

26 March 2010

LBBW presents preliminary figures for the fiscal year 2009

- **Operating business to show a pleasant trend**
- **Non-recurrent effects and allowances on loans and advances have negative effects on result**
- **Expected consolidated loss after tax for 2009 amounts to EUR 1.482 billion**

On a preliminary basis, Landesbank Baden-Württemberg (LBBW) reports a consolidated loss for the fiscal year 2009 of EUR 1.482 billion (according to IFRS). The result is thus in line with the restructuring plan approved in Brussels. In the previous year, the bank reported a consolidated loss of EUR 2.057 billion.

In the closed fiscal year, the operating business showed a pleasant trend. In particular, the corporate customer business as well as the customer-driven financial markets business showed a better performance than expected, recording marked increases in proceeds. By contrast, a considerable increase in the allowance for losses on loans and advances became necessary due to the weak economic trend. Moreover, numerous extraordinary expenses were included in the result, for example in the context of the restructuring process as well as the impairment losses on goodwill. Different effects resulted from the valuation of the

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securities and derivatives portfolios: further impairments on structured products (ABS) were compensated by reversals of impairment losses in particular of credit derivatives (CDS) so that, on balance, there were no new burdens due to the financial market crisis.

“This result is in line with our restructuring plan. Of course, the negative result is very unsatisfactory – even though it is largely due to non-recurrent effects. The positive operating development shows, however, that LBBW is making good progress in the customer-driven business,” said Hans-Jörg Vetter, Chairman of LBBW’s Board of Managing Directors, during the announcement of the preliminary financial figures today. Despite the economic weakness and the still clearly perceptible repercussions of the financial market crisis, LBBW was on track in its customer business. On the basis of the preliminary figures, the operating income in the customer-related segments Corporates, Financial Markets and Retail Clients rose by 24.3 per cent compared to the previous year, summing up to approx. EUR 3.8 billion.

The strong, also regional ties with private, corporate and institutional customers constitute a solid basis for the forthcoming, far-reaching restructuring process. “We will re-organise the bank as our customers expect it from us. LBBW will become clearly smaller, resulting in a lean, efficient and profitable bank in the mid run,” said Mr Vetter. The starting position of the bank has clearly improved thanks to the swift approval of the restructuring plan by the EU Commission. “We have legal and planning certainty for the realignment of LBBW. Now it is up to us to justify the confidence placed in us.”

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Preliminary income statement in detail

The **net interest income** improved 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 capital markets business, added to this result.

The **allowance for losses on loans and advances** was clearly increased to EUR 1.527 billion. Maintaining its conservative risk policy, LBBW thus paid heed to the economic slump, in particular.

The **net commission income** rose by 19.7 per cent to EUR 657 million, even though in the second half of 2009, a guarantee fee of approx. EUR 160 million had to be paid for the first time for the guarantee provided by the state of Baden-Württemberg. Increases in the brokerage, securities and custody business as well as in the international business had a positive effect. The net commission income also benefitted from non-recurrent effects.

The **net trading income** amounted to EUR 748 million, after a negative result of approx. EUR 2 billion in the previous year. The result reflects the stabilisation of the financial markets in addition to a solid customer-driven business.

The **other operating income** amounted to EUR minus 217 million. This item was adversely affected primarily by write-downs on project developments of LBBW's real-estate subsidiary in the amount of EUR 300 million.

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Administrative expenses rose by 6.7 per cent to EUR 1.909 billion. In addition to an increase in personnel expenses owing to an increase in collectively agreed pay rates and the rise in the number of employees due to an extension of the scope of consolidation, increased depreciations on intangible assets showed their effect.

The **net loss from investment securities** amounted to EUR 733 million. This item includes impairments on equity investments (245 million) as well as on bonds and structured instruments (EUR 492 million) due to the financial market crisis.

On the basis of these preliminary figures, the **operating income** of the Group amounted to EUR minus 327 million. After deducting impairment losses on goodwill in the amount of EUR 519 million as well as restructuring expenses of EUR 368 million, the preliminary **consolidated loss before tax** summed up to EUR 1.214 billion, after a loss of 2.583 billion in the previous year. The **tax expense** amounted to EUR 268 million. The preliminary **consolidated loss for the year** decreased by 28.0 per cent to EUR 1.482 billion compared to the previous year.

The **preliminary consolidated total assets** decreased by 8.0 per cent to EUR 412 billion, mainly due to declining loans and advances to other banks.

Profit participation certificates and silent partners' contributions

Owing to a loss also in the single-entity financial statements according to HGB (German Commercial Code), the coupon

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on profit participation certificates (Genussscheine) and silent partners' contributions (stillen Einlagen) will not be served. Moreover, these capital instruments will participate in the net loss for the year on a pro-rata basis. This will lead to a reduction of repayment claims of approx. 11.3 per cent. LBBW expects that the reduction due to the loss participation can be reversed in subsequent years and that omitted interest payments can be made.

Outlook

LBBW is currently implementing an extensive restructuring plan. The plan was approved by the EU Commission in mid-December. At the same time, it finally approved the capital increase granted by the owners in the amount of EUR 5 billion as well as the risk shield granted by the federal state of Baden-Württemberg. "Thanks to this strong proof of confidence placed in us by our owners, LBBW now has a solid capital base again", emphasised Mr Vetter. On the basis of the preliminary figures, the core capital ratio amounted to 9.1 per cent at year-end, with immediate inclusion of the expected annual financial statements for 2009, the overall ratio amounted to 12.9 per cent.

In the future, the business strategy focuses on customer-driven core activities: the business with corporate customers, with private customers and savings banks as well as efficient capital market products and real-estate finance in selected markets. "The restructuring means painful efforts for the employees, including the unfortunately necessary reduction of staff. But LBBW has the inner strength and foundation, in order to achieve profitable growth in the customer business", said Mr Vetter.

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For the current year, LBBW expects the difficult conditions for the finance sector to persist. The latest distortions regarding government bonds in the euro area as well as the still high volatilities in the securities markets show that the financial crisis has not yet been fully coped with. Nevertheless, the bank expects a significant improvement of its result. An explicit forecast for the current year is not possible at this point in time, though.

On 29 April 2010, LBBW will present the final financial figures on the occasion of its balance sheet press conference.

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Preliminary 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	-2,029	2,777	---
Other operating income	-217	361	-578	---
Total operating income (after allocations to allowances for losses on loans and advances)	2,439	292	2,147	>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 accounted for using the equity method and from profit/loss transfer agreements	-124	13	-137	---
Operating income/loss	-327	-2,474	2,147	-86.8
Impairment losses on goodwill	-519	0	-519	---
Restructuring expenses	-368	-109	-259	>100
Consolidated loss/profit before tax	-1,214	-2,583	1,369	-53.0
Tax income (+) / Tax expense (-)	-268	526	-794	---
Consolidated loss for the period	-1,482	-2,057	575	-28.0

	31.12.2009 in EUR billion	31.12.2008 in EUR billion ¹⁾	Changes	
			in EUR billion	in %
Total assets	412	448	-36	-8.0

Differences result from rounding.

¹⁾ including changes according to IAS 8.

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	31.12.2009	31.12.2008	Changes	
			absolute	in %
Employees in the group	13,630	13,369	261	2.0

	31.12.2009 ¹⁾ in %	31.12.2008 in %
Core capital ratio	9.1	6.9
Overall capital ratio	12.9	10.1

¹⁾ With immediate inclusion of the expected annual financial statements 2009