LBBW

# Press Release

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## LBBW increases consolidated profit before tax to EUR 279 million in the first half of 2017

- **Consolidated profit before tax up 8.0 percent over the previous year**
- **Consolidated profit after tax rises by 6.9 percent to EUR 201 million**
- **Solid customer business in a challenging environment**
- **Despite the increase, allowances for losses on loans and advances remain low**
- **Course set for further digitalization**
- **Capitalization remains at a comfortable level with a common equity Tier 1 ratio of 15.8 percent and a total capital ratio of 22.6 percent (according to CRR/CRD IV fully loaded)**
- **LBBW continues to expect full-year consolidated profit before tax in the mid-three-digit million range**

Landesbank Baden-Württemberg (LBBW) has improved its net profit in the first six months of 2017. In a still challenging environment, consolidated profit before tax rose by 8.0

percent to EUR 279 million (previous year: EUR 258 million). After tax, consolidated profit rose to EUR 201 million (previous year: EUR 188 million).

"We can look back at a successful first half-year. Our positive business development reflects the trust our customers place in the stability and performance of our Bank," commented Rainer Neske, Chairman of the Board of Managing Directors of LBBW. "Internally, we are working intensely to drive our growth and efficiency initiatives forward. Here at LBBW, our aim is to become the best medium-sized universal bank in the market."

LBBW is focusing on developing the Bank along the four strategic thrusts: business focus, digitalization, sustainability and agility. The change to a new core banking system in April created an important prerequisite for the digitalization of the business processes and modernization of customer interfaces, particularly in the private customer business. In the business with corporate customers, LBBW together with Daimler successfully implemented the innovative blockchain technology for a Schuldschein transaction.

To strengthen its capitalization, LBBW issued subordinated bonds in Singapore and Australian dollars for the first time in the first half-year, both of which met with extremely high demand. This successfully extended LBBW's investor base. As at 30 June, the Bank's capital backing was good by industry standards. The total capital ratio under current regulatory requirements (CRR/CRD IV with transitional rules) was 22.8 percent and the common equity Tier 1 ratio (CET1) was 15.9 percent. Under CRR/CRD IV (fully loaded), which will apply in its entirety as of 2019, the total capital ratio came to 22.6 percent and the common equity Tier 1 ratio to 15.8 percent.

**Overview of expense and income items**

Despite the burden of the low interest rate environment and continued strong competition, **net interest income** of EUR 797 million fell only slightly from the previous year's level (EUR 814 million).

**Net fee and commission income** of EUR 270 million was increased in almost all commission types and therefore exceeded the previous year's figure of EUR 259 million.

**Allowances for losses on loans and advances** rose over the previous year to EUR 40 million. However, it remains very low based on the long-term annual average, therefore reflecting the good portfolio quality and stable economic situation in the core markets.

**Net gains from financial instruments measured at fair value through profit or loss** rose sharply to EUR 130 million (previous year: minus EUR 41 million). This was primarily attributable to lower charges from derivative financial instruments that form part of economic hedges but cannot be included in hedge accounting. After charges in the previous year, the actual result from hedge accounting also made a positive contribution to earnings.

At EUR 101 million, **net gains/losses from financial investments and net income/expenses from investments accounted for using the equity method** were down substantially on the previous year's result, which was exceptionally high due to investment income from the sale of subsidiary cellent AG and disposal of shares in VISA Europe Limited.

Despite higher investments in IT modernization, **administrative expense**s increased only marginally by EUR 15 million to EUR 897 million (previous year: EUR 882 million).

The **guarantee commission** for the risk shield of the State of Baden-Württemberg stood at EUR 38 million as at 30 June. The **expenses for bank levy and deposit guarantee** came to EUR 69 million.

**Net income/expenses from restructuring** of EUR 30 million was almost entirely accounted for the creation of provisions for measures as a consequence of streamlining the business processes and product range.

This yields **consolidated profit before tax** of EUR 279 million after EUR 258 million during the same period a year ago. LBBW reported a solid **consolidated profit after tax** of EUR 201 million.

**Overview of the operating segments**

LBBW's customer business is bundled in the three operating segments. Together they generated profit before tax of EUR 463 million, which was EUR 66 million more than in the previous year. The **Corporates** segment (comprising the corporate customer and commercial real estate financing business) made the greatest contribution. The Bank succeeded in increasing the financing and deposit volume here, as well as income from cross-selling. However, this was offset by charges arising from the normalization of allowances for losses on loans and advances, high IT costs in conjunction with the change of the core banking system and restructuring expenses. This led to a decline in profit before tax to EUR 294 million for the first half year (previous year: EUR 343 million).

The **Retail/Savings Banks** segment reported increases in the deposit, securities and card business, and could therefore improve both net interest income and net fee and commission income. Wealth management and asset management in particular developed very favorably. Nevertheless, the segment's profit before tax for the first half-year declined to minus EUR 15 million (previous year: EUR 24 million). This is due above all to a further increase in the Bank's already considerable investments because of the change of the core banking system. In addition, one-time income in conjunction with the VISA transaction was recorded the year before.

Profit before tax in the **Capital Markets Business** segment increased significantly to EUR 184 million after EUR 30 million in the previous year. By participating in large-volume transactions, LBBW extended its strong position further in supporting and marketing new issues. The Bank continues to see buoyant demand for instruments used to manage the balance sheet structure. Not least, the treasury activities, which are a part of the Capital Markets Business segment since this year, made a significant contribution to the improved result. This was achieved for example with income from liquidity management and securities sales.

**Full-year outlook remains unchanged**

For the current year LBBW continues to forecast consolidated profit before tax coming to a mid-three-digit million amount.

**Business figures for the LBBW Group as at 30 June 2017**

| | 1 Jan.-30 June 2017 in EUR million | 1 Jan.-30 June 2016* in EUR million | Change in EUR mn | Change in % |
|---|---|---|---|---|
| Net interest income | 797 | 814 | -17 | -2.1 |
| Allowances for losses on loans and advances | -40 | -1 | -39 | >100 |
| Net fee and commission income | 270 | 259 | 10 | 3.9 |
| Net gains/losses from financial instruments measured at fair value through profit or loss | 130 | -41 | 171 | - |
| Net gains/losses from financial investments and net income/ expenses from investments accounted for using the equity method | 101 | 191 | -90 | -47.2 |
| Other operating income/expenses | 56 | 51 | 5 | 9.5 |
| **Total operating income/expenses (after allowances for losses on loans & advances)** | **1,313** | **1,273** | **40** | **3.2** |
| Administrative expenses | -897 | -882 | -15 | 1.7 |
| Guarantee commission for the State of Baden-Württemberg | -38 | -51 | 13 | -25.4 |
| Expenses for bank levy and deposit guarantee | -69 | -77 | 7 | -9.6 |
| Net income/expenses from restructuring | -30 | -5 | -25 | >100 |
| **Consolidated profit/loss before tax** | **279** | **258** | **21** | **8.0** |
| Income taxes | -77 | -70 | -8 | 11.0 |
| **Net consolidated profit/loss** | **201** | **188** | **13** | **6.9** |

| | 30 June 2017 in EUR billion | 31 Dec. 2016 in EUR billion | Change in EUR bn | Change in % |
|---|---|---|---|---|
| Total assets | 255 | 244 | 11 | 4.7 |
| Risk weighted assets (CRR/CRD IV) | 76 | 77 | -1 | -1.9 |

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

* After adjustments in accordance with IAS 8.

| | 30 June 2017 in % | 31 Dec. 2016 in % |
|---|---|---|
| Common Equity Tier 1 capital ratio (CRR/CRD IV with transitional rules) | 15.9 | 15.5 |
| Common Equity Tier 1 capital ratio (CRR/CRD IV fully loaded) | 15.8 | 15.2 |
| Total capital ratio (CRR/CRD IV with transitional rules) | 22.8 | 21.7 |
| Total capital ratio (CRR/CRD IV fully loaded) | 22.6 | 21.5 |

| | 30 June 2017 | 31 Dec. 2016 | Change absolute | Change in % |
|---|---|---|---|---|
| Employees (Group) | 10,548 | 10,839 | -291 | -2.7 |