LB≡BW

Press release

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LBBW releases solid nine-month figures

- **At EUR 329 million before tax and EUR 234 million after tax, net consolidated profit slightly higher than in the previous year**
- **Customer business on track in a challenging environment**
- **Further systematic reduction of risks**
- **Reliable partner to the business sector thanks to good capital resources**
- **Basel III fully loaded (after full implementation in accordance with CRR/CRD IV): common equity Tier 1 ratio of 13.7 percent and total ratio of 19 percent substantially up again on the end of 2013**

Landesbank Baden-Württemberg (LBBW) slightly improved its net profit in the first nine months of 2014. Net consolidated profit before tax came to EUR 329 million, up from EUR 324 million in the same period of the previous year. Net consolidated profit after tax reached EUR 234 million and was likewise higher than in the previous year (EUR 226 million). "These are respectable figures given the current conditions. They show that with our customer-oriented business model, we are on course even in challenging market conditions for banks with historically low interest rates and heavy regulatory burden," said Hans-Jörg Vetter, Chairman of LBBW's Board of Managing Directors.

In addition to targeted further development of customer business, the Bank again concentrated on running off risks in the first three quarters. At the beginning of August, LBBW sold the remaining elements of the securitization portfolio guaranteed by its owners of EUR 4.7 billion to international investors. It also made further progress in reducing the non-guaranteed part of its credit substitute business. All told, this portfolio was reduced from EUR 11 billion at the beginning of the year to a mere EUR 3 billion as of 30 September; it had a volume of EUR 95 billion at the end of 2008. "We have now almost completely run off our credit substitute business. This gives us even greater flexibility in terms of our balance sheet to stand by our customers as a reliable and financially solid partner," explained Vetter.

With a common equity Tier 1 ratio of 14.8 percent in accordance with the transitional CRR/CRD IV rules, the EU directive and regulation implementing Basel III, introduced at the beginning of the year, LBBW has a good capital base. On a fully loaded basis, the common equity Tier 1 ratio stood at 13.7 percent. The total ratio rose to 19.9 percent under the transitional rules and stands at 19.0 percent on a fully loaded basis. The volume of risk weighted assets under CRR/CRD IV came to EUR 83 billion, down from EUR 90 billion at the end of 2013. Total assets increased to EUR 299 billion as a result of liquidity-management measures among other things.

Overview of expense and income items

At the end of the first nine months, **net interest income** stood at EUR 1.433 billion, up EUR 116 million on the previous year, underpinned by lower funding costs as well as higher income from equity investments among other things. The opposite effect arose from the ongoing reduction of risk weighted assets as well as persistently muted customer demand for loans.

Allowances for losses on loans and advances declined to EUR 95 million (previous year: EUR 253 million). This reflects the high quality of LBBW's loan portfolio and the sound position of companies in the Bank's core markets. As individual borrowers' financial situation improved, it was additionally possible to reverse value adjustments.

Net fee and commission income dropped by EUR 41 million to EUR 370 million. This was primarily due to customer restraint in finance and securities business.

The difficult market conditions resulted in a decline in **net gains from financial instruments measured at fair value through profit and loss** to EUR 8 million (previous year: EUR 287 million). Thus, customer-oriented capital market business was subdued. In addition, the contribution to profit and loss arising from tighter spreads on credit derivatives following the reduction in credit substitute business was substantially smaller.

Net gains/losses from financial instruments climbed to EUR 54 million. In the previous year, this item had included strain from the reduction of the non-core bank portfolio. Income from the sale of equity investments again had a positive effect.

The increase in **other operating income/expense** to EUR 93 million is chiefly due to the decline in provisions as well as the absence of a source of burden which had arisen in the previous year in connection with the streamlining of the portfolio of equity investments. Successfully completed project developments in the real estate segment also made a positive contribution.

Despite ongoing cost management measures, **administrative expenses** particularly reflect the strain caused by the implementation of regulatory requirements such as the balance sheet assessment (BSA including the stress test) or SEPA. Moreover, the bank levy rose by EUR 11 million over the previous year to EUR 61 million. All told, this item grew to EUR 1.357 billion.

Operating result came to EUR 506 million as of 30 September 2014 (previous year: EUR 511 million).

The **commission expense on the guarantee** provided by the State of Baden-Württemberg dropped from EUR 232 million to EUR 161 million due to the downsizing of the guaranteed portfolios. **Net consolidated profit before tax** rose slightly from EUR 324 million to EUR 329 million for the first nine months. After tax, **net consolidated profit** came to EUR 234 million, up from EUR 226 million in the previous year.

Overview of the operating segments

All operating segments made a positive contribution to net consolidated profit. Once again, the **Corporates** sector accounted for the greatest proportion. However, net profit in the first nine months dropped to EUR 483 million before tax (previous year: EUR 560 million) on account of the intense competition and the targeted reduction of individual large exposures. Generally speaking, lending demand remained muted, although there were signs of an improvement in the case of large customers and commercial real estate finance. In addition, reduced loan loss provisions left positive traces.

In the **Retail/Savings Bank** segment, income from customer business declined against the backdrop of low interest rates and intensive competition but matched expectations. Future-oriented investments in the consolidation of IT systems had a negative impact on the result.

All told, net profit before tax came to EUR 49 million (previous year: EUR 93 million).

The **Financial Markets** segment posted net profit before tax of EUR 129 million, down from EUR 223 million in the same period of the previous year. Among other things, this decline was caused by low interest rates and muted market volatility, which led to customer restraint in investment and hedging products.

Outlook

Underlying economic conditions will continue to pose challenges for banks. Thus, interest rates are likely to remain stuck at very low levels. Moreover, the macro-economic environment is increasingly deteriorating. Not least, geopolitical developments, such as the crises in Ukraine and the Middle East, are worrying market participants. However, LBBW still expects to be able to report a clearly positive result in the current year. At this stage, profit before tax at the same level as in the previous year remains conceivable in the absence of any unforeseen market turbulence.

Business figures for the LBBW Group as of 30 September 2014

	1 Jan.-30 Sep. 2014 in EUR mn	1 Jan.-30 Sep. 2013* in EUR mn	Change in EUR mn	in %
Net interest income	1,433	1,317	116	8.8
Allowances for losses on loans and advances	-95	-253	157	-62.3
Net fee and commission income	370	411	-41	-10.0
Net gains/losses from financial instruments measured at fair value through profit or loss	8	287	-279	-97.2
Net gains/losses from financial investments, net income/expense from investments accounted for using the equity method and from profit/loss transfer agreements	54	5	49	>100
Other operating income/expenses	93	-5	98	-
Total operating income/expenses (after allowances for losses on loans & advances)	**1,863**	**1,762**	101	5.7
Administrative expenses	-1,357	-1,251	-106	8.5
Operating result	**506**	**511**	-5	-0.9
Guarantee commission for the State of Baden-Württemberg	-161	-232	71	-30.7
Impairment of goodwill	-16	-2	-14	>100
Net income/expenses from restructuring	0	48	-48	-
Net consolidated profit before tax	**329**	**324**	5	1.4
Income tax	-94	-98	4	-3.7
Net consolidated profit/loss	**234**	**226**	8	3.7

	30 Sep. 2014 in EUR bn	31 Dec. 2013* in EUR bn	Change in EUR bn	in %
Total assets	298.8	274.7	24.1	8.8
Risk weighted assets (CRR/CRD IV)	83.1	89.8	-6.7	-7.5

* Figures for previous year adjusted

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

	30 Sep. 2014 in %	31 Dec. 2013 in %
Common equity Tier 1 ratio (CRR/CRD IV with transitional rules)	14.8	13.1
Common equity Tier 1 ratio (CRR/CRD IV "fully loaded")	13.7	12.6
Total ratio (CRR/CRD IV with transitional rules)	19.9	18.8
Total ratio (CRR/CRD IV "fully loaded")	19.0	18.7

	30 Sep. 2014	31 Dec. 2013	Change absolute	Change in %
Employees in the Group	11,001	11,308	-307	-2.7