

Press release

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LBBW Presents Figures for the First Half of 2011

- Business with private and corporate clients continues to develop positively
- Rise in IFRS consolidated profit before tax to EUR 601 million (previous year: EUR -321 million) despite strain from Greek exposure
- Consolidated profit after tax for the period amounted to EUR 376 million (previous year: consolidated loss after tax of EUR 290 million)
- Reduction in risk-weighted assets and run-down of the credit investment portfolio ahead of schedule
- Further improvement in capital ratios: Core capital ratio 13.3%, total ratio 17.7%
- Restructuring process well on track

In the first six months of 2011 Landesbank Baden-Württemberg (LBBW) generated IFRS consolidated profit before tax of EUR 601 million (previous year: consolidated loss before tax of EUR 321 million). A charge of EUR 450 million from Greek exposure is included in this figure. At the same time, risk-weighted assets were systematically reduced, particularly in the credit investment portfolio. "Recent developments in the financial markets are vindicating our strategy of reshaping the Group to become a customer-orientated provider of financial services. Our half-yearly results show that we have already made good progress in the right direction," stated Hans-Jörg Vetter LBBW

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Chairman of the Board of Managing Directors. Consolidated profit after tax came to EUR 376 million, thus in comparison to a loss of EUR 290 million in the same period of the previous year.

LBBW's core business was again encouraging. In particular, business with private and corporate clients as well as financial markets proved to be solid earnings drivers. In addition, it was possible to reduce allowances for losses on loans and advances considerably in the first six months of the year, due to the favorable economic environment, among other things. Furthermore, various one-off effects are reflected in the result. Income from the divestment of equity investments exerted a positive effect. On the other hand, exposure to sovereign risks, particularly Greece, exerted pressure. LBBW wrote down its Greek bonds by a total of EUR 300 million, which corresponds to an allowance of approx. 50%. Additionally, the sale of the derivative structure linked to Greece led to losses of EUR 156 million. In this way, it was possible to significantly reduce exposure to Greece. Furthermore, the bank set aside prorata provisions of EUR 29 million for the new bank levy.

LBBW's capital ratio continued to improve in the first six months of the year. The bank was able to reduce its risk-weighted assets well ahead of schedule, which led to an increase in the core capital ratio from 11.4% (December 31, 2010) to a pleasing 13.3% at the end of June. The total ratio widened from 15.3% to 17.7%. LBBW therefore has sufficient reserves to shield itself from potential significant turbulence on the financial markets, as confirmed by the latest stress test of the European Banking Authority (EBA). It was possible to reduce the credit investment portfolio by a further EUR 14 billion to approx. EUR 40 billion compared to 31 December

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2010 through maturities and targeted selling. In the same period total assets were reduced by 5.2% to EUR 355 billion. In doing so, LBBW has complied with an agreement with the EU in connection with its restructuring plans to successively reduce the Group's total assets.

Income and expense items - first six months of 2011

Net interest income in the first six months amounted to EUR 1,203 billion and was 4.3% less than the previous year. The decline in interest income due to the reduction in assets, particularly in the credit investment portfolio, was partly offset by the increase in income from operating activities.

It was possible to further reduce the **allowance for losses on loans and advances** as a result of the favorable economic environment, which had a positive impact on corporates' credit quality. At EUR 84 million, this figure was considerably lower than in the previous year.

At EUR 272 million, **net fee and commission income** was 13.9% down on 2010. Among other things, this reflects investor reluctance in securities business. Furthermore, net fee and commission income was adversely affected by one-off effects from the reduction of the credit investment portfolio.

Net trading income/loss improved to EUR 460 million. A positive impact came from the reduction of credit derivative positions, which had been reduced utilizing tightening spreads.

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Other operating income was up 41.1% on the previous year to EUR 103 million. This included a considerable improvement in net income from investment property.

In the first half of 2011, **administrative expenses** were down 1.8% to EUR 861 million. The ongoing cost-cutting program produced significant savings. However, some of these were cancelled out by the new bank levy, which cost EUR 29 million on a pro rata basis. Excluding the bank levy, administrative expenses would have been 5.1%, or some EUR 45 million, down on the previous year.

The **net loss from investment securities**, which came in at EUR 321 million, paints a mixed picture. Income from the sale of equity investments was offset by the impairment charge on Greek government bonds and losses from the disposal of a derivatives structure as part of reducing the credit investment portfolio.

Operating income totaled EUR 769 million. In the prior-year period, charges arising from sovereign risks had weighed on this item, leading to an operating loss of EUR 114 million. Following the deduction of commission expenses in the amount of EUR 152 million for the risk shield provided by the state of Baden-Württemberg and other expenses of EUR 16 million, **consolidated profit before tax** for the period came to EUR 601 million (prior year: loss of EUR 321 million). On account of exceptional items, tax expense in the first half-year amounted to EUR 225 million. This meant that LBBW Group posted **consolidated profit after tax** of EUR 376 million as of 30 June 2011.

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"These results confirm that we are on the right track in spite of tough competition in customer business," commented Hans-Jörg Vetter, Chairman of the Board of Managing Directors. He added that the bank had also made a profit in the second quarter, even though the situation on the markets with regard to sovereign risk had once again deteriorated considerably. "Our decision to systematically cut volatility on our books by running down our credit investment portfolio has proved to be right. This makes us far less exposed to widening spreads than we were in the past," stressed Vetter. The Chairman of the Board of Managing Directors announced that LBBW would continue to systematically scale back its credit investment portfolio.

Overview of the three operating segments

The **Corporates** segment posted a year-on-year increase in its operating income of EUR 136 million to EUR 1,217 billion. As well as the operating business running according to plan, the drivers included exceptional items and proceeds from the disposal of commercial equity investment business. Allowances for losses on loans and advances, at EUR 45 million, were significantly down on the previous year's level. At EUR 793 million, profit before tax more than doubled versus the previous year (EUR 370 million).

The **Retail/Savings Banks** segment maintained the levels of the previous year, posting operating income of EUR 306 million. Sales and distribution activity in BW-Bank's branch business was especially pleasing, exceeding expectations despite intense competition and additional requirements on account of new statutory provisions. The segment's results

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were also boosted by a net reduction in allowances for losses on loans and advances, while administrative expenses declined as well. Profit before tax was up by 24% to EUR 105 million.

The **Financial Markets** segment generated operating income of EUR 351 million, which was in line with the previous year's level. Despite a modest reduction in administrative expenses as a result of restructuring measures, profit before tax fell slightly to EUR 175 million because of the moderate increase in allowances for losses on loans and advances.

Restructuring progressing well

The restructuring of the bank in line with the plans approved by the European Commission progressed according to schedule in the first half of 2011. LBBW made further progress in shrinking its equity investment portfolio by selling its stake in DekaBank, for example. Furthermore, the process of selling LBBW Immobilien GmbH, with its 21,500 residential properties, was set in motion in July. More than half the measures to cut operating expenses have already been implemented. The planned reduction of 2,500 jobs, which is scheduled to be completed by 2013, is also proceeding according to plan. On the basis of voluntary contractual offers encompassing redundancy, early retirement or part-time working for older employees and natural staff turnover, 1,400 agreements on the termination of employment have been reached.

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Outlook

For the second half of the year, LBBW expects the situation in the international financial markets to remain volatile and susceptible to crises. Moreover, economic prospects across the world are gradually becoming bleaker. Nonetheless, as things stand, LBBW still expects to make a full-year profit in 2011. "Our performance in the first six months, which was influenced by numerous exceptional items, cannot be taken as guidance for our full-year earnings. However, provided that no new dramatic slump occurs on the financial markets, we expect LBBW to make a profit this year both pursuant to IFRS and in accordance with HGB," explained Hans-Jörg Vetter, Chairman of the Board.

Please note:

LBBW's individual financial statements (prepared in accordance with the German Commercial Code (HGB)) as at year-end are the basis for the distribution and revaluation/loss participation of the profit participation certificates. LBBW does not publish half-yearly financial statements under the German Commercial Code. The fact that it is not possible to issue a robust or reliable forecast at this time also applies to the full-year results prepared in accordance with the German Commercial Code.

Business Figures for the LBBW Group as of 30 June 2011

	1 Jan. - 30 June 2011 EUR million	1 Jan. -30 June 2010 EUR million	Change	
			EUR million	in %
Net interest income	1.203	1.257	-54	-4,3
Allowances for losses on loans and advances	-84	-297	213	-71,7
Net fee and commission income	272	316	-44	-13,9
Net trading income/loss ¹⁾	460	-710	1.170	-
Other operating income	103	73	30	41,1
Total operating income (after allowance for losses on loans and advances)	1.954	639	1.315	>100
Administrative expenses	-861	-877	16	-1,8
Net income/loss from investment securities	-321	136	-457	-
Net income/loss from investments accounted for using the equity method and from profit/loss transfer agreements	-3	-12	9	-75,0
Operating result	769	-114	883	-
Impairment of Goodwill	-15	0	-15	-
Restructuring expenses	-1	-54	53	-98,1
Guarantee commission für Baden-Württemberg	-152	-153	1	-0,7
Consolidated profit/loss before tax	601	-321	922	-
Income tax income (+)/income tax expense (-)	-225	31	-256	-
Consolidated profit for the period (+)/Consolidated loss for the period (-)	376	-290	666	-

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

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	30 June 2011 EUR billion	31.Dec. 2010 EUR billion	Change	
			EUR billion	in %
Total assets	354,8	374,4	-19,6	-5,2
Business volume	382,5	402,8	-20,3	-5,0
Equity	21,2	21,1	0,1	0,4

Differences are the result of rounding. Percentages are based on the exact values.

	30.6.2011 in %	31.12.2010 in %
Core capital ratio	13,3	11,4
Total ratio	17,7	15,3

	30.6.2011	31.12.2010	Change	
			Absolute	in %
Group staff	12.526	13.061	-535	-4,1

More detailed information is provided in the “2011 Half-Yearly Financial Report” of LBBW, which will be available on the Internet from Thursday, 25 August 2011:

www.LBBW.de/halfyearreport2011