LBBW

Press release

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LBBW raises net consolidated profit before tax in 2013 - restructuring successfully completed

- **18.2 percent increase in net consolidated profit before tax to EUR 471 million according to preliminary figures**
- **Further systematic reduction in risks**
- **Total assets reduced by over EUR 60 billion within a year**
- **Core capital ratio (Basel 2.5) increases to 18.5 percent and total ratio in accordance with SolvV to 22.5 percent**
- **Common equity Tier 1 ratio of 12.6 percent and total ratio of 18.7 percent on the basis of full application of Basel III**
- **Preliminary earnings according to German GAAP (HGB) permit full recovery of the omitted distributions on profit-participation certificates and silent partner contributions**

In 2013, Landesbank Baden-Württemberg (LBBW) continued its positive earnings trend and has successfully completed its restructuring activities after four years. On the basis of preliminary figures, net profit before tax (IFRS) rose by 18.2 percent to EUR 471 million. The operating result climbed to EUR 726 million (previous year: EUR 694 million). At the same time, the Bank substantially reduced its risks once more, further improving its capital ratios on a sustained basis.

"Last year's generally encouraging performance again shows that we are heading in the right direction with our systematic orientation as a risk-conscious retail bank. With our customer business, with companies and private individuals in particular, which is oriented to sustained business relations, we have acquitted ourselves favorably despite the challenging environment with its low interest rates and muted demand for loans," said Hans-Jörg Vetter, the Chairman of LBBW's Board of Managing Directors.

Vetter also gave a positive balance of the restructuring activities which the Bank had started in 2009: "With the completion of restructuring, we have now achieved all material goals on a sustained basis after four very arduous years: Today, LBBW is a strictly customer-oriented bank dedicated to its core markets with solid capital resources, manageable risks and appropriate cost structures. In this way, we have laid the foundations to secure a favorable future for our Bank."

Based on preliminary results (HGB), LBBW will be able to service the regular payment of distributions on silent partner contributions and profit-participation certificates as well as making a full recovery of distributions omitted in the years 2009 to 2011. An amount of EUR 239 million is still outstanding in the 2013 financial year following a partial recovery in 2012. However, as changes may arise in HGB results, on which distributions on these instruments are based, before the end of the adjustment period, a binding commitment in this respect cannot be made until after the balance sheet has been approved by end of March.

Capital resources strengthened

LBBW again paid particular attention to fortifying its capital base and reducing risk last year. Thus, credit substitute business was halved again by EUR 11 billion versus the end of 2012 to the current figure of only EUR 11 billion (as at 31 December 2013). At the beginning of restructuring in 2009, the portfolios had been valued at EUR 95 billion. At the same time, there was a substantial decline in risk weighted assets. On the basis of the regulatory requirements in force up until the end of 2013 (Basel 2.5), they dropped in value to only EUR 79 billion (as at 31 December 2013), down from EUR 96 billion in the previous year. In 2008, risk weighted assets had been valued at EUR 178 billion. Total assets contracted by EUR 63 billion to EUR 274 billion within a year. At the end of 2008 they had stood at EUR 448 billion.

As a result, the Bank was able to improve its capital ratios further, with the core capital ratio rising to 18.5 percent at the end of 2013 (previous year 15.3 percent). The core Tier 1 ratio in accordance with Basel 2.5 increased to 15.7 percent as of the balance sheet date and would equal 12.6 percent on the basis of full Basel III application. The total ratio in accordance with SolvV climbed to 22.5 percent (end of 2012: 19.7 percent), standing at 18.7 percent on the basis of full application of Basel III.

"With our capital base, we are well positioned not only for the upcoming stress test," explained Hans-Jörg Vetter. "We have also sufficient resources to continue serving the domestic economy as a reliable partner and lender." Subject to the necessary consent of the banking regulatory authorities, LBBW still plans to pay back hybrid capital of EUR 1 billion to its owners after the approval of the annual financial statements. This will not have any effect on the common equity Tier 1 capital ratio under Basel III.

Income and expense items in 2013

Net interest income came to EUR 1.79 billion last year, thus falling EUR 263 million short of the previous year. This particularly reflects the systematic continuation of asset run-offs to reduce risks, fairly muted demand for loans and the persistently low interest rates in the financial markets. Net interest income in the previous year had benefited from a non-recurring positive effect of EUR 187 million in connection with capital measures.

Allowances for losses on loans and advances were valued at EUR 310 million (previous year: EUR 143 million). Despite this increase, they are thus still at a moderate level and well below the long-term average. This reflects the stable economic conditions in LBBW's core markets, particularly in Baden-Württemberg.

Net fee and commission income improved slightly by EUR 8 million to EUR 522 million. Securities and custody business, among other things, was up.

The encouraging performance of customer-related capital-market business had a favorable impact on **net gains/losses from financial instruments measured at fair value through profit or loss**. At the same time, tighter spreads on credit derivatives buoyed this figure. Over all, net gains from financial instruments measured at fair value came to EUR 373 million after the pressure exerted by valuation adjustments in the previous year (EUR 24 million).

At EUR 17 million, **net gains from financial investments** were down on the previous year (EUR 135 million) in 2013. This was chiefly due to the continued systematic of the reduction in volumes and risk in the credit substitute business portfolios, which no longer form part of the Bank's core business. In this context, losses were deliberately accepted in some cases. The net gains/losses from the disposal of equity investments and companies accounted for using the equity method was substantially down on the previous year.

Other operating income/expenses improved to EUR 105 million over the previous year due to numerous individual factors. Among other things, successfully completed real estate project developments made a positive contribution.

Administrative expenses dropped by 4.6 percent to EUR 1.77 billion as a result of the successful restructuring. Thanks to systematic cost management, both staff costs and material expenses were down despite high expenses for the implementation of regulatory requirements. Administrative expenses include the bank levy, which charged the result by EUR 67 million. The cost/income ratio improved from 72.6 percent in 2012 to 63.5 percent.

All told, LBBW was able to increase its **operating result** to EUR 726 million, up from EUR 694 million in the previous year. **Guarantee commission on the risk shield provided**

by the State of Baden-Württemberg came to EUR 300 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.

Net consolidated profit before tax rose to EUR 471 million. After tax expenses, which increased substantially over the previous year whith was influenced by positive tax effects, **net profit** for the year came to EUR 337 million.

Outlook

Economic conditions for banks will remain challenging also in the current year. Although LBBW expects an economic recovery, which will also have positive effects on its core markets, interest rates look set to remain at a relatively low level for the foreseeable future. Furthermore, the sector continues to face regulatory challenges such as the upcoming stress test, meaning that market turmoil cannot be ruled out. Against this backdrop, LBBW considers itself generally well-positioned thanks to its customer-oriented business model and solid capital resources. Accordingly, a clearly positive result is expected for the current year.

Preliminary figures for the LBBW Group as at 31 December 2013 in accordance with IFRS

	1 Jan. - 31 Dec. 2013 EUR million	1 Jan. - 31 Dec. 2012 EUR million	Change EUR million	in %
Net interest income	1,794	2,057	-263	-12.8
Allowances for losses on loans and advances	-310	-143	-167	>100
Net fee and commission income	522	514	8	1.5
Net gains/losses from financial instruments measured at fair value through profit or loss	373	24	349	>100
Net gains/losses from financial investments and net income/expenses from investments accounted for using the equity method	17	135	-118	-87.5
Other operating income/expenses	105	-33	138	---
Total operating income (after allowances for losses on loans and advances)	**2,500**	**2,554**	**-54**	**-2.1**
Administrative expenses	-1,774	-1,860	86	-4.6
Operating result	**726**	**694**	**32**	**4.8**
Guarantee commission for the State of Baden-Württemberg	-300	-305	5	-1.6
Impairment of goodwill	-3	0	-3	---
Net income from restructuring	48	10	38	>100
Net consolidated profit before tax	**471**	**399**	**72**	**18.2**
Income tax	-134	-1	-133	>100
Net consolidated profit	**337**	**398**	**-61**	**-15.4**

	31 Dec. 2013 in %	31 Dec. 2012 in %
Core capital ratio (Basel 2.5)	18.5	15.3
Total ratio in accord.with SolvV (Basel 2.5)	22.5	19.7

	31 Dec. 2013 EUR billion	31 Dec. 2012 EUR billion	Change EUR billion	in %
Total assets	273.5	336.3	-62.8	-18.7

	31 Dec. 2013	31 Dec. 2012	Change absolute	in %
Employees (Group)	11,308	11,642	-334	-2.9

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