

Business Activities and Strategy of the LBBW Group.

Company Profile.

The Landesbank Baden-Württemberg (LBBW) Group consists mostly of the individual company Landesbank Baden-Württemberg. This will hereinafter be referred to as LBBW (Bank).

LBBW (Bank) is a public law institution (rechtsfähige Anstalt des öffentlichen Rechts) with registered offices in Stuttgart, Karlsruhe, Mannheim and Mainz. Its owners are Sparkassenverband Baden-Württemberg (Savings Bank Association of Baden-Württemberg) with 40.53%; the state of Baden-Württemberg with 19.57%; the state capital, Stuttgart, with 18.93%; Landesbeteiligungen Baden-Württemberg GmbH with 18.26% and L-Bank with 2.71% of shares.

LBBW (Bank) is a universal and commercial bank aligned to the needs of its domestic customers. Together with its regional retail banks BW-Bank, Rheinland-Pfalz Bank and Sachsen Bank, it offers all the services of a large modern bank with broad regional ties in over 200 branches and offices throughout Germany. In the Stuttgart area, BW-Bank also takes on the role of a savings bank.

LBBW offers its domestic customers a local service with selected sites abroad. Alongside offices in New York, London, Singapore and Seoul, as well as the LBBW Mexico Sofom financing company in Mexico City, LBBW has a presence with various representative offices on the developing markets of the global economy, particularly in the Asia region. The international network is supplemented by the four German Centers in Beijing, Mexico City, Singapore and Delhi-Gurgaon, India.

Staff and service functions are bundled within LBBW (Bank). The capital markets business, the management of key accounts operating across Germany and internationally, the property business and the Bank's function as the central bank for savings banks are also based here. As dependent institutions with their own market presence, BW-Bank, Sachsen Bank and Rheinland-Pfalz Bank form the three strong regional pillars in the Bank's corporate and private customer business. This allows LBBW to combine efficient structures and the range of services offered by a universal bank with the proximity of regional retail banks.

In addition, subsidiaries and investments directly complement LBBW's (Bank) business model and thereby enable comprehensive provision of services to LBBW customers in its core markets. In this respect, the following companies in particular should be highlighted, in each of which LBBW (Bank) holds a 100% stake and which are part of the LBBW Group:

- SüdLeasing GmbH
- MKB Mittelrheinische Bank GmbH/MMV-Leasing GmbH
- SüdFactoring GmbH
- Süd Beteiligungen GmbH
- LBBW Asset Management Investmentgesellschaft mbH
- LBBW Immobilien GmbH

2010 Financial Year Marked by Stringent Implementation of the Restructuring Plan.

Significant negative impacts for the LBBW Group followed in the wake of the global financial market crisis. In order to ensure, against the backdrop of tighter regulatory requirements for capital resources, that LBBW can continue to perform its role as a solid and reliable partner for private and corporate customers to the full extent in future, in 2009 greater capital resources for LBBW and a risk shield by the state of Baden-Württemberg were required. These measures were approved by the European Commission in the same year with the condition that the LBBW Group undergoes comprehensive restructuring and realignment.

The restructuring plan approved by the EU forms the strategic framework for action at the LBBW Group. The objective of the restructuring is to improve the risk structure, ensure sustainable profitability and sharpen the strategic profile.

Thanks to its strongly customer-focused business, the LBBW Group has a solid earnings base and a profitable core, which has proved successful even in these economically very difficult times. The deep roots of LBBW and its customer banks in their domestic markets, coupled with the associated knowledge of the market, represent the true added value that LBBW offers in relation to its competitors. Accordingly, its key growth areas are in its customer business.

Significant Content of the Restructuring Plan.

Following the restructuring, the LBBW Group is devoting yet more strategic focus to its core activities with growth prospects, particularly business with SMEs, private customers and savings banks. This will be flanked by efficient real estate financing and capital market products, including for institutional customers. LBBW continues to regard itself as a reliable partner for SMEs in its core regional markets of Baden-Württemberg, Rhineland-Palatinate and Saxony, together with neighboring economic regions.

As a consequence of the redimensioning of business activities, business fields not belonging to the core business will no longer be actively handled. This includes the previous credit substitute business in particular – in other words, investment in bonds, credit derivatives, securitizations and structured products, which is to cease completely. Furthermore, various investments will be sold and the international network streamlined.

Overall, the intended measures will bring a clear reduction in risk assets and the balance sheet total and hence reinforcement of the capital ratios.

A significant reduction in the cost base can also be expected with the restructuring. This is based on savings on material costs and the sale of equity investments. In addition, the new strategic direction of the Group is to be accompanied by approximately 2 500 job cuts, which will be carried out in a socially acceptable way as possible.

LBBW is aiming for healthy growth in its business with German corporate customers and high-net-worth private customers

The LBBW Group is convinced that with this efficient and strongly customer-oriented business model, it will be in a secure and sustainably profitable position in the event of future market trouble.

Restructuring Takes Hold.

The LBBW Group set the general course for the adaptation of its business model in 2009. Significant results of the restructuring were already evident in 2010.

LBBW has exceeded the target set for 2010 in terms of the downsizing of the credit substitute business; this also applies to the cutbacks with regard to risk assets and the balance sheet total, as well as to the aimed core capital ratio.

The streamlining of the international network has already been implemented, with all eight of the scheduled representative office closures having taken place. The branches in London, New York and Singapore have been given a sharper focus on the customer business. LBBW Finance Japan has also been closed as planned.

LBBW is making good progress in reducing the investment portfolio. The investments in Sachsen DV Betriebs- und Servicegesellschaft mbH and quirin bank AG were already disposed of in 2009. Entities including LBBW Securities LLC, LRI Invest S.A. and the private customer business of LBBW Luxemburg S.A. could be sold during 2010. Furthermore, all assets of Lassarus Handels GmbH have been sold in preparation for liquidation. Further investments are to be sold successively until 2013 as part of the restructuring.

The first successes in terms of costs can also be reported, with both material and personnel costs having been brought down in significant areas.

In June last year, LBBW (Bank) agreed regulations for employment and location securing with employee representatives. This agreement led to requirements for the implementation of job cuts and another important step on the way to successful restructuring. LBBW is striving to make savings on personnel costs by means of voluntary measures to the greatest extent possible. The focus of the workforce reduction lies on the business to be cut back and on downstream staff and service functions. By contrast, areas of customer support will see some new recruitment.

It is particularly pleasing that the customer business has developed positively as LBBW's core business. The customer-focused business model proved to be solid and sustainably profitable in 2010.

Strategic Profile of LBBW Group. Strategy for Business Areas Based on Five Pillars.

The business model of LBBW encompasses the business areas of private customers, corporate customers, savings banks, financial markets and real estate financing.

In the **corporate customers** business, the Group focuses firstly on support for small and medium-sized corporate customers and public sector customers in the core markets of the three customer banks. This business is to be made more intensive in LBBW's strategic direction and thus will continue to serve as a stable earnings base in future. LBBW manages corporate customers in Baden-Württemberg under the BW-Bank brand. Rheinland-Pfalz Bank fulfills this function in Rhineland-Palatinate and nearby economic areas, while Sachsen Bank fulfills it in central Germany. Support for SMEs also includes aiding these customers abroad.

As well as support for small and medium-sized businesses, the corporate customers pillar also includes business with selected large customers in Germany, Austria and Switzerland.

In addition, LBBW (Bank) offers its customers in the field of leasing and the sale of receivables special products and services via its subsidiaries SüdLeasing, MKB Mittelrheinische Bank/MMV Leasing and SüdFactoring.

Furthermore, the Süd Beteiligungen enables equity funding for SMEs based in the core markets of the LBBW Group.

LBBW Immobilien is another important subsidiary. This company mainly provides property development, property asset management and real estate services.

The advice and support approach, which is demand-oriented and geared towards sustainable customer relationships, is and will remain the guiding principle in the corporate customer business. The experience of LBBW shows that a lasting partnership between LBBW and customer ultimately pays off for both sides – something which is also demonstrated by existing customer relationships, some of which have been in place for decades.

LBBW is striving to position itself as a reliable principal bank with permanent customer support in the **private customer** business as well. On the one hand, it concentrates on meeting the requirements of needs of high-net-worth private customers. For this purpose, LBBW is to press ahead with attracting new customers in the fields of private banking and wealth management with an increased level of support and focused range of products. The aim is to further consolidate BW-Bank's position as a capable regional bank and thus as one of the leading operators for high-net-worth segments. Additionally, business with high-net-worth customers will be operated by Sachsen Bank and Rheinland-Pfalz Bank on the respective markets with a local presence.

On the other hand, the second area on which LBBW will focus with regard to private customers is the classic retail business. Within the Stuttgart area, BW-Bank will take on the function of a savings bank that offers its customers the full range of banking and financial services. A considerable share of LBBW's retail business comes from this savings bank function.

In business with **savings banks**, LBBW acts as a central bank to savings banks in the core markets of Baden-Württemberg, Rhineland-Palatinate and Saxony.

LBBW's involvement with savings banks in its function as a central bank for savings banks can be broken down into three main types of cooperation: LBBW manages proprietary business of the savings banks for all product categories for the hedging and investment of the savings banks themselves. In the market partner business, LBBW products are also offered for resale in the retail business to the end customers of the savings banks, in addition to credit given on joint account. Finally, processing transactions are also performed in the service business, such as securities processing or international payment transactions. Cooperation with savings banks is a key element in the Group's business model and forms an integral part of the division of tasks in the Sparkassen-Finanzgruppe. LBBW is aiming to intensify and expand its partnership with savings banks.

The **financial markets** business area is focused on customer-induced business and comprises three groups of activities. LBBW structures, distributes and trades in share, credit, interest, money market, currency and commodities products for all customers. Advice, structuring and placement are also offered for equity and debt financing. These in particular should ensure that LBBW's core customers have access to the capital and credit markets. Non-customer-driven proprietary trading has been reduced significantly.

LBBW Asset Management Investmentgesellschaft complements the product range of LBBW (Bank) in this business area. The main focus of the asset management company lies on consulting and the management of security trust assets for institutional and private investors.

The **real estate financing** business includes a wide range of financing structures relating to properties, portfolios and companies, along with a series of supplementary products and services for real estate companies and private and institutional investors. The bulk of the business will take place in Germany, while the division's international activities will be restricted to the United States and the UK. Outside the defined core markets of Germany, the United States and the UK and the defined property categories, the real estate financing business is to be cut back significantly over the next few years.

Alongside the five pillars of the business strategy, credit substitute business of LBBW, of former Sachsen LB and of former Landesbank Rheinland-Pfalz are bundled within the credit investment portfolio. This includes bonds, credit derivatives, securitizations and structured products in particular. On December 1, 2009, LBBW set up a new division responsible for the management of the credit investment portfolio. The portfolio is to be liquidated completely over the next few years as part of the restructuring of the LBBW Group.