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INTERIM REPORT  
AS AT 30 JUNE 2003

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FINANCIAL

LRP Landesbank  
Rheinland-Pfalz

## LRP STAYS ON GOOD COURSE

- **INTERIM RESULT CLEARLY UP**
- **EQUITY RATIO STRENGTHENED SIGNIFICANTLY**
- **MODERATE INCREASE IN TOTAL ASSETS**
- **ALL OPTIONS TO BE REVIEWED THOROUGHLY**

As of the end of the first six months of 2003, LRP Landesbank Rheinland-Pfalz, Mainz, reported an increase in Group operating profit by one fifth to € 68.4 (56) million, an increase in net income after taxes by one third to € 50 (37.4) million and a moderate expansion (+ 3 %) of the business volume to € 75.5 billion. In view of the continued fragile state of the economy, this performance cannot simply be extrapolated for the full year. Nevertheless, LRP Board Chairman Dr. h. c. Klaus G. Adam feels his bank is on the right course to reach the targets set for the year.

“A consistent focus on profits, risk-conscious concentration on our core competencies and strict cost management will help us prepare LRP for the modified guarantee and liability system that will take effect from 19 July 2005. Moreover, this enables us to underpin our arguments for all potential options for LRP’s future business model and to thoroughly review all possibilities without any time pressure.”

In view of the complex decisions required, which refer not only to banking issues but also to fundamental questions regarding the savings banks policy as well as to the federal state’s business development and job creation policies, all possibilities must be carefully examined, according to Klaus G. Adam. “There is no such thing as a blueprint for success, but there’s clearly a possibility to learn from the experience of others”, Klaus G. Adam pointed out. In his opinion, the bank has time until the end of the year to decide what approach to take. “Then we will still have a full year to implement the measures required.”

## **Net commission income and net income from trading activities clearly improved**

The operating income increased slightly to € 220 (217.3) million. The greatest contribution was made by clearly improved net commission income and net income from trading activities, which rose by 19 % to € 41.6 (35) million and from € 0.2 million to € 13.4 million, respectively, more than offsetting the decline in net interest income to € 159.6 (178.1) million. Despite stable or even higher new business margins, net interest income was weighed down by moderate volume growth and the noticeable decline in transformation results due to the flatter interest rate pattern.

## **Restructuring measures initiated**

Given that the positive effects of the restructuring measures initiated will make themselves felt only with a certain delay, administrative expenses once again increased moderately to € 123.7 (119.8) million while the cost-income ratio rose from 55.2 to 56.3 %. Of the 200 jobs to be cut by 2005, 40 were cut by mid-year without any involuntary redundancies. The restructuring expenses relating to the staff reductions were included in the € 5 million extraordinary result for the first six months. In addition, major expenses, primarily in the IT sector, were required for regulatory large-scale projects such as the adoption of IAS and Basle II, resulting in higher operating expenses.

## **Equity strengthened**

While LRP maintained its conservative risk policy, risk provisions for the lending business and the valuation of the securities portfolio declined from the previous year's € 41.4 million to € 27.9 million. After deduction of the extraordinary result and taxes of € 13.4 million (up 25.2 % from the previous year's € 10.7 million), net income rose by 33.7 % to € 50 (37.4) million.

The return on equity improved to 9.9 % (9.0 %). The BIS and KWG capital ratios increased noticeably to 12.2 % (11.2 %) and 11.5 % (10.5 %), respectively. This increase was due not only to the allocation from the 2002 profits but also the sale of LRP's 25 % interest in Westdeutsche ImmobilienBank (WIB), Mainz, which took retroactive effect from 1 January 2003.

## **Moderate increase in business volume**

As of mid-2003, the LRP Group's total assets and business volume were up on year-end 2002 (adjusted on a proportionate basis for the WIB interest) by a moderate 2.2 % to € 65.2 (63.8) billion and an equally moderate 3 % to € 75.5 (73.3) billion, respectively. LRP maintained its selective and risk-conscious policy against the background of the economic situation, which was characterized by great uncertainty especially in the first quarter. While claims on customers as shown in the balance sheet were down by a moderate € 0.6 billion to € 20.3 billion as of the reporting date, the total business volume with customers rose by € 0.2 billion to € 31.0 billion, not least due to an increase in irrevocable credit commitments. Securities holdings declined by € 0.4 billion to € 18.8 billion. Claims on banks, by contrast, were up 11.2 % on the previous year's € 20.3 billion to € 22.6 billion.

## **Funding base further strengthened**

As far as its funding activities were concerned, LRP used its possibilities as an important partner in the money and capital markets in line with new business requirements and its diversification-oriented funding strategy. As of the reporting date, € 11.1 (9.4) billion were raised from customers and € 16.9 (18.6) billion from banks. At € 30.0 (28.7) billion, certificated liabilities were again the most important source of funding.

By issuing its fifth global Pfandbrief, a € 1.5 billion benchmark bond placed with domestic and international investors, LRP further expanded its international funding base.

MAINZ, 31 JULY 2003

# INTERIM REPORT AS AT 30 JUNE 2003

<b>Group Balance Sheet</b> (Key Figures) LRP, LBS, LRI, LRP Capital, LRA without WIB Group	30.06.2003	31.12.2002	Changes	
	(Accounts statistics) € billions	(Accounts statistics) € billions	€ billions	%
Total assets	65.2	63.8	1.4	2.2
Business volume	75.5	73.3	2.2	3.0
Claims on banks	22.6	20.3	2.3	11.2
Claims on customers	20.3	20.9	- 0.6	- 2.8
including: building loans of Landes-Bausparkasse	2.0	2.0	0.0	0.8
Securities	18.8	19.2	- 0.4	- 2.0
Trust assets	2.3	2.3	0.0	- 0.7
Liabilities to banks	16.9	18.6	- 1.7	- 8.9
Liabilities to customers	11.1	9.4	1.7	18.6
including: savers' deposits of Landes-Bausparkasse	1.9	1.8	0.1	7.2
Certificated liabilities	30.0	28.7	1.3	4.6
Capital funds <sup>1)</sup>	3.2	3.0	0.2	6.8

<sup>1)</sup> Mid-year value without net income for the year

<b>Group Results</b>	01.01.- 30.06.2003	01.01.- 31.12.2002	6/12	Changes
	€ millions	€ millions	€ millions	%
Net interest income	159.6	356.1	178.1	- 10.4
Net commission income	41.6	69.9	35.0	19.0
Net income from trading activities	13.4	0.4	0.2	> 100
Other operating expenses/income	5.4	7.9	4.0	36.7
Operating income	220.0	434.6	217.3	1.2
General administrative expenses	123.7	239.5	119.8	3.3
Provisions for risks/adjustments	- 27.9	- 82.8	- 41.4	- 32.6
<b>Operating profit</b>	<b>68.4</b>	<b>112.0</b>	<b>56.0</b>	<b>22.1</b>
Extraordinary result	- 5.0	- 15.8	- 7.9	- 36.7
Taxes on income and revenues	13.4	21.4	10.7	25.2
<b>Net income</b>	<b>50.0</b>	<b>74.8</b>	<b>37.4</b>	<b>33.7</b>
<b>Ratios</b>	%	%		
<b>Return on Equity (RoE) before taxes</b>	<b>9.9</b>	9.0		
<b>Return on Equity (RoE) after taxes</b>	<b>7.8</b>	7.0		
<b>Cost-Income Ratio (CIR)</b>	<b>56.3</b>	55.2		
<b>Overall Ratio according to Principle I</b>	<b>11.5</b>	10.5		
<b>BIS Equity Ratio</b>	<b>12.2</b>	11.2		

Differences due to rounding

<b>Rating Categories</b>	<b>Moody's</b>	<b>S &amp; P</b>	<b>Fitch</b>	<b>JCR</b>
Long-Term	Aa1	AA	AAA	AAA
Short-Term	P-1	A-1+	F1+	
Financial Strength/Individual	C	-	C	
Public-Sector Pfandbrief	AAA	AAA	AAA	

# ADDRESSES

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**Managing Board**

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Dr. Friedhelm Plogmann, Vice Chairman  
Werner Fuchs  
Paul K. Schminke

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