LB≡BW

Press release

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LBBW with solid result in the first half of 2014

- **At EUR 259 million, net consolidated profit before tax in line with the previous year**
- **Customer business performing solidly in a challenging environment**
- **Risk reduction systematically continued**
- **Rock-solid capital resources confirmed by common equity Tier 1 ratio of 13.2 percent (Basel III fully loaded) and total ratio of 18.6 percent (Basel III fully loaded)**
- **LBBW well positioned for the stress test**

Landesbank Baden-Württemberg (LBBW) was able to maintain its first-half net profit at the previous year's level despite challenging market conditions and considerable strain from the implementation of regulatory requirements. As at 30 June 2014, the bank recorded a net consolidated profit before tax (IFRS) of EUR 259 million (previous year: EUR 264 million). In doing so, LBBW continued to resolutely pursue its proven strategy in the first six months of the year. "We are developing our customer business judiciously and with sound judgment. At the same time, we have substantially downsized the remaining elements of our non-core banking business again since the beginning of the year and additionally reinforced our solid capital base," said Hans-Jörg Vetter, Chairman of LBBW's Board of Managing Directors.

LBBW's business performance shows that its strictly customer-oriented strategy is viable even in times of intense competition and persistently low interest rates. "We have a keen sense of how important it is to have a competitive range of products and services, exhaustive market expertise, established customer structures and long-standing trusting business relations," Vetter continued. "Against the backdrop of this persistently difficult environment, we are generally satisfied with our figures for the first half of the year."

The reduction of risks outside the Bank's core business was systematically continued. Thus, credit substitute business, which had a volume of EUR 95 billion at the end of 2008, was again scaled back, declining from EUR 11 billion at the beginning of the year to EUR 8 billion as at 30 June 2014. With the full sale to international investors of the remaining elements of the securitization portfolio guaranteed by the Bank's owners valued at EUR 4.7 billion at the beginning of August, the business has been once again trimmed to only EUR 3 billion.

Overall, the Bank also continued to reduce its risk weighted assets. At the end of June, risk weighted assets (Basel III) were valued at EUR 85 billion (end of 2013: EUR 90 billion). At the same time, the common equity Tier 1 ratio in accordance with the Basel III transitional arrangements introduced at the beginning of the year increased at 14.4 percent as at 30 June 2014. On a fully loaded basis, it came to 13.2 percent. The total ratio climbed to 19.5 percent, standing at 18.6 percent on a fully loaded Basel III basis. "This shows that LBBW has rock-solid capital resources. We are well positioned for the upcoming stress test," said Hans-Jörg Vetter.

As planned, LBBW repaid silent partners' contributions of EUR 1 billion to its owners in the first half of 2014. This repayment did not have any impact on the common equity Tier 1 ratios. The significant reduction in risks and the related increase in the capital ratios together with the Bank's improved profitability prompted rating agency Moody's to upgrade its long and short-term ratings for LBBW in the first half of the year.

The Cost Income Ratio in the first half of 2014 amounted to 68.9 percent.

Overview of expense and income items

In the first six months of the current year, LBBW's **net interest income** rose by EUR 32 million to EUR 954 million. This reflected lower interest expense as a result of an improved funding structure as well as a slight improvement in income from equity investments. The generally still muted demand for loans and the reduction of risk weighted assets exerted a dampening effect, preventing an even greater increase in net interest income.

Allowances for losses on loans and advances were substantially lower than in the same period of the previous year, coming to EUR 45 million at the end of the first half (previous year: EUR 139 million). Not least of all, this reflects the current stable economic conditions in Germany and the Bank's core markets as well as the further improvement in the quality of the lending portfolio. What is more, it was possible to reverse value adjustments which had been recognized on individual major exposures.

Net fee and commission income contracted from EUR 277 million to EUR 254 million. This was primarily due to weaker demand in lending, trustee and guarantee business as well as reduced international business activities.

Net gains from financial instruments measured at fair value through profit or loss dropped to EUR 30 million (previous year: EUR 187 million). The first half of the year was characterized by subdued customer-oriented capital markets business particularly with respect to interest rate products. What is more, the positive contribution to profit and loss arising from tighter spreads on credit derivatives was weaker than in the previous year.

Net gains/losses from financial investments came to EUR 32 million. Among other things, this improvement was due to the slight increase in income from the sale of equity investments. In addition, the conscious acceptance of losses from winding down credit substitute business had exerted pressure on this item in the previous year.

There was a substantial increase in **other operating income/expenses**, which rose from EUR 14 million to EUR 71 million. The figure was buoyed by lower provisions as well as the elimination of a factor which had exerted strain in the previous year in connection with the restructuring of the portfolio of equity investments. In addition, the Bank again generated income from successfully completed real estate project developments.

Despite continued systematic cost management, **administrative expenses** climbed to EUR 902 million. A large part of this increase is due to regulatory requirements such as the auditing costs for the balance sheet assessment (BSA) or the cost of projects such as SEPA. Moreover, the bank levy rose by EUR 8 million over the previous year to EUR 41 million.

Operating result came to EUR 394 million as at 30 June 2014 (previous year: EUR 420 million). The **commission expense on the guarantee provided by the State of Baden-Württemberg** dropped from EUR 154 million to EUR 119 million due to the downsizing of the guaranteed portfolios. At EUR 259 million, **net consolidated profit before tax** remained stable at the previous year's level (EUR 264 million). After tax, **net consolidated profit** came to EUR 158 million.

Total assets rose by just under EUR 20 billion over the end of 2013 to EUR 292.4 billion. This was due to liquidity management measures among other things.

Overview of the operating segments

All operating segments made a positive contribution to net consolidated profit. Once again, the **Corporates** segment accounted for the greatest proportion with net profit before tax of EUR 360 million at the end of the first half. The slight decline over the previous year (EUR 383 million) reflects the intense competition in the market, continued muted demand in the corporate sector for finance and the specific run-off of individual major exposures. Net reversals of loan loss provisions provided relief.

In the **Retail/Savings Banks** segment, income from customer business was largely unchanged over the previous year. However, higher administrative expenses primarily related to expenditure on the consolidation of IT systems particularly exerted pressure. This caused net profit before tax to drop to EUR 41 million (previous year: EUR 68 million).

In a challenging market environment, the **Financial Markets** segment generated net profit before tax of EUR 92 million, down from EUR 156 million in the same period of 2013. This decline was mainly due to subdued demand particularly for investment and hedging products in customer-oriented capital markets business in the wake of low interest rates and muted market volatility.

Outlook

Economic conditions for banks will remain challenging also in the second half of 2014. Thus, interest rates are likely to remain stuck at very low levels. What is more, political developments in Ukraine and the Middle East could unleash an adverse economic effect. Despite this, LBBW still expects to be able to report a clearly positive result for the current year on the basis of its established business model with its focus on customer business. At this stage, profit before tax at the same level as in the previous year is 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 30 June 2014

	1 Jan.- 30 June 2014 in EUR mn	1 Jan. - 30 June 2013* in EUR mn	Change in EUR mn	in %
Net interest income	954	922	32	3.5
Allowances for losses on loans and advances	-45	-139	94	-67.6
Net fee and commission income	254	277	-23	-8.3
Net gains/losses from financial instruments measured at fair value through profit or loss	30	187	-157	-84.0
Net gains/losses from financial investments, net income/expense from investments accounted for using the equity method and from profit/loss transfer agreements	32	-25	57	---
Other operating income/expenses	71	14	57	>100
Total operating income/expenses (after allowances for losses on loans & advances)	**1,296**	**1,236**	**60**	**4.9**
Administrative expenses	-902	-816	-86	10.5
Operating result	**394**	**420**	**-26**	**-6.2**
Guarantee commission for the State of Baden-Württemberg	-119	-154	35	-22.7
Impairment of goodwill	-16	-2	-14	>100
Net income/expenses from restructuring	0	0	0	---
Net consolidated profit before tax	**259**	**264**	**-5**	**-1.9**
Income tax	-101	-84	-17	20.2
Net consolidated profit/loss	**158**	**180**	**-22**	**-12.2**

* Figures for previous year adjusted.

Figures may be subject to rounding differences.

	30 June 2014 in EUR bn	31 Dec. 2013* in EUR bn	Change in EUR bn	in %
Total assets	292.4	274.7	17.7	6.5
Risk weighted assets (Basel III fully loaded)	84.9	89.8	-4.8	-5.4

	30 June 2014 in %	31 Dec. 2013 in %
Common equity Tier 1 ratio (Basel III with transitional arrangements)	14.4	13.1
Common equity Tier 1 ratio (Basel III fully loaded)	13.2	12.6
Total ratio (Basel III with transitional arrangements)	19.5	18.8
Total ratio (Basel III fully loaded)	18.6	18.7

	30 June 2014	31 Dec. 2013	Change absolute	in %
Employees in the Group	11,290	11,308	-18	-0.2

More detailed information is provided in the "2014 Half-yearly financial report" of LBBW, which will be available on the Internet from 28 August 2014:

www.LBBW.de/halfyearreport2014