

Press Release

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LBBW Presents Figures for the First Half of 2010

- Customer business develops positively
- Development of allowances for losses on loans and advances reflects recovery among companies
- Sovereign crisis had strong negative impacts at the reporting date, leading to half-year loss of EUR 290 million
- Solid capital base
- Implementation of restructuring measures on schedule

Despite the market environment remaining challenging, in the first half of 2010 Landesbank Baden-Württemberg (LBBW) strengthened its good position in the customer business and further increased its income overall in transactions with private customers, corporate customers and key accounts. The allowance for losses on loans and advances also developed positively. At EUR 297 million as of 30 June 2010, the figure was almost 60% lower than in the previous year. However, the volatility of financial markets negatively impacted the result to a significant extent. The bank take this volatility into account by showing the extremely high credit spreads for sovereign risks in the income statement amounting to approximately EUR 650 million. Overall, the result for the first half of 2010 was negatively impacted by valuation losses of EUR 745 million, primarily for credit derivatives in the credit investment portfolio. Furthermore, net commission expenses for the risk shield

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provided by the State of Baden-Württemberg amounting to EUR 153 million and restructuring expenses of EUR 54 million impacted the consolidated profit. As of 30 June 2010, LBBW therefore recorded a consolidated loss for the period after taxes of EUR 290 million.

LBBW's mid-year result was characterized predominantly by differing developments in the real economy and the financial market. This presents a mixed picture: On the one hand, a brightening economy and increasing export demand have helped companies to recover, particularly small and medium-sized enterprises in LBBW's core market of Baden-Württemberg. As a result, the past few months have seen a noticeable strengthening in corporate customer business. In the first half of the year, LBBW also significantly reduced its overall allowances for losses on loans and advances by EUR 420 million year-on-year. On the other hand, LBBW's result was negatively impacted by credit spreads in the wake of the sovereign crisis. In June 2010, spreads for sovereign risks had peaked. This spread widening seriously damaged performance. Therefore, the consolidated loss for the first half of the year to the amount of EUR 290 million can be attributed exclusively to the valuation of sovereign risks.

"The somewhat irrational nature of the fluctuations in the valuation of sovereign risks in the first half of the year is highlighted by the fact that this spread widening was largely reversed again four weeks later", explained Hans-Jörg Vetter, Chairman of LBBW's Board of Managing Directors. He then continued by addressing the ongoing high level of volatility: "At LBBW, it is of utmost importance that the negative impact of market volatility be reduced on a sustainable basis. For this reason, LBBW will continue to reduce its credit investment

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portfolio in a structured and controlled manner to minimize similar effects for the profit and loss accounting in the future.”

Income and Expense Items for the First Half of 2010

Despite the difficult market environment, **net interest income** recorded a significant increase of 9.2 % and amounted to EUR 1,257 billion. This rise compared to the previous year figure (EUR 1,151 billion) resulted from increased margins in operative business and lower interest expenses for funding purposes.

As of 30 June 2010, the **allowances for losses on loans and advances** dropped 58.6% year-on-year. This was due to the general economic recovery, which also became evident in an improvement in customer creditworthiness. In the first half of the year, LBBW – maintaining its cautious risk policy – increased the allowances for losses on loans and advances by around EUR 736 million. On the other hand, there were reversals of approximately EUR 460 million. Furthermore, direct write-offs of loans and advances were reduced, leaving the allowances for losses on loans and advances at EUR 297 million overall for the first half of the year.

At EUR 316 million, **net fee and commission income** dropped 24.2% compared to the previous year figure which was strongly influenced by non-recurring effects from individual transactions. The – in some cases irrationally – high spreads for sovereign risks at the reporting date and the resulting valuation losses on the relevant credit derivatives had a strong negative impact on **net trading income/loss**. As of 30 June, this was EUR -710 million (previous year: EUR 704 million). **Other operating income** amounted to EUR 73 million,

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significantly higher than the previous year's EUR 9 million, which was negatively impacted by non-recurring effects.

In the first half of 2010, **administrative expenses** dropped by EUR 37 million (-4.0%) to EUR 877 million. This demonstrated the initial success of the cost reduction program. In terms of material expenses, savings were made in the form of lower leasing fees and consulting and expert costs. Staff costs also decreased slightly.

Compared to the previous year's result of EUR -224 million, **net income/loss from investment securities** recorded a significant plus at EUR 136 million as of 30 June 2010. Income was also generated through the disposal of equity investments.

Due to the negative impact on net trading income/loss, the **operating result** for the first half of the year amounted to EUR -114 million (previous year: EUR 405 million). At EUR 54 million in the first half of the year, **restructuring expenses** was in line with expectations.

The cost of the risk shield provided by the State of Baden-Württemberg amounts to EUR 336 million per year. **Net commission expenses for public guarantees** account for EUR 153 million in the first half of 2010. To improve transparency, for the first time in the first half of the year this guarantee provision was recorded in a separate income statement item.

Consolidated loss before tax was EUR -321 million for the first half of the year (previous year: EUR 405 million). Including **tax effects** of EUR 31 million, the LBBW Group recorded a **consolidated loss for the period** of EUR 290 million as of 30

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June 2010 (previous year: consolidated profit of EUR 302 million).

Chairman of the Board of Managing Directors Hans-Jörg Vetter: “We cannot be satisfied with the mid-year performance, as it shows the ongoing dependency on the development of the financial markets. In this respect it is right that we continue to reduce significantly the credit investment portfolio. In the first half of 2010, we lowered this by around EUR 8 billion to approximately EUR 66 billion. By the end of 2010, we want to reduce our credit investment portfolio to less than EUR 60 billion as part of the restructuring plan.”

Operating Segments at a Glance

Operating income of the **Corporates** segment matched the level of the previous year, which was characterized by positive non-recurring effects. The discontinuation of these effects was offset in the first half of 2010 by higher interest income from the deposit business as well as commission income from special financing and structuring. At EUR 367 million, the allowances for losses on loans and advances for the first six months of 2010 is 33% lower than the previous year and reflects also the general economic recovery regarding corporates. As a reliable partner to its corporate customers, both BW-Bank in the core market of Baden-Württemberg and the corporate customer business of the LBBW Group as a whole have slightly expanded their lending overall in the first half of the year. At EUR 380 million, the consolidated profit before tax in the Corporates segment more than doubled compared with the previous year figure (EUR 154 million).

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Due to positive developments in branch sales and wealth management, operating income in the **Retail Clients** segment rose 8% year-on-year to EUR 312 million overall. The segment result was also strengthened by a positive contribution from the allowance for losses on loans and advances. The consolidated profit before tax for the Retail Clients segment rose by EUR 55 million to EUR 72 million.

As expected, in 2010 the **Financial Markets** segment did not repeat the success of the first half of 2009, which was strongly influenced by the recovery on the financial markets. According to plan, operating income (EUR 368 million) and consolidated profit before tax (EUR 200 million) almost halved for this segment.

Due to high valuation losses in the CDS portfolio, the **Credit Investment Portfolio/Treasury** segment recorded a negative operating income of EUR -768 million in the first half of the year (previous year: EUR 303 million). However, one encouraging aspect was the fact that a positive contribution to earnings of EUR 84 million was posted in the first six months of the year due to reversals of impairments – primarily for secured liabilities. This meant that the consolidated loss before tax for this segment was EUR -785 million (previous year: EUR -14 million).

Restructuring Implemented Rigorously: LBBW Well-Positioned for the Future and with Regard to Profitability

The restructuring plan approved by the European Commission is currently being implemented under stringent conditions. “We are well on the way to implementing an efficient business model for the LBBW Group based strictly on the requirements

of our customers that, even in the face of considerable market fluctuations, will remain profitable and secure for the future”, said Vetter. The restructuring measures are implemented as scheduled. Some requirements have already been fulfilled, such as the closure of European representatives and the disposal of some equity investments. Most recently, on 16 August 2010, LBBW sold the private customer business of its subsidiary, LBBW Luxemburg S.A., to DekaBank Luxembourg as part of these measures. At the same time, preparations continue for the upcoming change in the legal structure of LBBW.

To realize the required reduction of around 2,500 jobs overall, the Bank offered a severance package and early retirement in accordance with the new collective agreement signed in July. Up to now, agreements on the termination of employment corresponding to 815 full-time equivalents have been reached. Of this figure, a total of approx. 550 agreements have been concluded on the basis of the voluntary offers of severance packages and early retirement agreements.

Solid Capital Base

The sound capital base is a further decisive factor in the sustainability of the Bank. As at 30 June 2010, LBBW has a good core capital ratio of 10.1% and an overall ratio of 14.2%. LBBW demonstrated its sufficient equity levels with its positive performance in the stress test scenarios of the Committee of European Banking Supervisors (CEBS) in July. Even in the downturn scenario, and taking into account a fall in government bond prices for 2011, the bank achieved an equity ratio of 8.1%. “The stress test showed that LBBW has a solid capital base and thus also has an adequate buffer in the event

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of further great disruptions on the financial markets”, explained Vetter.

Outlook

LBBW is assuming that the high volatility of the financial markets will abate in the second half of the year. Nevertheless, the situation will remain tense on the whole; the international financial system is still considered extremely fragile. Furthermore, it is still not known to what extent banks will be negatively impacted in the future by regulatory measures arising from the financial market crisis. It is therefore currently not possible to provide a reliable forecast for LBBW's result for the year as a whole.

Note:

The coupon payments and the reversals of write-downs respectively the loss participation of the profit participation certificates is determined on the basis of the result of LBBW's single-entity statement (according to HGB) as of 31 December 2010. LBBW does not publish a statement according to HGB as of 30 June 2010. Also for the HGB statement for the entire year, it has to be said that a reliable forecast on a serious basis cannot be made at present.

Business Figures for the LBBW Group as of 30 June 2010

	1 Jan. – 30 June 2010 EUR million	1 Jan. – 30 June 2009 EUR million ¹⁾	Change	
			EUR million	in %
Net interest income	1,257	1,151	106	9.2
Allowances for losses on loans and advances	-297	-717	420	-58.6
Net fee and commission income	316	417	-101	-24.2
Net trading income/loss	-710	704	-1,414	---
Other operating income	73	9	64	> 100.0
Total operating income (after allowance for losses on loans and advances)	639	1,564	-925	-59.1
Administrative expenses	-877	-914	37	-4.0
Net loss from investment securities	136	-224	360	---
Net income/loss from investments accounted for using the equity method and from profit/loss transfer agreements	-12	-21	9	-42.9
Operating result	-114	405	-519	---
Restructuring expenses	-54	0	-54	---
Net commission expenses for public guarantees	-153	0	-153	---
Consolidated profit/loss before tax	-321	405	-726	---
Income tax	31	-103	134	---
Consolidated loss/profit for the period	-290	302	-592	---

	30 June 2010 EUR billion	31 Dec. 2009 EUR billion ¹⁾	Change	
			EUR billion	in %
Total assets	417	412	5	1.4
Business volume	449	440	9	2.0
Equity	20.8	21.2	-0.4	-1.9

¹⁾ After taking into account adjustments in accordance with IAS 8.

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

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	30 June 2010 in %	31 Dec. 2009 in %
Core capital ratio	10.1	9.8
Total ratio	14.2	13.3

	30 June 2010	31 Dec. 2009	Change	
			Absolute	in %
Group staff	13,381	13,630	-249	-1.8

More detailed information is provided in the “2010 Half-Yearly Financial Report” of LBBW, which will be available on the Internet from Thursday, 26 August 2010:

www.LBBW.de/halfyearreport2010