

Business Activities and Strategy of Landesbank Baden-Württemberg.

As the core of the LBBW Group, Landesbank Baden-Württemberg (LBBW) is a universal and commercial bank and one of the biggest banks in Germany. Together with its regional retail banks BW-Bank, Rheinland-Pfalz Bank and Sachsen Bank, it offers all the services of a large modern bank in 212 branches and offices throughout Germany. BW-Bank acts as a savings bank for LBBW in the area of Stuttgart, the state capital of Baden-Württemberg.

LBBW offers corporate customers based in Germany a worldwide local service with selected sites abroad, including the offices in New York, London, Singapore, Seoul and Mexico City, along with numerous representative offices. The international network is supplemented by the four German Centres in Beijing, Mexico City, Singapore and Delhi.Gurgaon, India.

The nucleus of the LBBW Group is LBBW itself, where staff and service functions are bundled at Group level. The capital markets business, the management of key accounts operating across Germany and internationally 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 Group's customer business. This allows the LBBW Group to combine efficient structures and the range of services offered by a large bank with the proximity of regional retail banks. The range of products and services offered by the LBBW Group is supplemented by specialized subsidiaries.

LBBW 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 in LBBW.

Challenging Economic Environment.

The difficult overall economic environment, coupled with the profound financial crisis, meant that the global banking sector faced massive challenges in the last fiscal year. Banks all over the world were hit unexpectedly hard by this. Since then, the situation on the international financial markets has eased again, although it has by no means returned to normal. The LBBW Group was not left unscathed by this financial crisis, despite a solid income in its operating business.

As the market environment in the banking sector slowed down, LBBW began at an early stage to adapt its basic strategic orientation to the change in overall conditions. This process of change gathered momentum in terms of volume and timescale, as a result of the dramatic developments on the international financial markets. In particular, developments on the capital markets and external rating downgrades of securitised credits led to an unexpected increase in equity requirements.

In order to ensure, against the backdrop of tighter regulatory requirements for capital resources, that the bank can continue to fully perform its role as a solid and reliable financing partner in future, the owners made further equity in the amount of EUR 5 billion available to the LBBW Group in early summer 2009. At the same time, the state of Baden-Württemberg provided protection against risks with a guarantee in the amount of EUR 12.7 billion. The European Commission attached the condition to these measures that LBBW and therefore the LBBW Group must undergo comprehensive restructuring and realignment, and gave its approval on December 15, 2009 on the basis of a restructuring plan submitted in early October 2009, without an in-depth investigation.

Fundamental Restructuring of the Bank.

Thanks to its strongly customer-focused business, LBBW has a solid earnings base and a profitable core, which has proved successful in principle, particularly in these economically very difficult times. The bank's deep roots in the region, coupled with the associated knowledge of the market, represent true added value that LBBW can offer in relation to its competitors. Accordingly, the bank's key growth areas are in its customer-oriented business. In connection with the restructuring plan, the bank plans to concentrate on the stable core areas of business that are regional in character.

LBBW set the general course for the adaptation of its business model in 2009. In detail, the restructuring plan drawn up by LBBW includes the following key points:

1. Concentration on core business with growth prospects

In its strategic orientation, LBBW is to focus more strongly on its core activities with growth prospects, particularly business with corporate customers, private customers and savings banks, which is going well. 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 regions. In its corporate customer business, the bank is also to focus on selected large companies in German-speaking countries, while business with commercial real estate customers will be geared towards Germany and selected activities in the United States and the UK.

2. Reduction in the credit substitute business and in other opportunistic business activities

LBBW is to cut back its credit substitute business. The focus here will be on consistent utilization of maturities. Furthermore, the bank will offer project financing only in connection with customer business or in conjunction with projects relating to renewable energies. In international transactions, LBBW will focus in future on export and trade financing in the interests of its domestic customers. The international network is also to be streamlined and equity investments are to be sold. The focus will nevertheless remain firmly on LBBW's customer-oriented activities.

All in all, the planned measures are aimed at reducing the balance sheet total of the LBBW Group by around 40%. In connection with this, the risk structure in the Group is to be improved further and the degree of complexity noticeably reduced.

3. Significant reduction in costs by around EUR 700 million

The costs and conditions associated with the capital increase and the risk shield call for a significant reduction in the Group's cost base. Cost cuts totaling approximately EUR 700 million per year are planned. Costs are to be cut gradually from 2010 onwards. The bulk of the reduction is to be achieved through savings on material costs and the sale of equity investments. The strategic reorganization of LBBW will also involve around 2 500 job cuts. The reduction in the number of jobs is to be carried out in a way as socially acceptable as possible.

4. Healthy growth in the core business

The reorganization concept also clearly defines the bank's growth areas. LBBW is aiming to consolidate its position further as a partner to SMEs in the bank's core regional markets, using its knowledge of the market and by getting even closer to customers, thereby ensuring the credit supply to the economy.

LBBW continues to regard itself as an efficient and reliable partner to its customers, as a principal bank in the best sense. Particularly in times of economic difficulty, banking customers need a reliable bank that thinks long term and remains loyal to customers. The experience of LBBW shows that a lasting partnership between the bank and the customer pays off for both sides in the long run. This is also demonstrated by the bank's customer relationships, some of which have continued for decades.

Healthy growth in LBBW's core business is also an important prerequisite for protecting the remaining jobs in the long term.

Overall, LBBW feels confident that it is well equipped to continue operating successfully on the market during this difficult restructuring phase.

Future Strategy for Business Areas Based on Five Pillars.

The future business model of LBBW will encompass five areas of business: private customers, corporate customers, savings banks, financial markets and real estate financing.

In the **private customers** division, LBBW is to focus on two areas. Firstly, the bank will concentrate on its high net worth private customer business. With this aim, the bank is to press ahead with attracting new customers, expand the level of support and focus its range of products in the fields of private banking and wealth management. 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 by means of a selective local presence.

The second area on which LBBW will focus in its private customers division 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. The advice and support approach, which is demand-oriented and geared towards sustainable customer relationships, is and will remain the guiding principle in LBBW's private customer business.

In the **corporate customers** business, LBBW will focus firstly on support for small and medium-sized corporate customers and public sector customers. The LBBW Group 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. The provision of a comprehensive portfolio of banking products to SMEs in Germany is still part of LBBW's core business model. In particular, this includes innovative financial markets products such as corporate Schuldscheine (German certificates of indebtedness) and corporate finance services. Regional business with corporate customers is to be expanded accordingly and will thus continue to serve as a stable earnings base in future. The corporate customers pillar also includes business with large customers in Germany, Austria and Switzerland. LBBW places particular emphasis on business with capital market-oriented customers whose activities are geared towards the international market. In addition, LBBW offers comprehensive services relating to project financing in the field of renewable energies.

In business with **savings banks**, LBBW acts as a **central bank to savings banks** in 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: the bank 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 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. In view of the economies of scale that can be achieved, cooperation with savings banks is a key element in LBBW's business model. LBBW is therefore striving to intensify and expand its partnership with savings banks.

The **financial markets** division is geared towards service and advice for institutional customers, savings banks and corporate customers and thus has a clear focus on customer-induced business. LBBW structures, distributes and trades in share, interest, money market, currency and commodities products for private and institutional customers. Advice, structuring and placement is also offered for equity and debt financing, which, in particular, ensures that LBBW's core customers also have access to the credit markets.

The **real estate financing** business will include 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 outside the defined segments and property categories, the real estate financing business is to be cut back significantly over the next few years.