LB≡BW

Press release

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LBBW with solid earnings

- **Preliminary net consolidated profit after tax rises to EUR 433 million (previous year: EUR 338 million)**
- **Slight improvement in net consolidated profit before tax to EUR 477 million (previous year: EUR 472 million)**
- **Further substantial reduction in risks, credit substitute business almost completely run off**
- **Common equity Tier 1 capital ratio of 13.6 percent and total capital ratio of 18.9 percent (CRR/CRD IV fully loaded) reflect solid capital resources**

Landesbank Baden-Württemberg (LBBW) increased its earnings in a challenging environment, thus continuing the positive earnings performance of the last few years. At EUR 477 million, net consolidated profit before tax on the basis of preliminary figures was slightly higher than in the previous year (EUR 472 million). Net consolidated profit after tax climbed to EUR 433 million (previous year: EUR 338 million) particularly as a result of non-recurring effects in connection with deferred and off-period taxes. "We have thus been posting a profit in each quarter for three years now. This stable trend shows that we are on the right path with our concentration on sustainable customer business," said Hans-Jörg Vetter, Chairman of LBBW's Board of Managing

Directors. In addition, the Bank further increased its capital ratios last year and, as planned, repaid silent partners' contributions of EUR 1 billion to its owners in April 2014.

In 2014, market conditions were again strained by low interest rates, intense competition, muted demand for loans in the first half of the year and rising regulatory requirements. "Behind us lies a year which made heavy demands on us all," said Vetter. "Despite all the adversities, we asserted ourselves very respectably with our solid business model and continued to develop our customer business."

Last year, the Bank once again made greater progress than expected in running off risks. In particular, the run-off of credit substitute business, which had had a volume of EUR 95 billion in 2008, was almost fully completed. At the end of last year, it had a volume of only EUR 2 billion, EUR 9 billion less than at the beginning of the year. Among other things, LBBW sold all of the remaining elements of the securitization portfolio of EUR 4.7 billion guaranteed by its owners to international investors in August.

The lower risk was accompanied by an increase in the capital ratios. At the end of last year, the common equity Tier 1 capital ratio came to 14.6 percent in accordance with the transitional arrangements in force since 2014 under CRR/CRD IV, the EU Directive and Regulation implementing Basel III. On a fully loaded basis, it stood at 13.6 percent. The total capital ratio rose to 19.9 percent under the transitional rules and stood at 18.9 percent on a fully loaded basis. Risk weighted assets as defined in CRR/CRD IV dropped to EUR 82 billion, down from EUR 90 billion at the end of 2013.

Total assets declined at a moderate rate to EUR 266 billion. The leverage ratio as defined in CRR/CRD IV (fully loaded) stood at 4.1 percent at the end of 2014 and thus has already exceeded the discussed Basel requirements.

Overview of expense and income items

Net interest income rose by EUR 106 million to EUR 1.878 billion last year. Among other things, the Bank benefited from lower funding costs. At the same time, however, income was slowed down as a result of the low interest rates and the ongoing run-off of risk weighted assets in connection with the Bank's strategy of focusing on its core business.

Allowances for losses on loans and advances dropped sharply to EUR 104 million (previous year: EUR 314 million). At the same time, the Bank allocated a gross amount of EUR 530 million to allowances for losses on loans and advances. Given the high quality of its loan book and solid economic conditions in its core markets, the Bank was able to reverse a substantially greater volume of allowances for losses on loans and advances than in the previous year.

Net fee and commission income fell by EUR 27 million to EUR 518 million. Whereas asset management and securities and custody business expanded slightly, income from loans and guarantees dropped due to initially muted customer demand in the first half of the year.

Net gains/losses from financial instruments measured at fair value through profit or loss fell to a loss figure of EUR 120 million (previous year: gain of EUR 369 million). Among other things, the positive contribution made by narrowing spreads for credit derivatives was significantly smaller than in the previous year. Moreover, pressure was exerted by the valuation of derivatives in the banking book which are in economic hedging relationships but cannot be included in hedge accounting. In addition, customer-oriented capital markets business was muted due to sagging demand for hedging.

Net gains/losses from financial instruments climbed from EUR 16 million to EUR 263 million. This was primarily due to income from the sale and valuation of equity interests. Moreover, the run-off of credit substitute business had exerted considerable pressure on this item in the previous year. **Other operating income/expenses** dropped to EUR 101 million (2013: EUR 113 million).

Administrative expenses presented a mixed picture. Whereas personnel expenses were down slightly, other administrative expenses rose due, among other things, to new regulatory requirements such as the bank stress test and mounting regulatory reporting requirements as well as the modification of the IT architecture. In addition, the bank levy rose to EUR 82 million (previous year: EUR 67 million). All told, administrative expenses climbed by 4.4 percent to EUR 1.852 billion. The cost/income ratio came to 77.9 percent.

Operating result stood at EUR 684 million at the end of 2014 (previous year: EUR 727 million).

The **guarantee commission** for the risk shield provided by the State of Baden-Württemberg dropped from EUR 300 million to EUR 191 million due to the sale of the guarantee portfolio in August 2014, among other things. **Net consolidated profit before tax** rose slightly from EUR 472 million to EUR 477 million. After tax, **net consolidated profit** came to EUR 433 million, up from EUR 338 million in the previous year. The drop in tax expense to EUR 43 million is particularly due to non-recurring effects in connection with income tax relating to earlier years and deferred taxes.

Outlook

Despite the competitive markets, low interest and rising regulatory requirements, LBBW considers itself to be well positioned for the future. It expects a further moderate increase in net profit before tax in 2015 in the absence of any extraordinary market turbulence, unforeseen additional regulatory or legal requirements or an unexpectedly sharp downswing in the economy caused, for example, by the failure to fully overcome the debt crisis in the eurozone.

Preliminary business figures for the LBBW Group as at 31 December 2014

	1 Jan. - 31 Dec. 2014 EUR million	1 Jan. - 31 Dec. 2013* EUR million	Change EUR million	in %
Net interest income	1,878	1,772	106	6.0
Allowances for losses on loans and advances	-104	-314	210	-66.9
Net fee and commission income	518	545	-27	-5.0
Net gains/losses from financial instruments measured at fair value through profit or loss	-120	369	-489	-
Net gains/losses from financial investments, net income/expense from investments accounted for using the equity method and from profit/loss transfer agreements	263	16	247	>100
Other operating income/expenses	101	113	-12	-10.6
Total operating income/expenses (after allowances for losses on loans & advances)	**2,536**	**2,501**	**35**	**1.4**
Administrative expenses	-1,852	-1,774	-78	4.4
Operating result	**684**	**727**	**-43**	**-5.9**
Guarantee commission for the State of Baden-Württemberg	-191	-300	109	-36.3
Impairment of goodwill	-16	-3	-13	>100
Net income/expenses from restructuring	1	48	-47	-97.9
Net consolidated profit before tax	**477**	**472**	**5**	**1.1**
Income tax	-43	-134	91	-67.9
Net consolidated profit/loss	**433**	**338**	**95**	**28.1**

	31 Dec. 2014 EUR billion	31 Dec. 2013* EUR billion	Change EUR billion	in %
Total assets	266.2	274.6	-8.4	-3.1
Risk weighted assets (CRR/CRD IV)	82.2	89.8	-7.6	-8.5

* Figures for previous year adjusted

Figures may be subject to rounding differences.

	31 Dec. 2014 in %	31 Dec. 2013 in %
Common equity Tier 1 capital ratio (CRR/CRD IV with transitional rules)	14.6	13.1
Common equity Tier 1 capital ratio (CRR/CRD IV "fully loaded")	13.6	12.6
Total capital ratio (CRR/CRD IV with transitional rules)	19.9	18.8
Total capital ratio (CRR/CRD IV "fully loaded")	18.9	18.7

	31 Dec. 2014	31 Dec. 2013	Change absolute	Change in %
Employees (Group)	11,117	11,308	-191	-1.7

The above figures are preliminary only. LBBW will be presenting the consolidated financial statements for 2014 setting out the final figures at its balance-sheet press conference at 31 March 2015.