

Press release

Alexander Braun
Press officer

Landesbank Baden-Württemberg
Am Hauptbahnhof 2
70173 Stuttgart
Phone +49 711 / 127-76400
Fax +49 711/ 127-74861
alexander.braun@LBBW.de
www.LBBW.de

20 April 2011

LBBW presents annual financial statements for the year 2010

- **Pleasant performance in the private customer and corporate customer businesses together with substantial relief in terms of risk provisioning**
- **Valuation losses, particularly for sovereign risks, weighed heavily on earnings again**
- **IFRS consolidated loss after taxes of EUR 347 million**
- **Positive German GAAP result permits partial replenishment of silent partners' contributions and profit participation certificates**
- **Restructuring, cost savings and reduction in risk-weighted assets are being resolutely continued**

The fiscal year 2010 of Landesbank Baden-Württemberg (LBBW) was marked by opposing effects: Strong income in the private and corporate customer businesses together with a marked decline in allowances for losses on loans and advances due to the economic recovery contrasted with large valuation charges at the balance sheet date due to the EU sovereign crisis. Altogether, LBBW finished the year 2010 with a consolidated loss of EUR 347 million after taxes pursuant to IFRS. "The pleasant performance in business with private and corporate customers and the successes achieved in realigning the Group to become an efficient, client-oriented financial service provider confirm us in our work," said Hans-Jörg Vetter, Chairman of LBBW's Board of

Page 2

Press release

20 April 2011

Managing Directors upon presenting the annual financial statements today, adding, "Nevertheless, in order to minimize our costs and the risk of large valuation losses we must continue to push on with the restructuring of our Bank and the winding down of our credit-substitute business."

Last year LBBW continued to strengthen its solid foundation: in a challenging market environment it further expanded its business with private and corporate customers, thereby consolidating its earnings basis. LBBW will keep on pursuing its systematic customer-oriented business model. "The solid earnings and positive developments in the customer business show that the path we have chosen and the underlying strategy are right. Business with private customers, corporate customers, institutional customers and savings banks remains the core of our strategy," stated Vetter.

At the same time, the implementation of restructuring measures enabled the Bank to realize cost savings. Furthermore, risks were once again reduced substantially through the active reduction of the credit-substitute business, which is to be wound down completely. Total risk-weighted assets were down from EUR 154 billion to EUR 121 billion in 2010. As a result, the Tier 1 capital ratio was increased to 11.4 percent as at the end of the year (previous year: 9.8 percent). The overall capital ratio rose from 13.3 percent in the previous year to 15.3 percent. LBBW thus has a very solid capital basis.

In the single-entity statement according to HGB (German GAAP), which reflects the heavy volatility in the financial markets to a far lesser extent than the IFRS statement, LBBW

Page 3

Press release

20 April 2011

generated net income of EUR 284 million after taxes for the year. Due to this positive result, a partial replenishment of the profit participation certificates and silent partners' contributions, which were reduced by around 11.3 percent last year, will take place. This will result in a replenishment of around 4.5 percentage points to around 93.2 percent of the nominal value.

Overview of income and balance sheet figures 2010

The **net interest income** remains the key pillar of the Bank's earnings. Despite solid interest income in the customer business and the fact that liquidity was raised at more favorable terms, it decreased by EUR 615 million to EUR 2.163 billion compared to the previous year. On the one hand, this trend reflects the consistent reduction in risk-weighted assets in the course of the restructuring measures. On the other hand, LBBW's net interest income in 2009 was supported by positive non-recurrent special items in connection with the fact that the Bank did not service its silent partners' contributions and profit participation certificates. Pursuant to IFRS, net interest income in 2010 was weighed down by EUR 343 million whereas a slightly positive effect was recorded in the previous year.

Compared with the previous year, the **allowances for losses on loans and advances** were reduced substantially due to the economic recovery and thus the substantially improved risk situation in the corporate customer business. It decreased - while maintaining LBBW's conservative risk policy - by just under 70 percent, from EUR 1.527 billion to EUR 471 million.

Page 4

Press release

20 April 2011

As expected, **net fee and commission income** was not able to match the good level of the previous year, which was boosted to a considerable extent by non-recurrent effects resulting from individual transactions. In 2010, it decreased by EUR 184 million to EUR 630 million.

The **net trading result** in 2010 was marked by heavy charges as a result of the European sovereign crisis. Spread widenings across all credit classes prompted significant valuation losses, which led to a net trading loss of EUR -629 million (previous year: EUR +748 million). As a result, LBBW as at the balance sheet date on 31 December 2010 had to report valuation losses of around EUR 700 million, particularly from sovereign risks mainly for credit default swaps within the Credit Investment Portfolio (CIP).

At EUR 163 million, **other operating income** was substantially above the previous year's figure of EUR -217 million, but was marked heavily by write-downs on project developments of LBBW's real estate subsidiary LBBW Immobilien GmbH.

Administrative expenses were lowered by nearly eight percent to EUR 1.764 billion due to the systematic progress made with restructuring. First of all, staff costs were reduced based on scheduled staff cuts. At the end of 2010, the LBBW Group had a total of 13,061 employees, 569 less than a year ago. Moreover, savings were also realized in other administrative expenses due to a reduction in IT costs as well as in legal and consultancy services. Further relief resulted from lower write-downs and cost savings on equity holdings - both through the sale of holdings and through cost cuts in the remaining holdings.

Page 5

Press release

20 April 2011

The **net result from investment securities** improved by EUR 755 million to EUR 22 million year on year. This significant increase is mainly attributable to the reversal of impairment losses on bonds and structured securities as a result of the general recovery on the financial markets.

In the course of the Group's realignment, **restructuring costs** amounting to EUR 67 million (previous year: EUR 368 million) were incurred. The costs of the risk shield provided by the state of Baden-Württemberg came to EUR 336 million altogether. Thereof, EUR 306 million was booked under the item **Guarantee provision state of Baden-Württemberg** and the remainder under the net interest income.

The **consolidated loss before tax** amounted to EUR -317 million following a loss of EUR -1.214 billion in the previous year. After deducting the **tax expense** of EUR 30 million, the **net consolidated loss for the period** ending 31 December 2010 amounted to EUR -347 million. It decreased by almost 77 percent compared to the previous year (EUR -1.482 billion).

Consolidated total assets decreased substantially once again, in line with the commitment made in the restructuring plan. They were reduced by around nine percent, from EUR 412 billion to EUR 374 billion. A large portion of this reduction stems from the winding down of the Credit Investment Portfolio and the decrease in interbank business.

Page 6

Press release

20 April 2011

Operating segments show marked income growth

Operating income of LBBW's three operating segments (Corporates, Retail Clients and Financial Markets) overall saw a marked increase over the past year. It came to EUR 1.3 billion, up from approximately EUR 800 million in the previous year. "This demonstrates the viability of LBBW's customer-oriented business model and of its regional customer-driven banks Baden-Württembergische Bank (BW-Bank), Rheinland-Pfalz Bank and Sachsen Bank", said Vetter.

In 2010, the strongest growth was recorded by the **Corporates** segment, which pools the Group's corporate customer business. Operating profit of the segment recorded growth from EUR 785 million to EUR 902 million. At EUR 2.104 billion, operating income was slightly above the previous year's figure (EUR 2.101 billion). The decline in net commission income compared with the previous year, which was affected by non-recurring financial transactions, was offset by positive trends in the financing and deposit-taking business. In this connection, LBBW was able to make gains across almost the entire product range - from commission for syndications and structuring for finance deals to interest-rate and foreign currency management. Relief was provided to the 2010 result by the fact that risk provisioning requirements were cut by more than half, as the economic recovery has improved the credit standing of many companies significantly. Lending to small and medium-sized companies remained stable year on year.

Operating result of the **Retail Clients** segment also recorded a sharp increase in 2010, almost doubling in size from EUR 64 million to EUR 123 million. This was based on growth in

Page 7

Press release

20 April 2011

operating income to EUR 634 million (previous year: EUR 608 million), due among other things to growth in the size of deposits. The Wealth Management unit that was established within BW-Bank in 2008 also reported further gains. Assets under management rose by 28 percent to approx. EUR 4.2 billion in 2010. This makes BW-Bank one of the leading providers in Baden-Württemberg in this field. Furthermore, a substantial drop in the allowance for losses on loans and advances and a slight year-on-year fall in administrative expenses exerted a positive impact.

Owing to the general market restraint, earnings in money-market transactions normalizing again and a decline in proprietary trading, operating result of the **Financial Markets** segment was considerably below the exceptionally good result of the previous year, as expected. On top of this, earnings opportunities have decreased as a result of the substantial reduction in risk-weighted assets. By contrast, the customer-oriented financial markets business, that is, the sale of financial products to companies, savings banks and institutional customers, showed a respectable performance. Altogether, the segment's operating income was down from just under EUR 1.1 billion to EUR 645 million. After deducting the slightly lower administrative expenses, operating profit came to EUR 290 million (previous year: EUR 619 million).

The result in the **Credit Investment Portfolio (CIP)/ Treasury** segment, which mainly comprises the Group-wide credit-substitute business that will cease to form part of LBBW's business model in the future, was affected to a significant extent by massive spread widenings on sovereign credit risks. Considerable valuation gains were recorded in

Page 8

Press release

20 April 2011

the previous year due to the market situation. Moreover, the winding down of the credit-substitute business led to a marked decline in the net interest result.

Restructuring taking hold and will be further advanced

In 2010, the Bank resolutely pushed on with the implementation of its restructuring. Thus, the CIP amounting to approx. EUR 95 billion at the end of 2008 was reduced to a substantially greater extent than planned in the past year - namely, by a further EUR 20 billion to EUR 54 billion.

LBBW is on track with regard to its cost-cutting measures in terms of both other administrative expenses and staff costs. The planned reduction of staff by 2,500 jobs by 2013 - by means of voluntary offers such as settlement, early-retirement and partial-retirement contracts as well as attrition - is proceeding according to plan. So far, job leaves equivalent to around 1,250 full-time jobs have been agreed.

The Bank is also well on track with regard to reducing the size of its portfolio of equity holdings. Last year, it sold off its U.S. subsidiary LBBW Securities, LRI Invest and the private customer business of LBBW Luxembourg, among others. Moreover, in 2010 it initiated the sale of LBBW holdings in Leipzig's European Energy Exchange (EEX), which has almost been completed in the meantime. In addition, last year LBBW closed eight of its eleven European representative offices in line with the restructuring plan. In the summer of 2010, the Bank's legal basis - the law governing LBBW and its statutes - was changed. This was accompanied by a new structure of the Bank's corporate bodies, which was adapted to an

Page 9

Press release

20 April 2011

incorporated company (Kapitalgesellschaft). As a result, the Supervisory Board was constituted in early November 2010, taking the place of the former Administrative Board (Verwaltungsrat).

"We are aware of the fact that this dual strain - to be close to the customer and resolute in our restructuring - has been, and will remain, extremely demanding and exhausting for all employees within the LBBW Group, particularly during these months of radical change. But once we have coped with this difficult situation, LBBW will be a solid, efficient and profitable bank and will be ready to meet the future requirements of its customers and the markets as well as provide sustainable jobs", said Vetter.

Outlook

Also in 2011, LBBW will continue to place its main focus on expanding customer business and on the systematic continuation of the Group's repositioning. LBBW reached a further milestone this year in terms of streamlining its portfolio of equity holdings: thanks to the agreement reached between savings banks and landesbanks in early April for the takeover of the Deka stake by DSGV, LBBW will sell its shares, in line with the restructuring plan. Moreover, the Bank is preparing the sale of the residential housing portfolio of LBBW Immobilien GmbH. In addition, a potential outsourcing of LBBW's IT unit to the savings bank service provider Finanz Informatik is being carefully examined at the moment.

The underlying economic conditions - as the first few months of this year have shown - will remain challenging

Page 10

Press release

20 April 2011

despite the robust economy because the situation on the international financial markets is still proving to be unstable and crisis-prone. Thus, LBBW makes every possible effort to further reduce its risk-weighted assets and its credit-substitute business portfolio in a systematic manner.

All in all, Landesbank Baden-Württemberg is confident with regard to 2011. "We see a strong start to the year in the operating business," said Hans-Jörg Vetter, Chairman of the Board of Managing Directors. "We therefore expect LBBW - provided that no new, dramatic slump occurs on the financial markets - to make a profit both pursuant to IFRS and in accordance with HGB."

Figures for the LBBW Group for 2010

	1.1.-31.12.2010	1.1.-31.12.2009	Change	
	in EUR million	in EUR million	in EUR million	in %
Net interest income	2,163	2,778	-615	-22.1
Allowances for losses on loans and advances	-471	-1,527	1,056	-69.2
Net fee and commission income ¹⁾	630	814	-184	-22.6
Net trading income	-629	748	-1,377	---
Other operating income	163	-217	380	---
Total operating income (after allocations to allowances for losses on loans and advances)	1,856	2,596	-740	-28.5
Administrative expenses	-1,764	-1,909	145	-7.6
Net income/loss from investment securities	22	-733	755	---
Net income/loss from investments accounted for using the equity method and from profit/loss transfer	-58	-124	66	-53.2
Operating income/loss	56	-170	226	---
Impairment losses on goodwill	0	-519	519	---
Restructuring expenses	-67	-368	301	-81.8
Guarantee commission state of Baden-Württemberg ¹⁾	-306	-157	-149	94.9
Consolidated loss before tax	-317	-1,214	897	-73.9
Tax expense	-30	-268	238	-88.8
Consolidated loss for the period	-347	-1,482	1,135	-76.6

	31.12.2010	31.12.2009	Change	
	in EUR billion	in EUR billion	in EUR billion	in %
Total assets	374.4	411.7	-37.3	-9.1

	31.12.2010	31.12.2009
	in %	in %
Tier 1 capital ratio	11.4	9.8
Overall capital ratio	15.3	13.3

¹⁾ For reasons of transparency, net fee and commission income is shown without the guarantee commission of the state of Baden-Württemberg. The latter is reported in a separate item.

Differences result from rounding.