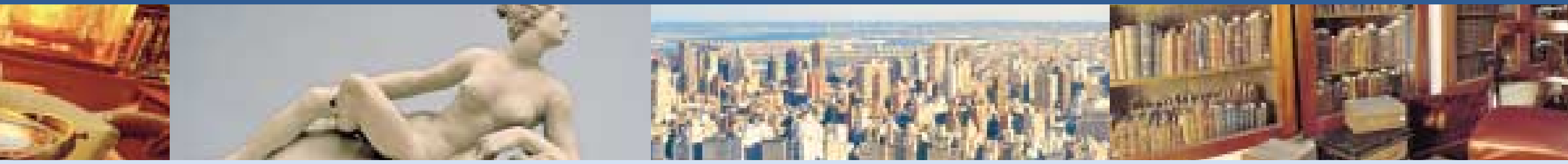
Annual Report 2004.
The Bank and its Performance.



LBBW

Landesbank Baden-Württemberg

Important Key Figures at a Glance >>

At home anywhere in the world.

Whether Amsterdam, New York, or Shanghai: this annual report takes you on a trip to visit some of our customers. Like LBBW they are at home anywhere in the world. We think and act globally, are familiar with national and international markets, and operate in all of the key economic centers of the world. And we like to take a look at the world beyond just pure financials. You will meet seven of our customers where they feel most at home: in their favorite places. In these profiles, they explain what is special about these places – and their particular relationship with Landesbank Baden-Württemberg.

Important Key Figures at a Glance.

	Dec. 31, 2004 EUR million	Dec. 31, 2003 EUR million
LBBW Group		
Business volume	384 862	368 868
Balance sheet total	339 808	322 795
Derivative financial instruments (nominal volume)	996 314	777 039
Claims on banks	138 102	132 720
Claims on customers	105 547	106 121
Bonds and other fixed-interest securities	81 234	68 825
Liabilities to banks	101 347	99 509
Liabilities to customers	77 107	74 065
Certificated liabilities	137 972	126 442
Operating results	1 579	1 499
Profit from ordinary activities	1 052	927
Net income	502	366
Disclosed liable capital funds	15 722	15 714

	Dec. 31, 2004 Number	Dec. 31, 2003 Number
Employees		
LBBW Group	12 184	12 648
Offices/Branches (as of March 2005)		
in the State of Baden-Württemberg	184	189
in Germany as a whole	194	200

Rating (as of March 2005)	Long-term Rating	BFSR/IR*
Moody's Investors Service	Aaa	B-
Standard & Poor's	AA+	–
Fitch Ratings	AAA	B/C

*BFSR = Bank Financial Strength Rating
IR = Individual Rating

Organizational Chart.

Corporate Center
Dr. Siegfried Jaschinski

- **Group Strategy and Legal** – *Dr. Armin Brendle*
- **Human Resources** – *Hubert Sühr*
- **Internal Auditing*** – *Gerhard Leitschuh*
- **Overseas** – *Dr. Peter A. Kaemmerer*

Retail and Investment Customers (RIC)
Michael Horn

- *Sales Controlling RIC***
- **Back Office/Financial Markets** – *Karl-Otto Bickert*
- **Research** – *Dr. Peter Merk*
- **RIC Region I** – *Karl-Heinz Hausch*
- **RIC Region II** – *Hans-Joachim Beuth*
- **RIC Region III** – *Stefan Brieger*
- **Private Banking** – *Rainer Grähling*

Corporate Customers (CC)
Joachim E. Schielke

- *Sales Controlling CC***
- **CC Stuttgart Region** – *Werner Partsch*
- **CC Baden-Württemberg Northern Region** – *Wilhelm Dannenbaum*
- **CC Baden-Württemberg Southern Region** – *Harald Pfab*
- **Key Account I/Structured Finance** – *Hans-Peter Uehlin*
- **Key Account II/Corporate Finance** – *Jürgen Haller*
- **Real Estate** – *Rainer Konopka*

Financial Markets
Dr. Siegfried Jaschinski

- **Capital Market Investments** – *Dr. Thomas Keller*
- **Capital Markets Trading and Sales** – *Hans-Joachim Strüder*
- **Equity** – *Ralf Menzel*
- **Treasury** – *Wolf-Dieter Ihle*

Back Office
Dr. Karl Heidenreich

- **Risk Management Wholesale** – *Berthold Veil*
- **Risk Management Regional Business** – *Peter Vogt*
- **Credit Risk Management and Basic Issues** – *Thomas Römer*
- **Key Account and Real Estate** – *Dr. Frank Schwertfeger*
- **Central Loan Monitoring** – *Claudia Diem*

Operations and IT
Rudolf Zipf

- **Controlling** – *Heinrich Lichtl*
- **Integration Accounting, Controlling and Coordination for BW-Bank** – *Dr. Klaus-Dieter Kremkow*
- **Accounting/Reporting System/Tax** – *Andreas Zimber*
- **IT/Organization** – *Klaus Rausch*
- **Banking Operations** – *Hasko Neumann*
- **Administration** – *Peter Mayer*

* Reporting to the whole Board of Managing Directors

** Staff departments reporting directly to the Head of Division

Annual Report 2004.

Contents.

Landesbank Baden-Württemberg:
A Bank that thinks ahead.

01
Preface and Reports

Dr. Siegfried Jaschinski:

"We are a Landesbank with our own unique profile. As a customer-oriented, Baden-Württemberg-based German bank we have an established reputation on the European and international markets. As one of the major banks in Germany, our objective is to combine innovation and reliability – in the interest of both our customers and our investors."

Dear Customers and Business Partners, Ladies and Gentlemen,

Writing the preface to the annual report on the past fiscal year generally lends itself to reflection. In the banking business, a review of the previous fiscal year is anything but vague – the past comes into crystal-clear focus in our financial statements. And those figures can be exhilarating and rewarding, a fact that is demonstrated by more than just the visuals in our current annual report. In the cold light of day, the LBBW Group's earnings situation in 2004 emerges as favorable, as does the "shadow rating" indicating LBBW's rating without state guarantees.

This look back on 2004 underscores clearly how well positioned LBBW is in the banking market. We have advanced to become one of the major banks in Germany. Our customer base is as varied as our list of investors. We are proud to be a Landesbank with our own unique profile as a customer-oriented, Baden-Württemberg-based German bank with an established reputation on the European and international markets.

Looking to the future, I accepted the position of Chairman of the Board of Managing Directors of LBBW in early 2005. At the same time, LBBW's guarantor structure was reorganized so that LBBW can now count Landesbank Rheinland-Pfalz and BW Bank among its Group companies. The establishment of the contractual conditions necessary for the new LBBW Group structure was a priority in the past fiscal year. Now our job is to take further steps to integrate both of these institutions into the LBBW Group. The aim of this process is to achieve one thing above all: to ensure that our customers and investors select the LBBW Group as their business partner of first choice thanks to our innovative solutions and reliability.

Against the backdrop of the elimination of state guarantees, LBBW will be unable to avoid instituting comprehensive cost-cutting measures. However, it is equally important to increase earnings in all areas of our business. We met a key milestone in this effort in fiscal year 2004 and set goals to achieve further improvements in fiscal 2005. Our objectives include continuing to strictly pursue our risk-sensitive business policies. Finally, we are focusing more than ever before on profitability in order to reinforce our excellent position, not only in the German banking industry, but also on the European and international markets.

The strong position of the LBBW Group can be viewed as evidence that our customers do business with us with confidence. Without our guarantors and our partnership with Baden-Württemberg's savings banks, LBBW's success in 2004 would have been unthinkable. And attaining the position we now hold would not have been possible without the efforts of our employees. I would like to express my appreciation to all of you.

Sincerely,

S. Jaschinski

Dr. Siegfried Jaschinski
Chairman of the Board of Managing Directors

Erwin Teufel:

"The state of Baden-Württemberg is strong. We have well-educated workers, highly qualified technicians and engineers, creative scientists and researchers, farsighted entrepreneurs, and many top-notch volunteers and cultural innovators. And we have LBBW: globally positioned, regionally rooted, profitable. That is a solid foundation for the future."

Report of the Guarantors' Meeting.

During four meetings, one of which was a special session, Landesbank Baden-Württemberg's Board of Managing Directors provided the Guarantors' Meeting with regular verbal and written reports on the business situation and performance of Landesbank Baden-Württemberg (LBBW) in 2004. In particular, the reports contained information on the development of the Bank's financial results.

The Guarantors' Meeting took note of the fact that initial steps had been taken in the process of integrating Baden-Württembergische Bank AG (BW Bank) into LBBW with the transfer of the responsibilities and functions of BW Bank's service departments to LBBW. The aim is to unify the management of the two banks and reduce the number of interfaces. The transfer of these functions also involved the transfer of 135 employees from BW Bank to LBBW. A project entitled "Migration of BW Bank's Securities Settlement Operations to LBBW" was also launched. Steps were also taken at the personnel level to integrate the two banks more closely. As of January 1, 2004, Rudolf Zipf stepped down from the Board of Managing Directors of BW Bank to join the Board of Managing Directors of LBBW. Joachim E. Schielke was appointed Chairman of the Board of Managing Directors of BW Bank and simultaneously continues to be a member of LBBW's Board of Managing Directors. Michael Horn is simultaneously a member of the Boards of Managing Directors of LBBW and BW Bank.

As part of the takeover of Landesbank Rheinland-Pfalz (LRP) and the reorganization of LBBW's shareholding structure, it was deemed advisable for Landeskreditbank Baden-Württemberg – Förderbank (L-Bank) to first acquire additional shares in BW Bank held by Landesstiftung Baden-Württemberg and then to contribute its shares in BW Bank to LBBW as a non-cash contribution by way of a capital increase. As a result, LBBW holds a nearly 100% interest in BW Bank, while L-Bank holds an equity interest in the share capital of LBBW. The Guarantors' Meeting approved this reorganization of LBBW's shareholding structure.

Specific reports were presented to the Guarantors' Meeting about the takeover of LRP and the parent/subsidiary model agreed with the guarantors of LRP. The Guarantors' Meeting approved this model, the agreed transaction structure, and the resulting new guarantor structure based on a corresponding amendment to the statutes and a basic agreement concluded with Sparkassen- und Giroverband Rheinland-Pfalz (the Savings Banks and Giro Association of Rhineland-Palatinate). A key factor in this decision was also that neither of the banks would have its rating lowered by adopting this model. The business model stipulates the preservation of LRP's autonomy, while at the same time consistently integrating the bank's operations into LBBW at various levels, and including the bank in LBBW's Group management structure and planning process.

The Guarantors' Meeting discussed in detail possible human resources measures emerging from various projects that could be introduced to reduce the workforce, including in the context of the integration of BW Bank.

The Guarantors' Meeting was informed about the credit risk strategy of the LBBW Group as part of the Mindestanforderungen an das Kreditgeschäft (MaK, Minimum Requirements for the Lending Activities of Credit Institutions). The Board of Managing Directors also provided information about the status of the effort to strengthen the contractual service partnership with Baden-Württemberg's savings banks.

The Guarantors' Meeting gave its approval to the planned acceleration of financial statement preparation to enable the Bank to approve its annual financial statements earlier than in previous years ("fast close"). Furthermore, the Board of Managing Directors reported to the Guarantors' Meeting about the discussions with rating agencies and their requirements for receiving the highest possible rating. In this context, the Board of Managing Directors presented measures for increasing profitability in the individual segments.

The acquisition by LBBW of additional shares in LEG Landesentwicklungsgesellschaft Baden-Württemberg mbH was approved by the Guarantors' Meeting.

Finally, the Guarantors' Meeting also made personnel decisions at the Board of Managing Directors level. Hans Dietmar Sauer, the Chairman of the Board of Managing Directors to date, and Thomas Fischer stepped down from the Board of Managing Directors as of December 31, 2004, at the end of their service contracts. As of January 1, 2005, Dr. Siegfried Jaschinski was appointed the new Chairman and Michael Horn the new Deputy Chairman of the Board of Managing Directors. The Guarantors' Meeting would like to thank former Board members Mr. Sauer and Mr. Fischer for their service and successful efforts on the Bank's behalf and to wish Dr. Jaschinski and Mr. Horn success in their new positions.

The Guarantors' Meeting also deliberated about the results of the financial statement audit. Information was provided to the Guarantors' Meeting about the interim results of an ongoing special audit in accordance with § 44 of the Kreditwesengesetz (KWG – German Banking Act) on compliance with the minimum requirements for trading transactions at the London, New York, and Singapore offices, as well as about key developments and projects. The Guarantors' Meeting performed the duties incumbent upon it pursuant to the laws and statutes.

PwC Deutsche Revision Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Stuttgart, audited the annual financial statements and the consolidated financial statements of Landesbank Baden-Württemberg, including the management reports. The annual financial statements and consolidated financial statements of Landesbank Baden-Württemberg were issued unqualified audit opinions. The auditors presented the key findings of their audit at the Guarantors' Meeting on April 8, 2005, and answered questions raised by the members of the Guarantors' Meeting.

At its meeting on April 8, 2005, the Guarantors' Meeting also took note of the annual financial statements of Landesbank Baden-Württemberg, along with the consolidated financial statements and the management reports, and passed a resolution on the appropriation of LBBW's distributable profit. Discharge was granted unanimously to the Board of Managing Directors and the Supervisory Board.

The Guarantors' Meeting would like to thank the Board of Managing Directors and LBBW's employees for their efforts in the previous year.

Stuttgart, April 8, 2005
Chairman of the Guarantors' Meeting

Erwin Teufel
Member of the State Parliament of Baden-Württemberg
Prime Minister of the State of Baden-Württemberg

Heinrich Haasis:

"LBBW is a key pillar in the strong and successful Sparkassen Financial Group. Together we have attained leadership positions in many market segments. One success factor is the strong international focus of Landesbank Baden-Württemberg. Along with LBBW's customers, savings bank customers – who are increasingly doing business across the globe – also benefit from this expertise."

Report of the Supervisory Board.

Landesbank Baden-Württemberg's (LBBW's) Board of Managing Directors reported to the Supervisory Board regularly and in a timely manner about the business situation and performance of the Bank and the Group during 2004. The Supervisory Board and its committees exercised the duties incumbent upon them under the applicable laws and statutes. Moreover, the Chairman of the Board of Managing Directors informed the Chairman of the Supervisory Board about key developments and decisions.

The Supervisory Board held five meetings in the year under review. An additional meeting was held with the deputy members of the Supervisory Board to notify them about current developments at the Bank and in the Group. After completion of its first term of service after the merger forming LBBW on December 31, 2003, the Supervisory Board held a new constituent meeting at its first meeting in the year under review.

The Supervisory Board was informed at all meetings about the development of LBBW's earnings (broken down by segments) and the risk situation. In addition, other key issues were also covered. For instance, the Board of Managing Directors reported to the Supervisory Board about LBBW's derivatives business and presented information on the volume of credit risk equivalents. Due to the public discussion, the Board of Managing Directors also reported about the lending policies of German banks and the changes in the regulatory framework for lending.

Other topics of discussion during Supervisory Board meetings were the anticipated rating to be issued for LBBW after elimination of state guarantees in 2005 and the recommendations by rating agencies on retaining the best possible rating.

LBBW agreed a contractual service partnership with Baden-Württemberg's savings banks that involves partnerships between LBBW and individual savings banks with regard to specific, concretely defined activities. The Supervisory Board was informed about the development of this service partnership.

Ongoing reports were presented concerning the integration of Baden-Württembergische Bank AG (BW Bank) into LBBW and the planned division of responsibilities between the two banks, as well as the takeover of Landesbank Rheinland-Pfalz (LRP) and the parent/subsidiary model agreed with the guarantors of LRP. The resolutions by the executive bodies required to approve the parent/subsidiary model were passed in the year under review and the necessary basic agreement was concluded. The resulting new guarantor structure for LBBW was presented to the Supervisory Board.

The integration of BW Bank's technical systems and human resources continued. The legal proceedings concerning the action for avoidance (Anfechtungsklage) filed by the minority shareholders of BW Bank against the squeeze-out resolution were concluded with a ruling in favor of LBBW by the court of first instance.

The Supervisory Board approved a measure to shorten the preparation time for LBBW's 2004 annual and consolidated financial statements (fast close) in view of the conditions of the medium term notes program and the EU Transparency Directive, which stipulate preparation of financial statements within the first four months of the year.

The Supervisory Board also focused on basic business policies and strategic issues, particularly the growth strategy and measures to increase profitability. To this end, the financial indicators of other Landesbanken and major banks were discussed. As in previous years, the Supervisory Board intensively discussed human resources development at the Bank's main offices and the human resources measures proposed by the Board of Managing Directors as part of the ongoing program to reduce costs and increase earnings. The Supervisory Board was updated on the status of major projects.

The Board of Managing Directors reported regularly to the Supervisory Board about the overall business environment and economic developments, as well as forecasts based on this information. LBBW was among those affected by the current rulings under consumer law, particularly those concerning the brokerage and financing of shares in real estate funds. The Supervisory Board was informed about this situation.

The credit risk strategy LBBW was required to develop in accordance with MaK (the Minimum Requirements for the Lending Activities of Credit Institutions) was presented to the Supervisory Board for the first time. The strategy was implemented on schedule on July 1, 2004, in accordance with external implementation deadlines. In-depth reports were presented to the Supervisory Board about the balanced structure of the loan portfolio. The credit risk report, which had to be prepared subsequently, was submitted for the information of the Loan Committee and the Supervisory Board. In the future, the reports will be submitted to the Loan Committee in compliance with the framework stipulated by the Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin – Federal Financial Supervisory Authority); however, the Board of Managing Directors will continue to regularly inform the Supervisory Board about key findings.

The report concerning the portfolio audit and audit in accordance with § 36 of the Wertpapierhandelsgesetz (WpHG – German Securities Trading Act) for 2004 was also discussed with the Supervisory Board.

Furthermore, the Supervisory Board approved the business plan for 2005 and took note of the annual report by the Board of Managing Directors in accordance with the minimum requirements for credit institutions on the performance of internal auditing. The Supervisory Board approved the schedule of responsibilities of the Board of Managing Directors effective as of January 1, 2005.

The Audit Committee held one meeting to discuss the audit reports and facts related to the audit, as well as the preliminary results of a special audit at LBBW's London, New York, and Singapore branches concerning compliance with the minimum requirements for trading transactions stipulated by the Federal Financial Supervisory Authority in accordance with § 44 of the German Banking Act. The Audit Committee reported to the Supervisory Board about the results of its activities. Subsequently, the Supervisory Board was informed by the Board of Managing Directors about the further course of the special audit, as well as the status of the tax audit of LBBW's predecessor institutions.

The Building Committee met once to discuss the status of the construction project at "Pariser Platz" in Stuttgart. The construction work was completed in the year under review, and offices have been moved to the new building. The Building Committee was therefore dissolved by the Supervisory Board in view of the fact that it had completed its responsibilities.

The Loan Committee met eleven times to resolve transactions requiring its approval in accordance with the applicable laws and statutes.

PwC Deutsche Revision Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Stuttgart, audited the annual financial statements and the consolidated financial statements of LBBW, including the management reports, in accordance with the resolution by the Supervisory Board, and issued them unqualified audit opinions. The Audit Committee reported to the Supervisory Board about the results of the audit. The Supervisory Board discussed the auditor's report and found no grounds for objections after completing its review. The audit performed did not bring to light any materially adverse findings. According to this report, the organization of LBBW's accounting, lending, and trading operations complies with the legal regulations and ensures proper processing of transactions.

The auditors who certified the annual and consolidated financial statements took part in the meeting on the financial statements. Along with the Chairman of the Audit Committee, they reported on the results of their audit and answered Supervisory Board members' questions on specific audit findings.

As a result, the Supervisory Board adopted the annual financial statements of Landesbank Baden-Württemberg for 2004 in its meeting on April 8, 2005, and acknowledged the consolidated financial statements and the proposal to the Guarantors' Meeting on the utilization of the Bank's distributable profits.

The Supervisory Board would like to express its sincere thanks and acknowledgment to the Board of Managing Directors and LBBW's employees for their successful work on behalf of LBBW in fiscal year 2004.

Stuttgart, April 8, 2005
Chairman of the Supervisory Board

Heinrich Haasis
President
Sparkassenverband Baden-Württemberg

Unique collections, spectacular architecture, successful exhibits:
Staatsgalerie Stuttgart on Konrad-Adenauer Street.

LBBW – At home anywhere in the world: Stuttgart

"Our museum enjoys an excellent reputation worldwide, and we are proud of that. We work with museums and galleries across the globe and can rely on their willingness to support us, too. It's just like our long-standing partnership with Landesbank Baden-Württemberg. LBBW is one of our most important sponsors – and also an institution with an excellent international reputation. We have something else in common, too: we are committed to this region, where we are deeply rooted. The regional emphasis gives our collections a unique quality."

Prof. Dr. Christian von Holst, Director, Staatsgalerie Stuttgart

02

Economic Environment

Economic Environment.

Global Economy.

Last year, the **global economy** continued the upswing that started in 2003 under favorable signals from mostly expansive monetary and economic policies. This economic trend both gained strength and spread further afield, but then lost some of its momentum in the course of the year. In addition to progressively less expansive monetary and economic policies, another key trend that had a stifling effect was the high price of oil – factors that could put the brakes on economic performance again in 2005. Strong global economic development was reflected in a vigorous expansion of global trade, which grew at a rate substantially higher than the long-term average in 2004.

In 2004, the **United States** was again one of the core growth engines of the global economy. In the past year, the US gross domestic product (GDP) again rose substantially, although the growth of the US economy is expected to slow somewhat in the future due to waning monetary and fiscal policy impetus and the high price of oil. A positive domestic economy with strong investment activity and robust consumer spending again provided a solid foundation for a henceforth self-sustaining trend in 2004. However, this also contributed to a further increase in America's current account deficit in view of a rise in imports that was not balanced out by sufficient growth in exports. Coupled with the federal budget deficit, these trends continue to be potential burdens on the country's future economic development.

Japan's GDP also rose substantially in real terms in 2004. Although in the past year exports were again a key factor in Japan's overall economic development, the domestic economic environment in Japan also improved. The signs increasingly pointed to an easing of the economic situation, particularly considering the long-standing problems in the corporate and banking sectors, and persistent deflation pressure, which have been hampering the country's economic development for years. Although, after a good start, economic output fell off sharply again, the noticeably positive basic trend in production and demand should enable the Japanese economy to continue to recover.

At the beginning of last year, **East Asia's emerging markets** continued the upswing that started in mid-2003 and recorded strong growth in 2004. In view of the satisfactory performance of the global economy, and particularly due to the dynamic growth of the Chinese economy, which has a powerful effect on the rest of the region, this growth was buoyed in particular by very active foreign demand. Positive economic development in this region was reinforced by mostly robust domestic demand. **China's economy** grew at a fast pace again in 2004. However, out of fear that the economy will overheat, politicians have since instituted measures to slow it down, the initial effects of which became apparent in the course of the year, but did not yet have a noticeable impact on GDP growth.

In **Latin America**, the slight upward trend emerging as early as 2003 took hold in the past year, becoming even stronger than expected. Rising export earnings resulted from lively demand for raw materials as the result of the strong growth of the global economy. In this more stable and promising economic climate, which was reinforced by confidence-building measures in some states in the region, domestic demand also livened up, supporting growth. The still relatively favorable financing conditions for foreign debt also contributed to the satisfactory economic environment in the region.

Economic growth continued in **Central and Eastern Europe** in 2004. Economic development in the Baltic states in particular was very robust. In addition to excellent export growth, which received positive impetus from the improved economic situation in Western Europe, domestic economic performance, especially investment activity, is also on the upswing. The high financing deficits in some places are a burden on the economic development, however. The **Russian economy** continues to be strongly dependent on global demand for oil and natural gas, but grew vigorously with the continued support provided by global demand, as well as robust domestic demand, in 2004.

Euroland and Germany.

In **Euroland**, the revitalization of the economy gained a more secure foothold in 2004, although the pace of this trend continued to be only moderate compared to other regions and lost some momentum in the course of the year. In the past year, Euroland's GDP rose in real terms by 2% overall compared to the previous year. In 2003, the growth rate was only 0.5%.

The upturn in Euroland was propped up by brisk global demand, whereas domestic demand remained weak on the whole again in 2004, although at least in some countries it was able to provide noticeable positive stimulus. Against the backdrop of the relatively weak rate of economic growth, the overall labor market situation improved only slightly in the past year.

In 2005, Euroland's moderate growth is expected to continue, although the continued strength of the euro and high oil prices present certain risks to its economic development. Due to the anticipated slowdown in the rate of expansion of the global economy, the momentum provided by foreign trade can be expected to weaken somewhat in Euroland as well. In contrast, domestic economic factors should continue to gain strength at a moderate pace.

In **Germany**, the upswing evident in the second half of 2003 was also maintained in 2004. With an increase in GDP of 1.6 % in real terms over the previous year, the German economy overcame its stagnation phase in the past year though economic development slowed down in the second half of the year. Despite this growth, economic growth in Germany continues to lag behind that of the international economy in particular, but also that of many countries in Euroland.

Once again in 2004, economic development was uneven. Economic growth was given a boost by exports, which gave the German economy vital positive stimulus thanks to the strong growth of the global economy. In contrast, weak domestic demand, especially consumption by private households, which continued to suffer due to consumer uncertainty about labor market trends and the reform of social security systems, was again the thorn in the side of the German economy. This environment was not conducive to an improvement in the difficult labor market situation.

The German economy's recovery process can be expected to continue in 2005, although, reflecting developments in 2004, the lack of a foundation for a broad, self-sustaining upswing is still a risk in terms of the long-term sustainability of the process. Along with progressive stabilization of the domestic economic situation, which in the current economic climate can be expected to occur primarily due to the continued resurgence of corporate investment activity, positive foreign trade momentum will be essential for the growth process in Germany again in 2005. The stimulus provided by exports should have less of an impact than in 2004 in the face of weaker global economic demand, the effects of which could potentially be magnified by the strong euro; however, robust foreign demand should further reinforce the recovery of the German economy.

Baden-Württemberg.

Baden-Württemberg's economy achieved a turnaround in 2004, growing after two years of stagnation. In the year under review, GDP increased by about 1.7% in real terms over the previous year. The economic performance of Germany's southwestern region was therefore somewhat better than that of Germany as a whole.

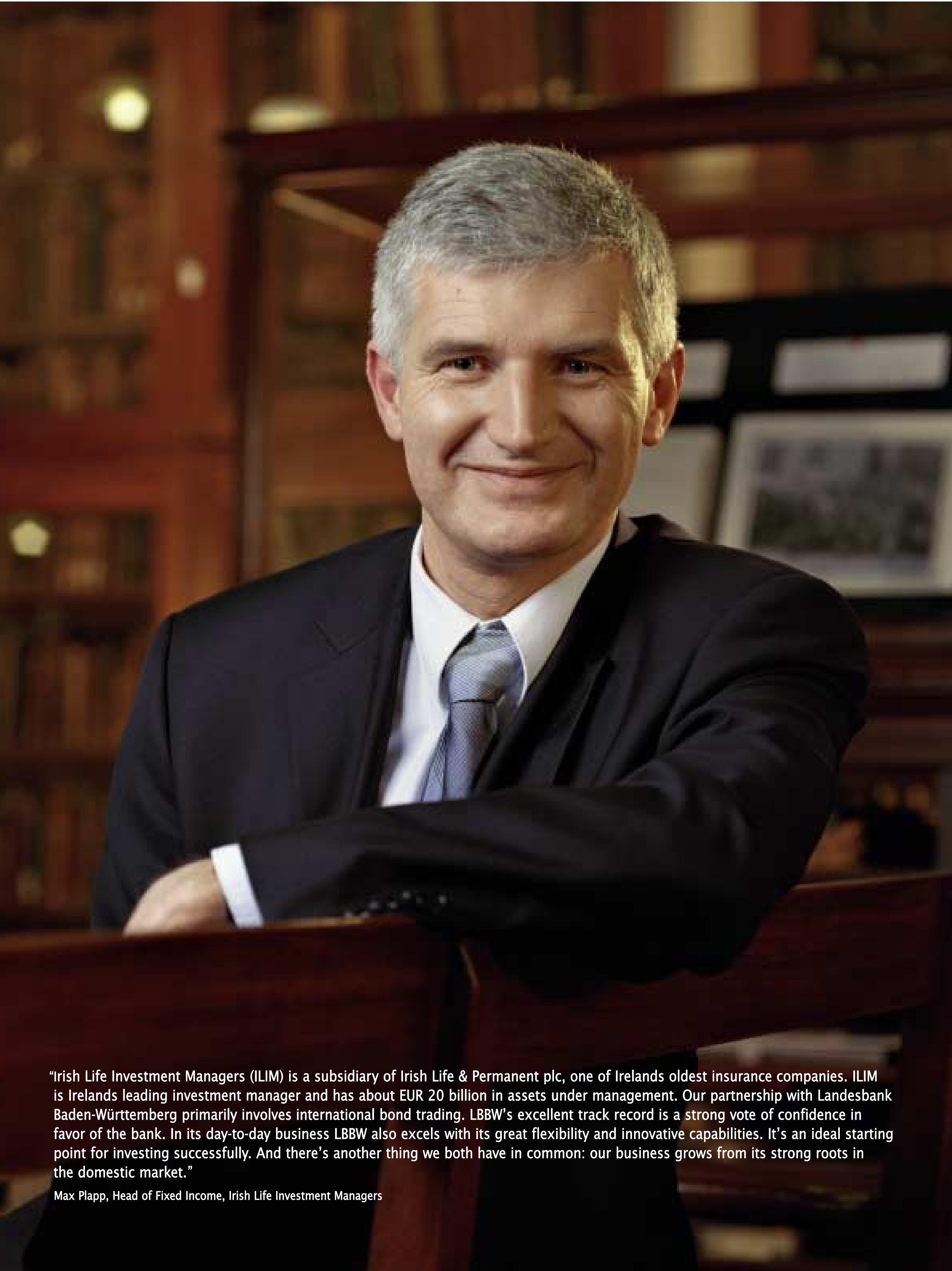
The economic upturn was driven by foreign trade, which benefited from the positive global economy. Exports from Baden-Württemberg to Eastern Europe and East Asia were particularly satisfactory. In contrast, domestic demand remained less than lively. Whereas domestic investments in plant and equipment grew modestly, which gave a boost to corporate service providers in particular, the weakness in private household consumption proved to be a persistent obstacle to an upturn in the domestic economy, which put a damper in particular on consumer-dependent sectors of the economy and consumer-related industries.

The economic recovery did not result in any fundamental improvement on the labor markets in 2004. Despite its slightly increased unemployment rate compared to the previous year, Baden-Württemberg held on to its top ranking as the German state with the lowest unemployment again last year.

As in Germany as a whole, 2005 is expected to bring a certain weakening in foreign trade momentum to Baden-Württemberg due to the anticipated lower rate of growth of the global economy. This trend will be countered in Germany's southwestern region by the expectation of increasingly positive stimulus from a progressively more solid domestic economy. Against this backdrop, Baden-Württemberg's economy should be able to continue growing in 2005 at a rate similar to that of 2004, taking into account calendar effects.

LBBW – At home anywhere in the world: Dublin

One of the venerable symbols of Ireland's colorful history: the Royal Irish Academy Library on Dawson Street.



"Irish Life Investment Managers (ILIM) is a subsidiary of Irish Life & Permanent plc, one of Irelands oldest insurance companies. ILIM is Irelands leading investment manager and has about EUR 20 billion in assets under management. Our partnership with Landesbank Baden-Württemberg primarily involves international bond trading. LBBW's excellent track record is a strong vote of confidence in favor of the bank. In its day-to-day business LBBW also excels with its great flexibility and innovative capabilities. It's an ideal starting point for investing successfully. And there's another thing we both have in common: our business grows from its strong roots in the domestic market."

Max Plapp, Head of Fixed Income, Irish Life Investment Managers

03
Landesbank Baden-Württemberg

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Landesbank Baden-Württemberg.

Landesbank Baden-Württemberg (LBBW) differs markedly from the other Landesbanken in Germany in terms of its business structure. LBBW's strategy rests on its strong original customer business with a focus on retail banking. This important difference between LBBW and other Landesbanken has historical roots: the merger between Südwestdeutsche Landesbank – Girozentrale, Landesgirokasse – öffentliche Bank und Landessparkasse and the commercial banking business of Landeskreditbank Baden-Württemberg on January 1, 1999, brought together three institutions, each of which had a different business focus.

LBBW is a universal bank and a commercial bank operating worldwide. The Bank provides a comprehensive selection of products and services to retail, as well as corporate and institutional customers, and functions as the central bank for the savings banks in Baden-Württemberg. In addition, it carries out the responsibilities of a savings bank in the state capital Stuttgart.

Future Structure of the LBBW Group.

In 2004, preparations were made for two key changes to the LBBW Group that are vitally important in terms of its future structure.

The shareholders of Landesbank Rheinland-Pfalz (LRP) and the shareholders of LBBW have agreed to integrate LRP into the LBBW Group. As of January 1, 2005, LRP became a wholly owned subsidiary of LBBW. Rhineland-Palatinate and neighboring regions will remain LRP's core markets, where LRP will continue to function as a bank to medium-sized companies and act as the central bank to Rhineland-Palatinate's savings banks.

Baden-Württembergische Bank AG (BW Bank) is an important commercial bank in Baden-Württemberg. Since April 2003, LBBW has directly and indirectly held a majority of the voting rights in BW Bank. Moreover, the State of Baden-Württemberg decided to bundle at Landeskreditbank Baden-Württemberg – Förderbank – (L-Bank) its shares in BW Bank held indirectly via Landesstiftung Baden-Württemberg, L-Bank and BW-Holding GmbH, and to contribute these shares to LBBW as a non-cash contribution by way of a capital increase in early 2005.

After the squeeze-out of minority shareholders is completed at BW Bank, the LBBW Group intends to concentrate its private and corporate customer business with a focus on Baden-Württemberg at BW Bank. BW Bank will also assume LBBW's function as a savings bank to the city of Stuttgart, whereas BW Bank's capital market-oriented and international business will be merged with those departments at LBBW.

Legal Foundation.

LBBW is a public-law institution. LBBW's share capital to date totaling EUR 1.28 billion was held until December 31, 2004 by the State of Baden-Württemberg and the Savings Bank Association of Baden-Württemberg (39.5 % each) and by the state capital Stuttgart (21 %).

The integration of LRP and BW Bank into the LBBW Group changed the ownership structure of LBBW. The Savings Bank and Giro Association of Rhineland-Palatinate and Landeskreditbank Baden-Württemberg – Förderbank – (L-Bank) received shares in LBBW in return for the shares in LRP and in BW-Holding GmbH, which they contributed to LBBW.

As of January 1, 2005, LBBW's guarantors are the State of Baden-Württemberg, the Savings Bank Association of Baden-Württemberg, the state capital Stuttgart, Landeskreditbank Baden-Württemberg – Förderbank –, and the Savings Bank and Giro Association of Rhineland-Palatinate. The Ministry of Finance and the Ministry of the Interior of Baden-Württemberg are the supervisory authorities on points of law.

Since January 1, 2005, the new share capital of LBBW amounting to EUR 1.419 billion has been distributed as follows:

State of Baden-Württemberg 35.611 %, Savings Bank Association of Baden-Württemberg 35.611 %, City of Stuttgart 18.932 %, Savings Bank and Giro Association of Rhineland-Palatinate 4.923 %, and Landeskreditbank Baden-Württemberg 4.923 %.

The executive bodies of Landesbank Baden-Württemberg are the Guarantors' Meeting, the Supervisory Board, and the Board of Managing Directors. For the sake of intensively cultivating its customer contacts, LBBW has established an Advisory Board made up of numerous prominent businesspeople and public figures.

Landesbank Baden-Württemberg is a member of Deutsche Sparkassen- und Giroverband e.V. (DSGV – the German Savings Banks and Giro Association) and of Bundesverband Öffentlicher Banken Deutschlands e.V. (VÖB – the Federal Association of Public-Sector Banks in Germany), both of which are headquartered in Berlin.

Regional Roots, International Expertise.

Landesbank Baden-Württemberg's head offices are located in Stuttgart, Karlsruhe, and Mannheim. The Bank operates a total of 184 offices and branches in its core territory of Baden-Württemberg. Moreover, the Bank also maintains three representative offices in Bavaria along with seven "Centers for Financial Services" in key German financial hubs and its own Stock Exchange Office in Frankfurt am Main. In addition, LBBW operates its own branches in important financial capitals worldwide (New York, London, and Singapore) and serves its internationally oriented customers across the globe with 17 representative offices in major centers of financial activity. LBBW's German Centres in Singapore, Beijing, and Mexico City also offer export-oriented customers tools that go well beyond just classic financial services.

Expertise for All Customer Groups.

As a universal bank and international commercial bank, Landesbank Baden-Württemberg is a partner to all customer groups in a wide range of business segments. In Baden-Württemberg, its core market, the Bank is positioned as a regional bank for discerning private and corporate customers, as well as a provider of numerous banking services tailored especially to the needs of small and medium-sized businesses. LBBW is also available to service-oriented customers as one of the top trading houses in Germany and adjacent Euroland. LBBW offers a comprehensive range of wholesale services to multinational companies, institutional customers, financial institutions, and commercial real estate customers.

LBBW's product portfolio spans all traditional bank products, including deposit and financing operations for all customer groups. This range is constantly updated and expanded with the addition of innovative products.

LBBW is positioned as a partner to its mostly medium-sized corporate customers in every stage of development. The Bank grants suitable loans to entrepreneurs. In addition, the Bank arranges for growth financing, offers advice on questions regarding expansion (M&As) and ownership succession, as well as providing all of the necessary support for customers planning to go public. Specialized financing services, notably for company acquisitions or project financing, is an additional component of LBBW's service range, along with its international business, and money market, securities, and foreign exchange trading.

LBBW also offers a comprehensive range of investment and asset management services to high net-worth customers. Institutional customers enjoy an in-depth range of asset management services. Real estate brokerage and financing services form one focus of Landesbank Baden-Württemberg's retail banking business. Business with public-sector customers rounds out its array of services.

LBBW has made a name for itself as a sought-after first-class issuer on international financial markets on the strength of its excellent credit rating, which has been confirmed by all of the leading rating agencies.

Landesbank Baden-Württemberg's services are enhanced by subsidiaries and associated companies that are active in specific segments of the banking sector that optimally complement LBBW's business activities. The spectrum spans leasing and factoring, management of specialized securities funds, the provision of venture capital and financing for equity investments, as well as a comprehensive range of real estate services.

Social Commitment.

In addition to its financial activities, LBBW considers itself a lively and active member of society. As part of its commitment to the public, the Bank fulfills its duties as a member of society by promoting arts and culture, sports, education and the sciences, nature and the environment, as well as the social sphere, as a sponsor or a donor, or via its non-profit foundations. This effort by LBBW beyond its core business as a bank is intended to help preserve the Baden-Württemberg's colorful cultural landscape, to promote the ideally resources of its residents and institutions, and to express appreciation for the numerous initiatives serving the common good in the Bank's home region.

LBBW – At home anywhere in the world: New York

Time Warner Center at Columbus Circle: New York's newest landmark featuring luxury condominium residences, a Four Star restaurant collection, The Shops at Columbus Circle, the new Jazz at Lincoln Center, the Mandarin Oriental Hotel, Time Warner's headquarters – and a breathtaking view of Central Park.

"Our ambition is actually quite simple: we always want to be the best. That's what enables us to achieve the best results for our business partners, employees, and customers. An example is the Time Warner Center. We develop, finance, and manage high-quality real estate. As one of the market leaders in our industry, we like to try new approaches – just like Landesbank Baden-Württemberg. For instance, we were the first to use tax-exempt variable-rate bonds to finance major real estate development projects in New York, a decision that has benefited all of the participants."

Stephen M. Ross, Founder, Chairman and CEO of The Related Companies, L.P.

04

Key Equity Investments/ Subsidiaries

Key Equity Investments/ Subsidiaries.

SüdLeasing.

In 2004, SüdLeasing GmbH was again able to maintain its position as one of Germany's five largest manufacturer-independent leasing companies. However, in 2004 the economy did not recover to the degree anticipated. This again led to a very subdued investment climate and, in some cases, even a downturn in investments in Germany. The sharp drop in the value of the US dollar against the euro had a strong braking effect on German industry, particularly in the key mechanical engineering and automotive industries.

SüdLeasing was unable to avoid being affected by this negative overall economic environment. With new business totaling EUR 2.33 billion, the company was not quite able to match the previous year's volume of EUR 2.54 billion. SüdLeasing restructured its business in 2004 as planned. Thanks to this restructuring effort, the company was able to identify cost synergies, optimize workflows, and streamline its business. The objective is to improve customer satisfaction even more.

The SüdLeasing Group had 824 employees. A total of 254 employees work in the core vehicle-leasing segment, which is concentrated at SüdLeasing's subsidiary LHS (75 % SüdLeasing, 25 % DEKRA). On the whole, the workforce remained stable as compared to the previous year. In Germany, SüdLeasing serves its customers at more than 30 of its own sales offices. LBBW and BW Bank are important additional sales channels for SüdLeasing in Germany. Outside of Germany, additional offices are being set up in addition to the five already operating. As in the past, the focus of SüdLeasing's international strategy will be on providing services to German companies abroad.

The subsidiaries of the SüdLeasing Group included in LBBW's consolidated financial statements managed leasing assets with an acquisition cost totaling EUR 4.40 billion (2003: EUR 4.46 billion). The consolidated income of the SüdLeasing Group amounts to EUR 33.7 million.

SüdLeasing is cautiously optimistic about its business prospects in 2005. After de facto stagnation in 2004, leading economic research institutes hope for moderate economic growth of 1.5 % to 2 %.

In 2005, SüdLeasing will focus on identifying additional cost synergies in the SüdLeasing Group and consistently managing costs. The specific objective here is to ensure that the company's shareholder, Landesbank Baden-Württemberg, receives an adequate return on equity.

MKB.

The focus of MKB Mittelrheinische Bank GmbH, which is headquartered in Koblenz and is an independent subsidiary of the LBBW Group, is the manufacturer-independent movables leasing business. This business segment is the responsibility of the company's wholly owned subsidiary MMV Leasing GmbH. Moreover, MKB extends commercial investment loans for movable economic assets. The MKB Group has focused its business activities on medium-sized enterprises.

In 2004, the economic climate continued to be difficult. In particular, corporate spending on machinery and equipment declined for the fourth time in a row in the past fiscal year. Despite this unsatisfactory environment, the MKB Group was again able to generate new lending and leasing business of more than EUR 550 million. A total of around 30,700 new loan and leasing contracts were signed in 2004.

The MKB Group serves over 51,000 customers across Germany. With 388 active employees, the MKB Group maintains 10 sales offices in Germany in addition to its offices in Koblenz.

The MKB Group's earnings picture was positive again in 2004. Despite market-related pressure, the company continued to pursue its consistent margin policy of recent years. The sustained optimization of its workflows and a further improvement in its risk situation, which was already respectable compared to other companies in the industry, also contributed to the excellent level of earnings for the year.

In 2005, the MKB Group anticipates the expected recovery in spending on machinery and equipment to have a positive effect on new business and earnings.

SüdFactoring.

SüdFactoring operates a classic factoring business with three main functions: services, del credere, and financing.

Factoring was in high demand again as a service and outsourcing tool. This enabled customers to cut costs and generate additional earnings, which in turn allowed them to concentrate on core competencies. To meet this goal, SüdFactoring greatly expanded its "SF direkt" and "SF Filetransfer" services so that the company could provide its customers around-the-clock IT services as a reliable business partner.

SüdFactoring's performance in fiscal year 2004 was satisfactory once again. The company experienced a high level of demand for factoring, which boosts liquidity and profitability, by many medium-sized companies in the manufacturing, wholesale, and service sectors, not least due to Basel II and the restrictive lending policies of major banks. Whereas shifts in the key account business resulted in a decline in revenue in the prior year, sales in the year under review grew by a respectable approximately 33 % to EUR 2.8 billion.

The company anticipates overall positive development for the factoring market. However, the factoring business continues to be made more difficult by the much too high numbers of corporate insolvencies. No improvement is currently expected here. Despite this fact, the company anticipates a satisfactory result in the current fiscal year (2005).

SüdKB.

Süd-Kapitalbeteiligungs-Gesellschaft mbH (SüdKB) offers medium-sized enterprises equity investments in the form of investments in liable capital, silent partnerships, and shareholder loans, primarily for the purpose of financing growth, reorganizing ownership structures, and arranging ownership succession.

In 2004, SüdKB moderately expanded its portfolio of equity investments. Two new equity interests in the mechanical engineering sector were added to the portfolio. At the same time, a number of investments were also sold. The proceeds of these sales contributed substantially to the overall satisfactory level of earnings generated by the company. At the end of 2004, a total of EUR 159 million was invested in 45 companies. The focus of the portfolio is on the mechanical and plant engineering, automotive, food and beverage, and plastics processing industries.

In 2005, SüdKB anticipates an upturn in the growth market for equity investments due to the generational shift due to take place at many medium-sized companies and to the increased capital adequacy requirements as a result of Basel II, along with once again improved corporate valuations.

SüdPE.

Süd Private Equity GmbH & Co. KGaA (SüdPE) operates as a public holding company *(Unternehmensbeteiligungsgesellschaft)* in accordance with the Gesetz über Unternehmensbeteiligungsgesellschaften (German Holding Company Act). SüdPE makes available private equity as a reliable partner to growth-oriented medium-sized companies. Other reasons for investment include reorganizing ownership structures at investee companies and arranging for ownership succession. Due to the strict standards applied to new investments and the continued uncertainty about economic developments, no new investments were acquired in 2004.

SüdVC.

SÜD VENTURE CAPITAL INVESTITION GMBH & CO. KG (SüdVC) invests in young IT and life sciences companies at an early stage of development, preferably with a focus on southern Germany. In 2004, SüdVC continued to pursue the strategy undertaken in the previous year, only selectively providing subsequent financing to already existing portfolio companies.

In 2005, the company expects a slight upturn in the venture capital market. In order to take advantage of synergies, LBBW will concentrate its venture capital activities within the Group in 2005 by integrating these activities into BW Venture Capital GmbH, a subsidiary of BW Bank.

SüdKA.

SüdKA SüdKapitalanlagegesellschaft mbH, Frankfurt/Main is a capital investment company within the meaning of § 6 InvG – German Investment Act (formerly § 1 KAGG – German Investment Company Act). The company manages specialized investment funds and provides asset management services to institutional investors. SüdKA is owned by LBBW (74.98 %) and Sachsen LB (25.02 %).

The overall market for specialized securities funds managed in Germany performed positively once again compared to 2003, although growth was weaker. As of December 31, 2004, 51 German investment companies had a total specialized fund volume of EUR 529.3 billion under management (December 31, 2003: EUR 508.2 billion) for growth of 4.1 % (previous year: 8.2 %).

In the same period, SüdKA was able to increase its total fund volume under management from about EUR 10 billion to EUR 10.6 billion, achieving a growth rate of 5.8 %.

According to statistics collected by BVI Bundesverband Deutscher Investment und Asset Management e.V. (BVI Investment and Asset Management Association), Frankfurt/Main, SüdKA ranks 14th in terms of fund volume under management (previous year: 15th out of 54 German investment companies) and is classified as a medium-sized investment company.

In addition to managing specialized securities funds, SüdKA also managed a fund volume of around EUR 1.1 billion for third parties (advisory services) as of December 31, 2004.

The company has also managed individual portfolios for institutional investors since 2003. As of December 31, 2004, the company had EUR 1.1 billion in assets under management. SüdKA had a total business volume of around EUR 12.9 billion as of December 31, 2004.

LEG.

LEG Landesentwicklungsgesellschaft Baden-Württemberg mbH, in which Landesbank Baden-Württemberg holds an indirect interest of 89.1%, operates as a comprehensive real estate investor and service provider in its key business areas of residential, commercial, and infrastructure construction, real estate and facilities management, rental housing privatization, construction management, and project development, including structuring financing arrangements. The subsidiary Kommunalentwicklung LEG rounds out this range of services as a supplier of services to municipalities in the areas of planning, development and urban renewal.

The Stuttgart-based Bahnhofplatz Group, in which LEG acquired a majority share in late 2003, was integrated into the Group. Controlling and profit and loss transfer agreements were concluded with Schloßgartenbau AG, Bahnhofplatz-Gesellschaft Stuttgart AG, Industriehof AG, and Geschäftsbauten GmbH. The commercial real estate unit of LEG was merged with Geschäftsbauten GmbH, and the company now does business as LEG Geschäftsbauten GmbH.

Management of the residential real estate portfolio consisting of approximately 50,000 units was fundamentally restructured. Integrating management services for rented and owned residential properties and optimizing the division of regional responsibilities enabled the company to improve efficiency. The development of the company into an integrated real estate service provider has firmly positioned LEG as the center of excellence for real estate management within the LBBW Group.

Despite another difficult year for the real estate sector, LEG was able to report growth in 2004. Net income for the year before income tax increased by 22% to EUR 52.6 million as a result in particular of non-recurring earnings effects. Despite the unsatisfactory overall climate, LEG anticipates earnings to remain at a comparable level again in 2005.

SüdWERT GmbH.

SüdWERT Wohnungsprivatisierungsgesellschaft mbH is a joint venture operated by Bietigheimer Wohnbau GmbH and LBBW. The company specializes in the privatization of residential real estate that is the property of public authorities, municipal housing companies, housing cooperatives, and other institutional and private residential housing owners. With around 4,000 apartments acquired for privatization to date in approximately 70 separate locations in 21 cities and towns, SüdWERT has successfully become established as a highly qualified and reliable partner for socially responsible rental housing privatization. MainWERT GmbH was founded together with ABG FRANKFURT HOLDING in 2004. The goal is to implement SüdWERT's privatization concept in Germany's Rhine-Main region. ABG FRANKFURT HOLDING is the largest residential housing company in the city of Frankfurt with around 50,000 residential units under management.

SüdWERT's strong focus on locations in southern Germany, particularly the Stuttgart metropolitan area, and the arrangement of the partnership with ABG FRANKFURT HOLDING in 2004, lead the company to expect its business performance to continue to be positive.

BW Bank.

As of March 1 of the year under review, the accounting, financial control, human resources, and legal departments of BW Bank were transferred to LBBW as part of a transfer of operations. On September 29, 2004, Stuttgart District Court dismissed all of the cases brought by individual shareholders in the proceedings concerning the squeeze-out of BW Bank's minority shareholders. The plaintiffs have filed an appeal to contest this ruling. The Bank in turn has filed an application with Stuttgart District Court to remove the suspension temporarily prohibiting entry of the transaction into the commercial register lifted so that it can implement as soon as possible the resolutions on the reorganization of the LBBW Group passed by the Guarantors' Meeting of LBBW in the meanwhile. The aim is to effect the registration of the squeeze-out resolution by the General Meeting. The basic decision by the guarantors stipulates the concentration of the private and corporate customer business with a focus on Baden-Württemberg at BW Bank as a future wholly owned subsidiary of LBBW. International and capital market operations will be bundled at LBBW. BW Bank will have an independent market presence within the LBBW Group.

In fiscal year 2004, BW Bank increased its operating income by 21.1 % to EUR 89.7 million. In addition to administrative expenses, which decreased again (– 1.0 %), noticeably lower risk costs were the main factor responsible for the improvement in earnings. At EUR 82.2 million, risk provisions for the lending business were 42.2 % lower than in 2003. After netting all income and expenses, the company's earnings before tax totaled EUR 88.8 million, compared to EUR 69.7 million in the previous year (+ 27.3 %). RoE before taxes was 13.9 % in the Group (2003: 11.3 %). BW Bank's net income for the year amounted to EUR 50.6 million as in the previous year. EUR 20 million out of this amount will be allocated to reserves. The remaining distributable profit amounting to EUR 30.6 million is expected to be used to distribute a dividend of EUR 0.85 per no-par value share.

BW Bank's business volume rose moderately by 4.1 %, while total assets increased by 4.3 %.

LBBW has held all of the shares of BW Holding GmbH since January 1, 2005 and therefore directly and indirectly holds 98.8 % of BW Bank's shares.

LRP.

In a difficult year for operations, Landesbank Rheinland-Pfalz (LRP) generated operating income of EUR 132 million and net income for the year of EUR 80 million in fiscal year 2004. Thanks to a moderate increase in total assets by 3.2 % to EUR 67.7 billion and business volume by 3.9 % to EUR 76.6 billion, LRP further reinforced its positioning in its core markets as a specialized commercial bank.

In the past fiscal year, the strategic course was also set to ensure LRP's future business. As a result, LRP is well prepared to meet lending business and corporate policy challenges associated with the changes in state guarantees starting in 2005. LRP has been a wholly owned subsidiary of Landesbank Baden-Württemberg since the beginning of the year. LRP will concentrate more on its function as a central bank to Rhineland-Palatinate's savings banks and as a bank with a regional focus serving medium-sized businesses, while at the same time reducing its focus on wholesale banking services. To this end, measures were initiated to strengthen its market presence based on improved cost and earnings structures. As an integral part of the LBBW Group with access to its product range and specialized expertise, as well as its international network, LRP is utilizing these additional opportunities in developing its business.

Leading rating agencies have confirmed the advantages of the parent/subsidiary model arranged between LBBW and Landesbank Rheinland-Pfalz. The parent/subsidiary model produced a sustained improvement in LRP's rating for the period after the elimination of state guarantees, while reinforcing LBBW's excellent "shadow rating". The fact that a clear business model was outlined for LRP as part of the basic agreement between the two banks and that a strict control and risk management system is guaranteed by the parent/subsidiary model led to broad acceptance of this model for integrating LRP into the LBBW Group.

For LBBW, the integration of LRP represents an expansion of its core medium-sized business market into another German state and neighboring regions. Moreover, LBBW can also extend its activities as a central bank to the savings banks to Rhineland-Palatinate's savings banks together with LRP. The services provided under the contractual service partnership with Baden-Württemberg's savings banks will mostly be transferred to Rhineland-Palatinate. A corresponding master agreement was signed by the participants in December 2004 and has in the meanwhile been confirmed by nearly all of Rhineland-Palatinate's savings banks.

DekaBank.

Frankfurt/Main-based DekaBank Deutsche Girozentrale, in which LBBW holds a total interest of 14.56 % as of 2005, can look back on a satisfactory fiscal year in 2004.

Stocks proved to be a lucrative investment vehicle in the past year. The most important stock indexes worldwide rose in 2004. This excellent result was due primarily of the improved stock market climate in the last quarter. The bond markets also performed satisfactorily. The performance of the real estate markets was mixed, and the German market in particular was unable to uncouple from the weak domestic economy.

In view of this trend, the DekaBank Group, which is the central investment services provider to the Sparkassen Financial Group, was able to increase fund assets under management by around EUR 3.7 billion to EUR 134.9 billion in 2004. In addition to the consolidation of WestInvest, the overall positive market trend was also responsible for this increase. Outflows totaling around EUR 4 billion were reported in net sales. This result was affected by the outflows from Deka-ImmobilienFonds, and in particular by the net outflow from special investor funds.

The performance of individual segments varied greatly. Investor attention was mainly centered on structured investment products, such as funds of funds *(Dachfonds)* and fund-based asset management.

The DekaBank Group reported total assets amounting to EUR 128 billion at the end of the year, while its liable capital totaled EUR 3.6 billion. Consolidated net income for the year totaled EUR 42.4 million.

HSBC Trinkaus & Burkhardt.

In line with the traditional banking business, HSBC Trinkaus & Burkhardt KGaA offers its customers sophisticated financial services for solving complex problems. The bank's particular strengths are securities, portfolio management, interest and currency management, the issuing business, and corporate finance, as well as international business. The bank's target groups include high net-worth private customers, large and medium-sized enterprises, and institutional investors. LBBW holds a stake of 20.3% in this institution.

Fiscal year 2004 brought another significant upturn in results. This is the result of the sale of an indirect equity interest in HSBC Guyerzeller Bank in the second quarter of 2004 and the increase in operating income. The satisfactory development of this item is attributable to several factors. For one, earnings increased, especially commission income, which is important for the bank, and its trading result. On the other hand, the bank was able to keep administrative expenses down as anticipated.

Internationales Bankhaus Bodensee AG.

Internationales Bankhaus Bodensee AG, which is headquartered in Friedrichshafen and has offices in Constance, Radolfzell, and Überlingen, continued to generate satisfactory earnings in the year under review. The net income for the year of the bank, which was founded in 1996, increased for the fourth fiscal year in a row. Landesbank Baden-Württemberg directly and indirectly owned an interest of 85.1% in Internationales Bankhaus Bodensee AG at the end of 2004.

Cellent AG.

Stuttgart-based Cellent AG, in which LBBW holds an equity interest of 64.8%, is an IT service provider primarily serving the financial community and industrial companies, and focusing on employee time management services. Cellent AG holds about 77% of the share capital of stock exchange-listed tiscon AG Infosystems, Neu-Ulm, and 100% of the nominal capital of Cellent Finance Solutions GmbH, Munich. Cellent AG's staff of nearly 500 Group employees provides services to industrial and insurance companies and major banks from six offices in southern Germany. At EUR 52 million, the Group's gross revenue was up considerably from the previous year's figure.

Landesbank Baden-Württemberg – At home anywhere in the world.

	Phone number
Amsterdam	+31 23/5 62 63 72
Barcelona	+34 93/2 01 67 00
Beijing	+86 10/65 90 01 66
Budapest	+36 1/2 50 83 57
Hanoi	+84 4/8 24 21 54
London	+44 207/826-80 00
Madrid	+34 91/3 99 47 72
Mexico	+52 5 5/91 72 92 60
Milan	+39 02/87 38 47 00
Mumbai	+91 22/22 81 99 41
New York	+1 212/5 84-17 00
Paris	+33 1/55 34 31 60
Prague	+420 2/24 23 62 76
São Paulo	+55 11/37 04 70 10
Shanghai	+86 21/50 81 60 02
Singapore	+65/65 62-77 22
Tokyo	+81 3/51 56 08 71
Vienna	+43 1/5 13 20 22 11
Warsaw	+48 22/6 54 16 89
Zurich	+41 43/2 05 26 17

LBBW – At home anywhere in the world: Shanghai

All kinds of birds, fish, crickets, and dogs; a tea room serving as a meeting place; business transacted primarily by locals: it's Xizang Bei Lu (Central Tibet Road) market in the Lao Xi Men district near old town Shanghai.

"Voith Paper is a leading supplier to the paper industry. Voith machines make possible over one-third of paper production worldwide. In China, more than half of all of the high-quality paper produced is manufactured using Voith equipment. China is a highly attractive growth market for us, even though the challenges are also great. That's why we are pleased to have Landesbank Baden-Württemberg at our side as a highly competent partner who supports us in words and deeds-and with good ideas."

Liu Mingming, President, Voith Paper China, Shanghai

05
Segments

Retail Clients.

LBBW's retail customer and investor business topped the previous year's excellent result once again in 2004. The upturn in earnings continued against the backdrop of a high-pressure competitive environment and a public mood dominated by uncertainty.

Germany's reform of its social security systems in response to weak economic growth, high unemployment, and the aging of the population is increasing our customers' need for security. For this reason, demand was greatest in 2004 for short-term investments and investments offering guaranteed capital preservation. In contrast, since the bursting of the stock market bubble, customers have avoided risky financial investments, so investments in stocks and stock funds have been very restrained.

The unsteady economic environment also affected new construction financing: despite low interest rates and real estate prices, LBBW saw substantial reluctance among customers to buy and construct new homes.

The insurance business benefited from the pending elimination of tax privileges for term life insurance (new regulations concerning the taxation of retirement income) along with a growing awareness of the importance of supplemental private retirement plans. This segment grew sharply compared to the previous year.

Customer Opinions Make a Difference.

LBBW regularly conducts market research. In 2004, test consultations and an evaluation of service quality in LBBW's branches were performed. Moreover, the Bank again conducted a written survey of a representative sample of selected retail clients in cooperation with a well-known market research institute.

The results indicated that more than three-quarters of customers are highly satisfied with their bank. Retail customers view LBBW as a modern, friendly, and professional financial institution that they can trust. Our financial advisors are seen as friendly and knowledgeable business partners, and their services are highly valued. Another survey indicated that LBBW could position itself equally positively among non-customers.

When market research studies and LBBW's quality management identify areas in which customers would like to see improvements, this information is used immediately to further improve the Bank's services and advising. For example, the Bank is introducing a new generation of self-service customer terminals featuring improved functions and ease of use.

Regional roots and proximity to customers are key building blocks of LBBW's success. Due to the large number of branches in Stuttgart and the region, for many customers in Württemberg and Baden, the trip to "their" LBBW branch is not very long. This enables LBBW to form close, lasting, and personal relationships with customers and to assist customers through each phase of their lives.

Systematic Customer Contact Management.

Surveys revealed that customers would like to be contacted by their bank more often. In order to meet this need, LBBW is setting up a customer contact management system. The focus of this system is on the needs and wishes of customers, and the objective is to consistently tailor the content, timing, frequency, and type of contact to customer requirements, as well as to target the right customer with the right offer at the right time.

In 2004, more than 400,000 pieces of direct mail were sent to customers. During the same period, our financial advisors received over 200,000 requests for contact from customers. The issues covered ranged from product offers through investment advice on maturities or legal requirements to important personal milestones.

Network of Branches and Integrated Multi-Channel Concept.

Branch Operations

With an extensive network of branches and qualified financial advisors, branch operations form the foundation of LBBW's retail business. The 184 branches currently in operation provide high-quality advice on all types of services to retail customers. Specialists in 28 centers of excellence are also available to high net-worth private clients and corporate customers.

In order to provide the branches with even more opportunities to provide high-quality financial advice and offer customers services outside of business hours, the Bank's self-service offering was expanded further in 2004.

A new generation of account management terminals prepare account statements for all of a customer's accounts significantly faster and only require a card and a PIN. A new function enables users to add funds to prepaid mobile phone cards.

Direct Banking

All LBBW customers can select from various technologies to access the Bank depending on their preferences. More and more customers are using these options for standardized bank transactions, such as wire transfers and account balance inquiries, as a sensible supplement to the services offered by their branches.

Landesbank Baden-Württemberg: At home everywhere.

LBBW offices and branches in Germany	
Head offices	3
Branches	181
Representative offices and LBBW Centers for Financial Services	10
Total LBBW offices and branches in Germany	194

LBBW offices and branches abroad	
Branches	3
Representative offices	17
Total LBBW offices and branches abroad	20

Total LBBW offices and branches	214

New functions and services are making LBBW's Web site increasingly attractive. Internet banking can now also be used to cost-effectively and easily send standard EU wire transfers to the new EU member states. The information modules on the Internet banking homepage are also new: this page is used to inform customers succinctly and in a timely manner about the Bank's offers and other interesting topics, such as the security issues associated with direct banking. The increasing number of users underscores the growing importance of this sales channel. A total of more than 9 million log-ins to LBBW's Internet banking service were recorded in 2004, and approximately 2.8 million transfer orders were placed online.

LBBW continues to constantly expand its direct sales systems. As was the case with LBBW's Internet banking system, HBCIbanking is now being ported to a new technical platform in preparation for meeting future needs. Technical stability and security are the priorities during development of this platform. An alternative to the security process used to access HBCIbanking with an HBCI chip card will be offered in the second half of 2005 and will feature access using a PIN (personal identification number) and TAN (transaction number).

Customers can easily use services via phone, e-mail, and fax and request information via LBBW's Communication Center. A hotline with knowledgeable operators is available for technical questions regarding the use of all direct sales channels.

Development of Products and Services.

LBBW offers its retail clients a complete selection of financial services extending all the way to highly sophisticated private banking services. The product range comprises the Bank's own innovative products tailored to current customer requirements (particularly structured products, e. g. the GarantKick Bond), as well as third-party products (especially those offered by savings bank association partners Deka, SV, and LBS).

This extensive portfolio forms the foundation for meeting all kinds of customer needs. All types of investment vehicles are offered from classic savings accounts through investment funds to innovative products. LBBW's products for retirement planning, family security, and financing or renovating customers' homes round out this offering. The "extend" account is a special checking account product offered by LBBW.

Customer trust in the ability of our financial advisors to offer solutions tailored to current needs is underscored by more than just our successful insurance business. Private construction financing is another area where customers value the customized, high-quality products offered by LBBW's construction financing specialists, a fact that is confirmed by current market studies.

Checking Account Products

Almost 480,000 retail clients maintain personal checking accounts at LBBW. Regardless of the type of checking account customers select ("classic", "compact", or "extend"), they benefit from the large network of branches operated by LBBW, and above all from the opportunity to conduct daily banking transactions easily even outside of branch business hours using ATMs and account management terminals, as well as online and telebanking.

"Extend", the checking account with attractive extra features, has been on the market now for four years, and already one-quarter of checking account holders at LBBW use this unique product. The advantages of "extend" are particularly evident during vacation season. A trip-booking service with refunds of up to 5 % of the travel price, commission-free travelers' checks, credit card, and worldwide cash service: the "extend" account offers it all. "All inclusive" also applies to account management – a clear plus compared to "normal" checking accounts.

The performance of the credit/debit card business was above average in 2004. At the end of the year, 1,023,000 cards were in circulation (+13.5 %). This development was driven above all by the expansion of the partnership with Payback and the ongoing sale of market-tailored corporate card and travel management service offers. At a current total of more than 435,060 credit cards, LBBW saw growth of 40.0 % compared to last year.

Investment Products.

Savings Products

Savings deposits profited in 2004 from the general uncertainty about future economic development. The primary focus was on short-term investments with a three-month period of notice and individually agreed interest rate. The volume of savings deposits grew slightly in the past year, and the trend toward deposits in call accounts (Park+Ride account) continued unabated. An increasing number of investors choosing longer-term investments selected attractive securities product innovations instead of classic savings bonds.

Securities Business

After an excellent year for stocks in 2003, the stock markets saw sideways movement with low volatility in 2004. Good quarterly results by corporations gave positive impetus to Germany's DAX stock index. However, this only resulted in slight upward movement in share prices, because the fear of further interest rate increases in the United States, as well as the strong euro and the high price of oil, dimmed the mood.

After the stock market bubble burst, investors became apprehensive and avoided risky investments. Investments in stocks and stock funds were made only with great hesitation. In contrast, asset management funds (LBBW Balance fund) were in high demand even in 2004. The advantages of structured investing in funds became evident: despite the minimal movement on the stock markets, this investment produced attractive returns for investors. The "Deka-Euro Renten AbsoluteReturn fund" (euro-denominated bond fund) was a very popular safe investment choice.

Classic bond investments brought investors only low yields in 2004. In order to provide attractive returns nonetheless, LBBW offered its customers innovative structured interest rate and stock products as an alternative. New types of structured products gave customers opportunities for additional returns. In 2004, additional instruments were issued (Swing bond, GarantKick Bond, Zanonia, Synthia, bonus certificates) in addition to the securities issued on an ongoing basis (LBBW Combi IHS, discount certificates). The demand for investments offering guaranteed capital preservation was particularly notable.

In 2004, LBBW and the savings banks in the Stuttgart area offered a selected investment product together for the first time: the GarantKick Bond was marketed jointly. An annual minimum return plus the opportunity to earn additional income along with a capital-preservation guarantee resulted in a balanced product. The VfB Stuttgart soccer team signed on as a marketing partner to this campaign.

On the occasion of International Savings Day, LBBW offered a package of four particularly attractive products with different opportunity/risk profiles (Zuwachssparen, Weltspar-Combi IHS, AssetAnlage, Swing bond). This enabled the Bank to offer all types of customers investment opportunities to meet their needs while generating excellent returns.

In terms of closed-end funds, sales in 2004 focused on real estate funds featuring properties in the United States, Eastern Europe, and Germany. In addition, demand by investors also extended to aircraft leasing funds and equity investments in ships.

LBBW stepped up offers to jointly market investment products as part of the partnership between LBBW and Baden-Württemberg's savings banks. Significant increases in sales figures underscored the success of this approach.

Private Banking.

Special Private Banking

Special Private Banking serves the needs of clearly defined groups of top asset management clients; its hallmarks are the high level of service and quality offered. The main services offered are comprehensive asset management and portfolio management. These two core services are supplemented with financial planning, estate planning, foundation management, and financing and real estate services.

Because our financial advisors assume an even greater scope of responsibility for customers, LBBW can offer these services to other customer groups as well. This is intended to reinforce and expand existing customer relationships and to establish new contacts.

The number of new portfolios acquired by asset management was again at a high level. The investment process offered specifically to foundations and corporations was very popular.

Due to the pending changes in taxation connected with the planned entry into force of the *Alterseinkünftegesetz* (Retirement Income Act), a particular focus in 2004 was on active investment advising with regard to tax-optimized pension models. Despite the capital market situation, which was typified by a high level of uncertainty, demand remained high for intelligent investment opportunities with attractive reward-to-risk ratios.

Financial Planning/Estate Planning

LBBW successfully continued to develop its financial planning services in 2004. The Bank's Certified Financial Planners (CFP) again mostly received orders for preparing personal financial reports from businesspeople who own medium-sized enterprises. As in the case of high net-worth private clients, preparing customized concepts and recommendations for action also adds considerable value for customers in this area.

Estate planning as a component of financial planning increasingly took center stage: based on a holistic and integrated analysis of a customer's income and asset situation, the customer receives information suitable to help him/her make decisions about property succession. The service offered by Certified Estate Planners (CEP) is the ideal preliminary step or link to implementing succession plans in cooperation with tax advisors and lawyers.

LBBW also offers financial planning services to the customers of Baden-Württemberg's savings banks as part of the contractual service partnership between these banks and LBBW. In 2004, various institutions took advantage of this offer and allowed LBBW to prepare financial reports for their customers.

Foundation Management

LBBW contributes its many years of foundation experience and its access to a comprehensive network of experts to its foundation management services. This ensures that the proper conditions are put in place as early as the formation stage of a foundation to ensure its operation for the long term.

As a financial services provider, LBBW provides a comprehensive set of services to its foundation clients. LBBW supports or manages investment decisions based on a specific investment process or based on asset management mandates. In 2004, foundation clients also saw the close link between relationship and foundation management during visits to events such as the "Stifterland Baden-Württemberg" exhibition series by *Bundesverband Deutscher Stiftungen* (the Association of German Foundations), which was sponsored by LBBW.

As part of LBBW's contractual service partnership with Baden-Württemberg's savings banks, LBBW is currently also assisting ten savings bank customers in their efforts to set up a foundation.

Retail Client Asset Management and Portfolio Management

Earnings from LBBW's asset management activities were up considerably over the previous year in 2004, rising by more than 25 %. LBBW acquired a total of over 360 new mandates, including from Baden-Württemberg's savings banks.

Thanks to the close cooperation between LBBW's asset managers and its in-house Research team, which received several awards in 2004, customers were again able to enjoy above-average investment performance in 2004, particularly in the case of stock-heavy portfolios.

Portfolio management, which is still a relatively new service provided to LBBW's stock-oriented customers who also want to take advantage of the opportunities of Eurex, was very successful in 2004. Both the number of customers and the volume of business grew sharply.

Private Banking for Entrepreneurs

LBBW's Private Banking is a comprehensive range of services provided to its most discerning corporate customers. The focus is on making investment decisions while including the business-side of the equation. In 2004, the organizational infrastructure was created to offer this concept across nearly all of LBBW's core market.

The main issues of concern here are asset transfers (including the receiving generation), liquidity provisioning, and all types of corporate and private retirement planning.

With the help of LBBW's in-house investment banking and asset management teams, the process of developing personalized solutions that include business investments was further refined.

In total, LBBW's private banking activities attracted a volume of new business of more than EUR 300 million in 2004.

Insurance Policies and Retirement Planning.

Germany's Bundesrat (Federal Council) voted to pass the *Alterseinkünftegesetz* (Retirement Income Act) on June 11, 2004. This law aims to ensure the equal tax treatment of all pension recipients. Starting in January 2005, all retirement income – statutory pensions, company pensions, and civil service pensions – will be subject to deferred taxation, i. e. will not be taxed until the recipient starts receiving a pension. After a long transition period, statutory pensions will also be 100 % taxable as of the year 2040. Legislators used the opportunity to simultaneously improve the conditions for retirement pensions and to increase the attractiveness of private capital-funded and subsidized pensions (called "Riester" retirement plans after former German Labor Minister Walter Riester). This decision impacted the insurance business in the previous year.

LBBW maintains an extensive network of retirement planning specialists in nearly all branches in Baden-Württemberg. These specialists identify customers' specific needs with the help of an IT advising tool and then develop personalized solutions. The Retirement Income Act changed the product spectrum and advising services substantially. In the future, state-subsidized "Riester" pension products, basic pensions (called "Rürup" pensions after Bert Rürup, chairman of a commission on reforming the pension system), and company pensions in particular will become more important.

LBBW offers a comprehensive selection of retirement planning solutions in cooperation with its savings bank association partner SV Versicherungen. These solutions are supplemented with products by other selected insurance companies.

The elimination of tax privileges for term life insurance and the growing awareness of the importance of supplemental retirement plans resulted in an end-of-the-year rally starting as early as July 2004. 17,000 new contracts with contributions totaling around EUR 536 million were concluded during the year under review. This represents an increase of 56 % over the previous year. In addition to classic pension plans, fund-based pension plans, individual pension plans *(Direktversicherungen)*, and pension funds *(Pensionskassen)* were our customers' favorite products.

Construction Financing and Home Savings and Loan Business.

Construction Financing

In 2004, the uncertain economic situation influenced the purchasing and construction decisions of potential real estate buyers. Despite good conditions, such as continuing low interest rates and attractive real estate prices, a substantial reluctance among customers was noticeable.

The resulting increased need for security by consumers was therefore the focus of the construction financing promotion in 2004. The free ImmoSafe package offering insurance protection in the event of unemployment or inability to work and including an initial legal consultation and other services was a special value-added service for customers.

Private construction financing is one of most important core products in LBBW's retail client and investor business. Numerous LBBW branches have specially trained financial advisors available to develop tailored financing concepts for customers.

Individual consultations with specialists are very popular with customers, as was confirmed by a market study dated August 2004.

In a difficult market environment, the volume of new business generated of around EUR 750 million did not reach the volume generated in the previous year. The volume of new business declined even in the case of development loans from the KfW (German Development Bank), which continue to be a popular financing component.

In view of reductions in pension benefits and declining life insurance profit shares, real estate purchases will continue to be a key element of private retirement planning in the future. LBBW is already concentrating on preparing young customers for this step by providing focused forward-looking financial advising.

Home Savings and Loan Business

In cooperation with Landesbausparkasse Baden-Württemberg, a savings bank association partner, LBBW offers its customers a comprehensive range of various home savings and loan products. The range of products on offer includes plans for young people just starting out in their careers, savers watching their monthly payments, and interest rate-sensitive financing customers and covers every phase of life.

With continuing low interest rates, interest remained strong in high-return plans in 2004. Security-oriented savings customers in particular considered these products an attractive investment. These products accounted for nearly one-fourth of the total home savings and loan business volume.

At over 65 %, the majority of the home savings and loan business volume was attributable to classic financing plans. Demand for the tried-and-true “Classic M” plan as a building block in an overall financing plan was very good. The introduction of the “Classic N” plan added a plan for forward-looking financing customers to the LBS product range.

The discussion at the end of 2003 concerning the elimination of the home ownership savings bonus *(Wohnungsbauprämie)* and the resulting higher number of contracts concluded caused weak new business numbers in the first quarter of 2004. Thanks to an upturn in subsequent quarters, the total business volume generated in 2004 was EUR 286 million.

Real Estate Brokerage.

The close link between real estate brokerage and branch operations and the further intensification of on-site cooperation with the branches led to high growth in this business area in 2004. The sales volume of EUR 128 million exceeded the high level of the previous year by nearly 22 %. LBBW further expanded its market position, particularly in brokerage of residential real estate in the Stuttgart metropolitan area.

In a customer survey, the buyers and sellers using LBBW’s real estate brokerage services rated us very highly: the satisfaction rate was 94 %.

The strained situation on the commercial real estate market continued unabated in 2004, particularly in terms of office rentals. Nonetheless, the stronger concentration on brokering commercial investment properties allowed us to again exceed the excellent result of the previous year considerably. The goal for 2005 is to further reinforce the close link to branch operations and to intensively utilize the resulting synergies for generating real estate commission income, as well as concluding follow-up banking transactions.

Brokerage Business.

LBBW's brokerage business concentrates on marketing residential housing financing transactions to retail clients across Germany. Sales activities, which include attracting customers, advising, and preparing loan applications, are outsourced to selected brokers. During the selection process, the Bank looks particularly closely at the sales argumentation and the target group and advising focus of potential partners.

Regional markets are served via the "Centers for Financial Services". LBBW works closely with strong sales partners, who are managed centrally, to serve the national market. LBBW was able to maintain its excellent market position in this segment in 2004.

In the Internet-based brokerage business, LBBW cooperates with suppliers that attract their customers via the Internet and support processes via platforms in this medium. The focus here is on risk-oriented loan origination with standardized structures and workflows. In 2004, LBBW was able to achieve productivity gains while cutting costs in this growing segment by further developing technical standards able to communicate with the key platforms on the market.

Despite the downturn on the market and increased competition, new business of EUR 1,049 million was generated with slightly decreased margins. The portfolio of brokered construction loans rose by 4.8% to over EUR 8.7 billion.

Corporate Finance.

Regional and Key Account Customers.

An important foundation for collectively and successfully mastering market challenges is provided by LBBW's strong roots in its core market of Baden-Württemberg. Our stable business relationships, which have grown over a number of years, are maintained by more than 30 teams of financial advisors in Baden-Württemberg. LBBW combines special knowledge of Baden-Württemberg's traditionally strong automotive, mechanical engineering, and electrical engineering industries with the expertise that comes from being a commercial bank operating worldwide. LBBW is therefore in the position to understand companies and to develop holistic concepts featuring innovative solutions.

The core contacts are our corporate customer advisors, who work closely with the operations departments to combine their knowledge. LBBW constantly evaluates this model of financial advising, optimizes it, and tailors it to the needs of target clients. In 2004, we were able to free up even more time for the on-site teams to spend on intensive advising of medium-sized enterprises by optimizing processes to better meet the needs and requirements of our customers.

The sustainable success of this strategy is confirmed by the results of the most recent customer satisfaction survey. Over 97% of companies surveyed rated the services provided by their advisor as "good" or "very good". The high level of professional expertise and excellent personal contact between clients and advisors contributed substantially to this outstanding result.

It goes without saying that LBBW's advisors not only know their home market, but are able to assist clients doing business in the growth regions of the world as well. Shifting production facilities to these regions is becoming increasingly important. With a total of three branches and 17 representative offices around the world, LBBW can stand by its customers operating in markets outside of Germany.

Also playing an increasingly important role are advanced financing instruments featuring tailored capital market products necessary for much more than just the internationalization strategies of these companies. Off-balance-sheet financing solutions, such as leasing, factoring, and ABS transactions, are also becoming more prominent, particularly against the backdrop of Basel II.

The result of LBBW's longstanding, stable business relationships based on trust and its profound knowledge of its customers is that LBBW is increasingly being consulted about decisions affecting companies for the long term. These include takeover financing, purchases and sales of companies, and equity investments for the purpose of financing growth and arranging ownership succession.

Due to the continued moderate economic upturn anticipated in Germany's southwestern region and strong foreign demand, LBBW expects business to continue to remain stable in 2005 for export-oriented regional and key account customers in Baden-Württemberg.

The modest economic upswing was felt most in the mechanical engineering sector of the Key Accounts Germany/Europe segment in 2004. Whereas medium-sized companies were still focusing mainly on financing acquisitions in 2003, investment loans were increasingly in demand in 2004. The international business also picked up considerably. Nonetheless, with the continuing rise in raw materials prices and the increasingly strong downward pressure on the US dollar, mostly industrial customers operating internationally still face a number of risk factors.

In 2004, selecting high-quality companies with well-founded strategies for the future was the top priority, along with expanding cross-selling approaches for existing customer relationships. This will be the case again in 2005. In this segment, LBBW focused on a "selective growth strategy" that will lead to a stable customer base with an adequate rate of return in the medium term.

LBBW Electronic Banking.

LBBW Electronic Banking offers corporate customers an Internet-based business portal accessible via "www.LBBW-Business.de" along with the software-based FIRM32 service.

The strength of this successful pair of products lies in the fact that the combination of these systems allows companies to optimize their payment settlement processes. For example, both products offer up-to-date daily account statements, including a value date view, global payment settlement in all major currencies, and express wire transfers, direct debits, and forward orders.

Several surveys of new customers of the LBBW business portal confirm the results of 2003: over 90% of customers are "satisfied" or even "very satisfied" with this online service.

The number of users of the portal rose by 70% in 2004. Use of the account information and payment settlement features grew by 150% and 124% respectively during the same period. Due to planned product upgrades and accelerated use of the portal, particularly by smaller companies, LBBW expects to be able to attract about the same number of new customers again in 2005.

Export Financing.

In 2004, LBBW was easily able to match the excellent results of the previous year in the Export Financing segment. In addition to exports by local industry and local companies' subsidiaries abroad, LBBW also increasingly financed exports from neighboring countries, such as Austria, France, Belgium, and Switzerland.

LBBW offered comprehensive financing solutions to customers in Turkey, Latin America, and countries with their own LBBW offices in particular. Activities in Eastern Europe and the CIS states were expanded further. Cover for financing transactions that could not be secured via state export credit insurance providers, e.g. due to the payment terms, is increasingly being secured via private export credit insurers. The forfaiting team in London contributed substantially to the success of the export financing business. LBBW's strong positioning was also underscored by the international commercial business.

Based on its professionalism and close connections to associations and public authorities in Germany and abroad, the document preparation service for export documentary credits met all customer requirements in 2004. An increasing number of companies entrusted LBBW with handling these transactions.

The Financial Group Baden-Württemberg's Europa-Service again confirmed its leading position in Germany in consulting to companies on European Union investment and trade subsidies. In addition to the contact network spanning Europe, customers also have access to an informative and user-friendly web site in the LBBW Business Portal.

Demand remained high among Baden-Württemberg's savings banks for on-site consulting services for its customers provided by the European network of representative offices operated by LBBW. Contact with Baden-Württemberg's savings banks was cultivated, and the institutions organized joint events with a regional focus. Starting in 2005, this type of sales support will also be available to Rhineland-Palatinate's savings banks.

Third-party leasing companies outside of LBBW's core market successfully attracted new business while developing existing business. LBBW refinances leasing transactions for this customer group.

Customized Corporate Finance Solutions.

LBBW offers customized corporate finance solutions primarily to medium-sized enterprises. These services include structuring and arranging of complex corporate financing deals, LBOs (leveraged buy-outs), MBOs (management buy-outs), and equity investments.

Leveraged Acquisition Financing and Syndication
LBBW's customers in this segment include companies that intend to acquire other companies for the purpose of expansion, as well as institutional investors (private equity investors) that invest funds in non-listed companies for the purpose of generating a profit. In 2004, LBBW's participation in such financing deals amounted to approximately EUR 700 million.

The market was marked by substantial surplus liquidity, increased activity by foreign banks, and a resurgence in interest by German banks, whereas growth in the number of target companies offered for sale was restrained. In view of the low level of acceptance on the stock markets, some institutional investors restructured their portfolios within the sector and utilized the available liquidity to reduce their initial investments so that they could generate higher returns.

Against this backdrop, LBBW participated selectively in the market at the end of the year. In the corporate customer segment, four syndicated financing deals were transacted or co-arranged for companies from the region, and the purchases of two listed companies were lead managed. LBBW participated in ten high-publicity German and international acquisition financing deals as the arranger, a co-arranger, or a participant.

In 2005, LBBW anticipates an increase in demand for outside capital as the result of additional corporate takeovers thanks to the renewal in interest by foreign investors in the German market.

Mergers & Acquisitions

In the year under review, companies requested financial advising by LBBW on various topics such as structuring financing, buying and selling companies, mergers, and alliances. The number of transactions rose sharply in 2004. These primarily included sales of companies for reasons of ownership succession and the search for strategic investors for the purpose of further developing medium-sized enterprises. Because many managers showed a great deal of interest in acquiring companies through MBOs or MBIs, LBBW increasingly brought these individuals together with investors and concluded transactions successfully.

Despite the muted outlook for the economy in 2005, LBBW anticipates a further upswing in this business due to the rise in demand for financing and increased number of companies wishing to arrange ownership succession.

Private Equity Business

Whereas the volume of larger scale and internationally financed transactions on the German private equity market again grew substantially in 2004, sellers, which are mostly medium-sized enterprises, still preferred to bide their time. The top reasons for equity investments were growth financing, MBOs, and ownership succession. Medium-sized enterprises increasingly looked for opportunities to improve their capital base.

Ideally, investee companies will have a highly competent and committed management, excellent positioning vis-à-vis the competition, and successful corporate performance in an industry and competitive environment that offers above-average growth. LBBW provides extensive advising on a range of issues from the implementation of international growth concepts and investment/disinvestment strategies, to brokering strategic partners and arranging ownership succession via management buy-outs or buy-ins. In view of the unsatisfactory general market conditions for medium-sized businesses, growth was only moderate in 2004, and new business was entered into only with great care and only with selected investee companies.

LBBW anticipates new business to pick up considerably in 2005 due to increased requirements for equity among companies seeking outside capital, and necessary growth financing and ownership succession arrangements.

Project Financing/ Structured Financing

In terms of asset financing in the transportation sector, LBBW focused mainly on aircraft financing in 2004. Financing deals for ships and rolling stock, such as trains and trams, were selectively added to the portfolio to diversify it.

Against the backdrop of global economic performance, LBBW paid close attention to a particularly balanced risk-return ratio when participating in international project financing transactions. LBBW's project financing team offers companies and the public sector tailored financing solutions for very large investment projects, such as power plants, wind farms, operating unit outsourcing, transportation infrastructure, and schools. During these deals, LBBW either participated in the loan syndicates of other credit institutions or arranged the optimal project and financing structure in close cooperation with the client. This business segment generated satisfactory earnings for LBBW in the prior fiscal year. LBBW was able to reinforce its market position in the advising business via direct mandates.

The public-sector special financing business saw continued strong demand for public-sector loans and short-term lendings to the public sector in the core market of Baden-Württemberg in 2004. Due to low interest rates, short-term fixed-interest periods of no more than one year or alternatively very long fixed-interest periods of 20 to 30 years were most popular. The trend toward combining these deals with derivative financial instruments was on the rise. LBBW was able to offer optimal financial advising to municipalities in cooperation with Baden-Württemberg's savings banks. This partnership is the starting point for further market penetration in Baden-Württemberg.

Real Estate

The Real Estate segment counts retail and institutional investors, real estate companies, and residential real estate companies among its customers. As an arranger and syndicate bank, LBBW offers these customers a comprehensive range of financing products and services for their property, portfolio, and company needs across Germany and in selected offices abroad. In 2004, LBBW also participated selectively in financing real estate projects at home and abroad. In recent years, LBBW has consistently expanded its portfolio, and new business was stable at a high level, despite the economic environment.

The commercial real estate market in Germany appears to have hit a trough after the downward trends of recent years. A further increase in vacancies is no longer expected. Top-tier rents rolled back to a normal level, and sales of floor space were positive, but did not lead to a significant reduction in the space available on the market due to the fact that new rental agreements did not result in a net increase in floor space rented. Under these circumstances, the realization of planned projects was delayed if large amounts of space were not commercially exploited or rented.

The trend apparent for years now across Germany of a decline in new residential housing construction continued unabated in 2004. Due to the lack of demand, the range of prices outside of the economically strong metropolitan areas continued to drop. The increasing number of apartments from municipal and institutional portfolios that were released to the market for privatization reinforced this trend.

International investors are watching the German real estate market carefully – they anticipate a considerable improvement in the near future. These investors established portfolios with purchases in all segments of the market and then, after optimizing them, offered these portfolios for sale again in the short to medium term. The financing requirements in this area shifted strongly away from the individual property-related, often long-term view toward portfolio and corporate finance, and adapted to international practices.

LBBW's new business in the German real estate market segment remained nearly unchanged at the previous year's high level. The reasons for this were an upturn in demand for logistics centers and the clear orientation toward office and retail real estate in first-rate locations and toward selected residential real estate privatizers and companies. Moderate additions were made to portfolios.

LBBW's international real estate financing business focused firmly on existing office real estate in major cities in the USA, especially along the East Coast, and in the London, Paris, and Brussels metropolitan areas. Additional portfolio transactions in the new EU member states and individual projects at first-class sites were financed selectively. The international real estate financing business developed into an important, high-earnings pillar of LBBW's real estate operations, accounting for a share of 25 % of the portfolio.

In addition to a strategy of property selection based on strict, conservative criteria, the quality of LBBW's partners and an adequate division of risk between the Bank and investors were the most important factors in making loan decisions. LBBW's real estate specialists in the branches on-site were used to improve market and risk assessment in the most important foreign markets for LBBW's real estate business, the USA and the UK. In addition, the international network of syndicate banks, lawyers, and other experts was maintained and expanded by LBBW.

Residential Real Estate Companies

Nearly one-fourth of the more than 3,200 residential real estate companies in Germany rely on the high level of competence and service provided by LBBW. All-around customer service based on a broad range of products and services enables the Bank to individually advise customers on all financing deals.

2004 was again typified by investments in maintaining the value of existing holdings, whereas new construction stagnated. Even sustained demand for residential space and still favorable interest rates were unable to have a lasting impact on increasing investments in new construction against the backdrop of the soft economy, as well as uncertainties related to the political and tax situations in Germany.

The vacancies reported by residential housing companies in the former East Germany spread further and increased the pressure on companies to take action. The goal is to improve the attractiveness of residential areas and to reduce vacancies via conversion and tear-down concepts.

The volume of new business from financing for residential housing companies stabilized at a high level after the sharp growth in recent years. The majority of this financing was granted to companies in western Germany. The portfolio volume was nearly unchanged.

Financial Markets.

Capital Markets Trading and Sales.

Money Market/Forex/Derivatives Trading
The market environment for interest rate derivatives was generally considered difficult for banks in 2004. The historical volatility of interest rate swaps was 40 % under the previous year's level, and the massive decline in bid/offer spreads continued. In contrast to this trend, 2004 turned out to be a record year for interest rate derivatives at LBBW in terms of both revenue and earnings, particularly from proprietary trading. Structured credit derivatives were offered to retail clients, not just institutional investors, for the first time ("Synthia" bonds).

In addition, the range of capital-guaranteed, fund-linked instruments was expanded. After changes to the statutory framework at the beginning of the year, hedge fund products in particular were high on the list for German investors.

LBBW continued to successfully arrange asset-backed securities (ABS) in 2004. Numerous transactions were carried out, particularly involving high-end SMEs. LBBW also identified increasing demand for ABS securitization among banks and leasing companies.

In the past fiscal year, LBBW consistently expanded its human resources capacity and the infrastructure for ABS transactions. Thanks to the innovative structure of the "Bodensee 1 Funding Ltd.", "Weinberg Funding Ltd.", and "Neckar Funding Ltd." multi-seller programs, LBBW can always offer its partners a fitting solution for their asset securitization needs. One plan for 2005 is to further expand ABS term bond arranging and placement activities.

The Interbank Marketing FX/MM organizational unit, which was formed in 2003, continued its successful acquisition activities with a focus on smaller and medium-sized banks. In addition to institutions in Switzerland and Austria, relationships with regional banks in Italy, as well as banks in Greece and the new EU states, were intensified. In addition, contact was successfully established with selected central banks around the world.

Fiscal year 2004 on the forex markets can be broken down into three phases:

- From January to mid-May, the US dollar appreciated in value against key currencies (CHF, GBP, JPY) by about 10 %.
- Between June and mid-October, the EUR/USD exchange rate was unable to break out of the EUR 1.21 to EUR 1.24 band. In this phase, customer interest in rate-hedging measures naturally waned.

- The defining characteristic of the period beginning in mid-October was the weakness of the US dollar. Uncertainty about budget and trade deficits and the future course of the US economy put across-the-board pressure on the US dollar. The euro reached new historical highs against the dollar, which were well over the EUR 1.30/USD 1.00 mark.

The FX options market was typified by a very low level of volatility due to the unusually long-lasting sideways trend. Customer interest in these instruments remained muted accordingly.

Due to the unchanged monetary policy of the European Central Bank, growth on the euro money market stayed at a persistently low level. Unfortunately, the hopes that arose in the first half of the year for an upturn in Euroland's economy, particularly due to the good economic development of China and the associated strong level of exports, were dashed again. A sharp rise in the price of oil and the euro's historical highs resulted in expectations of interest rate hikes being pushed further and further into the future. Volatility on the euro money market was therefore lower than in the previous year, and the yield curve flattened out considerably.

Fixed Income Trading

Key factors affecting the capital markets in 2004 were the rising price of oil, inflation fears, and an overly optimistic assessment by analysts about Europe's economic performance. In the first quarter, bonds generated substantial gains across the entire yield curve. However, these gains were erased completely in the second quarter. In the second half-year, the rising price of oil and a more circumspect assessment of economic development in Euroland resulted in a substantial rise in bond prices.

LBBW boosted earnings and revenue considerably in short-term bond trading. The "SLIMBO" (Short Liquid Money Market Bond) contributed to this result – this instrument guarantees a liquid market until maturity.

Trading in low-yield bonds, a market dominated by LBBW, also increased revenue and earnings. In this case, the quiet that descended on the tax front and the outstanding selection of bonds in a full range of maturities were the main factors responsible for this development. Thanks to the acquisition of more customers in Luxembourg, LBBW's business there also performed well.

Revenues from Jumbo mortgage bond trading in 2004 declined by around 20% compared to the prior year, which was exclusively attributable to bank trading. On the other hand, customer revenues grew substantially; in terms of business abroad they even increased threefold. An interesting development was the increase in trades with competitors, as well as with customers using electronic platforms. Trading via phone declined as a result.

The market yield spreads between *Bunds* (German federal bonds) and other European government bonds were stable. Revenues dropped compared to the very high level generated in 2003. The domestic market saw a significant upturn in borrower's note loans, and registered and covered bearer bonds. The highest revenue growth was generated by LBBW in repo trading of corporate bonds and stocks.

A new activity for LBBW was active trading in British government bonds. In addition, a broader base was provided for the repo and securities lending business thanks to new customer contacts and strengthening of existing customer relationships, particularly in the institutional customer and mortgage bank segments.

Based on stable corporate earnings and a further decline in corporate debt, corporate trading spreads leveled off at a historical low in 2004. This trend was reinforced by the very low volume of new issues in 2004, which declined by 50 % over 2003.

In contrast the trading volume rose sharply compared to 2003. Income more than tripled in the floating rate notes segment, and the dynamic performance of this business continued unabated.

Corporates Sales

In the year under review, many of LBBW's corporate clients did not fully believe that the forecast economic upswing and resulting rise in interest rates would occur. For this reason, they tended to hold back on hedging against rising interest rates.

At the same time, an increasing number of companies took advantage of the derivatives marketed by the Bank to lower and restructure the interest rates they were paying on their liabilities. LBBW grew its market share substantially in this interesting business segment in Baden-Württemberg, as well as beyond its borders.

On the market for trading in currencies and currency derivatives, the trend toward the use of electronic trading systems via the Internet continued. LBBW offers its clients the relevant transactions on a proprietary trading platform (FX Trader), as well as via a multi-dealer platform.

Derivatives are becoming increasingly important to LBBW's municipal customers. In this light, LBBW has begun to establish a debt management service tailored to the special needs of these clients. The goal is to show municipalities ways to reduce their interest rate costs.

Institutionals Sales

Compared to the previous year, market conditions were more difficult in 2004. The consistently expanded range of strong products and the further development of customer advising approaches for the capital markets business proved to be sustainably successful, particularly in this environment. LBBW was therefore able to maintain its fixed-interest securities business with financial institutions at a high level, and to again significantly boost revenues from derivatives/structured products.

- **Savings Banks**

  Once again, the early focus by the sales and advisory units on balance sheet structure management proved to be a guarantee for excellent business performance, particularly in the business with Baden-Württemberg's savings banks. Derivative products were disproportionately responsible for this highly satisfactory progress.

- **Institutionals**

  In 2004, LBBW continued to follow the approach taken over the past two years of focusing on expanding the customer base to include financial institutions from throughout the German-speaking regions and selected other European countries. New customers were acquired in Italy, Spain, and Denmark, as well as Ireland.

Against the backdrop of the changes in the guarantee structure of public-sector banks in Germany as of July 2005, LBBW saw a great deal of interest among institutional customers in top-rated alternative investments. LBBW Capital Markets therefore held investor and issuer conferences on this issue for German and international clients. In addition to various regional events in Germany, conferences were also held in Barcelona, Vienna, and Copenhagen. In the fixed-income segment, the new German jumbo mortgage bond *(Pfandbrief)*/European covered bond issuing business helped contribute to LBBW's successful business performance.

In 2004, LBBW was able to extend its excellent position on the structured interest-rate products market serving insurance companies and pension funds in Germany beyond Austria and Switzerland to other countries. This satisfactory development was reflected in business with Italian, Spanish, and Danish customers. The focus in 2005 will be on achieving the same result in other Scandinavian countries and in France.

Debt Capital Markets

LBBW consistently and successfully pursued its goal for 2004 of further reinforcing its good positioning as an acknowledged primary market participant in Germany and abroad. LBBW performed the services of lead manager 15 times for German mortgage banks issuing jumbo mortgage bonds *(Pfandbriefe)*. This enabled the Bank to increase its market share from 4.7% in 2003 to 7.3% in 2004 and move up from eighth to sixth place in the rankings. LBBW also participated in a greater number of covered bond issues by foreign issuers, acting as a syndicate member for debut bond issues by a majority of the new issuers in this segment. Moreover, LBBW led the way in bringing 30 international issues from the financial sector onto the market in the form of private placements and borrower's note loans.

LBBW also acquired additional shares of the corporate customer market. For the first time, LBBW participated in the placement of high-yield issues. The Bank also greatly expanded its business in borrower's note loans for corporate customers in 2004.

Relationship Management (Multinationals).

In 2004, LBBW acquired attractive new customers in Germany and abroad in the target group of multinational corporations. This enabled LBBW to gain more in-depth experience in the key energy, automotive, pharmaceutical, chemical, and retail sectors.

At the same time, LBBW strengthened relationships with existing customers via the sale of additional products and services and thereby increased the cross-selling rate considerably.

In especially high demand were cash management and payment settlement services, as well as assistance with equity, bond, and borrower's note issues on the capital markets, and lead or co-lead manager services for debut issues and prominent private placements in Germany and abroad (DaimlerChrysler, Volkswagen, Renault).

Thanks to the continual development of structured cash and capital investment products, LBBW was increasingly able to interest major multinational corporations in tax-optimized investments.

Many years of experience in financing and settling export deals and the sustained strength of Germany's export business led to further strengthening of customer relationships in this segment in 2004, measured in terms of both business volume and commission income.

Capital Market Investments.

Capital Market Investments is responsible for LBBW's capital market-oriented lending business. Its main responsibility is credit risk management of all LBBW counterparties with capital market transactions. Its range of duties also includes active portfolio management to determine strategic and tactical asset class allocation with the help of procedures used to optimize the risk/reward ratio. The objective of strategic asset allocation is to build a portfolio with a longer-term investment horizon that reflects the conservative risk policy of LBBW while simultaneously generating steady returns for the risk assumed. Tactical allocation takes advantage of market fluctuation to generate additional returns. To this end, LBBW has broken down the portfolio into the following asset classes: corporates, financial institutions, sovereigns/supranational institutions, and asset-backed structures.

The credit derivatives market played an increasingly important role in LBBW's business activities in the prior year. Single-name risk was managed by trading in instruments known as credit default swaps, and credit index products were used for portfolio management purposes. These liquid indices make the credit risks of specific industries tradable, and they can be used to hedge sub-portfolios or to generate additional returns as part of a strategy of tactical portfolio allocation.

Activities in the corporates asset class were driven by the continued low level of credit risk premiums. Self-liquidating transactions in the unstructured segment were only concluded selectively. In view of the still-difficult economic environment, business in this asset class was muted. The risks assumed concentrated mainly on companies holding at least an investment-grade rating.

The financial institutions asset class was not affected as heavily by this contraction, because its lower risk costs still provide a sufficient margin. This led to a situation in which investments were made primarily in this asset class. The derivatives market also became more important in this asset class, and transactions were increasingly concluded via the credit default swap market.

In 2004, LBBW took advantage of the low credit risk premiums to hedge portions of its portfolio against an increase in credit risk premiums or to sell off subportfolios. After in-depth analysis, hedging portfolios were reduced with the help of the derivatives markets to protect LBBW's portfolios against losses in market value.

Equity.

There was no clear focus in 2004 from the stock market viewpoint. The DAX started out the year at 4,019 points and closed the year at 4,256 points, which is just under the high for the year of 4,262 points. The low for the year was under 3,700 points. The continuing economic uncertainty, especially in Germany, weak domestic consumer demand, unemployment fears, and rising raw materials prices, particularly for crude oil, overshadowed the generally positive corporate profit situation. The annual return of the DAX, which amounted to + 5.9 % along with the significant drop in volatilities despite fluctuations were significant in the difficult year for the stock markets in 2004.

Equity Trading

Trading in the cash equity, market making, and derivatives segments generated an overall satisfactory result for LBBW. In addition, LBBW was also the designated sponsor for 18 traded securities in 2004. LBBW received the top rating of AA for this activity in all cases from Deutsche Börse.

The structured equity retail products segment performed very well. The expansion of this product range and closer cooperation with new and existing sales partners allowed LBBW to become established as a highly competent market partner. Particularly notable are the issuance of innovative products, such as Zanonia and Swing bonds, which were met with a great deal of interest and received attention across Germany. The most successful individual product was the GarantKick Bond, which was issued in cooperation with six major savings banks in Baden-Württemberg. A volume of around EUR 200 million was sold via a marketing campaign featuring the VfB Stuttgart soccer team.

In 2005, Equity Trading will concentrate on further expanding the range of retail derivative products in order to meet market requirements even more precisely. This will be coupled with reinforcing LBBW's own market position in this dynamically growing segment.

Equity Sales

In general, investment companies still suffered from net outflows from investments in equities throughout 2004. This applied equally to retail investment funds and specialized funds. However, at the end of the year, a turnaround was on the horizon, and it appeared that a careful re-allocation of liquid funds to investments in equities was taking place. LBBW is a partner in the equity business to Baden-Württemberg's savings banks and the savings bank association companies. The emphasis for these customers is mainly on competitive execution in terms of cash, as well as derivative, equity products.

Equity Capital Markets

The most prominent activity in this segment in 2004 was participation in the Postbank IPO. Moreover, LBBW also participated in two other public listings. On the whole, however, the stock offering market was still extremely unstable. The cancellation of the planned Hapag-Lloyd IPO was only one indication of this. Equity Capital Markets therefore concentrated increasingly on meeting the needs of the secondary market. In the secondary market, LBBW participated in various measures: capital increases, squeeze-out processes, delistings, and takeover offers. Corporate actions were performed successfully as part of the restructuring of a larger listed company.

Other activities included assisting companies with 28 annual general meetings, organizing financials press conferences, and managing designated sponsor mandates. The outlook for 2005 indicates that the focus in 2005 will continue to be on the secondary market business; the IPO business is expected to remain rather weak.

Research.

Equity Research at LBBW can look back on 2004 as a successful year. Prominent agencies voted LBBW the most successful research firm of the year. Among other honors, the Research team won the first-ever Börsen-Zeitung "AktienAnalystenAward" (Equities Analysis Award). In addition to the overall prize, LBBW also placed highly in three other competitions: our analysts were honored for the best earnings estimates and recommendations for DAX stocks, and the best earnings estimates and second-best recommendations in the small/mid-cap category.

In addition to other first-place finishes for the LBBW team, 16 analysts were ranked "top analysts". Ten LBBW analysts received five stars, a ranking much coveted in the industry.

This series of successes was rounded out by the publication of a Stoxx 50 analysis in Wall Street Journal Europe on November 19, 2004. Under the headline "Beating Wall Street Big Guns", LBBW was named the surprise winner of the analysis of earnings estimates for Stoxx 50 companies.

These awards are the result of a consistent strategy of aiming for a high level of quality, continuity, and reliability in equity research. The equity research department has been expanded continually and systematically since the formation of LBBW. Selected specialists and talented college graduates were hired around a core of experienced analysts so that LBBW's team in this segment is very homogeneous and team-oriented. In contrast to the short-term thinking that prevails in the industry, the original structuring and deliberate retention of research capacity, even in difficult stock market periods, have led to an extremely low turnover rate. An analyst at LBBW can therefore work with particular stocks for a long time.

Other success factors are a clear division of responsibilities, efficient processes, and the individual agreement of operational goals. High accuracy rates for recommendations and earnings estimates are the top priority. For analysts and investors, accounting, valuation, industry, and technological knowledge are ultimately only the means to an end for forecasting stock price movements to achieve above-average performance.

Landesbank Baden-Württemberg: Researcher of the Year.

With an overwhelming score, professional publications and leading agencies have chosen us as the "Researcher of the Year". We didn't just rank first in the categories best analyst house, best analyst, best earnings forecasts and best recommendations, but have also achieved a unique overall performance in the whole industry to date.

AktienAnalystenAward

Börsen-Zeitung

DVFA

DEUTSCHES AKTIENINSTITUT

"Best analyst house
for German equity"

STARMINE®

Handelsblatt

DM Euro

"Most award-winning broker
German equity"

"Best overall earnings estimator
German equity"

AQ

"European overall results
for forecasts of European
corporate earnings"

"Overall best on companies
German equity"

Rank 1: AQ Germany Report
Rank 1: AQ EURO 300
Rank 3: RQ EURO 300

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* As of June 2004

LBBW's Equity Research pursues a European industry approach with a particular focus on German stocks. Out of the approximately 225 stocks for which primary coverage is provided, about 100 are German small and mid-caps. This broad market coverage represents LBBW's intention of also fulfilling its economic responsibility and its aim of being a reliable partner to medium-sized enterprises. The focal sectors, i. e. the automotive and mechanical engineering industries, and the sunrise industries of technology and life sciences are at the core of these analyses.

Equity Research was also successful in assessing the market as a whole once again in 2004. As early as spring, it became abundantly clear that there is a limit to everything on the stock market. Although the dynmic growth of corporate earnings and favorable valuations had raised the possibility of higher stock prices, it was good to pay attention to market sentiment, because, at least mentally, the experience of a loss of control during the last bear market still reverberates today. Along with geopolitical uncertainties, this led to a structurally higher risk premium, which significantly constricted the room for valuation on the stock market.

In 2004, LBBW also created the conditions necessary in Equity Research to integrate the standing the section has achieved more strongly into market processes and products. The focus is on supporting the Equity section to position LBBW even more definitively as a German equity firm among top institutional customers. In addition to the launch of new products, such as the weekly publication "Weekly" and the English-language publication "Germany Note", daily commentary on corporate news in particular was expanded massively. Of course, numerous research-based portfolio and trading strategies were also developed and successfully introduced in customers' companies.

Bond Research/Economics supports institutional customers, retail clients, and investors in making investment decisions on the one hand, and banks and corporate customers in making financing decisions on the other. For this purpose, the team analyzes the relevant forex and bond markets based on fundamental, but also state-of-the-art, quantitative and technical analysis strategies.

The analyses ultimately culminate in multifaceted economic, interest rate, and exchange rate forecasts, along with investment recommendations. The continued worldwide upswing along with still unsatisfactory economic growth in Germany and Euroland anticipated by LBBW analysts for 2004 did come to pass. The predictions of a cycle of interest-rate increases regardless of the results of the presidential election in the United States and further rises in key interest rates in the UK with no change in key interest rates in Euroland and Japan also proved to be accurate.

However, the forecast of capital market profits as the result of a focus by the bond markets on economic risks – initially the increase in oil prices and later in the year the risk for Euroland of the appreciating euro – was disproved by actual developments.

Due to this expectation, long remaining maturities were underweighted in the model portfolios. For this reason, the euro portfolio and the covered bond portfolio did not perform as well as the relevant reference indices (REX-P and iBoxx Covered Bonds respectively).

As in the previous year, the convergence process in Central and Eastern Europe was again a focal point of bond research in 2004. This development is reflected in the very satisfactory return generated by the LBBW country portfolio (10.5 %). The corporate bond portfolio benefited from a further tightening of spreads on the corporate bond market with yields headed downward. On the whole, all of LBBW's model portfolios featured in the *"Rentenmärkte"* (Bond Markets) publication generated overall positive returns in 2004 for the fifth time in a row. In addition to the model portfolios, the transparency of the individual recommendations is evident in the weekly publication "FITS" (Fixed Income Trades and Strategies). In 2004, 62.5 % of the trading recommendations in "FITS" were successful, and the publication also featured successful recommendations for exchanging corporate bonds.

Well-founded credit research has become a deciding factor in the competition for managing the issuance of corporate bonds and borrower's note loans. This research is based on creditworthiness analyses of the relevant issuers. New areas developed by LBBW Credit Research in 2004 were the high-yield and financials segments, which will be focal points in 2005. The new publication series entitled *"Kapitalmärkte im Umbruch"* (Capital Market Changes), is the Credit Research section's effort to support German and international investors through the major changes occurring due to the elimination of state guarantees at Landesbanken and savings banks, and to describe investment alternatives and possible trends. Another focal point is European covered bonds and mortgage bonds *(Pfandbriefe)*, a market segment in which LBBW Research has attained a visible position. The special studies in the *"Kapitalmärkte"* series on inflation-indexed bonds, the People's Republic of China, factors influencing the swap spread, and other products were in high demand.

Once again in 2004, numerous mentions in the financial press, LBBW columns, radio and television interviews, and public presentations underscored the excellent reputation of all of LBBW's research units.

International Financial Markets.

Since its founding, LBBW has considered it an important responsibility to be available to its primarily medium-sized corporate customers in their key foreign markets.

In 2004, the LBBW branch in London celebrated its 25th anniversary. The strategic reorganization initiated in the previous year to change this branch from a long-term-hold investor into a trading- and sales-oriented unit with actively managed portfolios was pursued further. In addition to derivatives and fixed-income sales teams, proprietary, repo, ABS, bond and money-market derivatives trading activities were also set up.

Total assets, which were EUR 37 billion, remained around the previous year's level. Trading income did not match the record results of 2002 and 2003 due to the more difficult market environment. However, substantial earnings increases are expected here in 2005 due to the roll-out of new trading activities. The main source of earnings remains the lending and capital market business, including ABS. The number of employees rose from 67 to 69.

The German Desk Team became well-established on the market in the year under review and acquired additional customers. The branch continues to focus much of its attention on offering LBBW and savings bank clients doing business in the UK a full range of banking services.

The New York branch marked its fifth full fiscal year in 2004. This branch grew its business in the real estate, public finance, and corporate finance segments. A key business strategy of the corporate finance business is providing services in New York to German companies, mostly medium-sized enterprises, doing business in the United States. This business segment grew further, both in terms of the number of customers and of the scope of the services offered.

As part of the strategic reorganization of the Treasury and Capital Markets sections, the branch set up its own trading books for US commercial paper, interest rate swaps, futures, credit default swaps, and bonds. The New York branch continued to actively utilize the US capital markets by issuing structured medium-term notes with a volume of nearly three-quarters of a billion US dollars. This office was able to more firmly establish LBBW, which has only been a player in the USA for five years now, on the key US market and again widen its investor base.

Despite the unfavorable exchange rate of the US dollar against the euro, the branch's total assets rose by 16.4% to EUR 11.3 billion. This could only be accomplished by increasing the number of employees from 39 to 45.

In Asia, 2004 brought LBBW's Singapore branch considerable downward pressure on its margins. Only some of the maturities that made up around one-fifth of the loan portfolio in 2004 could be replaced. However, the branch's syndicated loan arranging and underwriting business performed well. Business relationships with large, often state-owned, local companies and multinationals were also expanded, not only in terms of loans, but also very successfully in terms of deposits. The latter was made easier by the upgrade approved by MAS (Monetary Authority of Singapore) last year of this branch's offshore banking license to a wholesale banking license.

The main focus of the reorganization of Capital Markets and Treasury at the Singapore branch was on setting up a team for structured products that could offer tailored financial solutions. LBBW considers the target group for this service to be not only multinational corporations, but also its German customers in Asia.

These companies, mostly Asian subsidiaries of German medium-sized corporate customers, reported excellent revenue growth in Asia after a difficult year in 2003. As a result, the trade finance business at the Singapore branch, a service in great demand by this customer group, continued to perform at the high level of previous years.

The result of the trends described above is a decline in total assets from EUR 8.9 billion to EUR 7.4 billion. The number of staff remained almost the same at 37 compared to 36 in the previous year.

Outside of Europe, LBBW also maintains representative offices in Beijing, Hanoi, Mexico City, Mumbai, São Paulo, Shanghai, and Tokyo. China was again a major place of interest in 2004. The attempts on the part of China to put the brakes on its high level of growth with its risks for the economy and negative effects on the global raw materials markets, in part by cutting off loans, had an impact on LBBW's customers doing business in China.

Long-term sales financing, generally via ECA loans, played a major role in India and Latin America, in addition to arranging business loans for customers operating there. LBBW's representative offices again expanded this business successfully in close cooperation with the export financing team in Stuttgart. In contrast, in Japan, one of the world's key capital markets, the representative office's focus was on funding the Bank, an issue that will gain importance with the elimination of the guarantor's liability *(Gewährträgerhaftung)* in July 2005. The still comparatively new representative office in Tokyo further expanded its contacts with institutional investors and successfully contributed to building the LBBW brand in Japan in this target group.

German Centres

In addition to traditional financial services, LBBW and the Financial Group Baden-Württemberg offer a special service to medium-sized enterprises: the German Centres.

Compared to global players, who possess ample human and financial resources, SMEs in difficult foreign markets require support. For this reason, LBBW has established an infrastructure in Singapore, Beijing, and Mexico City that helps German companies set up and expand their business by offering practical support. Companies can rent office space in the German Centres for the long term or temporarily for time-limited projects. The German Centre address identifies them as German companies and stands out against the anonymity of other business locations.

The German Centres' German management team helps companies with organizational and administrative issues and arranges contacts. In line with the motto that "together we can do it better", the German Centres offer consulting by foreign chambers of commerce, tax advisors, and lawyers on setting up and doing business in the relevant region. Tenants and non-tenants alike can use the Business Centre and dining and conference facilities.

LBBW's first German Centre was opened in Singapore in 1995 during the Southeast Asian boom and has since assisted around 350 tenants. The trend toward moving into China and a temporarily more difficult market environment are also reflected in the development of the German Centre in Singapore. In the past two years, companies have reduced the size of their offices or moved to China. This resulted in a drop in space utilized to around 60% at the beginning of 2004, although the number of tenants remained almost the same. As growth picked up in the region, there was a turnaround as the year progressed: 51 tenants extended their expiring contracts, and 28 new tenants moved into the building. Housing more than 130 companies, the building, which features 20,000 m^2 of floor space, has a tenancy rate of 80%. Southeast Asia with Singapore as a springboard therefore still holds a place on the list of attractive markets.

However, the top investment site in Asia is still China. More and more medium-sized companies are operating in this huge market. Out of the 2,000 German companies in China, 500 are located in Beijing, with more than 70 of those housed in the German Centre Beijing. With 6,000 m^2 of floor space, this is LBBW's smallest German Centre. The Beijing Centre is nearly 100% occupied, and rising demand for office space can only be met through turnover, which has led the Centre to aim for a larger scale solution. Tenants value its central location and the high profile building it occupies. The proximity to German institutions and availability of experienced advisors who know China well are factors that help companies to operate confidently in the difficult Chinese business environment.

The newest LBBW German Centre is located on the American continent. The Centre in Mexico City with floor space measuring 18,000 m^2 opened in 2001. Around 60 companies have since made their homes here. German and Mexican companies and institutions utilize the German Centre here as an interface for German businesses in Mexico and take advantage of the space for conferences, training sessions, and events. Various economic delegations visited the German Centre and gained a first-hand look at information about the Mexican market and its opportunities.

LBBW itself is also represented in each of its German Centres with a branch or representative office, so that corporate customers of LBBW and Baden-Württemberg's savings banks can access LBBW's familiar financial services on-site at the Centres.

LBBW's three German Centres are part of the German Centre network that also includes German Centres in Jakarta, Moscow, Yokohama, and Shanghai. Shanghai, which is one of the smaller centers with floor space of 2,000 m^2, has prepared for the continuing economic boom in China: in 2005, it will open a new building with 33,000 m^2 of office space. Another German Centre in Dubai is planned and is expected to be ready to receive tenants in 2006.

To date, the German Centres have helped more than 800 medium-sized enterprises enter difficult foreign markets. Two-thirds of these were LBBW customers. The German Centres are supported by top-level German business associations and German governmental ministries at the federal and state levels.

Corporate Items.

Cooperation between LBBW and BW Bank.

As part of the integration of BW Bank into the LBBW Group, the administrative sections of Landesbank Baden-Württemberg are already providing various services to BW Bank as well.

For instance, LBBW and BW Bank have been utilizing their joint purchasing power to procure IT and office supplies since 2004. A joint purchasing strategy was also implemented in energy management, vehicle procurement, and postal services.

Occupational safety services have been provided to BW Bank by LBBW since 2003, and since 2004, LBBW has also provided the services of occupational physicians to BW Bank.

Information Technology (IT).

Against the backdrop of the constantly accelerating pace of structural change in the banking industry, the IT section must be able to flexibly adapt to new business models and to optimally support the increasingly customized processes of the individual banking segments.

Despite numerous process optimization efforts and significant cost-reduction measures, the availability of IT systems in 2004 remained at the same high level of over 99%. The Bank's more than 10,000 online workstations are constantly upgraded to the latest technical standards. One innovation realized for the first time in LBBW's new buildings is the shared use of Internet protocol (IP) by phones and computers. The new "Voice over IP" (VoIP) network technology enables LBBW to combine formerly separate voice and data functions and to cut investment and operating expenses considerably at the same time.

In terms of the forex business, LBBW is now able to offer the savings banks a more user-friendly service thanks to the scaling up of its Internet-based trading platform. In addition, it also set up the technical infrastructure necessary for its customers to trade in credit derivatives and made available a high-performance system for cross-product collateralization of OTC derivatives in 2004.

The International Accounting Standards (IAS) solution released in 2003 enables LBBW to already meet in full the statutory requirements for this accounting standard, which will be applicable to the Bank as of 2007. Moreover, 2004 saw completion of key developments aimed at fulfilling the requirements arising from the Basel II guidelines. After entry into force of the regulations, LBBW expects to be able to significantly decrease expenses arising from the backing of risks with equity thanks to the project being completed according to plan.

In addition, LBBW expanded its role as a provider of securities services with its state-of-the-art, flexible solutions. After the portfolios of savings banks in Rhineland-Palatinate and Landesbank Rheinland-Pfalz were transferred to LBBW, the portfolios of Baden-Württembergische Bank AG will also shift to LBBW in 2005, which will lead to further reductions in unit costs.

An additional service was offered to Baden-Württemberg's savings banks: the option of same-day settlement of payments in Euroland countries via LBBW.

In the past fiscal year, LBBW also provided its customers with new, state-of-the-art self-service equipment. All customers need is their cards to access all of the accounts included in this sales channel. Laser printers are now used to print out account statements, which significantly improved print quality.

Banking Operations

The Banking Operations business area comprises the settlement units for euro-denominated and non-EU payments, the international commercial business, and the central account management department, which serves customers holding the approximately 32,500 checking and special accounts managed centrally by LBBW, along with more than 280,000 loan accounts. Moreover, the Banking Operations section is also responsible for product management and settling card transactions, as well as managing customer data and processing complaints.

The top issues in 2004 were measures aimed at consolidation and optimization of the settlement processes and systems. Despite an increasing transaction volume, these measures enabled an overall reduction in employee capacity by 10 %.

Properties.

New Pariser Platz Buildings

The new buildings at Pariser Platz in Stuttgart were completed on schedule. The approximately 2,000 workstations in these buildings were occupied beginning in April 2004. The architecture and equipment in these buildings are designed to meet current requirements while remaining adaptable in the event of future changes in the offices.

A corresponding office concept was developed especially for this purpose. The “LBBW Office Park” prioritizes communication in the office most highly. A high degree of flexibility, low level of costs for adapting to changing structures, and needs-oriented design are the objectives met by the physical and technical mobility features of this new office environment.

The “LBBW Office Park” offers options for work in teams, as well as workstations arranged for one person, or two- or four-person groups. Moreover, spaces are also provided for employees who need to work alone to finish individual tasks. Variable zones can be used for communication activities, meetings, a library, and archive. Architecturally, the variable zones divide the rooms into compact workspaces sized for teams.

New Building in Karlsruhe

LBBW's aim with the new building in Karlsruhe is to concentrate all employees in a single building. In addition, the decision to construct this building sends a message to the City of Karlsruhe and employees in Karlsruhe of the importance that LBBW attaches to its headquarters in Karlsruhe.

Various properties were examined, and the decision was made to build at the attractive "Citypark" office site. The property, which is located in the heart of the city in a zone ready for development, is suitable for the planned consolidation of all rented offices in Karlsruhe.

The planned new building will also be in line with the ecological and economic principles of LBBW. The aim is to design an energy-efficient building that features low operating costs and a high degree of flexibility. The cost-effectiveness of the investment, and operation and maintenance of the building, are high priorities. As is the case in the new buildings at Pariser Platz, the plan is to implement an open-office design at Citypark Karlsruhe. The office building with 550 workstations is scheduled to be completed in 2007.

Branches

The construction of the new Schwabengalerie building in Stuttgart-Vaihingen provided space for new branch offices in an attractive location in the heart of the city. Measuring a total of 1,650 m^2 across three floors, business and corporate customers, retail clients, and high net-worth private individuals are offered a full complement of financial advising services under one roof.

The space features state-of-the-art design. A large, bright foyer contains ATMs and account management terminals that are available around the clock. Separate advising rooms offer customers an increased measure of discretion. Modern, discrete, transparent: these key characteristics of the design concept for LBBW branches were implemented optimally here.

LBBW – At home anywhere in the world: Amsterdam

Kalf Amsterdam on Geldersekade: a cozy corner in the heart of the historical city center that's enough to rouse the wanderlust of anyone passionate about sailing.

"Our expertise lies in innovative, attractive, and customized solutions for institutional investors. To best serve our customers' needs, our focus is on professionalism, autonomy, and transparency – and, of course, on the vast experience that our company has amassed in 150 years of asset management. As a sailor, I know that staying on course is one thing, and going full steam ahead is another. That requires the right mix of safety and risk, always depending on the prevailing winds. In that situation, it's good to have a traveling partner who is on the same page – a partner like Landesbank Baden-Württemberg."

Karel Altena, Head of Fixed Income, Swiss Life Asset Management, The Netherlands

06

Cooperation Between Landesbank Baden-Württemberg and the Savings Banks

Cooperation Between Landesbank Baden-Württemberg and the Savings Banks.

LBBW is the central bank to the savings banks in Baden-Württemberg. LBBW maintains very close business relationships with these institutions thanks to a comprehensive range of services tailored to their needs. The Financial Group Baden-Württemberg is the top financial group in southwestern Germany with aggregate total assets of approximately EUR 522 billion and more than 56,000 employees in over 3,470 branches.

LBBW offers the savings banks opportunities to round out their product ranges with special products for corporate customers, retail customers, and investors. The products and services offered in cooperation with the savings banks and related issues are presented and discussed in the meetings of the Savings Banks Expert Advisory Council and the expert working groups.

In 2004, the focus was again firmly on the project to strengthen the contractual service partnership between LBBW and the savings banks. This project was launched collectively at the end of 2002 by Sparkassenverband Baden-Württemberg (the Savings Bank Association of Baden-Württemberg), Baden-Württemberg's savings banks, and Landesbank Baden-Württemberg. In November 2003, Baden-Württemberg's savings banks, the Savings Bank Association of Baden-Württemberg, and LBBW took the first step by signing a master agreement forming the contractual service partnership. In the next phase, concepts for the eight top business areas were developed by joint teams to strengthen the contractual service partnership. This led to the signing of 12 implementation agreements. These defined concrete details concerning the structure of products and services, business processes and the division of responsibilities between the savings banks and LBBW, and pricing.

This partnership concept is a response by Baden-Württemberg's savings banks and LBBW to the changes in the business environment associated with the elimination of the guarantor's liability *(Gewährträgerhaftung)* starting in July 2005. The cooperation to be achieved by the project "Intensivierung des Leistungsverbundes" to strengthen the contractual service partnership extends beyond LBBW's traditional central bank function to form a true savings bank partnership in Baden-Württemberg.

Overview of project business areas and priorities

Funding	■ German mortgage-backed bond model (Hypothekenpfandbriefmodell) ■ Cash funding ■ Repo ■ Pledged securities accounts
Trading-account securities portfolios/Balance sheet structure management	■ Consulting on balance sheet structure management ■ Assistance and support for implementing balance sheet structure management with products
Credit risk management	■ Regional credit basket transactions
Corporate customers/ Corporate finance	■ Cooperation on M & As, advisory mandates, and brokerage of equity investments ■ Placement of ABS Kompakt customers ■ Venture capital business
Restructuring management	■ Retail business: cooperation between savings banks and Bad Homburger Inkasso ■ Corporate customers: investigation of various alternatives, including portfolio building
Municipal customers	■ Classic municipal transactions ■ Derivatives ■ Off-balance-sheet financing
Private banking	■ Asset management for savings bank customers ■ Foundation management ■ Financial planning
International business	■ Indirect participation of the savings banks in the Bundesbank's RTGS+ process via LBBW ■ Processing of commercial transactions abroad
New: Structured investment products	■ Bond-, credit-, and stock-based investment products ■ Sales structures, communication, technical settlement

In addition to work on the project, the ongoing cooperation between Baden-Württemberg's savings banks and LBBW continued. Sales of innovative, structured investment products were particularly satisfactory. On the one hand, these comprise sales of investment products marketed by both LBBW itself and the savings banks in Baden-Württemberg. On the other hand, they include sales of structured investment products that LBBW develops and makes available on behalf of individual savings banks in line with their requirements. In both segments, sales volumes in 2004 more than doubled over the prior year.

The savings banks and LBBW are of the opinion that the potential of these products is nowhere near exhausted. For this reason, the Savings Banks Expert Advisory Council has resolved to add this business area to the project to strengthen the contractual service partnership.

After conclusion of most of the implementation agreements, the focus of the partnership with Baden-Württemberg's savings banks in 2005 will be on ensuring the sustainability of the contractual service partnership.

Another priority of this partnership in 2005 will be implementing concepts for the future funding of the savings banks. Funding by way of the issue of German mortgage-backed bonds *(Hypothekenpfandbriefe)* and other supplementary financing elements is expected to replace the inexpensive funding available to date as the result of the guarantor's liability *(Gewährträgerhaftung)*. This will activate the to-date dormant real-estate lending potential of Baden-Württemberg's savings banks. The implementation of such concepts requires technical infrastructure that is expected to be available by mid-2005.

The third key priority in 2005 will be the expansion of the contractual service partnership initiated in Baden-Württemberg to include the savings banks in Rhineland-Palatinate. In the future, Landesbank Rheinland-Pfalz and LBBW will collectively act as the central bank to Rhineland-Palatinate's savings banks, dividing up the responsibilities of this position. To this end, a master agreement has already been signed by Rhineland-Palatinate's savings banks, the Sparkassen- und Giroverband Rheinland-Pfalz (Savings Banks and Giro Association of Rhineland-Palatinate), Landesbank Rheinland-Pfalz and LBBW.

Securities Services.

In addition to LBBW's own sales and trading sections, 57 savings banks in Baden-Württemberg, Landesbank Rheinland-Pfalz, 27 savings banks in Rhineland-Palatinate, and von Essen KG had made use of LBBW's Stock Exchange Order System (BOS), Central Securities Accounting Service (ZD), and Securities Account Information System (DIS) by the end of 2004. LBBW therefore provided these services to a total of 86 external customers.

Due to the expansion of the base of external customers to include Rhineland-Palatinate's savings bank association, 2004 saw a sharp increase in transactions processed. The number of transactions rose by around 12 % compared to the prior year. Proprietary trading activity also increased by 5.8 %.

At the end of 2004, approximately 860,000 securities accounts worth over EUR 276 billion were under management at LBBW.

At this time, the Bank plans to incorporate securities accounts at BW Bank into LBBW's systems. This move is in line with the consistent pursuit of LBBW's securities services' insourcing strategy to reduce the cost per transaction.

The Savings Bank Financial Group Baden-Württemberg.

SparkassenVerband
Baden-Württemberg

Headquarters: Stuttgart, Germany; Additional offices: Mannheim
Employees: 347

56 savings banks in Baden-Württemberg
Branches: 2 589
Employees: 37 205

Landesbank Baden-Württemberg
Stuttgart/Karlsruhe/Mannheim

LBBW
Landesbank Baden-Württemberg
BW BANK
100 %
LRP Landesbank Rheinland-Pfalz

35,611 % [1]

Landesbausparkasse Baden-Württemberg
Stuttgart/Karlsruhe

93,33 % [2]

Landesbausparkasse Rheinland-Pfalz
Mainz

20 % [2a]

SV SparkassenVersicherung
Baden-Württemberg, Hessen, Thüringen, Rheinland-Pfalz

- **SV Holding AG Stuttgart**
- **SV Lebensversicherung AG Stuttgart**
- **SV Gebäudeversicherung AG Stuttgart**

63,1 % [3]

Sparkassen Informatik, Frankfurt a. M.
Duisburg, Fellbach, Karlsruhe, Köln, Mainz, Münster, Offenbach

33,3 % [4]

DekaBank Deutsche Girozentrale Frankfurt a. M.

7,7 % [5]

Deutsche Leasing Bad Homburg

16,9 % [6]

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[1] LBBW's other guarantors are the State of Baden-Württemberg (35.611 %) the City of Stuttgart (18.932 %), the Savings Bank and Giro Association of Rhineland-Palatinate (4.923 %), and L-Bank (4.923 %).
[2] LBBW (6.67 %) is also a guarantor of LBS. [2a] The Savings Bank and Giro Association of Thineland-Palatinate (80 %) is also guarantor.
[3] The savings banks and the Savings Bank Association of Baden-Württemberg (SVBW) hold an interest of 59.9 % in SV Holding via a holding company, while LBBW holds a share of 3.2 %. Other guarantors are the Sparkassen Financial Groups of Hesse-Thuringia (33.2 %) and Rhineland-Palatinate (3.7 %).
[4] Other shareholders are the regional associations of Hesse-Thuringia, Rhineland, Rhineland-Palatinate, and Westphalia-Lippe.
[5] Other guarantors are the other regional savings bank associations and the Landesbanken (50 %).
[6] Savings banks outside of Baden-Württemberg also hold direct or indirect equity interests.

Expression of Appreciation by the Board of Managing Directors.

2004 was a particularly challenging year for Landesbank Baden-Württemberg and its employees. The Board of Managing Directors would like to sincerely thank all of our employees for their service to LBBW and the successes we achieved together in 2004, as well as the Staff Council for cooperating with us productively in an environment of mutual trust.

We would also like to express our appreciation in particular to Landesbank Baden-Württemberg's customers for the confidence they placed in LBBW and its Group companies once again in 2004.

LBBW – At home anywhere in the world: Singapore

An attractive leisure spot in the heart of the city, venue for the Lapp Group's international sporting competition: Marina South Padang at Marina Mall.

"A family-owned company with a global outlook – it's not a contradiction. On the contrary. We are an example of how medium-sized companies in Germany are consistently taking advantage of international opportunities. One factor in our success is our employees, and events like the soccer and volleyball tournament with teams from all countries in which the Lapp Group has offices are a tradition in our company. As a leading global supplier of cable, wire, connector, and communication technology products, we rely on Landesbank Baden-Württemberg. LBBW is the bank that helps us in all areas of our business, from simple working capital financing to sophisticated property financing deals abroad."

Andreas Lapp, CEO of Lapp Holding AG and Honorary Consul of the Republic of India

07

Management Report of the Landesbank Baden-Württemberg Group

Management Report of the Landesbank Baden-Württemberg Group.

The German banking industry was faced with major structural changes in 2004. More stringent requirements on customers applying for loans due to changes in the legal framework, fundamental changes in the demand behavior of banking customers, a focus on core business areas, and substantial competitive pressure create an environment that led the banking industry to rethink many aspects of its business. At many credit institutions, reducing the workforce to cut costs is at the top of the list of possible measures. Long-term growth with reasonable margins is also expected to help secure earnings now and in the future. Mergers of entire banks or the combination of individual services into larger, and therefore more efficient, units are more far-reaching measures that many institutions aim to implement.

Economic Environment.

The dynamic economy of the United States and China, whose economy has been growing at rates in the neighborhood of 8% for two decades now, were the key growth engines of the global economy in 2004. However, the countries of Central and Eastern Europe, including Russia, also contributed substantially to global economic expansion with growth rates of around 5%. Moreover, Japan's estimated growth rate in 2004 of 3.2% in real terms heralded its impressive return to the global economic stage. In view of the increase in corporate investments and a sharp drop in the unemployment rate, the Japanese economy is expected to remain on a growth path in 2005.

All in all, the global economy reported its highest growth in 30 years in 2004, estimated at 5.0% by the International Monetary Fund, and this growth was much more evenly distributed across various regions than had been the case several years ago. However, growth is expected to be less dynamic in 2005. Nonetheless, with anticipated growth of about 4%, there is no reason to fear that the global economy will fall back into recession or stagnation, despite the high price of oil.

On the financial markets, the performance of the DAX index was only average with growth of approximately 7.3%, despite rising corporate profits, which in fact often exceeded market expectations, and a positive outlook for a majority of companies. Measured against the fluctuation of previous years, stock market performance was steady on the whole. The VDAX volatility index actually fell to its lowest level since the end of 1996. Defensive industries, such as oil and utilities, were favored, whereas stocks in cyclical sectors, such as the automobile and technology industries, lost ground. The medium-sized German companies included in the MDAX index performed significantly better than standard stocks. This stock barometer reached a new all-time high in December 2004 with a one-year return of around 20%. The MDAX therefore reflects the mostly positive outlook for medium-sized companies, a majority of which consider their own business situation to be good.

Despite the noticeable upward trend in the global economy and rising money market interest rates in a number of countries (USA, UK, Canada, Switzerland), bond market performance was satisfactory, particularly from mid-year onward. The rise in capital market returns awaited by most at the beginning of the year initially failed to materialize on both sides of the Atlantic. Whereas the US Fed changed course mid-year toward a moderate increase in key interest rates with five incremental increases of 25 basis points each in 2004, the European Central Bank (ECB) held firm on its interest rate policy, but increasingly drew attention to the dangers of inflation. The rocketing price of crude oil was viewed exclusively as a cyclical risk by the bond markets, while inflationary pressures dissipated for the most part. On the whole, yields in Euroland dropped during the course of the year. In contrast, US yields reached their lowest point for the year in March 2004 and then the US dollar yield rose incrementally.

The currency markets remained quiet until summer 2004. The dollar had been stabilizing against the euro since early 2004, and in May 2004 reached a value of EUR 1.18/US$ 1.00. The subsequent sideways movement culminated in October 2004 in a new slide in the value of the dollar with new record-highs for the euro topping out at over EUR 1.36/US$ 1.00. The reason for the weakness of the dollar was increasing uncertainty about the sustainability of the US foreign trade deficit, which has risen to approximately 5.4% of GDP and is primarily attributable to consumption, as is indicated by the US federal budget deficit, which has simultaneously risen to US$ 412 billion. In December 2004, the US dollar fell to a low for the year against the yen of JPY 102/US$ 1.00. The bilateral foreign trade imbalance between the two countries created natural upward pressure on the value of the yen, which was, however, weakened in the first quarter of 2004 thanks to Japanese currency market interventions. The primary goal of these interventions is to safeguard Japan's competitiveness in the face of its rival China. China has to date resisted the repeated demands of the United States to relax the yuan exchange rate. The currencies of new EU accession countries Poland and Hungary, which had experienced strong downward pressure early in the year, subsequently saw gains, and the Swiss franc also gained ground against the euro over the course of the year.

The earnings situation in the German banking industry improved in 2004, despite a few prominent exceptions. A drop in the volume of loan losses and the corresponding average decline in risk provisions resulted in a lower requirement for bad debt provisions in the German banking business. Another positive development was the fact that the performance of the stock markets did not result in any notable need to write off financial investments. Substantial reductions in expenses also had a positive effect. Some credit institutions saw a major improvement in their operations; this did not apply to the industry as a whole, however.

Landesbank Baden-Württemberg set a new course for the future in 2004. The takeover of Landesbank Rheinland-Pfalz (LRP) will not only reinforce the Landesbank sector in Germany's southwestern region, but also ensure good ratings for both banks. The reorganization forms a sound basis for funding terms and conditions after the elimination of the maintenance obligation *(Anstaltslast)* and guarantor's liability *(Gewährträgerhaftung)*.

Structural Changes.

For LBBW, 2004 was marked by important developments that will have a fundamental impact on the future of the company. The complete integration of Landesbank Rheinland-Pfalz into the LBBW Group, as well as the acquisition of a majority interest in BW Bank, will bring about far-reaching changes to the bank's structure in Baden-Württemberg and Rhineland-Palatinate. This also involved a change in LBBW's ownership structure, which is as follows as of January 1, 2005:

State of Baden-Württemberg	35.611 %
Landeskreditbank Baden-Württemberg – Förderbank – (L-Bank)	4.923 %
State Capital Stuttgart	18.932 %
Savings Bank Association of Baden-Württemberg	35.611 %
Savings Bank and Giro Association of Rhineland-Palatinate	4.923 %

The changes at the Bank resulting from the new structure are described individually below.

BW Bank.

Since April 2003, LBBW has directly and indirectly held a majority of the voting rights in BW Bank AG. The squeeze-out of the minority shareholders of BW Bank, which was resolved by the General Meeting in summer 2003, was pursued further in the course of 2004. After several months marked by technical delays in the legal proceedings initiated by the opposing parties, BW Bank and LBBW prevailed at the end of September 2004 with a ruling on the squeeze-out by the court of first instance. In order to overcome the suspension temporarily prohibiting entry of the transaction into the commercial register *(Registersperre)* that resulted due to the legal challenges filed by the minority shareholders against the ruling in the court of first instance, an urgent motion was made for stipulation of the squeeze-out of the minority shareholders.

Furthermore, the State of Baden-Württemberg has decided to bundle at L-Bank the shares in BW Bank it holds indirectly via Landesstiftung Baden-Württemberg, Landeskreditbank Baden-Württemberg and BW-Holding GmbH, and to contribute these shares to LBBW as a non-cash contribution by way of a capital increase in early 2005. This will integrate BW Bank more firmly into the LBBW Group.

The transfer to LBBW of 135 BW Bank employees in selected corporate center functions as of March 1, 2004 was completed smoothly. This enabled the Bank to take initial steps toward closely integrating BW Bank and LBBW. Another milestone in the process of integrating BW Bank into the LBBW Group was the start of the transfer of BW Bank's securities settlement operations into LBBW's systems. Customers of both banks have also benefited from the closer relationship between the two institutions: they have been able to use both banks' automated teller machines free of charge since spring 2004.

The dual mandates of Mr. Schielke and Mr. Horn as members of the Boards of Managing Directors of both LBBW and BW Bank has contributed to closer cooperation between the two institutions.

Landesbank Rheinland-Pfalz.

Landesbank Rheinland-Pfalz (LRP) was faced with a number of business options that would have reinforced its future positioning in different ways. Ultimately, the most promising option proved to be a parent/subsidiary model with LBBW after WestLB, which was one of Landesbank Rheinland-Pfalz's guarantors along with the Savings Banks and Giro Association of Rhineland-Palatinate and LBBW, elected to end its commitment as a guarantor. The Guarantors' Meeting of Landesbank Rheinland-Pfalz approved the capital reduction and withdrawal of WestLB's share in the bank in June 2004. During a transition period lasting from October to the end of 2004, LBBW held a 20% share and the Savings Banks and Giro Association of Rhineland-Palatinate held an 80% share in Landesbank Rheinland-Pfalz.

In July 2004, the meeting of the association of Rhineland-Palatinate's savings banks unanimously agreed to further pursue the parent/subsidiary model with LBBW. The basic agreement concluded by the guarantors of Landesbank Rheinland-Pfalz and LBBW at the end of September 2004 stipulated that Landesbausparkasse Rheinland-Pfalz should first of all be spun off from Landesbank Rheinland-Pfalz. The Savings Bank and Giro Association of Rhineland-Palatinate then contributed its shares in Landesbank Rheinland-Pfalz to LBBW by way of a capital increase against non-cash contributions in return for the granting of shares. The Savings Bank and Giro Association of Rhineland-Palatinate thus became a guarantor of LBBW, whereas Landesbank Rheinland-Pfalz became a wholly owned subsidiary of LBBW. At the end of September 2004, the Guarantors' Meeting of LBBW also approved this capital increase so that LBBW could become a 100% guarantor of Landesbank Rheinland-Pfalz as of early 2005.

In a business model developed jointly by Landesbank Rheinland-Pfalz and LBBW, the function of central bank to Rhineland-Palatinate's savings banks and the medium-sized companies segment in Rhineland-Palatinate and neighboring regions were identified as future core competencies of Landesbank Rheinland-Pfalz. These core competencies, the close integration of Landesbank Rheinland-Pfalz into the LBBW Group, and the contractual service partnership with Baden-Württemberg's savings banks will enable the institutions to take advantage of extensive earnings and cost synergies. Landesbank Rheinland-Pfalz's plans for the coming fiscal years and reporting were completed in close cooperation with LBBW. The key rating agencies have confirmed the advantages of this parent/subsidiary model.

The close relationship between the two institutions is the logical consequence of the intensive management of LBBW's equity investment in Landesbank Rheinland-Pfalz, the regional proximity of the areas of business of both banks, and the tried-and-tested quality of the partnership between the banks, for example in securities settlement. Landesbank Rheinland-Pfalz will operate as an independent subsidiary bank at its location in Mainz. The business model of Landesbank Rheinland-Pfalz is structured so that even after state guarantees are eliminated, positive performance can be ensured in terms of its return on equity, operating income, and value added.

Branches and Offices.

LBBW operates 184 branches in its core territory of Baden-Württemberg, along with three representative offices in Augsburg, Kempten, and Memmingen. With seven "Centers for Financial Services", LBBW is well represented in key German cities. In addition, LBBW operates branches in London, New York, and Singapore and numerous representative offices in key financial hubs.

Business Development.

The Landesbank Baden-Württemberg Group continued to perform well in 2004, as in the previous year. The Group's business volume was up by 4.3 %, or EUR 16 billion, to EUR 384.9 billion. Total assets grew by 5.3 % to EUR 339.8 billion, up EUR 17.0 billion over the prior year's balance sheet date.

The nominal volume of derivative transactions rose by EUR 219 billion (28 %) compared to December 31, 2003; most of the increase is attributable to interest rate derivatives. Around EUR 690 billion of the total derivatives volume of EUR 996 billion is attributable to trading portfolios. This corresponds to 203 % of total assets (previous year: 158 %).

Lending

Claims on banks rose by 4.1 % (EUR 5.4 billion) to EUR 138.1 billion in 2004. Of this amount, 25.9 % or EUR 35.8 billion, is attributable to Baden-Württemberg's savings banks. The primary reason for this is that Baden-Württemberg's savings banks look to LBBW for funding opportunities on German and international financial markets. In contrast, claims on customers fell slightly. The volume here declined by EUR 0.6 billion (0.6 %) to EUR 105.5 billion.

LBBW's claims are broadly diversified. The largest share of the Group's claims (62.7 %) are accounted for by loans to German companies and private persons. Broken down by industries, the service sector is the most important with a share of 32.7 %, followed by residential housing companies with 10.2 %, and retail/wholesale with 5.5 %. Non-self-employed persons and private persons account for 28.1% of all claims.

The LBBW Group's total loan volume, which includes bills of exchange, as well as guarantee credits reported below the line and irrevocable loan commitments in addition to claims on banks and customers, amounted to EUR 289 billion as of December 31, 2004, which was up 1.4 % over the previous year.

The Group's bonds and other fixed-interest securities increased substantially in 2004. The volume of this item rose by 18.0% (EUR 12.4 billion) and amounted to EUR 81.2 billion at the end of 2004. This development was driven primarily by the increase in bonds issued by other credit institutions and growth in the portfolio of own issues. Debenture bonds and bonds are allocated primarily to the liquidity reserve.

Funding

Liabilities to banks and customers and certificated liabilities are the basis for LBBW's funding. The Group's liabilities to customers increased over the previous year by 4.0% (EUR 3.0 billion) to EUR 77.1 billion. Liabilities to banks also rose by EUR 1.8 billion (1.8%) to EUR 101.3 billion in 2004. Of this amount, 13.4% (EUR 13.6 billion) is accounted for by liabilities to Baden-Württemberg's savings banks.

However, the majority of LBBW's funding comes from certificated liabilities. The volume of this item amounted to EUR 138.0 billion as of December 31, 2004, a 9.2% (EUR 11.6 billion) increase over the same figure as of the balance sheet date in 2003. In addition to unsecured bonds, LBBW primarily issues mortgage bonds *(Pfandbriefe)* and municipal bonds on the German capital market. The issues placed directly are placed primarily with insurance companies, pension and investment funds, other banks and savings banks, and private customers. In addition, bonds are also issued on the international capital markets. LBBW issues bonds under the auspices of a US$ 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 in Stuttgart, London, Singapore, and New York. Moreover, LBBW also launches issues under a MTN program (US$ 10 billion) and a commercial paper program (US$ 2 billion), and has issued securities worth EUR 8.3 billion under a Global Public Sector Pfandbrief program.

In fiscal year 2004, LBBW's own issues amounted to EUR 96.6 billion and therefore remained at around the previous year's level (EUR 97.2 billion). The volume of new issues in 2004 amounted to EUR 80.5 billion (previous year: EUR 85.8 billion). With a share of 58%, the sale of issues denominated in foreign currencies exceeded that of euro-denominated issues. Compared to the previous year, the share of euro-denominated issues therefore declined by 6.5% in favor of issues denominated in foreign currencies.

Earnings Position

The LBBW Group saw increases in 2004 in interest income, as well as commission income. In contrast, net income from financial transactions declined. Administrative expenses rose slightly again.

The Group's operating income before risk provision/valuation result amounted to EUR 1,578.3 million as of December 31, 2004, up by 5.4% over the previous year's figure. The risk provision/evalution result of LBBW Group declined again by 7.8%. The Group's operating income after risk provision/valuation result (profit from ordinary activities) amounted to EUR 1,052.0 million as of December 31, 2004, improving by 13.4% over the previous year.

Consolidated Statement of Income of the LBBW Group	Items	2004	2003	Change 2003/2004	
		EUR million	EUR million	EUR million	in %
1. Interest income	(1,2,3,4)	1 990.5	1 871.0	119.5	6.4
2. Commission income	(5,6)	388.0	357.4	30.6	8.6
3. Net income from financial transactions	(7)	147.7	217.1	–69.4	–32.0
4. Administrative expenses	(10,11)	–1 500.2	–1 464.9	–35.3	2.4
5. Other operating income/ expenses*	(8,12,24)	553.2	518.4	34.8	6.7
6. Operating income before risk provision/valuation result		1 579.2	1 499.0	80.2	5.4
7. Risk provision/ valuation result	(9,13,14,15,16,17,18)	–527.2	–571.6	44.4	–7.8
8. Operating income (profit from ordinary activities)		1 052.0	927.4	124.6	13.4
9. Extraordinary net income/loss	(20,21,22,25,26)	–312.6	–301.8	–10.8	3.6
10. Net income before tax		739.4	625.6	113.8	18.2
11. Tax	(23)	–237.3	–259.6	22.3	–8.6
12. Net income	(27)	502.1	366.0	136.1	37.2

* The item includes depreciation on Group leasing assets.

Interest rates remained at a low level again in 2004. Despite this fact, the Group's interest income for the year rose by 6.4 % to EUR 1,990.5 million, due to a positive impact from higher margins and volume and due to higher interest income from the trading books.

Commission income rose by 8.6 %, or EUR 30.6 million, to EUR 388.0 million. This increase was the result of the positive development in commission from the brokerage business, which grew by 28.5 % over the previous year. Commission from the securities business was also very satisfactory, with an increase of 10.5 %. This enabled the Group to reverse the trend occurring in recent years in commission income from the securities business.

At EUR 147.7 million, net income from financial transactions did not live up to the impressive result of the previous year. However, the interest income from trading and forex transactions, which are reported under the interest income item, stand in contrast to this decline.

Administrative expenses grew slightly by 2.4 % (EUR 35.3 million) to EUR 1,500.2 million. This growth is largely attributable to an increase in pension expenses by EUR 18.0 million, mostly due to the increased requirement for allocations to provisions for pensions. Moreover, other administrative expenses rose by 2.8 %. Although LBBW was able to continue to reduce the workforce as planned, the Group's personnel expenses were up slightly by 2.7 %. The cost savings resulting from the further reduction in the number of staff by 379 employees could not offset the effects of increases in collectively agreed wages.

The other operating income/expenses rose by EUR 34.8 million (6.7 %), of which an amount of EUR 8 million ist attributable to the leasing result.

The risk provision/valuation result item dropped by EUR 44.4 million (7.8 %) to EUR 527.2 million. In the year under review, the Group was able to substantially reduce loan loss provisions specifically as compared to the previous year. Provision was made for lendings to smaller and medium-sized companies in particular. Sufficient provisions were set up for legal risks arising from the HwiG (Doorstep Sales Act), the VerbrKrG (Consumer Credit Act), and the RberG (Legal Advice Act), as well as from the statute of limitations issue *(Verjährungsproblematik)*.

The Group's operating income after risk provision/valuation result (profit from ordinary activities) therefore amounts to EUR 1,052.0 million. As of December 31, 2004, this figure is 13.4 %, or EUR 124.6 million, higher than in the previous year. With net income for the year after tax of EUR 502.1 million, the LBBW Group greatly exceeded the previous year's result by 37.2 %.

The LBBW Group was able to use its excellent result to further increase its taxable reserves in accordance with § 340 f HGB (German Commercial Code).

Proposal for the Appropriation of Profits

As in recent years, the Guarantors' Meeting will again propose distributing 6 % on the nominal capital of EUR 1.28 billion and allocating the remaining net income for the year to revenue reserves.

Equity

As of December 31, 2004, the LBBW Group reported equity on its balance sheet amounting to EUR 15,722.0 million (previous year: EUR 15,714.3 million). The marginal improvement resulted mainly from the decline in subordinated liabilities and in capital generated by profit participation certificates, along with allocations to revenue reserves from the Group's net income for the previous year, which had the reverse effect. The silent partners' contributions qualifying as Tier 1 capital amounted to EUR 3,291 million after totaling EUR 3,324 million as of December 31, 2003. The change over the previous year resulted from the translation of the silent partners' contributions into US dollars at the applicable exchange rate at the balance sheet date.

The LBBW Group's regulatory capital and reserves in accordance with § 10a of the *Kreditwesengesetz* (KWG – German Banking Act) amounted to EUR 15,541 million as of December 31, 2004 compared to EUR 14,977 million in the previous year.

The Tier 1 capital included in this item totals EUR 9,105 million (previous year: EUR 8,628 million), an increase attributable primarily to the allocation to disclosed reserves. The longer-term subordinated liabilities qualifying as Tier 2 capital of the LBBW Group amounted to EUR 3,308 million (previous year: EUR 3,244 million). The capital generated by profit participation certificates regarded as Tier 2 capital was EUR 1,906 million compared to EUR 2,049 million in the prior year.

The items in the LBBW Group's financial statements required under Principle I amounted to EUR 143,608 million as of December 31, 2004 compared to EUR 136,482 million as of December 31, 2003. This results in an overall capital ratio of 10.8 % for the LBBW Group in accordance with Principle I compared to 11.0 % in the previous year, along with an equity ratio of 13.2 % (previous year: 12.7 %).

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

The capital eligible in accordance with the capital adequacy recommendations of the Basel Committee amounted to EUR 15,381 million as of December 31, 2004 compared to EUR 14,598 million in the previous year. Included in this amount is EUR 8,016 million in Tier 1 capital (previous year: EUR 7,711 million) and EUR 7,365 million in Tier II capital (previous year: EUR 6,837 million). LBBW's weighted risk assets amounted to EUR 123,031 million (previous year: EUR 121,835 million) with a weighting factor of 12.5 for market risk positions totaling EUR 23,625 million (previous year: EUR 17,863 million).

The resulting ratios always exceeded the capital requirements stipulated by the Basel Committee on Banking Supervision. LBBW's BIS (Bank for International Settlements) core capital ratio rose from 6.3 % in the previous year to 6.5 % as of December 31, 2004. With an equity ratio of 10.5 % (previous year: 10.4 %), the LBBW Group's figure was well above the minimum ratio of 8 % required by the Bank for International Settlements (BIS).

Risk Report.

Overall Risk Management.

The first step in carefully handling risks is to identify and manage these risks, which are unavoidable in the banking industry. Identifying risks is the responsibility of the Controlling section: the various risks are analyzed and quantified, and limits are set. Information about these risks is presented to decision-makers, and risk limits are monitored. Managing risks is the responsibility of management: risk issues are considered along with returns by including risk information in operational, as well as strategic, aspects of the Bank's business.

Carefully handling risks also means that reasonable limits should be placed on the quantified risks. In 2004, the Board of Managing Directors approved a more sophisticated concept for limiting risks within global limits and LBBW's risk-bearing potential.

Risk management policy and the respective measures required for implementing this policy are defined by the Board of Managing Directors, which stipulates business strategies and performance targets, among other things, for the commercial banking and back office sections. LBBW has traditionally followed a basically conservative approach, rather than accepting undeterminable risks.

Risk Controlling and Management System

LBBW maintains a comprehensive risk controlling and management system that is updated continually. This system ensures that risks are identified for the Bank's protection and provides the Board of Managing Directors, as well as the departments responsible for risk management, with the necessary information to actively manage risks. The processes set up for this purpose cover all relevant risks. The goal is to set up a limit system covering all risk categories based on measuring all of the LBBW Group's risk potentials by means of comparable value-at-risk indicators (VaR).

The Bank's market price risks have been measured using established VaR procedures for a long time now, and such procedures are now also used to measure counterparty risks at the bank-wide level and are being expanded conceptually. The development of VaR approaches for operational risks is in progress.

The established risk controlling and management processes extend to all transactions performed by LBBW's foreign branches. All of LBBW's major subsidiaries and equity interests will be successively incorporated into the Bank's risk measurement processes.

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

Risk Policy: The most important risk-related decisions are made by LBBW's executive bodies, by the Board of Managing Directors itself, or by committees set up for this purpose in consideration of LBBW's risk-bearing potential. Any other decision-making/risk management authority has been delegated to the departments bearing portfolio responsibility or the sections by the Board of Managing Directors.

Risk Management: Decisions about the acquisition and sale of equity investments and the associated shareholder 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 Group Strategy and Legal section is responsible for preparing for the acquisition and sale of equity investments and for developing recommendations for the strategic positioning of equity investments.

The responsible back office sections are tasked with management of counterparty risks at the micro level as part of the Bank's risk strategy or with supporting the responsible departments in this regard. Assigning responsibilities hierarchically enables LBBW to address the various risks posed by individual commitments. Customer bank accounts are managed, decisions are made about commitments, and lines of credit binding for the Bank as a whole are set up and monitored at the micro level. The creditworthiness of borrowers and trading counterparties is assessed by using the tools made available by credit risk controlling. These measures are core functions in the management of counterparty risks.

The Capital Market Investments section is responsible for managing loan and securities portfolios suitable for the capital markets, while taking into account credit risks. Market information, such as credit risk premiums, is used to optimize this portfolio with a view to risk/return ratios.

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

The Treasury section is mainly responsible for monitoring and managing the Bank's liquidity across business segments.

Market price risk management responsibilities at the macro level are primarily exercised by the Board of Managing Directors' treasury management committee, and by two trading units: Capital Markets Trading and Sales and Equity. Interest rate risks from new transactions with customers are closed out by the Treasury section in near-real time via offsetting transactions.

The Board of Managing Directors has delegated the 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 and stocks.

The proposals developed by the Treasury section for managing these strategic positions are presented for the approval of the Board of Managing Directors' treasury management committee as part of its monthly meetings. This committee, which is composed of three members of the Board of Managing Directors and, in an advisory capacity, the heads of the Controlling, Accounting, Research, Treasury, and Trading sections, reports to the Board of Managing Directors as a whole.

The Capital Markets Trading and Sales and Equity sections 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 (corporate customers, savings banks, central, regional, and local authorities, insurance companies, investment companies, and selected banks). The sales units almost never take market price risk positions. 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 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 (including IT risks and human resources risks) is primarily the responsibility of the affected departments in close cooperation with the relevant service department (including IT/Organization and Human Resources). Decisions concerning such risks are made at the Bank-wide level by the Board of Managing Directors or otherwise either by the head of the responsible support department or the technical department. The Legal departments in the Group Strategy and Legal section are in charge of identifying and generally managing legal risks. They are supported in this effort by the banking and support departments, which also provide them with the relevant information.

Risk Controlling: The Risk Controlling department in the Controlling section, which is independent of commercial banking activities, is tasked with monitoring market price risks, operational risks, and credit risks at the overall Bank level. The Credit Risk Management and Issues section is responsible for monitoring credit risks at the portfolio and individual loan levels.

Controlling also selects or develops suitable systems for uniform, bank-wide market valuation of positions, for measuring and monitoring risks via VaR indicators, and for calculating business results.

In terms of market price risk responsibilities, Controlling calculates daily market values (mark-to-market) for all trading portfolios, the strategic positions of the Board of Managing Directors, and the nostro securities portfolios, as well as the subsequent business trading results and VaR indicators. The resulting risk potentials are compared to the corresponding portfolio limits. Moreover, the management of assets and liabilities is supported by an analogous measurement of overall bank-wide interest rate risks also included in the limit system. In addition, scenario simulations are performed to determine the possible risks of extreme market developments. The quality of the measurement procedure applied is guaranteed using backtesting analyses to assess the quality of the calculated risk levels.

The Credit Risk Management and Issues section is responsible for credit risk controlling and monitoring of country limits using the bank-wide country limit system, including the resulting reporting activities. Operational implementation of counterparty-risk-monitoring functions at the level of individual transactions is basically assigned to the various central and regional back-office departments.

The Group Strategy and Legal section is in charge of monitoring the performance of equity investments and reporting on these activities to the Board of Managing Directors and the responsible department head.

Support Functions: Other sections independent of commercial banking activities also exercise important overall risk management functions.

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

The IT/Organization section must primarily ensure the flawless functioning of all of the IT systems under its direction.

The Internal Auditing section is a process-independent department that monitors all operational and business processes, risk management and controlling, and the Internal Control System with the aim of safeguarding the Bank's assets and boosting its operating performance. Within the scope of this goal, Internal Auditing is responsible for auditing and evaluating the substantive and formal propriety of all operational and business processes, including outsourced functions, based on a risk-oriented auditing plan. The Internal Auditing section exercises its duties autonomously and independently. The Board of Managing Directors is informed about the results of audits in a timely manner by way of written audit reports discussed after the audit with the audited operating units. Internal Auditing also monitors the settlement of unresolved audit findings and the implementation of recommendations.

Developments in Overall Risk Management

Calculating the Maximum Limit for Losses: The framework for quantitative overall risk management at LBBW comprises the calculation of LBBW's risk-bearing potential and the determination of a maximum limit for losses by the Board of Managing Directors.

The concept of risk-bearing potential describes LBBW's ability to absorb possible unanticipated losses using current earnings and its assets. This is broken down into various levels by availability of the position.

Using this value, the Board of Managing Directors sets a maximum limit for losses, which is the upper limit for all currently quantifiable risks. The maximum loss limit reflects LBBW's willingness to take risks and is set well below LBBW's overall risk-bearing potential. This is an expression in particular of LBBW's conservative risk policy.

Global limits for the various risk categories are derived from this maximum limit for losses. The sum of these global limits is less than the maximum limit for losses. The difference provides an additional buffer against risk. In addition to potential losses, realized losses are taken into account in risk monitoring by adjusting LBBW's risk-bearing potential or available global limits.

The risk potential for the individual risk categories that is offset against the relevant global limits is calculated based on high confidence levels in view of LBBW's rating. The calculation for major counterparty risks is based on a VaR of 99.98 % with a one-year holding period. For market price risks, a stop-loss limit calculated for one year is used instead of a VaR. The background to this approach is that market price risks are calculated using a shorter holding period in line with their short-term manageability; their comparability with counterparty risks is better achieved using the stop-loss limit. The market risk position is managed via a dynamic daily adjustment of risk limits.

Implementation by LBBW of the *Mindestanforderungen an das Kreditgeschäft* (MaK, Minimum Requirements for the Lending Activities of Credit Institutions): MaK outlines the banking supervisory authorities' regulations pertaining to the management, monitoring, and control of counterparty risks, to proper business organization, and to particular documentation requirements for the lending business. The final deadline for implementation of MaK was June 30, 2004. In addition, the banking supervisory authorities are permitting credit institutions to finish implementing the IT systems necessary to comply with the regulations by December 31, 2005.

The key requirements comprising MaK are the determination of a credit risk strategy, the implementation of a risk classification process, and the monitoring of credit risks at the portfolio level, as well as group-wide credit risk reporting. In addition, the existing organizational structure for the lending business must comply with the MaK requirements.

The statutory supervisory requirements were fulfilled and documented as of the deadline of June 30, 2004. Parts of the Bank will make use of the period until December 31, 2005 allowed by the banking supervisory authorities for the implementation of IT system requirements.

New Basel Capital Accord (Basel II): With the implementation of the new Basel Capital Accord from 2007 onward, the capital adequacy of credit institutions will be linked to the economic risk structure of the assets. Against this backdrop, LBBW aims to receive recognition from the banking supervisory authorities for its internal rating processes. Some of the required rating developments or updates have been completed. LBBW has been preparing for the changes in supervisory regulations for years now and has already been using risk-adjusted terms and conditions for customers based on internal rating processes.

In addition to market price and counterparty risks in accordance with Principle I, operational risks will also have to be backed separately with equity for the first time. When the banking supervisory authorities' capital adequacy requirement enters into force for operational risks, LBBW will initially use the standardized approach. For the medium term, however, LBBW aims to perform calculations for equity backing of operational risks as stipulated by the supervisory authorities using an advanced measurement approach (AMA).

Participation in the "Quantitative Impact Study" ("QIS 4") conducted by the Basel Committee on Banking Supervision supplemented these implementation activities.

The application of the internal ratings-based (IRB) foundation approach for counterparty risks from 2007 onward will minimize LBBW's capital adequacy requirement. Preparations for implementation of the Basel II requirements in the LBBW Group continue to move forward on schedule.

Counterparty Risks.

Counterparty risks are the result of a situation in which borrowers and other counterparties cannot meet their contractually agreed payments. To the extent that outstanding payments are not covered with collateral of some value, the Bank stands to incur a loss amounting to the unsecured portion of the loan commitment less a possible recovery rate in the event that the commitments are permanently impaired.

The methods used to control and manage counterparty risks are broken down into two levels. At the individual commitment level (micro level), it is particularly important to evaluate borrower risk as reliably as possible. At the second level (macro level), risks are analyzed from the viewpoint of the entire portfolio. Risk controlling consolidates individual risks using a relevant model and evaluates them from this perspective. In addition, country and shareholder risk are monitored separately.

Counterparty Risks at Customer Level

Counterparty risks at the customer level comprise the risks arising from borrowers (borrower-related risks). All risks translated into credit equivalents relating to a single borrower, including possible real estate financing, if materially relevant, are combined into a total exposure.

LBBW's lending business can be broken down internally into the following business segments and areas:

- Retail clients (private customers, loans to the self-employed for mostly private use)
- Corporate finance
  - Corporate customers (customers receiving basic services, small and medium-sized enterprises, corporate customers)
  - Corporates (key accounts, multinational corporations → with an extensive business relationship)
  - Financing of commercial real estate in Germany and abroad
  - Public sector in Germany
  - Leveraged finance
  - Structured finance (project finance, syndication/syndicated loans, tax transactions)
  - Export financing
  - Commercial equity investments
  - Leasing
  - Factoring
- Financial markets
  - Corporates (→ focus on capital market-oriented products)
  - Financial institutions
  - International central, regional, and local authorities/sovereigns
  - Capital market transactions/ABS

In order to optimize LBBW's risk management activities, the customer-oriented business areas were paired with adequately equipped back office units. Timely, focused, active risk management in the regional corporate customer business requires short decision-making paths and a close proximity to customers in view of the large number of borrowers, which is why decentralized risk management support on-site was selected as the approach to take in the Regional Loan Processing section. A centralized risk management approach was realized for the wholesale business (financial markets, structured finance), as well as for corporates and retail clients.

Procedure:

Risk limitation: In limiting credit risks arising from individual borrowers, responsible risk assessment, limitation of loan obligations, and risk-adjusted pricing are paramount for all customers groups.

Approval for lending obligations is issued according to a specific process and these commitments are monitored regularly, if necessary, by the responsible decision makers or committees in accordance with the decision-making hierarchy approved by the Board of Managing Directors or the Supervisory Board. Monitoring compliance with pre-set credit lines is the duty of the central and regional commercial banking and back office sections.

Timely monitoring of ongoing business relationships and observation of the relevant markets by the responsible commercial banking and back office sections create the conditions necessary for carrying out required adjustments of credit lines as part of early risk identification. If the need is identified, intensified advising is provided and additional risk-limiting measures are implemented.

The Board of Managing Directors and the supervisory bodies receive regular, comprehensive reports concerning the risk situation of LBBW and its subsidiaries. As a result of the implementation of the Minimum Requirements for the Lending Activities of Credit Institutions (MaK), the content of these reports has again been expanded. In addition to individual reports prepared when the need arises and the decisions made by the Board of Managing Directors concerning specific individual loans, the Bank's management and supervisory bodies also receive a comprehensive overview of the Group's risk situation.

Risk assessment: The main factors involved in risk assessment are an evaluation of creditworthiness and the application of risk-reducing measures. The evaluation of creditworthiness using simplified risk classification procedures, scoring procedures, and especially rating processes, covers all aspects of the transaction bearing counterparty risk.

- Rating
  The rating processes used by LBBW comprise a core element in the process for assessing counterparty risks. The results also form the basis for more far-reaching counterparty risk management. The result of this assessment, a rating score, reflects a standardized estimation of the ability of customers to meet their future payment obligations in full and on time.

Mathematical-statistical processes are used in the rating process:

- Individually selected indicators and qualitative factors are taken into consideration in the scorecard-based rating process in line with the customer group to be assessed. These are weighted, linked, and distilled into a final result – the rating score.

- Simulation-based rating processes are used for real estate and special financing. This procedure aims to forecast the cash flow development from the property to be financed assuming various scenarios and influencing factors and therefore to synthetically derive the probability of default.

In both cases, the probability of default forms a valid basis for a concrete risk calculation. This makes the rating result a suitable basis for more intensive management tools, such as limits, terms and conditions, etc.

Most of internal rating processes developed in recent years during various cooperative projects by the Financial Group are now in use. In the case of certain specialized procedures, follow-up work is still underway, or the technical infrastructure for implementing the procedures in the lending process is being set up. The Rating Service Unit (RSU), which was formed for the purpose of implementing the technical infrastructure, as well as to ensure the future methodological development and maintenance of the rating processes, began operating in the past year. The unit's responsibilities include continuing to ensure the uniformity of the scoring process and fulfilling the quality requirements stipulated by the banking supervisory authorities for the long term. " Rating und Risikosysteme GmbH" has a similar mission. The focus here is on the rating processes developed in cooperation with the German Savings Banks and Giro Association (DSGV) and the associated follow-up services.

Continual information exchange with the *Bundesanstalt für Finanzdienstleistungsaufsicht* (BaFin – Federal Financial Supervisory Authority) is maintained in parallel with the development process. LBBW is represented on the expert committee that prepares recommendations for codifying and implementing the Basel Capital Accord in German law.

- Risk reduction by means of collateral
  Offsetting collateral against exposures is an important tool for reducing risk at LBBW. LBBW has put into place extensive rules concerning the valuation of various types of collateral.

- Risk reduction in the derivatives business via collateral agreements
  In 2004, LBBW again increasingly optimized its credit risk positions arising from OTC derivatives by using collateral agreements. The net credit positions from OTC derivatives calculated in accordance with the mark-to-market approach are collateralized systematically using cash payments (collateral management).

The restructuring of collateral management at LBBW created the technical infrastructure necessary to further extend collateralization of OTC derivatives to include securities in 2004.

Risk-adjusted pricing: At the level of individual transactions, a preliminary calculation is used to determine the terms necessary for a cost-oriented minimum margin. This calculation involves risk-adjusted factors. On the one hand, these comprise customer-related default risks specified by a rating score. On the other, specific business factors, e. g. loan term, loan amount, and collateral for the loan, are included in the calculation. The goal of risk-adjusted structuring of terms and conditions is to accurately allocate the average anticipated loan defaults according to their source and to optimize LBBW's loan portfolio quality for the long term.

Credit line systems and credit measurement: Risks in the traditional lending business are measured and monitored using LBBW's proven systems. Weighting uses the nominal loan amounts including a fixed add-on for exchange rate risks, if necessary.

In 2001, the Global Limit System, called the GLS, was introduced for trading transactions as an initial step toward measuring counterparty risks for derivative transactions from OPUS. The *Liniendatenbank – Handel* (Credit Line Database) legacy system is being replaced step by step with the expansion of the GLS product range. Currently, the GLS is the credit line management system for all trading products bearing counterparty risk, except for OTC stock options and rights to increase combined with a fixed income product. To date, these are still being manually entered in the Credit Line Database and offset against the limits there. However, LBBW plans to include these products in the GLS by May 2005.

The necessary business data is supplied directly to the GLS via the front-end system or the trading settlement system. The advantages of GLS over the risk measurement systems used to date include several new functions for traders on the one hand, and the additional opportunities provided by the new weighting method on the other.

Traders can, for example, use pre-deal checks or detailed "what-if" analyses to verify whether the approved credit line is sufficient to allow a transaction to be completed, or if the credit line would be overdrawn. Once 80 % of the limit has been utilized, a warning is issued ("stop light principle"). Furthermore, the option of limit reservations for pending transactions is also offered. With the inclusion of the remaining trading products and loans, the Trading sections will in the future be able to query all existing limits via a centralized system.

Decisive improvements over the procedures used to date can also be seen in terms of risk measurement. For most products, the weighting method applied by GLS is based on market values updated daily plus add-ons. The add-ons reflect the potential "bad case" development of the market value based on interest rate and/or exchange rate fluctuations over the course of the transaction. The amount of the add-ons depends on the type, currency, and remaining maturity of the transaction, as well as the point in time in the future under consideration.

Moreover, GLS is also capable of adequately reflecting netting agreements and collateral agreements and using these to limit risk when weighting the risk on a counterparty basis.

The goal for 2005 is to also use GLS for loans, which are currently entered in the Credit Line Database (replacement of the Credit Line Database), and to implement portfolio limits in line with the Minimum Requirements for the Lending Activities of Credit Institutions (MAK).

Setting up risk provisions: Non-performing commitments and those requiring restructuring are forwarded for further processing to the Central Loan Monitoring section. This section 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. Commitments abroad remain the responsibility of the relevant specialist department. However, this department is required to obtain a vote by the Central Loan Monitoring section 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 assumptions (e.g. payments outstanding, deterioration in creditworthiness, etc.) that led to setting up the bad debt provision are documented. The focus is not solely on the current situation of the borrower – the analysis also contains a forecast.

Risk situation and outlook: In the past year, the overall economic environment improved worldwide – although to different degrees in different regions – while Euroland and Germany saw the economic upturn gain momentum. In 2005, further stabilization can be expected.

In Germany, Creditreform estimates indicated no major changes over the previous year in the number of corporate insolvencies (39,600) in 2004. Although the rate of increase of corporate insolvencies (2003: + 4.9 %) declined substantially once again over the previous year, this cannot be considered evidence of an easing of the situation in view of the still-high level of insolvencies. The further increase is due in particular to corporate insolvencies in western Germany (+ 1.9 %). The aggregate loss to companies, private individuals, and the public sector was down slightly compared to the prior year at an estimated EUR 39.4 billion.

This development affected LBBW as well. The number of corporate and business clients that were forced to undergo a restructuring or reorganization process, and the number of corresponding insolvencies, remained high.

As in previous years, LBBW took appropriate precautions to cover all identifiable risks. LBBW anticipates only a slight improvement in the risk situation of its overall loan portfolio in the current year. The same is true for 2006, because any effect that an economic recovery would have on the insolvency situation would be time delayed.

The following is supplementary information on the risk situation in selected customer and product groups:
Corporate customer business: Broad industry and customer diversification is a defining quality of LBBW's corporate customer business. In addition, the focus of LBBW's business activities is on the economically relatively strong region of Baden-Württemberg. Both of these factors are responsible for LBBW's diversified and comparatively favorable risk structure. LBBW was again able to avoid the default of specific larger commitments in the year under review. Moreover, the upturn in the economy, although moderate, contributed to keeping LBBW's risk provisions below the prior year's levels.

As in previous years, the focus of new loan commitments and extending existing loans was on customers with excellent credit ratings.

Particular quality standards were applied to loan commitments in the construction and construction-related industries, the real estate and residential housing sector, as well as the retail and service sectors, because these industries were those most heavily affected by lukewarm domestic demand. Risks associated with certain existing business relationships were minimized by specifically reducing or rolling back particular commitments.

In the new fiscal year, LBBW will continue to pursue its quality-focused, selective growth strategy. In 2005, LBBW again expect a slight improvement in its risk situation, assuming that the economy continues to pick up moderately as forecast.

Real estate financing: LBBW's total real estate financing portfolio with a value of EUR 25.6 billion can be broken down into various segments as follows:

- Private real estate financing via branches = 23.9 %
- Private real estate financing via brokers = 34.3 %
- Real estate financing for residential housing companies = 16.8 %
- Commercial real estate financing = 25.0 %

Real estate financing for residential housing companies and commercial real estate financing: The balanced distribution of various property sizes/volumes and types of use in the portfolio creates a positive diversification of the portfolio in terms of real estate-related credit risks.

In the previous year, the market for commercial real estate financing in western Germany and other western industrialized countries reflected the strained economic situation. In Germany, rental income appeared to plateau, while rents continued to drop, and the industry saw very high property vacancy rates in come cases. Outside of Germany, however, the market already appears to be stabilizing.

This development and different trends in various types of properties and regions were countered with German and international diversification of the real estate portfolio. LBBW's risk-adverse business policies, which it has pursued for years now, are still reflected in the stability of its loan commitments. Only a low volume of specific bad debt provisions was necessary, and these were only set up for loan commitments entered into in the early 1990s.

As in previous years, the business with residential housing companies in eastern Germany focused on continual risk management in 2004. By continuing to implement consistently strict management of commitments, supplemented with more solid collateral-backing along with a simultaneous increase in margins and loan payments, LBBW was able to address the heightened risk situation of this portfolio. Due to the structural problems in eastern Germany, the risk situation is still acute and has in some cases led to further deterioration in the creditworthiness of borrowers. This special risk situation was addressed by setting up suitable specific bad debt provisions. Nonetheless, the trend among the eastern German residential housing companies financed by LBBW is toward stabilization of the financial situation. The share of the total real estate financing portfolio accounted for by loans to residential housing companies in eastern Germany was approximately 7%.

In the case of residential housing companies in western Germany, no systematic deterioration in credit ratings was observed. LBBW assumes that the risks here will continue to remain moderate.

In addition to the sustained profitability of the properties financed, LBBW considers the high quality of borrowers and their partners to be vital. The relevant markets are continually monitored for changes and the necessary reactions to these changes, which enables LBBW to identify and limit emerging risks early on.

On the whole, LBBW views its loan portfolio of real estate financing for residential housing companies and commercial real estate financing to be mostly well balanced in terms of the location and quality of the properties, the industries utilizing the properties, life cycles, the quality of its partners, and regional diversification, even in view of the ongoing difficult economic situation.

In addition to intensive management of loans to eastern German residential housing companies, LBBW's risk-reduction activities are focused on observing the market for office space in German urban centers and in western European metropolitan areas, as well as critically managing subsequent rentals, particularly in the case of older retail properties. On the whole, no significant deterioration in the risk situation is anticipated.

Project finance: The project finance business area comprises LBBW's selective activities in certain industries and regions with an emphasis on a balanced distribution of risks. LBBW's activities currently extend to the following key sectors:

- Energy – subdivided into fossil fuels and renewable energy sources, as well as supply networks and renewable energies.
- Infrastructure – subdivided into transportation, and private-public partnerships and similar municipal transactions.

With the exception of municipal infrastructure financing, the energy sector makes up the largest single block of the portfolio at approximately 25 %. Due to the quality of the portfolio, further additions to the risk provisions do not appear to be necessary in the foreseeable future.

LBBW's regional concentration is on the European Union with a focus on Germany, as well as the NAFTA zone. Commitments in emerging markets are entered into only on a very selective basis if individual projects are either especially important to customers of LBBW and/or of particular importance to the economies in question.

LBBW assumes individual risks after simulating various risk scenarios and assessing the portfolio structure. LBBW does not currently anticipate the portfolio situation to deteriorate in 2005.

The transportation financing sub-segment was dominated by aircraft financing. The regional focus here is on the United States and Western Europe. Estimates from experts, including conservative discounts, are used to value aircraft financing deals.

The composition of the portfolio is continually monitored and optimized in terms of airlines, aircraft, manufacturers, and regional factors. However, due to the situation of certain, particularly some US-based airlines, it was necessary to set up risk provisions and restructure commitments in specific cases. At this time, LBBW does not anticipate the risk situation of the portfolio to deteriorate in 2005.

Financial institutions: The financial institutions business area mainly includes bilateral or national/international syndicated loan and securities transactions, trading transactions and structured trading facilities, and international trade and export financing. The term “financial institutions” includes banks and savings banks, insurance companies, non-bank financials, home loan and savings associations, brokers, etc.

The established rating process for banks was supplemented with a new rating process for insurance companies in mid-2004.

The sometimes very uneven development of the market and the credit ratings of LBBW's partners evident in previous years continued in fiscal year 2004.

Once again in 2004, various proactive risk-reduction measures, such as maturity adjustments or product limitations, and the increased use of collateral agreements and structured products, as well as the acceleration of response times and a focus on borrowers with excellent credit ratings enabled LBBW to maintain a well-diversified, regionally balanced portfolio featuring partners with good credit ratings, the majority of whom are classified in the investment-grade segment.

International corporates: Internationally syndicated loan and securities transactions, as well as structured trading facilities and export financing, comprise the majority of transactions conducted with international corporates.

The loan and securities transactions concentrate on companies with at least an investment-grade rating. In trade and export financing, suitable structuring and collateral are used to mitigate the higher level of company risk.

Although bad debt charges (in a manageable amount) were required in the prior year due to two cases of fraud, the quality of LBBW's portfolio remained unblemished by noticeable deterioration in creditworthiness in 2004, a situation also attributable to the general easing in the economic climate. LBBW selectively took advantage of opportunities for regional and industry diversification.

In the course of the year, a new Basel II-compliant rating process was introduced for large German and international corporations as planned.

Large, multinational corporations: In terms of its business with large, multinational corporations (with parent companies domiciled in Germany), LBBW pursues either an opportunistic single-transaction strategy or a comprehensive relationship approach.

The business volume, product range, and internal standards for potential occasional customers correspond to those for international corporates.

The goal of the relationship approach is to establish and expand a connection to the parent company and additional companies in the group that is as extensive as possible. This type of offer includes other services in addition to all of the usual lending and trading products.

The target group comprises companies with an investment-grade rating. To the extent that it is necessary, risk positions are also structured and/or backed with collateral.

International central, regional, and local authorities: The transactions entered into with public-sector counterparties abroad can be broken down into three basic groups: central governments, regions, and municipalities in Western Europe/United States, and municipal enterprises and institutions (public finance) in the United States.

The central governments business area is dominated by transactions with low-risk industrialized countries with top ratings. In terms of regions and municipalities, LBBW also focuses its total available risk assets on exceptionally low-risk transactions with the key countries of Switzerland, France, Spain, Canada, and the United States. The consistently risk-oriented provision of credit lines is ensured by a statistical maximum limit system and a rating procedure.

LBBW's US public finance activities relate to the provision of liquidity and letters of credit. The US public finance operations focus on low-risk transactions and business. This approach is guaranteed by limiting the business to counterparties with only the best ratings on the one hand, and to transactions in essential public service sectors, i. e. energy, water, and transportation, on the other.

Asset-backed financing: A total of EUR 9.600 billion (97.6 %) of the aggregate ABS portfolio (securities, liquidity lines, and loans) under management, which is held in an ABCP conduit both on and off the balance sheet and is valued at a total of EUR 9.834 billion, is as a rule rated by two of the three prominent rating firms. The remaining EUR 0.234 billion is primarily subject to risks with a term of only one year (liquidity facilities).

Of the total, EUR 3.976 billion (mainly collateralized debt obligations (CDOs) carrying US credit risks) is secured by AAA-rated bond insurance companies. Despite isolated rating downgrades in LBBW's ABS portfolio, particularly in the case of CDOs, LBBW's share of AAA-rated securities is still very high at 94.0 %.

It was not necessary for LBBW to set up any specific provisions for bad debt. In addition, no major share price write-downs were necessary thanks to the positive performance of the economy.

In the current year, LBBW again intends to concentrate largely on AAA-rated securities, an approach that has proved to be successful to date. The aim of active and timely risk management is to anticipate pending credit rating downgrades in good time and, if necessary, to sell the securities in question before share prices plummet.

Credit derivatives: Credit derivatives are financial instruments that are used to transfer counterparty risks to other capital market participants.

LBBW utilizes credit derivatives to transfer risk, for arbitrage, for hedging, and increasingly for portfolio management. In the past year, LBBW concluded primarily single-name credit default swaps (CDS) for its trading activities and to manage certain risks to which its investment portfolio is exposed.

Multiple-name credit derivatives referenced to more than one obligor in particular are becoming increasingly important for managing credit risks at the portfolio level. If these obligors offer good market coverage of specific credit markets or sectors, it is possible to use these products to establish an efficient risk management system. These also include index products used to trade credit risks of specific sectors. Major advantages of these products are the available market liquidity, as well as the option to hedge industries at the macro level or to intentionally assume the risks of a particular industry. LBBW plans to increasingly utilize these instruments this year to manage credit risks in its investment portfolio. This will enable LBBW to hedge possible crises in particular industries in near-real time and to minimize its overall exposure in individual sectors without liquidity bottlenecks.

Counterparty Risks at Bank Level

Procedure: The analysis of counterparty risks at Bank level provides additional insight into LBBW's risk situation. The focus here is on the calculation and management of risk potential that arises from the interplay among individual risks.

The results of the measurement of counterparty risks are contrasted with the risk-bearing potential of LBBW's equity in the form of the global limit derived in this way. The scope of the capital required depends not only on the level of risk, but also on the level of creditworthiness the Bank is aiming for. Risk measurement is therefore an essential management tool serving the aim of safeguarding the Bank itself against default.

Measuring the risk capital tied up in the individual segments with the help of internal credit risk models is intended to assist LBBW in allocating its equity. In conjunction with the respective return on equity, concrete measures for optimizing LBBW's loan portfolio can be generated as a result. LBBW continued to pursue implementation of portfolio-based risk measurement in managing business areas with a view to optimizing its return on capital.

Value-at-Risk (VaR) indicators became established as risk measurement parameters many years ago. VaR indicators are potential losses that will not be exceeded with a certain probability (confidence level). Equity capital in the same amount would consequently be sufficient to cover a possible loss occurring within one year with the given probability. LBBW has set this probability at 99.98 %.

The VaR value calculated using this approach is a lower limit for the required equity based on a theoretical model; the Bank's actual equity exceeds this figure considerably.

In order to measure this value, LBBW uses a portfolio model. All counterparty risks to which the Bank and its most important subsidiaries (not yet including credit institutions) are subject are included in this model. In addition to separate default and rating migration probabilities for all borrowers, the model also takes into account default event correlations.

Risk situation and outlook: The calculations to date using the loan portfolio model indicate that LBBW holds a well-diversified loan portfolio. Concentration exists in the banks/financial institutions segment in line with the focus of LBBW's business. However, no notable concentration risks exist from the overall portfolio standpoint.

In addition, LBBW is not subject to any identifiable counterparty risks at the overall bank level that would endanger its continued existence.

Shareholder Risks

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

LBBW's portfolio of equity investments can be broken down as follows by the degree of Group affiliation of the subsidiaries/equity investments:

- Core LBBW Group
  The equity investments in the core LBBW Group include companies in which LBBW holds a majority interest (generally wholly owned subsidiaries) that are managed as sections/departments of LBBW. Support functions, such as controlling, accounting, and human resources, are handled directly by the responsible organizational units at LBBW.

- Extended LBBW Group and minority interests
  The equity investments in the extended LBBW Group comprise companies in which LBBW holds a majority interest, but which have their own management and support functions, as well as companies in which LBBW holds a minority interest. LBBW manages these equity investments by way of its position as a shareholder and via LBBW representatives in the supervisory bodies of these companies.

Procedure: The companies of the core Group are treated as sections or departments of LBBW and are integrated directly into its decision-making and management processes accordingly.

The Bank influences the business and risk policies of its other investees by way of its position as a shareholder, and especially via representation in their shareholders' and supervisory bodies, generally by members of the Board of Managing Directors.

Early identification of business and risk developments at LBBW's subsidiaries and equity investments is particularly important for controlling purposes. To this end, regular consultations are held at the corresponding management levels of the parent company and subsidiaries, particularly in the case of the key equity investments. In addition, these companies' results and planning are continually monitored by the organizational unit responsible for equity interest management in the Group Strategy and Legal section, which reports on the results to the Board of Managing Directors of LBBW quarterly and outside of the regular reporting schedule in the event of extraordinary circumstances.

A cumulative presentation of the risks associated with the subsidiaries and equity investments of LBBW (counterparty, legal, reputation, tax, operational risks, etc.) as part of a systematic Group-wide risk management process is still in progress currently.

The initial step was to identify the risk-relevant subsidiaries in terms of the individual risk categories and to contact the companies in question. The integration of these companies in a common monitoring system and coordination of the methods used to identify risks are underway. Liquidity is already managed on a uniform basis for these companies.

Risk situation and outlook: LBBW pursues a selective equity investment policy. As a rule, a comprehensive due diligence analysis (of legal, financial, etc. risks) is performed in conjunction with the Bank's departments before equity investments are acquired.

Sale and purchase agreements are used to hedge risks contractually to the greatest extent possible (e. g. granting of options). In addition, a valuation taking into account capital-market-oriented risk premiums is performed when acquiring equity interests.

The qualitative and quantitative monitoring of the risks associated with the ongoing business operations of portfolio companies is the responsibility of the equity interest management unit.

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.

In addition to the 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)* in the case of equity investments in public-sector credit institutions. Furthermore, the Bank has signed letters of comfort with various equity interests.

There is also a risk that the Bank will receive an insufficient return or no return at all on its investments.

As in the previous year, the return on equity investments exceeded the return that could have been achieved with alternative no-risk investments in view of the profit retention in the equity interests.

The 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.

Country Risks.

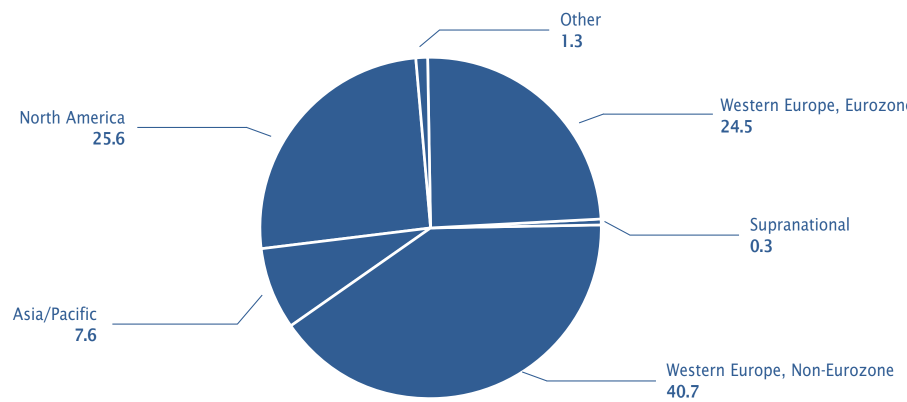
Additional risk always arises whenever the borrower is domiciled in a country or currency area other than that of the creditor. The aim of country risk analysis is to determine whether an economy has the capability, now and in the future, to make foreign exchange transfers as agreed. Based on this definition, LBBW uses the risk-adequate term "transfer risk".

Procedure: LBBW implemented a new, Basel II-compliant scoring model as of the start of 2004. Because early identification has been satisfactory to date, the legacy process will continue to be used to supplement the new rating model.

Risk situation and outlook: In the past, measuring transfer risk has proven to be an extraordinarily reliable early warning system.

LBBW's international portfolio carries a notably low risk due to the concentration on countries – mostly in North America and Western Europe – with particularly good ratings.

Breakdown by regions as of December 31, 2004:



(in %)

This favorable risk structure, with a consistently very low proportion of the overall portfolio made up by LBBW's international portfolio of commitments with the more risky country groups, was reinforced last year. LBBW is countering possible risks in specific countries critical currently due to liquidity crises by implementing measures ranging from volume and maturity limitations on commitments, as well as concentration on secured transactions, to a complete blocking of country limits. The remaining lesser risks in terms of volume in the critical country groups are already covered by means of bad debt provisions. In the foreseeable future, no additional major requirement for bad debt provisions is anticipated.

Liquidity Risks.

LBBW defines liquidity risk as the risk of not being able to fulfill payment obligations at the time they are due (narrow definition of liquidity risk) or to procure the funds required to do so at the expected terms (funding risk). In addition, market liquidity risk describes the danger that due to inadequate market depth or to market disruptions, positions cannot be closed out, or only closed out at a loss.

Liquidity Risk (Narrow Definition) and Funding Risk

Procedure: Liquidity management at LBBW is viewed as a cross-departmental responsibility and is performed by the Treasury section. New business is mostly financed without affecting liquidity. Existing surpluses in mid-range and longer maturities are actively managed within the framework of the funding strategy.

Short-term liquidity is managed on the basis of regular forecasts that bundle the expected payments from all activities of the Bank affecting liquidity. Short-term funding risks – particularly the Bank's dependence on the liquidity provided by the interbank market – is minimized bank-wide through the use of limits. The Treasury section monitors the adherence to these limits daily. In addition, the quality (market liquidity and eligibility for rediscount at the ECB) and the volume of securities in the liquidity reserve are constantly monitored.

The Treasury section reports to the Board of Managing Directors and LBBW's shareholders quarterly as part of a comprehensive liquidity report covering all issues associated with guaranteeing the Bank's liquidity.

Risk situation and outlook: LBBW maintains a broad and well-diversified funding base. The Bank's considerable portfolio of liquid securities means that it is well secured in the event of unforeseeable interruptions in its market sources of liquidity and unexpected outflows of liquidity or default of expected incoming payments.

The liquidity requirements defined in Principle II of the KWG (German Banking Act) were substantially exceeded at all times in 2004. The liquidity ratio was between 1.36 and 1.65 (2003: 1.38 to 1.59), and it amounted to 1.40 (2003: 1.51) as of the end of 2004.

LBBW does not anticipate a significant deterioration next year as compared to the current situation, either in the case of securing material liquidity or in compliance with liquidity requirements under supervisory law.

Market Liquidity Risk

Procedure: LBBW generally counters market liquidity risks from existing positions as part of its risk limitation measures for market price risks via the "holding period" parameter in that risk model.

A separate risk measurement procedure is also used for small issues of stocks. To this end, premiums are added to the VaR of the market price risk calculated from the bid-ask spreads of the relevant stock prices. This liquidity premium increases for larger holdings of individual stocks in accordance with the volume of the position. The combined market price risk indicators and the market liquidity risk of such a stock position are used to calculate the potential loss.

Risk situation and outlook: 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 special limit. Otherwise, trading must be limited mainly to products and markets that indicate sufficient liquidity based on market development to date.

Market Price Risks.

LBBW defines market price risks as potential losses due to adverse developments in market prices. Market price risks are broken down by influencing factors as follows:

- Interest rate risks
- Currency risks
- Risks from shares and other equity positions
- Commodity and other price risks

The Bank's proprietary positions and trading are not the only source of market price risk exposure; positions resulting from customer transactions (in particular from fixed-interest lending and deposit operations) are exposed to these risks as well.

Procedure: In order to manage its risk positions, LBBW has set up a limit system that distinguishes between risk limits and stop-loss limits. The key factor for measuring the individual limits is the global limit for market price risks derived from the annual maximum loss limit for the Bank as a whole.

While the risk limits mitigate the potential risks from open market price risk positions, the stop-loss limits also take into account accumulated realized and unrealized losses. The stop-loss limits therefore ensure compliance with the maximum limit for losses for the Bank as a whole and the individual portfolios approved by the Board of Managing Directors for the entire fiscal year. Cumulative losses lead to an automatic reduction in the corresponding risk limit and therefore to a decrease in the scope of possible trading activities. Realized and unrealized profits do not increase the limits.

In the context of market price risk, the risk potential measured as VaR quantifies the possible loss of a position or portfolio that will not be exceeded with a given probability (confidence level) in the course of future market fluctuations, taking into account a suitable holding period. At the portfolio level, the VaR describes the aggregate market price risks, including correlation effects.

Every day, the Controlling section calculates the risks for the investment and trading books using a mathematical-statistical method. Since early July 2004, LBBW has been using a new risk model (SiRA) based on a modified Monte Carlo simulation to calculate value-at-risk indicators. This has resulted in improvements, including in the identification of option price risks and in the area of interest rate risks. The new risk model procedure is also scalable for integrated measurement and control of market price and counterparty risks.

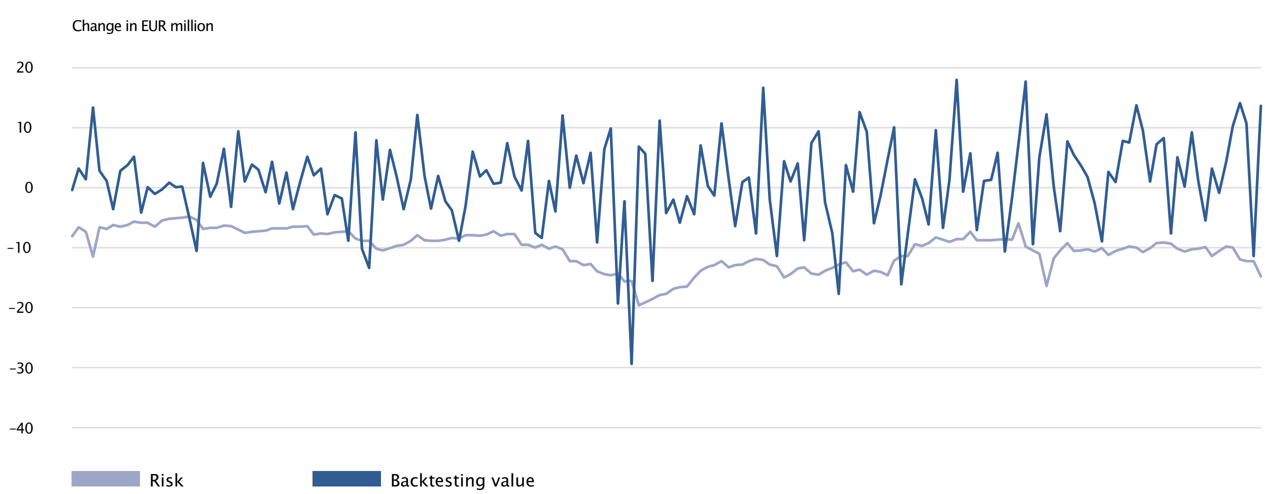
LBBW's medium-term goal is to have the model recognized as an "internal risk model" within the meaning of Principle I of the KWG for equity backing of market price risks.

For internal risk measurement and limitation, a confidence level of 95 % and a holding period of one day was assumed for trading portfolios, whereas a confidence level of 95 % and a holding period of ten days was applied for the other portfolios. Effective January 1, 2005, the holding period and confidence level parameters for all portfolios were adjusted to ten days and 99 % respectively to comply with the regulations issued by the supervisory authorities for internal risk models.

The quality of the calculated risk values is subject to daily backtesting by the Controlling section. Outliers are losses whose amount exceeds the measured VaR value in absolute terms. The ratio of outliers is expected to be in line with the confidence level of the VaR measurement.

In addition to the standard risk values (VaR), the Controlling section also simulates worst case values daily and stress test values monthly and on an as-and-when basis. The risk values calculated in this way demonstrate that substantially higher losses could occur in the event of extreme market movements than indicated by the risk potentials calculated using the probability assumptions.

Backtesting (Bank overall) for the test period from January 2, 2004 – December 30, 2004
VaR parameters: 95 % confidence level, 1-day holding period
Backtesting ratio H1 RMS = 7.21 %, Backtesting ratio H2 SiRA = 4.69 %



The worst case values indicate the greatest potential loss for each portfolio arising based on standardized or historical scenarios. Time series since January 1, 1990 are used to develop the scenarios.

Stress testing is based on fixed scenarios for extraordinary market changes in the individual market price risk types. This demonstrates which risk effects the relevant type of market price risk can have on the various portfolios in extreme cases. Due to the particular importance of interest rate risk for LBBW, this is the focus of stress testing. The scenarios for stress testing were revised for the new risk model. Since mid-January 2005, stress testing has been performed using the new risk model.

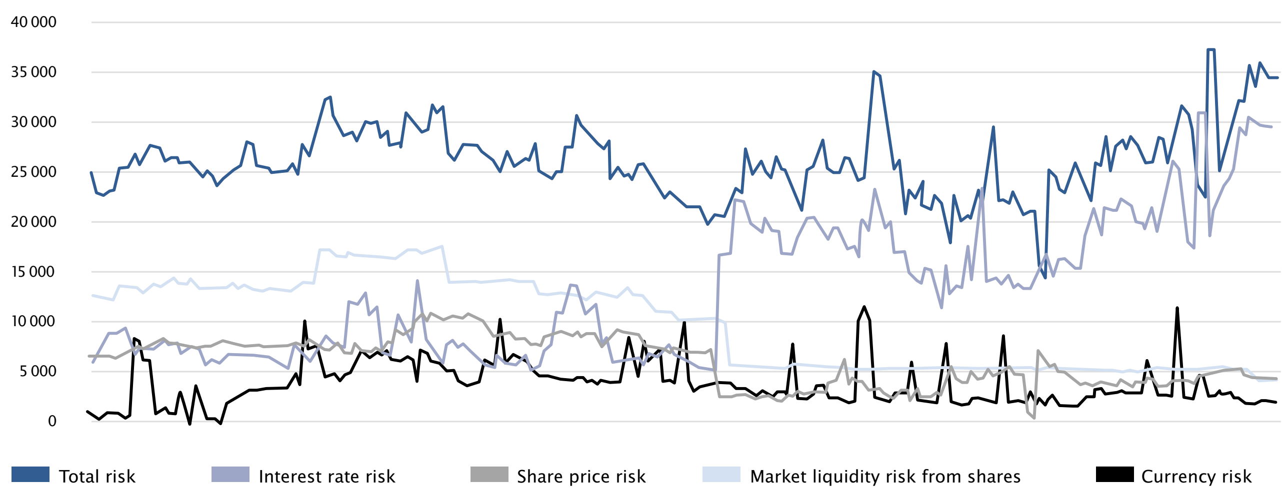
The Board of Managing Directors and the departments bearing portfolio responsibility receive a daily written report from the Controlling section containing the level of market price risk limits already utilized, the results of worst case simulations, and managerial analyses of trading results. Moreover, the Board of Managing Directors also receives detailed information on the risk and earnings situation in monthly reporting documents. The monthly reports also contain the data from the stress test simulations.

Risk situation: LBBW complied with the risk limit at the overall bank level at all times in 2004.

The following charts and tables depict the development of VaR and key VaR figures at the reporting dates based on the parameters (99 % confidence level and ten-day holding period) set by the Bank for International Settlements (BIS) both for trading activities and for the Bank overall. The observed values here, however, are exponentially weighted in the calculation, contrary to the BIS parameters.

■ Trading Activities

Daily VaR for Trading Positions
(BIS parameters: 99 % confidence level,
10-day holding period)

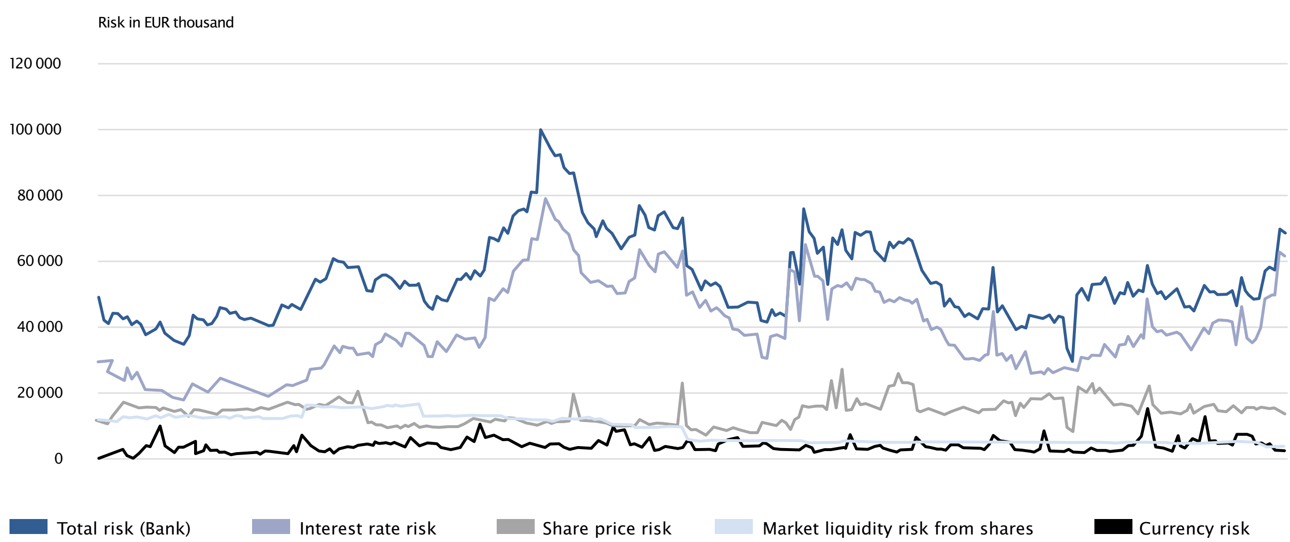


Currency risks include the low level of existing precious metal risks and foreign currency risks. There were no commodity risks. Option risks are included in the respective risk categories.

The following table depicts the minimum, maximum, and average VaR values for trading positions at the reporting dates or over the course of 2004:

in EUR million	Dec. 31, 2002	Dec. 31, 2003	Dec. 31, 2004	Minimum	As of	Maximum	As of	Average
Interest rate risks	7.2	7.3	28.7	5.3	May 6	30.0	Dec. 10	13.3
Share risks	12.7	7.3	4.6	0.9	Oct. 26	11.0	Apr. 7	6.3
Currency risks	0.2	0.6	2.5	0.3	Feb. 10	11.5	Dec. 6	4.2
Market liquidity risks from shares	n. a.	12.2	4.7	4.7	Dec. 23	17.4	Apr. 7	9.9
Overall risks	**14.4**	**23.0**	**33.3**	**14.0**	**Oct. 26**	**36.0**	**Dec. 10**	**25.3**

■ Bank Overall
Daily VaR for the Bank
(BIS parameters: 99 % confidence level,
10-day holding period)



The heightened risk in the first half of the year is attributable to the further expansion of strategic interest rate positions, as well as increased interest rate and spread volatilities.

The following table depicts the minimum, maximum, and average VaR values for the Bank as a whole at the reporting dates or over the course of 2004:

in EUR million	Dec. 31, 2002	Dec. 31, 2003	Dec. 31, 2004	Minimum	As of	Maximum	As of	Average
Interest rate risks	31.6	29.5	62.2	18.8	Jan. 28	79.4	May 18	40.1
Share risks	30.6	11.9	14.7	8.3	July 8	28.2	Aug. 18	15.2
Currency risks	5.5	2.3	3.6	1.6	Jan. 13	16.3	Nov. 18	5.0
Market liquidity risks from shares	n. a.	12.4	4.8	4.8	Dec. 23	17.7	Apr. 7	10.0
Overall risks	**41.0**	**41.5**	**69.0**	**30.2**	**Oct. 26**	**100.3**	**May 17**	**55.2**

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.

Procedure: In line with the requirements of the new Basel Capital Accord, the focus of the Bank’s central operational risk controlling activities in the period under review was on the further development of methods and tools for identifying, assessing, and analyzing operational risks. A primary concern is the early identification of operational risks and the prevention of the resulting losses. The following tools are among those used for this purpose:

- Incident database
  The implementation and administration of an incident database, and categorization of incidents in accordance with Basel-compliant standards, form the foundation for the application of mathematical-statistic methods for quantifying operational risks. The transparency created thanks to the incident database enables LBBW to prepare detailed analyses of quantifiable operational risks that have become critical. The results of the analyses are integrated into the planning of preventive measures and allow the Bank to derive the appropriate pricing concepts.
- Self-assessments
  LBBW further developed its qualitative methods used to identify and evaluate risks. Moderated self-assessments for the calculation of risk potentials in the form of worst-case scenarios were performed in most of the business areas. Thanks to the active 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. The results of the risk potential estimates will be consolidated and systematized in the form of a risk map. The risk map will contain the identified scenarios broken down by effect (in EUR) and probability (in %) so that the risk profile can be visualized in accordance with the estimate. Self-assessments are a suitable platform for raising the risk awareness of employees and therefore ultimately reducing operational risks. The results gleaned from self-assessments will aid the further development of a comprehensive controlling and management concept for identifying, measuring, managing, and monitoring operational risks.

Management of operational risks at LBBW is the responsibility of the departments; 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 offer support as multipliers for operational risk issues and as an important link in the incident reporting process.

Risk situation and outlook: 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 and Legal section obtains insurance policies to cover potential damage.

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, heightening employees' awareness of risk and promoting bank-wide sensitivity to operational risks remain key objectives.

IT Risks

Procedure: Most of the measures aimed at meeting ISO standards for IT security were completed, and an external assessment was performed.

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. LBBW maintains two independent, geographically separate data centers for testing and production operations. In terms of its mainframes, LBBW has set up a backup operation during working hours that provides emergency backup requiring downtime of around four hours. A backup system has also been set up for trading systems. In addition, backup workstations have been set up for trading and processing trading transactions.

Risk situation and outlook: 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

Procedure: The employees of LBBW (human capital) are considered both a success and a risk factor for the company. The human resources department distinguishes between various types of personnel risks for purposes of risk management. Bottleneck, resignation, adjustment, and motivation risks are to be identified early on, and the resulting costs, such as staff recruitment, termination, and staff turnover expenses, minimized. Periodically evaluating and analyzing key personnel indicators, such as turnover rates, absences, or data concerning management training measures, creates transparency in terms of risks.

LBBW has 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. Employees also receive advice on selecting external seminars.

The second component is a dedicated section responsible for education on 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 2004. In order to ensure that a sufficient number of potential managers and executives continues to be available in the future, LBBW will continue its commitment to offering training courses and apprenticeships in 2005.

Legal Risks

Procedure: The Group Strategy and Legal section advises the Bank and its German and foreign subsidiaries, branches, and representative offices in all legal matters. It must identify legal risks in business units or central sections and limit them in a suitable manner. The Group Strategy and Legal section has itself developed or examined and approved for use a variety of contract forms and sample contracts in order to minimize legal risks and simplify the work of the commercial banking and trading sections. Approved, standardized contract materials are used for all derivative transactions.

Furthermore, the Group Strategy and Legal section monitors all changes in the law, essential developments in court rulings, and new guidelines 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 Banks and Giro Association (DSGV). To the extent that this results in LBBW having to act or adapt its policies, the Legal section ensures that the relevant information is disseminated and implemented rapidly.

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

Summary of the Risk Situation.

LBBW pursues a conservative risk policy. The Bank has implemented measures to limit or minimize all major risks and accounts for all identifiable risks by setting up prudent risk provisions.

A bank-wide compilation of risk types across all risk categories is being prepared, but aggregation on the basis of VaR values is not yet possible in view of the different degrees of methodological progress being made in the individual risk areas.

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, 2004, the Bank's ratio was 12.1 % (December 31, 2003: 12.4 %) and the Group's ratio was 10.8 % (December 31, 2003: 11.0 %).

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 loans for which provisions against bad debt have been set up, the loan and securities portfolios contain neither a concentration on particular sectors, nor acute risks from individual commitments.

The risk provisions necessitated by counterparty and country risks and actual defaults developed as follows over the past four years:

LBBW Group:

Counterparty risks in EUR million	Risk provisions Claims**	Country risks (transfer risks) in EUR million	Risk provisions Claims	Risk provisions Securities
Dec. 31, 2001	1 566.9*	Dec. 31, 2001	75.6*	25.3*
Dec. 31, 2002	2 313.6	Dec. 31, 2002	72.2	11.6
Dec. 31, 2003	2 112.2	Dec. 31, 2003	49.6	7.7
Dec. 31, 2004	2 178.0	Dec. 31, 2004	46.5	6.2

* BW Bank consolidated since 2002
** incl. provisions for other risks

LBBW:

Counterparty risks in EUR million	Risk provisions Claims	Risk provisions Securities	Specific bad debt provisions utilized – Claims	Direct write-offs Claims	Realized losses Securities*	Actual defaults Total
Dec. 31, 2001	1 251.3	27.2	66.9	9.4	16.5	92.8
Dec. 31, 2002	1 688.8	52.7	106.5	27.3	25.4	159.2
Dec. 31, 2003	1 539.9	53.2	379.0	25.1	11.8	415.9
Dec. 31, 2004	1 612.2**	9.1	146.6	7.7	36.6	190.7

* compared to the original acquisition costs
** incl. provisions for other credit risks

Country risks (transfer risks) in EUR million	Risk provisions Claims	Risk provisions Securities	Specific bad debt provisions utilized – Claims	Direct write-offs Claims	Realized losses Securities*	Actual defaults Total
Dec. 31, 2001	63.1	24.9	0.0	0.0	22.5*	22.5
Dec. 31, 2002	50.8	5.0	6.0	0.0	11.2	17.2
Dec. 31, 2003	19.6	2.2	23.7	0.0	1.8	25.5
Dec. 31, 2004	14.5**	2.0	5.3	0.0	0.0	5.4

* compared to the original restructuring amounts
** thereof more than EUR 2 million: Turkey – EUR 4.7 million, Brazil – EUR 2.3 million.

As is evident from the figures in the table outlining counterparty risks of LBBW and LBBW Group, the difficult overall economic situation left its mark on LBBW's total risk provisions, particularly in 2002 and 2003. In 2004, a moderate increase in risk provisions was necessary, which was mostly due to lendings to SMEs as in the previous year. Sufficient provisions were set up for legal risks arising from the HwiG (Doorstep Sales Act), the VerbrKrG (Consumer Credit Act), and the RberG (Legal Advice Act), as well as from the statute of limitations issue *(Verjährungsproblematik)*.

Based on the forecast economic upturn and a continued high level of anticipated corporate insolvencies, no fundamental reduction in risk provisions is expected in fiscal year 2005. Under these circumstances, LBBW considers it possible that aggregate risk provisions will remain the same or will have to be increased somewhat in 2005 at both Bank and Group levels.

Actual defaults on loans continued to be kept to a relatively low level last year thanks to measures including intensive management of at-risk loans and loans for which specific provisions for bad debt had been set up. The comparatively low volume of direct write-offs, which underscore LBBW's realistic risk assessments, is particularly notable.

Due to LBBW's continued commitment to its conservative risk policy, no extraordinary developments are anticipated either in terms of market price risks or liquidity risks. Operational risks will continue to be countered using LBBW's tried-and-true risk limitation measures already in place.

The preliminary ratings published in 2004 for the period following the elimination of the maintenance obligation *(Anstaltslast)* and guarantor's liability *(Gewährträgerhaftung)* in July 2005 confirm LBBW's excellent credit rating and indicate that LBBW is on the right track with its business model. In addition to LBBW's diversified positioning and its regional strength, other factors positively influencing this rating are the fact that LBBW has relatively few high-risk transactions on its books and generally possesses funding at matching maturities.

In view of the new *Allgemeine Pfandbriefgesetz* (Mortgage Bond Act), LBBW is reorganizing its coverage register *(Deckungsregister)* to enable the Bank to continue to issue mortgage bonds *(Pfandbriefe)* in the future and therefore to secure a top-rated funding source.

Staff.

As of December 31, 2004, the LBBW Group (not including companies in which an equity interest is held and which are included on a pro rata basis) had a total of 12,184 employees (previous year: 12,648). This represents a decrease of 464 jobs (–3.7%) in the Group as a whole in the year under review. The workforce at LBBW Bank dropped by 220 (2003: 417), or –2.5%, from 8,880 to 8,660 employees.

As in the previous year, LBBW continued to reduce its staff and the number of positions available according to plan. Jobs were eliminated only in the course of workforce turnover. Additional new positions required were created only after a thorough analysis and if proof of the benefit to the Bank was provided. Open positions were also only filled after intensive analysis and preferably from within LBBW.

Women continue to make up 55% of the Group's workforce. In the core LBBW Group, 60% of employees are under 40 years old. A full one-quarter of the workforce is 30 years old or younger (previous year: 27%). The share of employees working part-time, including older part-time workers *(Altersteilzeit)*, rose slightly from 17.2% to 17.6% in 2004.

As in the previous year, the turnover rate was 6.8%.

Merger of Corporate Center Functions at LBBW and BW Bank.

A particular hallmark of 2004 was the merger of the Corporate Center activities of LBBW and BW Bank at LBBW, as well as the resulting changes at management and employee levels.

Management levels were modified throughout the Bank in 2003 and replaced with a simplified structure. The goal was to rigorously streamline the Bank's organization, to make its workflows more effective, and above all to improve the cost situation for the long term. After the implementation of this restructuring was mostly completed and the relevant open positions were filled in the fourth quarter of 2003, LBBW's organizational structure was streamlined and optimized for the future as of early 2004.

The long-term reinforcement of LBBW's competitiveness via the merger of similar workflows in a single entity was the backdrop to merging the Corporate Center activities (accounting, financial control, legal, and human resources) of LBBW and BW Bank at LBBW.

The goals of the closer cooperation agreed between LBBW and BW Bank were more cost-effective operations thanks to the bundling of support activities and functions, the promotion of a uniform corporate culture in the Group, and the standardization of workflow management through a reduction in the number of interfaces and acceleration of decision-making processes.

The initial step was to transfer BW Bank's accounting, financial control, legal, and human resources functions to LBBW and to consolidate these functions there.

The transfer of these functions also involved the transfer of 135 employees, who had to date fulfilled these duties at BW Bank. The jobs held by the BW Bank employees in the four Corporate Center sections were transferred to LBBW as part of the transfer of operations in accordance with § 613a German Civil Code (BGB) effective March 1, 2004.

From March 1 to 4, 2004, a team of management consultants and trainers from both institutions organized half-day events to kick-off future cooperation for all employees in the merged human resources, legal, accounting, and financial control departments under the sponsorship of the relevant unit head.

Today, the former BW Bank employees are "new" LBBW employees who perform their Corporate Center work for the BW Bank Group as fee-based service providers.

Personnel Development.

Well-educated, high-performing, motivated employees are a strategic success factor in a time of rapidly changing markets. The knowledge and skills acquired by employees must constantly be updated and expanded. Employee competence is the main driver of the Bank's success. In the year under review, LBBW offered and carried out a comprehensive training program tailored to market requirements and employee needs. Employees and managers took advantage of these training opportunities in large numbers. Despite a heightened sense of cost awareness, investments in employee development are prioritized highly at LBBW. Overall, 1,948 more employees attended continuing education classes in the year under review than in the previous year.

The practical applicability of training measures is the measuring stick used in designing programs. The need for training identified by managers in discussions with employees was met with training sessions that were tailored precisely to requirements. The modular training system enables training in exactly the competencies that are actually required, which prevents overlaps and utilizes the training budget effectively.

In 2004, LBBW's employees and executives attended a total of 7,568 internal and external training events (previous year: 5,620). 1,238 of these sessions attended were seminars or education and training measures provided by external trainers. 919 employees participated in in-house seminars, and these seminars were customized to cover the specific issues relating to individual organizational units. The total of 58 in-house seminars were taught by selected external trainers.

The number of sessions attended by employees in the year under review involving participation in long-term seminars and training courses at various academies and institutions of higher education declined slightly from 514 to 494. These included 68 seminar sessions attended as part of the "Development Programs for Employees in Senior Technical and Leadership Positions", which are offered to particularly capable up-and-coming managers at LBBW.

The focus of LBBW's training activities in the year under review, as in past years, was on in-house training sessions covering technical and methodological material in which 3,999 employees participated.

Assistance and support for executives in implementing the Bank's strategy and meeting goals is ensured by special development opportunities focusing on management skills. Managers participated in in-house management seminars 918 times in the year under review.

In order to ensure that the right managers will continue to be matched with the right positions in the future, the issue of identifying potential plays an important role at LBBW. In the year under review, 58 candidates (2003: 59) participated in LBBW's "Potenzial-Entwicklungs-Prognose PEP4/PEP3" (Development Potential Prognosis PEP4/PEP3) process to identify high-potential employees for the 3rd and 4th management levels. This process uses modern diagnostic procedures to systematically identify high-potential employees suitable for assuming management-track positions.

Training at LBBW.

Employee development is not LBBW's only focus – training young people for various careers is also a key component of LBBW's long-term human resources development strategy.

LBBW continues to enjoy a reputation among banks as having one of the best training programs for apprentices in Baden-Württemberg. At the end of 2004, 577 young people were being trained at LBBW (previous year: 679).

Of these, 416 (previous year: 503) young apprentices, both male and female, were trained as banking specialists, office communication specialists, real estate and residential housing specialists, IT administrators or IT specialists, and cooks at LBBW.

The training courses at the state's *Berufsakademien* (German institutions of higher education that combine professional classroom and in-company training) continue to be an important part of LBBW's training program. This is reflected at LBBW by the 161 students (2003: 176) training to become business administration graduates *(Dipl.-Betriebswirt)* specializing in banking and real estate, and business information systems graduates *(Dipl.-Wirtschaftsinformatiker)*.

Labor Relations.

LBBW makes a significant contribution toward funding the retirement of employees with its pension plans. The appropriate provisions have been set up in the consolidated balance sheet for this purpose.

The defined contribution plan *(Kapitalkontenplan)*, which provides basic retirement planning via a *Basiskonto* (retirement account financed by the employer) and an *Aufbaukonto* (retirement account to which contributions are made by the employee), has enabled LBBW to put into place a future-oriented and flexible company pension plan. In 2004, many employees once again took advantage of the *Entgeltumwandlung* option to contribute to their own retirements – this option gives employees the right to convert a portion of compensation into a pension contribution.

LBBW Improvement Process.

Increasing competitive pressure and rising demands on the quality of products and services require credit institutions to take an extraordinarily dynamic approach to change and to have a strong capacity for adaptation. The LBBW Improvement Process is intended to motivate all employees to participate actively in the further development of LBBW by contributing their ideas. Each employee can therefore help to constantly adapt LBBW's products and services to meet customer needs, continually optimize processes, avoid risks, reduce costs, and generate increased revenue.

LBBW Group Personnel Expenses.

In 2004, the LBBW Group reported personnel expenses amounting to EUR 844.8 million (previous year: EUR 822.3 million). These expenses therefore rose by EUR 22.5 million, or 2.7 %, in 2004 despite the decline in the number of employees. This is primarily due to cost-increasing effects of collective agreements, such as collectively agreed wages and the allocation of employees to higher service-year and age-group brakets.

Health and Occupational Safety.

A successful service provider requires healthy, high-performing employees. LBBW is aware of its responsibility for its employees as an employer, and that is why health and occupational safety are taken seriously at LBBW. Occupational physicians and occupational safety experts are involved as early as the planning stage of the design process of workstations and workflows so that important factors ensuring the health and well-being of employees can be taken into account at this early stage.

Regular consulting with employees on wellness issues such as exercise and sports, nutrition, stress management, and smoking cessation is a natural part of the occupational health office's work, as are activities such as advising and treating employees with acute health issues and illnesses, as well as advising employees on occupational health aspects of chronic health conditions.

Besides regular information sessions on the topic of health and fitness, the following additional wellness-promotion programs (sometimes in cooperation with statutory health insurance companies) were presented during the occupational health service's office hours in 2004: "Early Detection of Colon Cancer", "Ergonomic Training for Employees Using Computer Workstations", "Healthy Eating", and "Quit Smoking in May".

The psychosocial health of employees is also important to LBBW. The social services department and the occupational health office also offer advice on a number of psychosocial issues along with professional guidance to help in solving these problems. After consultation with the employee in question, the department also works with in-house or external persons or offices (e. g. help groups).

Occupational safety services have been provided to Baden-Württembergische Bank AG by LBBW since January 1, 2003, and LBBW has also provided the services of occupational physicians to BW Bank since January 1, 2004.

Compliance.

After the required implementation of numerous changes to legal regulations in the fields of compliance, money laundering prevention, financial intelligence, and data protection at LBBW in recent years, 2004 was marked instead by consolidation of the compliance organization in the LBBW Group. In spring of 2004, the employees of BW Bank working in these fields were integrated into LBBW, which will perform these functions in the future on behalf of BW Bank.

The merger of both banks' activities in these areas into a single organizational unit ensures that the protective function of compliance can be provided even more efficiently to customers and employees of LBBW and BW Bank. The same goal was being pursued when the compliance officers of the branches abroad were assigned to report to the Bank's compliance officer for the Group. Cooperation among the compliance, money laundering, and data protection officers of the independent subsidiaries of the LBBW Group was strengthened considerably. As a result of these consolidation measures, working methods and workflows were coordinated and standardized wherever possible in order to guarantee a uniform level of security across the Group. The integration of compliance responsibilities in the LBBW Group will continue in 2005 with the inclusion of Landesbank Rheinland-Pfalz.

In terms of securities compliance, the implementation of the *Anlegerschutzverbesserungsgesetz* (Investment Protection Improvement Act) with the amendments to the *Wertpapierhandelsgesetz* (Securities Trading Act) was the top priority. The Federal Republic of Germany implemented the requirements stipulated by the EU Market Abuse Directive with these amendments to the law. The key points are as follows:

- amendment of the prohibition against insider trading,
- expansion of ad hoc reporting obligations,
- expansion of reporting obligations for stock transactions by executives of AGs (German public companies), i.e. “directors' dealings”,
- a newly introduced obligation to maintain registers of insiders,
- revision of the regulations on the prohibition against market manipulation,
- amendment of the obligations associated with the preparation of securities analyses, and
- introduction of a duty of disclosure upon suspicion of prohibited insider trading and market manipulation.

Implementing regulations are issued for these regulations by decree, which provide the foundation for their ultimate implementation at the Bank.

Additional current EU directives that must still be codified in German law are the Transparency Directive and the Directive on Markets in Financial Instruments. Together with new national legislative projects, such as the *Wertpapierdienstleistungsprüfungsverordnung* (Securities Services Audit Ordinance) and *Kapitalmarkt-informationshaftungsgesetz* (Capital Markets Information Liability Act), which is currently on hold, legislators and supervisory authorities are therefore increasing regulation. On the one hand, this improves security standards. On the other, however, it creates additional work for institutions and customers, which results in increased costs.

In the area of money laundering prevention, SMARAGD/Monitor, another IT security program developed by LBBW subsidiary Cellent AG, was introduced. This program is used in particular for processing embargo information and for fighting fraud, because the main function of the software is to verify and eliminate prohibited or unauthorized transactions.

Another focal point in 2004 was the training of employees in money laundering prevention and identification of counterfeit money. The training of bank employees in money laundering prevention stipulated by supervisory regulations is mostly accomplished at LBBW using an electronic training program at employee workstations. In the year under review, instruction of the employees required to undergo this training was completed. This was the best possible way to ensure that LBBW meets its obligations in this field under supervisory law and that LBBW's customers are fully protected from suspicions that can arise when employees are insufficiently trained.

Furthermore, the protection of the Bank and its customers against counterfeit money was reinforced. Scanners, state-of-the-art image editing software, and printers with excellent resolution enable criminals today to produce high-quality counterfeit euros. This makes it increasingly difficult for businesses and private individuals to distinguish real banknotes from counterfeit ones.

The acceptance of counterfeit currency generally results in financial loss, because no compensation can be granted for counterfeit money. The Bundesbank Act requires employees of credit institutions to seize and surrender counterfeit money. A new provision stipulates a fine of up to EUR 100,000 for violations of this rule. Employee training sessions on identifying counterfeit money were organized throughout the Bank and held at the branches in cooperation with Deutsche Bundesbank.

LBBW's financial intelligence activities, which were introduced in 2003, are how economic crime is combated centrally at LBBW; this type of crime includes fraud perpetrated against banks and their employees and customers in particular. This area of responsibility was expanded further thanks to the deployment of a special financial intelligence officer who serves as a central contact for the authorities, customers, and employees, and to the processes he introduced at the Bank in the meanwhile. The Bank has been able to set up an efficient fraud-prevention system through various working groups, e. g. on preventing wire transfer fraud, introducing preventive measures, and raising awareness among employees and customers regarding this issue.

A new electronic educational and training program for employees was also introduced for the purpose of data protection. This has further improved preparation of LBBW employees involved in handling confidential customer data for these duties.

As in other areas of compliance, the focus in data protection was on updating methods and processes, and on reinforcing cooperation within the Group. Key issues here were creating a binding framework regulation for the Bank, including all branches and representative offices, appointing separate data protection officers at the subsidiaries, adopting LBBW regulations at the subsidiaries, and reinforcing cooperation with the responsible employees in this field in the Group companies.

In addition to guaranteeing a high level of data protection in the Group companies, increased attention was also paid to ensuring compliance with data protection regulations by LBBW's contractors. On-site audits were performed to this end.

Environmental Management.

LBBW has established an environmental management system in accordance with EMAS (Eco-Management and Audit Scheme, better known as the “Eco Audit”) to ensure environmentally aware business conduct. This means that the Bank meets all of the requirements of the international ISO 14 001 environmental management systems standard.

The internal and external audits associated with the above-mentioned regulations were again successfully completed in 2004 at the same sites as in 2003.

In 2004, some key changes were made to the environmental management system:

- Definition of five environmental goals based on existing environmental policy along with a focus goal, which stipulates lowering relative energy consumption by 5 % by the end of 2005.
- The new environmental protection programs for 2004 and 2005 were structured flexibly – that means that new measures can be initiated even during the course of the year.
- For the first time, a social measure was included in the 2004 environmental protection program: the general terms and conditions of business of LBBW for concluding contracts with suppliers of promotional items were amended to include social standards requirements (e. g. prohibition against child labor).

New Buildings at the Main Train Station

Some special ecological features were integrated into the new buildings at the main train station, e. g.

- Energy-saving cooling ceilings in office areas ensure comfortable room temperatures and optimal working conditions, even on hot summer days.
- Around 400 m^2 of solar collectors save warmth from the sun. This energy is then used to heat water and warm the air, as well as for underfloor heating.
- Rainwater from the roof and terrace surfaces is collected and used for purposes such as watering green spaces.
- An intelligent room-by-room control system is used to adjust heating, ventilation, and air conditioning, as well as lighting and operation of the external sun shades, according to need.
- Consulting on ecologically sound construction materials was obtained to prevent employee health from being endangered by toxic substances.
- Extensive rooftop gardens.

Energy Idea Competition

An "Energy Idea Competition" was held from May to July 2004 with the aim of including all employees in implementing the focus goal on energy and identifying additional potential for improvement in LBBW's technical plant and IT systems. Shares in the Swissca Green Invest environmental fund were raffled off among the employees who submitted suggestions.

Environmental Risks in the Lending Process

A uniform set of guidelines for taking environmental aspects into account in the loan decision process has been in force throughout the Bank since July 1, 2004. A comprehensive evaluation of environmental risk factors is performed with a user-friendly Excel tool during the loan application screening process. This tool includes a three-stage screening process and contains a number of checklists.

Renewable Energy Strategy for Project Financing Deals

In mid-2004, a sub-strategy was approved in the renewable energy segment as part of the strategy development process for project financing deals. In the future, a special emphasis will also be placed on financing wind energy projects.

Environmental Balance Sheet: SoFi Project

The project entitled SoFi involves a software program for the preparation of environmental balance sheets at financial services providers. SoFi was developed by PE Europe, a company specializing in environmental consulting and IT, along with four other financial services providers under LBBW's leadership. SoFi is based on the environmental accounting standards of the VfU (Association for Environmental Management in Banks, Savings Banks, and Insurance Companies). The software enables decentralized data entry directly in the operations departments and provides easy-to-use analysis options, which can be made available to all employees via the internal network. Since the beginning of 2004, licenses for this software can also be obtained by other interested institutions.

Outlook 2005.

The outlook for the global economy in 2005 is not unfavorable. However, growth is expected to be less dynamic in 2005. Nonetheless, with anticipated growth of about 4 %, there is no reason to fear that the global economy will fall back into recession or stagnation, despite the high price of oil.

But no fundamental turnaround compared to 2004 is anticipated in Euroland in 2005 either. Despite this fact, labor market reforms, a reduction in income taxes, the relaxation of employment termination protections for smaller companies, increased contributions by the insured to healthcare costs, etc. in Germany are measures intended to improve economic stimulus and supply conditions, and therefore to overcome structural barriers to economic growth. In conjunction with equipment investments, which rose noticeably again in the third quarter of 2004, and standalone agreements concluded at the company level to extend working hours agreed under collective bargaining agreements, these measures should lead to a reduction in employee job loss fears and subsequently to a resurgence in German consumer spending in 2005. On the whole, the weaker growth stimulus from exports in 2005 should be partially offset by stronger domestic demand. The risks inherent in the scenario outlined above are a further increase in the price of oil on the one hand – since the end of October, however, this price has declined by approximately $ 10 per barrel (Brent) to around $ 42 per barrel currently – and a continued increase in the strength of the euro on currency markets on the other hand.

Another risk is the labor market situation: the number of unemployed persons rose sharply again in early 2005. However, this is primarily due to the new regulations concerning unemployment benefits in accordance with Hartz IV (the fourth draft package for restructuring social security in Germany). In order to receive benefits from the pool of unemployment funds, which is combined with welfare, recipients must be reported as unemployed as of the beginning of this year who to date were not registered as job seekers by German employment offices. In the course of the year, however, unemployment figures should decline if the economy gains steam again.

An additional factor is the continued conspicuous restraint in demand by private households. This is not surprising in view of only very slowly rising salaries and the still considerable uncertainty by individuals about the future of their jobs. The increasing necessity of arranging for private retirement funds adds to the general unease felt by private households as the result of these economic and political reforms. The increase in savings rates in the past three years is not yet considered panic saving, but there is more hesitation about spending euros than just a few years ago. Finally, the new currency also plays a part in this reluctance to spend.

Landesbank Baden-Württemberg has set a course for continual progress, even after the elimination of state guarantees. The tight integration of BW Bank and Landesbank Rheinland-Pfalz into the LBBW Group successfully sets the stage for this. As a result, 2005 will be marked at LBBW by the efforts to integrate both institutions into the LBBW Group. As soon as the squeeze-out process is completed at BW Bank, responsibilities will be newly distributed between the two Group companies LBBW Bank and BW Bank. The consolidation of Corporate Center activities at the Group parent company will continue wherever possible and will result in a further increase in efficiency. In terms of the integration of LRP, this also includes assuming the central bank function for Rhineland-Palatinate's savings banks.

The efforts to strengthen the contractual service partnership with Baden-Württemberg's savings banks will continue. The increased cooperation between LBBW and the savings banks contributes to reinforcing the Sparkassen Financial Group in Baden-Württemberg.

In addition, LBBW implemented concrete measures to reduce costs for the long term. Examples of this effort are the reduction in personnel capacity and a consistently applied program to reduce costs and increase earnings. The resulting goals were used as a basis for planning for 2005. Landesbank Baden-Württemberg expects to meet these targets due to the measures implemented. This should enable LBBW to again generate a satisfactory result in 2005 and therefore to continue to safeguard its employees' jobs.

LBBW – At home anywhere in the world: St. Peter in Germany's Black Forest

The most beautiful rococo room in Baden, part of the only still-intact baroque monastery in the Breisgau region: the library of the former Benedictine abbey in St. Peter.

"Sick AG is one of the world's leading suppliers of sensor solutions for factory and process automation. The secret behind our high-tech products is our employees, who are knowledgeable, committed, and motivated. One of the reasons we are in demand as an employer is the attractiveness of our location. The landscape is beautiful, and the countryside is dotted with jewels such as the church and monastery at St. Peter. There are many opportunities for relaxation here. We do business everyday based on mutual respect and trust. That's why Landesbank Baden-Württemberg has been one of our most important partners for all types of financing for years now."

Anne-Kathrin Deutrich, Chairman of the Executive Board, Sick AG, Waldkirch

08

Consolidated Financial Statements

Consolidated Balance Sheet as of December 31, 2004 of Landesbank Baden-Württemberg, Stuttgart, Karlsruhe, and Mannheim

Assets

	Explanation in the Notes	EUR thousand	EUR thousand	EUR thousand	Dec. 31, 2003 EUR thousand
1. Cash funds					
a) cash on hand				123 385	136 184
b) balances with central banks				887 328	1 421 965
thereof:					
with Deutsche Bundesbank		845 721			1 394 767
c) balances with postal giro accounts				22	27
				1 010 735	**1 558 176**
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				0	0
thereof:					
eligible for refinancing with Deutsche Bundesbank		0			0
b) bills of exchange				63 627	91 540
thereof:				**63 627**	**91 540**
eligible for refinancing with Deutsche Bundesbank		63 627			91 540
3. Claims on banks	(8,12,18)				
a) payable on demand				6 468 035	6 864 761
b) other claims	(9)			131 634 357	125 855 499
thereof:				**138 102 392**	**132 720 260**
building loans of the building society		0			0
4. Claims on customers	(8,9,12,18)			**105 547 086**	**106 121 444**
thereof:					
secured by mortgages		15 535 472			15 140 933
municipal loans		30 476 353			31 726 435
building loans of the building society		378 906			245 513
5. Bonds and other fixed-interest securities	(8,9,10,11,12,13,15,18)				
a) money market instruments			49 130		13 712
aa) issued by public-sector borrowers					
thereof:					
eligible as collateral for Deutsche Bundesbank advances		0			0
ab) issued by other borrowers			4 499 286		2 125 851
thereof:				4 548 416	2 139 563
eligible as collateral for Deutsche Bundesbank advances		316 505			80 050
b) bonds					
ba) issued by public-sector borrowers			9 858 092		9 243 980
thereof:					
eligible as collateral for Deutsche Bundesbank advances		7 131 735			6 671 860
bb) issued by other borrowers			54 771 494		47 777 941
thereof:				64 629 586	57 021 921
eligible as collateral for Deutsche Bundesbank advances		32 825 529			25 749 431
c) own bonds				12 055 915	9 663 024
				81 233 917	**68 824 508**
nominal Amount		11 683 388			9 329 713
Amount carried forward to next page				**325 957 757**	**309 315 928**

Liabilities

	Explanation in the Notes	EUR thousand	EUR thousand	EUR thousand	Dec. 31, 2003 EUR thousand
1. Liabilities to banks	(8,18,20)				
a) payable on demand			5 637 910		7 983 006
b) with contractual term					
or period of notice	(9)		95 708 125		91 525 504
c) building society savings deposits			703		330
				101 346 738	**99 508 840**
2. Liabilities to customers	(8,18,20)				
a) savings deposits					
aa) with agreed period of notice					
of three months			6 125 510		5 589 658
ab) with agreed period of notice					
of more than three months	(9)		687 684		835 181
ac) building society savings deposits			440 560		247 915
				7 253 754	6 672 754
b) other liabilities					
ba) payable on demand			12 741 754		13 629 428
bb) with contractual term					
or period of notice	(9)		57 111 894		53 762 952
				69 853 648	67 392 380
				77 107 402	**74 065 134**
3. Certificated liabilities	(8,9,18,20)				
a) bonds issued				122 750 804	111 363 466
b) other certificated liabilities				15 221 062	15 078 068
thereof:				**137 971 866**	**126 441 534**
money market instruments		15 216 147			15 076 328
own acceptances and					
promissory notes outstanding		0			171
4. Trust liabilities	(14)			**426 899**	**406 337**
thereof:					
loans granted on a trust basis					
at third-party risks		335 573			320 676
5. Other liabilities	(19)			**3 531 549**	**3 220 811**
6. Deferred items	(17)			**1 693 078**	**1 756 120**
7. Provisions	(21)				
a) provisions for pensions					
and similar commitments				686 690	601 630
b) provisions for taxes				315 792	325 933
c) other provisions				565 431	433 138
				1 567 913	**1 360 701**
8. Special items with special					
reserve character				**0**	**0**
9. Subordinated liabilities	(8,20,22)			**3 712 679**	**3 842 650**
10. Profit participation rights				**2 352 451**	**2 388 421**
thereof:					
maturing in less than two years		349 792			249 183
Amount carried forward to next page				**329 710 575**	**312 990 548**

Assets

	Explanation in the Notes	EUR thousand	EUR thousand	EUR thousand	Dec. 31, 2003 EUR thousand
Amount carried forward from previous page				**325 957 757**	**309 315 928**
6. Shares and other non-fixed interest securities	(10,11,12,15)			**2 495 919**	**1 998 100**
7. Companies in which an equity interest is held	(11,12,15)			**1 160 396**	**1 163 712**
thereof: in banks		271 724			240 872
in associated companies		94 031			96 676
in financial services institutions		300			35
8. Shares in affiliated companies	(11,15)			**515 652**	**486 596**
thereof: in banks		40 344			40 596
in financial services institutions		94 459			2 160
9. Trust assets	(14)			**426 899**	**406 337**
thereof: loans granted on a trust basis at third-party risk		335 573			320 676
10. Recovery claims on the public sector including bonds resulting from their exchange				**15 074**	**30 437**
11. Intangible assets	(15)			**560 049**	**521 400**
12. Tangible assets	(15)			**5 251 466**	**5 710 151**
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	(16)			**2 343 193**	**2 017 407**
16. Deferred items	(17)			**1 081 989**	**1 144 443**
Total assets				**339 808 394**	**322 794 645**

Liabilities

	Explanation in the Notes	EUR thousand	EUR thousand	EUR thousand	Dec. 31, 2003 EUR thousand
Amount carried forward from previous page				**329 710 575**	**312 990 548**
11. Fund for general bank risks				**0**	**0**
12. Equity					
a) subscribed capital					
aa) nominal capital			1 280 000		1 280 000
ab) silent partners' contributions (Stille Einlagen)			3 291 402		3 323 868
				4 571 402	4 603 868
b) capital reserve				2 231 114	2 231 114
c) revenue reserves	(4,23)				
ca) legal reserves			0		0
cb) other revenue reserves			2 180 903		2 004 688
less: accrued differences arising from capital consolidation			31 041		195 978
				2 149 862	1 808 710
d) minority interests				704 464	839 525
thereof:					
in capital		681 016			814 139
in profit		23 448			25 396
in loss		0			–10
e) distributable profit				440 977	320 880
				10 097 819	**9 804 097**
Total liabilities				**339 808 394**	**322 794 645**
1. Contingent liabilities	(20)				
a) from rediscounted bills of exchange				6 310	10 048
b) liabilities from guarantees and indemnity agreements	(25,26)			21 735 709	22 530 518
c) liabilities from the granting of collateral for third-party liabilities				4 696	5 987
				21 746 714	**22 546 553**
2. Other commitments					
a) transactions without firm repurchase agreement (Unechtes Pensionsgeschäft)	(20)			0	0
b) placing and underwriting commitments				0	0
c) irrevocable loan commitments	(24)			23 307 270	23 527 067
				23 307 270	**23 527 067**

Consolidated Statement of Income for the Period January – December 2004 of Landesbank Baden-Württemberg, Stuttgart, Karlsruhe, and Mannheim

	Explanation in the Notes	EUR thousand	EUR thousand	EUR thousand	Jan. 1 to Dec. 31, 2003 EUR thousand
1. Interest income from	(31)				
a) lending and money market transactions		10 559 584			
b) fixed-interest securities and debt register claims		2 557 994	13 117 578		13 326 711
2. Interest expenses			11 296 587		11 571 337
				1 820 991	**1 755 374**
3. Current income from	(31)				
a) shares and other non-fixed interest securities			96 491		42 434
b) equity interests			32 896		36 241
c) shares in affiliated companies			9 459		17 580
d) shares in associated companies			9 076		16
				147 922	**96 271**
4. Income from profit pooling, profit transfer or partial profit transfer agreements				**21 540**	**19 393**
5. Commission income	(28,31)		508 761		470 225
6. Commission expenses	(28)		120 776		112 829
				387 985	**357 396**
7. Net income from financial transactions	(29,31)			**147 667**	**217 136**
8. Other operating income	(30,31)			**2 786 004**	**2 897 502**
9. Income from the writing back of special items with partial reserve character				**0**	**0**
10. General administrative expenses					
a) personnel expenses					
aa) wages and salaries		640 262			636 643
ab) compulsory social security contributions, expenses for pensions and other employee benefits		204 525			185 640
			844 787		822 283
thereof: for pensions 94 193					76 068
b) other administrative expenses			448 374		436 237
				1 293 161	**1 258 520**
11. Write-downs of and adjustments to intangible and tangible assets	(32)			**1 309 917**	**1 335 219**
12. Other operating expenses	(30)			**1 125 390**	**1 246 106**
13. Write-downs and adjustments to claims and certain securities as well as allocation to provisions for possible loan losses				**418 647**	**655 433**
14. Income generated by write-ups of claims and certain securities as well as from the release of provisions for possible loan losses				**0**	**0**
				– 418 647	**– 655 433**
Amount carried forward to next page				**1 164 994**	**847 794**

	Explanation in the Notes	EUR thousand	EUR thousand	EUR thousand	Jan. 1 to Dec. 31, 2003 EUR thousand
Amount carried forward from previous page				**1 164 994**	**847 794**
15. Write-downs of and adjustments to equity interests, shares in affiliated companies and securities listed under fixed assets			105 749		0
16. Income from write-ups of equity interests, shares in affiliated companies and securities listed under fixed assets			0		94 362
				– 105 749	**94 362**
17. Expenses from the assumption of losses				**2 780**	**10 483**
18. Allocation to special items with partial reserve character				**0**	**0**
19. Profit on ordinary activities				**1 056 465**	**931 673**
20. Extraordinary income	(33)		637		19 794
21. Extraordinary expenses	(33)		83 123		91 856
22. Extraordinary net income				**– 82 486**	**– 72 062**
23. Taxes on income	(34)		237 286		259 561
24. Other taxes not shown under item 12			4 518		4 248
				241 804	**263 809**
25. Income from the assumption of losses				**0**	**0**
26. Profits transferred under profit pooling, profit transfer or partial profit transfer agreements				**230 075**	**229 802**
27. Net income				**502 100**	**366 000**
28. Payout from net income				**1**	**1**
29. Profit/loss carried forward from the previous year				**– 1 689**	**200**
30. Net profits/losses offset within the framework of capital consolidation				**0**	**0**
31. Allocation to capital reserves				**0**	**1 062**
32. Minority interests in consolidated profit/loss				**– 23 448**	**– 25 386**
33. Withdrawals from revenue reserves					
a) from the legal reserve			0		0
b) from the reserve for own shares			0		0
c) from the statutory reserves			0		0
d) from other revenue reserves			0		0
				0	**0**
34. Withdrawals from capital generated by profit partitication certificates				**0**	**0**
35. Allocation to revenue reserves					
a) to the legal reserve			60		0
b) to the reserve for own shares			0		0
c) to the statutory reserves			1 425		0
d) to other revenue reserves			34 500		20 995
				35 985	**20 995**
36. Replenishment of capital generated by profit participation certificates				0	0
37. Distributable profit				**440 977**	**320 880**

Notes to the Consolidated Financial Statements of Landesbank Baden-Württemberg, Stuttgart, Karlsruhe, and Mannheim as of December 31, 2004.

(1) Principles Governing the Preparation of the Consolidated Financial Statements of the LBBW Group

The consolidated financial statements for the 2004 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 ff. HGB) and "Verordnung über die Rechnungslegung der Kreditinstitute und Finanzdienstleistungsinstitute" (RechKredV, the German Accounting Regulation for Banks and Financial Service Institutions).

For a better presentation of the net worth, financial and earnings positions, further information was included supplementary to the mandatory disclosures prescribed by commercial law and by the RechKredV.

Information relating to the building societies in compliance with § 35 (1), No. 8 a-d RechKredV, which result from the pro rata inclusion of Landesbank Rheinland-Pfalz, was not included in these notes for reasons of clarity. This information can be obtained from the published annual financial statements for the 2004 fiscal year of Landesbank Rheinland-Pfalz.

LBBW's audited consolidated financial statements for 2004 have been filed with the local courts of Stuttgart, Karlsruhe, and Mannheim, where they can be inspected.

(2) Consolidated Companies

In addition to LBBW, 16 subsidiaries and three sub-groups were fully included in the consolidated financial statements. Of these, Baden-Württembergische Bank AG, BW-Holding GmbH, DEKRA SüdLeasing Services GmbH, LEG Landesentwicklungsgesellschaft Baden-Württemberg, and SüdPrivate Equity Management GmbH were fully included in the consolidated financial statements with disclosure of minority interests.

521 subsidiaries were not included in the consolidated financial statements because their total influence on the net worth, financial and earnings positions of the LBBW Group is not significant. These mainly include property companies and shelf companies of the SüdLeasing Group.

In addition, two equity interests operated as joint ventures were included in the consolidated financial statements of LBBW on a pro rata basis pursuant to § 310 HGB.

In contrast to the previous year, LBBW Trust GmbH, Süd Venture Capital GmbH, and Süd Venture Capital Investition GmbH & Co. KG were not consolidated due to their insignificance with regard to the net worth, financial position, and results of operations of the LBBW Group (§ 296 (2) HGB) after consolidation of the equity investment business.

All in all, the effects of the changes in the companies consolidated on the balance sheet and the statement of income of the LBBW Group are not significant. The figures for the previous year were therefore not adjusted.

(3) Substantial Subsidiaries and Affiliates

In accordance with § 285 No. 11 and § 313 (4) HGB, information on companies in which LBBW holds equity interests is contained in a separate list. This list has been filed with the local courts of Stuttgart, Karlsruhe, and Mannheim, where it can be inspected.

(4) Consolidation Principles

Capital consolidation of subsidiaries and joint ventures is performed in compliance with the book-value method. Book values of equity interests held by LBBW are offset against the proportionate amounts of equity in the companies consolidated held by the Group at the time of their acquisition or of their initial inclusion in the consolidated financial statements of LBBW. After allocation of undisclosed reserves, major differences on the asset side arising from full or pro rata consolidation are either offset against revenue reserves or reported as goodwill under intangible assets (EUR 443.1 million). Goodwill is amortized using the straight-line method over the estimated useful life not exceeding 15 fiscal years. Differences on the liabilities side are allocated to revenue reserves.

Shares of consolidated subsidiaries that are not held by LBBW are reported as minority interests.

Receivables and payables between subsidiaries and joint ventures included in the consolidated financial statements are eliminated on a full or a pro rata basis in the consolidation of intra-group balances. Intra-group income and expenses are treated in the same way in the consolidation of income and expenses. Intra-group profits are also eliminated.

(5) 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 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 amortized cost.

Acquired intangible assets are valued at acquisition cost less scheduled and – where necessary – non-scheduled amortization. These assets are amortized over their useful life 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.

Leasing assets are reported as tangible assets.

In terms of depreciation of movable leasing assets, properties and vehicles that are considered to be particularly stable in value are written down pro rata temporis using the straight-line method, whereas the remaining leasing assets are written down in compliance with the declining-balance method using the maximum tax-allowed values. Real estate leasing assets are written down using the straight-line method or the declining-balance method. The depreciation period corresponds to the standard useful life of the asset.

These write-downs are reported in the statement of income under write-downs of and adjustments to intangible and tangible assets. The depreciation amount attributable to the leasing assets is presented under (32) in these notes. Construction-period interest arising within the framework of real estate leasing is recognized in income.

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 (the German Income Tax Act) and the Heubeck-Richttafeln 1998 (1998 Heubeck mortality tables). 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.

(6) Derivatives

The following tables provide information on derivative financial transactions (forward transactions pursuant to § 36 RechKredV) of 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.

The tables also exclude internal derivative financial instruments used to transfer interest rate risks connected with non-trading transactions to the trading portfolio.

Derivative transactions – Product structure

in EUR million	Nominal values Dec. 31, 2004	Nominal values Dec. 31, 2003	Positive market value Dec. 31, 2004	Negative market value Dec. 31, 2004
Interest rate swaps	669 712.8	514 095.5	16 196.1	– 15 607.1
FRAs	35 633.5	44 630.1	12.8	– 9.3
Interest rate options				
– purchases	11 686.1	18 424.4	389.6	– 228.0
– sales	24 912.8	24 692.2	0.0	– 742.0
Caps, Floors	32 437.0	23 783.0	225.2	– 162.0
Interest rate futures	89 205.6	58 512.1	40.6	– 17.0
Other interest rate forwards	13 521.9	6 035.0	71.4	– 16.8
Total interest rate risks	**877 109.7**	**690 172.3**	**16 935.7**	**– 16 782.2**
Currency forwards	61 461.3	36 562.9	1 650.8	– 1 647.6
Currency swaps,				
cross-currency interest-rate swaps	26 064.1	24 662.9	1 302.7	– 3 120.0
Currency options				
– purchases	5 894.6	5 850.2	112.7	0.0
– sales	3 437.0	2 910.0	2.0	– 104.3
Currency futures	0.0	0.0	0.0	0.0
Other currency forwards	1.0	0.0	0.0	0.0
Total currency risks	**96 858.0**	**69 986.0**	**3 068.2**	**– 4 871.9**
Stock futures	295.6	718.4	2.6	– 3.2
Stock options				
– purchases	2 540.5	1 716.8	205.6	– 4.0
– sales	1 747.4	2 229.8	5.0	– 69.8
Other share and other price risks	44.2	0.0	0.4	– 0.2
Total share and other price risks	**4 627.7**	**4 665.0**	**213.6**	**– 77.2**
Credit Default Swap				
– protection buyer	5 513.2	3 536.9	6.5	– 22.7
– protection seller	11 571.3	8 184.3	52.9	-3.5
Credit Linked Notes				
– protection buyer	336.7	268.5	13.3	-14.6
– 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	297.3	225.8	42.6	– 39.4
Total credit derivatives	**17 718.5**	**12 215.5**	**115.3**	**-80.2**
Total risks	**996 313.9**	**777 038.8**	**20 332.8**	**– 21 811.5**

Derivative transactions – Trading transactions

in EUR million	Nominal values Dec. 31, 2004	Nominal values Dec. 31, 2003	Positive market values Dec. 31, 2004	Negative market values Dec. 31, 2004
Interest rate risks	660 580.8	488 885.3	10 840.7	– 10 045.3
Currency risks	22 851.5	16 005.7	608.3	– 586.5
Share and other price risks	3 149.9	3 662.3	195.5	– 68.4
Credit derivatives	3 831.9	538.0	11.0	– 11.7
Total trading transactions	**690 414.1**	**509 091.3**	**11 655.5**	**– 10 711.9**

Derivative transactions – Structure of counterparties

in EUR million	Nominal values Dec. 31, 2004	Nominal values Dec. 31, 2003	Positive market values Dec. 31, 2004	Negative market values Dec. 31, 2004
Banks in OECD countries	760 477.6	599 454.6	15 568.4	– 16 376.3
Banks in non-OECD countries	6 672.3	2 101.5	24.1	– 30.9
Public-sector agencies in OECD countries	12 405.5	10 077.7	718.5	– 562.3
Other counterparties	216 758.5	165 405.0	4 021.8	– 4 842.0
Total counterparties	**996 313.9**	**777 038.8**	**20 332.8**	**– 21 811.5**

Derivative transactions – Maturity structure (according to residual terms)

Nominal values in EUR million	Residual term up to 3 months	more than 3 months to 1 year	more than 1 year to 5 years	more than 5 years	Total nominal values
Interest rate risks					
December 31, 2004	214 714.6	161 070.4	281 168.6	220 156.1	**877 109.7**
December 31, 2003	100 971.4	145 223.6	245 911.2	198 066.1	**690 172.3**
Currency risks					
December 31, 2004	44 698.1	28 116.2	17 306.6	6 737.1	**96 858.0**
December 31, 2003	24 660.5	21 591.1	17 416.0	6 318.4	**69 986.0**
Share and other price risks					
December 31, 2004	1 505.2	2 152.8	478.0	491.7	**4 627.7**
December 31, 2003	1 514.1	2 490.7	366.2	294.0	**4 665.0**
Credit derivatives					
December 31, 2004	1 266.5	1 903.9	8 963.5	5 584.6	**17 718.5**
December 31, 2003	1 540.0	1 756.7	4 595.3	4 323.5	**12 215.5**
Total risks					
December 31, 2004	**262 184.4**	**193 243.3**	**307 916.6**	**232 969.6**	**996 313.9**
December 31, 2003	**128 686.0**	**171 062.1**	**268 288.7**	**209 002.0**	**777 038.8**

The market values of the derivatives are not synonymous with the Group's market prices 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 § 315 HGB provides information about the scope and development of the 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 risk as these agreements benefit several types of products.

Valuation of derivative financial instruments
Except for futures contracts for which futures and options exchanges publish market values, the valuation of all derivative financial instruments is based on generally accepted models developed in financial mathematics ("fair values").

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 mainly 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 (excluding credit derivatives)
Trading transactions are subject to the oversight of the trading sections within the framework of the predetermined risk limits.

Derivative financial instruments and similar ancillary agreements that are split off from on-balance sheet products are valued separately as of the balance sheet date. In accordance with statements No. 2/1993 and No. 2/1995 issued by the BFA, the valuation results generated are offset within the risk categories.

For the purpose of calculating the valuation results to be recognized in the balance sheet and the statement of income, the risk categories also include on-balance sheet products of the trading portfolio and internal derivative financial instruments used to transfer interest rate risks connected with non-trading transactions to the trading portfolio.

The balance of the valuation results reported in the risk categories is treated in accordance with the imparity principle. Provisions for anticipated losses from pending transactions have been set up for unrealized valuation losses. Unrealized valuation profits are reported as income up to the level of the corresponding valuation losses. In addition, unrealized valuation profits are used to offset realized losses in the EUR-denominated interest rate risk category. Earnings from derivative trading transactions are reported as part of the net income from financial transactions.

Credit derivatives
Credit derivatives 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 addition, one trading book is based on credit default swaps.

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

For micro hedges, individual assets and 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 through which LBBW assumes protection seller and protection buyer positions in order to diversify the loan portfolio or to manage credit risks globally 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 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.

Credit derivatives in the trading portfolio are valued separately. Unrealized valuation profits are recognized up to the level of the unrealized losses provided the credit risk relates to one and the same reference debtor. Provisions for anticipated losses from pending transactions, which are reflected in the net result from financial transactions, are set up for unrealized valuation losses exceeding this amount. Any valuation profits remaining after offsetting are not recognized.

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

(7) Foreign Currency Translation
Foreign currency assets and liabilities, as well as income and expenses, included in the consolidated financial statements were translated into euros in compliance with § 340h 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 is primarily covered by off-balance sheet hedging transactions.

In order to determine the currency position, foreign currency assets and foreign currency liabilities arising from on-balance sheet and off-balance sheet transactions were offset 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 30, 2004. 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. LBBW made consistent use of the option to split the forward rate into the spot rate and swap rate for all currency forwards and currency swaps. Consequently, income components previously included in the net income from financial transactions are now reported as net interest income.

The annual financial statements drawn up in foreign currencies of the companies included in the consolidated financial statements were translated at the mean rates as of December 30, 2004. Resulting translation differences were offset against the other revenue reserves without affecting income.

The equivalent value of the foreign currency assets and liabilities included in the consolidated financial statements amounts to EUR 71.4 billion (December 31, 2003: EUR 70.3 billion) and EUR 84.7 billion (December 31, 2003: EUR 85.9 billion), respectively.

Notes to the Balance Sheet.

(8) Relationships with Affiliated Companies and Companies in Which an Equity Interest is Held

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, 2004	Dec. 31, 2003
A3. Claims on banks	**138 102.4**	**132 720.3**
thereof: on affiliated companies	280.5	176.9
thereof: on companies in which an equity interest is held	37 468.2	36 082.8
thereof: on savings banks in Baden-Württemberg	35 807.3	35 369.9
A4. Claims on customers	**105 547.1**	**106 121.4**
thereof: on affiliated companies	1 622.8	1 735.8
thereof: on companies in which an equity interest is held	457.1	451.9
A5. Bonds and other fixed-interest securities	**81 233.9**	**68 824.5**
thereof: claims on affiliated companies	12.4	26.6
thereof: claims on companies in which an equity interest is held	5 553.8	2 361.7

in EUR million	Dec. 31, 2004	Dec. 31, 2003
P1. Liabilities to banks	**101 346.7**	**99 508.8**
thereof: to affiliated companies	738.7	966.6
thereof: to companies in which an equity interest is held	14 624.0	14 713.7
thereof: to savings banks in Baden-Württemberg	13 555.3	13 536.3
P2. Liabilities to customers	**77 107.4**	**74 065.1**
thereof: to affiliated companies	201.1	201.1
thereof: to companies in which an equity interest is held	703.2	523.3
P9. Subordinated liabilities	**3 712.7**	**3 842.7**
thereof: to affiliated companies	323.1	301.9
thereof: to companies in which an equity interest is held	–	6.2

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.

(9) 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, 2004	Dec. 31, 2003
A3. b) Other claims on banks	**131 634.4**	**125 855.5**
– up to 3 months	42 337.2	37 961.1
– more than 3 months to 1 year	19 694.3	18 455.7
– more than 1 year to 5 years	43 750.4	42 512.2
– more than 5 years	25 852.5	26 926.5
A4. Claims on customers	**105 547.1**	**106 121.4**
– up to 3 months	21 259.4	19 914.1
– more than 3 months to 1 year	11 766.7	13 333.0
– more than 1 year to 5 years	26 430.2	26 133.5
– more than 5 years	42 653.5	42 776.6
– without a fixed term	3 437.3	3 964.2
A5. Bonds and other fixed-interest securities	**81 233.9**	**68 824.5**
thereof: maturing in the subsequent year	18 350.6	13 890.6

in EUR million	Dec. 31, 2004	Dec. 31, 2003
P1. b) Liabilities to banks with agreed term or period of notice	**95 708.1**	**91 525.5**
– up to 3 months	46 238.2	44 748.6
– more than 3 months to 1 year	14 057.4	13 574.6
– more than 1 year to 5 years	12 979.6	11 984.8
– more than 5 years	22 432.9	21 217.5
P2. a) ab) Savings deposits with agreed period of notice of more than 3 months	**687.7**	**835.2**
– up to 3 months	69.3	145.6
– more than 3 months to 1 year	227.1	260.9
– more than 1 year to 5 years	327.7	338.8
– more than 5 years	63.6	89.9
P2. b) bb) Other liabilities to customers with agreed term or period of notice	**57 111.9**	**53 763.0**
– up to 3 months	23 554.1	18 152.5
– more than 3 months to 1 year	3 347.6	3 854.9
– more than 1 year to 5 years	7 132.1	7 409.2
– more than 5 years	23 078.1	24 346.4
P3. a) Bonds issued	**122 750.8**	**111 363.5**
thereof: maturing in the subsequent year	30 547.7	23 386.8
P3. b) Other certificated liabilities	**15 221.1**	**15 078.1**
– up to 3 months	9 822.3	9 813.5
– more than 3 months to 1 year	5 397.1	5 263.4
– more than 1 year to 5 years	1.5	1.2
– more than 5 years	0.2	–

(10) Securities Portfolio

The portfolio of securities reported under asset items No. 5 and No. 6 can be subdivided into the following categories depending on the purpose:

in EUR million	Dec. 31, 2004	Dec. 31, 2003
5. Bonds and other fixed-interest securities	**81 233.9**	**68 824.5**
– fixed assets	1 552.0	1 005.3
– trading portfolio	19 726.1	11 551.7
– liquidity reserve	59 955.8	56 267.5
6. Shares and other non-fixed interest securities	**2 495.9**	**1 998.1**
– fixed assets	113.5	59.4
– trading portfolio	568.2	200.7
– liquidity reserve	1 814.2	1 738.0

(11) Securities Eligible for Stock Exchange Trading

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

in EUR million	Dec. 31, 2004	Dec. 31, 2003
5. Bonds and other fixed-interest securities	**81 233.9**	**68 824.5**
thereof: eligible for stock exchange trading	81 233.9	68 824.5
thereof: eligible for stock exchange trading and listed	67 510.9	60 858.1
6. Shares and other non-fixed interest securities	**2 495.9**	**1 998.1**
thereof: eligible for stock exchange trading	1 023.1	673.3
thereof: eligible for stock exchange trading and listed	693.6	327.6
7. Companies in which an equity interest is held	**1 160.4**	**1 163.7**
thereof: eligible for stock exchange trading	409.1	358.9
thereof: eligible for stock exchange trading and listed	337.1	287.0
8. Shares in affiliated companies	**515.7**	**486.7**
thereof: eligible for stock exchange trading	65.8	71.9
thereof: eligible for stock exchange trading and listed	–	58.6

(12) Subordinated Assets

Subordinated assets are included in the following asset items:

in EUR million	Dec. 31, 2004	Dec. 31, 2003
3. Claims on banks	**31.8**	**149.5**
4. Claims on customers	**271.5**	**166.8**
5. Bonds and other fixed-interest securities	**224.1**	**243.7**
6. Shares and other non-fixed interest securities	**121.3**	**172.2**
7. Companies in which an equity interest is held	**9.7**	**6.1**

(13) Transactions with Firm Repurchase Agreements

As of the balance sheet date, bonds with a book value of EUR 4,066.0 million (December 31, 2003: EUR 83.0 million) were pledged under repurchase agreements in the course of open-market transactions with Deutsche Bundesbank. Securities with a book value of EUR 13,846.2 million (December 31, 2003: EUR 12,565.8 million) were sold to other banks under repurchase agreements as of the balance sheet date.

(14) Fiduciary Transactions

The following table contains a breakdown of trust assets (asset item No. 9) and trust liabilities (liability item No. 4):

in EUR million	Dec. 31, 2004	Dec. 31, 2003
Trust assets	**426.9**	**406.3**
Subordinated claims	–	–
Claims on banks	9.7	19.6
Claims on customers	358.9	333.5
Tangible assets	51.5	45.3
Other assets	6.8	7.9
Trust liabilities	**426.9**	**406.3**
Liabilities to banks	85.6	87.2
Liabilities to customers	337.1	314.9
Other liabilities	4.2	4.2

(15) Fixed Assets

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

in EUR million		Shares and other non-fixed interest securities	Companies in which an equity interest is held	Shares in affiliated companies	Intangible assets	Land and buildings	thereof land and buildings used by LBBW	Other equipment, fixtures, furniture, and office equipment	Leasing assets	Total fixed assets
Cost of acquisition/ production	1 015.6	69.4	1 224.9	529.5	699.1	2 718.2		1 013.2	5 841.6	13 111.5
Additions (due to initial consolidation)	1 094.9 (0.0)	60.0 (0.0)	117.0 (0.0)	90.4 (10.2)	14.6 (0.0)	25.0 (0.0)		73.1 (0.0)	1 558.1 (0.0)	3 033.1 (10.2)
Disposals (due to deconsolidation)	547.0 (0.0)	0.1 (0.0)	55.3 (1.6)	37.2 (0.0)	16.9 (0.2)	322.0 (22.6)		77.7 (0.6)	1 538.4 (0.0)	2 594.6 (25.0)
Reclassifications	– 3.3	0.0	1.5	3.2	247.5	– 0.7		– 249.0	0.0	– 0.8
Write-ups	0.0	0.0	0.0	0.0	0.0	4.6		0.0	0.0	4.6
Cumulative depreciation/amortization and value adjustments	8.1	15.8	127.7	70.3	384.2	698.1		570.4	2 525.9	4 400.5
Depreciation/ amortization and value adjustments in the fiscal year	(2.1)	(0.0)	(83.2)	(26.6)	(90.4)	(48.3)		(68.3)	(1 102.9)	(1 417.6)
Book value as of Dec. 31, 2004	**1 552.1**	**113.5**	**1 160.4**	**515.6**	**560.1**	**1 727.0**	**341.8**	**189.2**	**3 335.4**	**9 153.3**
Book value as of Dec. 31, 2003	**1 005.3**	**59.4**	**1 163.7**	**486.7**	**521.4**	**2 005.3**	**363.0**	**305.5**	**3 399.4**	**8 946.7**

(16) Other Assets

Items of particular significance included in other assets are option premiums totaling EUR 667.4 million (December 31, 2003: EUR 579.6 million) and assets under construction amounting to EUR 384.9 million (December 31, 2003: EUR 351.6 million).

(17) Deferred Items

Deferred items include the following amounts:

in EUR million	Dec. 31, 2004	Dec. 31, 2003
Prepaid expenses	**1 082.0**	**1 144.4**
Discounts from liabilities pursuant to § 250 (3) HGB	539.2	519.0
Premiums from claims pursuant to § 340e (2), sentence 3 HGB	237.2	254.8
Deferred income	**1 693.1**	**1 756.1**
Discounts from claims pursuant to § 340e (2), sentence 2 HGB	178.3	194.6

In addition, EUR 605.4 million (December 31, 2003: EUR 568.3 million) of the deferred income is attributable to the leasing business.

(18) Coverage of Mortgage and Municipal Loan Transactions

The liabilities below are covered as follows:

in EUR million	Dec. 31, 2004	Dec. 31, 2003
Mortgage bonds issued	**7 180.9**	**6 413.9**
Assets serving as collateral	**10 047.1**	**9 579.9**
3. Claims on banks	895.2	775.6
4. Claims on customers	9 151.9	8 804.3
Excess coverage	**2 866.2**	**3 166.0**
Municipal bonds and statutory bonds issued	**84 280.9**	**79 213.6**
Assets serving as collateral	**101 295.3**	**83 306.3**
3. Claims on banks	67 194.4	60 881.1
4. Claims on customers	21 070.6	21 422.9
5. Bonds and other fixed-interest securities	13 030.3	8 671.0
Excess coverage	**17 014.4**	**11 761.4**

(19) Other Liabilities

The most important individual components of the "Other liabilities" item are option premiums totaling EUR 920.8 million (December 31, 2003: EUR 830.2 million) and foreign currency adjustment items amounting to EUR 2,017.3 million (December 31, 2003: EUR 1,891.9 million).

(20) 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, 2004	Dec. 31, 2003
Liabilities to banks	10 041.0	4 244.2
Liabilities to customers	2 293.9	1 118.1
Certificated liabilities	82.1	38.5
Subordinated liabilities	7.4	4.3
Contingent liabilities	86.2	101.0
Other obligations such as liabilities from securities lending transactions	3 487.1	1 432.5
Total amount of collateral assigned	**15 997.7**	**6 938.6**

(21) Provisions

The "Other provisions" item includes provisions of EUR 7.7 million (December 31, 2003: EUR 35.5 million) relating to the leasing business and provisions of EUR 82.9 million relating to potential tax.

(22) Subordinated Liabilities

Expenses for subordinated liabilities totaled EUR 225.4 million (December 31, 2003: EUR 232.0 million) in the fiscal year under review.

(23) Equity

Positive differences in the amount of EUR 31.0 million arising from initial consolidation were deducted from revenue reserves in the 2004 fiscal year.

(24) Items Below the Line

Throughout the LBBW Group irrevocable loan commitments amounting to EUR 23,307.3 million (December 31, 2003: EUR 23,527.1 million) were not yet utilized.

(25) Letters 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.

(26) Guarantors' Liability (Gewährträgerhaftung)
In its capacity as guarantor, LBBW is liable for the liabilities of DekaBank Deutsche Girozentrale, Berlin and Frankfurt am Main, as well as Landesbank Rheinland-Pfalz Girozentrale, Mainz. LBBW continues to be liable towards third parties as a guarantor for the liabilities of former Landesbank Schleswig-Holstein Girozentrale, Kiel, and Westdeutsche Immobilienbank provided that these liabilities arose during the time when LBBW was a guarantor of these credit institutions.

(27) Other Financial Obligations
Other financial obligations that do not appear on the consolidated balance sheet amounted to EUR 351.8 million (December 31, 2003: EUR 325.3 million).

EUR 65.0 million of the other financial obligations are attributable to affiliated companies (December 31, 2003: EUR 69.8 million).

Notes to the Statement of Income.

(28) Commission Income and Commission Expenses
The net commission income resulted from services in the following areas:

in EUR million	Dec. 31, 2004	Dec. 31, 2003
Securities business/derivatives business	131.7	119.2
Domestic payment transactions	66.8	65.9
Lending business and trust operations	75.3	71.7
International business	43.7	48.5
Brokerage	65.1	50.7
Other business	5.4	1.4
Total	**388.0**	**357.4**

(29) Net Income from Financial Transactions
The net income from financial transactions generated by the LBBW Group from its proprietary trading operations can be broken down as follows:

in EUR million	Dec. 31, 2004	Dec. 31, 2003
Foreign exchange trading	28.9	75.0
Proprietary trading in euro-denominated securities and interest rate derivatives	74.5	134.1
Proprietary trading in equities and equity/equity index derivatives	18.5	– 2.2
Proprietary trading in securities and interest rate derivatives denominated in foreign currency	25.8	10.2
Total	**147.7**	**217.1**

(30) Other Operating Income and Expenses
The most important individual amount included in other operating income is income from leasing transactions amounting to EUR 2,242.0 million (December 31, 2003: EUR 2,368.5 million), whereas the most important individual amount included in other operating expenses is expenses for leasing transactions totaling EUR 849.9 million (December 31, 2003: EUR 958.6 million).

(31) Breakdown of Income According to Geographic Markets
The total amount recorded under the "Interest income", "Current income", "Commission income", "Net income from financial transactions", and "Other operating income" items of the statement of income can be broken down according to the geographic markets below as follows:

in EUR million	Dec. 31, 2004	Dec. 31, 2003
Germany	14 046.6	15 396.0
Europe (excluding Germany)	2 050.0	1 022.4
Asia	312.9	340.1
America	298.4	249.3
Total	**16 707.9**	**17 007.8**

(32) Write-Downs of and Adjustments to Intangible and Tangible Assets
Write-downs of and adjustments to intangible and tangible assets exclusively attributable to the leasing business amounted to EUR 1,102.9 million (December 31, 2003: EUR 1 128.9 million).

(33) Extraordinary net income
The extraordinary net income item includes restructuring expenses totaling EUR 62.6 million (December 31, 2003: EUR 63.2 million). These relate to planned human resources measures and mainly comprise payments in connection with voluntary retirement and early retirement agreements.

(34) Taxes on Income
The tax item decreased notably due to tax payments by Landesbank Baden-Württemberg that had been recognized in the 2003 financial statements but did not arise in that period and had resulted from write-downs to fair value non-creditable for tax purposes. The opposite development occurred in the case of BW Bank and was due in particular to the bank's return to generating taxable income (exhaustion of loss carryforwards.

(35) Administrative and Intermediary Services
Administrative and intermediary 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.

(36) Interests Exceeding Five Percent of the Voting Rights in Large Corporations and Major Banks Within Germany and Abroad

Atos Processing Services GmbH, Frankfurt am Main
B + S Card Service GmbH, Frankfurt am Main
Baden-Württemberg L-Finance N.V., Amsterdam
Baden-Württembergische Bank AG, Stuttgart
Cellent AG, Stuttgart
DekaBank Deutsche Girozentrale, Berlin and Frankfurt am Main
Deutscher Sparkassenverlag GmbH, Stuttgart
GWG Gesellschaft für Wohnungs- und Gewerbebau Baden-Württemberg AG, Stuttgart
HSBC Trinkaus & Burkhardt KGaA, Düsseldorf
Landesbank Baden-Württemberg Capital Markets plc, London
Landesbank Rheinland-Pfalz, Mainz
LEG Landesentwicklungsgesellschaft Baden-Württemberg mbH, Stuttgart
MKB Mittelrheinische Bank GmbH, Koblenz
Siedlungswerk Gemeinnützige Gesellschaft für Wohnungs- und Städtebau mbH, Stuttgart
SüdKA SüdKapitalanlagegesellschaft mbH, Frankfurt am Main
SüdLeasing GmbH, Stuttgart and Mannheim
Vorarlberger Landes- und Hypothekenbank AG, Bregenz
Wieland-Werke AG, Ulm

(37) Corporate Governance Code
Baden-Württembergische Bank AG, Stuttgart, has issued the declaration prescribed in § 161 AktG (the German Public Companies Act) and has made it available to the shareholders.

(38) Employees (Annual Averages)

	Male	Female	Total
Full time	**5 724**	**6 241**	**11 965**
thereof: included on a pro rata basis	209	131	340
Part time	**38**	**534**	**572**
thereof: included on a pro rata basis	3	55	58
Trainees	**266**	**350**	**616**
thereof: included on a pro rata basis	4	3	7
Total	**6 028**	**7 125**	**13 153**
thereof: included on a pro rata basis	**216**	**189**	**405**

(39) Total Remuneration of the Executive Bodies
The total remuneration paid to the members of the Board of Managing Directors of LBBW amounted to EUR 4.0 million. The remuneration paid to the members of the Supervisory Board, the Guarantors' Meeting, and the Loan Committee totaled EUR 0.4 million. The total remuneration paid to former members of the Board of Managing Directors and their surviving dependents amounted to EUR 5.1 million; provisions for pensions for former members of the Board of Managing Directors and their surviving dependents totaled EUR 39.3 million.

(40) Advances and Loans to and Contingent Liabilities Assumed in Favor of the Executive Bodies of LBBW and its Predecessors

in EUR million	Board of Managing Directors	Supervisory Board	Guarantors' Meeting
Advances and loans	0.2	2.7	0.3
Contingent liabilities	–	–	–

(41) Positions

Legal representatives or other 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	Dr. Siegfried Jaschinski
AIG International Real Estate GmbH & Co. KGaA, Frankfurt am Main	Member of the Supervisory Board	Patrick Walcher since June 24, 2004
Atos Processing Services GmbH, Frankfurt am Main	Member of the Supervisory Board	Thomas Fischer
Baden-Württembergische Bank AG, Stuttgart	Deputy Chairman of the Supervisory Board	Hans Dietmar Sauer
	Member of the Supervisory Board	Thomas Fischer
	Member of the Supervisory Board	Reinhold Schreiner* until March 17, 2004
Baden-Württemberg L-Finance N. V., Amsterdam	Member of the Supervisory Board	Dr. Armin Brendle
B+S Card Service GmbH, Frankfurt am Main	Deputy Chairman of the Supervisory Board	Thomas Fischer
	Member of the Supervisory Board	Michael Horn
Bürgerliches Brauhaus Ravensburg AG, Ravensburg	Deputy Chairman of the Supervisory Board	Harald R. Pfab
Bürgschaftsbank Baden-Württemberg GmbH, Stuttgart	Chairman of the Supervisory Board	Dr. Karl Heidenreich
	Member of the Supervisory Board	Michael Horn
	Member of the Guarantee Committee	Andreas Claus
	Deputy Member of the Guarantee Committee	Jürgen Kugler
	Deputy Member of the Guarantee Committee	Ulrich Vrede
Cellent AG, Stuttgart	Chairman of the Supervisory Board	Thomas Fischer
	Member of the Supervisory Board	Thomas Loetto
Dambach-Werke GmbH, Gaggenau	Member of the Advisory Board	Dr. Reinhold Lauf
DekaBank Deutsche Girozentrale, Berlin and Frankfurt am Main	Member of the Supervisory Board	Hans Dietmar Sauer
DekaBank Deutsche Girozentrale Luxemburg S.A., Luxembourg	Member of the Supervisory Board	Hans-Joachim Beuth until May 28, 2004
	Member of the Supervisory Board	Ralf Menzel since May 28, 2004

*Passive member of the Board of Managing Directors of LBBW

Company	Position	Incumbent
Deka Immobilien Investment GmbH, Frankfurt am Main	Member of the Supervisory Board	Dr. Karl Heidenreich
Deka Investment GmbH, Frankfurt am Main	Member of the Supervisory Board	Dr. Siegfried Jaschinski until May 28, 2004
	Member of the Supervisory Board	Michael Horn
	Member of the Supervisory Board	Hans-Joachim Strüder since May 28, 2004
DekaSwiss Privatbank AG, Zurich	Member of the Supervisory Board	Hans Dietmar Sauer
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 AG, Bad Säckingen and Weingarten	Member of the Supervisory Board	Michael Horn
GWG Gesellschaft für Wohnungs- und Gewerbebau AG, Stuttgart	Member of the Supervisory Board	Hermann Zondler*
Herrenknecht AG, Schwanau	Member of the Supervisory Board	Reinhold Schreiner*
HSBC Trinkaus & Burkhardt KGaA, Düsseldorf	Member of the Supervisory Board	Hans Dietmar Sauer
K + S Aktiengesellschaft, Kassel	Member of the Supervisory Board	Dr. Karl Heidenreich
Karlsruher Lebensversicherung AG, Karlsruhe	Member of the Supervisory Board	Hans Dietmar Sauer
Landesbank Rheinland-Pfalz Girozentrale, Mainz	Member of the Supervisory Board	Hans Dietmar Sauer
	Deputy Member of the Supervisory Board	Dr. Karl Heidenreich
	Deputy Member of the Supervisory Board	Michael Horn
LBS Baden-Württemberg, Stuttgart	Member of the Supervisory Board	Michael Horn
	Deputy Member of the Supervisory Board	Thomas Fischer
LHS Leasing- und Handelsgesellschaft Deutschland mbH, Stuttgart	Member of the Supervisory Board	Dr. Martin Starck
	Member of the Supervisory Board	Peter Bach
LEG Landesentwicklungsgesellschaft Baden-Württemberg mbH, Stuttgart	Chairman of the Supervisory Board	Hans Dietmar Sauer
	Member of the Supervisory Board	Dr. Karl Heidenreich
MKB Mittelrheinische Bank GmbH, Koblenz	Chairman of the Supervisory Board	Dr. Karl Heidenreich
	Deputy Chairman of the Supervisory Board	Joachim E. Schielke
	Member of the Supervisory Board	Michael Horn
MMV-Leasing GmbH, Koblenz	Chairman of the Advisory Board	Dr. Karl Heidenreich
	Deputy Chairman of the Advisory Board	Joachim E. Schielke
	Member of the Advisory Board	Michael Horn

*Passive member of the Board of Managing Directors of LBBW

Company	Position	Incumbent
Rohwedder AG, Bermatingen	Chairman of the Supervisory Board until November 8, 2004, since then Member of the Supervisory Board	Dr. Siegfried Jaschinski
Schloßgartenbau-Aktiengesellschaft, Stuttgart	Chairman of the Supervisory Board	Reinhold Schreiner*
Schlott Sebaldus AG, Freudenstadt	Member of the Supervisory Board	Reinhold Schreiner*
Siedlungswerk gemeinnützige Gesellschaft für Wohnungs- und Städtebau mbH, Stuttgart	Deputy Chairman of the Supervisory Board	Michael Horn
	Member of the Supervisory Board	Hermann Zondler*
Stratec biomedial Systems AG, Birkenfeld	Member of the Supervisory Board	Burkhard Wollny
Stuttgarter Messe- und Kongressgesellschaft mbH, Stuttgart	Member of the Supervisory Board	Rudolf Zipf
SüdKA SüdKapitalanlagegesellschaft mbH, Frankfurt am Main	Chairman of the Supervisory Board	Dr. Siegfried Jaschinski
	Member of the Supervisory Board	Michael Horn
	Member of the Supervisory Board	Dr. Peter Merk
	Member of the Supervisory Board	Hans-Joachim Strüder
SüdWert Wohnungsprivatisierungs-GmbH, Bietigheim-Bissingen	Deputy Chairman of the Supervisory Board	Rainer Konopka
	Member of the Supervisory Board	Dr. Frank Schwertfeger
	Deputy Member of the Supervisory Board	Rudolf Klenk
Südwestdeutsche Salzwerke AG, Heilbronn	Member of the Supervisory Board	Rudolf Zipf
SV Sparkassen-Versicherung Baden-Württemberg Holding AG, Stuttgart	Member of the Supervisory Board	Michael Horn
tiscon Aktiengesellschaft Infosystems, Neu-Ulm	Deputy Chairman of the Supervisory Board	Thomas Fischer
	Member of the Supervisory Board	Norbert Floegel
VÖB-ZVD Zahlungsverkehrsdienstleistungs-gesellschaft mbH, Bonn	Member of the Advisory Board	Thomas Fischer until November 30, 2004
Voralberger Landes- und Hypothekenbank AG, Bregenz	Member of the Supervisory Board	Dr. Siegfried Jaschinski
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	Hans-Joachim Beuth
Wieland-Werke AG, Ulm	Member of the Supervisory Board	Hans Dietmar Sauer
Württembergische Lebensversicherung AG, Stuttgart	Member of the Supervisory Board	Hans Dietmar Sauer
Wüstenrot Bank AG, Ludwigsburg	Member of the Supervisory Board	Hans Dietmar Sauer
Wüstenrot Holding AG, Ludwigsburg	Member of the Supervisory Board	Hans Dietmar Sauer

*Passive member of the Board of Managing Directors of LBBW

Substantial Subsidiaries and Affiliates of Landesbank Baden-Württemberg Stuttgart/Karlsruhe/Mannheim

Company	Letter of Comfort (L) [1] Guarantor's Liability (G) [1]	Share in Capital total in %	Share in Capital thereof indirect in %	Equity [2] EUR thousand	Profit [3] EUR thousand
(A) Companies included in the consolidated Financial Statements					
Affiliates					
BW-Holding GmbH, Stuttgart		60.64		1 275 703	27 496
Baden-Württembergische Bank AG, Stuttgart		98.84	91.62	877 071	50 600
SüdLeasing GmbH, Stuttgart/Mannheim [4]		100.00	94.00	32 085	–
Anlagenvermietung GmbH, Stuttgart		100.00	100.00	64 953	16 147
DEKRA SüdLeasing Services GmbH, Stuttgart		75.00	75.00	25 218	12 053
LHS Leasing- und Handelsgesellschaft Deutschland GmbH, Stuttgart [4]		75.00	75.00	4 565	1 824
LEG Landesentwicklungsgesellschaft Baden-Württemberg mbH, Stuttgart		89.11	89.11	635 013	0
Bahnhofplatz-Gesellschaft Stuttgart AG, Stuttgart [5]		76.33	76.33	4 452	–
Eisenbahn-Siedlungsgesellschaft Stuttgart gGmbH, Stuttgart		84.57	84.57	11 000	0
Industriehof-Aktiengesellschaft, Stuttgart [5]		82.68	82.68	23 282	–
Kommunalentwicklung LEG Baden-Württemberg GmbH, Stuttgart [5]		72.73	72.73	2 017	–
Schloßgartenbau-Aktiengesellschaft, Stuttgart [5]		80.98	80.98	6 592	–
MKB Mittelrheinische Bank GmbH, Koblenz		100.00	94.00	34 315	4 558
LBBW Finance-Holding GmbH, Stuttgart [4]		100.00		862 444	–
LBBW Immobilien-Holding GmbH, Stuttgart [4]		100.00		738 251	–
LBBW Spezialprodukte-Holding GmbH, Stuttgart [4]		100.00		584 877	–
Baden-Württemberg L-Finance N.V., Amsterdam	(L)	100.00		7 294	6 058
Landesbank Baden-Württemberg Capital Markets Plc, London	(L)	100.00		14 884	7 828
Süd Private Equity GmbH & Co. KGaA, Stuttgart		100.00		51 233	3 529
SüdFactoring GmbH, Stuttgart [4]		100.00	100.00	1 600	–
Süd-Kapitalbeteiligungs-Gesellschaft mbH, Stuttgart [4]		100.00	100.00	88 982	–
Substantial Subsidiaries					
Landesbank Rheinland-Pfalz Girozentrale, Mainz	(G)	20.00	20.00	1 358 454	71 230
Landesbank Rheinland-Pfalz International S.A., Luxemburg		20.00	20.00	490 686	52 500
SüdKA SüdKapitalanlagegesellschaft mbH, Frankfurt am Main [4]	(L)	74.98		5 250	–

Company	Letter of Comfort (L) [1] Guarantor's Liability (G) [1]	Share in Capital total in %	thereof indirect in %	Equity [2] EUR thousand	Profit [3] EUR thousand
(B) Companies not included in the consolidated Financial Statements					
Affiliates					
Internationales Bankhaus Bodensee AG, Friedrichshafen		84.26	2.46	27 826	969
Substantial Subsidiaries					
DekaBank Deutsche Girozentrale, Frankfurt am Main/Berlin [5]	(G)	9.13	0.78	1 415 609	28 632
Vorarlberger Landes- und Hypothekenbank AG, Bregenz		16.67	16.67	459 240 [6]	20 986 [6]
Associated Companies					
Bankhaus Ellwanger & Geiger KG, Stuttgart		25.96	25.96	11 300 [6]	2 314 [6]
HSBC Trinkaus & Burkhardt KGaA, Düsseldorf		20.31	20.31	547 695 [6]	76 894 [6]
Siedlungswerk Gemeinnützige Gesellschaft für Wohnungs- und Städtebau mbH, Stuttgart		20.00	20.00	190 [6]	3 050 [6]
SüdBau Projektentwicklung und Baumanagement GmbH, Stuttgart		33.33	33.33	1 355 [6]	35 [6]
SüdWERT Wohnungsprivatisierungsgesellschaft mbH, Bietigheim-Bissingen [5]		50.00	50.00	2 824 [6]	– [6]

[1] According to figures [25] and [26] in the Notes to the Financial Statements
[2] Definition of Equity in compliance with §§ 266 (3A) and 272 HGB
[3] Net income/net loss in compliance with § 275 (2) No. 20 HGB and/or Item 27 of form No. 3 of RechKredV
[4] A profit and loss transfer agreement was directly or indirectly concluded with these companies
[5] Profit and loss transfer agreement not affecting LBBW
[6] Equity and Profit as of December 31, 2003

Guarantors' Meeting.

Chairman

Erwin Teufel
Member of the State Parliament
of Baden-Württemberg
Prime Minister of the State of
Baden-Württemberg, Stuttgart

1st Deputy Chairman

Heinrich Haasis
Senator h. c.,
President of Sparkassenverband
Baden-Württemberg (the Savings Bank
Association of Baden-Württemberg),
Stuttgart

2nd Deputy Chairman

Dr. Wolfgang Schuster
Lord mayor of the State Capital Stuttgart

Members

Hermann Bauer
Mayor of the Town of Weilheim a. d. T.

Christian Brand
since January 31, 2005
Chairman of the Board of
Managing Directors of Landeskreditbank
Baden-Württemberg – Förderbank –,
Karlsruhe

Dr. Walter Döring
Member of the State Parliament
of Baden-Württemberg
until July 20, 2004
Minister for Economic Affairs (retired),
Schwäbisch Hall

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

Michael Föll
since September 16, 2004
First Mayor of the State Capital Stuttgart

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

Edeltraud Hollay
until September 16, 2004
journalist, Stuttgart

Ernst Pfister
Member of the State Parliament
of Baden-Württemberg
since July 20, 2004
Deputy Prime Minister of the State
of Baden-Württemberg and Minister
for Economic Affairs of the State
of Baden-Württemberg, Stuttgart

Heribert Rech
Member of the State Parliament
of Baden-Württemberg
since July 20, 2004
Minister of the Interior of the State
of Baden-Württemberg, Stuttgart

Dr. Thomas Schäuble
until July 20, 2004
Minister of the Interior (retired),
Gaggenau

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

Hans Otto Streuber
since January 1, 2005
President of Sparkassen- und
Giroverband Rheinland-Pfalz
(the Savings Bank and Giro Association
of Rhineland-Palatinate), Budenheim

Supervisory Board.

Chairman

Heinrich Haasis
Senator h. c.,
President of Sparkassenverband Baden-Württemberg (the Savings Bank Association of Baden-Württemberg), Stuttgart

1st Deputy Chairman

Günther H. Oettinger
Member of the State Parliament of Baden-Württemberg
Chairman of the CDU Parliamentary Group in the State Parliament of Baden-Württemberg, attorney at law, 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

Klaus Czernuska
until December 31, 2004
District Administrator of the Heilbronn District, Chairman of the Guarantors' Meeting and of the Supervisory Board of Kreissparkasse Heilbronn

Wolfgang Daum
Savings Bank Director, Chairman of the Board of Managing Directors of Sparkasse Pforzheim Calw, Pforzheim

Georg Denzer
District Administrator of the Main-Tauber District, Chairman of the Supervisory Board of Sparkasse Tauberfranken, Tauberbischofsheim

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

Dr.-Ing. h. c. Heinz Dürr
Chairman of the Supervisory Board of DÜRR AG, Stuttgart

Dr. Susanne Eisenmann
since September 16, 2004
City Councilor, Chairman of the CDU Parliamentary Group in the City Council of the State Capital 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
State Secretary in the Ministry of Economic Affairs of the State of Baden-Württemberg, Stuttgart

Ulrich Müller
Member of the State Parliament of Baden-Württemberg
since January 1, 2005
Minister at the Ministry of the Prime Minister and Minister responsible for European affairs of the State of Baden-Württemberg, Stuttgart

Günther Nollert*
Employee of Landesbank Baden-Württemberg, Mannheim

Gerhard Nübling
Savings Bank Director, Chairman of the Board of Managing Directors of Kreissparkasse Rottweil

Dr. Christoph-E. Palmer
Member of the State Parliament of Baden-Württemberg
until December 31, 2004
Minister (retired), Stuttgart

Prof. Dr. Wolfgang Reinhart
Member of the State Parliament of Baden-Württemberg
since July 20, 2004
State Secretary in the Ministry of Finance of the State of Baden-Württemberg, Stuttgart

Klaus Rudolf
until September 16, 2004
Managing Partner of Rudolf Lichtwerbung GmbH, Stuttgart

Wolfgang Rückert
Member of the State Parliament of Baden-Württemberg
until July 20, 2004
State Secretary (retired), Leonberg

Nils Schmid
Member of the State Parliament of Baden-Württemberg
Attorney at law, Spokesman for financial policy 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
Member of the State Parliament of Baden-Württemberg
Senator h. c., School Principal (retired), Donzdorf

Hans Otto Streuber
since January 1, 2005
President of Sparkassen- und Giroverband Rheinland-Pfalz (the Savings Bank and Giro Association of Rhineland-Palatinate), Budenheim

* elected by LBBW employees

Gabriele Tietz*
Employee of Landesbank
Baden-Württemberg, Stuttgart

Werner Unfried*
Employee of Landesbank
Baden-Württemberg, Stuttgart

Norbert Zipf*
Employee of Landesbank
Baden-Württemberg, Stuttgart

Deputy Members

Dipl.-Oec. Muhterem Aras
City Councilor, tax adviser, 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

Otwin Brucker
until December 31, 2004
Mayor of the Municipality of Pliezhausen,
President of Gemeindetag
Baden-Württemberg, Stuttgart

Klaus Czernuska
since January 1, 2005
District Administrator of the Heilbronn
District, Chairman of the Guarantors'
Meeting and of the Supervisory Board
of Kreissparkasse Heilbronn

Wolfgang Drexler
Member of the State Parliament
of Baden-Württemberg
Public prosecutor (retired), Chairman
of the SPD Parliamentary Group in the
State Parliament of Baden-Württemberg,
Stuttgart

Gundolf Fleischer
Member of the State Parliament
of Baden-Württemberg
Attorney at law, State Secretary (retired),
Deputy Chairman of the CDU
Parliamentary Group in the State
Parliament of Baden-Württemberg,
Stuttgart

Michael Föll
First Mayor of the State Capital Stuttgart

Armin Freundl*
Employee of Landesbank
Baden-Württemberg, Stuttgart

Jochen Haaga
Savings Bank Director, Chairman of the
Board of Managing Directors of
Sparkasse Salem-Heiligenberg, Salem

Dr. Rainer Haas
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
Director general in the Ministry
of Finance of the State of
Baden-Württemberg

Martin Haible*
Employee of Landesbank
Baden-Württemberg, Stuttgart

Karlheinz Heinzelmann*
Employee of Landesbank
Baden-Württemberg, Stuttgart

Horst Hoffmann
since January 1, 2005
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

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,
Schwäbisch Hall

Peter May
Senator h. c.,
Honorary Consul of Uruguay,
Chairman of the Board of Managing
Directors of Stuttgarter Hofbräu AG,
Stuttgart

Herbert Moser
Member of the State Parliament
of Baden-Württemberg
Director principal (retired), Chairman
of the Finance Committee of the State
Parliament of Baden-Württemberg,
Stuttgart

Heribert Rech
Member of the State Parliament
of Baden-Württemberg
Minister of the Interior of the State
of Baden-Württemberg, Stuttgart

Siegfried Rieg
District Councilor, Lord Mayor (retired),
Giengen

Dieter Rösler*
Employee of Landesbank
Baden-Württemberg, Stuttgart

Peter Schneider
Member of the State Parliament
of Baden-Württemberg
District Administrator of the Biberach
District, Chairman of the Supervisory
Board of Kreissparkasse Biberach

Gustav Schrank
until August 31, 2004
Lord Mayor (retired), Hockenheim

Gerd Siebertz*
Employee of Landesbank
Baden-Württemberg, Stuttgart

Prof. Dr. Willi Weiblen
Director in the Ministry of
Economic Affairs of the State
of Baden-Württemberg, Stuttgart

Clemens Winckler
Member of the State Parliament
of Baden-Württemberg, Stuttgart

* elected by LBBW employees

Board of Managing Directors.

Dr. Siegfried Jaschinski

Chairman since January 1, 2005,
Deputy Chairman until December 31, 2004

Hans Dietmar Sauer

Chairman until December 31, 2004

Michael Horn

Deputy Chairman since January 1, 2005

Thomas Fischer

until December 31, 2004

Dr. Karl Heidenreich

Joachim E. Schielke

Rudolf Zipf

Advisory Board.

Dipl.-Ing. Paul Adams
Chairman of the Management of
Gebr. Märklin & Cie. GmbH, Göppingen

Willem G. van Agtmael
Managing Partner of
E. Breuninger GmbH & Co., Stuttgart

Helmut Aurenz
Honorary Consul of Estonia, Senator h. c.,
Managing Partner of Helmut Aurenz
GmbH & Co. KG, Ludwigsburg

Barbara Bauer
Member of the Board of Evangelische
Landeskirche in Baden, Karlsruhe

Robert Bausch
Managing Director of Liebherr-Holding
GmbH, Biberach

Albert Berner
Chairman of the Supervisory Board
of Berner Group, Künzelsau

Dr. Kurt Bock
Member of the Board of Managing
Directors of BASF Aktiengesellschaft,
Ludwigshafen

Dr. Gero-Falk Borrmann
President, Chairman of the Management
of Landesversicherungsanstalt
Baden-Württemberg, Karlsruhe

Hans Brandau
Senator h. c.,
Chairman of the Boards of Managing
Directors of Badischer Gemeinde-
Versicherungs-Verband and of Badische
Allgemeine Versicherung AG, Karlsruhe

Dr. Ulrich Brocker
General Manager of SÜDWESTMETALL
Verband der Metall- und Elektroindustrie
Baden-Württemberg e. V. (the Baden-
Württemberg Metal and Electrical
Industry Employers' Association),
Stuttgart

Professor Dr. Utz Claassen
Chairman of the Board of Managing
Directors of EnBW Energie Baden-
Württemberg AG, Karlsruhe

Dipl.-Kfm. Jürgen Dannenmann
Managing Director of Südwestdeutsche
Medien Holding GmbH, Stuttgart

Roland Deibler
until December 31, 2004
Deputy Chairman of the Supervisory
Board of Alfred Kärcher GmbH & Co.,
Winnenden

Dipl.-Volkswirtin Anne-Kathrin Deutrich
since March 1, 2004
Chairman of the Board of Managing
Directors of SICK AG, Waldkirch

Albrecht von Dewitz
Managing Partner of VAUDE Sport GmbH
& Co. KG, Tettnang

Professor Dr. h. c. Viktor Dulger
Honorary Consul of Malta, Senator h. c.,
Chairman of the Supervisory Board
of ProMinent Unternehmensgruppe,
Heidelberg

Dr.-Ing. Klaus-Dieter Ehlers
until December 31, 2004
Mannheim

Dipl.-Oec. Dr. Karl-Gerhard Eick
until December 31, 2004
Member of the Board of Managing
Directors of Deutsche Telekom AG, Bonn

Dr. Susanne Eisenmann
until September 16, 2004
City Councilor, Chairman of the CDU
Parliamentary Group in the City Council
of the State Capital Stuttgart

Dr. Alexander Erdland
Chairman of the Board of Managing
Directors of Bausparkasse Schwäbisch
Hall AG, Schwäbisch Hall

Dipl.-Ing. (FH) Klaus Fischer
Senator h. c. mult.,
Owner and Chairman of the Management
of Unternehmensgruppe fischer,
fischer holding GmbH & Co. KG,
Waldachtal

Klaus Frick
Chairman of the Management
of INDEX-Werke GmbH & Co. KG,
Hahn & Tessky, Esslingen

Dipl.-Kfm. Klaus Furler
Managing Director of Papierfabrik
August Koehler AG, Oberkirch

Dipl.-Kfm. Horst H. Geidel
Chairman of the Supervisory Board
of Behr GmbH & Co. KG, Stuttgart

Dr.-Ing. h. c. Siegfried Goll
Chairman of the Board of Managing
Directors of ZF Friedrichshafen AG,
Friedrichshafen

Gerold Gutmann
Managing Director of Finances,
Diocese of Rottenburg-Stuttgart,
Rottenburg/Neckar

Oskar Häffner
Director of Kommunaler Versorgungs-
verband Baden-Württemberg, Karlsruhe

Dr. Gert Haller
State Secretary (retired), Chairman
of the Board of Managing Directors
of the Group Holding Wüstenrot &
Württembergische AG, Stuttgart

Hans-Joachim Haug
Director, Chairman of the Board of
Managing Directors of Württembergische
Gemeinde-Versicherung a. G., Stuttgart

Eugen Hehl
Managing Partner of
ARBURG GmbH & Co KG, Loßburg

Dipl.-Ing. Berndt Heller
Senator h. c.,
Managing Partner of Gebr. Heller
Maschinenfabrik GmbH, Nürtingen

Hans Jochen Henke
Attorney at law, State Secretary (retired),
Secretary General of Wirtschaftsrat der
CDU e. V., Berlin

Michael Himmelsbach
Erzbischöflicher Oberrechtsdirektor,
Archiepiscopal Bishopric of the Freiburg
Archdioces, Freiburg i. Br.

Dr. Rolf Hoberg
since October 1, 2004
Chairman of the Board of Managing Directors of AOK Baden-Württemberg, Stuttgart

Jürgen Hofer
Member of the State Parliament of Baden-Württemberg
Lord Mayor (retired), Weinstadt-Beutelsbach

Dr.-Ing. Rainer Hofmeister
Managing Director of industrie automation GmbH & Co. KG, Heidelberg

S. D. Karl Friedrich Erbprinz von Hohenzollern Lic. rer. pol.
Fürstlich Hohenzollernsche Hofkammer, Sigmaringen

Georg-Dieter von Holtzbrinck
Chairman of the Supervisory Board of Verlagsgruppe Georg von Holtzbrinck GmbH, Stuttgart

Dr. Hans-Jochen Hüchting
Weinheim

Birgitta Jaeggle
Sole Managing Partner of Domicil Einrichtungshaus GmbH, Weingarten

Hartmut Jenner
since January 1, 2005
Chairman of the Management of Alfred Kärcher GmbH & Co. KG, Winnenden

Professor Dr.-Ing Heinz K. Junker
Chairman of the Management of MAHLE GmbH, Stuttgart

Heinz Kälberer
Lord Mayor of the Town of Vaihingen an der Enz

Dr. Martin Kastrup
since Oktober 1, 2004
Member of the Board of Evangelische Landeskirche in Württemberg, Stuttgart

Dr. Dieter Kilpper
Chairman of the Management of E.G.O. Elektro-Gerätebau GmbH, Oberderdingen

Dr. Christoph Kirsch
Member of the Board of Managing Directors of Südzucker AG Mannheim/Ochsenfurt, Mannheim

Professor Dr. Renate Köcher
Managing Director of Institut für Demoskopie Allensbach Gesellschaft zum Studium der öffentlichen Meinung mbH, Allensbach/Lake Constance

Dr. Hermut Kormann
Chairman of the Board of Managing Directors of Voith AG, Heidenheim

Dr.-Ing. Dieter Kress
Managing Partner of MAPAL Präzisionswerkzeuge Dr. Kress KG, Aalen

Harald Kroener
Chairman of the Board of Managing Directors of Wieland-Werke AG, Ulm

Roland Kugler
since September 16, 2004
City Councilor, attorney at law, Stuttgart

Dott.-Ing. Manlio La Loggia
Chairman of the Board of Managing Directors of Gasversorgung Süddeutschland, Stutttgart

Helmut Läpple
Chairman of the Supervisory Board of LÄPPLE Holding AG, Heilbronn

Dipl.-Ing. Peter Leibinger
Managing Director of TRUMPF Laser GmbH + Co. KG, Schramberg

Dipl.-Volkswirt Dr. Volkmar Mair
Publisher, Managing Partner of Mairs Geographischer Verlag Kurt Mair GmbH & Co., Ostfildern

Dr. Harald Marquardt
Managing Director of MARQUARDT GmbH, Rietheim-Weilheim

Dr. h. c. Adolf Merckle
Senator h. c.,
Attorney at law, Chairman of the Supervisory Board of PHOENIX Pharmahandel Aktiengesellschaft & Co., Mannheim, Partner of Ferd. Schulze GmbH & Co., Blaubeuren

Dr. Herbert Meyer
Member of the Board of Managing Directors of Heidelberger Druckmaschinen Aktiengesellschaft, Heidelberg

Kurt Nagel
Managing Partner of Kraftverkehr Nagel, Kurt Nagel GmbH & Co., Versmold

Professor Dr.-Ing. h. c. Manfred Nußbaumer M. Sc.
Honorary Consul of Bulgaria, Chairman of the Board of Managing Directors of Ed. Züblin AG, Stuttgart

Dr. Joachim Ott
since January 1, 2005
Member of the Board of Managing Directors of Bilfinger Berger AG, Mannheim

Dr. Wolfgang Palm
Managing Partner of Papierfabrik Palm GmbH & Co., Aalen

Dipl.-Volkswirt Heinz Panter
Chairman of the Board of Managing Directors of LBS Landesbausparkasse Baden-Württemberg, Stuttgart

Dipl.-Wirtsch.-Ing. Hans Dieter Pötsch
Member of the Board of Managing Directors of VOLKSWAGEN Aktiengesellschaft, Wolfsburg

Gerhard Rohrbach
until December 31, 2004
Dotternhausen

Stephan Rojahn
Chairman of the Board of Managing Directors of Dürr AG, Stuttgart

Dipl.-Ing. Ulrich Ruetz
Ludwigsburg

Dr. Stefan Scheffold
Member of the State Parliament of Baden-Württemberg
Attorney at law, Schwäbisch Gmünd

Dr.-Ing. Ulrich Scheufelen
Managing Partner of Papierfabrik Scheufelen GmbH + Co. KG, Lenningen

Dipl.-Ing. Karl Schlecht
Senator h. c.
Chairman of the Supervisory Board of Putzmeister AG, Aichtal

Dipl.-Kfm. Eduard Schleicher
General Partner of SCHWENK Zement Kommanditgesellschaft, Ulm

Dipl.-Betriebswirt Martin Schomaker
Chairman of the Board of Managing Directors of R. Stahl AG, Waldenburg

Werner Schorn
until December 31, 2004
Stuttgart

Dr. Wolfgang Schürle
District Administrator of the Alb-Donau-District, Chairman of the Supervisory Board of EnBW Energie Baden-Württemberg AG, Karlsruhe

Gerhard Schürmann
Director of Walter Frey Holding AG, Zürich

Franz Schuhmacher
Member of the State Parliament of Baden-Württemberg
Managing Director of Schuhmacher Präzisionsdrehteile GmbH, Spaichingen

Dr. Robert Schuler-Voith
Chairman of the Supervisory Board of Schuler AG, Göppingen

Dieter Schwarz
General Manager of Unternehmens-gruppe Schwarz, Neckarsulm

Dr. Rolf W. Schweizer
Honorary President of the Supervisory Board of Clariant AG, Muttenz/Switzerland

Jürgen Sauer
since September 16, 2004
City Councilor, Stuttgart

Dr. Alexander Selent
Deputy Chairman of the Board of Managing Directors of FUCHS PETROLUB AG, Mannheim

Roland Sing
until September 30, 2004
Stuttgart

Helga Solinger
Minister (retired),
Dipl.-Sozialarbeiterin (FH), Stuttgart

Dr.-Ing. Hans-Jochem Steim
Member of the State Parliament of Baden-Württemberg
Chairman of the Management of Hugo Kern und Liebers GmbH & Co., Schramberg

Dorothee Stein-Gehring
Managing Partner of Gehring GmbH & Co. KG, Ostfildern

Dipl.-Ing. Hans Peter Stihl
Honorary Consul of Singapore,
General Partner of STIHL Holding AG & Co. KG, Waiblingen

Dr. Lothar Stöckbauer
Chairman of the Board of Managing Directors of Mannheimer AG Holding, Mannheim

Dipl.-Ökonom Peter Stoll
until February 29, 2004
Chairman of the Board of Managing Directors of Dienste für Menschen e.V., Stuttgart

Helga Ulmer
until September 16, 2004
Stuttgart

Helga Vetter
City Councilor, Stuttgart

Udo J. Vetter
Partner of Vetter Pharma Fertigung GmbH & Co. KG, Ravensburg

Professor Peter Voß
Director of Südwestrundfunk, Stuttgart

H.H. Johannes Fürst zu Waldburg-Wolfegg und Waldsee
Wolfegg

The Right Honorable Erich Erbgraf von Waldburg zu Zeil und Trauchburg
Leutkirch

Dipl.-Ing. Siegfried Weishaupt
Managing Partner of Max Weishaupt GmbH, Schwendi

Matthias Wissmann
Member of the Bundestag of the Federal Republic of Germany, Minister (retired), Chairman of the European Union Affairs' Committee, attorney at law, Berlin

Dipl.-Kfm. Horst R. Wolf
until October 31, 2004
Member of the Board of Managing Directors of HeidelbergCement AG, Heidelberg

Ulrich-Bernd Wolff von der Sahl
since January 1, 2005
Chairman of the Boards of SV SparkassenVersicherung, Stuttgart

Professor Dr. h.c. Reinhold Würth
Senator h.c.
Chairman of the Advisory Board of Würth-Gruppe, Künzelsau

H.R.H. Friedrich Herzog von Württemberg
Friedrichshafen

Dipl.-Ing. Jürgen Zeeb
since September 16, 2004
City Councilor, Chairman of the FREIE WÄHLER parlamentary group in the city council of the State Capital Stuttgart

Rolf Zeeb
until September 16, 2004
City Councilor, Chairman of the F.D.P./DVP-parliamentary group in the city council of the State Capital Stuttgart, self-employed qualified joiner, Stuttgart

Dr. Maximilian Zimmerer
Member of the Board of Managing Directors of Allianz Lebensversicherungs-AG, Stuttgart

Cash Flow Statement of the LBBW Group for the 2004 Fiscal Year.

in EUR million	Dec. 31, 2004	Dec. 31, 2003
Net income/loss for the period (including minority interests in income/loss) before extraordinary items	**1 056.5**	**931.7**
Non-cash items contained in the net income/loss for the period and reconciliation to net cash provided by operating activities		
Depreciation/amortization, value adjustments and write-ups of claims, tangible and financial assets	1 649.9	2 029.8
Increase/decrease in provisions	217.4	83.6
Other non-cash income/expenses	196.8	14.3
Profit/loss on the disposal of financial and tangible assets	– 35.2	– 30.7
Other adjustments (net)	– 2 618.5	– 1 521.1
Subtotal	**466.9**	**1 507.7**
Changes in assets and liabilities from operating activities	– 2 460.8	1 583.7
Claims on banks	– 5 968.9	– 5 628.5
Claims on customers	13.8	– 97.8
Securities (not classified as financial assets)	– 12 378.6	– 426.1
Other assets from operating activities	– 268.5	683.1
Liabilities to banks	1 291.6	7 756.8
Liabilities to customers	3 392.6	5 274.5
Certificated liabilities	11 188.9	– 6 907.4
Other liabilities from operating activities	268.3	929.1
Interest and dividends received	14 080.4	13 203.9
Interest paid	– 10 789.4	– 12 756.1
Extraordinary amounts received	0.0	0.0
Extraordinary amounts paid	– 3.0	– 0.8
Payment of taxes on income	– 261.5	– 188.0
Net cash provided by operating activities	**1 032.5**	**3 350.3**
Proceeds from disposals of financial assets	622.3	884.0
Proceeds from disposals of tangible assets	758.4	568.5
Payments for investments in financial assets	– 619.2	– 511.5
Payments for investments in tangible assets	– 1 596.3	– 2 132.5
Proceeds from the sale of consolidated companies and other business units	0.0	87.9
Payments for the purchase of consolidated companies and other business units	0.0	– 90.9
Change in cash from other investing activities (net)	– 129.0	– 75.2
Net cash used in investing activities	**– 963.8**	**– 1 269.7**
Proceeds from capital increases	0.0	27.6
Payments to owners and minority shareholders	– 306.6	– 321.5
Change in cash from other capital	– 337.5	– 1 038.9
Net cash used in financing activities	**– 644.1**	**– 1 332.8**
Net change in cash and cash equivalents	– 575.4	747.8
Change in cash and cash equivalents due to changes in companies consolidated	0.0	– 4.6
Cash and cash equivalents at the beginning of the period	1 649.7	906.4
Cash and cash equivalents at the end of the period	**1 074.4**	**1 649.7**

The cash flow statement is set out in accordance with German Accounting Standards No. 2 (GAS 2) "Cash Flow Statements" and No. 2–10 (GAS 2–10) "Cash Flow Statements of Financial Institutions". Cash and cash equivalents are made up of the "Cash reserve" and "Public-sector debt instruments and bills of exchange eligible for refinancing with central banks" balance sheet items. The cash and cash equivalents of companies consolidated on a pro rata basis amounted to EUR 22.7 million on December 31, 2004.

Segment Reporting of the LBBW Group for the 2004 Fiscal Year.

ACTUAL result 2004

	Retail Clients		Corporate Finance		Financial Markets		Corporate Items		Other/ Consoli-dation		LBBW Group	
in EUR million	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
Net interest income	409.9	410.6	643.2	618.0	471.1	479.8	477.2	384.9	–11.0	–22.3	1 990.5	1871.0
Net commission income	197.4	185.3	92.4	93.0	83.5	78.0	29.2	19.2	–14.6	–18.0	388.0	357.5
Net income from financial transactions	1.3	1.7	13.9	13.1	108.4	156.1	20.7	15.9	3.3	30.3	147.7	217.1
Gross income	**608.6**	**597.6**	**749.5**	**724.1**	**663.0**	**713.9**	**527.2**	**420.0**	**–22.2**	**–10.0**	**2 526.1**	**2445.6**
Administrative expenses	–382.6	–401.4	–403.9	–418.8	–209.4	–211.0	–268.5	–200.1	–235.8	–233.6	–1500.2	1464.9
Other operating income/expenses	0.2	0.1	329.4	314.8	2.3	2.3	153.5	211.7	67.8	–10.6	553.2	518.3
Operating income/ expenses before risk provisions/valuation result	**226.2**	**196.3**	**675.0**	**620.1**	**456.0**	**505.2**	**412.2**	**431.6**	**–190.2**	**–254.2**	**1 579.1**	**1499.0**
Risk provisions/ valuation result	–95.2	–86.7	–179.5	–460.3	–13.8	6.6	–202.6	–18.0	–36.1	–13.2	–527.2	–571.6
Operating income/expenses after risk provisions/ valuation result (Profit/ loss on ordinary activities)	**131.0**	**109.6**	**495.5**	**159.8**	**442.2**	**511.8**	**209.6**	**413.6**	**–226.3**	**–267.4**	**1 051.9**	**927.4**
Segment assets	20 646	20 178	70 274	64 058	203 533	220 791	52 954	26 845	–20 107	–22 208	327 300	309 664
Segment liabilities	12 958	12 816	22 985	21 796	245 929	245 855	53 800	41 452	–19 273	21 903	316 400	300 015
Risk assets	16 406	16 409	47 246	48 575	54 526	62 103	24 939	9 960	490	–565	143 608	136 482
Tied-up equity	820	820	2 362	2 429	2 726	3 105	1 247	498	–791	–693	6 365	6159
Return on equity (in %)*	16.0	13.4	21.0	5.8	16.2	16.5	–	–	–	–	12.6	11.2
Cost/income ratio (in %)	62.8	67.1	37.4	40.3	31.5	29.5	–	–	–	–	48.7	49.4

Differences between this table and other tables are the result of rounding.

* Relating to the net income for the year before tax adjusted for restructuring expenses of EUR 62.6 million (December 31, 2003: EUR 63.2 million).

The segment reporting based on Group figures serves to provide information about the individual areas of business of the LBBW Group. The business segments are defined as product and customer groups based on the Group's internal organizational structures. The segment results are based on internal financial control data and external data from the annual financial statements. Segment reporting is governed by the principles of German Accounting Standard No. 3 –10 (GAS 3 –10) "Segment Reporting by Financial Institutions".

Primary segment reporting at LBBW Group is divided into the following four segments plus the column "Other/Consolidation":

- The Retail Clients segment comprises all activities involving retail, investment and high net-worth customers.
- The Corporate Finance segment includes business transactions with medium-sized corporate customers, business customers, real estate companies and municipal loan transactions with the public sector. Besides classic commercial banking, this also includes investment banking and other specialized product areas such as leasing and factoring.
- Besides classic trading operations, the Financial Markets segment also includes all business activities with credit institutions, insurance companies, and pension funds. In addition, this segment includes refinancing and capital market investments in connection with credit risk controlling.
- The Corporate Items segment comprises all business activities not transferred to business units. This includes equity interests not assigned to the operating segments, the issue of profit participation rights/subordinated capital, treasury, and strategic trading operations.
- The "Other/Consolidation" column presents a reconciliation of internal financial control data to external reporting data. This item also includes overhead costs, among others.

As a rule, income and expenses are allocated to the segments in which they arise.

Net interest income is determined in accordance with the Marktzinsmethode (a market-oriented funds transfer pricing system used by German banks). It also includes investment income from equity.

Besides direct personnel and material expenses, the administrative expenses of a segment also include expenses to be assigned on the basis of intra-Group cost allocation.

Risk provisions correspond to the figures recorded in the statement of income and are allocated to the segments in which they arise.

Equity tied-up is calculated in accordance with Principle I of the German Banking Act (KWG) in line with banking supervision requirements based on the calculated risk assets and capital charges for market price risk positions, as well as imputed Tier 1 capital backing.

Segment assets include claims on banks, claims on customers, and securities.

Segment liabilities include liabilities to banks, liabilities to customers, and certificated liabilities.

The return on equity is calculated based on the ratio of income before tax to equity tied up in accordance with supervisory requirements. The cost/income ratio is the ratio of administrative expenses to income (net interest income, net commission income, net income from financial transactions, and other operating income).

The LBBW Group was able to boost gross income by 3.3 %, but administrative expenses grew by 2.4 % at the same time. In addition to an increase in other operating income/expenses, this also led to an increase in the Group's operating income before valuation result by 5.3 % (EUR 80.1 million). The risk provisions/valuation result item declined by 7.8 %, which improved operating income by 13.4 % (EUR 124.5 million). The Group's return on equity (RoE) rose by 1.4 percentage points to 12.6 %, and its cost/income ratio (CIR) again improved to 48.7 %.

In the Retail Clients segment, gross income rose as expenses declined compared to the previous year, which resulted in an improvement in the segment's cost/income ratio. This segment's RoE was also increased.

The Corporate Finance segment saw a substantial reduction in risk provisions, as well as rising gross income and declining administrative expenses, which resulted in a significant increase in RoE. The cost/income ratio also improved in this segment.

The return on equity of the Financial Markets segment was equal to that of the previous year.

As the European, American, and Asian regions are only of minor importance compared to Germany, no secondary segment reporting is presented. However, item (31) of the notes presents a breakdown of income according to geographic markets.

Statement of Changes in Equity of the LBBW Group as of December 31, 2004.

in EUR million		Distribution	Allocation to/ Withdrawal from reserves	Net income	Changes in companies consolidated	Other changes	December 31, 2004
Group equity	**9 804.1**						**10 097.8**
Equity of LBBW	**8 964.6**						**9 393.3**
Nominal capital	1 280.0						1 280.0
Silent partners' contributions	3 323.9					–32.5	3 291.4
Capital reserve	2 231.1						2 231.1
Group equity generated	2 129.6						2 590.8
Revenue reserves	(1 808.7)		291.2		10.8	39.1	(2 149.8)
Consolidated distributable profit	(320.9)	–76.8	– 291.2	502.1		–14.0	(441.0)
Equity of the minority shareholders	**839.5**						**704.5**
Equity	814.1					–133.1	681.0
Consolidated distributable profit	25.4					–1.9	23.5

Statement of Changes in Equity
The statement of changes in equity was prepared in compliance with GAS 7 "Group Equity And Total Recognized Results".

Stuttgart, Karlsruhe, and Mannheim,
March 1, 2005

The Board of Managing Directors

Dr. Siegfried Jaschinski

Michael Horn

Dr. Karl Heidenreich

Joachim E. Schielke

Rudolf Zipf

Independent Auditors' Report.

"We have audited the consolidated financial statements and the Group management report of Landesbank Baden-Württemberg, Stuttgart, Karlsruhe, and Mannheim (LBBW) for the fiscal year from January 1 to December 31, 2004. The preparation of the consolidated financial statements and the Group management report in accordance with the provisions of the German Commercial Code are the responsibility of the Board of Managing Directors of LBBW. Our responsibility is to express an opinion based on our audit on the consolidated financial statements, and the Group management report.

We conducted our audit of the consolidated financial statements in accordance with § 317 HGB (German Commercial Code) in conjunction with the German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW, the German Institute of Certified Public Accountants). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the presentation in the consolidated financial statements drawn up in accordance with German generally accepted accounting principles and in the Group management report of the net assets, financial position, and results of operations are free of material misstatement. Knowledge of the business activities and the economic and legal environment of the Group and evaluations of possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the internal accounting control system and the evidence supporting the disclosures in the consolidated financial statements and the Group management report are primarily examined on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of the companies included in the consolidated financial statements, the companies included in consolidation, the accounting and consolidation principles applied, and the significant estimates made by the Board of Managing Directors, along with the overall presentation of the consolidated financial statements and the Group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit did not lead to any objections.

In our opinion, the consolidated financial statements in accordance with German generally accepted accounting principles give a true and fair view of the net assets, financial position, and results of operations of the Group. The Group management report provides an accurate overall representation of the position of the Group and accurately reflects the risks of future development."

Stuttgart, March 9, 2005

PwC Deutsche Revision
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

(Wagener)
Auditor

(Bucksch)
Auditor

Head Offices

Stuttgart
Landesbank Baden-Württemberg
P.O. Box 10 60 49
D-70049 Stuttgart
Am Hauptbahnhof 2
D-70173 Stuttgart
Phone +49 7 11/127-0
Fax +49 7 11/127-32 78
Telex 0 41/72519-0
www.LBBW.de
kontakt@LBBW.de

Karlsruhe
Landesbank Baden-Württemberg
D-76245 Karlsruhe
Schlossplatz 12
D-76131 Karlsruhe
Phone +49 7 21/12 02-0
Fax +49 7 21/12 02-30 12
www.LBBW.de
kontakt@LBBW.de

Mannheim
Landesbank Baden-Württemberg
P.O. Box 10 03 52
D-68003 Mannheim
Augustaanlage 33
D-68165 Mannheim
Phone +49 6 21/4 28-0
Fax +49 6 21/4 28-25 91
www.LBBW.de
kontakt@LBBW.de

Stock Exchange Office

Frankfurt
Landesbank Baden-Württemberg
P.O. Box 10 19 63
D-60019 Frankfurt
Schillerstrasse 27-29
D-60313 Frankfurt
Phone +49 69/2 99 75-0
Fax +49 69/2 99 75-15 60

184 Branches in Baden-Württemberg

LBBW-Center for Financial Services
in Berlin, Dresden, Essen, Frankfurt/Main,
Freiburg, Hamburg, Köln, München

Representative Offices in Augsburg,
Kempten and Memmingen

Subsidiaries and joint companies

Baden-Württembergische Bank AG
Kleiner Schlossplatz 11
D-70173 Stuttgart
Phone +49 7 11/1 80-0
Fax +49 7 11/1 80-10 00

LRP Landesbank Rheinland-Pfalz
– Girozentrale –
Grosse Bleiche 54 – 56
D-55098 Mainz
Phone +49 61 31/13 01
Fax +49 61 31/27 24
www.lrp.de
LRP@LRP.de

MKB Mittelrheinische Bank GmbH
Ferdinand-Sauerbruch-Strasse 7
D-56073 Koblenz
Phone +49 2 61/94 33-0
Fax +49 2 61/94 33-5 00
www.mkb-bank.de

MMV Leasing GmbH
Ferdinand-Sauerbruch-Strasse 7
D-56073 Koblenz
Phone +49 2 61/94 33-0
Fax +49 2 61/94 33-5 00
www.mmv-leasing.de

SüdBau
Projektentwicklung und
Baumanagement GmbH
Obere Waldplätze 13
D-70569 Stuttgart
Phone +49 7 11/13 17-2 53
Fax +49 7 11/13 17-1 01

SüdFactoring GmbH
P.O. Box 10 42 44
D-70037 Stuttgart
Heilbronner Strasse 86
D-70191 Stuttgart
Phone +49 7 11/1 27-72
Fax +49 7 11/29 78 87
www.suedfactoring.de

SüdKA
SüdKapitalanlagegesellschaft mbH
Schillerstrasse 27
D-60313 Frankfurt
Phone +49 69/2 99 75-10
Fax +49 69/2 99 75-16 19
www.suedka.de

SüdKB
Süd-Kapitalbeteiligungs-
Gesellschaft mbH
P.O. Box 10 60 49
D-70049 Stuttgart
Am Hauptbahnhof 2
D-70173 Stuttgart
Phone +49 7 11/1 27-70 67
Fax +49 7 11/1 27-30 40
www.suedkb.de
suedkb@LBBW.de

SüdKB
Süd-Kapitalbeteiligungs-
Gesellschaft mbH
P.O. Box 10 03 52
D-68003 Mannheim
Augustaanlage 33
D-68165 Mannheim
Phone +49 6 21/4 28-21 56
Fax +49 6 21/4 28-29 78

SüdLeasing GmbH
P.O. Box 10 42 54
D-70037 Stuttgart
Am Hauptbahnhof 2
D-70173 Stuttgart
Phone +49 7 11/1 27-70 01
Fax +49 7 11/1 27-70 02
www.suedleasing.de

P.O. Box 10 04 64
D-68004 Mannheim
Augustaanlage 33
D-68165 Mannheim
Phone +49 6 21/1 88-0
Fax +49 6 21/1 88-2 82

SüdLeasing Berlin GmbH
Spreeufer 5
D-10178 Berlin
Phone +49 30/2 47 54-0
Fax +49 30/2 47 54-14 89

SüdLeasing Immobilien GmbH
P.O. Box 10 03 52
D-68003 Mannheim
Augustaanlage 33
D-68165 Mannheim
Phone +49 6 21/4 28-27 01
Fax +49 6 21/4 28-27 24

P.O. Box 10 60 49
D-70049 Stuttgart
Am Hauptbahnhof 2
D-70173 Stuttgart
Phone +49 7 11/1 27-75 12
Fax +49 7 11/1 27-77 89

Süd Private Equity GmbH & Co. KGaA
Friedrichstrasse 24
D-70174 Stuttgart
Phone +49 7 11/1 24-98 12
Fax +49 7 11/1 24-96 36

SÜD VENTURE CAPITAL
INVESTITION GMBH & CO. KG
D-70144 Stuttgart
Friedrichstrasse 24
D-70174 Stuttgart
Phone +49 7 11/1 24-98 54
Fax +49 7 11/1 24-98 55
www.suedvc.de

SüdWERT
Wohnungsprivatisierungsgesellschaft
mbH
Berliner Strasse 19
D-74321 Bietigheim-Bissingen
Phone +49 71 42/9 89 19-0
Fax +49 71 42/9 89 19-4 02
www.suedwert.de

Offices Abroad

Amsterdam
Baden-Württemberg L-Finance N.V.
Marktlaan 1-3
NL-2134 DL Hoofddorp
Phone +31 23/5 62 63 72
Fax +31 23/5 57 85 06
cees.rosekranz@LBBW.de

Barcelona
LBBW
Barcelona Representative Office
Calle Tuset N° 5-11, 3°B
E-08006 Barcelona
Phone +34 93/2 01 67 00
Fax +34 93/2 01 64 75
barcelona@LBBW.de

Beijing
LBBW
Beijing Representative Office
German Centre Beijing
Unit 1130, Landmark Tower 2
8, North Dongsanhuan Road
Chaoyang District
100004 Beijing
People's Republic of China
Phone +86 10/65 90 01 66
Fax +86 10/65 90 77 58
peking@LBBW.de

Budapest
LBBW
Budapest Representative Office
Office Building "Gerbeaud"
Vörösmarty tér 7-8/I.e.
H-1052 Budapest
Phone +36 1/2 50 83 57
Fax +36 1/2 50 83 60
budapest@LBBW.de

Hanoi
LBBW
Hanoi Representative Office
Binh Minh Hotel
Room 302, 3rd Floor
27, Ly Thai To Street
Hanoi/Vietnam
Phone +84 4/8 24 21 54
Fax +84 4/8 24 21 53
LBBWhanoi@hn.vnn.vn

London
LBBW
London Branch
City Point
1, Ropemaker Street
GB-London EC2Y 9LW
Phone +44 207/8 26-80 00
Fax +44 207/8 26-80 90
LBBW@LBBWuk.com

London
Landesbank Baden-Württemberg
Capital Markets PLC
City Point
1, Ropemaker Street
GB-London EC2Y 9LW
Phone +44 207/8 26-80 00
Fax +44 207/8 26-80 90
mail@LBBWuk.com

Madrid
LBBW
Madrid Representative Office
c/o la Caixa
José Abascal, 58
E-28003 Madrid
Phone +34 91/3 99 47 72
Fax +34 91/3 99 47 72
arturo.baldasano@pop.LBBW.de

Mexico City
LBBW
Mexico City Representative Office
"Centro Alemán"
Av. Santa Fé N° 170/01-02-08
Lomas de Santa Fé
01210 Mexico, D.F.
Mexico
Phone +52 5 5/91 72 92 60/61/62
Fax +52 5 5/91 72 92 63
mexico@LBBW.com.mx

Milan
LBBW
Milan Representative Office
Via Nirone 10
I-20123 Milano
Phone +39 02/87 38 47 00
Fax +39 02/87 38 47 05
milano@LBBW.de

Mumbai
LBBW
Mumbai Representative Office
920, Maker Chamber V
Nariman Point
Mumbai 400021
India
Phone +91 22/22 81 99 41/42
Fax +91 22/22 81 99 39
mumbai@LBBW.de

New York
LBBW
New York Branch
280 Park Avenue
31st Floor, West Building
New York
New York 10017 U.S.A.
Phone +1 212/5 84-17 00
Fax +1 212/5 84-17 99
LBBW@LBBWus.com

Paris
LBBW
Paris Representative Office
15, Rue du Louvre
F-75001 Paris
Phone +33 1/55 34 31 60
Fax +33 1/55 34 31 61
paris@LBBW.de

Prague
LBBW
Prague Representative Office
Na Prikope 9-11
CZ-110 00 Praha 1
Phone +420 2/24 23 62 76
Fax +420 2/24 23 54 68
praha@LBBW.de

São Paulo
LBBW
São Paulo Representative Office
Av. Nove de Julho, 5519-11 andar
01407-200 Itaim-Bibi/São Paulo
Brazil
Phone +55 11/37 04 70 10
Fax +55 11/30 98 64 59
sao.paulo@LBBW.com.br

Shanghai
LBBW
Shanghai Representative Office
Unit 2312, 23rd Floor, POS Plaza
1600, Century Avenue
Shanghai 200122
People's Republic of China
Phone +86 21/50 81 60 02
Fax +86 21/50 81 66 63
shanghai@LBBW.de

Singapore
LBBW
Singapore Branch
25 International Business Park
01-72 German Centre
609916 Singapore
SINGAPORE
Phone +65/65 62-77 22
Fax +65/65 62-77 29
www.LBBWsg.com
LBBW@LBBWsg.com

Tokyo
LBBW
Tokyo Representative Office
The Imperial Tower 10F
1-1-1 Uchisaiwaicho, Chiyoda-ku
Tokyo 100-0011
Phone +81 3/51 56 08 71
Fax +81 3/51 56 08 72
tokyo@LBBWjp.com

Vienna
LBBW
Vienna Representative Office
Seilergasse 6/7
A-1010 Wien
Phone +43 1/513 20 22 11
Fax +43 1/513 20 22 13
vienna@LBBW.de

Warsaw
LBBW
Warsaw Representative Office
ul. Lucka 20/15
PL-00-845 Warszawa
Phone +48 22/6 54 16 89
Fax +48 22/6 54 16 88
warszawa@LBBW.pl

Zurich
LBBW
Zurich Representative Office
c/o Zürcher Kantonalbank
International Banking
Josefstrasse 222
CH-8005 Zürich
Phone +41 43/2 05 26 17
Fax +41 43/2 05 26 18
andreas.fitzgerald@pop.LBBW.de

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Am Hauptbahnhof 2
D-70173 Stuttgart

www.LBBW.de
kontakt@LBBW.de

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Landesbank Baden-Württemberg
Head Offices

Stuttgart
P. O. Box 10 60 49
D-70049 Stuttgart
Am Hauptbahnhof 2
D-70173 Stuttgart
Phone +49 7 11/1 27-0
Fax +49 7 11/1 27-32 78
Telex 0 41/72519-0
www.LBBW.de
kontakt@LBBW.de

Karlsruhe
D-76245 Karlsruhe
Schlossplatz 12
D-76131 Karlsruhe
Phone +49 7 21/12 02-0
Fax +49 7 21/12 02-30 12
www.LBBW.de
kontakt@LBBW.de

Mannheim
P. O. Box 10 03 52
D-68003 Mannheim
Augustaanlage 33
D-68165 Mannheim
Phone +49 6 21/4 28-0
Fax +49 6 21/4 28-25 91
www.LBBW.de
kontakt@LBBW.de

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