

**LBBW**

**Investor Presentation**

**February 22, 2010**

Landesbank Baden-Württemberg

**LB  BW**



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# Agenda

**1. LBBW at a glance**

**2. Capital and funding**

**3. Results for the first half of 2009**

**4. Results January 1 – September 30, 2009**

**5. Asset quality**

**6. Outlook**

# LBBW at a glance

## Focused business model



- Partner for small to medium-sized enterprises
- Retail business in regional core markets
- Central Bank to the savings banks in three federal states
- Customer-driven capital markets business
- Real estate financing in selective markets

## Strong core markets



- Baden-Württemberg, Rhineland-Palatinate and Saxony generate 23% of German GDP
- Baden-Württemberg is one of the wealthiest regions in Europe

## Capital base strengthened



- Injection of EUR 5 billion new capital by the owners of LBBW in June 2009
- Risk shield of EUR 12.7 billion from the State of Baden-Württemberg reduces risk weighted assets

## Restructuring started



- Focus on customer business in core markets
- Reduction of non-strategic activities and shareholdings
- Reduction of balance sheet and risk weighted assets by ca. 40%
- Cost savings of around EUR 700 million until 2013
- Substantial loss expected in 2009 due to one-time effects

# Baden-Württemberg: An important business region

**Baden-Württemberg is one of Europe's wealthiest regions**



- 137.1% of 2008 European Union per-capita GDP average

**Larger economy than Switzerland or Austria**



- Nominal GDP of EUR 364.3 billion in 2008, 14.7% of German total

**Unemployment rate well below German average**



- 5.3% in Baden-Württemberg versus German average of 8.0% in September 2009\*

**Low per-capita debt in Baden-Württemberg**



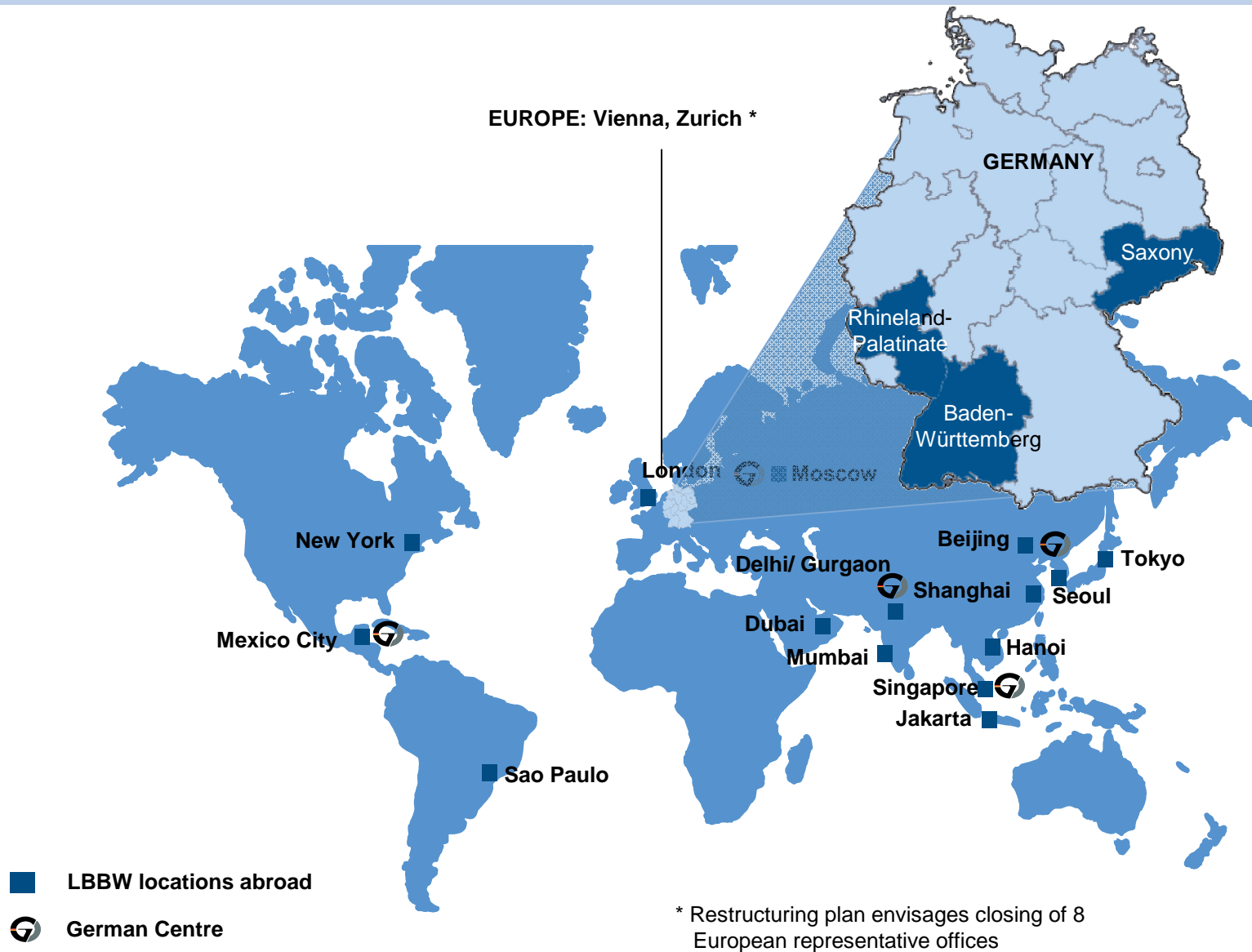
- Third lowest per-capita debt of any German state at EUR 3,991\*\* in March 2009

**Baden-Württemberg is home to prestigious companies:**



\* Source: Federal Employment Office / \*\* Source: Institut der deutschen Wirtschaft Köln

# LBBW: We are where our customers need us



# LBBW's business model with five pillars

## Corporate Customers

- Corporate customers in regional core markets
- Selective large customers (business volume > EUR 500 mln) in German-speaking countries

## Retail Customers

- Retail customers, especially high net-worth private clients in regional core markets

## Savings Banks

- Savings banks in Germany, especially in regional core markets
  - Syndicated loans, development loans and public sector business
  - Asset management, refinancing and deposit business
  - Transaction management and securities service business

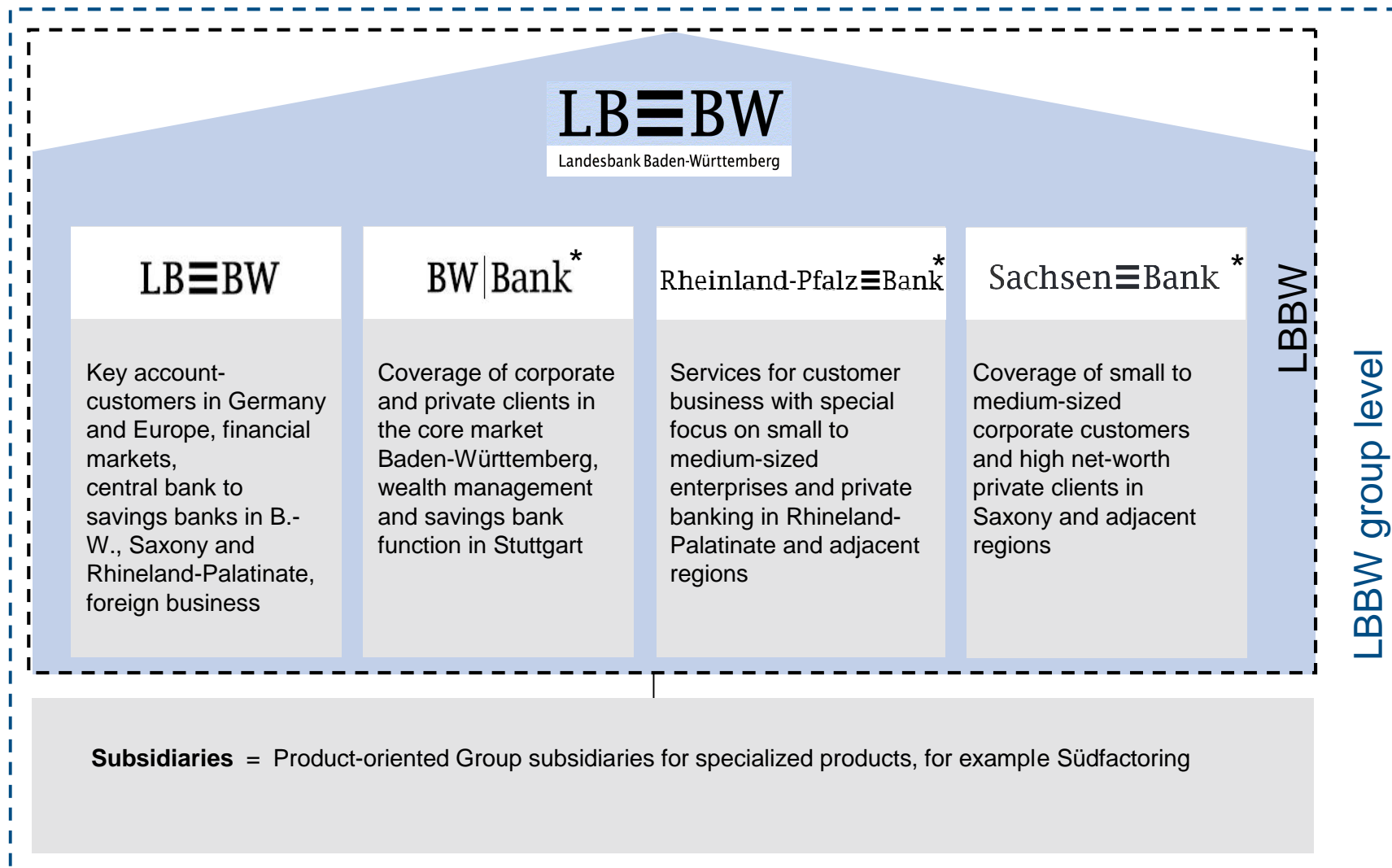
## Financial Markets

- Structuring, distribution and trading of interest rate, money market, foreign exchange and commodities products for savings banks, retail and institutional clients
- Advisory, structuring and placement of capital and refinancing products
- Customer-driven trading

## Real Estate Business

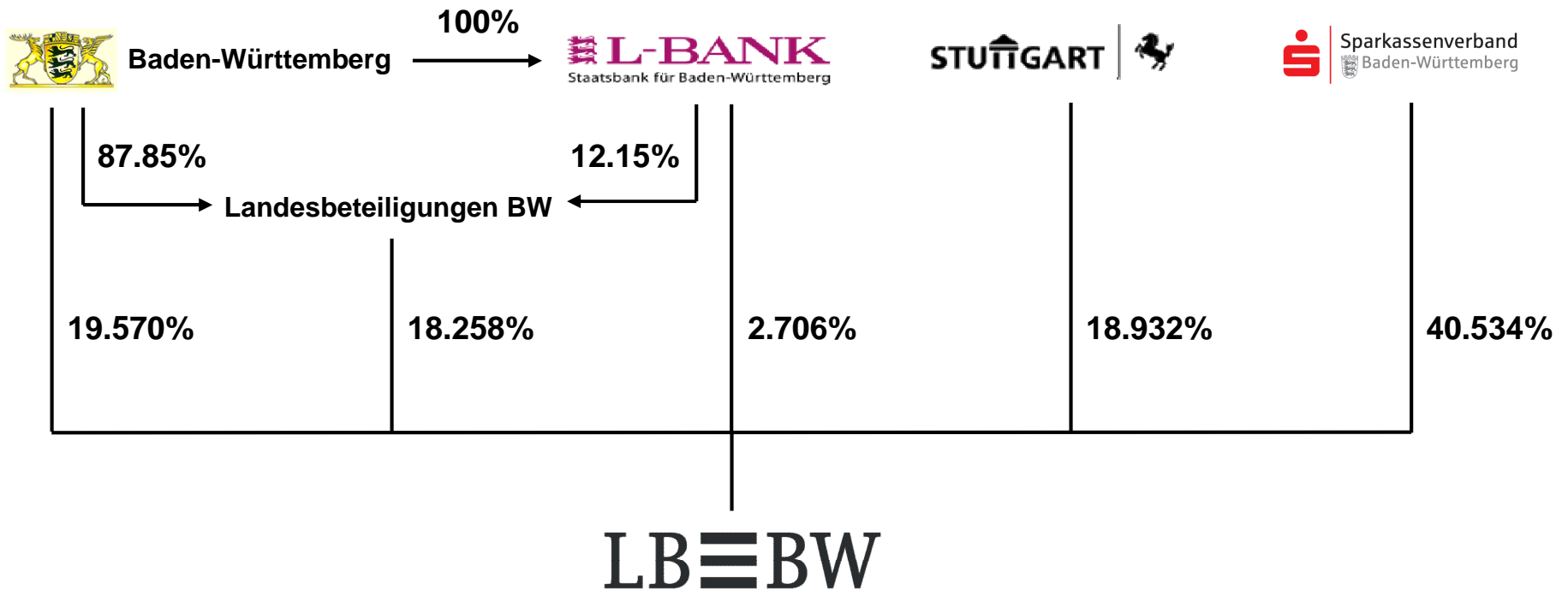
- Investors, real estate companies and real estate funds with focus on Germany, USA and Great Britain
- Residential real estate companies

# Customer-oriented business structure



\* BW-Bank, Rheinland-Pfalz Bank and Sachsen Bank were integrated as dependent institutions without legal standing into LBBW

# Strong commitment of the bank's owners



# Rating overview



<b>Ratings</b> <ul style="list-style-type: none"><li>▪ Long-term rating</li><li>▪ Short-term rating</li><li>▪ Outlook</li></ul>	<b>Aa2</b> <b>P-1</b> <b>negative</b>	<b>A+</b> <b>F1+</b> <b>stable</b>
<b>Financial strength</b>	<b>C-</b>	<b>C/D</b>
<b>Public Pfandbriefe</b>	<b>Aaa</b>	<b>AAA</b>
<b>Mortgage Pfandbriefe</b>	<b>Aaa</b>	<b>-</b>
<b>Grandfathered ratings</b> <ul style="list-style-type: none"><li>▪ Long-term rating</li><li>▪ Outlook</li></ul>	<b>Aaa</b> <b>stable</b>	<b>AAA</b> <b>stable</b>

# EU approves restructuring plan

## **Aim:**

- Comply with the requirements of the EU Commission in connection with the capital increase and the risk shield
- Position LBBW with a customer-oriented business model sustainably profitable

## **Measures:**

- Reduction of balance sheet by around 40% - concurrently growth in core business
- Down-sizing of non customer-related investment portfolio
- Abandon specialized financing products (i.e. aircraft- and ship-financing)
- Tightening of international network (reduction of European representative offices, broker dealer, Ireland, Luxemburg)
- Reduction of several shareholdings
- Cost reduction of about EUR 700 million annually
- Reduction of 2,500 jobs in LBBW without taking subsidiaries into account
- With the implementation of the plan was started immediately
- According to current plans, the effects of the measures will gradually increase in subsequent years and be largely reached in 2013 for the first time

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**2. Capital and funding**

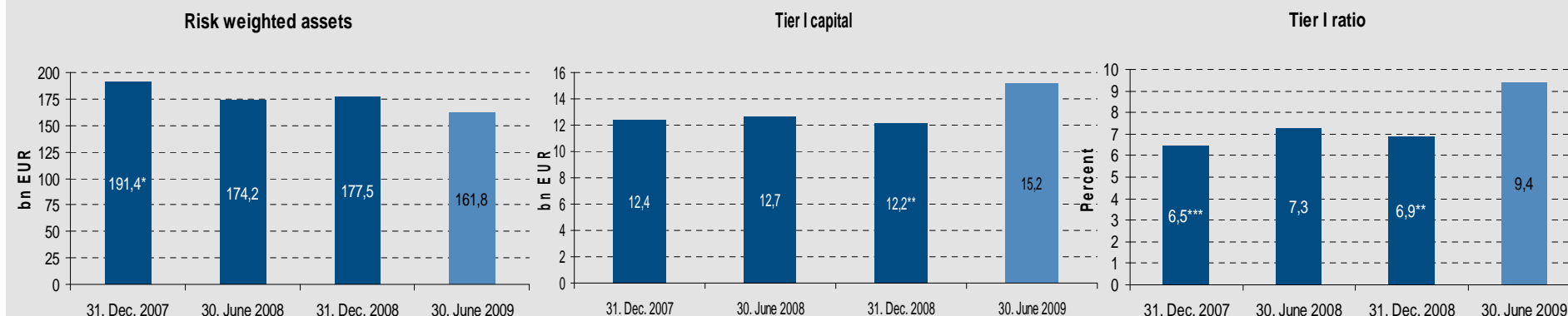
**3. Results for the first half of 2009**

**4. Results January 1 – September 30, 2009**

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## Equity base of LBBW strengthened



- Equity increase of EUR 5 bn by the owners, that was allotted with EUR 1.2 bn to ordinary share capital and with EUR 3.8 bn to share premium
- Risk shield of EUR 12.7 bn from the State of Baden-Württemberg reduces risk weighted assets
- Tier I ratio rises in H1 2009 to 9.4% from 6.9% as of the end of December 2008 and is expected to be around 8% in 2010
- Group equity (equity including subordinated debt) amounted to EUR 23.1 bn as of June 30, 2009 (+ 26.5% compared to year-end 2008)
- A Group equity decreasing effect was a slight reduction of subordinated debt

\* According to Grundsatz 1

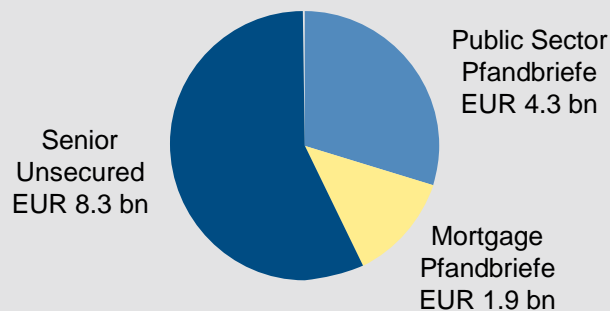
\*\* Before having taken into account the financial statements 2008

\*\*\* Based on the overall risk exposure (risk positions) according to KWG

# Successful funding in H1 2009

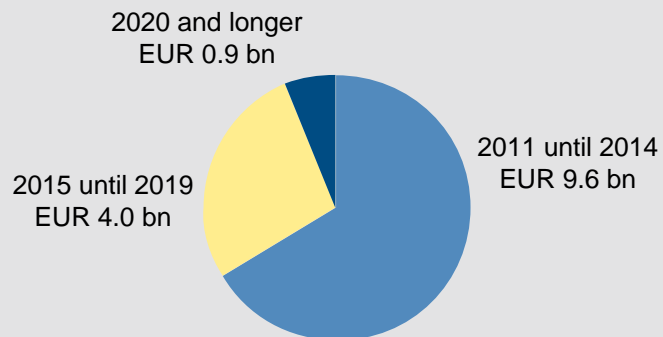
## New issuance – summary

January 1 – June 30, 2009



Total ca.: EUR 14.5 bn

Maturity breakdown  
January 1 – June 30, 2009

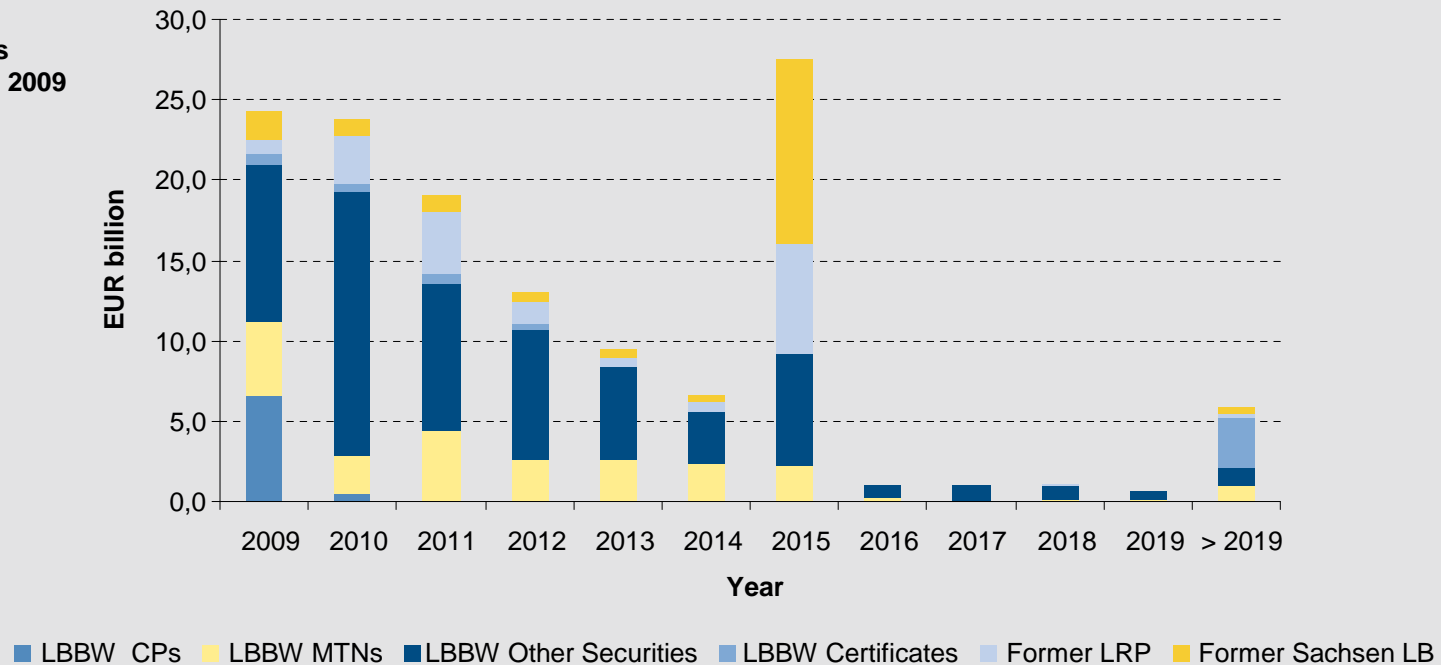


Total ca.: EUR 14.5 bn

- Policy of matched funding – funding needs basically driven by new asset business
- Good access to medium- and long-term funding, funding plan already accomplished for 2009
- Funding could be achieved without government guaranteed bond issuance
- Diversified funding across all maturities
- About 2/3 senior unsecured and 1/3 in Pfandbriefe
- LBBW opens Pfandbriefemarket in February 2009 with successful issuance of a EUR 1 bn Benchmark transaction, tapped by 500 mln in April
- Half of the senior unsecured funding through savings banks and about 1/4 of senior unsecured funding through retail
- EUR 5 bn capital injection provided further liquidity
- French CD Programme established in Q1 2009

## Maturity profile for outstanding bonds of LBBW Group

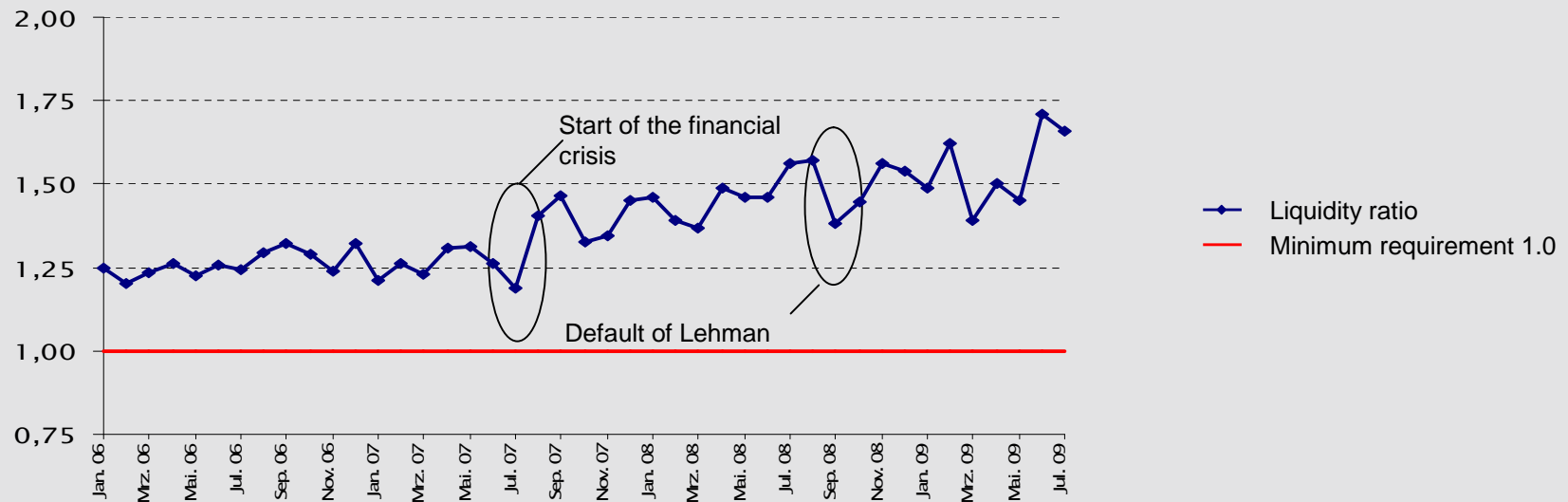
Maturities  
as of June 30, 2009



- Volume of total outstanding bonds amounts to EUR 133 bn
- Policy of matched funding for new business ensures that maturing bonds are covered by maturing assets
- Mismatch in 2015 mainly due to pre-funding of former Sachsen LB and LRP before abolition of state guarantees in 2005. These liabilities have very attractive funding costs with a spread of ca. mid-swap + 10 bps
- These bonds have been used to finance assets which mature before 2015. Therefore, no funding risk – re-investment risk is mitigated because of low funding costs

# Liquidity ratio\* of LBBW Group

## Well-managed liquidity



- In addition to a well-balanced term-funding, LBBW successfully manages its short-term liquidity
- Liquidity requirements defined in Liquidity Ordinance (LiqV) were exceeded at all times without relying on longer-term refinancing operations with ECB
- Increased liquidity buffer since start of financial crisis, even after Lehman collapse a high liquidity ratio could be maintained

\* Liquidity ratio measures inflow of funds versus outflow of funds for one month on every end of month

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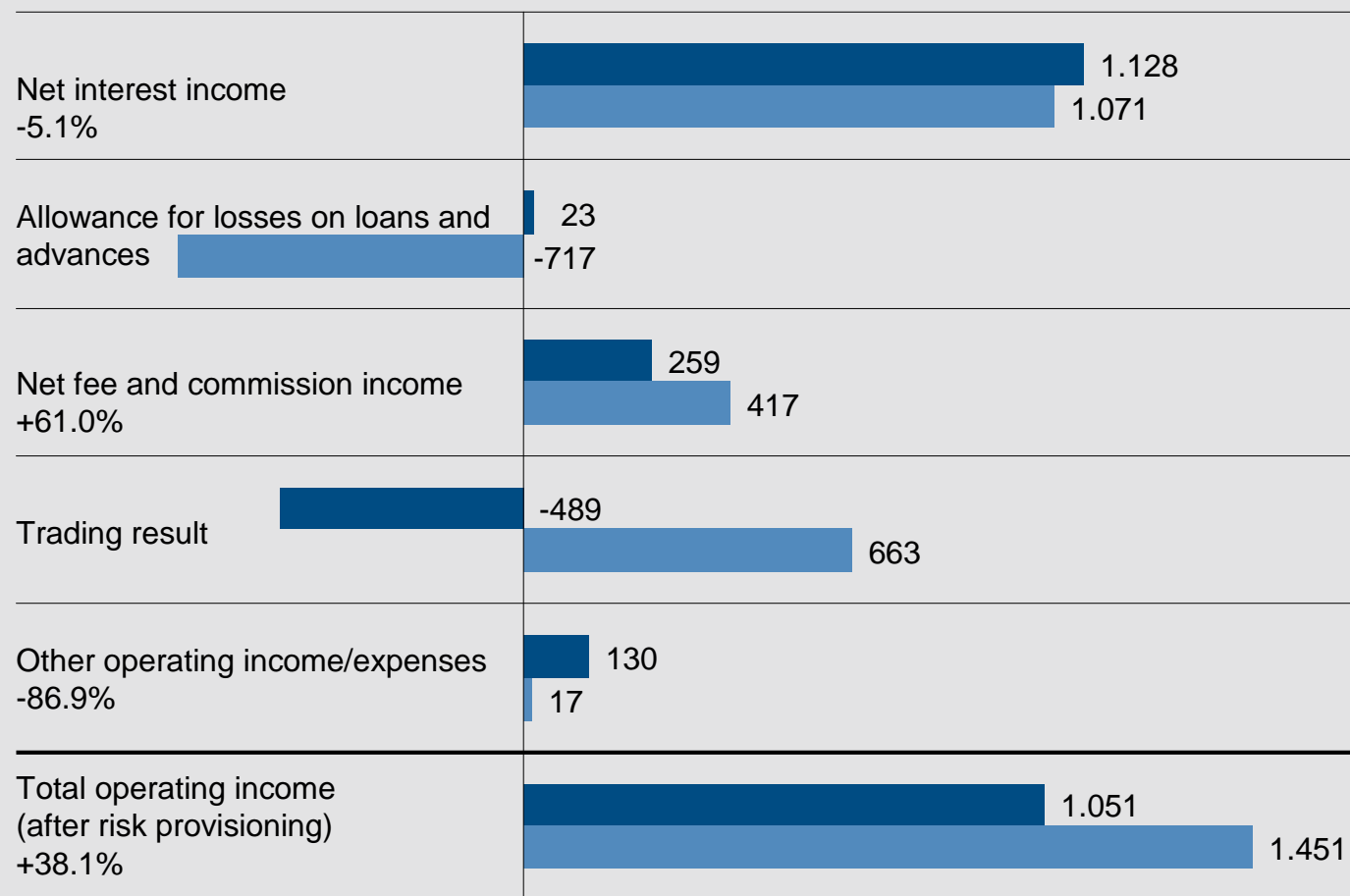
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## Substantial increase in operating income in H1 2009

EUR mln



■ January 1 – June 30, 2008\*   ■ January 1 – June 30, 2009

\* After adjustments according to IAS 8

# Impact of the financial crisis decreases

## Slight decrease in net interest income

- Amounted to EUR 1,071 mln (-5.1% compared to H1 2008)
- Significant expenses for liquidity and funding as well as CDS hedging costs for selected credit portfolios in connection with the financial crisis could not completely be offset by opposed income, mainly generated by the corporate business

## Commission income increased significantly

- Was with EUR 417 mln +61.0% above the previous year's level
- Positive development was supported by an exceptional environment in capital markets
- Improvement of results mainly by growth in brokerage, securities and custody business as well as in payment transactions and foreign business
- Development of brokerage business was characterized by higher transaction fees

## Distinct higher trading result

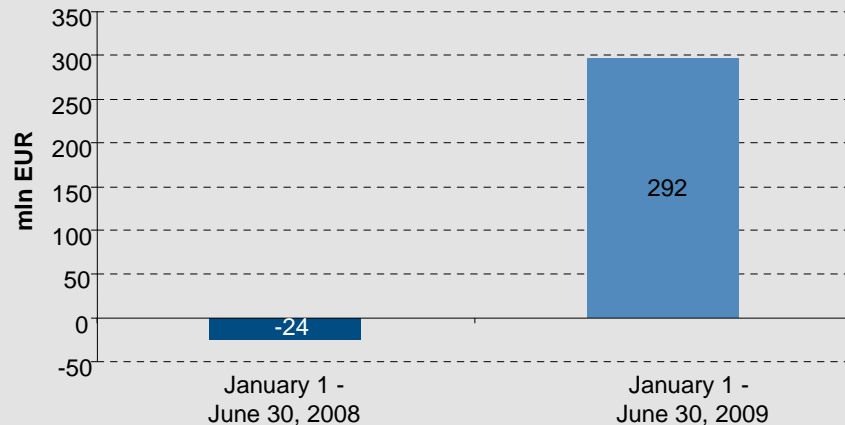
- Rise of EUR +1,152 mln to EUR 663 mln
- Recovery of credit sensitive financial instruments (no proprietary trading) of EUR 268 mln
- Positive valuation effects mainly due to spread tightening of credit derivatives relating to credit institutions and sovereigns
- Improvements of results in interest rate trading

## Other operating income below previous year's level

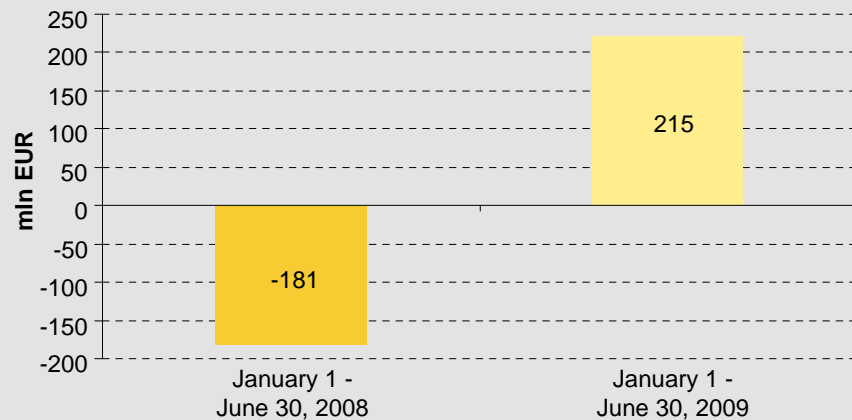
- Amounted to EUR 17 mln (compared to EUR 130 mln in H1 2008)
- Profit decrease mainly due to non-recurrent earnings from realized profits of commercial project developments in the previous year and due to charges of one-off effects
- Moderate decline of the net income from investment property

# Successful development of the operating business in H1 2009

## Operating profit in EUR mln



## Consolidated loss/profit for the period in EUR mln



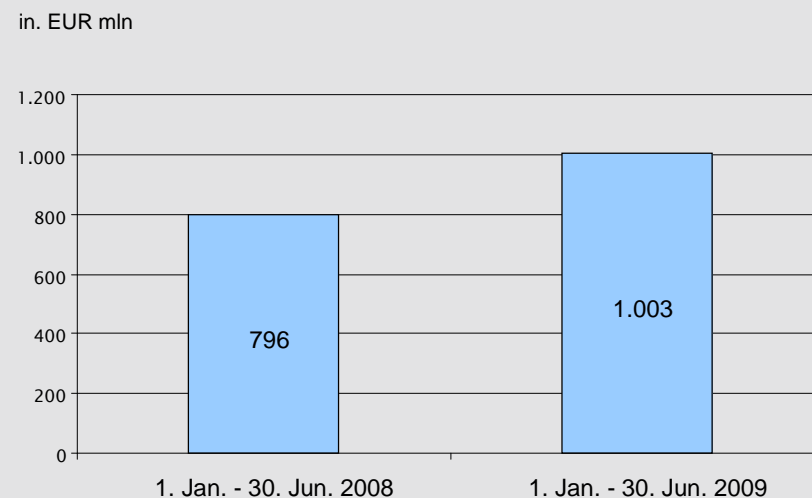
## Successful operating business

- Increase of the operating profit in H1 2009 to EUR 292 mln after a consolidated loss in H1 2008 of EUR -24 mln
- Rise of the operating profit, mainly by a distinct increase in net trading income and net fee and commission income
- Profit decreased due to the significant increase of the allowance for losses on loans and advances
- The consolidated profit after taxes amounted to EUR 215 mln in H1 2009 after loss of EUR -181 mln in the previous period
- For H1 2009 no restructuring costs occurred

## Segment Corporates: Rise in income despite difficult environment

in EUR mln	Corporates	
	01.01. - 30.06.2009	01.01. - 30.06.2008
<b>Operating income</b>	<b>1.003</b>	<b>796</b>
Loan loss provisions	-548	31
Net income/loss from investment securities	-36	-23
Administrative expenses	-321	-310
<b>Operating profit</b>	<b>97</b>	<b>493</b>
Restructuring expenses	0	0
<b>Profit before tax</b>	<b>97</b>	<b>493</b>
Segment assets	113.956	112.983
<b>Tied-up equity</b>	<b>5.335</b>	<b>4.818</b>
<b>RoE (in %)</b>	<b>3,7%</b>	<b>20,5%</b>
<b>CIR (in %)</b>	<b>32,0%</b>	<b>38,9%</b>

### Operating income increased

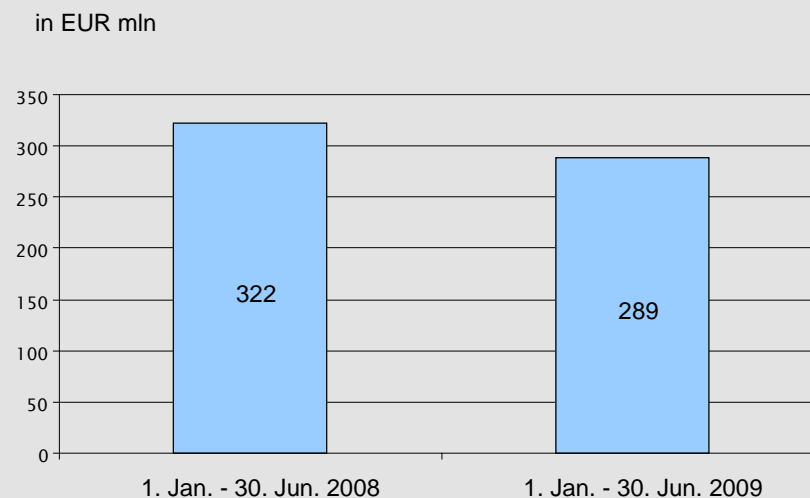


- This segment comprises all German and international activities with SMEs, with focus on Baden Württemberg, Saxony and Rhineland-Palatinate, business customers, key accounts, real estate companies as well as public authorities.
- Increase of the operating result due to
  - Margin improvements
  - Successful development in selective large exposures
- The growth is in contrast to distinctly higher risk provisions due to cyclical downturn

## Segment Retail Clients: Ongoing difficult competitive environment

in EUR mln	Retail Clients	
	01.01. - 30.06.2009	01.01. - 30.06.2008
<b>Operating income</b>	<b>289</b>	<b>322</b>
Loan loss provisions	-25	18
Net income/loss from investment securities	0	0
Administrative expenses	-246	-252
<b>Operating profit</b>	<b>18</b>	<b>87</b>
Restructuring expenses	0	0
<b>Profit before tax</b>	<b>18</b>	<b>87</b>
Segment assets	35.719	35.815
<b>Tied-up equity</b>	<b>945</b>	<b>1.012</b>
<b>RoE (in %)</b>	<b>3,7%</b>	<b>17,3%</b>
<b>CIR (in %)</b>	<b>85,1%</b>	<b>78,4%</b>

### Operating income decreased slightly



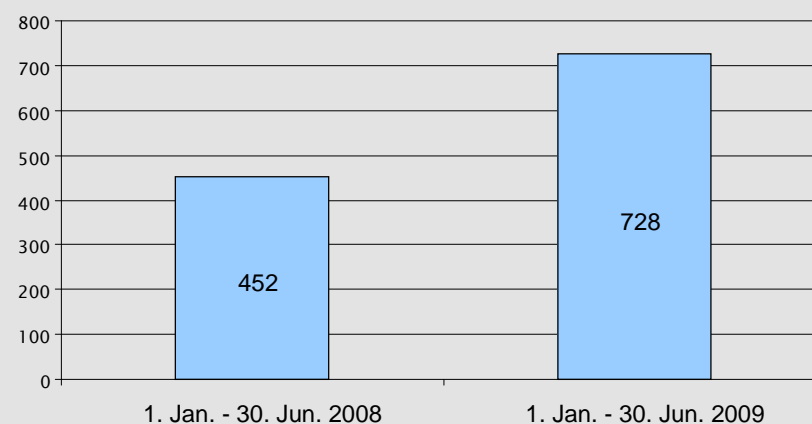
- This segment comprises all activities involving retail-, investment-, private banking- and wealth management clients as well as the business activities connected with LBBW's function as central bank for savings banks
- Declining profits in the securities business and the low interest level are of impact
- Ongoing strong competitive environment and difficult market conditions

## Segment Financial Markets: Income distinctly above previous year's level

in EUR mln	Financial Markets	
	01.01. - 30.06.2009	01.01. - 30.06.2008
<b>Operating income</b>	<b>728</b>	<b>452</b>
Loan loss provisions	-5	2
Net income/loss from investment securities	0	-1
Administrative expenses	-155	-168
<b>Operating profit</b>	<b>569</b>	<b>286</b>
Restructuring expenses	0	0
<b>Profit before tax</b>	<b>569</b>	<b>286</b>
Segment assets	145.559	158.198
<b>Tied-up equity</b>	<b>1.671</b>	<b>1.668</b>
<b>RoE (in %)</b>	<b>68,1%</b>	<b>34,3%</b>
<b>CIR (in %)</b>	<b>21,3%</b>	<b>37,1%</b>

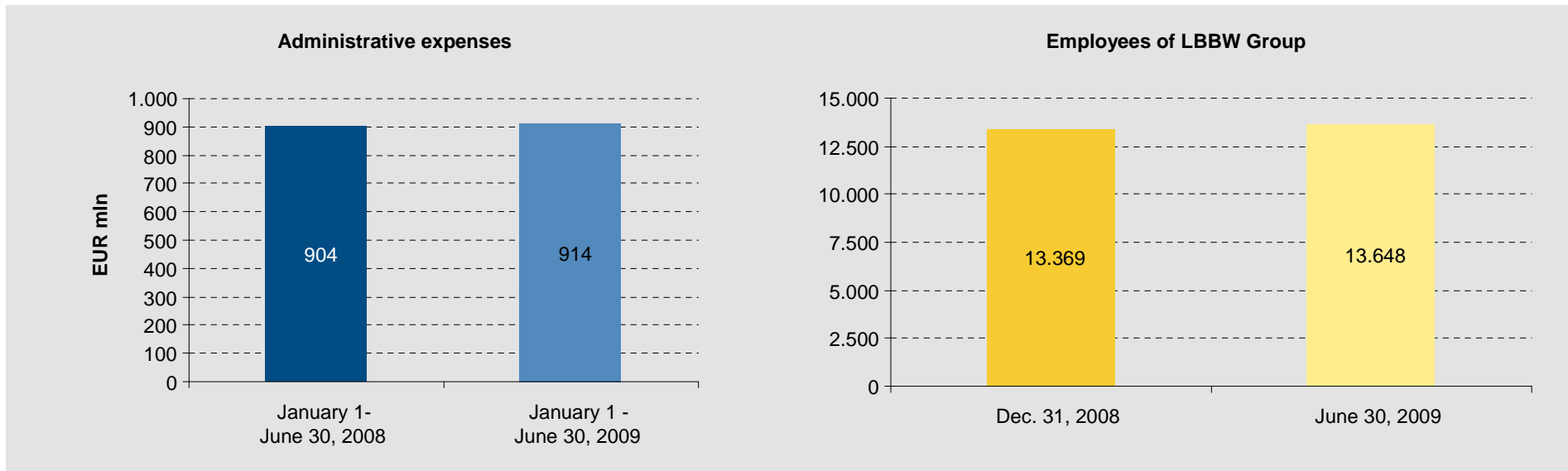
### Operating income increased mainly due to customer-focused capital markets business

in. EUR mln



- Customer groups are mainly savings banks, insurance companies and pension funds. Business with corporates is shown in the segment corporates.
- Excellent market position in bond issuance, corporate Schuldscheindarlehen and interest rate derivatives

## Substantial cost cuts planned

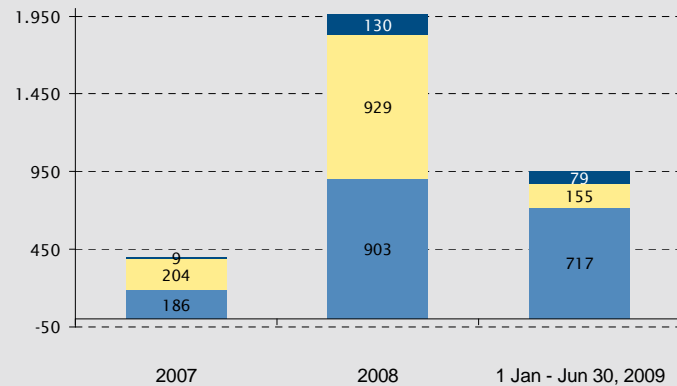


- Only small increase in administrative expenses by +1.1% to EUR -914 mln
- Personnel expenses could be held stable despite a higher number of employees and a rate hike
- Cost reductions resulting from the planned restructuring lead to annual savings of ca. EUR 700 mln until 2013
- Planned job cuts of ca. 2500 jobs in the core bank (affiliates not included)

# Impairments and NPLs

## Impairments

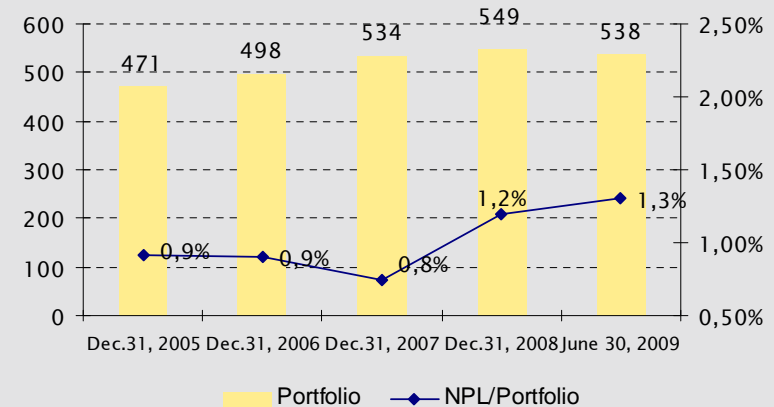
EUR mln



■ Impairments from AfS/LaR equity investments  
 ■ Loan loss provisions  
■ Impairments from AfS/LaR investment securities

## NPL ratio almost constant

EUR bn



- Valuation results of securities have largely been affected by the impacts of the Lehman bankruptcy and failures of Icelandic banks in the previous year
- Of the loan loss provisions in the credit business in H1 2009 EUR 569 mln are out of the traditional loan business, mainly with corporates (full year 2008: ca. EUR 520 mln)
- NPL ratio almost constant despite a decline in the volume of the portfolio

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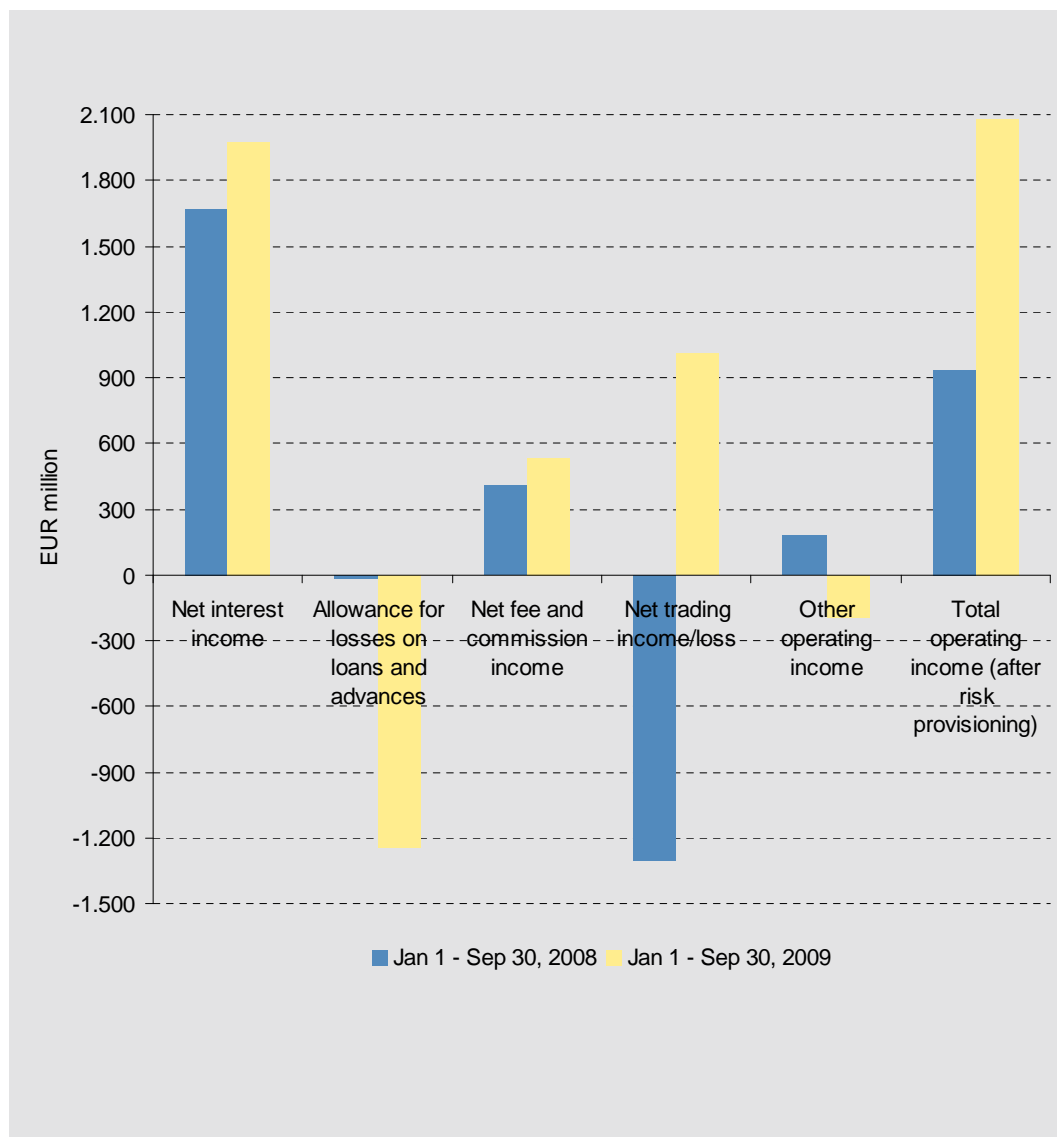
**6. Outlook**

# Results as of September 30, 2009

- Operating business shows pleasant trend
- Consolidated loss before tax of EUR 462 million after third quarter
- Operating income reflects the good business development, above all in the customer-driven business, amounting to EUR 189 million
- Net interest income of EUR 1.976 billion, i.e. 18.6% above the previous year's figure, whereas profit participation certificates and silent partners' contributions cannot be served, which leads to relief for interest expenses
- Net fee and commission income in 9M 2009 increased by 30.9% to EUR 533 million in spite of a guarantee fee of approx. EUR 80 million for the risk shield
- Net trading income recorded EUR 1.010 billion mainly due to a solid customer-driven business and to the recovery of market values of CDS in the amount of EUR 650 million
- Administrative expenses roughly at the previous year's level
- Net loss from investment securities of EUR 469 million contains impairment losses on bonds and structured investments (EUR 408 mln) as well as on equity investments (EUR 89 mln)
- Consolidated loss after tax EUR 620 million

<b>LBBW Group</b>	<b>1.1.-30.9.2009</b>	<b>1.1.-30.9. 2008</b>	<b>Change</b>
	<b>EUR mln</b>	<b>EUR mln</b>	<b>%</b>
Net interest income	1,976	1,667	18.6
Allowance for losses on loans and advances	-1,245	-14	> 100.0
Net fee and commission income	533	407	30.9
Net trading income/loss	1,010	-1,306	-
Other operating income	-197	181	-
<b>Total operating income (after risk provisioning)</b>	<b>2,077</b>	<b>935</b>	<b>&gt;100.0</b>
Administrative expenses	-1,379	-1,368	0.8
Net income/loss from investment securities	-469	-532	-11.8
Net income/loss from investments accounted for using the equity method and from profit/loss transfer agreements	-39	-1	> 100,0
<b>Operating income/loss</b>	<b>189</b>	<b>-967</b>	<b>-</b>
Impairment losses on goodwill/restructuring expenses	-651	-88	> 100.0
<b>Consolidated loss/profit before tax</b>	<b>-462</b>	<b>-1,055</b>	<b>56.2</b>
Income tax	-158	81	-
<b>Consolidated profit/loss after tax</b>	<b>-620</b>	<b>-974</b>	<b>36.3</b>

## January until September 2009: Operating business shows pleasant trend



- Total operating income in 9M 2009 with EUR 2.077 billion distinctly above the previous year's level
- Average lending volume in BW Bank's corporate customer business was approx. 7 per cent higher in the first 9 months 2009 than in the previous year
- Operating income of the three operating segments Corporates, Retail Clients and Financial Markets rose to EUR 2.981 billion in the first 9 months 2009 (+29% compared to 9M 2008)
  - Corporates: EUR 1.576 million (+ 26%)
  - Retail Clients: EUR 437 million (- 10%)
  - Financial Markets: EUR 967 million (+ 66%)
- In Q4 2009 continuation of the good customer business expected
- Poor economy will lead to a further increase in the allowance for losses on loans and advances
- Further burdens due to the financial market development and the restructuring

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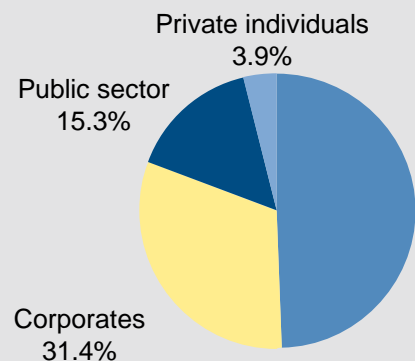
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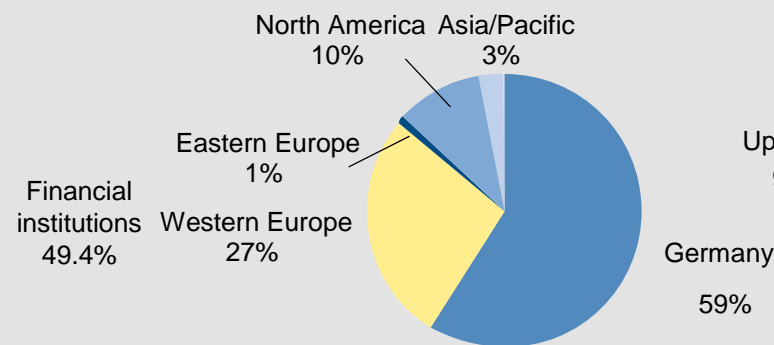
**6. Outlook**

# Lending breakdown of LBBW Group by industry, region and rating

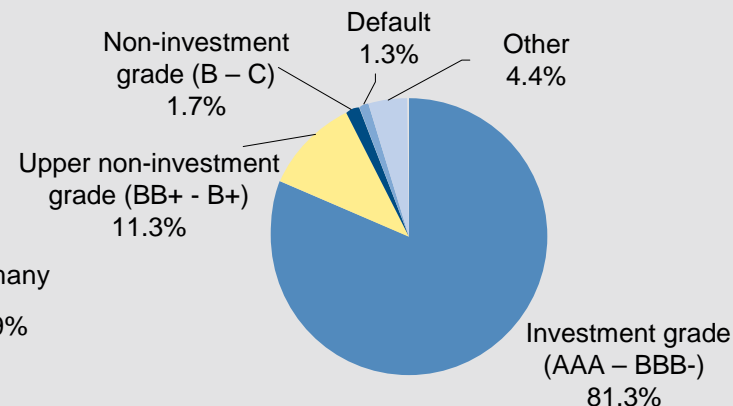
## Breakdown by industry



## Breakdown by region



## Breakdown by rating



## Breakdown of the exposure of EUR 537.9 bn as of June 30, 2009

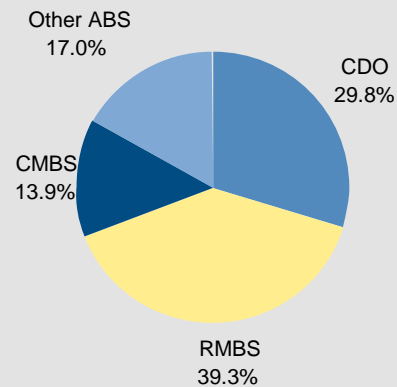
- Volume of portfolio calculated using management approach, i.e. internal risk management\*
- The core markets for LBBW's retail customer business and business with small and medium-sized companies are Baden-Württemberg, Rhineland-Palatinate and Saxony. In addition LBBW has capital market, key account, and real estate operations worldwide with an emphasis on Western Europe, North America, and Asian countries with excellent ratings
- Decrease of exposure by EUR 11.4 bn. Most distinct decrease at loans and advances to other banks
- Portfolio quality remains at high level as of June 30, 2009:
  - Unchanged 81.3% of the net portfolio of claims is rated investment grade
  - Only 1.3% are being restructured or liquidated
  - A total of 4.4% are classified in the category "Other" (mainly retail business and completely hedged structures)

\* Main differences between internal approach and external reporting arise from different bases of consolidation, valuation methods and the definition of credit volume as exposure (draw-downs/market values + open external commitments)

# Overview of securitization portfolio of LBBW Group – without risk shield

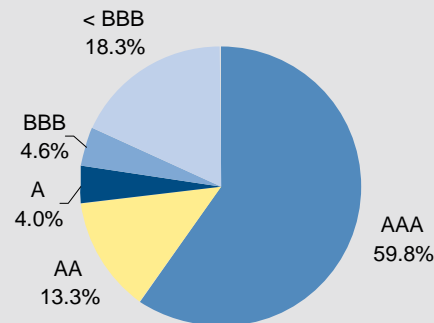
## Breakdown of the securitization portfolio of EUR 27.6 bn by asset class

as of June 30, 2009



## Breakdown of the securitization portfolio of EUR 27.6 bn by rating

as of June 30, 2009



## Securitization portfolio\*

- LBBW Group: EUR 27.6 bn without taking the risk shield into account
- Decrease of the securitization portfolio by EUR 2.1 bn due to amortizations, restructurings and currency effects compared to year end 2008
- Despite rating downgrades, the rating level of the securitization portfolio remains sound
  - 82% of the papers are rated investment grade
  - 60% of the papers are rated AAA
- The breakdown of the securitization portfolio by rating was conducted by applying the lowest available rating of Moody's, Standard & Poor's or Fitch Ratings

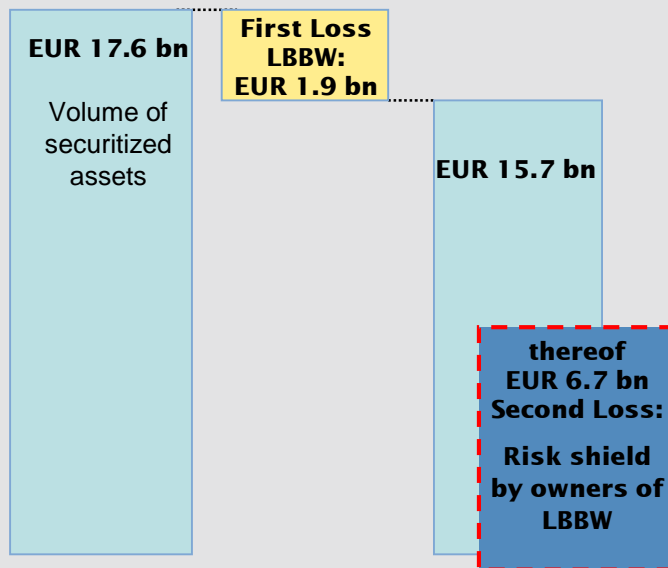
\* According to management approach

# Risk shield provided by the State of Baden-Württemberg

The risk shield of the State of Baden-Württemberg applies to two separate portfolios:

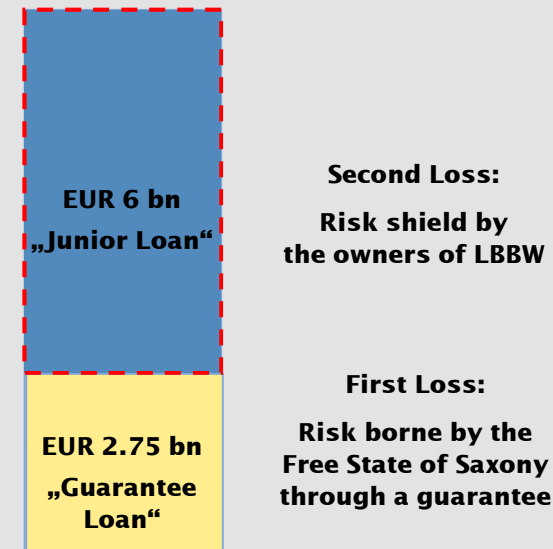
## (1) LBBW securitization portfolio: EUR 17.6 bn

Selected assets in the amount of EUR 17.6 bn of LBBW's ABS portfolio are guaranteed up to a loss of EUR 6.7 bn by the State of Baden-Württemberg. The first loss amount borne by LBBW is EUR 1.9 bn:



## (2) LBBW funding for SEALINK: EUR 6 bn

In Sealink Funding Ltd. assets of former Sachsen LB are bundled. The SPV funds itself via loans. The junior loan tranche (EUR 6 bn) provided by LBBW is protected by the risk shield and the guarantee loan (EUR 2.75 bn) also borne by LBBW is guaranteed by the Free State of Saxony:

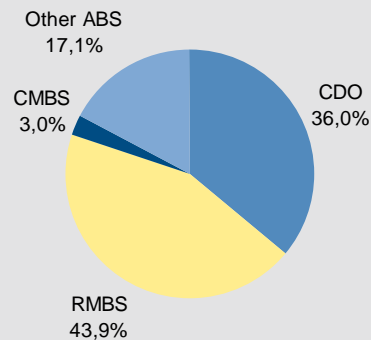


- Guaranteed assets remain on the balance sheet of LBBW
- The guarantee can be terminated at the request of LBBW at any time

# Overview of securitization portfolio of LBBW Group – with risk shield

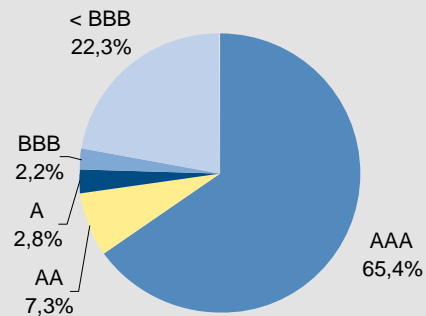
## Asset breakdown of the remaining securitization portfolio of 12.3 bn by asset class

as of June 30, 2009



## Breakdown of the remaining securitization portfolio of 12.3 bn by rating

as of June 30, 2009



## Remaining securitization portfolio\*

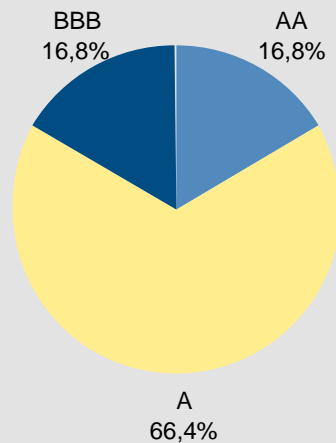
- LBBW Group: EUR 12.3 bn of securitization portfolio are not guaranteed through the risk shield
- This portfolio comprises also assets in the amount of up to EUR 1.9 bn which are contained in the first loss piece and are part of the risk shield
- The majority of the assets contained in the first loss piece are already marked down and recognized in income
- Apart from the securitization portfolio, LBBW is active in customer transactions

\* According to management approach

# Breakdown of customer transactions

## Breakdown of customer transactions of EUR 2.1 bn by rating

as of June 30, 2009



## Customer transactions

- LBBW Group: EUR 2.1 bn, thereof:
  - Trade receivables: EUR 0.7 bn
  - Interest bearing receivables: EUR 1.2 bn
  - Commercial real estate: EUR 0.2 bn
- Securitization of trade and interest-bearing receivables, particularly leasing receivables, primarily from SMEs
- Customer transactions are still characterized by high solvency and rating levels
- The exposure is almost exclusively in Germany
- Receivables are purchased via special purpose entities for which LBBW provides liquidity lines of EUR 1.9 bn. The funding of commercial real estate is conducted via loans from LBBW.
- LBBW is planning to expand this customer-driven business sector

## IFRS effects from the ABS portfolio on income statement and equity

EUR mln Asset type	Effects on the income statement		Effects on the revaluation reserve	
	30.06.2009	31.12.2008	30.06.2009	31.12.2008
CDO	74	-847	73	-317
RMBS	-85	-127	42	-223
CMBS	-14	-10	6	-21
Other	-16	-160	42	-90
<b>Total</b>	<b>-41</b>	<b>-1,144</b>	<b>163</b>	<b>-651</b>

- As of June 30, 2009 positive market trends of the different securitized products were all in all more than offset by impairments
- Almost 75% of the impairments were allotted to the asset type RMBS (almost exclusively US RMBS), about 20% were allotted to CDOs as well as remaining 5% to other securitized products
- The relief of the revaluation reserve between the two above mentioned reporting dates resulted from positive market valuation changes of the individual asset types, thereof ca. 50% on CDOs
- About 95% of the securitizations were in the category LaR as of June 30, 2009

# Agenda

**1. LBBW at a glance**

**2. Capital and funding**

**3. Results for the first half of 2009**

**4. Results January 1 – September 30, 2009**

**5. Asset quality**

**6. Outlook**

# Outlook

- LBBW's operating business was overall satisfactory in the first half of 2009; but this development can not be continued on a linear basis for the second half of 2009
- Apart from the financial crisis, the annual result will be affected by higher risk provisions as a consequence of the economic downturn, burdens stemming from the real estate business as well as restructuring costs
- For the fiscal year 2009 a significant loss is expected
- Due to the capital increase and the risk shield, LBBW is well prepared for the challenges of the future
- By taking this step LBBW created the basis for offering its customers close support during the current economic crisis
- The restructuring measures aim at achieving the requirements of the European Commission on the aid granted by the owners and to position LBBW sustainably profitable with a customer-focused business strategy
- Due to the expected loss, LBBW will not pay coupons on hybrid capital instruments, like profit participation certificates (Genussscheine) and silent partners' contributions (Stille Einlagen). In accordance with the requirements of the EU, LBBW will also not dissolve reserves to avoid loss-participation for the owners of hybrid capital instruments.

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