
Glossary.

A

Asset Backed Securities (ABS)

Tradable securities whose payments of interest and principal are backed by underlying assets (usually a receivables pool). As a rule, they are issued by a special-purpose entity as part of a securitization.

Associates

Companies that are subject to their parent companies' significant, but not controlling, influence. These companies are included in the consolidated financial statements using the equity method.

B

Backtesting

A procedure for monitoring the quality of value-at-risk models. Potential losses estimated using the VaR approach are tested over an extended period retrospectively to see whether they were exceeded significantly more often than might be expected according to the applied confidence level.

C

Cash Flow

Inflows and outflows of cash and cash equivalents.

Collateralized Debt Obligations (CDO)

ABSs secured with a pool of various securities, particularly loans and other securitized debt instruments.

Commercial Mortgage Backed Securities (CMBS)

Commercial mortgage backed securities are financing secured by real estate lien on commercial property.

Commercial Papers

Short-term, unsecured debt instruments with maturities of up to 270 days issued in the money market by issuers with first-class credit ratings.

Confidence Level

Probability that a potential loss will not exceed an upper loss limit defined using the value-at-risk method.

Credit Default Swap (CDS)

Financial instrument for assuming the credit risk from a reference asset (e.g. security or loan). The protection buyer pays a premium to the protection seller and receives a settlement payment if a credit event agreed in advance occurs.

D

Deferred Taxes

Future tax liabilities and tax credits arising as a result of temporary differences between the IFRS carrying amount of an asset or liability and its tax base. At the time of reporting, they do not yet constitute actual amounts receivable from or due to tax authorities.

Derivatives

Financial products derived from underlying instruments (such as equities, bonds, currencies or indexes) whose price can be calculated from the price of an underlying security.

E

Equity Method

Consolidation method used in consolidated financial reporting to account for interests in companies over whose business policies a parent company can exercise significant influence (associates). The parent company's proportional share of the associate's profit or loss for the year is credited/charged to the carrying amount of the investment. If a distribution is made, the proportional share is reduced accordingly.

F

Fair value

The amount for which a financial instrument could be exchanged between knowledgeable, willing parties in an arm's length transaction.

H

Hedge Accounting

A method of accounting for hedging relationships for the purpose of compensating economically and in accounting terms for the changes in the fair value of both the hedged item and the offsetting value changes of the hedging instrument.

I

Impairment

Unscheduled write-down of the value of assets such as loans and advances, securities, intangible assets, and property and equipment in the amount by which the amortized cost or cost less depreciation exceeds the amount recoverable in the market.

International Financial Reporting Standards (IFRSs)

IFRSs comprise the International Financial Reporting Standards (IFRSs) themselves as well as the previous International Accounting Standards (IASs), the interpretations of the International Financial Reporting Interpretations Committee (previously Standing Interpretations Committee), and all standards and interpretations issued in the future by the International Accounting Standards Board (IASB).

Issue

Issue of securities, effected either directly or through the services of an arranger. The arranger either conducts the sale on a commission basis for the issuer's account, or underwrites the securities at a fixed price before offering them to the public at a higher price.

L

Letter of Comfort

Obligation toward third parties assumed by LBBW according to which LBBW undertakes to ensure that its subsidiaries conduct their operations properly and settle their liabilities when due.

O

Over the Counter (OTC)

»Over the Counter« designates the trading of financial instruments outside of organized exchanges.

R

Rating

Standardized credit rating on a security or debtor assigned by independent rating agencies.

Repo (Repurchase Agreement)

A combination of a spot purchase or spot sale of securities with a simultaneous forward sale or forward repurchase transaction with the same counterparty.

Residential Mortgage Backed Securities (RMBS)

Residential mortgage backed securities are financing secured by real estate lien through private residential property.

Return on Equity (ROE)

Indicator comprising the ratio of profit before tax to average equity.

S

Securitization

Issue of securities (e. g. bonds or commercial papers) as replacement for loans or the financing of loans and advances.

Special-Purpose Entities

Special-purpose entities are vehicles formed to fulfill a narrowly and precisely defined business purpose whose managements typically have little or no decision-making authority of their own after the entity is formed. In most cases, their business policy defined in the articles of incorporation or similar contractual agreements cannot be modified afterwards. This is referred to as an auto-pilot mechanism. Normally special-purpose entities have little equity, and as a rule this equity is not contributed by the company for whose benefit the special-purpose entity does business (the initiator).

Spread

Difference between two prices, or a premium/discount compared with a particular reference rate.

Stress Testing

A method that attempts to model the loss effects of extreme events; a required supplement to value-at-risk analyses, which do not take adequate account of such events.

V

Value-at-Risk (VaR)

The VaR identifies the maximum possible loss that may occur within a given period and at a given confidence level if certain assumed changes take place in market parameters. This statistical measurement serves to compare market risks in different portfolios held by the LBBW Group.

Volatility

Price fluctuation of a security or a currency and/or bandwidth of fluctuation of interest rates.

Note Regarding Forward-Looking Statements.

Insofar as this Annual Report contains forward-looking statements, expectations and assumptions, these statements may be subject to known and unknown risks and uncertainties. Forward-looking statements, identified by the use of words such as »estimate«, »forecast«, »planning«, »expect«, »probably«, »assume« and similar expressions, are not historical facts. Consequently, the actual results and developments may differ materially from the expressed expectations and assumptions. Such developments may result from changes in general economic conditions, the competitive situation, the performance of the financial markets, the development of currency exchange rates, as well as from changes in the general legal and/or tax law framework. In addition, deviations may result from credit defaults and other reasons not listed here. The LBBW Group assumes no obligation to update any forward-looking statements in the light of new information or against the backdrop of future events occurring after the publication of this Annual Report.

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