LB≡BW

Press release

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LBBW financial statement press conference

Restructuring largely completed – substantial increase in consolidated profit in 2012

- **Substantial increase in net consolidated profit after tax to EUR 398 million (previous year: EUR 66 million)**
- **Robust operating customer business particularly with corporates**
- **Restructuring almost completed in 2012**
- **Reduction of risk weighted assets and credit substitute business still well ahead of schedule**
- **Tier 1 capital ratio increases to 15.3 percent and total ratio in accordance with SolvV to 19.7 percent**
- **LBBW entered 2013 with satisfactory operating business**

At today's financial statement press conference, Hans-Jörg Vetter, the Chairman of the Board of Managing Directors of Landesbank Baden-Württemberg (LBBW), strikes a positive balance on the Bank's performance in 2012: "We achieved a respectable result in a difficult environment, largely completed the restructuring measures which had been launched in 2009 and once again significantly improved our capital and risk position. This places LBBW in a good position to address the many and varied challenges facing banks with confidence."

At the annual financial statement conference, LBBW also confirmed the consolidated figures which had been presented at the end of February. Last year, net consolidated profit after tax rose to EUR 398 million (2011: EUR 66 million). Operating result increased from EUR 392 million to EUR 694 million. This performance was underpinned by a solid customer business particularly with corporates, continued low allowances for losses on loans and advances and improved net gains from financial investments. Net consolidated profit before tax came to EUR 399 million (previous year: EUR 86 million).

"Our decision to adopt a solely customer-driven business model has been proven right. We will continue to work on meeting the needs of the real economy even more effectively. In addition, the implementation of the numerous new regulatory requirements - such as the drastically increased capital adequacy requirements and new consumer protection legislation - will intensively occupy also LBBW. However, we are convinced that our business model with its focus on customer benefit and the systematic reduction in risks, which we are continuing to pursue, will allow us to assert ourselves successfully in the market also over the long term," said Vetter.

Further substantial reduction in risk weighted assets - disposal of equity investments and job cuts largely completed

The implementation of the restructuring measures commenced in 2009 was consequently continued and largely completed last year. LBBW was able to achieve a substantial improvement in its capital ratios by reducing further risk weighted assets. In this connection, credit substitute business, which no longer forms part of the core business and which had a volume of EUR 95 billion when restructuring was commenced, was further reduced last year from EUR 36 billion to EUR 22 billion. Total risk weighted assets dropped from EUR 108 billion to EUR 96 billion. In the last years, both risk weighted assets as a whole and credit substitute business have been reduced at a substantially greater rate than provided for in the restructuring plan. The Tier 1 capital ratio stood at 15.3 percent at the end of the year, 2.4 percentage points higher than at the beginning of 2012. The total ratio in accordance with SolvV rose from 17.2 percent to 19.7 percent. This means that LBBW currently already has appropriate capital resources. In addition, the owners converted silent partners' contributions of EUR 2.2 billion into common Tier 1 capital at the beginning of 2013. In this way, LBBW is able to satisfy also the substantially higher future capital requirements.

In addition, the Bank disposed of further shareholdings in 2012; these included shares in SV SparkassenVersicherung, Wüstenrot & Württembergische AG, Universal-Investment-Gesellschaft, Nationale Suisse and LBBW Immobilien GmbH with its roughly 21,000 appartments. Job reduction also progressed according to plan. Since 2009, it has been possible to put in place contractual arrangements 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.

Overview of the operating segments

In 2012, the three operating segments - Corporates, Retail/Savings Banks and Financial Markets - again provided solid underpinnings for the Group's earnings. The **Corporates** segment, which comprises business with corporate customers as well as commercial real estate finance, generated profit before tax of EUR 914 million, thus making the largest contribution to the net consolidated profit. Despite the satisfactory customer business, the segment fell short of the previous year's extraordinarily good result (EUR 1.244 billion), which had been marked by non-recurring effects, among other factors. The main reasons for this were the risk-oriented run-off of non-core-bank activities, the low interest levels and valuation adjustments as well as provisions recognized as a pre-caution. Allowances for losses on loans and advances were increased slightly but remained at a generally low level. Administrative expenses in the segment were lowered slightly.

The **Retail/Savings Banks** segment closed 2012 with a net profit before tax of EUR 99 million (previous year: EUR 142 million). Favorable performance in financial intermediary business for pension and life insurance as well as building savings contracts was accompanied, however, by lower earnings on deposit and securities business. This was due to protracted low interest rates and customer restraint in the wake of market uncertainties. Administrative expenses rose slightly, while allowances for losses on loans and advances remained at a low level.

In the **Financial Markets** segment, net profit before tax rose substantially to EUR 277 million (previous year: EUR 138 million). The segment benefited from brisk customer demand for money market products as well as interest rate cuts and tighter spreads on European sovereign bonds as a result of the European Central Bank's interventions aimed at easing the sovereign debt crisis. This segment also came under pressure from valuation adjustments and the recognition of provisions. The slight increase in administrative expenses is primarily due to the higher bank levy.

LBBW's income and balance sheet figures for 2012

Net interest income dropped by 10.5 percent over the previous year to EUR 2.057 billion. This was chiefly due to the continued run-off of interest-bearing assets as well as the generally low market interest rates. At the same time, the previous year's figure had been affected by positive non-recurring effects which did not occur to the same extent last year. In 2012 a positive effect arose from adjustments to present values as a result of changes in expected interest and capital payments towards silent partners' contributions and profit-participation certificates following, among other things, the conversion of silent partners' contributions of EUR 2.2 billion.

At EUR 514 million, **net fee and commission income** fell slightly short of the previous year's figure of EUR 536 million. This moderate decline is mainly due to lower net fee and commission income in securities and custody business. Moreover, non-recurring effects from financial intermediary activities were lower than in the previous year.

Net gains/losses from financial instruments measured at fair value through profit or loss improved by EUR 57 million over the previous year, coming to EUR 24 million. This was particularly buoyed by the earnings contributions made by customer-related trading activities as well as reversals of impairment losses in response to tightening spreads on credit derivatives on bank and sovereign names. On the other hand, strain was exerted by valuation adjustments for market parameters, counterparty and legal risks. Further negative effects arose from the market valuation of the Bank's own credit spread and the valuation of derivatives in connection with the funding of foreign-currency transactions (cross-currency swaps).

Other operating income/expenses came to EUR -33 million (previous year: EUR 194 million). The substantial decline is chiefly due to the precautionary recognition of provisions and lower net income from investment property following the sale of LBBW Immobilien GmbH's residential portfolio.

Despite the deterioration in macroeconomic conditions and a continued conservative risk policy, the **allowances for losses on loans and advances** of EUR 143 million were even slightly below the previous year's figure (EUR 160 million) thanks to the solid condition of companies particularly in Baden-Württemberg.

Net gains/losses from financial investments, net income/expenses from investments accounted for using the equity method and from profit/loss transfer agreements came to EUR 135 million. In 2011, this item recorded net losses and expenses of EUR 716 million due to heavy impairments on exposures to Southern European countries. The net gains and net income recorded by this item in 2012 were mainly due to proceeds from the sale of various equity investments.

Administrative expenses rose to EUR 1.860 billion in 2012. This is mainly due to high expense arising from preparations for the more stringent regulatory requirements. Moreover, the bank levy which LBBW is required to pay rose by EUR 35 million over the previous year to EUR 92 million. Further expenses were incurred as a result of investments in future projects and growth areas.

Operating result came to EUR 694 million and was thus well in excess of the previous year's figure of EUR 392 million.

Including the cost of the risk shield provided by the State of Baden-Württemberg - of the total amount of EUR 330 million, EUR 305 million was recorded as **guarantee commission for the State of Baden-Württemberg** and the remainder in net interest income - and the **net income from restructuring** of EUR 10 million, **net consolidated profit before tax** came to EUR 399 million (previous year: EUR 86 million). **Net consolidated profit** after tax reached EUR 398 million (previous year: EUR 66 million).

Consolidated total assets were reduced in 2012 in accordance with the requirements of the EU restructuring plan, dropping by just under 10 percent to EUR 336 billion at the end of the year.

Payments on silent partners' contributions and profit-participation certificates

The net profit recorded in the separate financial statements for LBBW prepared in accordance with HGB, which form the basis for serving the silent partners' contributions and profit-participation certificates, allows the Bank to pay a dividend on this hybrid capital for the first time since 2008. Regular distributions on silent partners' contributions and profit-participation certificates come to around EUR 254 million. In addition, a sum of around EUR 332 million has been earmarked to partially make up for the distributions which were omitted in the years from 2009 to 2011. This corresponds to a recovery of some 40.8 percent of all omitted distributions. As at 1 January 2013 omitted distributions not yet recovered amounted to approx. EUR 239 million.

Beginning of 2013

LBBW's operating business remained satisfactory in the first few months of the current year. However, given the low interest rates and the deliberate acceptance of losses on the continued run-off of risk weighted assets, the result for the first quarter will fall short of the previous year. With respect to the rest of the year, LBBW anticipates challenging conditions characterized by low interest rates and restrained lending demand. Moreover, there are considerable uncertainties surrounding the financial markets and many regulatory matters. Despite this, the Bank expects to be able to report a clearly positive result for 2013. However, it is not possible to issue any specific forecast for the year as a whole at this stage.

Business figures for the LBBW Group as at 31 December 2012 in accordance with IFRS

	1 Jan. - 31 Dec. 2012 in EUR m	1 Jan. - 31 Dec. 2011 in 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	-4.1
Net gains/losses from financial instruments measured at fair value through profit or loss	24	-33	57	---
Other operating income/expenses	-33	194	-227	---
Total operating income/expenses	**2,562**	**2,995**	**-433**	**-14.5**
Allowances for losses on loans and advances	-143	-160	17	-10.6
Net gains/losses from financial investments, net income/expenses from investments accounted for using the equity method and from profit/loss transfer agreements	135	-716	851	---
Administrative expenses	-1,860	-1,727	-133	7.7
Operating result	**694**	**392**	**302**	**77.0**
Guarantee commission for the State of Baden-Württemberg	-305	-306	1	-0.3
Impairment of goodwill	0	-15	15	-100.0
Net income/expenses from restructuring	10	15	-5	-33.3
Net consolidated profit/loss before tax	**399**	**86**	**313**	**> 100**
Income tax	-1	-20	19	-95.0
Net consolidated profit/loss	**398**	**66**	**332**	**> 100**

	31 Dec. 2012 in %	31 Dec. 2011 in %
Core capital ratio (Tier 1 ratio)	15.3	12.9
Total ratio in accordance with SolvV	19.7	17.2

	31 Dec. 2012 EUR bn	31 Dec. 2011* EUR bn	Change EUR bn	in %
Total assets	336.3	373.1	-36.8	-9.8

	31 Dec. 2012	31 Dec. 2011	Change absolute	in %
Employees (Group)	11,642	12,231	-589	-4.8

* After taking into account adjustments in accordance with IAS 8.
Figures may be subject to rounding differences. Percentage changes based on the exact figures.