LB≡BW

Press Release

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LBBW with solid figures in the first half of 2013

- **Increase in net consolidated profit before tax to EUR 260 million in the first half of the year**
- **Clear focus on customer business paying off**
- **Well capitalized with a core capital ratio of 16.6 percent and a total ratio in accordance with SolvV of 20.6 percent**
- **Risk reduction systematically continued, substantial reduction in total assets**
- **Improvement in cost/income ratio to 58.5 percent**

In the first six months of 2013, Landesbank Baden-Württemberg increased its result over the previous year despite persistently challenging market conditions, reducing its risk weighted assets again clearly. In accordance with IFRS, the Bank posted a net consolidated profit of EUR 260 million before tax (same period of the previous year: EUR 194 million). "Now that it has very largely completed its restructuring process, LBBW will be devoting its entire focus to customer business. The results show that these efforts are bearing fruit. Despite the difficult underlying conditions for banks, we had a stable earnings situation in the first half of the year," said Hans-Jörg Vetter, the Chairman of LBBW's Board of Managing Directors. "It is being underpinned by the long-standing customer relations and the deep roots which LBBW has in economically strong markets."

Its satisfactory operating performance enabled LBBW to systematically continue reducing its risks. Thus, it trimmed its risk weighted assets to EUR 89 billion, down from EUR 96 billion at the end of 2012. Credit substitute business, which had had a volume of EUR 95 billion at the beginning of the restructuring process, was further reduced to EUR 16 billion as at 30 June (end of 2012: EUR 22 billion). "In connection with our deleveraging efforts, we deliberately accepted losses in order to achieve a now substantially improved risk profile," said Vetter. In particular, the Bank disposed of risk positions which may require additional capital backing in the future.

In the first six months of the year, the Group's capital base continued to improve as a result. The core capital ratio (Tier 1 ratio) rose to 16.6 percent as at the middle of the year. The common equity Tier 1 ratio improved to 14.0 percent in accordance with Basel 2.5 and 10.7 percent on the basis of fully-loaded Basel III. The total ratio in accordance with SolvV climbed to 20.6 percent, standing at 16.0 percent on the basis of fully-loaded Basel III. This means that LBBW's capital ratios are in excess of the market average.

Total assets dropped clearly in the first half of the year due, among other things, to reduced credit substitute business and a slight increase in interest rate level over the end of 2012 resulting in a decline in the fair values of interest rate derivatives. Total assets came to EUR 307 billion as at 30 June 2013, down from EUR 336 billion at the end of the previous year.

Expense and income items in the first half of the year

In the first six months, **net interest income** came to EUR 933 million, down EUR 315 million on the previous year. The reasons for this included the targeted deleveraging of assets in order to further optimize risk and another decline in interest rates compared to the previous year. Moreover, net interest income had been affected in the previous year by a positive non-recurring effect in connection with capital measures.

LBBW increased its **allowances for losses on loans and advances** to EUR 137 million. This continues to constitute a moderate level. The ongoing stable economic situation in Germany and in LBBW's core markets helped support the measurement of the overall credit portfolio.

Net fee and commission income grew by EUR 19 million to EUR 266 million. Income from securities and custody business as well as asset management improved thanks to a slight recovery in customer activity and heightened demand for capital market products.

Net income from financial instruments measured at fair value through profit or loss reflected the increase in customer activity, resulting in satisfactory earnings in customer-related capital market business. At the same time, spread tightening in credit derivatives exerted a favorable impact on earnings. In total, net income from financial instruments measured at fair value climbed to EUR 187 million (2012: loss of EUR 176 million), whilst valuation adjustments had exerted pressure in the previous year.

At minus EUR 25 million, the **net loss from investment securities** was roughly on a par with the previous year (minus EUR 21 million), again reflecting the losses deliberately realized on the systematic reduction of credit substitute business.

Administrative expenses, which also include the bank levy of EUR 33 million, dropped substantially by around 9 percent to EUR 816 million. This reflected declines in both staff costs and savings in other administrative expenses, which were spread across nearly all general and administrative expense items. The cost/income ratio improved from 65.7 percent to 58.5 percent.

All told, **operating result** climbed by EUR 64 million to EUR 416 million. **Guarantee commission on the risk shield provided by the State of Baden-Württemberg** came to EUR 154 million. **Net consolidated profit before tax** rose to EUR 260 million (previous year: EUR 194 million). After tax, **net consolidated profit** came to EUR 176 million (previous year: EUR 165 million).

Segment overview

All three operating segments made a positive contribution to the result. The **Corporates** segment, which includes corporate customer business as well as real estate business among other things, proved to be a solid mainstay for earnings in the first half of the year. Net profit before tax in this segment rose to EUR 379 million (year-ago period: EUR 313 million). A positive contribution was made by the profit from the sale of successfully completed project developments, for example. On the other hand, pressure was exerted by intensive competition and muted demand for loans, which is due to customers' good liquidity situation and capex restraint.

The **Retail/Savings Banks** segment generated net profit before tax of EUR 64 million, an increase of EUR 4 million over the same period in the previous year. Among other things, customer restraint receded slightly in securities business, triggering a small recovery in income in this segment. Mortgage financing was brisk.

The **Financial Markets** segment continued to strengthen its focus on customer business. LBBW is well positioned particularly in the markets for borrower's note loans, corporate bonds and securitizations for companies. All in all, capital market business contributed EUR 152 million to net consolidated profit before tax. Consequently, it fell somewhat short of the previous year's figure of EUR 198 million, which had benefited from spread tightening in the wake of central bank activities among other things.

Outlook

LBBW assumes that conditions on the international financial markets in the second half of the year will continue to be characterized by high uncertainty and considerable risks. Despite the problems facing the eurozone periphery countries, the German economy should remain on its growth trajectory, although it must be assumed that momentum will weaken substantially. With its customer-orientated business model, Landesbank Baden-Württemberg considers itself to be well positioned in this environment. Accordingly, the Bank still expects to be able to report a clearly positive result for the current year as a whole. Given the persistent uncertainties in the financial markets and with respect to regulatory matters, it is not realistically possible to provide any specific profit forecast for the full year at this stage.

Please note:

LBBW's individual financial statements (prepared in accordance with the German Commercial Code (HGB)) as at year-end are the basis for the distribution of the profit participation certificates. It is not possible at this time to issue a robust or reliable forecast for the full-year results prepared in accordance with the German Commercial Code. LBBW does not publish half-yearly financial statements under the German Commercial Code.

Business figures for the LBBW Group as of 30 June 2013

	1 Jan. - 30 June 2013 EUR million	1 Jan. - 30 June 2012 EUR million	Change EUR million	in %
Net interest income	933	1,248	-315	-25.2
Allowances for losses on loans & advances	-137	-91	-46	50.5
Net fee and commission income	266	247	19	7.7
Net gains/losses from financial instruments at fair value through profit or loss	187	-176	363	-
Net gains/losses from financial investments, net income/expenses from investments accounted for using the equity method and from profit/loss transfer agreements	-25	-21	-4	19.0
Other operating income/expenses	8	38	-30	-78.9
Total operating income (after allowances for losses on loans & advances)	**1,232**	**1,245**	**-13**	**-1.0**
Administrative expenses	-816	-893	77	-8.6
Operating result	**416**	**352**	**64**	**18.2**
Guarantee commission for Baden-Württemberg	-154	-151	-3	2.0
Impairment of goodwill	-2	0	-2	-
Net income/expenses from restructuring	0	-7	7	-100.0
Net consolidated profit before tax	**260**	**194**	**66**	**34.0**
Income tax	-84	-29	-55	>100.0
Net consolidated profit	**176**	**165**	**11**	**6.7**

	30 June 2013 EUR billion	31 Dec. 2012 EUR billion	Change EUR billion	in %
Total assets	306.8	336.3	-29.5	-8.8
Risk position	89.2	95.8	-6.6	-6.9

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

	30 June 2013 in %	31 Dec. 2012 in %
Core capital ratio (Tier I ratio)	16.6	15.3
Total ratio in accordance with SolvV	20.6	19.7

Employees	30.6.2013	31.12.2012	Change Absolute	in %
Group	11,519	11,642	-123	-1.1

More detailed information is provided in the "2013 Half-yearly financial report" of LBBW, which will be available on the Internet from Monday, 26 August 2013:

www.LBBW.de/halfyearreport2013