78.6	- 7.3
9. Extraordinary income/expenses	(21,22,26)	- 18.5	- 546.4	527.9	- 96.6
10. Partial profit transfers	(27)	- 217.4	- 220.8	3.4	- 1.5
11. Net income before tax		761.3	308.6	452.7	>100.0
12. Tax	(24)	- 187.3	- 178.5	- 8.8	4.9
13. Net income	(28)	574.0	130.1	443.9	>100.0

* Because the accrual of the former Baden-Württembergische Bank AG did not occur until August 1, 2005, the prior year's figures only included the pro-rated results of BW Bank AG for the period from August to December along with LBBW's result. In the current reporting period, these prior-year figures were supplemented with the pro-rated results of BW Bank AG for the first seven months of fiscal year 2005 for purposes of improved comparability.

Landesbank Baden-Württemberg's earnings situation continued to be satisfactory on the whole in fiscal 2006. In the period under review, LBBW was able to reach the targets set as part of its long-term corporate strategy. 05

Net income before tax was EUR 761.3 million, exceeding the previous year's level of EUR 308.6 million substantially by 146.7%, or EUR 452.7 million. This performance was given a boost by factors including the downward pressure on last year's result due to the accrual of the former Baden-Württembergische Bank AG. At the same time, we were able to reinforce LBBW's competitive position sustainably despite the difficult overall business environment. In addition, our profitability situation was solid. LBBW has embarked on an expansion strategy, and as a result earnings benefited in the past fiscal year in particular from a further increase in commission income and the almost doubling of net income from financial transactions. In contrast, the performance of net interest income was muted.

Income Structure Improved with Income Levels Steady.

Net interest income was down slightly from the previous year. This income item decreased by 5.6%, or EUR 110.9 million to EUR 1 874.3 million due primarily to the fact that net interest income in the previous year had reflected one-time income generated from early repayment of refinancing. Adjusted for this effect, interest income remained stable.

Commission income continued to grow, as in previous years, rising by a healthy 5.0%, or EUR 21.9 million, to EUR 457.4 million. This positive development was driven primarily by the increase in commission from the brokerage business, which grew by 36.9% (EUR 23.3 million).

Net income from financial transactions, which in part reflects income from LBBW's proprietary trading activities, benefited not insignificantly from the more optimistic mood on the markets in 2006. On the whole, this increase in income totaled EUR 72.5 million, which put this item at EUR 175.0 million at the end of the year. This corresponds to an increase of more than two-thirds over the previous year's figure.

The increases in commission income and net income from financial transactions are an indication that LBBW has taken another key step toward a balanced earnings mix in fiscal 2006. This development mainly reflects the efforts undertaken in 2006 to adjust the Bank's business model to the changes in our operating environment. We were successful in this regard principally thanks to the consistent strategic expansion of our international business and capital market activities, especially in the area of innovative financial market products for institutional and private investors.

Costs Up only Moderately Despite Additional Liabilities.

Administrative expenses climbed marginally by 0.9% (EUR 10.7 million) to EUR - 1 177.3 million, due mainly to an increase in personnel expenses. The primary factors in play here were the rise in expenses for pensions due to increases in collectively agreed wages, including greater allocations to provisions for pensions, and the allocation of employees to higher service-year and age-group brackets. In contrast, the growth in current personnel expenses due to increases in collec-

tively agreed wages was offset almost entirely by the shrinking of LBBW's workforce by 350 employees. Other administrative expenses were also slightly higher. These costs were driven up by the intensive preparations for the regulatory requirements stipulated by Basel II/the German Solvency Regulation (SolvV), the implementation of the Markets in Financial Instruments Directive (MiFID), and the presentation of the consolidated financial statements according to International Financial Reporting Standards (IFRS) as of fiscal year 2007. LBBW thus secured its extremely competitive position among German credit institutions with a cost/income ratio of less than 50%.

Net other operating income not attributable to banking operations totaled EUR 10.0 million in the past fiscal year, amounting to just under one-fourth of the previous year's figure of EUR 47.4 million. However, it should be noted that more than half of the previous year's figure was attributable to proceeds from the disposal of an equity investment.

Loan Portfolio Quality Remains High.

With a stable total of interest and commission income and net income from financial transactions, a moderate increase in administrative expenses, and a decline in other operating income, operating income before risk provision/valuation result slid by 4.6% (EUR 64.6 million) to EUR 1 339.4 million (2005: EUR 1 404.0 million).

A further decline in expenses for risk provisions represented a notable low point over a three-year period. The drop in expenses in the lending business continues to underscore the success of the Group's conservative risk policy coupled with the high quality of the Group's loan portfolio. As in previous years, the latter was given a not insignificant boost by the

positive effects of a healthy economic environment in LBBW's core market. Net expenses for securities also saw a sharp drop in the period under review. The change was mainly the result of the redemption in the previous year of high-interest, liabilities-side borrower's note loans. This compensated for future negative earnings contributions from the repayment of funding facilities that were included in net interest income. At Bank level, LBBW's risk provision/valuation result increased slightly by 4.3% (EUR 14.0 million) to EUR -342.2 million despite the decrease in expenses described above. This development was mainly the result of the assumption of losses of a consolidated leasing subsidiary, which counteracted the decline in expenses. The subsidiary utilized a tax rate difference resulting from the implementation of corporate tax reform by switching from the straight-line to the declining-balance method of depreciation of leasing assets in order to realize tax savings distributed over subsequent years.

Taking into account the development of the risk provision/valuation result item, operating income (profit from ordinary activities) totaled EUR 997.2 million; this result did not quite reach the high level of the previous year (EUR 1 075.8 million).

In addition to partial profit transfers, which were down by EUR 3.4 million to EUR -217.4 million, extraordinary expenses improved noticeably by 96.6% to EUR -18.5 million. In the previous year, this item (totaling EUR -546.4 million) was significantly affected by the loss resulting from the accrual of the former Baden-Württembergische Bank AG amounting to EUR -496.7 million. The extraordinary result also includes around EUR -40 million in additional restructuring and integration expenses, which was comparable to the previous year's figure.

Net income for the year before tax was EUR 761.3 million, up by EUR 452.7 million or more than double the previous year's figure of EUR 308.6 million. This growth was also reflected in net income for the year after tax, which amounted to EUR 574.0 million (2005: EUR 130.1 million).

Proposal for the Appropriation of Profits.

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

Net Assets and Financial Position.

Business Volume.

The volume of business at LBBW rose by 5.9%, or EUR 23.4 billion, over the previous year to EUR 418.0 billion. This development was almost exclusively the result of growth in balance sheet items, which were up 6.2%, or EUR 20.5 billion, during the same period. As of December 31, 2006, total assets amounted to EUR 354.0 billion.

The nominal volume of derivative transactions also increased by 18.0%, or EUR 226.7 billion over the previous year to EUR 1 485.8 billion at the end of the year. More than three-quarters of this increase was the result of the rise in the interest rate derivative volume.

Of the aggregate derivatives volume, around EUR 1 142.9 billion was attributable to trading portfolios, which corresponds to a share of total assets of 323%. However, trading transactions include largely closed-out positions from offsetting derivatives. Open positions from trading portfolios are within the stipulated risk limits. The classification as proprietary trading transactions is based on rules handed down by the Board of Managing Directors.

Lending.

The Bank's claims on banks were stable in the 2006 fiscal year. This item increased slightly by 3.1%, or EUR 4.4 billion, to EUR 150.2 billion. Of this amount, 23.1%, or EUR 34.7 billion, was attributable to the savings banks in Baden-Württemberg.

The increase in claims on customers was similar, with this item growing by 3.8%, or EUR 3.8 billion, to EUR 104.0 billion. At 61.9%, companies and private individuals in Germany were the most important customer groups measured by volume of the well-diversified portfolio of loans to customers. In terms of industries, the largest share of loan claims was accounted for by the service sector (33.7%), followed by residential housing companies (7.9%), and the retail/wholesale sector (6.0%). Non-self-employed persons and private individuals account for 27.8% of all claims.

The Bank's total loan volume amounted to EUR 318.2 billion as of December 31, 2006, which corresponds to an increase of 3.6%, or EUR 11.1 billion, compared to the figure at the previous year's reporting date. In addition to a higher volume of claims on customers, the increase resulted mainly from the increase in claims on banks. LBBW's total loan volume includes bills of exchange, as well as guarantee credits reported below the line and irrevocable loan commitments in addition to loans to credit institutions and customers.

The volume of bonds and other fixed-interest securities jumped sharply. As of the reporting date, this item was up markedly by 10.1%, or EUR 7.6 billion, to EUR 82.7 billion. As in previous years, bonds and debenture bonds are allocated primarily to the liquidity reserve.

Funding.

LBBW strives for a balanced funding structure with a minimum of liquidity risks. For this reason, funding is obtained primarily from three different sources that were used in varying degrees depending on the performance of the money and capital markets. On the one hand, in the year under review these included liabilities to banks and certificated liabilities, which were comparable in volume at EUR 129.2 billion and EUR 113.3 billion respectively at the end of 2006.

Whereas certificated liabilities decreased slightly by 3.8%, or EUR 4.5 billion, and were therefore nearly at the previous year's level, liabilities to banks shot up by 19.9%, or EUR 21.5 billion, due especially to the funding of the volume growth in securities portfolios carried as assets. Of aggregate liabilities to banks, 13.0% (EUR 16.8 billion) was accounted for by liabilities to Baden-Württemberg's savings banks at the end of the year.

The third pillar of LBBW's funding comprises liabilities to customers, which grew minimally by 0.9%, or EUR 0.8 billion, to a total of EUR 87.9 billion at year-end.

In addition to unsecured bonds, LBBW issued mortgage-backed bonds (Hypothekendarlehenpfandbriefe) and public-sector mortgage bonds (Pfandbriefe) on the German capital market, which are collectively reported in the certificated liabilities item. The target groups for issues placed directly were primarily insurance

companies, pension and investment funds, other banks and savings banks, and private customers. In addition, bonds were also issued on the international capital markets.

LBBW issued bonds under the auspices of a EUR 50 billion EMTN (Euro Medium Term Note) program, a EUR 20 billion euro commercial paper and euro certificate-of-deposit program, as well as an AUD 5 billion MTN (Medium Term Note) program on the Stuttgart, London, Singapore, and New York markets. Moreover, other issuing programs exist for MTNs (US\$ 15 billion) and commercial paper (US\$ 4 billion) in the US market. In addition, Landesbank Baden-Württemberg's issues under a global public-sector mortgage bond (Pfandbrief) program amounted to EUR 11.2 billion and US\$ 1.0 billion by mid-year. In the second half of the year, an additional volume of EUR 1.6 billion and US\$ 0.1 billion in mortgage bonds was issued under the EUR 50 billion EMTN program.

LBBW's issuing volume at the end of the reporting period totaled EUR 146.1 billion, which represents growth of 37.4%, or EUR 39.8 billion, compared to the previous year. The volume of new issues in 2006 amounted to EUR 120.9 billion, for an increase over the prior year of 28.3%, or EUR 26.7 billion. With a share of 63.3%, the sale of issues denominated in foreign currencies exceeded that of euro-denominated issues. The share of the total issuing volume accounted for by issues denominated in foreign currencies was 52.4% in 2006 (55.0% in 2005).

Equity.

As of December 31, 2006, the Bank reported equity on its balance sheet (equity less distributable profit including funds for general banking risks, subordinated liabilities and capital generated by profit participation certificates) of EUR 17 978 million (previous year: EUR 16 196 million). The increase resulted almost exclusively from the conversion of hidden reserves for general banking risks according to § 340 f HGB amounting to EUR 1.6 billion into a disclosed fund for general banking risks pursuant to § 340 g HGB, which had the effect of stretching the balance sheet.

The regulatory ratios of LBBW were as follows as of the end of the year: 06

06

	2006	2005	Change 2005/2006	
	EUR million	EUR million	EUR million	in %
Regulatory capital				
[§ 10 a of the KWG (German Banking Act)				
in conjunction with § 2 (2) and (3) Principle I]	17 493	17 053	440	2.6
thereof Tier 1 capital	10 175	10 003	172	1.7
thereof Tier 2 capital	6 935	7 074	- 139	-2.0
thereof Tier 3 capital	389	0	389	100.0
Qualifying items (Principle I)	144 473	145 565	- 1 092	-0.8
	2006	2005	Change	
	%	%	% points	
Total Principle I ratio	12.1	11.7	0.4	
Equity ratio	14.4	14.7	-0.3	

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

Employees.

In fiscal 2006, LBBW was mainly concerned with the second stage of integrating BW Bank AG into the LBBW Group. The first step, which was implemented in 2005, was a detailed staff transition plan for restructuring and consolidating business activities. Early 2006 saw the start of operational integration and uniform process structuring into a new target organization. Thanks to the high level of acceptance and energetic efforts of all participating employees, we were able to successfully implement and achieve our restructuring goals without interrupting business operations. In 2007, we aim to again increase our efforts to adjust our workforce to the harmonized processes of the new Bank: We provide active support to managers and employees during transfers, and recruiting, training, and continuing education measures are provided in good time to meet new strategic challenges we face.

Optimization of Business Processes. Socially Responsible Downsizing at LBBW.

In further developing the LBBW Group, the main concern is additional growth potential. Nonetheless, cost synergies are still leveraged consistently. Major, sustainable synergies result from consolidation and optimization of business processes, operational integration, and new customer segmentation. We realized these savings as planned in fiscal year 2006.

The primary focus in this regard was to ensure that the Group-wide human resources concept was implemented in a socially responsible manner, which is an expression of the LBBW Group's strong sense of social responsibility. This led to the elimination of 320 full-time equivalent positions at LBBW Bank as of December 31, 2006. In addition, a total of 345 full-time equivalent employees left the Bank, either in the course of normal employee turnover or switching to subsidiaries. However, this total reduction of 665 full-time equivalents is offset in part by the addition of 315 full-time equivalents at LBBW Bank resulting from the strategic establishment and expansion of business fields pursued equally systematically. These jobs were filled by hiring new employees, by promoting existing employees to higher positions, and especially by offering jobs to apprentices and Berufssakademie students.

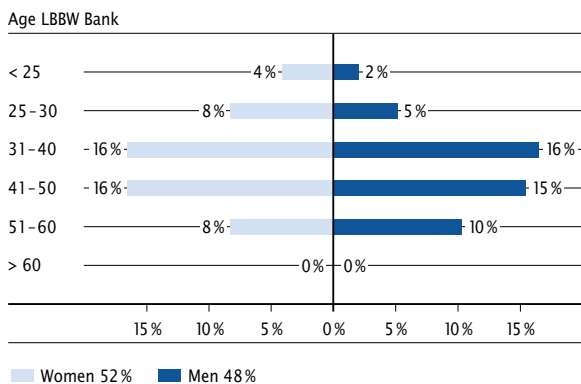
We will continue implementing this concept in fiscal 2007. The increase in transfers within the Group and the launch of an internal job market are key success factors in this regard. The approximately 800 in-house job advertisements in fiscal 2006 underscore the importance of the LBBW Group's internal job market. Another factor comprises the numerous human resources changes that have resulted from the reorganization of the operating units and that are handled via the in-house transfer system.

The Young Bank.

At the end of 2006, the LBBW Group employed 12 252 persons after employing 12 551 as of December 31, 2005. The Bank had 9 210 employees at the end of 2006 (2005: 9 565 employees). The share of the Group's employees who are women is 51 %, and the percentage of part-time employees continued to be high in 2006: 20 % at LBBW Bank and 19 % in the Group as a whole.

51 % of the Bank's employees are 40 years old or younger. As in the previous year, employees up to 30 years old made up around one-fifth of the Bank's employees. The average age of employees at LBBW Bank was 40.3 years (not including apprentices and Berufsakademie students). 07

Age Groups, Women/Men.



LBBW Improvement Process.

LBBW's idea management system has ranked highly in the financial services sector for many years. All employees are invited to use their ideas to continually update products, services, and processes in the Group. In this way, they can contribute to reducing costs and generating additional earnings. This process makes our workflows more efficient, and their ideas are used to develop new customer- and market-oriented products.

The Operational Risk Idea Competition marked the first time in the German banking industry that awareness of this important issue was raised among all employees. Idea management not only promotes the competitiveness of the Group, but also improves employee motivation and reinforces their identification with the company.

Training and Personnel Development.

Training.

LBBW continues to be the leader in training among Baden-Württemberg's banks. In 2006, LBBW again increased its hiring rate by 5.6%. Training rates at LBBW Bank and the LBBW Group of 6.0% and 4.9% respectively are a clear indication of our sustained commitment to the training of the younger generation.

These training rates strongly underscore the significance of developing qualified young employees in-house. As of December 31, 2006, a total of 598 young people started their careers as apprentices in the Group. Of this total, 415 young apprentices were trained as banking specialists (LBBW Bank: 327) and in additional commercial and other careers. 183 apprentices completed their studies at a Berufsakademie (German institutions of higher education that combine professional

classroom and in-company training). In addition, the recruiting of college graduates was a key aspect of the strategic development of promising young employees. The importance of the trainee program for transitioning young academics into Landesbank Baden-Württemberg was highlighted by the increase from 27 new hires in 2005 to 72 new hires in 2006. 175 apprentices were offered employment at LBBW after completing their apprenticeships or their studies at the Berufsakademie in 2006.

Personnel Development.

LBBW's efforts toward personnel development and professional training are considerable. Accordingly, we continued to pursue our continuing education activities in the year under review: In 2006, employees attended a total of 11 266 seminar sessions – 12.6% more than in the previous year and 48.9% more than in 2004. More than four-fifths of these were in-house seminars offered through the general education program, which included specialist seminars and courses of study, as well as development programs for high-level specialists and executive staff.

Career and Family.

In 2006, LBBW launched the "LBBW Day Care Center" project at LBBW's office near the main train station in Stuttgart. This initiative is an important contribution toward improving our employees' work-life balance. LBBW's "Frechdax" day care center opened its doors on February 1, 2007. The objective of this initiative is to allow women to continue to work professionally in their previous jobs at LBBW after having children. For this reason, a basic condition for using the day care

center is that the employee hold at least a 60% position. The LBBW day care center offers spots for 25 children, some of which can be shared, as well as five drop-in spots.

Compliance.

After the integration of the compliance organizations of LBBW and BW Bank AG and the coordination of the corresponding activities in the subsidiaries, 2006 was marked by the expansion of these activities into a Competence Center focusing on capital market compliance, money laundering prevention, the prevention of terrorism financing, embargoes, fraud prevention, and data protection. This reorganization of operations enabled us to optimize the use of resources in the Group and to put a cap on rising costs.

Capital Market Compliance.

Investor Protection and Uniform Regulations for European Markets.

The implementation of Anlegerschutzverbesserungsgesetz (German Investor Protection Improvement Act) requirements was intensified again in 2006 and, the necessary technical adjustments were made to IT systems. The focus of daily activities here was on continual monitoring of the legality of securities transactions and avoiding conflicts of interest.

In training sessions, employees were made more aware of how to identify potential problem situations. Other key activities and training sessions covered identifying persons holding insider information and the resulting prohibitions on trading. The expanded

mandatory reporting requirements for certain transactions (directors' dealings) and the provisions regarding financial analysis were implemented successfully. Our employees were kept continually informed about new developments via information published on the Intranet.

In the future, capital market compliance duties in the European Union will be governed by a uniform law called the Markets in Financial Instruments Directive (MiFID). This also applies to the recording and reporting of information concerning employee transactions and the requirements for handling conflicts of interest. The compliance rules in place in the LBBW Group were compared to the new requirements, and the next step will be to implement MiFID-compliant processes.

Money Laundering Prevention and Financial Sanctions.

Significant Increase in Regulatory Requirements.

The Bank launched a project to meet the significantly expanded regulatory requirements for money laundering prevention and leverage improved technical possibilities by implementing effective risk management processes and optimizing safeguard systems. This enables us to identify, analyze, and assess potential threats, and to take suitable measures to avoid, minimize, or transfer such risks.

In addition, we review payment transactions on an ongoing basis with the help of international lists and the corresponding software to identify the transfer of money and assets for terrorist purposes. A particular challenge in this effort is the fact that these funds are generally "clean" and, in contrast to money laundering

transactions, are often transferred in small amounts. A core objective of this project is to raise awareness among and to train employees, while at the same time shifting prevention measures away from sales units to the centralized money laundering prevention unit.

All branches abroad are included in the audit measures, and reviews are underway to determine whether and how compliance services could be made available to the subsidiaries to lower costs in the future.

Financial Intelligence Activities.

Combatting "Financial Agents".

The primary aim of the financial intelligence unit's prevention activities in 2006 was to combat what are known as "financial agents". These seek out innocent account holders in order to use their accounts to conduct criminal financial transactions. In addition to the financial loss experienced by well-meaning customers, a suspicious activity report on money laundering must also be made if the customer acted recklessly.

In-house notification of employees and increased controls by the money laundering prevention unit are producing obvious successes: Account misuse is increasingly being discovered before criminal acts can be committed.

The sharp rise in computer criminality is an issue increasingly coming to the fore. "Phishing" (obtaining PIN and TAN numbers deceptively) and Internet fraud (such as false orders for goods from eBay) have become a threat to the Bank and its customers.

Data Protection.

Systematic Improvement of Data Protection.

The focus of data protection activities in 2006 was on updating methods and processes for optimizing internal data protection and on reinforcing cooperation among Group companies. In addition, employees were informed about these issues in target group-specific, IT-based training sessions. The data protection officers in the Group hold regular discussions to ensure that data is protected at a uniform level throughout the Group. Cooperation with the branches and representative offices abroad is being intensified, while LBBW also increasingly carried out internal data protection audits in order to preserve customers' and employees' rights to personal privacy. These efforts included video monitoring and safety checks of buildings, the establishment of zones in the branches for discretely conducting transactions and viewing documents, the recording of telephone conversations in accordance with data protection laws, the newly introduced voice-over-IP telecommunication system, and internal bank processes to ensure proper disposal of paper and hardware. Additionally, service providers who provide the LBBW Group with credit card services, dispose of hardware, and destroy files and data storage media were also reviewed.

Sustainability.

The LBBW Group has a strong sense of social responsibility. Our approach to business is based on acting in an economically, ecologically, and socially sustainable and viable manner for the long term.

Sustainability Management.

In fiscal 2006, LBBW began to build a sustainability management system by hiring staff for this purpose. Currently, an intensive dialogue with internal and external stakeholders is being prepared to ensure that their concerns are addressed in LBBW's sustainability policy.

In summer 2006, LBBW's Board of Managing Directors adopted a set of guiding principles as a baseline for formulating and implementing its sustainability policy. These include sustainability principles applicable to corporate governance, business operations, banking products, communication, and marketing, as well as to LBBW's foundations.

These sustainability management activities build on the environmental management system initiated by LBBW's predecessor institutions in the early 1990s and further expanded by LBBW subsequently. These activities will be expanded based on a multi-stage plan, the implementation of which is scheduled to be completed during 2007. The publication of LBBW's first regular sustainability report, in which the former environmental report will be subsumed, is also planned for 2007.

Sustainability Rating to Strengthen Competitive Position.

In recent years, LBBW has already included sustainable investments in its product range, including retail investment funds holding shares in renewable energy producers. In addition, numerous projects aimed at sustainability have been financed, particularly in the area of waste disposal and renewable energies. Sustainability-oriented customer advising, particularly in our business with corporate clients, consulting with customers on public-sector development funds from environmental programs, and sustainability issues in real estate and loan risk analysis are additional examples of the significance of the issue of sustainability in LBBW's daily business.

As a bank with international operations, LBBW is committed to adhering to required standards, such as the Eco-Management and Audit Scheme (EMAS) and ISO 14.001, and transparency requirements, such as the Global Reporting Initiative, as benchmarks for sustainability reporting. This applies in particular to the documentation of and participation in sustainability ratings by well-known firms, including oekom research and SIRI Company. LBBW ranked well above the industry average in 2006 in SIRI's sustainability rating analyzing several bond and mortgage bond issuers.

Moreover, LBBW is a member of various environmental organizations, such as the Verein für Umweltmanagement in Banken, Sparkassen und Versicherungen e.V. (VfU – Association for Environmental Management in Banks, Savings Banks, and Insurance Companies) and the United Nations Environment Programme Finance Initiative (UNEP FI), an initiative of over 160 international financial services providers in the UN's environmental and sustainability organization.

Risk Report.

Risk-oriented Management of the Bank as a Whole.

Our responsibility to our customers, owners, and employees requires us to carefully manage the risks inherent in the banking business. Another duty we have as a bank is our responsibility to society: Banks serve as the catalysts for smooth operation of the economic system and hold the key to its stability. In compliance with our conservative risk policy, LBBW therefore avoids entering into transactions that involve incalculable risks. LBBW assumes quantifiable risks only within the scope of clearly defined limits. These guidelines for our actions form the foundation of our risk policy and provide a framework for our business activities.

Risk Policy.

The basic principles of our risk policy are laid down by the Board of Managing Directors and the Supervisory Board in the business strategy and the risk strategies. Based on these, the methodology for monthly calculations of LBBW's risk-bearing potential and the weighting of the risk categories is defined, and business strategies and performance targets are stipulated for the commercial banking and back office divisions using a top-down/bottom-up process.

Throughout the Group, risks are compared against risk-bearing potential to monitor the appropriateness of the capital backing required for business purposes. The concept of risk-bearing potential describes

LBBW's ability to absorb possible unanticipated losses using current earnings and assets. This value is then broken down into levels that are based on the different degrees of availability of the capital. Using this value, the Board of Managing Directors sets a maximum limit for losses, which is the upper limit for all currently quantifiable risks throughout the Group. The maximum loss limit reflects LBBW's maximum willingness to take risks and is set well below LBBW's overall risk-bearing potential in line with our conservative risk policy. Global limits for the various quantifiable risk categories are derived from this maximum limit for losses. Losses actually incurred are taken into account along with risks in the sense of potential losses during monitoring of LBBW's risk-bearing potential.

Economic capital is used to uniformly present risk parameters. In contrast to the capital required by regulatory bodies, this represents the capital backing required by LBBW for business purposes that is calculated using risk models. LBBW's economic capital is represented by value-at-risk (VaR) at a high confidence level (99.95 %) or a comparable risk parameter. The LBBW Group has set up a comprehensive limit system for all quantifiable risk categories that is monitored uniformly on this basis.

Within the prescribed framework, risk management decisions are made by the departments bearing portfolio responsibility or the divisions decentrally; these decisions are the focus of Risk Controlling's

centralized monitoring efforts. The risk controlling and risk management system set up for this purpose covers all relevant risks. 08

Overview.

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

In 2006, the VaR calculation for credit risks was revised, and the calculation of market price risks was broken down further. VaR approaches for calculating operational risks are being developed, and the measurement and monitoring of equity investment risks and real estate risks were implemented for the first time. The risk categories included in the overview under Other are difficult to quantify and are therefore addressed via risk buffers in LBBW's risk-bearing potential.

Included in these risk monitoring processes are the transactions of LBBW's branches abroad and those of the key subsidiaries. The transparency principle applies as much as possible to their risks. This means that the relevant individual risk positions of the respective subsidiaries should be included completely in these risk analyses.

Risk Management.

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

Macro Level.

The Board of Managing Directors controls and limits LBBW's overall risk position using global limits within LBBW's risk-bearing potential.

Credit risks account for the largest share of these global limits, and the Board of Managing Directors manages and limits these according to structural concerns.

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

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

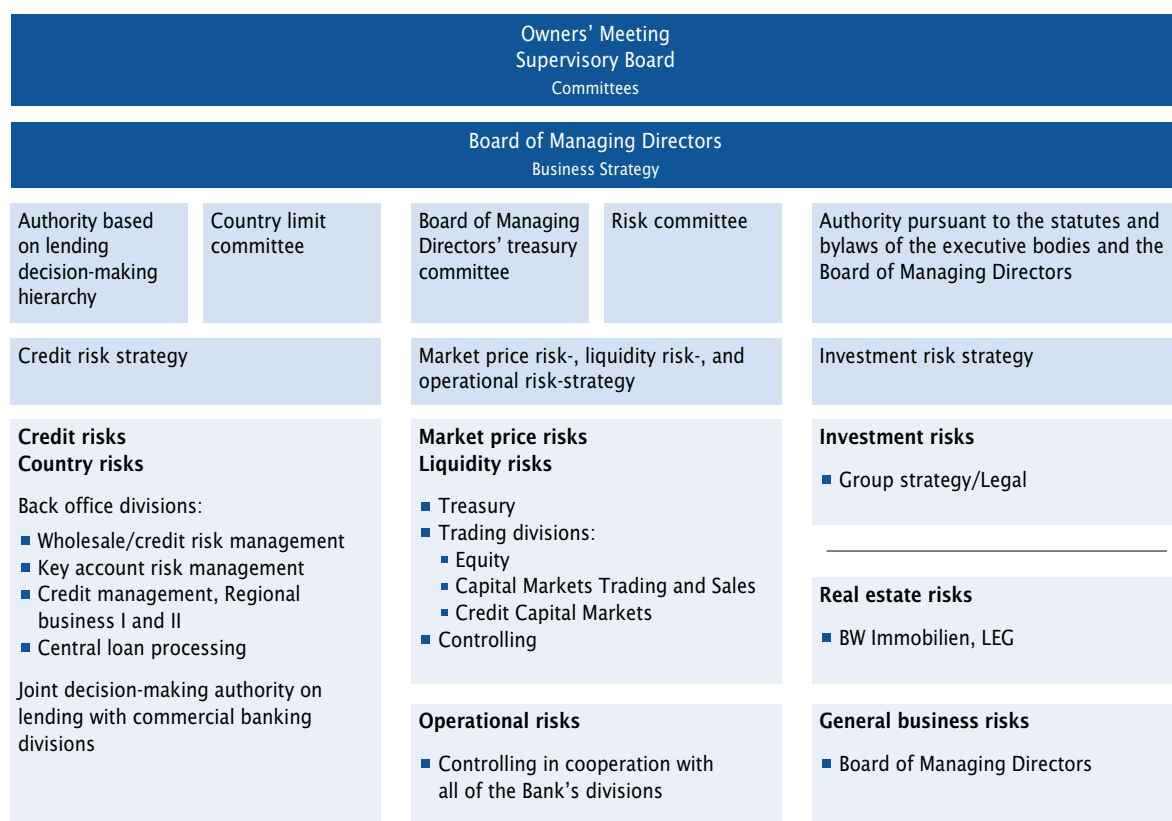
The Board of Managing Directors has delegated the management of market price risks at the macro level and strategic structuring of market price risk positions

to its treasury management committee. These strategic risk positions relate mainly to the investment of own funds and specific maturity transformations in euros and foreign currencies. In addition to interest rate positions, other positions are held in foreign currencies, stocks, and to a limited degree, commodities. The proposals developed by the Treasury section for strategic positioning are presented for the approval of the Board of Managing Directors' treasury management committee as part of its monthly meetings. This committee is composed of two members of the Board of Managing Directors and various division heads in an advisory capacity. The results are reported to the full Board of Managing Directors.

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

Liquidity management, a cross-disciplinary responsibility, and management of the long-term funding risk arising from non-trading book positions are performed by the Treasury division. Risk monitoring is the responsibility of Risk Controlling.

Decisions about the acquisition and sale of equity investments and the associated risks are made by LBBW's supervisory bodies or by the Board of Managing Directors, depending on the volume and/or importance of each transaction. The responsibility of the Group Strategy division is to prepare acquisitions and sales of equity investments and to develop proposals for the strategic positioning of equity investments. 09



Micro Level.

The management of credit risks at the individual loan level is the duty of the back office divisions. These divisions make decisions in conjunction with the commercial banking divisions within the framework of the credit risk strategy and their hierarchical authority, thereby addressing the various risks of individual transactions. Customer bank accounts are managed, decisions are made about commitments, and credit lines binding for the Bank as a whole are set up and

monitored in the commercial banking and back office divisions. The creditworthiness of borrowers and trading counterparties is assessed with the help of the tools made available by credit risk controlling.

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

The trading divisions are home to the Bank's trading and sales units organized in accordance with responsibility for the relevant products:

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

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

Additional Functions.

A Capital Committee was formed in 2006 to ensure that the LBBW Group's capital resources, structure, and target figures are at the appropriate levels. The Capital Committee is composed of three members of the Board of Managing Directors and various division heads.

The Back Office Financial Markets division, which is a settlement and control unit, is responsible, among other things, for the quality of the data from trade-related data supply systems to be utilized in risk measurement processes.

The IT/Organization division must primarily ensure the flawless functioning of all IT systems.

The Internal Auditing division is a process-independent department that monitors all operations and business workflows, risk management and controlling, and the Internal Control System (ICS) with the aim of safeguarding the Bank's assets and boosting its operating performance. The Internal Auditing division exercises its duties autonomously. The Board of Managing Directors is informed about the results of audits by way of written audit reports discussed with the audited operating units. Internal Auditing also monitors the resolution of unresolved audit findings and the implementation of recommendations.

Risk Controlling.

The Risk Committee assists the Board of Managing Directors in monitoring LBBW's risk-bearing potential and the global limits, as well as in complying with regulatory requirements (particularly MaRisk). The Risk Committee is responsible in particular for market price risks and operational risks. This committee, which meets monthly, comprises two members of the Board of Managing Directors and various division heads.

The Risk Controlling units are also tasked with selecting or developing suitable systems and processes for uniform, bank-wide valuation of positions and for quantifying and monitoring risks.

The Wholesale/Credit Risk Management division is responsible for controlling credit risk and monitoring country limits using the bank-wide country limit system. The mathematical-statistical rating procedure developed by this division is the core element in the risk assessment process. The result of this assessment, a rating score, reflects a standardized estimation of a customer's creditworthiness and includes quantitative, as well as qualitative, factors. Operational monitoring of credit risks at the level of individual transactions is assigned in general to the various central and regional back-office departments.

The Controlling division calculates business results and market price risk indicators (VaR) for market risk positions daily based on mark-to-market valuations and compares these to the respective portfolio limits. Moreover, the calculation of overall bank-wide interest rate risks supports the management of assets and liabilities in the Treasury division. LBBW uses back-testing analyses to ensure the quality of the estimation methods applied.

Operational risks are identified, among other things, by documenting and analyzing loss events. Existing processes are then reviewed for their susceptibility to these risks, and the corresponding process adjustments are made to avoid these risks.

Central Risk Controlling is also responsible for monitoring real estate and equity investment risks.

Implementation of Regulatory Requirements.

MaRisk.

When the Minimum Requirements for Risk Management, shortened to "MaRisk" in German, were published on December 22, 2005, these rules replaced the existing Minimum Requirements for Trading Activities (MaH), the Minimum Requirements for Lending Activities (MaK), and the Minimum Requirements for Internal Auditing (MaIR).

MaRisk made the requirements of § 25a (1) KWG (German Banking Act) more explicit, while also implementing the requirements of Basel II, Pillar 2 in Germany's national law. In contrast to the existing minimum requirements, MaRisk expanded the general regulations concerning risk management and explicitly included provisions regarding liquidity risks, operational risks, and interest rate risks in the banking book. Ultimately, the aim here is to ensure that sufficient internal capital is available to cover key risks. The requirements of MaRisk therefore function as the measuring stick for qualitative banking supervision as part of the supervisory review and evaluation process.

In spring 2006, LBBW conducted a MaRisk gap analysis. Subsequently, projects were set up to implement the requirements of MaRisk not yet addressed. In parallel to these implementation activities, LBBW is actively participating in the meetings of the supervisory authority's MaRisk-Fachgremium (Technical Forum on the Minimum Requirements for Risk Management). Additional requirements will be incorporated into the ongoing projects.

SolvV (German Solvency Regulation)/Basel II.

LBBW will further adjust its capital backing to more closely approach economic risk due to the implementation of the new capital adequacy requirements [Basel II, the Capital Requirements Directive (CRD), SolvV (German Solvency Regulation), MaRisk] for credit, market price, and operational risks.

All of the applicable Basel II requirements have been implemented at LBBW since the Basel II Project wrapped up on March 31, 2006. Based on a new system architecture, a new, forward-looking reporting solution was implemented, among other things. Other key accomplishments include the further development of rating and scoring procedures, the collateral management system, and an operational risk solution scalable to Group level.

On June 1, 2006, LBBW submitted a modification request to its application for recognition of its internal rating processes (IRBA approval) as of January 1, 2008. The audit activities by the Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin – Federal Financial Supervisory Authority) and Deutsche Bundesbank are still underway and will not be finished until late 2007.

The SolvV Project was set up as of April 1, 2006 immediately following completion of the Basel II Project. This project brings together all activities pertaining to national implementation of Basel II at the institution and Group levels that are necessary to meet the requirements of SolvV and MaRisk.

For 2007, LBBW has elected to make use of the transitional provision in accordance with § 339 (9)

SolvV and will continue to apply Principle I to determine capital requirements as in the past. Regardless of this fact, the initial test run based on future SolvV reporting was conducted in late January 2007.

Starting in 2008, LBBW intends to conduct its reporting based on the IRB foundation approach. To this end, LBBW will continue to pursue the planned measures and the regulatory approval process according to plan.

Risk Management System for Mortgage Bond (Pfandbrief) Operations.

With the entry into force of the Pfandbriefgesetz (PfandBG – German Mortgage Bond Act) on July 19, 2005, a risk management system must be in place pursuant to § 27 Mortgage Bond Act to ensure identification, assessment, management, and monitoring of the risks associated with this business segment. In order to meet these requirements, enhancements were made to the risk management systems so that credit, market price, operational and liquidity risks in the mortgage bond business are covered.

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

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

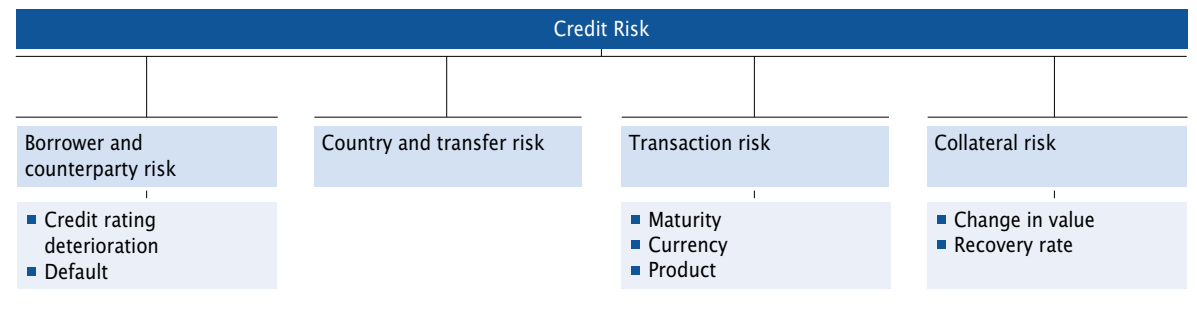
Credit Risks.

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

10

Credit Risk Structure.

10



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

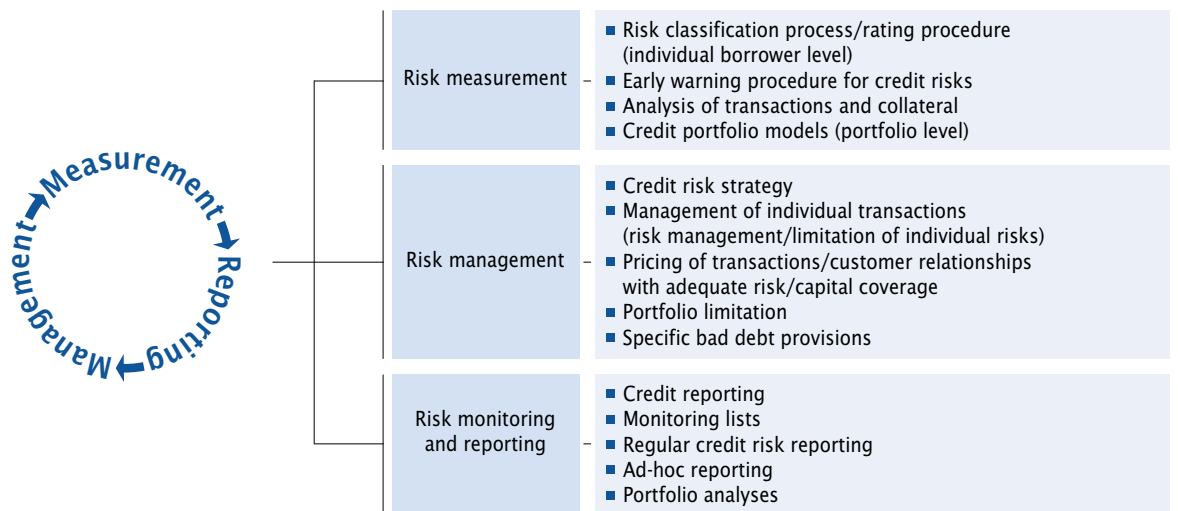
ments. A centralized risk management approach was realized for the Wholesale divisions (Financial Markets and Structured Finance), as well as for key accounts, corporate customers, freelancers, and retail clients (particularly private individuals). The strengths of this approach lie in the bundling of information and expertise, as well as in the efficient processing of the retail client business.

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

Credit Risk Management.

LBBW manages credit risk in three closely integrated, interactive phases: **11**

11



Measurement at the Micro Level.

Borrower and Counterparty Risk.

The creditworthiness of existing and new customer accounts is primarily assessed using rating procedures, the aim of which is to estimate the probability of default and allocation to a corresponding rating class. ¹²

LBBW Master Scale.

12

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

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

The above-mentioned processes are fully integrated into LBBW's lending processes. Their application and further development are central responsibilities of the employees of the back-office units. Our internal risk classification and rating procedures have proven to be an effective active risk management tool in recent years. Among the evidence of this is the relatively low number of defaults in our lending business due to our lending policies, which focus on creditworthiness and cash flow. The forecast quality of our rating procedures, each individual rating component, and the interaction among these rating components is regularly backtested. These quality controls, which are based on observed default rates, confirm not only compliance with minimum standards, but also uncover the weaknesses in the systems, thereby generating impetus for improvements.

Country and Transfer Risk.

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

Transaction Risk.

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

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

Collateral Risk.

The methods for valuing various types of collateral are based on the fair value of the collateral, the historical recovery rates, and a collateral-specific haircut. A collateral management system has been integrated to a large degree into LBBW's lending processes.

The technical collection of complete collateral data and a realistic assessment of the proceeds from the liquidation of collateral, as well as the EAD, form the foundation for forecasting the loss given default (LGD). Supplementing customer default probabilities with this value enables LBBW to quantify potential losses from individual loan commitments in a detailed way. In a joint project with the DSGV (the German Savings Bank Association), we have developed a methodology for ex-ante estimates of EAD and LGD in the private construction financing segment based on liquidated loans in past years. The launch is scheduled for the second quarter of 2007. The corresponding procedures are already part of transaction valuations in project financing, including ship and aircraft financing. In terms of the other business fields (corporates; business customers; international central, regional, and local authorities; real estate companies; financial institutions), we will continue to take our cautious approach to date concerning collateral until the implementation of robust statistical models.

Measurement at the Macro Level.

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

The Bank uses a credit portfolio model based on the modeling of rating migration to calculate CVaR. The individual borrowers are assigned default and migration probabilities corresponding to their ratings. These are modeled in such a way that the correlations between rating classes, industries, etc. can be addressed adequately. The credit exposures are subject to mark-to-model valuation and are calculated based on their present value. The credit portfolio model uses a Monte Carlo simulation approach to calculate risk.

The CVaR approach indicates the unexpected loss that exceeds the expected loss (comparable to setting up risk provisions). Concentration risks play a particularly important role in CVaR. Industry and volume concentrations of individual borrowers increase portfolio risk, while granularity and diversification reduce this risk.

In 2006, a uniform Bank-wide data platform was established for risk quantification in the form of CVaR at LBBW after incorporation of BW Bank's data in order to integrate the calculation further into the quarterly credit risk reporting process in 2007.

Concentration exists in the banks/financial institutions/public sector segment in line with the focus of LBBW's business. Otherwise, the calculations to date have indicated that LBBW holds a well-diversified loan portfolio.

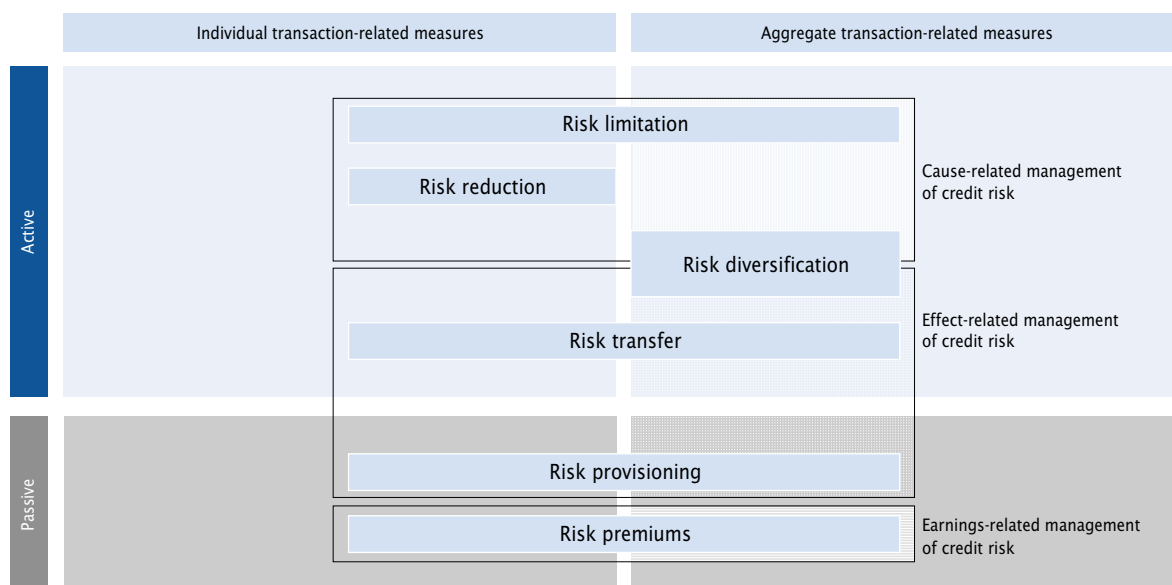
In 2006, the key subsidiaries were integrated into the system of limits based on CVaR. LBBW is not subject to any credit risks at Group level that would endanger its continued existence.

Management.

The credit risk strategy is the basis for Group-wide credit risk management at LBBW. Designed for a rolling planning horizon of three years in each case, the credit risk strategy is continually updated. This strategy's objective is to convert LBBW's risk tolerance based on its corporate goals and the expectations of its owners into concrete plans for action for LBBW's lending business. The credit risk strategy is oriented to current overall economic conditions, taking into account the Bank's risk-bearing potential. Key components of this

strategy are quantitative, risk/return and business segment-specific standards for individual transactions or defined business areas and sub-portfolios. 13

Breakdown of Management Options.



Risk Limitation.

Limits are firstly placed at the individual transaction level based on the general practice of only granting loans to borrowers with a minimum level of credit-worthiness. In addition, the loan amount, and its term and collateral structure are linked to the credit rating of the relevant borrower and to the risk-bearing potential of our institution.

LBBW's limit system for monitoring and managing credit risks, which has been updated continually since 2001, applies a multi-dimensional limitation approach in which both soft (flexibility in borderline cases) and firm (no room for maneuver) limits are possible depending on risk relevance and LBBW's corporate policy considerations. The basis for the limits is the nominal loan volume.

Risk Reduction.

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

Risk Transfer.

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

Risk Premium.

The management of individual transactions in accordance with profitability and risk considerations is a key building block of LBBW's overall bank management activities.

Whether a transaction will produce a risk-adequate **profitable contribution to earnings** is a key factor considered before LBBW enters into transactions. At LBBW, the preliminary costing process involves mandatory application of the preliminary product costing formula to the calculation of individual transactions. This calculation includes various components: the capital range (capital costs), the cost requirement margin (back-office costs), and the risk range (expected loss). See figure below. 14

Preliminary costing.

14

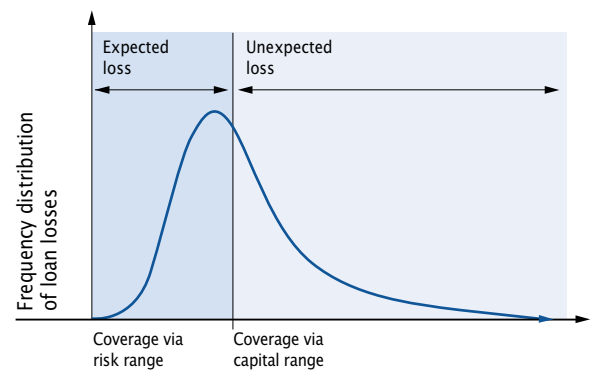
Opportunity interest rate – Bank's cost of funds (eff.)
+ Risk range
+ Capital range
+ Requirement range
Minimum margin, customer

The risk ranges correspond to the calculable, expected risk costs and are derived from the average values of actual past loan defaults. A corresponding hierarchy of responsibilities ensures that the preliminary costing process will be applied to meet the intended objective.

The results of the preliminary costing calculation are consistently included in the final costing calculation.

15

15



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

Risk Provisions.

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

Monitoring and Reporting.

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

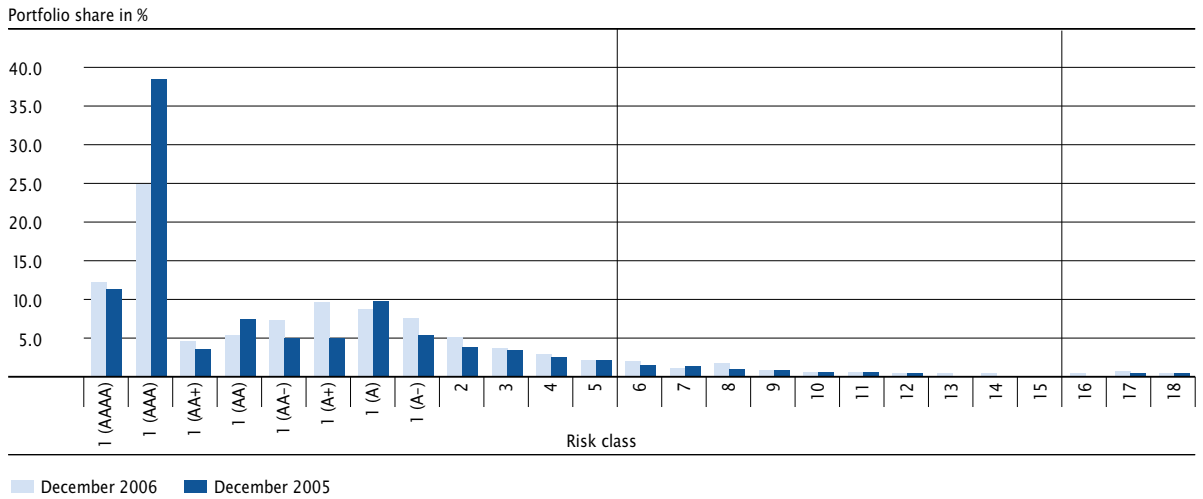
The general conditions for the lending process are also regularly reviewed and improved in terms of risk and efficiency. Active measures are taken to prevent processes from becoming too bureaucratic. Lending rules serve as guidelines for responsible and risk-oriented conduct of the lending business. At the same time, they provide LBBW with a risk-adequate framework for responding to market changes flexibly and in the interest of the customers.

Summary.

As in previous years, the quality of LBBW's portfolio continues to be excellent with around 93% of the rated net portfolio of claims assigned an investment grade rating and only about 6% of these claims rated non-investment grade. Only 1% are undergoing restructuring or liquidation. **16**

Distribution of the LBBW Bank's Claims by Risk Class.

16



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

Risk Situation.

Bank Overall.

In the past year, growth in Europe's economy was stronger than that of the United States for the first time in years. In particular, economic growth

in Germany, which reached its fastest pace in six years, drove this development in a converging Euro-land. According to the Institut für Weltwirtschaft in Kiel (IFW – Kiel Institute for the World Economy), the increase in real GDP of 2.5% compared to the second half of 2005 considerably exceeded the growth rate of production potential. The upswing was also broader based with domestic demand up sharply. The contribution to growth by demand in Germany was double that of the current account surplus, which had been the key pillar supporting the economy in previous years. Additionally, the labor market situation improved further. The number of unemployed persons dropped

by around 700,000 to below four million, and the several-year decline in employment subject to social insurance contributions was halted.

LBBW's core markets of Baden-Württemberg and Rhine-land-Palatinate continue to stand out in a nationwide comparison thanks to their comparatively favorable general economic conditions. The economic upturn in Baden-Württemberg was the result of both exports and all areas of domestic demand. In view of the sharp increase in capacity utilization, companies invested heavily and even spent considerable amounts on expansion. In 2006, Baden-Württemberg experienced its highest growth in the past 14 years, and at 3.2% recorded a growth rate well over the German average,

enabling the state to function as the engine for the economy of Germany as a whole. Baden-Württemberg also had the lowest unemployment rate of all German states – under 6%.

In addition to LBBW's successful credit risk management efforts, the favorable general economic environment was a reason that LBBW achieved the results it did in the past year.

The LBBW Group's overall portfolio is distributed among various volume classes. In line with our risk policy, large commitments are entered into only with partners in the best credit rating classes. 17

Distribution of Claim Volume (Lines) across Volume Classes by Individual Borrowers as of 12/06, LBBW Bank:

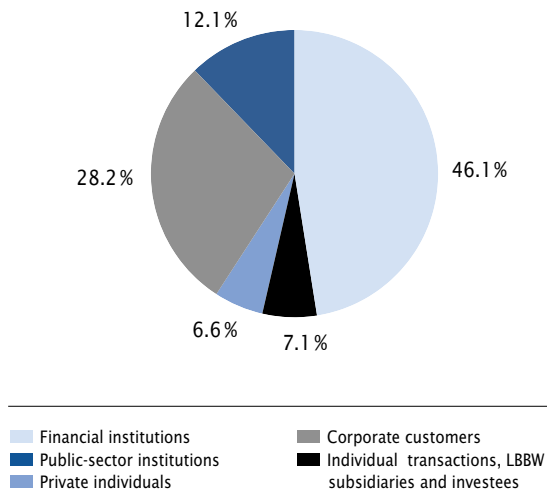
17

up to ... EUR million	in %	cumulative %	cluster %
0.5	5.2	5.2	18.6
1	0.9	6.2	
5	2.7	8.9	
10	1.9	10.8	
50	7.8	18.6	
100	5.7	24.3	25.0
500	19.3	43.5	
1 000	12.5	56.0	49.4
2 000	15.1	71.1	
3 000	8.7	79.8	
5 000	8.6	88.4	
> 5 000	4.6	93.0	
Sub-total	93.0	93.0	93.0
Subsidiaries	7.0	7.0	7.0
Total	100	100	100

Reinforced by economic developments and the general economic climate in Germany, but especially thanks to its conservative risk policy, its risk management activities tailored to economic requirements, and the diversification of the portfolio, LBBW's credit portfolio is low in risk. 18

Distribution of Claims by Business Areas - LBBW Bank

18



Financial Institutions.

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

The uneven development of both the market and credit ratings of LBBW's partners evident in previous years continued in fiscal year 2006.

LBBW's risk management activities are typified by conservative risk-limiting guidelines and control parameters. Ongoing fundamental and qualitative analyses of the creditworthiness of our partners, conducted on site if necessary, and active risk-limiting measures enabled LBBW to maintain a well-diversified, regionally balanced portfolio featuring partners with good credit ratings again in 2006.

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

Corporate Customers.

In the past year, the economic climate improved for corporations. This development led to LBBW increasing the volume of loans granted to companies in 2006. All

industries were able to benefit from this growth, particularly the financial services sector, which accounted for a greater percentage of these loans than in the previous year. 19

Detailed Breakdown of Companies and Organizations.

19

Industry distribution - LBBW Bank	Total 12/06
	Line in %
Energy, utilities	10.3
Food, consumer goods, and durables	1.8
Chemicals, plastics	2.8
Metal, mechanical engineering	4.4
Electrical engineering, communication, IT	5.2
Construction, housing	13.9
Retail/wholesale	5.5
Transportation, logistics, and automobile manufacture	6.8
Media, entertainment	1.6
Services	11.6
Financial services (not incl. credit institutions and insurance co.)	28.4
Insurance industry	2.8
Other	4.7
Total	100

Retail Customers and Investors.

Real estate transactions dominated LBBW's business with retail customers and investors. The health care providers and freelancers segment is becoming increasingly important. Based on the slightly improved but still uncertain labor market situation, customers held back on long-term investments, such as real estate purchases, in 2006. In addition, the aggressive price wars among providers of these services led to a marginal drop in the volume of loans extended to retail and investment customers.

Country Risks.

In 2006, the risks posed by individual countries declined further in qualitative terms. However, due to the dynamic business performance of LBBW, our aggregate country risk increased further.

LBBW's international portfolio continues to carry a notably low level of transfer risk due to the concentration on countries with particularly good ratings. As of December 31, 2006, a share of 90% of our total country risks was assigned to rating class 1(AAA). LBBW manages country risks by approving basic

business policies and making individual decisions on risk in the case of individual transactions. The country limit committee makes decisions on individual business-related issues in exceptional cases and regularly recommends the Group limits for each country to be approved by the Board of Managing Directors. 20

20

Region	Limit in EUR million	Share of total limit in %	Utilization in EUR million	Share of total volume in %
W. Europe	318 420	66.7	126 456	67.9
E. Europe	8 695	1.8	2 094	1.1
Asia/Pacific	49 627	10.4	16 767	9.0
Africa	551	0.1	82	0.0
N. America	92 560	19.4	38 852	20.9
Latin America	5 398	1.1	1 222	0.7
Supranational	2 200	0.5	647	0.3
Total	477 451	100.0	186 119	100.0

Risk Provisions.

The downturn in risk costs (use of specific bad debt provisions and direct write-offs) reflects an overall improvement in the risk situation. Compared to the previous year, total required risk provisions declined further in all segments. Improved rating and early risk identification procedures contributed to this result, in addition to economic factors. 21

21

Segment	Specific bad debt provisions Dec. 31, 2006 (1)	Claims (2)	Specific bad debt provision ratio (1)/(2)	Utilization of specific bad debt provisions in 2006	Direct write-offs as of June 30, 2006
in EUR million					
Financial Markets	0.2	274 914	0.00 %	2.0	0.3
Corporates	1 237.2	86 537	1.43 %	166.7	9.1
Retail Clients	346.7	29 893	1.16 %	74.9	10.4
Corporate Items	16.3	17 961	0.09 %	4.1	1.3
LBBW Bank	1 600.4	409 304	0.39 %	247.7	21.2

Market Price Risks.

Market Price Risk Monitoring and Management.

LBBW's market price risks are monitored daily by Risk Controlling. The monitoring of market price risks at LBBW is based on a hierarchical limit system. These limits are set by the Group's Board of Managing Directors. In the case of certain sub-portfolios, this authority was assigned to individual members of the Board of Managing Directors, who then further delegate this authority according to a hierarchical system of responsibilities.

Risk management is handled within the scope of the limit system by the relevant person with portfolio responsibility in the trading units and Treasury division. Key committees involved in the management and monitoring of market price risks are the Board of Managing Directors' treasury management committee and the risk committee.

Market price risks are measured and limited across the board using value-at-risk (VaR) indicators. Aggregate losses in the course of the year reduce the available VaR limit of the relevant portfolio and therefore ensure an absolute limitation of losses throughout the year as a whole (stop loss). VaR and stop-loss limit utilization is reported daily to the relevant person with portfolio responsibility and the Group's Board of Managing Directors. In addition to daily reports, the Board of Managing Directors also receives more detailed information monthly about the effects of market price risks on the risk and earnings situation. A more in-depth discussion of the Bank's exposures based on various stress scenarios is also conducted in this forum.

Procedures.

At LBBW, the VaR from market price risks is calculated at a confidence level of 99% and a holding period of ten days. This calculation is based on a procedure involving a scenario-based Monte Carlo simulation (SiRA), an approach that combines precise measurements with efficient calculations. The simulation enables LBBW in most cases not only to estimate market-induced value fluctuations, even in complex transactions, but to measure them exactly. In addition, the breakdown of potential market developments into scenarios boosts efficiency by reducing the number of portfolio valuations.

Market price risks are broken down at LBBW into the risk categories listed below:

Interest rate risks as potentially detrimental developments in market interest rates influence trading portfolios, as well as the strategic interest rate position of the banking book. In this regard, it is not only parallel shifts in yield curves, but also factors such as twists, that can have a significant impact on the Bank's interest rate position. These types of developments are included in full in the simulations used in calculating VaR. Moreover, basis risks that arise due to relative movements of various interest rate markets in relation to each other are included in risk calculations. Basis risks are very strongly dependent on the correlation of the underlying yield curves.

Foreign exchange, commodities, and equity risks are less significant at LBBW than interest rate risks. The former also include risks from precious metals and currency portfolios, which LBBW only holds to a limited degree.

In addition to market price risks, LBBW also measures and limits market liquidity risks. These relate to special price risks associated with holding portfolios of less liquid securities. More information on this is available in the section on liquidity risks.

The VaR calculations are supplemented with separate stress scenarios that include curve movements and spread changes in particular, and therefore reflect changes in the value of the portfolio in the event of extreme market movements.

The interest rate shock of 200 basis points assumed under Basel II is also calculated regularly. Experience shows that the change in present value as its effects very clearly falls within the thresholds defined there.

Risk Situation.

LBBW remained within the global limit for market price risks at all times during fiscal 2006. The market price risks entered into were therefore fully within LBBW's risk-bearing potential.

LBBW's market price risks are heavily influenced overall by interest rate risks. The following table illustrates their composition by risk types at the overall bank level: [22](#)

22

in EUR million	Average	Maximum	Minimum	Dec. 31, 2006	Dec. 31, 2005
Interest rate risks	207	250	183	206	240
Share risks	31	47	10	33	35
Currency risks	9	23	4	8	9
LBBW Bank	224	283	191	214	270

The following is the breakdown for the trading positions: [23](#)

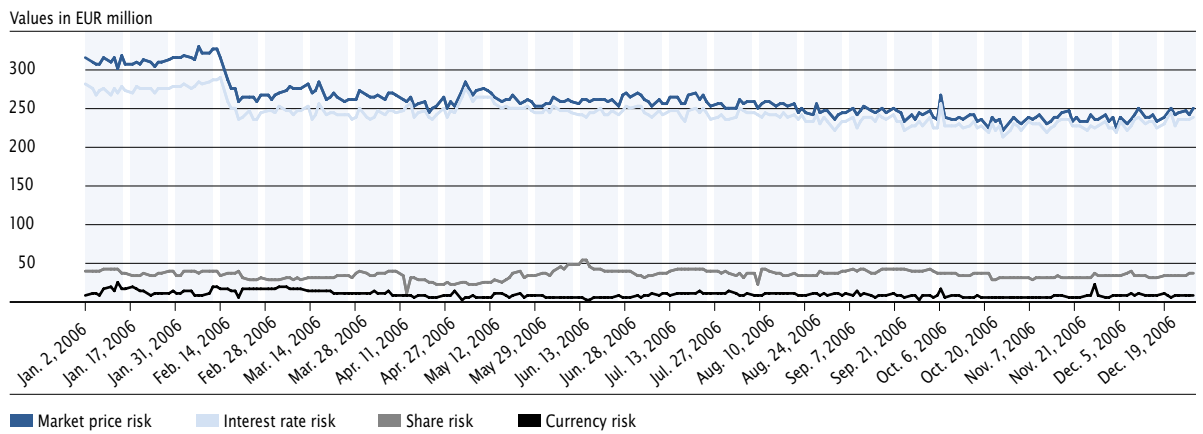
23

in EUR million	Average	Maximum	Minimum	Dec. 31, 2006	Dec. 31, 2005
Interest rate risks	28	41	16	19	44
Share risks	11	25	5	7	12
Currency risks	6	26	1	5	10
Trading positions LBBW	37	61	20	23	55

The following charts illustrate LBBW Bank's market price risks over the course of the year: 24 and 25

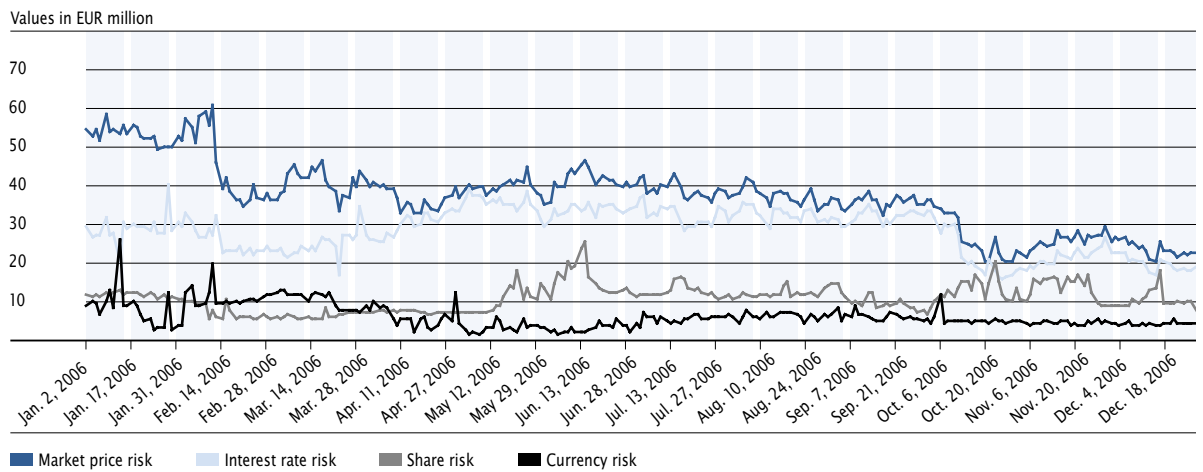
Risk Performance of LBBW in 2006.

24



Risk Performance of Trading Positions in 2006.

25



Backtesting.

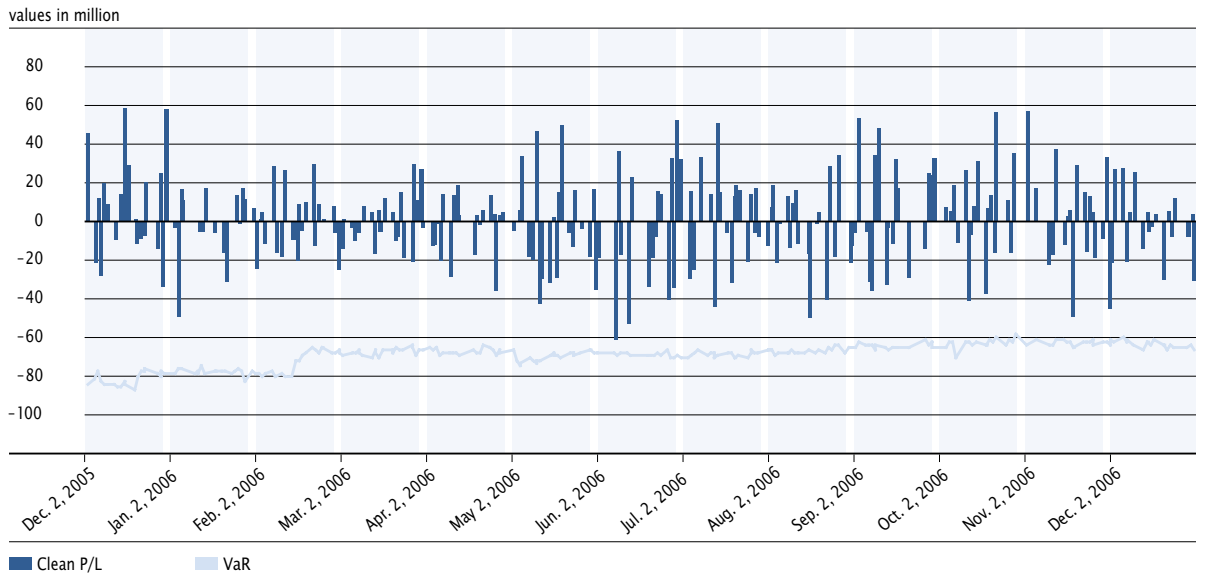
The VaR value calculated by the risk model (SiRA) represents a statistical forecast of expected portfolio losses from market price risks over the respective time periods. In order to verify the suitability of the model, it is necessary to test the quality of forecasts. This process is called “backtesting”. In concrete terms, this process involves counting the number of times VaR is exceeded by actual portfolio value changes (called

“outliers”). Even in the case of a perfect model, this number is subject to statistical fluctuations. For this reason, the supervisory authorities have set a limit of five outliers; if the backtesting result produces less than five, this is not considered to indicate weaknesses in the model. LBBW’s backtesting time series indicate no outliers either for the Bank overall or for the trading book, placing LBBW well within this limit. 26

Backtesting.

Bank overall for the Period from Dec. 2, 2005 – Dec. 29, 2006, VaR Parameters: 99 % Confidence Level, 1-Day Holding Period, Outlier Ratio = 0.0 %

26



Further Development of the Risk Model.

Due to rapid change on the capital markets, the risk model continually poses new challenges for LBBW. New types of products are constantly being introduced that must be adequately reflected in the risk model. Before new products are approved for LBBW's trading units, they are subject to a "New Product Process" that ensures that these products are included in the Bank's various systems, such as accounting and risk controlling. LBBW itself develops the necessary valuation procedures for the risk model.

In 2006, three releases of the risk model were completed; each release included new products and enhancements of the calculation methodology.

This gives LBBW control and, if necessary, enables LBBW to react to variations in product structure. The Bank is aware, however, that the valuation process is subject to limitations. In addition to valuations, the adequacy of risk modeling is also reviewed regularly. If certain markets and risk types become more important in the future, LBBW can flexibly expand the model LBBW developed in-house.

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

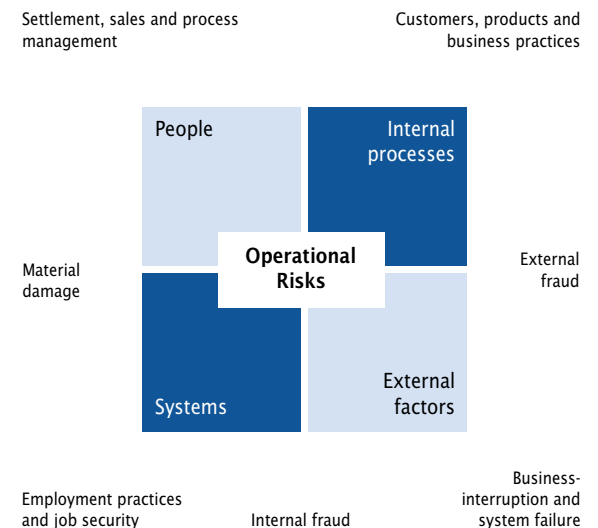
Operational Risks.

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

In fiscal 2006, LBBW's central operational risk controlling activities focused on the further development of methods and tools for identifying, assessing, and analyzing operational risks. The conditions were put in place for application of the standardized approach. A primary concern in the management and controlling of operational risks is the early identification of operational risks and avoidance or mitigation of the resulting losses. The causes and events are classified according to the following categories: 27

Operational Risks.

27



The software used at LBBW to document the relevant operational risk management and controlling data was expanded in the year under review. In addition to the existing incident database, modules were implemented for the management of external incident data, risk inventories, and risk indicators.

The transparency created thanks to the incident database enables LBBW to prepare detailed analyses of quantifiable operational risks that have reached a critical stage. The results of the incident analyses are integrated into the planning of preventive measures and allow LBBW to derive the appropriate pricing concepts. Incidents of loss at significant subsidiaries, such as LRP, are included in risk reporting.

In addition to internal incident data, external incident data is also required for the application of mathematical-statistical methods for quantifying operational risks. Within the auspices of Bundesverband Öffentlicher Banken (VÖB – Federal Association of Public-Sector Banks in Germany), LBBW is a member of the Operational Risk Data Consortium (DakOR), the objective of which is to collect incident data and exchange it in anonymized form. The data is used for scenario analyses in particular.

LBBW further developed its qualitative methods used to identify and evaluate risks. In order to determine risk potential, moderated risk inventories are conducted throughout the Bank. Thanks to the integration of employees working in each area of business, the knowledge of decentralized technical experts is being used for thorough business area-specific scenario design and risk analysis. Risk inventories are a suitable platform for raising the risk awareness of employees

and therefore ultimately reducing operational risks. The results gleaned from risk inventories will aid the further development of a comprehensive controlling and management concept for identifying, measuring, managing, and monitoring operational risks. Risk inventories are also conducted at the key subsidiaries.

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

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

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

IT Risks.

Compliance with ISO standard 17 799 for IT security ensures a high level of quality in this area. A centralized process was stipulated for IT risk management at LBBW, which includes raising awareness of risk among employees and regularly analyzing the risk scenarios identified for the Bank's IT systems.

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

After the merger of LBBW and BW Bank, LBBW currently operates four data centers. Pairs of two data centers provide backups for each other. During the course of the year, BW Bank's business was migrated to LBBW's IT systems. The two data centers operated by BW Bank were subsequently scaled back. LBBW continues to maintain two independent, geographically separate data centers for testing and production operations. In terms of its mainframes, LBBW has set up a backup operation with data mirroring that provides emergency backup requiring downtime of around four hours. A backup system with data mirroring has also been implemented for trading systems. In addition, backup workstations have been set up for trading and processing trading transactions.

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

Personnel Risks.

LBBW's success depends materially on the dedication of its employees, and this idea is anchored in LBBW's mission statement: "We as employees drive the success of the Bank. Thanks to our expertise, knowledge and commitment."

The objective of comprehensive personnel risk management is to identify negative trends (risk monitoring) and to evaluate measures suitable for preventing or minimizing risk (risk management).

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

In the risk category of “resignation risk”, an analysis of external fluctuations, for example, did not indicate any abnormalities, even compared to other Landesbanken: 28

Analysis of External Fluctuations.

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in %	2000	2001	2002	2003	2004	2005	2006
LBBW	6.0	6.0	5.0	6.8	6.7	4.9	6.0
Reference value (VÖB)	7.1	6.1	5.9	6.9	6.4	5.9	-

In addition to attracting talented employees from the external labor market, HR also concentrates on developing and promoting young employees within the company. In order to counter the risk of a lack of high-performance employees (“bottleneck risk”), employee potential is systematically documented and analyzed. The age structure of LBBW’s employees is watched particularly closely due to demographic changes, although this does not require any action in the immediate future.

In addition to these traditional indicators, qualitative indicators must be included so that personnel risks are not simply extrapolated from past experience, but can be projected into the future and analyzed. We stepped up our search for valid qualitative indicators for this type of risk monitoring.

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

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

Risk Situation and Outlook:

No developments that could endanger the existence of LBBW were identified in 2006. In order to ensure that a sufficient number of potential specialists and executive staff continues to be available in the future, LBBW will strengthen its commitment to offering training courses and apprenticeships in 2007.

Legal Risks.

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

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

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

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

Liquidity Risks.

LBBW's liquidity risk monitoring and management activities draw a distinction between short-term liquidity risk, which represents the risk of insolvency due to an acute lack of funds, and funding (spread) risk, which describes the adverse effects on income resulting from a possible rating-induced deterioration of the funding spread.

In addition, the market liquidity risk is an expression of the danger that due to inadequate market depth or to market disruptions, capital market positions can only be closed out at a loss.

Short-term Liquidity Risk and Funding Risk.

Liquidity management at LBBW is viewed as a cross-disciplinary responsibility and is performed by the Treasury division. The funding (spread) risk arising from banking book positions is managed centrally by Treasury, although long-term loans are generally matched to long-term funding. The diversification of our investor base is regularly discussed in deliberations on the funding strategy.

In 2006, responsibility for measuring, monitoring, and limiting liquidity risks was transferred from Treasury to Risk Controlling.

Short-term liquidity is monitored using regular projections that take into account all of the cash activities of the Bank. The risk of an acute shortage of funds is minimized using a limit system in which the overall limit is derived from the available liquidity reserve.

The available funding potential at central banks is monitored daily. As part of a comprehensive liquidity report, Risk Controlling also reports to the Board of Managing Directors quarterly on all relevant issues associated with liquidity and the Bank's and Group's liquidity risk.

In addition, a detailed emergency plan is in place to secure liquidity in possible crisis situations.

By limiting funding requirements and consistently managing its liquidity reserves, the Bank believes itself to also be well secured in the event of unforeseeable interruptions in its market sources of liquidity and unexpected outflows of liquidity or defaults on expected incoming payments. LBBW's available potential funding with same-day availability via central banks (ECB and the Fed), defined at LBBW as the liquidity reserve in the narrower sense, amounted to EUR 13.6 billion as of December 31, 2006.

The liquidity requirements defined in Principle II of the KWG (German Banking Act) were substantially exceeded at all times in 2006. The liquidity ratio of LBBW (Bank) was 1.32 (2005: 1.32) as of December 31, 2006.

Market Liquidity Risk.

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

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

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

Investment Risks.

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

Early identification of business and risk developments at LBBW's subsidiaries and equity investments is particularly important for investment controlling purposes. To this end, regular coordination meetings are held at the corresponding management levels of the Bank and the subsidiary/equity investment, particularly in the case of companies material in terms of risk policy. In addition, these companies' results and planning are continually monitored by the organizational unit responsible for equity investment management in the Group Strategy and Legal division at LBBW.

The companies in LBBW's equity investment portfolio are assigned to one of two categories in terms of risk:

- Key subsidiaries, i.e., companies in which LBBW is the majority shareholder and whose risk potential (in the main risk categories of credit risk, market price risk, liquidity risk, and operational risk) is deemed to be material from the Group's perspective.
- Non-key subsidiaries and equity investments, i.e., companies in which LBBW is the majority shareholder and whose risk potential deemed to be immaterial from the Group's perspective, or minority equity investments, i.e., companies in which LBBW as the minority shareholder does not have the direct influence possible in the case of companies in which a majority interest is held.

To the extent possible today, the key subsidiaries are handled according to the transparency principle or are successively being integrated into this approach. In accordance with the transparency principle, LBBW includes the risk potential of the relevant subsidiaries into its own risk management process at the aggregate level.

In the case of the non-key subsidiaries and minority interests, the risk potential is quantified based on the interest held and included as a whole in LBBW's risk management system. The credit portfolio model for calculating credit VaR is used for this calculation.

Risk Situation.

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

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

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

There is also a risk that the Bank will receive an insufficient return or no return at all on its investments. However, this risk corresponds to the above-mentioned general book value or market value risk due to the focus on return in the valuation of equity investments. In addition to the usual risks inherent in equity interests resulting from the investment of capital, liability

risks also arise from the profit and loss transfer agreements concluded with some subsidiaries and from the responsibility for fulfilling the maintenance obligation (Anstaltslast) and guarantor's liability (Gewährträgerhaftung) for equity investments in public-sector banks. Furthermore, the Bank has signed letters of comfort with various equity interests.

In view of the profit retention in LBBW's investees, a return on the equity investment portfolio was generated that exceeded the return that could have been achieved with alternative no-risk investments (fixed-interest securities issued by the public sector).

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

Summary of the Risk Situation.

Measures have been implemented by LBBW at the Bank and Group levels to limit or minimize all material risks and account for all identifiable risks by setting up prudent risk provisions.

A bank-wide compilation of risks across all quantifiable risk categories is being prepared. This aggregation is based on VaR values and comparable risk parameters (economic capital) and indicates that these risks

only account for a small share of LBBW's risk-bearing potential; the majority serves as a buffer for non-quantifiable risks, among other things.

The minimum capital ratio of 8% required by the supervisory authorities for all risk assets and market risk positions was met at all times in the past year for both the Bank and the Group as a whole. As of December 31, 2006, the Bank's ratio improved to 12.1% (December 31, 2005: 11.7%) and the Group's ratio also improved to 10.6% (December 31, 2005: 10.2%).

The procedures for evaluating the creditworthiness of LBBW's business partners have proven to be stable. The rating processes developed and introduced in past years have continued to prove successful in use. Apart from the transactions in the default classes (RKL 16-18), no acute risks from individual commitments or transactions have been identified in the loan and securities portfolio. No notable industry concentrations exist either.

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

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LBBW Bank.

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in EUR million	Credit risks		Country risks (transfer risks)	
	Risk provisions - Claims	Risk provisions - Securities	Risk provisions - Claims	Risk provisions - Securities
Dec. 31, 2002	1 688.8	52.7	50.8	5.0
Dec. 31, 2003	1 539.9	53.2	19.6	2.2
Dec. 31, 2004	1 612.2	9.1	14.5	2.0
Dec. 31, 2005	1 778.1	41.5	17.5	0.0
Dec. 31, 2006	1 600.4	8.9	14.7	0.0

The overall difficult economic situation from 2002 to 2004 also affected LBBW's risk provisions in the past. Since 2005, the economy has been experiencing a significant upswing, particularly in Baden-Württemberg. This development intensified in 2006. Growth in exports, a slight upturn in domestic demand, and a decline in the number of corporate insolvencies contributed substantially to the favorable performance of LBBW. In addition, the VAT rate increase as of January 1, 2007 led to preemptive acquisitions of durable economic goods in 2006.

In 2006, the overall positive economic climate, along with active risk management by LBBW, resulted in a significant improvement in LBBW's risk situation. Compared to the previous year, the Bank's risk provisions dropped by 12% to EUR 1 624 million at the end of 2006. The increase in risk provisions at the end of 2005 was the result of the inclusion of BW Bank's portfolios during the integration process. Adjusted for this effect, risk provisions would have decreased in 2005.

In 2007, we anticipate demand for exports to remain high. In Germany, the early part of 2007 in particular is expected to be marked by the extraordinary effects of the VAT rate increase. Even more important in terms of long-term economic outlook, however, is that a stable foundation is being created for consumer demand by the expected improvement of the labor market situation. We therefore do not expect any adverse effects on the risk situation at LBBW. Regardless of this fact, LBBW will continue to develop its risk management policies to address unfavorable trends early on.

The continued positive ratings assigned by external rating agencies are based on LBBW's strong regional market position, the Bank's diversification in the wholesale and retail businesses, and the fact that LBBW has relatively few high-risk transactions on its books and generally possesses sufficient liquidity at all times when it is required due to LBBW's conservative risk policy. As a bank that issues mortgage bonds, LBBW has and will continue to have access in the future to this top-rated funding source.

Due to LBBW's continued commitment to its conservative risk policy, no extraordinary developments are anticipated either in terms of credit risks, market price risks, or liquidity risks.

Outlook.

Continued Robust Global Economic Growth, Self-sustaining Upswing in Germany.

According to forecasts by the International Monetary Fund, the global economy is expected to expand by 4.9% in 2007 after price adjustment. In particular the economic cooling in the United States already noticeable in the second half of 2006 will put the brakes on global economic growth. This reflects the dampening effects of the restrictive monetary policy practiced by the US Federal Reserve up to mid-2006. Strong corrections have already been seen since then, especially in the real estate market and construction activities. However, a notable decline is not expected from LBBW's perspective. Instead, US growth is expected to again live up to its potential in the course of 2007 after several moderate quarters.

The conditions continue to be favorable for growth in Europe as well. In 2007 and 2008, the EU Commission projects real GDP growth of 2.4% in each case in the 27 EU member states, as well as growth rates of 2.1% and 2.2% respectively in the European Monetary Union. In Germany, the VAT rate increase will hamper private consumption temporarily. However, the positive impetus provided by the labor market should compensate for this and then drive a self-sustaining upswing. Against this backdrop, LBBW expects GDP growth of 1.4% in Germany in 2007.

Planning.

LBBW is going into fiscal years 2007 and 2008 with a great deal of optimism. In view of the expected economic climate, the LBBW Group anticipates further growth in operating results. If the general operating environment changes, this could have a corresponding effect on the LBBW Group's earnings.

After pinpointing our efforts in recent years on generating cost synergies through the integration of Baden-Württembergische Bank AG (BW Bank AG) and Landesbank Rheinland-Pfalz (LRP), profit increases in the coming years will be driven primarily by income growth, as well as continued strict cost control. Our proven conservative risk policy will continue to be a key factor in meeting this goal.

In the **Retail Customer business**, the expansion of the Private Banking business field serving high-net worth retail customers via BW Bank will lead to further earnings improvements. Our aim is to increase market penetration in this customer segment by offering first-rate products and services and to more efficiently leverage our potential from existing customer relationships. The business territory of BW Bank in Baden-Württemberg is considered to possess above-average potential based on the general economic data. For this reason, LBBW will also achieve further growth by optimizing the business model in the traditional bank branch business with existing customers. A key success factor is the implementation of additional optimization measures for sales processes after the integration of BW Bank.

An earnings increase in the **Financial Markets** segment will come mainly from LBBW's strategic concentration as a provider of structured equity, interest rate, credit, and commodity products and by intensifying LBBW's capital market-oriented business with customers. Positive effects are anticipated from LBBW stepping up sales activities in European markets and global capital market centers. In this regard, LBBW intends to reinforce its market position, particularly in the equities business, as well as through credit structuring and trading. Thanks to the restructuring of institutional asset management in the LBBW Group, the conditions were put in place for qualitative and quantitative expansion of LBBW's business with institutional investors. The extension of the sales activities and especially the introduction of innovative products are expected to have a positive effect on LBBW's earnings situation in the coming years.

In the **Corporate Finance** segment, we expect growth in earnings in the future as well. The strategic focus here continues to be on LBBW's positioning as a house bank for SMEs. All of the LBBW Group's companies will strengthen their relationships with corporate clients and pursue even more extensive partnerships. We will therefore continue our approach of attracting selected new customers while also further leveraging the potential of existing customer relationships. In addition to providing a full range of credit products, we will increasingly offer these customers supplementary services, such as investment concepts and capital market instruments.

The expansion of LBBW's product range tailored to the international business of corporate and savings bank customers will also improve the degree to which we leverages its existing corporate customer base, as well as enabling selective development of new customer groups for the international business beyond the core market, thereby creating a broader base for generating earnings. In addition, LBBW will pursue additional market activities in the area of leasing, mainly via the subsidiaries SüdLeasing and MKB. The equity interest in LHI Leasing GmbH acquired in 2006 also serves the purpose of further expanding the real estate leasing and fund activities.

The **cost structure** of the LBBW Group will further improve in 2007 and 2008. The integration of BW Bank resulted in full realization of the human resources and other cost synergies arising principally from the harmonization of structures and processes and from the combination of IT systems. However, these are offset by costs incurred in the course of strategic growth projects and statutory and regulatory projects.

Investments in tangible assets will again be at a normal level for a banking group of LBBW's size in 2007 and 2008. As in past years, the cost management practiced by LBBW with regard to investments will have a positive effect due to further reduced depreciation charges.

Balance Sheet as of December 31, 2006 of Landesbank Baden-Württemberg, Stuttgart, Karlsruhe, and Mannheim.

Assets

	Explanation in the Notes	EUR thousand	EUR thousand	EUR thousand	Dec. 31, 2005 EUR thousand
1. Cash funds					
a)	cash on hand			121 485	120 418
b)	balances with central banks			1 328 774	452 630
	thereof:				
	with Deutsche Bundesbank	1 317 162			444 141
c)	balances with postal giro accounts			0	0
				1 450 259	573 048
2. Public-sector debt instruments and bills of exchange eligible for refinancing with central banks					
a)	treasury bills and non-interest treasury notes, as well as similar public-sector debt instruments			35 047	0
	thereof:				
	eligible for refinancing with Deutsche Bundesbank	0			0
b)	Bills of exchange			0	58 832
	thereof:				
	eligible for refinancing with Deutsche Bundesbank	0		35 047	58 832
3. Claims on banks	[5,6,8,10,14]				
a)	payable on demand			10 943 524	6 966 312
b)	other claims			139 263 356	138 793 909
				150 206 880	145 760 221
4. Claims on customers	[5,6,8,10,14]			104 049 567	100 229 407
	thereof:				
	secured by mortgages	13 496 966			16 382 608
	municipal loans	24 816 794			24 829 051
5. Bonds and other fixed-interest securities	[5,6,7,8,9,14]				
a)	money market instruments				
aa)	issued by public-sector borrowers		0		24 895
	thereof:				
	eligible as collateral for Deutsche Bundesbank advances	0			0
ab)	issued by other borrowers		14 648 718		6 518 711
	thereof:				
	eligible as collateral for Deutsche Bundesbank advances	5 220 144		14 648 718	6 543 606
b)	bonds				
ba)	issued by public-sector borrowers		10 339 013		11 369 695
	thereof:				
	eligible as collateral for Deutsche Bundesbank advances	9 380 017			10 580 357
bb)	issued by other borrowers		49 415 432		46 470 545
	thereof:				
	eligible as collateral for Deutsche Bundesbank advances	26 507 146		59 754 445	57 840 240
c)	own bonds			8 285 346	10 713 372
				82 688 509	75 097 218
	Nominal amount	7 581 339			10 144 336
	Amount carried forward to next page			338 430 262	321 718 726

Liabilities

	Explanation in the Notes	EUR thousand	EUR thousand	EUR thousand	Dec. 31, 2005 EUR thousand
1. Liabilities to banks	[5,6,17]				
a) payable on demand				12 420 632	7 246 600
b) with contractual term or period of notice	[6]			116 737 435	100 451 747
				129 158 067	107 698 347
2. Liabilities to customers	[5,6,17]				
a) savings deposits					
aa) with agreed period of notice of three months			6 286 612		6 621 153
ab) with agreed period of notice of more than three months	[6]		322 746		531 473
				6 609 358	7 152 626
b) other liabilities					
ba) payable on demand			17 565 043		17 266 275
bb) with contractual term or period of notice	[6]		63 701 532		62 686 409
				81 266 575	79 952 684
				87 875 933	87 105 310
3. Certificated liabilities	[5,6,14,17]				
a) bonds issued				98 937 889	106 383 155
b) other certificated liabilities				14 402 186	11 430 481
thereof:				113 340 075	117 813 636
money market instruments		14 402 186			11 429 888
own acceptances and promissory notes outstanding		0			593
4. Liabilities held on a trust basis	[10]			129 329	125 839
thereof:					
loans granted on a trust basis at third-party risk		67 939			73 552
5. Other liabilities	[16]			2 638 913	1 880 885
6. Deferred items	[13]			1 029 154	1 345 443
7. Provisions					
a) provisions for pensions and similar commitments				707 436	612 368
b) provisions for taxes				317 728	242 030
c) other provisions				222 380	336 467
				1 247 544	1 190 865
8. Special items with partial reserve character	[18]			64 598	60 945
9. Subordinated liabilities	[5,19]			4 016 976	3 636 502
10. Capital generated by profit participation certificates				2 054 069	2 210 269
thereof:					
maturing in less than two years		398 938			478 802
Amount carried forward to next page				341 554 658	323 068 041

Assets

	Explanation in the Notes	EUR thousand	EUR thousand	EUR thousand	Dec. 31, 2005 EUR thousand
Amount carried forward from previous page				338 430 262	321 718 726
6. Shares and other non-fixed interest securities	[7,8]			4 928 346	2 626 287
7. Companies in which an equity interest is held	[7,11]			781 692	621 355
thereof:					
in banks		186 473			200 876
in financial services institutions		25			0
8. Shares in affiliated companies	[7,11]			4 391 790	3 660 782
thereof:					
in banks		1 048 264			825 449
in financial services institutions		21 924			9 055
9. Assets held on a trust basis	[10]			129 329	125 839
thereof:					
loans granted on a trust basis at third-party risk		67 939			73 552
10. Recovery claims on the public sector including bonds resulting from their exchange				0	0
11. Intangible assets	[11]			64 347	95 504
12. Tangible assets	[11]			571 974	575 765
13. Unpaid contributions to subscribed capital				0	0
thereof:					
amount called in		0			0
14. Own shares or equity interests				0	0
nominal amount		0			0
15. Other assets	[12]			3 731 370	2 834 425
16. Deferred items	[13]			1 006 088	1 244 095
Total assets				354 035 198	333 502 778

Liabilities

Explanation in the Notes	EUR thousand	EUR thousand	EUR thousand	Dec. 31, 2005 EUR thousand
Amount carried forward from previous page			341 554 658	323 068 041
11. Fund for general bank risks			1 600 000	0
12. Equity [20]				0
a) subscribed capital				0
aa) nominal capital		1 419 800		1 419 800
ab) silent partners' contributions (Stille Einlagen)		3 501 429		3 544 484
			4 921 229	4 964 284
b) capital reserve			3 073 821	3 073 821
c) revenue reserves				
ca) legal reserves		0		0
cb) other revenue reserves		2 311 444		2 310 632
			2 311 444	2 310 632
d) distributable profit			574 046	86 000
			10 880 540	10 434 737
Total liabilities			354 035 198	333 502 778
1. Contingent liabilities				
a) contingent liabilities from rediscounted bills of exchange			3 679	3 818
b) liabilities from guarantees and indemnity agreements [17,21,22,23]			34 956 370	32 905 124
c) liabilities from the granting of collateral for third-party liabilities			0	0
			34 960 049	32 908 942
2. Other commitments				
a) transactions without firm repurchase agreement (Unechtes Pensionsgeschäft)			0	0
b) placing and underwriting commitments [21]			0	0
c) irrevocable loan commitments [21]			29 016 115	28 180 644
			29 016 115	28 180 644

Statement of Income for the Period
January 1 – December 31, 2006 of Landesbank Baden-Württemberg,
Stuttgart, Karlsruhe, and Mannheim.

Explanation in the Notes	EUR thousand	EUR thousand	Jan. 1 to Dec. 31, 2005	
			EUR thousand	EUR thousand
1. Interest income from [29]				
a) lending and money market transactions	10 668 794			
b) fixed-interest securities and debt register claims	2 836 330	13 505 124		2 738 749
2. Interest expenses		12 002 796		11 216 683
			1 502 328	1 522 066
3. Current income from [29]				
a) shares and other non-fixed interest securities		237 275		170 103
b) equity interests		5 660		5 304
c) shares in affiliated companies		49 223		48 497
			292 158	223 904
4. Income from profit pooling, profit transfer or partial profit transfer agreement			79 830	116 406
5. Commission income [29,30]		578 946		478 931
6. Commission expenses		121 514		106 535
			457 432	372 396
7. Net income from financial transactions [29]			175 016	61 048
8. Other operating income [25,29]			110 698	132 519
9. Income from the writing back of special items with partial reserve character			0	55 861
10. General administrative expenses				
a) personnel expenses				
aa) wages and salaries	538 052			458 604
ab) compulsory social security contributions, expenses for pensions and other employee benefits	165 481			134 485
		703 533		593 089
thereof:				
for pensions:	79 463			59 465
b) other administrative expenses		367 029		313 093
			1 070 562	906 182
11. Write-downs and adjustments to intangible and tangible assets			106 727	167 126
12. Other operating expenses			97 185	81 870
13. Write-downs and adjustments to claims and certain securities as well as allocation to provisions for possible loan losses			0	325 480
14. Income generated by additions to claims and certain securities as well as from the release of provisions for possible loan losses			1 301 445	0
			1 301 445	- 325 480
15. Allocations to fund for general bank risks			1 600 000	0
Amount carried forward to next page			1 044 433	1 003 542

Explanation in the Notes	Jan. 1 to Dec. 31, 2005			
	EUR thousand	EUR thousand	EUR thousand	EUR thousand
Amount carried forward from previous page			1 044 433	1 003 542
16. Write-downs of and adjustments to equity interests, shares in affiliated companies and securities listed under fixed assets			3 180	6 219
17. Income from addition to equity interests, shares in affiliated companies and securities listed under fixed assets			0	0
			- 3 180	- 6 219
18. Expenses from the assumption of losses			34 811	2 180
19. Allocation to special items with partial reserve character			5 700	0
20. Profit on ordinary activities			1 000 742	995 143
21. Extraordinary income		42 306		0
22. Extraordinary expenses [27]		60 829		546 415
23. Extraordinary net income [27]			- 18 523	- 546 415
24. Taxes on income [28]		187 274		145 752
25. Other taxes not shown under item 12		3 521		3 995
			190 795	149 747
26. Income from the assumption of losses			0	0
27. Profits transferred under the term of profit pooling, profit transfer or partial profit transfer agreements			217 378	212 981
28. Net income			574 046	86 000

Notes to the Financial Statements of Landesbank Baden-Württemberg, Stuttgart, Karlsruhe, and Mannheim as of December 31, 2006.

(1) Principles Governing the Preparation of the Financial Statements.

The financial statements for the 2006 fiscal year of Landesbank Baden-Württemberg (LBBW) with headquarters in Stuttgart, Karlsruhe, and Mannheim were drawn up in compliance with the provisions of the Handelsgesetzbuch (HGB, the German Commercial Code), in particular the "Supplemental Regulations for Banks" (§§ 340 et seq. HGB) and Verordnung über die Rechnungslegung der Kreditinstitute und Finanzdienstleistungsinstitute (RechKredV, the German Accounting Regulation for Banks and Financial Service Institutions).

LBBW's audited single-entity financial statements for 2006 and a separate list entitled "Substantial Subsidiaries and Affiliates of Landesbank Baden-Württemberg" pursuant to § 285, No. 11 and § 313 (2) HGB have been published in the electronic Bundesanzeiger (the German Federal Gazette), where they can be inspected.

(2) General Accounting and Valuation Methods.

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

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

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

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

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

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

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

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

Liabilities are valued at the repayable amount.

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

Provisions for pension obligations are calculated on the basis of actuarial principles pursuant to § 6a EStG and the "Richttafeln 2005 G" (2005 G mortality tables), Heubeck-Richttafeln-GmbH, Cologne 2005. The adjustment to the new Heubeck mortality tables was fully recognized in the statement of income in 2005. Pension commitments are always accrued in compliance with the relevant tax provisions.

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

The allocations to the special item for general bank risks pursuant to § 340g HGB, which qualify as Tier 1 capital under regulatory requirements, result from the reclassification of provisions for general banking risks pursuant to § 340f HGB.

(3) Derivatives.

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

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

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

Please refer to the data presented in the "Other Assets" and "Other Liabilities" items for information on the book value of options in the form of option premiums.

The tables also exclude internal derivative financial instruments.

Derivative Transactions – Product Structure.

in EUR million	Nominal values Dec. 31, 2006	Nominal values Dec. 31, 2005	Positive market value ¹ Dec. 31, 2006	Negative market value Dec. 31, 2006
Interest rate risks				
Interest rate swaps	861 740.4	845 470.3	10 621.4	- 9 478.9
FRAs	155 733.4	72 414.6	35.3	- 21.3
Interest rate options				
- purchases	22 229.0	11 044.8	437.7	- 0.1
- sales	34 910.0	29 186.6	0.0	- 1 001.9
Caps, Floors	39 079.9	34 094.6	179.4	- 127.5
Interest rate futures	162 272.5	80 099.4	47.9	- 105.2
Other interest rate forwards	2 554.8	17 772.4	6.3	- 11.8
Total interest rate risks	1 278 520.0	1 090 082.7	11 328.0	- 10 746.7
Currency risks				
Currency forwards	105 053.2	93 951.4	14 790.0	- 1 199.1
Currency swaps, cross-currency interest-rate swaps	29 446.3	24 493.6	1 428.5	- 2 037.4
Currency options				
- purchases	5 597.0	7 001.2	73.5	- 0.8
- sales	3 152.1	3 643.2	37.3	- 10.4
Currency futures	0.0	0.0	0.0	0.0
Other currency forwards	0.0	0.0	0.0	0.0
Total currency risks	143 248.6	129 089.4	3 018.3	- 3 247.7
Share and other price risks				
Stock futures	821.1	50.2	8.1	- 1.7
Equity forwards	0.0	0.1	0.0	0.0
Stock options				
- purchases	5 062.0	967.0	558.0	0.0
- sales	3 423.8	544.0	0.0	- 193.9
Other	359.5	62.0	3.7	- 3.7
Total share and other price risks	9 666.4	1 623.3	569.8	- 199.3
Credit derivatives				
Credit Default Swaps				
- protection buyer	14 562.7	8 893.8	37.2	- 189.2
- protection seller	37 944.1	28 108.2	248.3	- 55.5
Credit Linked Notes				
- protection buyer	767.1	723.8	16.9	- 29.4
- protection seller	0.0	0.0	0.0	0.0
Credit Linked Swaps				
- protection buyer	0.0	0.0	0.0	0.0
- protection seller	397.3	387.3	18.0	- 30.9
Principal Protected Swaps				
- protection buyer	0.0	0.0	0.0	0.0
- protection seller	611.2	118.0	31.4	- 20.1
Total Return Swaps				
- protection buyer	79.5	42.2	0.2	- 0.4
- protection seller	37.9	42.2	0.0	- 0.2
Total credit derivatives	54 399.8	38 315.5	352.0	- 325.7
Total risks	1 485 834.8	1 259 110.9	15 268.1	- 14 519.4

¹ Including accrued interest ("dirty price")

Thereof:

Derivative Transactions - Trading Transactions.

in EUR million	Nominal values Dec. 31, 2006	Nominal values Dec. 31, 2005	Positive market value Dec. 31, 2006	Negative market value Dec. 31, 2006
Interest rate risks	1 089 832.1	908 966.7	8 427.6	- 7 656.6
Currency risks	20 068.6	16 016.3	367.3	- 219.7
Share/other price risks	6 489.9	1 509.7	514.2	- 185.2
Credit derivatives	26 542.6	10 692.7	184.3	- 188.4
Total trading transactions	1 142 933.2	937 185.4	9 493.4	- 8 249.9

Derivative Transactions - Maturity Structure (According to Residual Terms).

Nominal values in EUR million	up to 3 months	more than 3 months to 1 year	more than 1 year to 5 years	more than 5 years	Total
Interest rate risks					
Dec. 31, 2006	213 069.5	355 634.7	393 252.0	316 563.8	1 278 520.0
Dec. 31, 2005	328 500.7	202 983.7	294 109.1	264 489.2	1 090 082.7
Currency risks					
Dec. 31, 2006	74 387.0	38 859.4	21 260.2	8 742.0	143 248.6
Dec. 31, 2005	68 978.9	36 229.0	17 559.0	6 322.5	129 089.4
Share and other price risks					
Dec. 31, 2006	4 383.3	2 842.2	1 118.5	1 322.4	9 666.4
Dec. 31, 2005	426.6	360.5	193.2	643.0	1 623.3
Credit derivatives					
Dec. 31, 2006	987.1	3 503.0	19 739.8	30 169.9	54 399.8
Dec. 31, 2005	1 253.2	3 083.7	18 681.9	15 296.7	38 315.5
Total risks					
Dec. 31, 2006	292 826.9	400 839.3	435 370.5	356 798.1	1 485 834.8
Dec. 31, 2005	399 159.4	242 656.9	330 543.2	286 751.4	1 259 110.9

Derivative Transactions - Structure of Counterparties.

in EUR million	Nominal values Dec. 31, 2006	Nominal values Dec. 31, 2005	Positive market values Dec. 31, 2006	Negative market values Dec. 31, 2006
Banks in OECD countries	1 284 170.6	1 101 066.4	11 805.5	- 11 122.3
Banks in non-OECD countries	7 949.3	4 836.1	64.7	- 54.9
Public-sector agencies in OECD countries	17 763.2	15 597.1	563.9	- 396.5
Other counterparties	175 951.7	137 611.3	2 834.0	- 2 945.7
Total counterparties	1 485 834.8	1 259 110.9	15 268.1	- 14 519.4

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

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

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

Valuation of derivative financial instruments

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

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

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

Recognition of valuation results in the balance sheet

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

Micro and macro hedges (excluding credit derivatives)

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

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

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

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

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

Trading transactions

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

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

This approach ensures that the statement of income drawn up in line with the German commercial law reflects any potentially remaining realization risks in line with the conservatism principle. In order to reflect the risk-adjusted mark-to-market method on the balance sheet, an adjustment item was set up on the balance sheet and reported under the "Other assets" and "Other liabilities" items.

Credit derivatives, non-trading

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

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

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

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

Credit derivatives used for portfolio management purposes with regard to credit risks are not valued using the mark-to-market method provided the credit default swap constitutes an original lending transaction for LBBW. A prerequisite in this respect is the intention to hold the investment to maturity, and the credit default swap must not contain structures that cannot be part of the original lending transaction. Credit derivatives outside the trading portfolio that do not fulfill these conditions are valued separately. Unrealized valuation profits are offset only if the credit risk relates to one and the same reference debtor. Provisions for anticipated losses from pending transactions are set up for unrealized valuation losses, if necessary after offsetting against unrealized valuation profits. The results are included in write-downs of and adjustments to claims and certain securities as well as allocations to provisions for possible loan losses. Any valuation profits remaining after offsetting are not recognized.

(4) Foreign Currency Translation.

Foreign currency assets worth EUR 63.2 billion (2005: EUR 56.7 billion) and foreign currency liabilities worth EUR 98.7 billion (2005: EUR 98.0 billion), as well as income and expenses, included in the financial statements were translated in compliance with § 340h (1) HGB and under consideration of statement No. 3/1995 issued by the BFA. The risk of exchange rate movements associated with balance sheet items denominated in foreign currencies, including precious metals, is primarily covered by off-balance sheet hedging transactions.

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

Assets and liabilities – except for insignificant equity interests in fixed assets which were not funded with matching currencies – were translated at the mean spot rate as of December 29, 2006. Differences resulting from the translation of hedged assets and liabilities at the mean spot rate were allocated to the foreign currency adjustment item, which was included in other liabilities/other assets (depending on the balance). The adjustment item primarily corresponds to the balance of the market values of the currency forwards, cross-currency interest-rate swaps, and currency swaps.

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

Notes to the Balance Sheet.

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

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

in EUR million	Dec. 31, 2006	Dec. 31, 2005
A3. Claims on banks	150 206.9	145 760.2
thereof: to affiliated companies	3 449.5	2 656.2
thereof: to companies in which an equity interest is held	36 786.1	35 093.4
- thereof: to savings banks in Baden-Württemberg	34 656.2	34 205.7
A4. Claims on customers	104 049.6	100 229.4
thereof: to affiliated companies	4 913.6	6 282.5
thereof: to companies in which an equity interest is held	286.0	199.9
A5. Bonds and other fixed-interest securities	82 688.5	75 097.2
thereof: on affiliated companies	2 655.4	2 404.2
thereof: on companies in which an equity interest is held	4 105.2	3 115.7
L1. Liabilities to banks	129 158.1	107 698.3
thereof: to affiliated companies	474.7	1 472.2
thereof: to companies in which an equity interest is held	17 365.1	14 489.2
- thereof: to savings banks in Baden-Württemberg	16 826.1	14 417.8
L2. Liabilities to customers	87 875.9	87 105.3
thereof: to affiliated companies	9 350.0	15 737.7
thereof: to companies in which an equity interest is held	42.1	99.6
L9. Subordinated liabilities	4 017.0	3 636.5
thereof: to affiliated companies	333.3	308.5
thereof: to companies in which an equity interest is held	-	-

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

(6) Maturity Structure of the Balance Sheet Items.

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

in EUR million	Dec. 31, 2006	Dec. 31, 2005
A3. b) Other claims on banks	139 263.3	138 793.9
- up to 3 months	50 059.1	45 217.3
- more than 3 months to 1 year	25 040.5	25 960.9
- more than 1 year to 5 years	33 451.5	39 856.5
- more than 5 years	30 712.2	27 759.2
A4. Claims on customers	104 049.6	100 229.4
- up to 3 months	25 729.2	20 084.6
- more than 3 months to 1 year	11 304.6	10 787.0
- more than 1 year to 5 years	20 217.2	23 167.6
- more than 5 years	44 158.8	42 075.1
- without a fixed term	2 639.8	4 115.1
A5. Bonds and other fixed-interest securities	82 688.5	75 097.2
- thereof: maturing in the subsequent year	27 761.4	20 562.7
L1. b) Liabilities to banks with agreed term or period of notice	116 737.4	100 451.7
- up to 3 months	63 246.6	50 889.1
- more than 3 months to 1 year	16 479.9	15 477.8
- more than 1 year to 5 years	12 796.1	12 824.9
- more than 5 years	24 214.8	21 259.9
L2. a) ab) Savings deposits with agreed period of notice of more than 3 months	322.7	531.5
- up to 3 months	11.1	52.0
- more than 3 months to 1 year	46.0	257.8
- more than 1 year to 5 years	218.5	166.7
- more than 5 years	47.1	55.0
L2. b) bb) Other liabilities to customers with agreed term or period of notice	63 701.5	62 686.4
- up to 3 months	24 207.3	21 467.8
- more than 3 months to 1 year	2 935.7	4 613.5
- more than 1 year to 5 years	13 940.3	15 631.7
- more than 5 years	22 618.2	20 973.4
L3. Certificated liabilities		
a) Bonds issued	98 937.9	106 383.2
- thereof: maturing in the subsequent year	25 345.8	24 548.9
b) Other certificated liabilities	14 402.2	11 430.5
- up to 3 months	7 736.5	8 835.6
- more than 3 months to 1 year	6 665.7	2 594.9
- more than 1 year to 5 years	0.0	0.0
- more than 5 years	0.0	0.0

(7) Securities Eligible for Stock Exchange Trading.

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

in EUR million	Dec. 31, 2006	Dec. 31, 2005
A5. Bonds and other fixed-interest securities	82 688.5	75 097.2
- thereof: listed	67 476.8	61 323.8
A6. Shares and other non-fixed interest securities	3 291.3	1 164.5
- thereof: listed	3 112.5	1 139.3
A7. Companies in which an equity interest is held	224.4	63.8
- thereof: listed	174.5	13.9
A8. Shares in affiliated companies	429.7	94.1
- thereof: listed	0.0	0.0

(8) Subordinated Assets.

Subordinated assets are included in the following asset items:

in EUR million	Dec. 31, 2006	Dec. 31, 2005
A3. Claims on banks	0.0	0.0
A4. Claims on customers	168.9	182.1
A5. Bonds and other fixed-interest securities	894.5	458.9
A6. Shares and other non-fixed interest securities	58.6	77.9

(9) Transactions with Firm Repurchase Agreements and Open-Market Transactions.

As of the balance sheet date, bonds of EUR 5 510.3 million (2005: EUR 3 724.2 million) were pledged under repurchase agreements in the course of open-market transactions with Deutsche Bundesbank. The book value of securities sold to other banks and non-banks under repurchase agreements as of the balance sheet date was EUR 8 649.8 million (2005: EUR 6 623.6 million).

(10) Fiduciary Transactions.

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

in EUR million	Dec. 31, 2006	Dec. 31, 2005
Trust assets	129.3	125.8
Claims on customers	67.9	73.5
Tangible assets	61.4	52.3
Other assets	0.0	0.0
Trust liabilities	129.3	125.8
Liabilities to banks	62.7	71.6
Liabilities to customers	66.6	54.2

(11) Fixed Assets.

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

in EUR million	Cost of acquisition LBBW	Additions	Disposals	Reclassifications	Write-ups	Cumulative depreciation/ amortization/ adjustments	Depreciation/amortization and value adjustments in the fiscal year	Book value Dec. 31, 2006	Book value Dec. 31, 2005
Companies in which an equity interest is held	710.3	171.2	30.7	10.8	2.6	82.5	0.9	781.7	621.4
Shares in affiliated companies	3 752.6	1 075.0	338.1	-10.8	7.4	94.3	12.4	4 391.8	3 660.8
Intangible assets	457.7	24.4	43.6	-1.8	0.0	372.4	52.2	64.3	95.5
Land and buildings	780.9	5.2 ¹	7.2	0.0	0.0	375.2 ¹	15.2	403.7	418.2
thereof:									
land and buildings used by LBBW	596.1	5.0	0.8	-2.3	0.0	288.2	12.1	309.8	319.8
Other equipment, fixtures, furniture, and office equipment	549.8	51.4	47.5	1.8	0.0	387.3	39.3	168.2	157.5
Total fixed assets	6 251.3	1 327.2	467.1	0.0	10.0	1 311.7	120.0	5 809.7	4 953.4

¹The additions and cumulative depreciation/amortization include adjustments due to tax audits.

(12) Other Assets.

Items of particular significance included in LBBW's other assets are option premiums totaling EUR 1 276.8 million (2005: EUR 1 102.2 million), an adjustment item of EUR 1 032.2 million (2005: EUR 604.2 million) relating to risk-adjusted mark-to-market valuation, and tax refund claims amounting to EUR 428.0 million (2005: EUR 184.6 million).

The tax refund claims include claims relating to past fiscal years amounting to EUR 110.5 million, claims of EUR 64.4 million from reversal effects in connection with the tax audit of a predecessor institution, and claims relating to 2006 of EUR 164.4 million. In addition, tax deposits in the amount of EUR 88.7 million have been made at foreign revenue authorities. The tax refund claims stand in contrast to tax provisions amounting to EUR 317.7 million (2005: EUR 242.0 million).

(13) Deferred Items.

Deferred items include the following amounts:

in EUR million	Dec. 31, 2006	Dec. 31, 2005
Prepaid expenses	753.8	917.7
Discounts from liabilities pursuant to § 250 (3) HGB	600.1	697.7
Premiums from claims pursuant to § 340e (2), sentence 3 HGB	153.7	220.0
Deferred income	114.8	139.7
Discounts from claims pursuant to § 340e (2), sentence 2 HGB	114.8	139.7

Deferred items additionally include nonrecurring payments from interest rate swaps and cross-currency interest-rate swaps amounting to EUR 132.8 million (2005: EUR 127.0 million) on the assets side and EUR 383.0 million (2005: EUR 544.2 million) on the liabilities side which resulted from asset- and liability-swap combinations.

(14) Coverage of Mortgage and Municipal Loan Transactions.

The liabilities below are covered as follows:

in EUR million	Dec. 31, 2006	Dec. 31, 2005
Mortgage-backed bonds (Hypothekendarlehenbriefe) issued pursuant to the ÖPG (German Act on Mortgage Bonds and Related Bonds Issued by Public-sector Credit Institutions) and the PfandBG (German Mortgage Bond Act)	5 623.0	6 303.8
Assets serving as collateral	8 957.6	8 936.9
A3. Claims on banks	680.9	805.6
A4. Claims on customers	8 276.7	8 131.3
Excess coverage	3 334.6	2 633.1
Public-sector mortgage bonds (Pfandbriefe) issued pursuant to the PfandBG (German Mortgage Bond Act)	69 554.8	76 074.1
Assets serving as collateral	82 256.0	91 382.8
A3. Claims on banks	49 469.5	58 201.3
A4. Claims on customers	19 315.9	18 559.6
A5. Bonds and other fixed-interest securities	13 470.6	14 621.9
Excess coverage	12 701.2	15 308.7

(15) Transparency Provisions for Public-Sector Mortgage Bonds (Pfandbriefe) and Mortgage-Backed Bonds (Hypothekendarlehenpfandbriefe) pursuant to § 28 PfandBG (German Mortgage Bond Act).

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

in EUR million	Dec. 31, 2006	Dec. 31, 2005
a) Cover pool for public-sector mortgage bonds		
Nominal value	82 256	91 383
Net present value	84 563	97 382
Net present value (+ 250 BP)	79 156	90 536
Net present value (- 250 BP)	91 029	105 469
Volume of public-sector mortgage bonds outstanding		
Nominal value	69 555	76 074
Net present value	71 409	80 630
Net present value (+ 250 BP)	66 744	74 833
Net present value (- 250 BP)	77 183	87 638
Excess coverage		
Nominal value	12 701	15 309
Net present value	13 154	16 752
Net present value (+ 250 BP)	12 412	15 703
Net present value (- 250 BP)	13 846	17 831
b) Share of derivatives in the cover pool	0	0

c) Maturity structure of public-sector mortgage bonds

in EUR million	Dec. 31, 2006				Total
	up to 1 year	>1 year to 5 years	>5 years to 10 years	>10 years	
Cover pool	14 658	35 929	27 891	3 778	82 256
Outstanding public-sector mortgage bonds	13 799	33 843	20 362	1 551	69 555

in EUR million	Dec. 31, 2005				Total
	up to 1 year	>1 year to 5 years	>5 years to 10 years	>10 years	
Cover pool	15 884	37 723	34 105	3 671	91 383
Outstanding public-sector mortgage bonds	12 257	38 750	24 220	847	76 074

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

in EUR million Dec. 31, 2006

	State	Regional	Local	Other debtors	Total
Federal Republic of Germany	619	7 442	7 031	63 730	78 822
Finland	32	0	0	0	32
France incl. Monaco	0	0	29	0	29
Greece	729	0	0	0	729
Italy	541	205	22	0	768
Japan	300	0	0	0	300
Luxembourg	0	0	0	9	9
Canada	0	79	0	0	79
Austria	13	0	0	0	13
Portugal incl. Azores and Madeira	0	50	0	0	50
Switzerland	0	1 211	25	0	1 236
Spain	0	133	0	0	133
Hungary	0	0	0	0	0
United States of America (incl. Puerto Rico)	0	56	0	0	56
Total	2 234	9 176	7 107	63 739	82 256

in EUR million Dec. 31, 2005

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

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

in EUR million Dec. 31, 2006

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

in EUR million Dec. 31, 2005

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

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

in EUR million	Dec. 31, 2006	Dec. 31, 2005
a) Cover pool for mortgage-backed bonds		
Nominal value	2 525	2 051
Net present value	2 625	2 222
Net present value (+ 250 BP)	2 368	2 001
Net present value (- 250 BP)	2 941	2 497
Volume of mortgage-backed bonds outstanding		
Nominal value	755	101
Net present value	760	104
Net present value (+ 250 BP)	692	94
Net present value (- 250 BP)	840	115
Excess coverage		
Nominal value	1 770	1 950
Net present value	1 865	2 118
Net present value (+ 250 BP)	1 676	1 907
Net present value (- 250 BP)	2 101	2 382
b) Share of derivatives in the cover pool	0	0

c) Maturity structure of mortgage-backed bonds pursuant to PfandBG

in EUR million Dec. 31, 2006	up to 1 year	>1 year to 5 years	>5 years to 10 years	>10 years	Total
Cover pool	398	811	1 112	204	2 525
Outstanding mortgage-backed bonds	101	360	294	0	755

in EUR million Dec. 31, 2005	up to 1 year	>1 year to 5 years	>5 years to 10 years	>10 years	Total
Cover pool	306	817	775	153	2 051
Outstanding mortgage-backed bonds	0	90	11	0	101

d) Total nominal value of the cover pools broken down by amount of the individual cover pools

in EUR million	Dec. 31, 2006	Dec. 31, 2005
up to EUR 300 thousand	428	221
more than EUR 300 thousand up to EUR 5 million	1 123	1 010
more than EUR 5 million	974	820
Total	2 525	2 051

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

in EUR million	Federal Republic of Germany			The Netherlands	France	Total
Real estate used for commercial purposes	0	0	0	0	0	
Real estate used for residential purposes	0	0	0	0	0	
Apartments	108	0	0	0	108	
Single-family homes	183	0	0	0	183	
Multi-unit homes	1 121	0	0	0	1 121	
Office buildings	262	30	0	0	292	
Retail buildings	266	0	0	0	266	
Industrial buildings	10	0	0	0	10	
Other buildings used for commercial purposes	454	0	0	0	454	
Buildings under construction which are not yet commercially viable	68	0	1	0	69	
Building sites	2	0	0	0	2	
Other cover	20	0	0	0	20	
Total	2 494	30	1	0	2 525	

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

in EUR million Dec. 31, 2005

	Federal Republic of Germany
Real estate used for commercial purposes	0
Real estate used for residential purposes	0
Apartments	52
Single-family homes	83
Multi-unit homes	1 141
Office buildings	254
Retail buildings	92
Industrial buildings	0
Other buildings used for commercial purposes	380
Buildings under construction which are not yet commercially viable	45
Building sites	1
Other cover	3
Total	2 051

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

in EUR million

	Federal Republic of Germany	The Netherlands	France	Total
Dec. 31, 2006	0	0	0	0
Dec. 31, 2005	0	-	-	0

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

Number Dec. 31, 2006

	Real estate used for commercial purposes	Real estate used for residential purposes
Pending foreclosure proceedings	0	0
Pending administrative receivership proceedings	0	0
Foreclosures performed	0	0
Total	0	0

Number Dec. 31, 2005

	Real estate used for commercial purposes	Real estate used for residential purposes
Pending foreclosure proceedings	0	0
Pending administrative receivership proceedings	0	0
Foreclosures performed	0	0
Total	0	0

h) Takeovers of real estate to prevent losses

Number

	Total	
	Real estate used for commercial purposes	Real estate used for residential purposes
Jan. 1, 2006 - Dec. 31, 2006	0	0
Jan. 1, 2005 - Dec. 31, 2005	0	0

i) Total arrears in interest payments

in EUR million	Total	
	Real estate used for commercial purposes	Real estate used for residential purposes
Jan. 1, 2006 - Dec. 31, 2006	0	0
Jan. 1, 2005 - Dec. 31, 2005	0	0

j) Total amount of repayments made on mortgages

in EUR million	Jan. 1, 2006 - Dec. 31, 2006	
	Real estate used for commercial purposes	Real estate used for residential purposes
Repayment through amortization	57	33
Repayment through other methods	8	1
Total	65	34

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

(16) Other Liabilities.

The most important individual components of the "Other liabilities" item are option premiums totaling EUR 1 477.5 million (2005: EUR 1 151.8 million) and a foreign currency adjustment item amounting to EUR 750.8 million (2005: EUR 436.2 million).

(17) Assets Assigned as Collateral for Own Liabilities.

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

in EUR million	Dec. 31, 2006	Dec. 31, 2005
Liabilities to banks	7 343.6	8 022.7
Liabilities to customers	1 413.3	2 917.1
Certificated liabilities	128.5	91.9
Subordinated liabilities	9.4	10.3
Contingent liabilities	146.7	113.9
Liabilities from securities lending transactions	2 436.0	3 011.2
Total amount of collateral assigned	11 477.5	14 167.1

(18) Special Item with Partial Reserve Character.

The existing special item with partial reserve character amounting to EUR 64.6 million (§ 247 (3) in conjunction with § 273 HGB) was formed and used in compliance with the provisions of § 6b EstG. In the 2006 fiscal year, EUR 5.7 million was allocated to and EUR 2.0 million was released from the reserve pursuant to § 6b EstG.

(19) Subordinated Liabilities.

Expenses for subordinated liabilities totaled EUR 201.2 million (2005: EUR 195.0 million) in the fiscal year under review.

Except for a borrower's note loan (EUR 0.8 million), the subordinated liabilities of EUR 4 017.0 million recorded on the balance sheet comply with the requirements of § 10 (5a), sentence 5 KWG (EUR 3 422.0 million) after deduction of Tier 3 capital (EUR 389.5 million), pro rata interest (EUR 68.2 million) and of three-fifths of EUR 227.4 million (EUR 136.5 million).

In this respect, only two-fifths (EUR 91.0 million) of EUR 227.4 million (previous year: EUR 281.4 million) were recognized because these liabilities might fall due within the two-year period stipulated in § 10 (5a), sentence 2 KWG. After deduction of the discount (EUR 13.5 million) and further corrections (EUR 1.7 million), a total of EUR 3 406.8 million of the subordinated liabilities as of December 31, 2006 were included in supplementary capital pursuant to § 10 (5a) KWG.

The corrections of EUR 1.7 million result firstly from different conversion rates having been applied as of the balance sheet date by the reporting unit (ECB reference rate) and the accounting unit (EuroFX rate), and secondly from the fact that pursuant to § 10 (5a), sentence 1, No. 2 KWG, accrued interest added to subordinated zero borrower's note loans is included in liable capital only to a limited extent.

(20) Equity.

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

in EUR million	Dec. 31, 2006
Equity as of December 31, 2005	10 434.7
./.. Distribution from the 2005 distributable profit	85.2
./.. Price-related changes regarding silent partners' contributions (Stille Einlagen)	43.0
+ 2006 distributable profit	574.0
Equity as of December 31, 2006	10 880.5

(21) Items Below the Line.

Credit default swaps amounting to EUR 23 984.4 million (2005: EUR 22 042.0 million) for which LBBW provides counterparties with collateral similar in nature to guarantees are reported below the line. The total portfolio, including the credit default swaps for which LBBW provides no collateral, is described under item No. 3 Derivatives.

The irrevocable loan commitments are exclusively made up of external commitments. Delivery commitments arising from forward transactions totaled EUR 1 169.2 million as of the balance sheet date (2005: EUR 896.6 million). This figure included borrower's note loan transactions (EUR 5.5 million), term money (EUR 961.7 million), and securities repurchase agreements (EUR 2.0 million).

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

(22) Letter of Comfort.

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

With regard to LBBW Bank Ireland plc, Dublin, LBBW has agreed in respect of the Irish banking supervisory authority to ensure that LBBW Bank Ireland plc, Dublin, is in a position to cover its liabilities as long as LBBW holds a direct or an indirect interest in this company.

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

(23) Guarantors' Liability (Gewährträgerhaftung).

In its capacity as guarantor, LBBW continues to be liable for liabilities of DekaBank Deutsche Girozentrale, Berlin and Frankfurt am Main; LRP Landesbank Rheinland-Pfalz, Mainz; and LBS Landesbausparkasse Baden-Württemberg, Stuttgart and Karlsruhe, incurred until July 18, 2005 (elimination of the guarantors' liability), in certain cases depending on the time when the liabilities arose and on their term; however, LBBW is in no event liable as guarantor for any liabilities that have arisen after this date.

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

(24) Other Financial Obligations.

Other financial obligations that neither appear on the balance sheet nor below the line amounted to EUR 575.0 million (2005: EUR 183.0 million) at LBBW. EUR 83.2 million per year thereof is accounted for by long-term rental and leasing contracts, while EUR 78.8 million was accounted for by a liability to contribute to Liquiditäts- und Konsortialbank GmbH, Frankfurt am Main, in the year under review. The contributions paid to the reserve fund of the Landesbanken and Girozentralen (central savings banks) were recalculated on the basis of risk-oriented principles. This created an obligation to make further contributions totaling EUR 370.3 million. Payment of these additional contributions can be immediately demanded in the event that an institution requires assistance.

EUR 39.5 million (2005: EUR 42.4 million) of the other financial obligations relate to affiliated companies.

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

Notes to the Statement of Income.

(25) Other Operating Income.

EUR 34.0 million of the other operating income is accounted for by capital gains on the sale of equity interests and real estate held as fixed assets, as well as by income from renting and leasing land and buildings.

(26) Auditors' Fees.

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

in EUR million	Dec. 31, 2006
Audit of the financial statements	2.0
Other auditing and valuation services	2.1
Tax advisory services	-
Other services	0.2
Total	4.3

(27) Extraordinary Result.

The extraordinary result item primarily includes income from the accrual of former Erste BW-Schloßplatz Beteiligungen AG & Co. OHG (EUR 19.4 million). Around EUR 46.5 million of the extraordinary expenses resulted from the restructuring and systems integration of former BW Bank AG.

(28) Taxes on Income.

The net income improvement made the current domestic tax expense rise by EUR 34.8 million to EUR 101.4 million, up from EUR 66.6 million in the previous year.

(29) Breakdown of Income According to Geographic Markets.

The breakdown below is based on the total amount recorded under the following items of the statement of income:

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

Breakdown of income according to geographic markets:

in EUR million	Dec. 31, 2006	Dec. 31, 2005
Federal Republic of Germany	11 613.0	11 489.0
Europe	1 795.0	1 330.0
Asia	479.4	343.7
America	774.5	472.5
Total	14 661.9	13 635.2

(30) Administrative and Intermediary Services.

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

Other Information.

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

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

(32) Positions.

Legal representatives or employees of LBBW occupied the following positions on statutory supervisory boards and similar supervisory bodies of large corporations and major banks within Germany and abroad.

Company	Position	Incumbent
AdCapital AG, Leinfelden-Echterdingen	Member of the Supervisory Board	Hans-Joachim Strüder
AlG International Real Estate GmbH & Co. KGaA, Frankfurt am Main	Member of the Supervisory Board	Patrick Walcher
AKA Ausfuhrkredit GmbH, Frankfurt am Main	Member of the Supervisory Board	Joachim Landgraf since April 4, 2006
	Deputy Member of the Supervisory Board	Elvira Bergmann since April 4, 2006
Baden-Württembergische Investmentgesellschaft mbH, Stuttgart ²	Chairman of the Supervisory Board	Horst Marschall
	2 nd Deputy Chairman of the Supervisory Board	Hans-Joachim Strüder since July 1, 2006
	Member of the Supervisory Board	Jürgen Bockholt
Baden-Württemberg L-Finance N. V., Hoofddorp (Netherlands)	Member of the Supervisory Board	Wolf-Dieter Ihle
B+S Card Service GmbH, Frankfurt am Main	Member of the Supervisory Board	Rudolf Zipf
Börse Stuttgart AG, Stuttgart	Chairman of the Supervisory Board	Horst Marschall
	Member of the Supervisory Board	Hans-Joachim Strüder
Bürgerliches Brauhaus Ravensburg-Lindau AG, Ravensburg	Deputy Chairman of the Supervisory Board	Harald R. Pfab
Bürgerschaftsbank Baden-Württemberg GmbH, Stuttgart	Deputy Chairman of the Supervisory Board	Dr. Bernhard Walter
	Member of the Supervisory Board	Michael Horn until April 27, 2006
	Member of the Supervisory Board	Dr. Hariolf Teufel since April 27, 2006
	Member of the Guarantee Committees	Andreas Claus
	Deputy Member of the Guarantee Committees	Jürgen Kugler
	Deputy Chairman of the Guarantee Committees of the retail/wholesale, professions, industrial, transport and hospitality, and horticulture liability groups	Ulrich Vrede
	Deputy Member of the Guarantee Committees of the crafts liability group	Ulrich Vrede
Cellent AG, Stuttgart	Chairman of the Supervisory Board	Rudolf Zipf
	Deputy Chairman of the Supervisory Board	Andreas Zimber
	Deputy Chairman of the Supervisory Board	Thomas Zeler
Dambach Werke GmbH, Gaggenau	Member of the Advisory Board	Jürgen Prockl since November 29, 2006
DekaBank Deutsche Girozentrale, Berlin, and Frankfurt am Main	Member of the Supervisory Board	Dr. Siegfried Jaschinski
DekaBank Deutsche Girozentrale Luxembourg S.A., Luxembourg	Member of the Supervisory Board	Ralf Menzel until June 30, 2006
Deka Immobilien Investment GmbH, Frankfurt am Main	Member of the Supervisory Board	Dr. Bernhard Walter until June 30, 2006

² Until December 6, 2006, the company operated under the name of Baden-Württembergische Kapitalanlagegesellschaft mbH. The new name was entered in the commercial register on December 6, 2006.

Company	Position	Incumbent
Deka Investment GmbH, Frankfurt am Main	Member of the Supervisory Board	Michael Horn until June 30, 2006
	Member of the Supervisory Board	Hans-Joachim Strüder until June 30, 2006
	Member of the Supervisory Board	Gerhard Klimm until June 30, 2006
Deka (Swiss) Privatbank AG, Zurich	Member of the Supervisory Board	Michael Horn
Dekra SüdLeasing Services GmbH, Stuttgart	Chairman of the Supervisory Board	Dr. Martin Starck
	Member of the Supervisory Board	Peter Bach
Dürr AG, Stuttgart	Member of the Supervisory Board	Joachim E. Schielke
Ficosa International S.A., Barcelona	Member of the Supervisory Board	Juan-Miguel Lopez Rueda
Grieshaber Logistik AG, Weingarten	Member of the Supervisory Board	Michael Horn
HSBC Trinkaus & Burkhardt AG, Düsseldorf	Member of the Supervisory Board	Dr. Siegfried Jaschinski since May 30, 2006
Hymer AG, Bad Waldsee	Member of the Supervisory Board	Michael Horn since March 8, 2006
Hypo SüdLeasing GmbH, Dornbirn	Chairman of the Supervisory Board	Dr. Martin Starck
Karlsruher Versicherung AG, Karlsruhe	Deputy Chairman of the Supervisory Board	Horst Marschall
Landesbank Rheinland-Pfalz Girozentrale, Mainz	Chairman of the Supervisory Board	Dr. Siegfried Jaschinski
	Member of the Supervisory Board	Michael Horn
	Deputy Member of the Supervisory Board	Dr. Bernhard Walter
	Deputy Member of the Supervisory Board	Joachim E. Schielke
	Deputy Member of the Supervisory Board	Rudolf Zipf
LBBW Bank Ireland plc, Dublin	Chairman of the Board of Directors	Hans-Joachim Strüder
	Deputy Chairman of the Board of Directors	Dr. Bernhard Walter
	Member of the Board of Directors	Guido Paris
	Member of the Board of Directors	Frank O'Riordan
LBS Baden-Württemberg, Stuttgart	Member of the Supervisory Board	Michael Horn
	Deputy Member of the Supervisory Board	Rudolf Zipf
LBBW Immobilien GmbH (formerly LEG Landesentwicklungsgesellschaft Baden-Württemberg mbH), Stuttgart	Chairman of the Supervisory Board	Dr. Siegfried Jaschinski
	Member of the Supervisory Board	Dr. Bernhard Walter
LHS Besitz GmbH, Stuttgart	Chairman of the Supervisory Board	Dr. Martin Starck until September 27, 2006
	Member of the Supervisory Board	Peter Bach until September 27, 2006
LHS Leasing- und Handelsgesellschaft Deutschland mbH, Stuttgart	Chairman of the Supervisory Board	Dr. Martin Starck
	Member of the Supervisory Board	Peter Bach
LRI Landesbank Rheinland-Pfalz International S.A., Luxembourg	Member of the Supervisory Board	Michael Horn
	Member of the Supervisory Board	Hans-Joachim Strüder since July 13, 2006
MKB Mittelrheinische Bank GmbH, Koblenz	Chairman of the Supervisory Board	Joachim E. Schielke
	Deputy Chairman of the Supervisory Board	Michael Horn
	Member of the Supervisory Board	Dr. Bernhard Walter
MMV Leasing GmbH, Koblenz	Chairman of the Advisory Board	Joachim E. Schielke
	Deputy Chairman of the Advisory Board	Michael Horn
	Member of the Advisory Board	Dr. Bernhard Walter
Rohwedder AG, Bermatingen	Member of the Supervisory Board	Dr. Peter A. Kaemmerer
Siedlungswerk Gemeinnützige Gesellschaft für Wohnungs- und Städtebau mbH, Stuttgart	Deputy Chairman of the Supervisory Board	Michael Horn
	Member of the Supervisory Board	Andreas Benninger since July 21, 2006
	Member of the Supervisory Board	Dr. Frank Schwertfeger since July 21, 2006
Storsack Holding GmbH, Viernheim	Member of the Supervisory Board	Rolf Kentner
Stratec biomedical Systems AG, Birkenfeld	Member of the Supervisory Board	Burkhard Wolny

Company	Position	Incumbent
SüdKA SüdKapitalanlagegesellschaft mbH, Frankfurt am Main ³	Chairman of the Supervisory Board	Hans-Joachim Strüder until December 6, 2006
	Member of the Supervisory Board	Dr. Peter Merk until December 6, 2006
	Member of the Supervisory Board	Ralf Menzel since July 1, 2006 until December 6, 2006
Schlossgartenbau AG, Stuttgart	Member of the Supervisory Board	Dr. Armin Brendle
SüdWert Wohnungsprivatisierungs-GmbH, Bietigheim-Bissingen	Deputy Chairman of the Supervisory Board	Rainer Konopka
	Member of the Supervisory Board	Rudolf Klenk
	Deputy Member of the Supervisory Board	Dr. Frank Schwertfeger
Südwestdeutsche Salzwerke AG, Heilbronn	Member of the Supervisory Board	Rudolf Zipf
SV Sparkassenversicherung Holding AG, Stuttgart	Member of the Supervisory Board	Michael Horn
Universal-Investment-Gesellschaft mbH, Frankfurt am Main	Member of the Supervisory Board	Horst Marschall
Vorarlberger Landes- und Hypothekenbank AG, Bregenz	Member of the Supervisory Board	Michael Horn
Wampfler AG, Weil am Rhein	Deputy Chairman of the Supervisory Board	Harald R. Pfab
WestInvest Gesellschaft für Investmentfonds mbH, Frankfurt am Main	Member of the Supervisory Board	Helmut Dohmen
Württembergische Lebensversicherung AG, Stuttgart	Member of the Supervisory Board	Michael Horn
Wüstenrot Bank AG Pfandbriefbank, Ludwigsburg	Member of the Supervisory Board	Hans-Joachim Strüder
Wüstenrot & Württembergische AG, Stuttgart	Member of the Supervisory Board	Joachim E. Schielke

³ The company existed until December 6, 2006.

(33) Employees (Annual Averages).

number	Male	Female	Total
LBBW			
- Domestic headquarters/branches	4 384	4 722	9 106
- Foreign branches	90	71	161
- Representative offices	22	30	52
Total LBBW	4 496	4 823	9 319
For information only:			
- Trainees	275	279	554

(34) Total Remuneration of the Executive Bodies.

The total remuneration paid to the members of the Board of Managing Directors of LBBW amounted to EUR 5.1 million. The remuneration paid to the members of the Supervisory Board, the Owners' Meeting, and the Credit Committee totaled EUR 0.6 million. The total remuneration paid to former members of the Board of Managing Directors and their surviving dependents amounted to EUR 5.3 million; provisions for pensions for former members of the Board of Managing Directors and their surviving dependents totaled EUR 48.9 million.

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

in EUR million	Board of Managing Directors	Supervisory Board	Owners' Meeting
Advances and loans	0.6	3.7	0.2
Contingent liabilities	-	-	-

Board of Managing Directors of LBBW.

[Dr. Siegfried Jaschinski](#)
Chairman of the Board of Managing Directors

[Michael Horn](#)
Deputy Chairman of the Board of Managing Directors

[Dr. Peter A. Kaemmerer](#)
Member of the Board of Managing Directors
since May 1, 2006

[Joachim E. Schielke](#)
Member of the Board of Managing Directors

[Hans-Joachim Strüder](#)
Member of the Board of Managing Directors

[Dr. Bernhard Walter](#)
Member of the Board of Managing Directors

[Rudolf Zipf](#)
Member of the Board of Managing Directors

Supervisory Board of LBBW.

Chairman

Heinrich Haasis

until April 30, 2006
Senator h. c., President of Deutscher Sparkassen- und Giroverband (the German Savings Bank Association), Berlin

Peter Schneider

Member of the State Parliament of Baden-Württemberg since May 1, 2006
President of Sparkassenverband Baden-Württemberg (the Savings Bank Association of Baden-Württemberg), Stuttgart

1st Deputy Chairman

Stefan Mappus

Member of the State Parliament of Baden-Württemberg
Chairman of the CDU Parliamentary Group in the State Parliament of Baden-Württemberg, Stuttgart

2nd Deputy Chairman

Dr. Wolfgang Schuster

Lord Mayor of the State Capital Stuttgart

Full Members

Thomas Berreth*

Employee of Landesbank Baden-Württemberg, Stuttgart

Siegfried Bessey*

Employee of Landesbank Baden-Württemberg, Stuttgart

Harald Coblenz*

Employee of Landesbank Baden-Württemberg, Karlsruhe

Bernd Doll

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

Richard Drautz

since July 25, 2006
State Secretary in the Ministry of Economic Affairs of the State of Baden-Württemberg, Stuttgart

Dr.-Ing. h. c. Heinz Dürr

Chairman of the Supervisory Board of Dürr AG, Stuttgart

Walter Fröschle*

Employee of Landesbank Baden-Württemberg, Stuttgart

Jürgen Hilse

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

Helmut Himmelsbach

Lord Mayor of the Town of Heilbronn

Dr. Dieter Hundt

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

Jens Jungbauer*

Employee of Landesbank Baden-Württemberg, Stuttgart

Dipl.-Ing. (FH) Manfred Kanzleiter

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

Lian Lie Liem*

Employee of Landesbank Baden-Württemberg, Stuttgart

Dr. Horst Mehrländer

until July 25, 2006
State Secretary (retired), Stuttgart

Günther Nollert*

Employee of Landesbank Baden-Württemberg, Mannheim

Gerhard Nübling

until September 30, 2006
Savings Bank Director (retired), Zimmern-Stetten

Dr. Nils Schmid

Member of the State Parliament of Baden-Württemberg
Attorney at law, Deputy Chairman of the SPD Parliamentary Group in the State Parliament of Baden-Württemberg, Stuttgart

Claus Schmiedel

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

Hermann Seimetz

Senator h. c., Donzdorf

Willi Stächele

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

Gerhard Stratthaus

Member of the State Parliament of Baden-Württemberg
Finance Minister of the State of Baden-Württemberg, Stuttgart

Hans Otto Streuber

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

Jürgen Teufel

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

Gabriele Tietz*

Employee of Landesbank Baden-Württemberg, Stuttgart

Reinhold Uhl

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

Werner Unfried*

Employee of Landesbank Baden-Württemberg, Stuttgart

Kurt Widmaier

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

Norbert Zipf*

Employee of Landesbank Baden-Württemberg, Stuttgart

* elected by LBBW employees

Deputy Members

Dipl.-Oec. Muhterem Aras

City Councilor, tax advisor, Chairman of the Bündnis 90/DIE GRÜNEN Parliamentary Group in the City Council of the State Capital Stuttgart

Stefan Barg

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

Hans Bauer*

Employee of Landesbank Baden-Württemberg, Stuttgart

Dipl.-Wirtsch.-Ing. (FH)

Bernd Bechtold

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

Christian Brand

Chairman of the Board of Managing Directors of Landeskreditbank Baden-Württemberg – Förderbank –, Karlsruhe

Wolfgang Drexler

Member of the State Parliament of Baden-Württemberg
Public prosecutor (retired), 1st Vice President of the State Parliament of Baden-Württemberg, Stuttgart

Gundolf Fleischer

Member of the State Parliament of Baden-Württemberg until September 25, 2006
Attorney at law, State Secretary in the Ministry of Finance of the State of Baden-Württemberg, Stuttgart

Michael Föll

Member of the State Parliament of Baden-Württemberg
First Mayor of the State Capital Stuttgart

Armin Freundl*

Employee of Landesbank Baden-Württemberg, Stuttgart

Dr. Rainer Haas M.A.

Senator h. c.,
District Administrator of the Ludwigsburg District, Chairman of the Supervisory Board of Kreissparkasse Ludwigsburg

Eberhard Häge*

Employee of Landesbank Baden-Württemberg, Stuttgart

Dr. Rainer Hägele

until July 26, 2006
Director general in the Ministry of Science, Research and the Arts of the State of Baden-Württemberg, Stuttgart

Martin Haible*

Employee of Landesbank Baden-Württemberg, Stuttgart

Karlheinz Heinzelmann*

Employee of Landesbank Baden-Württemberg, Stuttgart

Horst Hoffmann

Savings Bank Director,
Chairman of the Board of Managing Directors of Sparkasse Südliche Weinstrasse in Landau, Landau

Udo Hummel*

Employee of Landesbank Baden-Württemberg, Stuttgart

Hans Georg Junginger

Member of the State Parliament of Baden-Württemberg
Attorney at law, Weinheim

Timo Klein*

Employee of Landesbank Baden-Württemberg, Karlsruhe

Heinz-Jürgen Koloczek

Lord Mayor (retired), Tuttlingen

Sabine Lehmann*

Employee of Landesbank Baden-Württemberg, Mannheim

Thomas Lützelberger

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

Hermann Mader

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

Peter May

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

Siegfried Rieg

District Councilor, Lord Mayor (retired), Giengen

Dieter Rösler*

Employee of Landesbank Baden-Württemberg, Stuttgart

Johann Roth

Savings Bank Director, Chairman of the Board of Managing Directors of Bezirkssparkasse Reichenau

Dr. Stefan Scheffold

Member of the State Parliament of Baden-Württemberg since October 11, 2006
Attorney at law, Deputy Chairman of the CDU Parliamentary Group in the State Parliament of Baden-Württemberg, Stuttgart

Gerd Siebertz*

Employee of Landesbank Baden-Württemberg, Stuttgart

Joachim Walter

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

Prof. Dr. Willi Weiblen

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

Hubert Wicker

since July 26, 2006
Director general in the Ministry of Finance of the State of Baden-Württemberg, Stuttgart

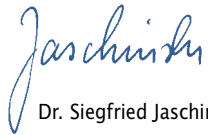
Clemens Winckler

Waghäusel-Wiesental

* elected by LBBW employees

Stuttgart, Karlsruhe and Mannheim,
March 22, 2007

The Board of Managing Directors



Dr. Siegfried Jaschinski



Michael Horn



Dr. Peter A. Kaemmerer



Joachim E. Schielke



Hans-Joachim Strüder



Dr. Bernhard Walter



Rudolf Zipf

Auditor's Report.

"We have audited the annual financial statements, comprising the balance sheet, the income statement and the notes to the financial statements, together with the bookkeeping system, and the management report of the Landesbank Baden-Württemberg, Stuttgart, Karlsruhe and Mannheim, (LBBW) for the business year from January 1 to December 31, 2006. The maintenance of the books and records and the preparation of the annual financial statements and management report in accordance with German commercial law are the responsibility of the Company's Board of Managing Directors. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, and the management report based on our audit.

We conducted our audit of the annual financial statements in accordance with § (Article) 317 HGB ("Handelsgesetzbuch": "German Commercial Code") and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the annual financial statements in accordance with (German) principles of proper accounting and in the management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Company and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting

the disclosures in the books and records, the annual financial statements and the management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by the Company's Board of Managing Directors, as well as evaluating the overall presentation of the annual financial statements and management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion based on the findings of our audit, the annual financial statements comply with the legal requirements and give a true and fair view of the net assets, financial position and results of operations of the LBBW in accordance with (German) principles of proper accounting. The management report is consistent with the annual financial statements and as a whole provides a suitable view of the LBBW's position and suitably presents the opportunities and risks of future development."

Stuttgart, March 22, 2007

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

(Schuldt)
Auditor

(Bucksch)
Auditor