

# LBBW

## Investor Presentation

### Results as of September 30, 2010

Landesbank Baden-Württemberg

# LB BW



**1. LBBW at a glance**

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## Key data



- Ranks among the largest German banks with a balance sheet total of EUR 417 bn as of June 30, 2010
- Currently approx. 212 branches/offices in Germany and abroad

## Strong core markets



- Baden-Württemberg, Rhineland-Palatinate and Saxony generate approx. 23% of the German gross domestic product
- Baden-Württemberg is one of Europe's wealthiest regions

## Customer-oriented business model



- Partner of SMEs
- Retail business in regional core markets
- Central bank to savings banks in three federal states
- Customer-oriented capital markets business
- Real estate financing in selected target markets

## Strengthening of the capital base



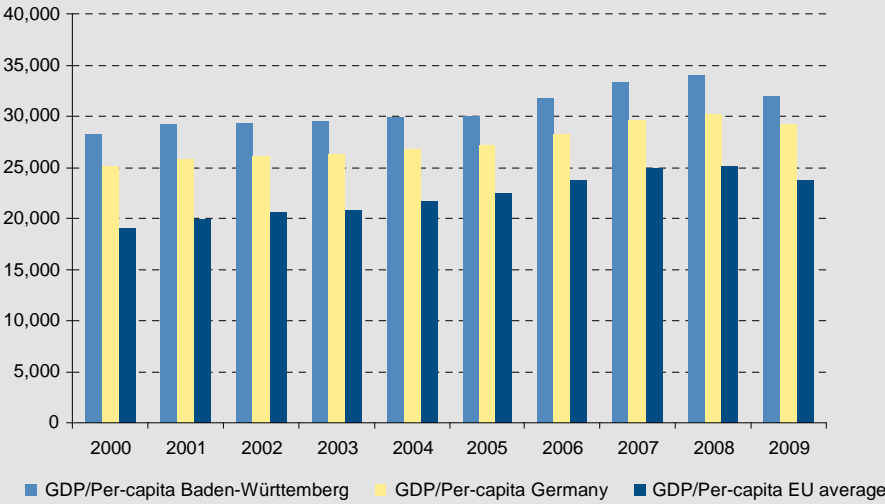
- Allocation of EUR 5 bn equity through LBBW's owners in June 2009
- Relief in risk-weighted assets due to shield of the federal state of Baden-Württemberg amounting to EUR 12.7 bn

## Results as of September 30, 2010



- LBBW achieves positive result in the amount of EUR 143 mln in the third quarter
- Comprehensive restructuring proceeding as planned, solid customer business
- Risk-weighted assets markedly reduced
- Core capital ratio increases to 10.8 percent, total ratio to 14.8 percent
- Volatile financial markets continue to be a strong burden to the result
- After nine months, consolidated loss after tax still at EUR 147 mln

# Federal state of Baden-Württemberg: An important business region

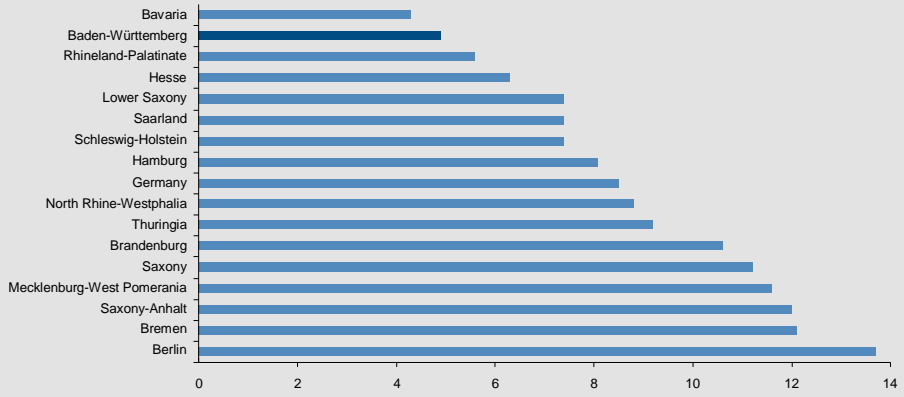


## Baden-Württemberg is one of Europe's wealthiest regions

- 134.9% of 2009 European Union per-capita Gross Domestic Product (GDP) average
- Larger economy than Austria or Switzerland
- Export share higher than the national average
- Baden-Württemberg's corporates are leading regarding research and development (R&D): highest share of R&D expenses per GDP of all federal states, most filings for a patent per 10,000 inhabitants

Sources: Eurostat, Statistical Office of the federal state of Baden-Württemberg

## Unemployment rate August 2010



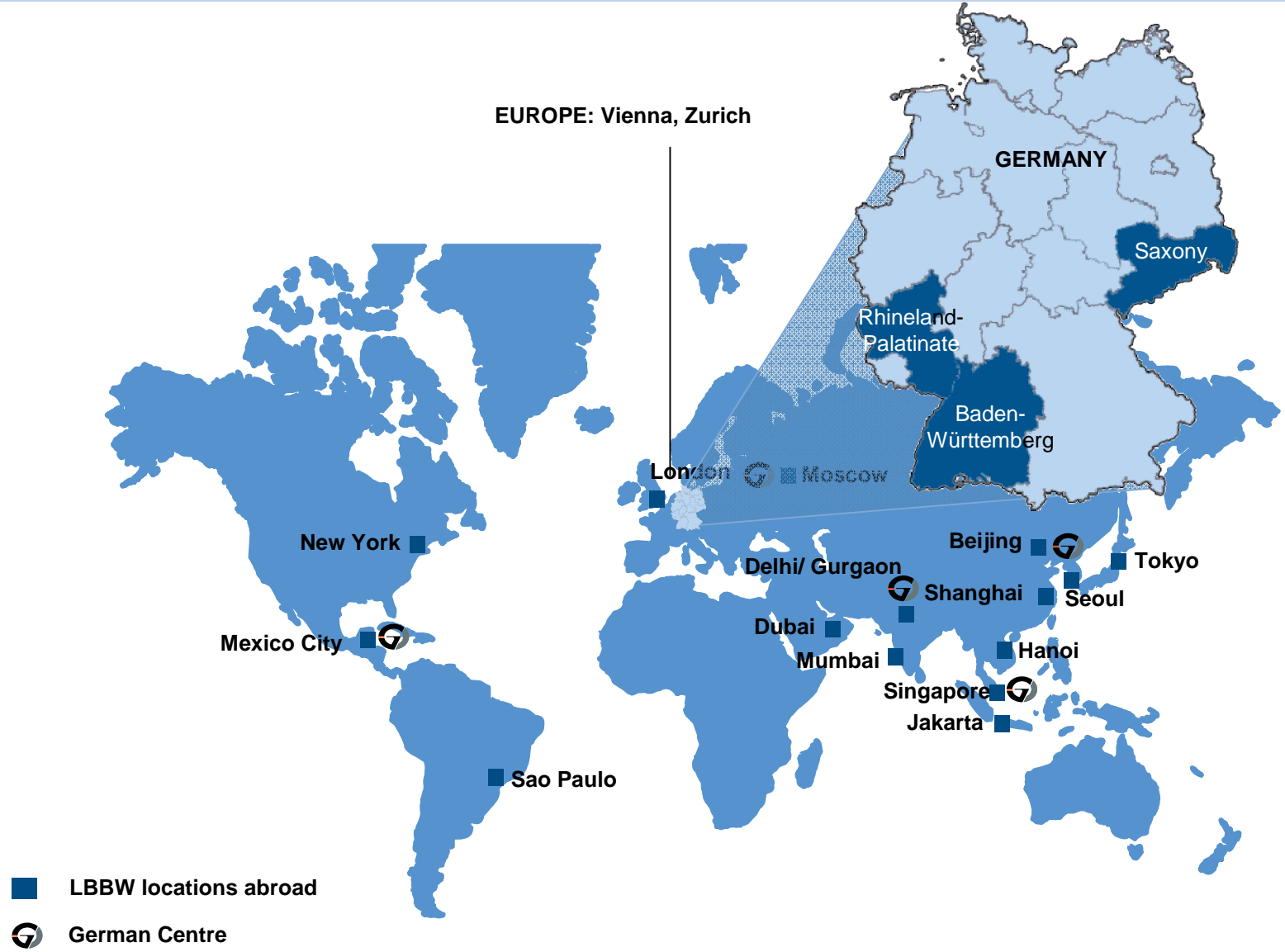
## Low unemployment rate

- Unemployment rate of 4.9% in Baden-Württemberg well below the German average of 8.5% in August 2010
- Third lowest per-capita debt of any German federal state with EUR 4,004 in December 2009
- Baden-Württemberg is home to:



Source: Federal Employment Office

# LBBW: We are where our customers need us



# LBBW's new business model with five pillars

## Corporate Customers

- Corporate customers in regional core markets
- Selected large customers in German-speaking countries
- Focus on long-term customer relations
- No cutbacks in the product range
- Remaining presence in important Asian and American growth markets

## Retail Customers

- Retail customers, especially high net-worth private clients in regional core markets
- High market share in Stuttgart in spite of hard competition
- BW extend, the checking account with additional benefit, was priced for best conditions
- Chances for growth, mainly in the high net-worth segment
- Gross cash inflows of half a billion Euros in Wealth Management

## Savings Banks

- Savings banks in Germany, especially in regional core markets
- High volume of business of over 85 percent generated with savings banks in Baden-Württemberg and Rhineland-Palatinate
- Broad range of products and services
- New division Corporate Finance for Savings Banks
- Brisk demand in development loans: New business increased by 14 percent

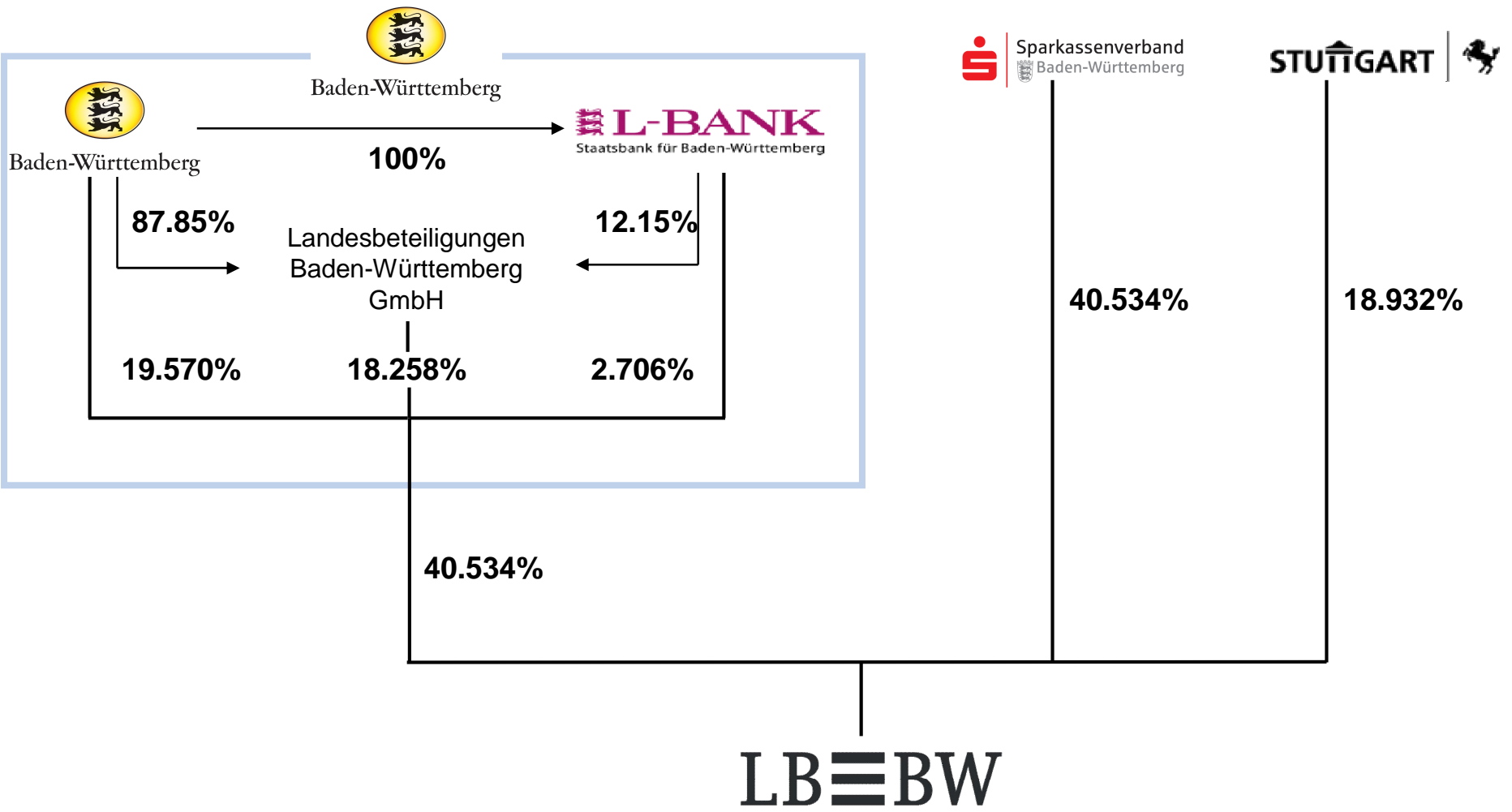
## Financial Markets

- Savings banks, retail and corporate clients as well as institutional clients
- Even stronger focus on customer business
- Structuring, distribution and trading of interest rate, money market, foreign exchange, credit and stock products
- Leading position in the Schuldschein-darlehen and Pfandbrief business

## Real Estate Business

- Investors, real estate companies, real estate funds and residential real estate companies
- Focus on the German market
- Selected activities in the USA and Great Britain

# Strong ownership structure



# Strong support by the owners

- All owners clearly committed to LBBW
- Equity increase jointly managed by all owners and together with the risk shield basis for a profound realignment
- No EU condition for a change of ownership (stability of ownership)
- High proportion of contracts covered by the contractual service partnership with savings banks in Baden-Württemberg

*“Now the framework has been fixed within which LBBW can concentrate on its greatest strength, which is to support the innovative small and medium-sized companies of Baden-Württemberg as a strong partner. For the economic centre of Baden-Württemberg, this rapid decision at the end of the year is a positive message.”*

Günther H. Oettinger  
Former Prime Minister  
of Baden-Württemberg

*“The new business model is very well suited to the savings banks. The concentration on customer business, complementing the products and services offered by the savings banks, and the important function of LBBW as central bank for the savings banks are strengthened.”*

Peter Schneider  
President of the Savings Banks  
Association of Baden-Württemberg

*“Together with its subsidiary BW-Bank, LBBW will be a high-profile bank for small and medium-sized enterprises. Thus invigorated, it can play an important role for the economy in Stuttgart, the region and the federal state and for its private customers.”*

Dr. Wolfgang Schuster  
Lord Mayor of the City of Stuttgart

Quotations made on the occasion of the approval of the European Commission for LBBW's realignment on Dec. 15, 2009

# Rating overview



**Ratings**

- Long-term rating
- Short-term rating
- Outlook

**Aa2**  
**P-1**  
**negative**

**A+**  
**F1+**  
**stable**

**Financial strength**

**C-**

**C/D\***

**Public Pfandbriefe**

**Aaa**

**AAA**

**Mortgage Pfandbriefe**

**Aaa**

**–**

**Grandfathered ratings**

- Long-term rating
- Outlook

**Aaa**  
**stable**

**AAA**  
**stable**

\* Rating Watch Negative

**1. LBBW at a glance**

**02 – 09**

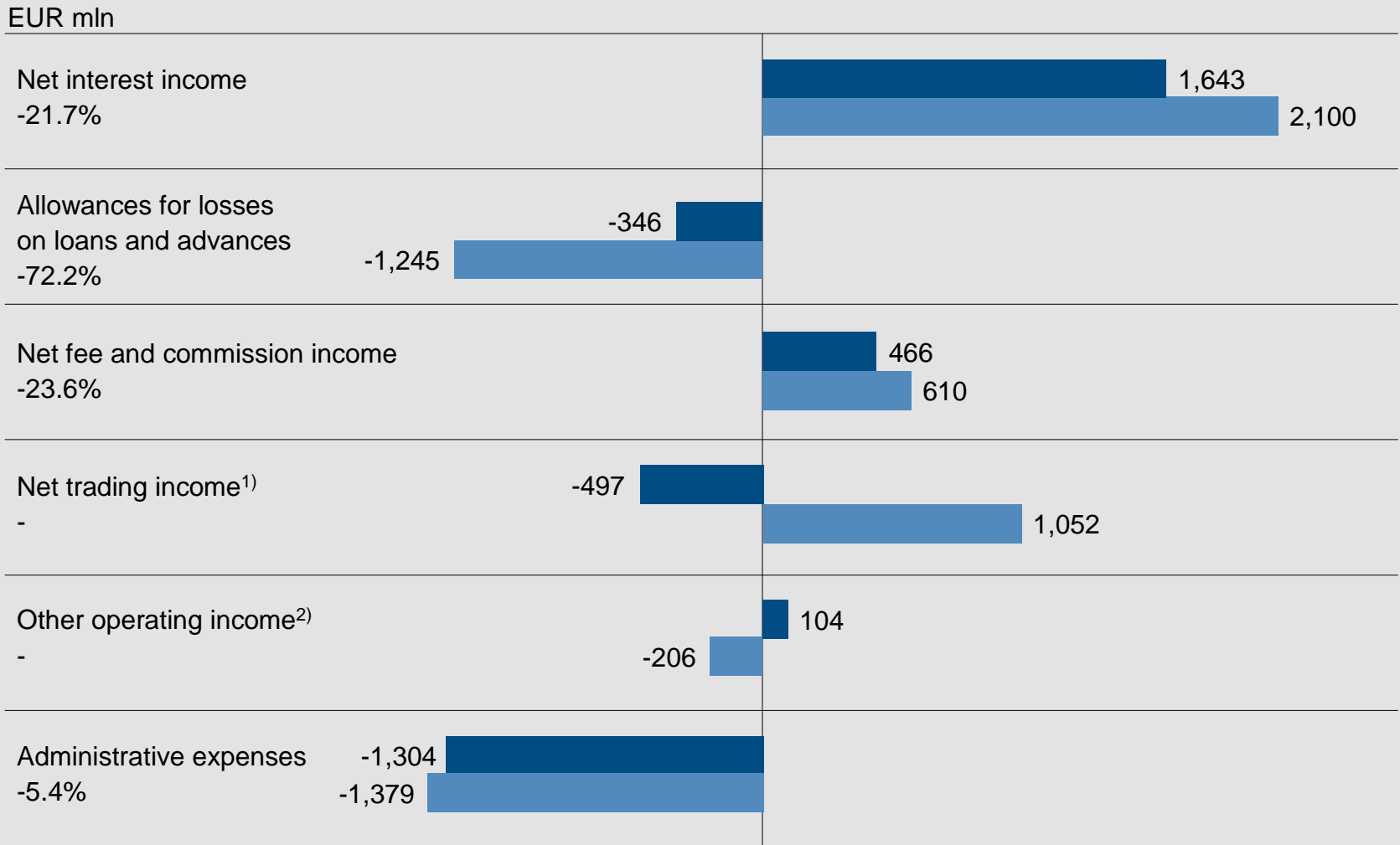
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# Results at a glance: LBBW's restructuring shows effects



■ January 1 - September 30, 2010 ■ January 1 - September 30, 2009\*

<sup>1)</sup> In addition to net trading income/loss, this item also includes net income/loss from financial instruments designated at fair value and net income/loss from hedging transactions

<sup>2)</sup> In addition to other operating income/expenses, this item also includes net income from investment property

Differences result from rounding  
\* Including adjustments according to IAS 8

# Return to the black in Q3, solid customer business

## Net interest income

- Amounted to EUR 1,643 mln (-21.7% compared to the previous year's level)
- The interest rate trend had had a strongly positive impact on the net interest income of the previous year, there were no such positive effects due to the flattening of the yield curve
- This position reflects the clearly reduced interbank business and the strategically envisaged marked reduction of the Credit Investment Portfolio (CIP)
- Interest income from subsidiaries declined

## Net fee and commission income

- Amounted to EUR 466 mln (-23.6% compared to the previous year's figure)
- The previous year's figures had been strongly impacted by non-recurrent income
- Still existing restraint on the part of investors regarding securities transactions in the light of the market uncertainties

## Net trading income/loss

- Showed a loss of EUR 497 mln (previous year: EUR 1,052 mln)
- Negatively impacted by fluctuating valuations, mainly due to high spreads on sovereign risk
- Compared to the six-month result, the valuation loss could be partly reversed

## Other operating income

- Amounted to EUR 104 mln
- Thus increased by EUR 310 mln on the previous year, which had been burdened by non-recurrent effects

- LBBW achieves **positive result** in the amount of **EUR 143 mln** in **Q3 2010** (Q3 2009: EUR -803 mln), thus the loss for H1 2010 could be partly offset
- As of September 30, 2010, LBBW's **core capital ratio** clearly increased to **10.8 percent**
- **Consolidated loss** of **EUR 147 mln** (previous year: EUR -501 mln) for the first **nine months 2010** against the background of a pleasant income in the private and corporate customer business and reduced allowances for losses on loans & advances
- This result includes overall burdens of approx. EUR 600 mln from the Credit Investment Portfolio (CIP) which is currently being reduced
- Due to the ongoing high volatility in the financial markets, it is currently too early to make a reliable forecast for LBBW's consolidated income/loss for the year. This applies to both, the result acc. to IFRS and the result acc. to HGB (German GAAP)

# Development of the operating segments

## Segment Corporates

- Generated **operating income** in the amount of **EUR 1,650 mln** in the first nine months of the year, thus slightly higher than the previous year's figure of EUR 1,599 mln
- **Result of the segment before tax** almost doubled as compared to the six-month result (EUR 380 mln) to **EUR 735 mln**
- Extraordinarily positive development across all segments of the corporate customer business
- The clearly reduced allowances for losses on loans and advances in the course of to the general recovery reinforced this positive effect

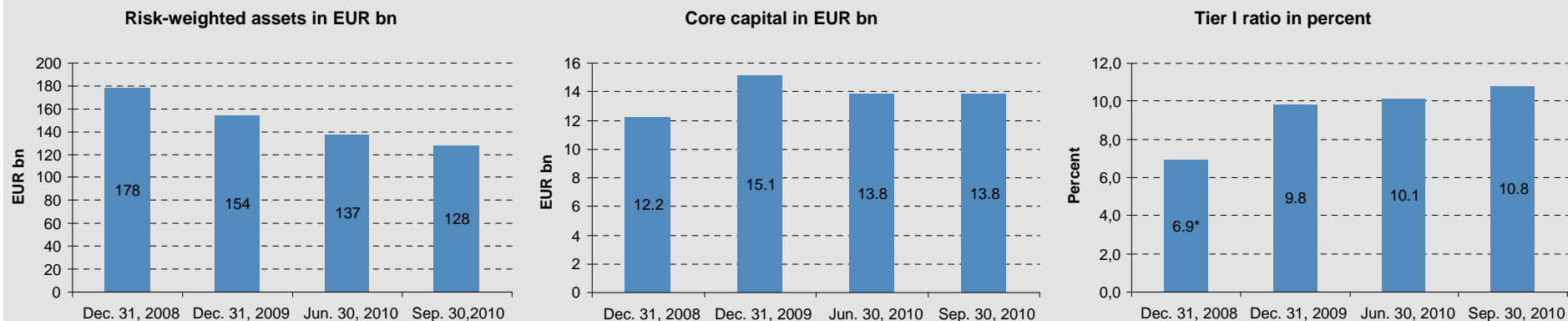
## Segment Retail Clients

- **Operating income** increased to **EUR 475 mln** (previous year's value: EUR 449 mln)
- The proceeds from the deposit-taking and financing business as well as the expansion of wealth management were able to more than offset the slightly declining sales in the securities business
- **Result of the segment before tax** grew to EUR 103 mln and was thus almost twice as high as the figure of the previous year (EUR 57 mln)

## Segment Financial Markets

- As expected, **operating income** at **EUR 535 mln** was lower than the very good figure of the previous year (EUR 967 mln) due to market distortions, the clearly reduced interbank business and the low interest rate level
- **Result of the segment before tax** summed up to **EUR 277 mln** (previous year: EUR 715 mln) and was thus EUR 77 mln higher than the six-month result

# Core capital ratio increases to 10.8 percent



- As of September 30, 2010, LBBW's Tier I ratio increased to 10.8 percent
- The total ratio increased, too, and amounted to 14.8 percent
- Risk-weighted assets markedly reduced this year from EUR 154 bn to EUR 128 bn
- In the third quarter alone, the Credit Investment Portfolio (CIP), which had originally amounted to approx. EUR 95 bn, was reduced by a further EUR 8 bn to EUR 58 bn, which contributed to a marked increase in the capital ratios

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

# Figures of LBBW Group as of September 30, 2010

	01.01.–30.09.2010 EUR mln	01.01.–30.09.2009 EUR mln*	Change	
			EUR mln	%
Net interest income	1,643	2,100	-457	-21.7
Allowances for losses on loans and advances	-346	-1,245	899	-72.2
Net fee and commission income	466	610	-144	-23.6
Net trading income/loss	-497	1,052	-1,549	---
Other operating income	104	-206	310	---
<b>Total operating income</b> <small>(after allowances on loans and advances)</small>	<b>1,370</b>	<b>2,311</b>	<b>-941</b>	<b>-40.7</b>
Administrative expenses	-1,304	-1,379	75	-5.4
Net income/loss from investment securities	92	-469	561	---
<small>Net income/loss from investments accounted for using the equity method and from profit/loss transfer agreements</small>	-12	-39	27	-68.6
<b>Operating income</b>	<b>146</b>	<b>424</b>	<b>-278</b>	<b>-65.6</b>
Impairment on goodwill	0	-400	400	-100.0
Restructuring expenses	-54	-251	197	-78.3
Net commission expenses for public guarantees	-230	-77	-153	>100.0
<b>Consolidated profit/loss before tax</b>	<b>-138</b>	<b>-304</b>	<b>166</b>	<b>-54.7</b>
Income tax	-9	-197	188	-95.3
<b>Consolidated loss/profit for the period</b>	<b>-147</b>	<b>-501</b>	<b>354</b>	<b>-70.6</b>

Differences result from rounding

\* Including adjustments according to IAS 8

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# Outlook

- Comprehensive restructuring proceeding as planned, the savings from the initiated cost-cutting programme are on track
- LBBW's customer-oriented business model again proved to be solid, generating sustained earnings
- Precisely in the core business areas of the bank, private customer and corporate customer business, the results as of September 30, 2010, were above target
- Thus, the nine-month result could improve compared to the six-month result
- This is in contrast to the ongoing high value fluctuations of the Credit Investment Portfolio (CIP)
- The charges as well as the risks from the Credit Investment Portfolio (CIP) are reduced with ongoing high priority
- LBBW still expects a marked improvement of the consolidated result for the year compared to the previous year
- Due to the ongoing high volatility in the financial markets, it is, currently, too early to make a reliable forecast for LBBW's consolidated income/loss for the year. This applies to both, the result acc. to IFRS and the result acc. to HGB (German GAAP)

# Restructuring plan implemented under stringent conditions

- ✓ Credit investment portfolio stronger reduced than planned
- ✓ Accomplished and initiated sales processes for equity investments
  - In March 2010 LBBW sold LBBW Securities, LLC, its U.S. Broker/Dealer, to Guggenheim Partners
  - In August 2010 sale of the private customer business of LBBW Luxemburg S.A. to DekaBank Luxembourg
  - In November 2010 sale of LRI Invest to Augur Capital
  - Further sales processes are in progress
- ✓ Reduction of representative offices in Europe terminated
- ✓ Decline of administrative expenses
- ✓ Landesbank Baden-Württemberg Act and LBBW's ordinance were amended in effect from August 14, 2010
  - Aufsichtsrat as LBBW's central supervisory body in place of the present Verwaltungsrat
  - Annual General Meeting instead of Owners' Meeting

Target: Adjusted business model with which LBBW – despite the uncertain and radically changing environment – is well-positioned with regard to the future and profitability

# Contact details

**Jörg Huber**  
Managing Director  
Head of Funding & Investor Relations  
Phone: +49 711-127-78741  
Fax: +49 711-127-6678741  
Email: Joerg.Huber@LBBW.de

Landesbank Baden-Württemberg  
Am Hauptbahnhof 2  
70173 Stuttgart  
Germany

**Karl W. Haeling**  
Head of Strategic Debt Distribution  
Phone: +1 212-584-1736  
Fax: +1 212-584-1739  
Email: Karl.Haeling@LBBWus.de

LBBW Branch New York  
280 Park Avenue, 31st Floor West  
New York 10017  
U.S.A.

**Peter Kammerer**  
Head of Investor Relations  
Phone: +49 711-127-75270  
Fax: +49 711-127-6675270  
Email: Peter.A.Kammerer@LBBW.com

www.LBBW.com  
LBBW <CORP> <GO>  
LBBW <GO>

**Frank Paresen**  
Head of International Funding  
Phone: +49 711-127-78835  
Fax: +49 711-127-6678835  
Email: Frank.Paresen@LBBW.de

**Sabine Weilbach**  
Investor Relations  
Phone: +49 711-127-75103  
Fax: +49 711-127-6675103  
Email: Sabine.Weilbach@LBBW.de

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