LB≡BW

Press release

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14 May 2014

LBBW presents figures for the 1st quarter of 2014

- **Stable profit after tax of EUR 68 million in a difficult setting (previous year: EUR 69 million)**
- **Total operating income/expenses after allowances for losses on loans and advances at the previous year's level, cost of regulatory requirements still high**
- **LBBW considers itself to be well-prepared for the stress test**
- **Continuation of risk reduction**
- **Common equity Tier 1 ratio on the basis of Basel III (fully loaded) at 12.9 percent, total ratio at 17.7 percent**

Landesbank Baden-Württemberg (LBBW) recorded a satisfactory Q1 2014 result amid a challenging market setting for banks. At EUR 68 million, profit after tax was at the same level as in the previous year (EUR 69 million). Total operating income/expenses after allowances for losses on loans and advances also remained stable at EUR 576 million (previous year: EUR 574 million). Profit before tax fell to EUR 74 million (previous year: EUR 88 million). "In view of persistently muted credit demand, persistent low interest rates and a substantial rise in costs resulting from the *implementation of regulatory requirements, we are satisfied with our operating performance. Our customer-oriented business model has proved its worth," explained Hans-Jörg Vetter, the Chairman of LBBW's Board of Managing Directors.*

LBBW is in a good position for the forthcoming tests by the European banking supervisory authorities. "With our capital base, we are well-positioned for the ongoing asset quality review and the upcoming stress test," said Vetter. The common equity Tier 1 ratio in accordance with Basel III after taking into account the transitional rules currently in force stands at 14.0 percent and the total ratio at 18.5 percent. On the basis of fully loaded Basel III, which is scheduled to take effect in 2019, the common equity Tier 1 ratio currently equals 12.9 percent and the total ratio 17.7 percent.

Following the successful completion of restructuring, LBBW is continuing its systematic reduction of the remaining non-core activities. Thus, credit substitute business was reduced further from EUR 11 billion at the end of 2013 to EUR 9 billion. In 2008, this portfolio had been valued at EUR 95 billion. At the same time, there was a further decline in risk weighted assets. As at 31 March they came to EUR 88 billion in accordance with Basel III. At the end of last year they stood at EUR 90 billion on a like-for-like basis, i.e. in accordance with Basel III.

The figures at a glance

Net interest income contracted by EUR 24 million compared to the first quarter of the previous year to EUR 439 million. Among other things, this decline was due to the systematic reduction of interest-bearing assets and muted credit demand.

At EUR 28 million (previous year: EUR 50 million), allocations to **allowances for losses on loans and advances** remained at a moderate level and substantially below the long-term average. This is a reflection of the bright economy and the stability of companies in the core markets.

Net fee and commission income fell by EUR 13 million to EUR 123 million. Increases in securities and custody business, among other things from support provided during issuing activity, were accompanied by a decline in income from trust investment, guarantee business and international business.

Net gains/losses from financial instruments measured at fair value through profit or loss fell to minus EUR 8 million owing to difficult market conditions (previous year: net gains of EUR 42 million).

Net gains/losses from financial investments improved to EUR 19 million, up from net losses of EUR 46 million in the previous year. The previous year's figure had been weighed down by losses deliberately realized on the reduction of foreign securities forming part of credit substitute business.

At EUR 31 million, **other operating income/expenses** were at the previous year's level. This yielded a **total operating income (**after allowances for losses on loans and advances) of EUR 576 million (previous year: EUR 574 million).

Administrative expenses rose by EUR 29 million to EUR 439 million. While staff costs remained almost constant, material expenses rose by EUR 28 million. The increase in administrative expenses reflects the cost of implementing the growing regulatory requirements among other things. The operating result stands at EUR 137 million, down from EUR 164 million in the previous year.

The **guarantee commission for the State of Baden-Württemberg** fell to EUR 63 million after the first three months of this year, thanks to the continuing reduction of risk (previous year: EUR 77 million). This led to **net profit before tax** of EUR 74 million, down from EUR 88 million in the pre-year period. After tax expenses, **consolidated profit after tax** came to EUR 68 million in the first quarter (previous year: EUR 69 million).

Total assets decreased substantially to EUR 285 billion in comparison with the pre-year quarter (31 March 2013: EUR 323 billion). A slight increase was recorded over the end of 2013 in connection with liquidity management measures.

Overview of the operating segments

The **Corporates** segment, which contributed the largest share of consolidated profit, proved a reliable mainstay once again. Despite harsh competition, muted credit demand from companies and the systematic reduction of individual major exposures, profit before tax came to EUR 179 million, thus almost matching the previous year's figure of EUR 187 million.

The **Retail/Savings Banks** segment continued its encouraging performance. In spite of persistently low interest rates, consolidated profit before tax was kept at the previous year's level at EUR 23 million, mainly thanks to increases in deposits and a continuation of the positive performance in the securities business.

The **Financial Markets** segment had a challenging start to the year. Weak interest rates in conjunction with low market volatility led to customer restraint with regard to investment and hedging products. With a quarterly result before tax of EUR 74 million (previous year: EUR 106 million) the segment's performance is proceeding roughly as planned.

Unchanged outlook for the current year

As announced at the financial statement press conference in early April, LBBW expects a clearly positive result for this year despite the persistent challenges presented by the sector setting. At this stage, profit before tax at the same level as in the previous year continues to be conceivable, in the absence of any unforeseen market turbulence or an unexpectedly sharp decline in the economy.

Business figures for the LBBW Group
as at 31 March 2014 in accordance with IFRS

	1 Jan. - 31 March 2014 EUR million	1 Jan. - 31 March 2013 EUR million	Change EUR million	in %
Net interest income	439	463	-24	-5.2
Allowances for losses on loans and advances	-28	-50	22	-44.4
Net fee and commission income	123	136	-13	-9.6
Net gains/losses from financial instruments measured at fair value through profit or loss	-8	42	-50	-
Net gains/losses from financial investments and net income/expenses from investments accounted for using the equity method	19	-46	66	-
Other operating income/expenses	31	31	0	1.4
Total operating income/expenses (after allowances for losses on loans & advances)	**576**	**574**	**2**	**0.3**
Administrative expenses	-439	-410	-29	7.1
Operating result	**137**	**164**	**-28**	**-16.9**
Guarantee commission for the State of Baden-Württemberg	-63	-77	14	-18.2
Net consolidated profit/loss before tax	**74**	**88**	**-14**	**-15.7**
Income tax	-6	-19	13	-69.2
Net consolidated profit/loss	**68**	**69**	**-1**	**-1.4**

	31 March 2014 in %	31 Dec. 2013 in %
Common equity Tier 1 ratio (Basel III, phased in)	14.0	13.1
Common equity Tier 1 ratio (Basel III, fully loaded)	12.9	12.6
Total ratio (Basel III, phased in)	18.5	18.8
Total ratio (Basel III, fully loaded)	17.7	18.7

	31 March 2014 EUR billion	31 Dec. 2013 EUR billion	Change EUR billion	in %
Risk weighted assets (Basel III)	88	90	-2	-2.1
Total assets	285	274	12	4.2

	31 March 2014	31 Dec. 2013	Change absolute	in %
Employees (Group)	11,282	11,308	-26	-0.2

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