

24 November 2010

LBBW's restructuring shows effects Results as of 30 September 2010 (acc. to IFRS) presented today

- **LBBW achieves positive result in the amount of EUR 143 million in the third quarter**
- **Comprehensive restructuring proceeding as planned, solid customer business**
- **Risk-weighted assets markedly reduced**
- **Core capital ratio increases to 10.8 per cent, total ration to 14.8 per cent**
- **Volatile financial markets continue to be a strong burden to the result**
- **After nine months of 2010, consolidated loss after tax still at EUR 147 million**

On the basis of a continuously successful operating business, Landesbank Baden-Württemberg (LBBW) returned to the black in the third quarter of 2010. The consolidated profit for the quarter amounted to EUR 143 million after tax (third quarter 2009: EUR -803 million). "In our customer business and in the implementation of the restructuring measures, we are well on track, partly we are clearly better than expected. We were thus able to partly offset the six-month loss", said Hans-Jörg Vetter, Chairman of LBBW's Board of Managing Directors. As of 30 September 2010, LBBW's core capital ratio clearly increased to 10.8 per cent.

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For the first nine months of this year, LBBW had to report a consolidated loss of EUR 147 million (previous year after nine months: EUR - 501 million) - against the background of a pleasant income in the private and corporate customer business and reduced allowances for loans and advances. This result includes overall burdens of approx. EUR 600 million from the Credit Investment Portfolio (CIP) which is currently being reduced. Among these approx. EUR 480 million alone are due to valuation losses owing to spreads on sovereign risks as of 30 September 2010. Net commission expenses for public guarantees accounted for charges of EUR 230 million as of 30 September 2010.

“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 30 September 2010 were markedly above target”, said Mr Vetter. This is in contrast to the ongoing high value fluctuations of the CIP. “Therefore, it is all the more important to reduce the charges as well as the risks from the Credit Investment Portfolio with ongoing high priority,” added Mr Vetter.

Restructuring shows its effects

The restructuring measures, which have been resolutely implemented in the past few months, show their effects. As of 30 September, LBBW had already reduced its risk-weighted assets markedly from EUR 154 billion to EUR 128 billion this year. In this context, it had again been possible to strongly reduce the CIP, too. In the third quarter alone, the CIP, which had originally amounted to approx. EUR 95 billion, was reduced by a further EUR 8 billion to EUR 58 billion, which contributed to a marked increase in the capital ratios.

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The savings from the initiated cost-cuttings programme are on track. In the first nine months, it was possible to cut the administrative expenses by more than five per cent. Moreover, just under 40 per cent of the job cuts envisaged by 2013 have already been agreed on a contractual basis. By selling LRI Invest as well as the private customer business of LBBW Luxemburg S.A., the investment portfolio has been further reduced. As planned, the representative offices in Paris and Barcelona were closed. LBBW has thus fulfilled the conditions of the restructuring plan regarding the downsizing of its international office network. By establishing the new Supervisory Board in early November, a further decisive step was taken towards the planned change of the legal form. "At the end of the restructuring in 2013, LBBW will be a bank with a lean and efficient structure, which is characterised by a viable business model generating sustained earnings, with a strong customer focus and strong roots in the core markets", explained Mr Vetter.

Overview of the income and expense items

The **net interest income** of the first nine months amounted to EUR 1.643 billion and was thus 21.7 per cent below the previous year's level. After 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. Moreover this position reflects the clearly reduced interbank business and the strategically envisaged marked reduction of the CIP, i.e. no further interest income was generated from the already reduced portfolios. In addition, the interest income from subsidiaries declined. This is due to changes in the scope of consolidation, in particular the sale of subsidiaries.

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Due to the economic recovery and the resulting improved credit standing of numerous companies, it was again possible to clearly reduce the **allowances for losses on loans and advances**. As of 30 September 2010, LBBW reports allowances for losses on loans and advances in the amount of overall EUR 346 million, thus maintaining its conservative risk policy. Compared to the previous year (EUR 1.245 billion), this corresponds to a reduction of more than 72 per cent. In this context, allowances of EUR 965 million were created, whereas it was possible to retransfer write-downs of EUR 633 million. However, the pleasant trend of the allowances for losses on loans and advances cannot be extrapolated to the whole year on an unchanged basis.

The **net fee and commission income** amounted to EUR 466 million and was thus 23.6 per cent lower than the previous year's figure, which had been strongly impacted by non-recurrent income. Moreover, the decline reflects the still existing restraint on the part of investors regarding securities transactions in the light of the market uncertainties.

The **trading income/loss** was negatively impacted by value fluctuations, mainly due to high spreads on sovereign risk. Admittedly, it was possible to partly reverse the valuation loss compared to the six-month result, but after nine months of 2010, the trading result still showed a loss of EUR 497 million (previous year: EUR 1.052 billion).

The **other operating income** amounted to EUR 104 million as of 30 September and thus increased by EUR 310 million on the previous year, which had been burdened by non-recurrent effects.

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Administrative expenses reflect first successes of the cost-cuttings programme. Compared to the previous year, they declined by 5.4 per cent to EUR 1.304 billion. As far as material expenses are concerned, it was possible to achieve savings of 11.0 per cent, due to, for example, lower leasing fees, IT costs and lower costs of advisory and expert opinions. Staff costs also decreased slightly. As of 30 September 2010, LBBW had 13,222 employees, i.e. 408 less than at the beginning of the year. The reduction of 2,500 jobs by 2013, which is indispensable in the course of the restructuring process, is proceeding better than expected. As of 30 September, overall approx. 900 agreements on the termination of employment had been reached. In this context, more than 700 employees had accepted the early retirement and severance packages.

The **net income/loss from investment securities** rose markedly compared to the previous year. After a loss of EUR 469 million as of the third quarter 2009, it returned to positive territory with EUR 92 million this year. The positive result 2010 is mainly due to reversals of write-downs on securities as well as from the valuation of equity investments.

The **operating result** of the LBBW Group summed up to EUR 146 million after the first nine months of this year. After deducting the restructuring expenses in the amount of EUR 54 million as well as the net commission expenses for public guarantees in the amount of EUR 230 million, the **consolidated loss before tax** amounted to EUR -138 million. As of 30 September 2010, **tax expenses** amounted to EUR 9 million. After the third quarter, LBBW reported a **consolidated loss** in the amount of EUR 147 million. Compared to the previous year, it declined markedly (EUR -501 million).

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Owing to interest-rate and exchange-rate effects, **total assets** amounted to EUR 414 billion and were thus slightly higher than at the beginning of the year (EUR 412 billion). The core capital ratio markedly increased, amounting to 10.8 per cent as of 30 September. The overall ratio amounted to 14.8 per cent.

Development of the operating segments

The **Corporates** segment, in which the corporate customer business of the group is concentrated, generated operating income in the amount of EUR 1.650 billion in the first nine months, thus being slightly higher than the previous year's figure of EUR 1.599 billion. This reflects an extraordinarily positive development across all segments of the corporate customer business and shows the solid market position and the traditional strength of the bank in its core regions. The clearly reduced allowances for losses on loans and advances in the course of the general economic recovery reinforced this positive effect. The result of the segment before tax almost doubled as compared to the six-month result (EUR 380 million). It rose to EUR 735 million. The nine-month figure of the previous year had amounted to EUR -299 million due to high allowances for losses on loans and advances and write-downs on goodwill.

The **Retail Clients** segment, which comprises both the private customer business as well as the business with savings banks (central bank function), increased its operating income to EUR 475 million compared to the figure of the previous year (EUR 449 million). 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. After a six-month

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figure of EUR 72 million, the result of the segment before tax after the third quarter rose to EUR 103 million. It was thus almost twice as high as the figure of the previous year (EUR 57 million).

In the **Financial Markets** segment, as expected, the operating income at EUR 535 million was lower than the very good figure of the previous year in the amount of EUR 967 million due to market distortions, the clearly reduced interbank business and the low interest rate level. The operating result of the segment before tax of the first nine months summed up to EUR 277 million (figure of the previous year: EUR 715 million) and was thus EUR 77 million higher than the six-month result.

Outlook

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 IFRS-result and the HGB-result.

Business figures of the LBBW Group as of 30 September 2010

	1 Jan. – 30 Sept. 2010 EUR million	1 Jan. – 30 Sept. 2009 EUR million *	Change	
			EUR million	in %
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	---
Total operating income (after allowance for losses on loans and advances)	1,370	2,311	-941	-40.7
Administrative expenses	-1,304	-1,379	75	-5.4
Net income/loss from investment securities	92	-469	561	---
Net profit/loss from investments accounted for using the equity method and from profit/loss transfer agreements	-12	-39	27	-68.6
Operating result	146	424	-278	-65.6
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
Consolidated loss before tax	-138	-304	166	-54.7
Income tax	-9	-197	188	-95.3
Consolidated loss for the period	-147	-501	354	-70.6

	30 Sept. 2010 EUR billion	31 Dec. 2009 EUR billion	Change	
			EUR billion	in %
Total assets	414	412	2	0.6

	30 Sept. 2010	31 Dec. 2009	Change	
			in abs. terms	in %
Group staff	13,222	13,630	-408	-3.0

	30 Sept. 2010 in %	31 Dec. 2009 in %
Core capital ratio	10.8	9.8
Total ratio	14.8	13.3

* After taking into account adjustments in accordance with IAS 8.
Differences are the result of rounding. Percentages are based on the exact values.