

# Foreword.

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**DEAR CUSTOMERS,  
DEAR BUSINESS PARTNERS OF THE LBBW GROUP,**

2009 was another difficult year for the LBBW Group as well as the entire banking sector and real economy. While the result was still positive in the middle of the year, a consolidated loss for the period after taxes of approximately EUR 1.5 billion had been generated by the end of 2009. Even though this result is very much dominated by non-recurring factors and the largest recession in post-war history, we obviously cannot be happy with this. We drew conclusions from this emerging development quickly, initiating the necessary restructuring of the Group as early as the second half of 2009.

## **SOUND CAPITAL BASE SECURES SUPPORTING ROLE OF LBBW**

The foundations for this were laid by the sustained commitment of our owners. Here, the owners provided the LBBW Group with new equity in the amount of EUR 5 billion in June 2009. At the same time, the state of Baden-Württemberg provided protection against risks arising from the credit substitute portfolio with a guarantee in the amount of EUR 12.7 billion. Even when the loss for 2009 is factored in, the core capital ratio is 9.1%. As such, the LBBW Group has a sound equity basis. We are thus able to continue to fulfill unfailingly our supporting role as a partner to the companies, savings banks and private households in our core markets.

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The European Commission gave its approval of the equity increase and risk shield after a gratifyingly short period and without an in-depth investigation, on the basis of an extensive restructuring plan drawn up by us. We also see this rapid decision as a sign of the particular trust placed in the performance and long-term viability of our Bank.

#### **PLEASING DEVELOPMENTS IN THE CUSTOMER BUSINESS**

One basis for this is the sound business development in the three operating segments of Corporates, Financial Markets and Private Customers, which comprises direct business with customers. At approximately EUR 3.8 billion, operating income here is almost one quarter up on the previous year's figure. The operating result in each of the three segments is also positive and up on the previous year overall.

The main driver of income here is the Corporates segment, which alone contributed EUR 2.15 billion to operating income. However, alongside good business development in various areas including fee and commission income in the corporate customer business, the general slowdown in the real economy was also reflected in this segment in the form of a considerable increase in risk provisions. In the Financial Markets segment, the LBBW Group clearly surpassed expectations, both in terms of income and its result. Decisive factors here included the expansion of the customer-driven business, for example as regards the issue of bonds and *Schuldscheine* (German certificates of indebtedness). The Retail Clients segment, which comprises business with private customers and the Bank's function as the central bank for savings banks, continued to be characterized by the difficult market development surrounding private customers. However, we largely absorbed this through a reduction in risk provisions and costs.

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Despite pleasing development in the customer business, the LBBW Group had to deal with a range of negative impacts. The main factors to mention here are one-off and non-recurring effects such as restructuring expenses in connection with the EU proceedings and write-downs when measuring equity investments and goodwill.

#### **RESTRUCTURING PLAN SETS COURSE FOR STABLE FUTURE**

Thanks to solid income in the operating segments, LBBW has a profitable core with healthy growth prospects. Deep and also regional roots with private and corporate customers as well as institutional customers including savings banks offer a sound basis for extensive restructuring of the Bank.

Further business areas include selected real estate financing and capital market products. The focus here is the ongoing reliable provision of the domestic economy with loans and extensive financial services. By way of contrast, we are systematically cutting back the credit substitute business in particular. In the past year alone, we reduced the volume by around 20%. We are to scale back the equity investment portfolio. An extensive cost-cutting program is combined with this restructuring, in the context of which around 2 500 jobs will be cut, in addition to a significant reduction in material expenses. At the end of restructuring, we will be left with a considerably smaller bank focused 100% on the needs of our customers. We are convinced that LBBW has the inner strength and substance to grow on a profitable basis in the customer business and constitute a streamlined, efficient and once more profitable bank in the foreseeable future.

#### **EXPRESSION OF APPRECIATION BY THE BOARD OF MANAGING DIRECTORS**

With the equity increase and the risk shield as well as these being approved by the EU, our owners and the EU have demonstrated the high level of trust they have placed in us. We now have legal and planning security for our realignment and will show that this trust was justified.

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On behalf of the entire Board of Managing Directors, I would like to express our sincere thanks to the owners for their constructive cooperation and close solidarity. We would also like to thank our dedicated employees, who have furthered the Bank in this challenging environment with a high level of commitment and expertise. I would like to pay particular thanks, on behalf of the entire Bank, to our many customers, some of whom have been associated with us for decades, for their excellent and successful cooperation.

Sincerely,



HANS-JÖRG VETTER  
Chairman of the Board of Managing Directors