LBBW

Press Release

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20 November 2013

LBBW releases nine-month figures for 2013

- **Increase in net consolidated profit before tax to EUR 319 million after nine months**
- **Solid performance of the customer business continued**
- **Further systematic reduction in risks**
- **Core capital ratio improved to 17.8 percent and total ratio in accordance with SolvV to 22.5 percent**
- **Common equity Tier 1 ratio of 11.6 percent and total ratio of 17.6 percent on the basis of full application of Basel III**
- **Total assets fell by EUR 41.9 billion to EUR 294.4 billion**

In the first nine months of 2013 Landesbank Baden-Württemberg (LBBW) slightly increased its profit before tax year on year, improved its capital ratios substantially and further reduced its risks on a sustained basis despite the difficult underlying conditions for banks. On the basis of solid customer business with companies and private customers in particular, profit before tax improved to EUR 319 million (previous year: EUR 307 million). "Amid a demanding market setting marked by low interest rates and generally muted demand for loans, LBBW's strict focus on customer business along with high cost awareness enabled a respectable result. Now that the restructuring has largely been completed, LBBW has a sustainable and stable business model and sufficient capital resources to master the coming challenges," said Hans-Jörg Vetter, the Chairman of LBBW's Board of Managing Directors.

In addition to developing its customer-related activities further, the Bank has once again focused particularly on a systematic rundown of risks outside its core business. Risk weighted assets were reduced to EUR 83 billion, around EUR 13 billion less than at the start of the year. Credit substitute business, which came to EUR 95 billion at the start of restructuring, was further reduced to EUR 13 billion as at 30 September (end of 2012: EUR 22 billion).

At the same time, capital ratios improved further. The core capital ratio (Tier 1 ratio) rose to 17.8 percent at the end of September and was thus 2.5 percentage points above the figure recorded at the end of the previous year (15.3 percent). The common equity Tier 1 ratio improved to 15.1 percent in accordance with Basel 2.5 and 11.6 percent on the basis of full application of Basel III. The total ratio in accordance with SolvV climbed to 22.5 percent (end of 2012: 19.7 percent), standing at 17.6 percent on the basis of full application of Basel III. The capital resources are thus above the market average. "By strengthening our capital cover we were able to improve our position as a reliable partner to the domestic economy even further," stated Vetter. At the same time, the Bank thus sees itself as being well-prepared for the regulatory requirements of the competent authorities, such as the upcoming asset quality review and the pending stress test.

Substantial progress has once again been made with regard to the planned reduction in the balance sheet. Total assets fell to EUR 294.4 billion in the first nine months and were thus almost EUR 42 billion below the figure recorded at the end of the previous year. A material contribution came from the reduction in credit substitute business and the closure of derivatives positions at offsetting fair values at the portfolio level.

Income and expense items in the first nine months of 2013

In the first nine months, **net interest income** came to EUR 1.333 billion, down EUR 260 million on the previous year. The reason for this included, in particular, the continued reduction of assets in order to minimize risks together with the low interest rates. Moreover, as reported, net interest income had been affected in the previous year by a positive non-recurring effect in connection with capital measures.

LBBW increased its **allowances for losses on loans and advances** to EUR 250 million (previous year: EUR 153 million). In total, allowances for losses on loans and advances remain comparatively moderate thanks to the stable economic situation in LBBW's core markets, particularly Baden-Württemberg.

Net fee and commission income improved by EUR 14 million to EUR 393 million. The uncertainty on the capital markets receded, prompting a recovery in customer activity and heightened demand for capital market products.

The increase in customer activity also made its effect felt on **financial instruments measured at fair value through profit or loss,** which benefited from a gratifying performance in customer-related capital market business. Narrowing spreads on credit derivatives also had a favorable impact on earnings. In total, net income from financial instruments measured at fair value climbed to EUR 287 million (previous year: loss of EUR 27 million), whilst valuation adjustments had exerted pressure in the previous year.

At EUR 5 million, **net income from investment securities** was substantially down on the pre-year period (EUR 74 million). Losses were deliberately realized on the systematic reduction of portfolios no longer forming part of the core business.

Administrative expenses dropped by 6.5 percent to EUR 1.251 billion as a result of strict cost management on the basis of the successful restructuring. Both staff costs and the cost of materials were down despite high expenses on the implementation of regulatory requirements. Administrative expenses include the bank levy, which depressed the result by EUR 50 million. The cost/income ratio improved year on year and came to 62.5 percent.

The **operating result** amounted to EUR 506 million. **Guarantee commission on the risk shield provided by the State of Baden-Württemberg** came to EUR 232 million. The **net income from restructuring** came to EUR 48 million and reflects the reversal of provisions not required in the wake of the EU restructuring initiated in 2009, which has now been largely completed. **Consolidated profit before tax**

rose to EUR 319 million (previous year: EUR 307 million). After deducting **tax expenses**, which were marked by favorable one-off effects in the previous year, the Bank recorded a **profit** of EUR 222 million for the year (previous year: EUR 281 million).

Segment overview

All three operating segments made a positive contribution to the consolidated profit. The **Corporates** segment, which includes corporate customer business as well as commercial real estate business, once again provided the biggest contribution. Despite generally muted demand for corporate loans and increased allowances for losses on loans and advances, at EUR 551 million the segment nearly reached the previous year's result (EUR 561 million). Alongside an overall solid business performance, particularly with SME customers, the proceeds from the sale of successfully completed project developments in the real estate sector also contributed to this result.

The **Retail/Savings Banks** segment benefited from a recovery in securities business and mortgage financing. By contrast, the low interest rates on deposits exerted strain. In total, at EUR 87 million profit before tax fell slightly short of the previous year's figure (EUR 92 million).

The **Financial Markets** segment overall generated a profit before tax of EUR 223 million and thus fell slightly short of the previous year's figure of EUR 258 million, which had been boosted by the crisis measures adopted by the central banks. The Bank recorded increased customer demand for equities-based products, for example. Moreover, narrowing spreads exerted a favorable impact, albeit not to the same extent as in the previous year.

Outlook

LBBW expects the conditions for the banking sector to remain demanding against the backdrop of the persistent debt crisis in Europe. Following the ECB's most recent cut in its key rates, the low rate setting is likely to persist for the foreseeable future; moreover, the sector faces further regulatory challenges. However, LBBW considers itself to be well-positioned with its customer-oriented business model and still expects to be able to report a clearly positive result for the current year. Given the persistent uncertainties surrounding developments on the financial markets and with respect to regulatory matters, it is not possible to provide any specific profit forecast for the full year at this stage.

Note:

LBBW's individual financial statements (prepared in accordance with the German Commercial Code (HGB)) as at year-end are the basis for the distribution on the profit participation certificates. It is not possible at this time to issue a specific forecast for the full-year results prepared in accordance with the German Commercial Code. On the basis of present developments, current interest payments on existing profit participation rights and silent partners' contributions will be serviced in full from the 2013 result in accordance with the German Commercial Code. Moreover, it *is expected that for the current financial year also a recovery of distributions on silent partners' contributions and profit participation rights that had been omitted in previous years will be made in accordance with the applicable terms of the contract.*

Business figures for the LBBW Group as of 30 September 2013

	1 Jan. - 30 Sept. 2013 EUR million	1 Jan. - 30 Sept. 2012 EUR million	Change EUR million	in %
Net interest income	1,333	1,593	-260	-16.3
Allowances for losses on loans & advances	-250	-153	-96	62.9
Net fee and commission income	393	379	14	3.8
Net gains/losses from financial instruments at fair value through profit or loss	287	-27	314	-
Net gains/losses from financial investments, net income/expenses from investments accounted for using the equity method and from profit/loss transfer agreements	5	74	-69	-93.5
Other operating income/expenses	-12	13	-25	-
Total operating income (after allowances for losses on loans & advances)	**1,757**	**1,879**	**-122**	**-6.5**
Administrative expenses	-1,251	-1,337	86	-6.5
Operating result	**506**	**542**	**-36**	**-6.6**
Guarantee commission for Baden-Württemberg	-232	-228	-5	2.1
Impairment of goodwill	-2	0	-2	-
Net income/expenses from restructuring	48	-8	55	-
Net consolidated profit before tax	**319**	**307**	**13**	**4.1**
Income tax	-97	-26	-72	>100
Net consolidated profit	**222**	**281**	**-59**	**-20.9**

	30 Sept. 2013 EUR billion	31 Dec 2012 EUR billion	Change EUR billion	in %
Total assets	294.4	336.3	-41.9	-12.5
Risk position	82.8	95.8	-13.0	-13.6

Figures may be subject to rounding differences. Percentages are based on the exact values.

	30 Sept 2013 in %	31 Dec. 2012 in %
Core capital ratio (Tier I ratio)	17.8	15.3
Total ratio in accordance with SolvV	22.5	19.7

Employees	30 Sept. 2013	31 Dec 2012	Change Absolute	in %
Group	11,242	11,642	-400	-3.4