

Press release

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LBBW presents annual financial statements for the year 2009

- **Pleasant trend of the operating business; high allowances on loans and advances as well as extraordinary effects dominate the result**
- **Consolidated loss after taxes amounts to EUR 1.482 billion**
- **Implementation of the restructuring measures has begun as scheduled**

Landesbank Baden-Württemberg (LBBW) has closed the fiscal year 2009 with a consolidated loss for the year of EUR 1.482 billion (according to IFRS), as already communicated in March. Despite a pleasant trend shown by the operating income and a perceptible recovery of the international financial markets, the markedly increased allowances on loans and advances as well as extraordinary effects led to a high negative result. Hans-Jörg Vetter, Chairman of LBBW's Board of Managing Directors: "2009 was a decisive year for LBBW. In December 2009, the EU Commission approved LBBW's necessary and extensive restructuring plan of LBBW as well as the capital measures. The implementation of the restructuring plan is running at full steam and the bank is on schedule."

LBBW's consolidated result for 2009 was largely shaped by different factors: despite the tense economic situation, the Group registered a pleasant development of the operating business with marked increases in the corporate customer business and in the customer-related financial market

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business, in particular. In contrast, the necessary strong increase in the allowances for losses on loans and advances due to the economic slump as well as non-recurrent extraordinary effects such as restructuring expenses as well as impairment losses on goodwill burdened the result.

“The operating business with private customers, corporate customers, institutional customers and savings banks proved to be a stable source of income for the Group also during the difficult economic situation in the past year,” said Mr Vetter at today’s presentation of the annual financial statements. “In the future, we will mainly focus on our customer-driven activities in our core regions as stipulated in the restructuring plan. Our aim is to position LBBW as a consistently customer-oriented bank, lean and with clearly lower risk and make it profitable on a sustained basis,” added Mr Vetter.

Overview on income and balance sheet figures 2009

The **net interest income** increased by 21.1 per cent to EUR 2.778 billion compared to the previous year. The solid income in the operating business, in particular in the corporate customer and the customer-driven capital market business contributed to this result.

In order to pay heed to the economic slump, LBBW maintained its conservative risk policy and clearly increased its **allowances for losses on loans and advances** to EUR 1.527 billion in 2009.

The **net commission income** rose by 19.7 per cent to EUR 657 million, driven by non-recurrent effects and increases in the brokerage, securities and custody business as well as in the international business. The net commission income was burdened for the first time by a guarantee fee of approx.

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EUR 160 million for the risk shield of the guarantee provided by the federal state of Baden-Württemberg.

The **net trading income** amounted to EUR 748 million (previous year: EUR -2.108 billion). In addition to the solid customer-related business, the stabilisation of the financial markets was the main factor for the positive development.

The **other operating income** amounted to EUR -217 million. This included amongst others write-downs on project developments of LBBW's real-estate subsidiary in the amount of approx. EUR 300 million.

Administrative expenses rose by 6.7 per cent to EUR 1.909 billion. Personnel expenses increased mainly due to a rise in the number of employees owing to an extension of the scope of consolidation as well as an increase in collectively agreed pay rates in the banking sector. In addition, higher depreciations on intangible assets led to an increase in administrative expenses.

The **net loss from investment securities** amounted to EUR 733 million. This item includes impairments on equity investments (EUR 245 million) as well as on bonds and structured instruments (EUR 492 million) due to the financial market crisis. However, there were also reversals of impairments on credit-sensitive financial instruments, in particular in the case of CDS related to bank, corporate or sovereign counterparties which are reflected in the net trading income so that, on balance, the financial market crisis in the past year did not additionally burden the result.

After deducting impairment losses on goodwill in the amount of EUR 519 million as well as restructuring expenses of EUR 368 million, the **consolidated loss before tax** amounted to EUR 1.214 billion after a loss of EUR 2.662 billion in the previous year. After deducting the **income tax**

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expense totalling EUR 268 billion, the **consolidated loss for the year** amounts to EUR 1.482 billion. It decreased by almost 30 per cent compared to the previous year (EUR -2.112 billion).

The **consolidated total assets** decreased by 8.1 per cent to EUR 412 billion as of 31 December 2009, mainly due to declining loans and advances to other banks and investment securities.

Owing to the capital increase granted by the owners, LBBW has a **core capital ratio** (Tier 1 ratio) of 9.1 per cent for 2009, with inclusion of the annual financial statements, and thus a solid capital basis in a sector comparison.

The number of **employees** within the Group increased by 261 to 13,630 employees as of 31 December 2009 compared to the previous year. This increase was mainly due to an extension of the scope of consolidation.

Operating segments show pleasant development

Overall, the income from the three operating segments (Corporates, Retail Clients and Financial Markets) increased clearly by approx. 24 per cent to EUR 3.8 billion, which was also due to market-induced extraordinary effects. "We will continue to resolutely expand our core activities. LBBW – together with BW-Bank, Rheinland-Pfalz Bank and Sachsen Bank – has a comprehensive, traditionally grown customer business with deep roots in its core regions. Owing to this, we have a good basis to continue our success in the market," said Mr Vetter.

The business segment **Corporates** where the corporate customer business of the Group is concentrated, achieved an increase in the operating income of 29 per cent to a total of EUR 2.15 billion. This increase was due to a recently

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satisfactory margin level as well as increased commission income – amongst others from structuring transactions and capital market finance such as bond and borrower's note loan issuance. The massively increased allowances on loans and advances (EUR 1.162 billion) had a negative effect. This does not only include traditional lending to small and medium-sized companies. It particularly affects real estate and export finance as well as leveraged finance. The operating income totalled EUR 172 million.

In 2009, the market conditions for the private customer business were difficult. Due to the introduction of the flat-rate withholding tax on capital gains and dividends (Abgeltungsteuer) and the financial market crisis, private investors showed perceptible restraint with regard to securities transactions. Moreover, the low interest-rate level had an impact on the deposit-taking business. Overall, the operating income of the **Retail Clients** segment, which does not only include the private customer business but also LBBW's function as a central bank to the savings banks, was 8 per cent lower than in the previous year, summing up to EUR 595 million. Despite low allocations to allowances for losses on loans and advances and a decline in administrative expenses, it was not possible to fully reach the segment's operating income of the previous year. In 2009, it amounted to EUR 64 million (previous year: EUR 72 million).

In 2009, the **Financial Markets** segment benefitted from the temporarily favourable market conditions as well as from the expansion of the customer-driven business. The operating income rose by more than 40 per cent to EUR 1.064 billion. The bond and Schuldschein (borrower's note) issuance business were the main growth drivers. In 2009, allocations to allowances for losses on loans and advances virtually halved, summing up to EUR 79 billion. The segment's operating income increased by EUR 406 million to EUR 639 million.

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The income trend in the **Credit Investment Portfolio/Treasury** segment, which mainly comprises the group-wide credit-substitute business, benefitted strongly from the marked spread tightening of credit derivatives and bonds at year-end. After considerable burdens in the previous year, it was possible to achieve marked valuation gains in 2009. After deducting the allocation to allowances for losses on loans and advances, which remained at the previous year's level, as well as burdens from the net income from investment securities, the segment reported a slightly positive operating income of EUR 30 million (previous year: EUR -3.308 billion).

Restructuring creates solid basis for the future

The approval of the capital increase of EUR 5 billion and the risk shield of EUR 12.7 billion as well as of the restructuring plan by the EU Commission on 15 December 2009 gave the go-ahead for the start of the group-wide restructuring process. In this context, LBBW will focus on the business with private customers, corporates and savings banks in its core regions. This is complemented by efficient capital market products as well as real-estate finance in selected markets. "We have well-proven expertise in all these customer-driven areas and see excellent opportunities for the future. In these areas we want to grow, not in an exuberant way, but with good judgement and in a controlled manner," said Mr Vetter. "We envisage a return on equity of approx. 12 per cent before tax over the mid run."

In the course of the restructuring process, LBBW will abandon operations of a considerable volume. In order to reduce total assets by 40 per cent as stipulated in the restructuring plan, the credit-substitute business will be cut back to zero. In the past year, the volume was reduced by approx. one fifth to EUR 74 billion. This year, a further

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reduction of approx. EUR 10 billion is planned. Moreover, capital will be un-tied by decreasing the risk assets. LBBW is planning to gradually pay back the capital provided by its owners as early as from 2013 onwards.

In the future, LBBW will offer project finance in the context of customer transactions as well as in the field of renewable energy. In the commercial real-estate business, the bank will focus on Germany as well as on selected activities in the USA and Britain. In the international business, the focus will be placed on export and trade finance for customers. Furthermore, the bank is streamlining its international office network and divesting equity investments in Germany and abroad. The representative offices in Milan, Budapest, Amsterdam, Warsaw, Prague and Madrid have already been closed. Paris and Barcelona will follow this year. In the growth markets in Asia and the Americas, LBBW will continue to be present with operative branches as well as with representative offices and German Centres. LBBW's Broker Dealer in New York, the share in Quirin Bank as well as the IT service provider Sachsen DV have already been divested. Further investments, for example the share in Deka, will also be sold according to the requirements of the EU decision.

The reduction of annual costs by EUR 700 million is a huge challenge for the coming years. This is indispensable, in particular to cushion the costs for the capital injection and the risk shield totalling EUR 836 million per year. Material costs and equity investments account for the lion's share of these savings. However, it is inevitable to cut approx. 2,500 jobs in order to reduce costs, but this measure is to be implemented on a voluntary basis as far as possible.

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Outlook

The implementation of the restructuring plan will dominate LBBW's operations in the coming years. The underlying economic conditions remain difficult in 2010, too. Nevertheless, LBBW will focus mainly on the co-operation with its customers. "Even though the bank's re-orientation will be a huge endeavour and involve painful cuts in LBBW's structures: We will not reduce the quality of the products and services for our customers," explained Mr Vetter. "After a comprehensive restructuring process, Landesbank Baden-Württemberg will be a bank which is profitable on a sustained basis."

LBBW expects a marked improvement of its results for 2010. In the light of the difficult general conditions, it is not yet possible to make reliable explicit forecasts.

Figures of the LBBW Group for 2009

	1.1.-31.12.2009 in EUR million	1.1.-31.12.2008 ¹⁾ in EUR million	Changes	
			in EUR million	in %
Net interest income	2,778	2,294	484	21.1
Allowances for losses on loans and advances	-1,527	-883	-644	72.9
Net fee and commission income	657	549	108	19.7
Net trading income	748	-2,108	2,856	---
Other operating income	-217	361	-578	---
Total operating income (after allocations to allowances for losses on loans and advances)	2,439	213	2,226	>100
Administrative expenses	-1,909	-1,789	-120	6.7
Net income/loss from investment securities	-733	-990	257	-26.0
Net income/loss from investments account for using the equity method and from profit/loss transfer	-124	13	-137	---
Operating income/loss	-327	-2,553	2,226	-87.2
Impairment losses on goodwill	-519	0	-519	---
Restructuring expenses	-368	-109	-259	>100
Consolidated loss/profit before tax	-1,214	-2,662	1,448	-54.4
Tax income (+) / tax expense (-)	-268	550	-818	---
Consolidated loss for the period	-1,482	-2,112	630	-29.8

	31.12.2009 in EUR billion	31.12.2008 in EUR billion ¹⁾	Change	
			in EUR billion	in %
Total assets	412	448	-36	-8.1

	31.12.2009 ²⁾ in %	31.12.2008 in %
Core capital ratio	9.1	6.9
Overall capital ratio	12.9	10.1

¹⁾ including changes according to IAS 8.

²⁾ Determined already taking the annual financial statements 2009 into account; ratio of the official reporting for the core capital ratio amounts to 9.8% and for the overall ratio to 13.3%.

Differences result from rounding.