LB≡BW

Press release

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27 February 2013

LBBW releases preliminary figures for 2012

- **IFRS profit before tax of EUR 399 million (previous year: EUR 86 million)**
- **Operating result of EUR 694 million underpinned by solid customer business**
- **Restructuring process largely completed in 2012**
- **Reduction of risk weighted assets still well ahead of schedule; increase in Tier 1 capital ratio to 15.3 percent**

Despite a still very challenging environment, Landesbank Baden-Württemberg (LBBW) was able to boost its consolidated profit substantially last year on the basis of its preliminary figures. Thus, consolidated profit before tax (in accordance with IFRS) came to EUR 399 million (previous year: EUR 86 million). Net profit after tax equals EUR 398 million (previous year: EUR 66 million). Operating result increased over the previous year, rising from EUR 392 million to EUR 694 million.

"This preliminary result confirms that with our strictly customer-oriented business model we are positioned correctly and in line with market requirements. We also made further progress at the operating level last year," said Hans-Jörg Vetter, the Chairman of LBBW's Board of Managing Directors. The Bank closed all four quarters of last year with a profit. "At the same time as achieving generally solid performance in our customer business, we were able to implement the varied and ambitious elements of our restructuring plan on schedule. Accordingly, we are now able to say that we have largely completed restructuring. Simultaneously, we have continued to systematically reduce our risks," Vetter continued. The Bank is thus already well-positioned in the face of the growing regulatory requirements.

Capitalization improved, restructuring largely completed

One key focus by the Bank last year was on reducing risks and improving capital resources. One aspect of these efforts entailed trimming the credit substitute business, which no longer forms part of the core business, from EUR 36 billion to EUR 22 billion in 2012. At the beginning of the restructuring process, this portfolio had been valued at EUR 95 billion. Total risk weighted assets were cut from EUR 108 billion to EUR 96 billion last year. The Tier 1 capital ratio widened in the same period by 2.4 percentage points, standing at 15.3 percent at the end of 2012. Accordingly, LBBW has solid and appropriate capital resources.

In order to ensure compliance with the future, substantially more stringent capital requirements, the owners of LBBW (the federal state of Baden-Württemberg, Sparkassenverband Baden-Württemberg and the City of Stuttgart) agreed last year to convert their silent partners' contributions into common Tier 1 capital. In this way, LBBW will be able to satisfy the more restrictive future regulatory requirements (Basel III) under which silent partners' contributions no longer count towards Tier 1 capital.

In addition, last year LBBW systematically continued and largely completed the EU restructuring process, which had been commenced in 2009. Thus, redundancies continued in line with plans. As of the end of the year, contractual arrangements were in place for the reduction of more than 2,400 full-time equivalent jobs in the form of voluntary offers such as termination contracts and partial retirement arrangements as well as natural fluctuation. Further progress was also made in consolidating the portfolio of shareholdings. In the course of 2012, the Bank sold its shares in, among others, SV Sparkassenversicherung, Wüstenrot & Württembergische AG, Universal-Investment-Gesellschaft, Nationale Suisse and LBBW Immobilien GmbH including its 21,000 appartments.

Overview of LBBW's provisional income and balance sheet figures for 2012

Net interest income contracted by 10.5 percent over the previous year to EUR 2.057 billion. This decline was chiefly due to low market interest rates and further scheduled reduction of interest-bearing assets in connection with restructuring. In addition, positive non-recurring effects had arisen in corporate customer business in the previous year but were not repeated in 2012. On the other hand, the adjustments to the present values of expected interest and capital payments towards silent partners' contributions and profit-participation certificates following the conversion of silent partners' contributions of an initial EUR 2.2 billion had a positive effect.

At EUR 514 million, **net fee and commission income** fell slightly short of the previous year's figure of EUR 536 million. Among other things, this reflects investors' continued restraint in securities business as well as lower income from derivatives business.

Net gains from financial instruments measured at fair value through profit or loss came to EUR 24 million (previous year: net losses of EUR 33 million). This figure was buoyed by earnings from the Bank's customer-related trading activities as well as write-ups in response to narrowing spreads on credit derivatives. On the other hand, strain was exerted by valuation adjustments for market parameters, counterparty risks and legal risks as well as effects arising from the market valuation of the Bank's own credit spread and derivatives in connection with the funding of foreign-currency transactions (cross-currency swaps).

Other operating expenses came to EUR 39 million last year, after the previous year's other operating income of EUR 186 million. Among other things, this was due to the reduced net income from the investment properties following the sale of the residential portfolio and due to precautionarily added provisions.

At EUR 143 million, **provision for credit losses** was slightly down on the previous year (EUR 152 million). This reflects companies' robust condition particularly in LBBW's core markets despite the deterioration of the economy in Germany.

Net income from financial instruments came to a total of EUR 135 million in 2012. This figure had come under heavy pressure in the previous year due to impairments recognized on exposure to the Southern European countries, resulting in a net loss of EUR 716 million in 2011. The net income achieved last year was chiefly due to proceeds from the sale of various investments.

Administrative expenses rose to EUR 1.854 billion in the past year. This was partially due to the heavy expenses in connection with preparations for the more stringent regulatory requirements. Further strain on costs arose from spending on investments for the future as well as the increase of EUR 35 million in the bank levy to EUR 92 million. Despite the scheduled redundancies, as a result of which employee numbers within the Group dropped from 12,231 to 11,642 in 2012 (down 589), staff expenses rose slightly due, among other things, to pay-scale adjustments.

Operating result increased substantially over the previous year, rising from EUR 392 million to EUR 694 million.

The cost of the risk shield provided by the state of Baden-Württemberg came to a total of EUR 330 million, of which EUR 305 million was recorded as **guarantee commission for the state of Baden-Württemberg** and the remainder in net interest income. The dissolution of provisions no longer required resulted in a positive **restructuring result** of EUR 10 million. **Consolidated profit before tax** came to EUR 399 million (previous year: EUR 86 million). After tax, the Bank recorded a **consolidated profit** of EUR 398 million (previous year: EUR 66 million).

As of the end of the year, **consolidated total assets** had contracted by 9.9 percent to EUR 336.3 billion, thus matching the deleveraging requirements stipulated in the EU restructuring plan.

Overview of the three operating segments

The **Corporates** segment, which comprises business with corporate customers as well as commercial real estate finance, generated profit before tax of around EUR 920 million. In 2011, this segment had reported an extraordinary good result of EUR 1.247 billion. By comparison, low interest levels, valuation adjustments as well as the controlled run-off of non-core-bank activities and large-scale exposures in connection with restructuring exerted influence in 2012. Provision for credit losses increased slightly over the previous year but remained at a generally low level. The increase in proceeds from the sale of investments boosted segment profit.

Profit before tax in the **Retail/Savings Bank** segment contracted from EUR 149 million to EUR 88 million. This was due to substantial declines in deposit-taking and securities business, reflecting sustained restraint on the part of securities customers in the wake of the persistent market uncertainties as well as the historically low interest rates. Provision for credit losses was also up slightly compared with the previous year in this segment.

In the **Financial Markets** segment, profit before tax came to EUR 278 million, well up on the previous year (EUR 139 million). This segment benefited from brisk customer demand for money-market products and securities repurchasing business. Moreover, positive effects arose from narrowing spreads following the ECB's rate cut at the middle of the year and the program announced in the summer for buying up European sovereign bonds.

Outlook

LBBW assumes that underlying conditions for the financial sector will remain challenging, not least of all on account of the varied regulatory requirements. Strategically, the Bank will be continuing to primarily focus on the controlled expansion of its customer business and the reduction of risks. "Our customer-oriented business model has proved to be viable. We will continue to work on supporting the real economy and on achieving sustained success as a reliable and trustworthy partner to our customers," Vetter said.

Unconsolidated Financial Statements allow for payments on hybrid capital

For the first time since 2008 LBBW will pay regular distributions on its silent partner contributions and profit participation certificates. In addition a partial recovery of distributions omitted in the past years will be made: Based on the as yet unaudited figures in its unconsolidated financial statements prepared in accordance with HGB (German Commercial Code), an amount of ca. 254 m EUR will be allocated to the regular distributions on its silent partner contributions and profit participation certificates and an amount of ca. 332 m EUR will be allocated to the recovery of distributions omitted in the years 2009 to 2011. This corresponds to a recovery of ca. 40.8 % of all omitted distributions. As of 01.01.2013 omitted distributions not yet recovered amount to ca. 239 m EUR.

Changes in these figures with a corresponding effect on regular distributions and on the recovery of omitted distributions may still occur during the adjustment period, which ends in April 2013. Accordingly, a binding statement on regular distributions and/or recovery of omitted distributions cannot be made until after the balance sheet has been approved by end of April.

LBBW will be presenting the consolidated financial statements at its annual press conference on 29 April 2013.

Preliminary figures for the LBBW Group as of 31 December 2012 in accordance with IFRS

	1/1 - 31/12/2012 EUR m	1/1 - 31/12/2011 EUR m *	Change in EUR m	in %
Net interest income	2,057	2,298	-241	-10.5
Net fee and commission income	514	536	-22	-4.0
Net gains/losses from financial instruments at fair value through profit and loss	24	-33	57	---
Other operating income/expenses	-39	186	-225	---
Net income/loss	**2,557**	**2,987**	**-430**	**-14.4**
Provision for credit losses	-143	-152	9	-5.9
Net gains/losses from financial investments, net income/loss from investments accounted for using the equity method and from profit/loss transfer agreements	135	-716	851	---
Administrative expenses	-1,854	-1,727	-127	7.4
Operating result	**694**	**392**	**302**	**77.0**
Guarantee commission for Baden-Württemberg	-305	-306	1	-0.3
Impairment of goodwill	-	-15	15	-100.0
Restructuring expenses	10	15	-5	-33.3
Consolidated profit before tax	**399**	**86**	**313**	**>100**
Income tax	-1	-20	19	-94.3
Consolidated profit after tax	**398**	**66**	**332**	**>100**

	31/12/2012 in %	31/12/2011 in %
Tier 1 capital ratio	15.3	12.9
Total ratio in accordance with SolvV	19.7	17.2

	31/12/2012 in EUR bn	31/12/2011 in EUR bn	Change EUR bn	in %
Total assets	336.3	373.1	-36.8	-9.9

* After adjustments in accordance with IAS 8.

Figures may be subject to rounding differences. Percentages are based on the exact values.
The above figures are provisional only. The audit is still ongoing. LBBW will be presenting the consolidated financial statements for 2012 setting out the final figures at its balance-sheet press conference.