LBBW

Press release

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LBBW on track after the first nine months of 2015

- **Consolidated profit before tax increased to EUR 350 million after nine months (previous year: EUR 329 million)**
- **Customer business with stable revenues despite difficult environment**
- **Adequate risk structure as capitalization improves further: CET1 capital ratio of 15.2 percent and total capital ratio of 20.7 percent (under CRR/CRD IV phase-in)**
- **Consolidated profit before tax for 2015 as a whole still expected to be moderately higher than the previous year**

Landesbank Baden-Württemberg (LBBW) improved its results in the first nine months of 2015 compared with the same period of the previous year while also further strengthening its capital ratios. Despite a difficult market environment with increasing regulation, persistently low interest rates and intense competition, it succeeded in rasing its consolidated profit before tax from EUR 329 million to EUR 350 million as at 30 September 2015. Consolidated profit after tax came to EUR 237 million (previous year: EUR 234 million). LBBW has thus been operating at a profit for 15 consecutive quarters.

"The reliable development of our results despite challenging underlying conditions demonstrates that our customer-oriented business model is sustainable. Additionally, our solid capitalization and adequate risk structure provides us with very stable fundamentals," stated Hans-Jörg Vetter, Chairman of the Board of Managing Directors.

LBBW continued to develop its business in a selective and risk-conscious manner in the first three quarters of 2015. For example, it extended the range of services it provides to SMEs in international business, by opening new representative offices in Istanbul and Tashkent and expanding the German Centre in Beijing. LBBW demonstrated the strength of its operating performance with, among other things, various large capital market transactions, including the largest promissory note issue to date for ZF Friedrichshafen. In addition, only a few days ago, the Bank was a lead manager for MANN+HUMMEL Holding GmbH, the third-largest promissory note loan ever issued.

At the same time, the Bank further strengthened its capital base with a EUR 500 million subordinate issue placed in the first half of the year. As at 30 September 2015, the common equity Tier 1 (CET1) ratio under current regulatory law (CRR/CRD IV phase-in) rose to 15.2 percent. Under CRR/CRD IV without the transitional arrangements that are in place until 2019, it stood at 14.3 percent (fully loaded). The total capital ratio improved to 20.7 percent under CRR/CRD IV phase-in and to 19.9 percent fully loaded (31 December 2014: 19.9 percent phase-in and 18.9 percent fully loaded). Risk weighted assets as defined under CRR/CRD IV fell slightly by the end of September to EUR 79.2 billion (previous year: 82.2 billion). The leverage ratio pursuant to

CRR/CRD IV fully loaded was 4.0 percent. "In view of the levels reached, we believe we are well positioned to meet all foreseeable regulatory requirements", stated Hans-Jörg Vetter.

Overview of expense and income items

Net interest income continued to reflect the historically low interest rates and intense competition. Accounting-related effects pursuant to IFRS constituted an additional burden. Combined, this resulted in net interest income of EUR 1.231 billion after nine months (previous year: EUR 1.433 billion).

Allowances for losses on loans and advances after three quarters fell from EUR 95 million to EUR 27 million. Besides the fact that the economic situation in LBBW's core markets remains stable, this is down to the Bank's pronounced risk awareness and the associated high quality of the loan portfolio.

Net fee and commission income amounted to EUR 360 million as at 30 September. While the securities and custody business developed positively, earnings from the brokerage business declined. Net fee and commission income was therefore down EUR 10 million in total on the previous year's figure.

Net gains/losses from financial instruments measured at fair value through profit/loss increased noticeably by EUR 112 million over the same period of the previous year to EUR 120 million. This development was supported by robust customer business because of strong demand for hedging products, among other things.

Net gains/losses from financial instruments and net income/expense from investments accounted for using the equity method improved to EUR 89 million (previous year: EUR 54 million). This was attributable primarily to income from investments accounted for using the equity method.

Other operating income/expenses amounted to EUR 82 million in the first nine months after EUR 93 million the year before. This item was defined by a large number of single effects, such as lower income from the development of real estate projects.

The European bank levy for 2015 is already taken into consideration in full in **administrative expenses**, as is the higher contribution for the deposit guarantee funds operated by the Savings Banks Finance Group. Together with additional effects, these charges led to a EUR 53 million increase in administrative expenses to EUR 1.410 billion.

The **guarantee commission for the State of Baden-Württemberg** stood at EUR 95 million as at 30 September 2015.

At EUR 350 million, **consolidated profit before tax** after the third quarter exceeded the previous year's figure by EUR 21 million. **Consolidated profit after tax** of EUR 237 million was also slightly higher than the previous year.

Overview of the operating segments

The customer business, especially with companies, private and institutional customers, proved once again to be a reliable source of earnings in the first nine months of the current year. The **Corporates** segment, which includes the corporate customer business and commercial real estate finance, achieved profit before tax of EUR 576 million, after EUR 483 million in the same period of the previous year. It benefited from a very healthy loan portfolio, among other things, which was reflected in considerably lower allowances for losses on loans and advances and higher revenue from investment business.

The **Financial Markets** segment improved its pre-tax result to EUR 166 million (previous year: EUR 129 million). The high degree of volatility on the securities markets led to increased customer trading activities and to growing demand for hedging products. In addition, LBBW was involved in an increas number of bond issues.

The **Retail/Savings Banks** segment could not quite match the pre-tax result of the previous year. The decline from EUR 50 million the year before to EUR 45 million was largely due to higher administrative expenses arising from investments in future projects, such as the pending change in the core bank system and the impact of historically low interest rates on deposit revenue.

Outlook for the current year confirmed

Despite the challenging market environment, LBBW still expects consolidated profit before tax for the full year 2015 to come in moderately higher than in the previous year, barring any unforeseen market turbulence.

Business figures for the LBBW Group as at 30 September 2015

	1 Jan.-30 Sep. 2015 EUR million	1 Jan.-30 Sep. 2014 EUR million	Change EUR million	in %
Net interest income	1,231	1,433	-202	-14.1
Allowances for losses on loans and advances	-27	-95	68	-71.2
Net fee and commission income	360	370	-10	-2.6
Net gains/losses from financial instruments measured at fair value through profit or loss	120	8	112	>100
Net gains/losses from financial investments, net income/expenses from investments accounted for using the equity method and from profit/loss transfer agreements	89	54	34	63.3
Other operating income/expenses	82	93	-11	-11.5
Total operating income/expenses (after allowances for losses on loans and advances)	**1,854**	**1,863**	**-9**	**-0.5**
Administrative expenses	-1,410	-1,357	-53	3.9
Guarantee commission for the State of Baden-Württemberg	-95	-161	66	-41.3
Impairment of goodwill	0	-16	16	-100
Net consolidated profit/loss before tax	**350**	**329**	**21**	**6.5**
Income tax	-113	-94	-18	19.2
Net consolidated profit/loss	**237**	**234**	**3**	**1.3**

	30 Sep. 2015 EUR billion	31 Dec. 2014 EUR billion	Change EUR billion	in %
Total assets	278	266	12	4.4
Risk weighted assets (CRR/CRD IV)	79	82	-3	-3.7

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

	30 Sep. 2015 in %	31 Dec. 2014 in %
Common equity Tier 1 ratio (CRR/CRD IV with transitional rules)	15.2	14.6
Common equity Tier 1 ratio (CRR/CRD IV "fully loaded")	14.3	13.6
Total capital ratio (CRR/CRD IV with transitional rules)	20.7	19.9
Total capital ratio (CRR/CRD IV "fully loaded")	19.9	18.9

	30 Sep. 2015	31 Dec. 2014	Change absolute	Change in %
Employees (Group)	11,091	11,117	-26	-0.2