LB≡BW

Press release

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LBBW increases earnings in the first quarter of 2015

- **Improvement in net consolidated profit before tax to EUR 91 million after three months (previous year: EUR 74 million)**
- **Solid customer business leads to earnings growth in all three operating segments**
- **Appropriate risk profile and good capital base: common equity Tier 1 (CET 1) capital ratio of 13.1 percent and total capital ratio of 18.2 percent (CRR/CRD IV fully loaded)**
- **Moderate growth in net profit before tax still expected for the year as a whole**

Underpinned by solid customer business, Landesbank Baden-Württemberg (LBBW) increased its profit in the first quarter of the current year. Net consolidated profit before tax rose to EUR 91 million as at 31 March, up from EUR 74 million in the previous year. After tax, net consolidated profit rose to EUR 76 million (previous year: EUR 68 million). "This is a respectable result particularly against the backdrop of the historically low interest rates and the further increase in regulatory expenses," said Hans-Jörg Vetter, Chairman of LBBW's Board of Managing Directors. "It shows that with our positioning as a pure customer-driven bank and the resolute *reduction of legacy assets we have set the points to take us in the right direction and are moving forward successfully with this business model.*"

In the first three months of the year, LBBW continued to expand its customer business with the acquisition of Nord/LB's custodian bank activities, for example. At the same time, the Bank has good capital resources by industry standards due to the reduction in non-customer-related activities over the last years. Under current regulatory law (Basel III respectively CRR/CRD IV with transitional rules), the common equity Tier 1 (CET 1) capital ratio stood at 14.0 percent as at 31 March 2015 (31 December 2014: 14.6 percent). This is equivalent to 13.1 percent (31 December 2014: 13.6 percent) under CRR/CRD IV on a fully loaded basis, which does not apply until 2019. Risk weighted assets as defined in CRR/CRD IV were valued at EUR 83 billion as at 31 March, up from EUR 82 billion at the end of 2014. The leverage ratio stood at 3.7 percent. "LBBW has a comfortable level of capital strength and a risk profile which is appropriate for a bank pursuing a business model targeted solely at customer business," explained Hans-Jörg Vetter.

Overview of expense and income items

Net interest income came to EUR 379 million after the first three months and was thus appreciably lower than in the previous year (EUR 439 million). Among other things, this decline reflects the further drop in interest rates and is additionally also caused by IFRS measurement and recognition effects.

At EUR 29 million, **allowances for losses on loans and advances** remained nearly unchanged over the previous year's low level due to continued favorable economic conditions and the good state of companies in the Bank's core markets.

On the other hand, **net fee and commission income** rose clearly by EUR 18 million to EUR 140 million. Securities and custodian business performed particularly encouragingly. In addition, income from loans and guarantees rose as a result of growing demand for financings.

Net gains/losses from financial instruments measured at fair value through profit or loss stood at a loss figure of EUR 12 million, compared with a loss figure of EUR 8 million as at 31 March 2014. Whereas customer-oriented capital markets business picked up, the Bank came under strain from valuation effects (including from credit valuation adjustments) against the backdrop of general market trends.

Net gains/losses from financial instruments and **net income/expenses from investments accounted for using the equity method** climbed to EUR 53 million, up from EUR 19 million in the first quarter of the previous year. The Bank benefited particularly from income from investments accounted for using the equity method.

Other operating income/expenses rose by EUR 12 million to EUR 43 million at the end of the first three months, underpinned by changes in the real estate portfolio among other things.

Administrative expenses climbed moderately to EUR 451 million (previous year: EUR 439 million) due to an increase in regulatory expenses and personnel expenses, the latter reflecting the implementation of wages agreements among other things.

Operating result came to EUR 122 million at the end of the first quarter (previous year: EUR 137 million). The **guarantee commission for the risk shield provided by the State of Baden-Württemberg** dropped to EUR 31 million primarily due to the sale of the guarantee portfolio in August 2014.

All told, the trends described above resulted in **net consolidated profit before tax** of EUR 91 million and **net consolidated profit after tax** of EUR 76 million as at 31 March 2015.

Overview of the operating segments

The solid performance of customer business is reflected in the three operating segments, which were all able to report higher earnings. The **Corporates** segment achieved net consolidated profit before tax of EUR 201 million in the first three months, up from EUR 192 million in the same quarter of the previous year. This development was driven by a stable base of financings and a heightened demand by corporate customers for interest and currency hedging products at the beginning of the year.

The **Retail/Savings Banks** segment improved its net profit before tax to EUR 31 million in the first quarter (previous year: EUR 28 million). Especially securities business was gratifying.

Net profit before tax in the **Financial Markets** segment rose substantially to EUR 92 million in the first three months (previous year: EUR 74 million). A material contribution to this performance was provided by customer-oriented capital markets business, e.g. the successful sale of investment and hedging products to institutional customers.

Unchanged outlook for the current year

As stated at the annual press conference held at the end of March, LBBW expects a further moderate increase in net profit before tax for the current year as a whole despite the challenging market setting in the absence of any exceptional market turbulence, unforeseen additional regulatory or legal requirements or an unexpectedly sharp downswing in the economy.

Business figures for the LBBW Group as at 31 March 2015

	1 Jan. - 31 March 2015 EUR million	1 Jan. - 31 March 2014 EUR million	Change EUR million	in %
Net interest income	379	439	-60	-13.7
Allowances for losses on loans and advances	-29	-28	-2	5.9
Net fee and commission income	140	123	18	14.4
Net gains/losses from financial instruments measured at fair value through profit or loss	-12	-8	-4	45.6
Net gains/losses from financial investments, net income/expenses from investments accounted for using the equity method and from profit/loss transfer agreements	53	19	34	>100
Other operating income/expenses	43	31	12	38.6
Total operating income/ expenses (after allowances for losses on loans & advances)	**574**	**576**	**-2**	**-0.4**
Administrative expenses	-451	-439	-12	2.7
Operating result	**122**	**137**	**-14**	**-10.5**
Guarantee commission for the State of Baden-Württemberg	-31	-63	32	-50.5
Impairment of goodwill	0	0	0	-
Net income/expenses from restructuring	0	0	0	-
Net consolidated profit/loss before tax	**91**	**74**	**17**	**23.4**
Income tax	-15	-6	-9	>100
Net consolidated profit/loss	**76**	**68**	**8**	12.0

	31 March 2015 EUR billion	31 Dec. 2014 EUR billion	Change EUR billion	in %
Total assets	300	266	33	12.5
Risk weighted assets (CRR/CRD IV)	83	82	1	1.3

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

	31 March 2015 in %	31 Dec. 2014 in %
Common equity Tier 1 capital ratio (CRR/CRD IV with transitional rules)	14.0	14.6
Common equity Tier 1 capital ratio (CRR/CRD IV "fully loaded")	13.1	13.6
Total capital ratio (CRR/CRD IV with transitional rules)	18.9	19.9
Total capital ratio (CRR/CRD IV "fully loaded")	18.2	18.9

	31 March 2015	31 Dec. 2014	Change absolute	Change in %
Employees (Group)	11,126	11,117	9	0.1