

# The LBBW Group's Business Performance.

## Results of operations, net assets and financial position. Results of operations.

|  | Jan. 1, 2009<br>- Dec. 31, 2009 | 1.1.2008<br>- 31.12.2008  | Change 2008/2009 |                |
|--|---------------------------------|---------------------------|------------------|----------------|
|  | EUR million                     | EUR million <sup>1)</sup> | EUR million      | in %           |
| 1. Net interest income   | 2 778                           | 2 294                     | 484              | 21.1           |
| 2. Allowance for losses on loans and advances  | -1 527                          | -883                      | -644             | 72.9           |
| 3. Net fee and commission income   | 657                             | 549                       | 108              | 19.7           |
| 4. Net trading income/loss <sup>2)</sup>   | 748                             | -2 108                    | 2 856            | -              |
| 5. Other operating income <sup>3)</sup>  | -217                            | 361                       | -578             | -              |
| <b>6. Total operating income (after allowance for losses on loans and advances)</b>                                | <b>2 439</b>                    | <b>213</b>                | <b>2 226</b>     | <b>&gt;100</b> |
| 7. Administrative expenses   | -1 909                          | -1 789                    | -120             | 6.7            |
| 8. Net result from investment securities   | -733                            | -990                      | 257              | -26.0          |
| 9. Net income/loss from investments accounted for using the equity method and from profit/loss transfer agreements | -124                            | 13                        | -137             | -              |
| <b>10. Operating profit</b>  | <b>-327</b>                     | <b>-2 553</b>             | <b>2 226</b>     | <b>-87.2</b>   |
| 11. Impairment of goodwill   | -519                            | 0                         | -519             | 100.0          |
| 12. Restructuring expenses   | -368                            | -109                      | -259             | >100           |
| <b>13. Consolidated profit before tax</b>  | <b>-1 214</b>                   | <b>-2 662</b>             | <b>1 448</b>     | <b>-54.4</b>   |
| 14. Income tax   | -268                            | 550                       | -818             | -              |
| <b>15. Consolidated loss for the period</b>  | <b>-1 482</b>                   | <b>-2 112</b>             | <b>630</b>       | <b>-29.8</b>   |

<sup>1)</sup> After taking into account adjustments in accordance with IAS 8.

<sup>2)</sup> In addition to net trading income/loss, this item also includes net income/loss from financial instruments designated at fair value and the net income/loss from hedging transactions.

<sup>3)</sup> In addition to other operating income/expenses, this item also includes net income/loss from investment property.

---

## LBBW group on track again operationally.

Although the most severe economic slump since the Second World War was recorded in the first half of 2009, the feared depression did not occur in the 2009 fiscal year thanks to the extensive economic support measures taken by central banks and national governments. The owners of LBBW strengthened the bank's capital base and risk-bearing capacity with the capital increase completed in early summer and with a risk shield, not least in order to raise the regulatory equity ratio to the normal international level.

Regardless of this, the LBBW Group once again demonstrated the viability of its customer-oriented business model. Developments in the first half of 2009 were particularly pleasing, thanks to the stabilized market environment, which was reflected in growth in the operating income and in the net trading income and net fee and commission income and led to a consolidated profit of EUR 215 million as at June 30.

The operating business continued to develop well in the second half of 2009, allowing the LBBW Group to achieve an operating income (after the allowance for losses on loans and advances) of EUR 2 439 million for 2009 as a whole. The significant increase in income was characterized by ongoing growth in the net interest income, the net fee and commission income and the net trading income and was driven in particular by growth in income in the Financial Markets and Corporates segments. The easing on the financial markets also had a positive impact on operating income, which was particularly apparent in reversals of impairment losses for credit-sensitive financial instruments such as securitized products, credit default swaps (CDS) and bonds. Nevertheless, this growth in fair value was partially offset by impairments and burdens from risk provisions, meaning that the income statement was positively influenced by the easing of the burden on the financial markets in the amount of EUR 144 million.

## Overall result shaped by onerous secondary effects.

Despite solid growth in income in the operating business and the recovery on the financial markets, overall conditions remained difficult owing to negative developments in the real economy, which meant that the LBBW Group recorded a consolidated loss once again for the 2009 fiscal year. At EUR 1 482 million, however, this was down -29.8% or EUR +630 million on the net loss for the previous year of EUR 2 112 million. In addition to negative developments in the real economy, which were noticeable in particular in the increased allowance for losses on loans and advances (EUR 1 527 million) and burdens in the net income from investment securities on certain structured

---

bonds and securities (EUR 492 million), the result was also influenced by burdens in connection with the realignment of the LBBW Group that arose as a result of the approval of the EU subsidy. These burdens were essentially reflected in write-downs on goodwill (EUR 519 million), restructuring expenses (EUR 368 million) and commission expenses for the provision of the risk shield (EUR 157 million).

The LBBW Group achieved a **net interest income** of EUR 2 778 million in the 2009 fiscal year. This represented growth of +21.1% or EUR +484 million on the previous year, with both interest income and interest expense falling, mainly owing to a decline in interbank business.

The net interest income was positively influenced by solid income in the operating business, particularly the capital markets business and the corporate customer lending business, along with increased non-recurring income from the early repayment of funding facilities. This offset the significant decline in dividend and investment income, the remaining high liquidity and refinancing costs resulting from spread widening and increased CDS hedging costs in 2008, which continued to have an impact in 2009 due to their durations.

The net interest income as at the end of 2008 was burdened by an expense of EUR 494 million from the payment of existing silent partners' contributions and profit participation certificates. Owing to changes in assumptions about future interest and repayment cash flows, the present value of silent partners' contributions and profit participation certificates was reduced by EUR 37 million in the 2009 fiscal year. Ongoing interest on profit participation certificates and silent partners' contributions is to be distributed to creditors in later years, provided that the issues involved in the HGB net loss for 2009 have been replenished back to their nominal amount, the making good of this distribution is not contractually excluded and the issues have not been paid back in the meantime.

## Real economy leads to significant rise in allowance for losses on loans and advances.

The **allowance for losses on loans and advances** amounting to EUR 1 527 million showed a significant increase of +72.9% or EUR +644 million compared with the previous year.

Customers of the LBBW Group are also affected by the severe economic downturn resulting from the financial market crisis, which has had a negative effect on the risk structure of LBBW's loan portfolio and therefore also on the extent of valuation allowances. With a risk policy that is usually conservative, there was a significant burden on the income statement, particularly owing to various specific valuation allowances and direct write-offs that were almost unchanged in comparison with the previous year. Net additions of EUR 1 245 million related to the traditional lending business. In the

---

---

2009 fiscal year, further net additions of approximately EUR 200 million resulting from the problems in the Icelandic banking system also had a negative impact.

## State guarantee strengthens risk-bearing capacity.

The **net fee and commission income** showed a considerable year-on-year increase of +19.7% or EUR +108 million and amounted to EUR 657 million at the end of the year under review.

The net fee and commission income was mainly characterized by individual transactions. Arrangement fees from the brokerage business had a positive impact here, increasing by +75.2% or EUR +97 million. Net income was also strengthened by the improvement in the securities and custody business by +42.1% or EUR +56 million, which was primarily due to higher income from new business transactions and the securities syndicate business. The guarantee commission for the risk shield in the amount of EUR 157 million that had to be paid pro rata for the first time in the second half of 2009 had a contrary effect.

The positive development of net income was also supported by ongoing customer business transactions, particularly thanks to increased income from international transactions.

## Reversals of impairment losses for credit-sensitive financial products.

The **net trading income in the broader sense** saw a significant improvement in the 2009 fiscal year of EUR +2 856 million to EUR 748 million.

The crucial factors in this were the solid customer-related business and in particular the noticeable easing of the pressure on credit-sensitive financial instruments (not for proprietary trading) totaling EUR 856 million, owing to the stabilization of the financial markets. Above all, the development of spreads (narrowing) for credit risk-related transactions, particularly for CDSs relating to banks, corporates and sovereigns in the amount of EUR 524 million and for CDOs designated at fair value in the amount of EUR 161 million, led to significant positive valuation effects. Another positive effect resulted from the measurement of derivatives that, from an economic point of view, were concluded as hedging transactions, and from trading in other market price risks totaling EUR 171 million. In addition to the currency gain/loss, the income/loss from interest rate risks fell (together

---

---

EUR -67 million), mainly as a result of trading in Schuldscheine (German promissory notes). Particularly in connection with the negative result in interest rate trading, it must be noted that significant profit components from ongoing interest payments are shown in the net interest income.

At EUR -217 million, **other operating income** was down significantly by EUR -578 million compared with the previous year.

In the previous year, the development of results was characterized largely by income from projects implemented by the subsidiary LBBW Immobilien GmbH and by the positive measurement of properties occupied by third parties and designated at fair value. Owing to a drop in prices and against the background of an environment in which letting and sales are difficult, negative changes in the amount of EUR 26 million were made to the measurement of land and buildings in the portfolio of this subsidiary during the current reporting period, as part of regular valuations of the trading portfolio. The lower result is also due to write-downs of EUR 288 million in the development business of LBBW Immobilien GmbH and to various one-off expenses.

## Cost reduction program to play important role in future.

There was a year-on-year increase of +6.7% or EUR -120 million in **administrative expenses** in the last fiscal year, to EUR 1 909 million.

There was an increase in staff costs, largely due to a rise in the number of employees in the group following changes in the basis of consolidation through the addition of subsidiaries to the sub-group LBBW Immobilien GmbH, the full inclusion of the employees of the former Sachsen LB for the first time and the adoption of the increase in agreed wages in the banking industry. The decline in other administrative expenses, including for IT costs and rental expenses, compensated for this development to some extent. An increase in amortization and write-downs of intangible assets was also responsible for the rise in administrative expenses.

The **net result from investment securities** showed an improvement of -26% or EUR +257 million as at December 31, 2009, but was still very negative at EUR -733 million.

---

This is primarily due to ongoing impairment of various bonds and structured securities in the AfS and LaR categories in the amount of EUR 492 million as a result of the financial market crisis. In accordance with the agreed contract for the risk shield of June 30, 2009, the Bank will bear any losses on specifically identified assets in the hedged portfolio of securitized products up to a nominal amount of EUR 1.9 billion (deductible commitments, objective first loss). As part of the EU state aid proceedings, the guarantee contract was amended on December 15, 2009 so that the guarantee and first loss were extended to the entire portfolio of securitized products. In the 2009 fiscal year, valuation allowances in the amount of EUR 474 million were recognized in the guaranteed portfolio of securitized products, placing a burden on profits. As such, the bank's first loss was fully processed on the balance sheet. As a result, further impairment from the guarantee portfolio of EUR 39 million no longer placed a burden on profits for the LBBW Group. Impairments on available-for-sale investments totaling EUR 245 million also had a negative impact on this item.

The **net income from investments accounted for using the equity method and from profit/loss transfer agreements** in the amount of EUR - 124 million fell by EUR - 137 million compared with the previous period.

An important influencing factor was the drop in results and the measurement of investments accounted for using the equity method.

At EUR - 327 million, the **operating profit** improved significantly by - 87.2% or EUR + 2 226 million compared with the previous year.

The carrying amount of **goodwill** as at December 31, 2009 totaled EUR 451 million (December 31, 2008: EUR 946 million). As part of the goodwill impairment test carried out, the goodwill resulting primarily from the takeover of the former Sachsen LB was subject to an extraordinary write-down in the amount of EUR 519 million.

---

---

## European commission confirms restructuring plans of LBBW.

The **restructuring expenses**, which had increased by more than 100% or EUR - 259 million, stood at EUR 368 million at the end of the current reporting period.

With the conclusion of the EU state aid proceedings, the restructuring concept for LBBW put forward by the Board of Managing Directors and the owners and the agreed risk shield and capital increase of EUR 5 billion were secured from the point of view of competition law as support measures. Within this framework, LBBW can now organize its own future independently and focus on its strengths with clear prospects, so that it can continue to act as a reliable partner to customers – particularly SMEs on its core market in Baden-Württemberg – and maintain and expand its competitiveness through profitability. With regard to the fulfillment of cornerstones of the restructuring plan defined in December 2009, the first detailed measures have been developed by the Board of Managing Directors and executives, negotiations commenced with staff representatives, a new independent organizational unit set up for the credit substitute business and extensive project work initiated. In view of this, this income statement item contains all expenses involved in creating the conditions for the quick implementation of the agreed restructuring plan. EUR 18 million related to ongoing expenses, mainly for external consulting services, while EUR 350 million related to provisions that had to be made, which overall placed a considerable burden on the consolidated profit for 2009. EUR 222 million was added to the provisions for restructuring expenses in connection with human resources measures and EUR 154 million in connection with material expenses, while a discount effect in the amount of EUR 26 million had a reverse impact.

After taking into account these one-off expenses, **consolidated profit before tax** amounted to EUR - 1 214 million at the end of 2009. In net terms, **income tax** changed by EUR - 818 million to EUR - 268 million compared with the previous year, with an effective average Group taxation ratio for the period of 30.3%. The increase in actual tax expense is largely due to the results of the foreign branches. Tax expense for previous years primarily relates to allocations to provisions for consequences of tax audits. Lower temporary differences between IFRS and the tax carrying amounts for financial instruments measured at fair value resulted in expenditure on deferred taxes in 2009. Furthermore, the useable loss carry-forwards and thus the applicable deferred tax assets declined year-on-year.

This resulted in a **consolidated loss** of EUR 1 482 million for the LBBW Group as at December 31, 2009, which represented a reduction compared with the previous year of -29.8% or EUR + 630 million.

---

## Net Assets and Financial Position.

| Assets  | Dec. 31, 2009  | Dec. 31, 2008             | Change 2008/2009 |             |
|---|----------------|---------------------------|------------------|-------------|
|   | EUR million    | EUR million <sup>1)</sup> | EUR million      | in %        |
| 1. Cash reserve   | 1 878          | 3 480                     | -1 602           | -46.0       |
| 2. Loans and advances to other banks                        | 88 087         | 120 262                   | -32 175          | -26.8       |
| 3. Loans and advances to customers                          | 149 633        | 149 854                   | -221             | -0.1        |
| 4. Allowance for losses on loans and advances               | -3 904         | -2 525                    | -1 379           | 54.6        |
| 5. Positive fair values from derivative hedging instruments | 2 799          | 3 340                     | -541             | -16.2       |
| 6. Trading assets   | 66 997         | 63 197                    | 3 800            | 6.0         |
| 7. Financial assets designated at fair value                | 7 562          | 8 516                     | -954             | -11.2       |
| 8. Investment securities                                    | 91 028         | 93 334                    | -2 306           | -2.5        |
| 9. Investments accounted for using the equity method        | 309            | 401                       | -92              | -22.9       |
| 10. Portfolio hedge adjustment attributable to assets       | 196            | 237                       | -41              | -17.3       |
| 11. Non-current assets or disposal groups held for sale     | 692            | 0                         | 692              | 100.0       |
| 12. Intangible assets                                       | 628            | 1 175                     | -547             | -46.6       |
| 13. Investment property                                     | 1 761          | 1 784                     | -23              | -1.3        |
| 14. Property and equipment                                  | 854            | 922                       | -68              | -7.4        |
| 15. Current income tax assets                               | 700            | 803                       | -103             | -12.8       |
| 16. Deferred income tax assets                              | 1 109          | 1 533                     | -424             | -27.7       |
| 17. Other assets  | 1 365          | 1 425                     | -60              | -4.2        |
| <b>Total assets</b>   | <b>411 694</b> | <b>447 738</b>            | <b>-36 044</b>   | <b>-8.1</b> |
| Guarantee and surety obligations                            | 6 677          | 8 329                     | -1 652           | -19.8       |
| Irrevocable loan commitments                                | 21 479         | 26 583                    | -5 104           | -19.2       |
| <b>Business volume</b>                                      | <b>439 850</b> | <b>482 650</b>            | <b>-42 800</b>   | <b>-8.9</b> |

<sup>1)</sup> After taking into account adjustments in accordance with IAS 8.

| Equity and liabilities                                      | Dec. 31, 2009  | Dec. 31, 2008             | Change 2008/2009 |             |
|---|----------------|---------------------------|------------------|-------------|
|   | EUR million    | EUR million <sup>1)</sup> | EUR million      | in %        |
| 1. Deposits from other banks                                | 127 536        | 140 013                   | -12 477          | -8.9        |
| 2. Due to customers   | 105 212        | 103 232                   | 1 980            | 1.9         |
| 3. Securitized liabilities                                  | 100 068        | 122 320                   | -22 252          | -18.2       |
| 4. Negative fair values from derivative hedging instruments | 3 807          | 4 634                     | -827             | -17.8       |
| 5. Trading liabilities                                      | 36 694         | 40 028                    | -3 334           | -8.3        |
| 6. Financial liabilities designated at fair value           | 12 371         | 15 305                    | -2 934           | -19.2       |
| 7. Portfolio hedge adjustment attributable to liabilities   | 522            | 680                       | -158             | -23.2       |
| 8. Provisions   | 2 374          | 1 980                     | 394              | 19.9        |
| 9. Liabilities from disposal groups held for sale           | 678            | 0                         | -                | 100.0       |
| 10. Current income tax liabilities                          | 312            | 398                       | -86              | -21.6       |
| 11. Deferred income tax liabilities                         | 314            | 195                       | 119              | 61.0        |
| 12. Other liabilities                                       | 643            | 718                       | -75              | -10.4       |
| 13. Subordinated debt                                       | 10 657         | 12 175                    | -1 518           | -12.5       |
| 14. Equity  | 10 506         | 6 060                     | 4 446            | 73.4        |
| Ordinary share capital                                      | 2 584          | 1 420                     | 1 164            | 82.0        |
| Share premium   | 6 910          | 3 074                     | 3 836            | >100        |
| Retained earnings   | 2 922          | 5 072                     | -2 150           | -42.4       |
| Cumulative net income recognized directly in equity         | -439           | -1 438                    | 999              | -69.5       |
| Net retained loss   | -1 483         | -2 088                    | 605              | -29.0       |
| Minority interest   | 12             | 20                        | -8               | -40.0       |
| <b>Total equity and liabilities</b>                         | <b>411 694</b> | <b>447 738</b>            | <b>-36 044</b>   | <b>-8.1</b> |

<sup>1)</sup> After taking into account adjustments in accordance with IAS 8.

---

## Significant reduction in group's total assets.

Compared with December 31, 2008, the **business volume** in the LBBW Group suffered a significant drop of - 8.9% or EUR - 42.8 billion and totaled EUR 439.9 billion as at the reporting date.

The decline was largely due to the reduction in the **Group's total assets**, which amounted to EUR 411.7 billion as at the reporting date, a year-on-year drop of - 8.1 % or EUR - 36 billion. An important reason for this was the reduction in the volume of loans and advances to other banks and in investment securities as at December 31, 2009, which was offset by only a slight increase in trading assets. With regard to this change, it must be noted that the strengthening of own funds by EUR 5 billion and the acquisition of the bond from GPBW GmbH & Co.KG (guarantee company of the state of Baden-Württemberg) in connection with the risk shield in the amount of EUR 12.7 billion increased the Group's total assets.

A similar trend was seen in **off-balance sheet figures** (guarantee and surety obligations and irrevocable loan commitments), which amounted to EUR 28.2 billion at the reporting date (December 31, 2008: EUR 34.9 billion) and were characterized mainly by a reduction in irrevocable loan commitments (by - 19.2% or EUR - 5.1 billion).

## Lending.

Compared with December 31, 2008, the most significant changes in volume on the assets side of the consolidated balance sheet were seen in loans and advances to other banks, trading assets, investment securities and the allowance for losses on loans and advances.

The entire receivable item showed a significant drop in volume of - 12% or EUR - 32.4 billion compared with December 31, 2008, to EUR 237.7 billion.

As **loans and advances to customers** remained at the previous year's level despite difficult overall conditions, the change is entirely due to the reduction of - 26.8% or EUR - 32.2 billion in **loans and advances to other banks**, to EUR 88.1 billion. The considerable drop was largely driven by a decline in loans, particularly of - 22.5% or EUR - 10 billion in borrower's note loans, and a reduction in other receivables, particularly of - 54.8% or EUR - 10.2 billion in securities repurchase agreements and of - 27% or EUR - 6.6 billion in money market transactions. The volume reduction in this balance sheet item is linked in particular to the high level of liquidity that became necessary in 2008 as a result of the financial market crisis, which was reduced in the 2009 fiscal year.

---

---

As a result, the LBBW Group's **total loan volume** (loans and advances to other banks and customers, guarantee and surety obligations and irrevocable loan commitments) fell as at December 31, 2009, owing to the crisis in the real economy. In total, this figure amounted to EUR 265.9 billion on the reporting date, which represented a change of - 12.8% or EUR - 39.2 billion compared with the end of 2008.

There was also a drop in the volume of **investment securities** at the LBBW Group. These were down -2.5% or EUR - 2.3 billion year-on-year, totaling EUR 91 billion as at the reporting date.

This reflects two contrasting developments. Firstly, the AFS investment securities in particular experienced a drop owing to maturity, while the volume of LaR investment securities increased as a result of various factors including the bond from GPBW GmbH & Co. KG with a nominal volume of EUR 12.7 billion. Of the investment securities, 50.8% (December 31, 2008: 41.2%) were in the LaR category on the reporting date.

In contrast, the volume of **trading assets** showed a slight increase, amounting to EUR 67 billion on the reporting date, up +6% or EUR +3.8 billion on the comparative figure for 2008.

The growth was due almost exclusively to an increase of +55.3% or EUR +5.9 billion in bonds and debentures shown under trading assets, which amounted to EUR 16.6 billion on the reporting date. This increase was partly offset by a drop in the fair values from derivatives and in money market instruments.

Mainly as a result of maturities and sales of bonds, the volume of the **credit invest portfolio (CIP)** at the LBBW Group recorded a substantial drop of - 22% or EUR - 21 billion to a nominal volume of approximately EUR 74 billion in 2009.

The CIP also includes all securitized issues held by the 21 special-purpose entities that were consolidated as at December 31, 2009.

---

---

At EUR 2 276.7 billion as of the reporting date, the **nominal volume of derivative transactions** was higher than in the previous year (December 31, 2008: EUR 1 745.8 billion) after a significant increase of + 30.4%, or EUR + 530.9 billion. This development was product-related and almost entirely attributable to the increase in the volume of interest-rate derivatives. It was to be noted in connection with this, however, that largely closed-out positions from offsetting derivatives were not included in a compensatory way. Open positions from trading portfolios fell within the stipulated risk limits. Transactions were assigned to the category of proprietary trading transactions in accordance with the rules laid down by the Board of Managing Directors.

## Funding.

On the liabilities side of the consolidated balance sheet, deposits from other banks, securitized liabilities, trading liabilities and equity showed significant changes in volume compared with the previous year.

The LBBW Group strove to achieve a balanced funding structure with minimal liquidity risks. For this reason, funding was obtained primarily from three different sources that were used in varying degrees depending on the performance of the money and capital markets.

In the reporting period, these included **deposits from other banks**, which maintained their status as the most important source of funding despite a drop of - 8.9% or EUR - 12.5 billion to a total of EUR 127.5 billion.

As on the assets side, the change in liquidity situation reduced the volume, within this item, of money market transactions (by - 8.4% or EUR - 3.6 billion), securities repurchase agreements (by - 12.5% or EUR - 5.3 billion) and borrower's note loans (by - 49.3% or EUR - 4.2 billion).

In terms of volumes, **amounts due to customers** represented the second funding pillar of the LBBW Group. These reached a total volume of EUR 105.2 billion, with a slight increase of + 1.9% or EUR + 2 billion.

---

The growth was driven largely by the funds deposited as cash collateral for the risk shield provided, which led to a significant increase in giro liabilities (by + 36.7% or EUR + 6.1 billion), although this was partially offset by a decline in term deposits at LBBW Bank. The amounts due to customers were also strengthened by a significant increase in securities repurchase agreements with customers (by more than 100% or EUR + 5.5 billion). In particular, the drop in borrower's note loans (by - 20.9% or EUR - 3.3 billion) and in other amounts due to customers (by - 43.3% or EUR - 7.6 billion) had a reverse effect on this item.

As the third major source of funding, **securitized liabilities** totaled EUR 100.1 billion at the end of the year under review. As a result of restraint in business on the capital markets and increased maturities, this item showed a considerable drop of - 18.2% or EUR - 22.3 billion compared with the previous period, which corresponds to the reduction in loans and advances to other banks.

Landesbank Baden-Württemberg issued mortgage-backed covered bonds and public-sector covered bonds on the capital market, in addition to unsecured bonds. The target groups for issues placed directly in 2009 were primarily savings banks, private customers, insurance companies and pension and investment funds. In addition, bonds were placed with other banks and on the international capital markets. LBBW opened up the market for large-scale issues of covered bonds (benchmarks) in 2009 with the issue of a EUR 1 billion public-sector covered bond in February. The issue was a major success with both national and international investors. This transaction underlined the role of LBBW as an important issuer of covered bonds in Germany. In 2009, LBBW was able to fulfill refinancing requirements without any restrictions.

**Trading liabilities** were down - 8.3% or EUR - 3.3 billion year-on-year, totaling EUR 36.7 billion as at the reporting date.

The reduction in the portfolio resulted mainly from the development of the market values of trading derivatives (by - 7.6% or EUR - 2.9 billion), which was due in particular to OTC credit derivatives and derivative currency transactions.

## The LBBW Group's capital.

The **LBBW Group's capital** (equity including subordinated debt) amounted to EUR 21.2 billion as at December 31, 2009, which represented an increase of +16.1% or EUR +2.9 billion compared with the end of 2008.

The increase in the LBBW Group's capital was largely due to the strengthening of equity by EUR 5 billion, of which EUR 1.2 billion related to share capital and EUR 3.8 billion to the share premium. Compared with the previous year, the positive development of the revaluation reserve also increased equity. As at December 31, 2009, the revaluation reserve had a closing balance of EUR -0.4 billion, which corresponded to an improvement of -69.7% or EUR +1 billion against the previous reporting date, mainly owing to reversals of impairment losses on AfS securities.

The reduction in retained earnings by -42.4% or EUR -2.2 billion to EUR 2.9 billion was primarily due to offsetting against the net retained loss for the previous year. The reduction in subordinated debt, which was essentially due to maturities, also placed a burden on the LBBW Group's capital. This item showed a closing balance of EUR 10.7 billion as at the reporting date, which represented a drop of -12.5% or EUR -1.5 billion compared with December 31, 2008.

---