LBBW

Press Release

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LBBW has generated profit before tax of EUR 515 million in 2017

- **Earnings up sharply on the previous year – figure in 2016 influenced by goodwill impairment**
- **Sustained strength in customer business: increase in lending and deposit volume**
- **Bank investing heavily for the future, but administrative expenses remain constant**
- **Further solid capitalization as a sound basis for growth**
- **For this year LBBW expects a profit before tax coming to a mid-three-digit million euro amount**

Based on preliminary figures LBBW closed the fiscal year 2017 with a profit before tax of EUR 515 million. So the previous year's pre-tax profit of EUR 142 million was clearly exceeded. However, the previous year's figure was influenced by goodwill impairment of EUR 379 million. Net profit rose to EUR 419 million (previous year: EUR 11 million). "Our good result of over half a billion euros shows that we have convinced our customers as a mid-size universal bank", said Rainer Neske, Chairman of the Board of Managing Directors of LBBW. "At the same time, we have made good progress with many initiatives for the future and are investing heavily in our technological platform. We will continue to do so in 2018. Moreover, our very sound capitalization is a reliable basis for future growth with our customers." Based on a fully loaded CRR/CRD IV, the CET 1 ratio was 15.7% at the end of 2017 and the total capital ratio 22.2%. As such, LBBW is one of the best capitalized German banks.

The figures at a glance

In spite of persistently low interest rates and pressure on margins due to intense competition in the banking sector, **net interest income** only fell moderately by EUR 82 million to EUR 1,587 million.

The increase in **allowances for losses on loans and advances** to EUR 92 million represents an increasing normalization after unusually low provisioning requirements in the last years. In 2017, loan loss provisioning remained well below the multi-year average. This reflects the good portfolio quality and favorable economic conditions in the bank's core markets.

Net fee and commission income rose to EUR 534 million after EUR 527 million in 2016. This reflected among other things higher earnings from payment transactions and from the guarantee and custody business.

Net gains from financial instruments measured at fair value through profit or loss rose by EUR 73 million to EUR 219 million. This mostly reflected strong demand for capital-market solutions, especially investment products for retail customers and various valuation effects.

Net gains from financial instruments and net income from investments accounted for using the equity method fell by EUR 32 million to EUR 163 million. Income from securities was also down year-on-year, as was income from investments, which was influenced significantly by high one-off earnings e.g. the disposal of Cellent AG in 2016.

Despite extensive investments in future projects, the bank was able to maintain **administrative expenses** in line with the previous year at EUR 1,824 million through strict cost discipline. LBBW reached a milestone in the modernization of its IT systems in 2017 with the switch to OSPlus, the joint core banking system used by the Sparkassen-Finanzgruppe.

In 2017, LBBW paid a last **guarantee commission** of EUR 61 million for the risk shield provided by the State of Baden-Württemberg. The nearly complete disposal of the Sealink portfolio in the last quarter of 2017 removes all risks for the owners, making the risk shield redundant. At EUR 69 million, the **bank levy** and contribution for the **deposit guarantee system** were down marginally against the previous year.

In 2017, the bank set aside provisions of EUR 41 million in connection with planned restructuring; these are shown under **net income/expenses from restructuring**.

At EUR 515 million, **consolidated profit before tax** was up on the previous-year figure of EUR 142 million which was depressed by goodwill impairment of EUR 379 million. **Income taxes** were down from EUR 131 million to EUR 97 million, above all on the back of lower deferred taxes. This led to a significant increase in **net consolidated profit** to EUR 419 million (previous year: EUR 11 million).

Overview of the operating segments

The three operating segments – Corporates, Capital Markets Business and Retail/Savings Banks – generated a clearly improved profit before tax totaling EUR 721 million.

Profit before tax in the **Corporates** segment, which includes not only the corporate customer business but also commercial real estate finance and project finance, amounted to EUR 565 million. The EUR 313 million increase mainly reflects the fact that the segment's previous-year earnings were deeply depressed by goodwill impairment.

The bank was able to expand the volume of credit business, especially with large corporate customers. At the same time, there was an increasing normalization of loan loss provisioning after the very low level in the previous year. The corporate finance business has proved to be a growth driver. For example, LBBW extended its market leadership in borrowers' note loans (Schuldscheine) and was once again among the leading banks in Germany for syndicated loans. LBBW has also widened its cross-selling activities, e.g. in payments and in interest-rate and currency management.

Commercial real estate finance has proved to be a reliable source of revenue with a steady stream of good new business, and the quality of the portfolio is high. Higher administrative expenses have had a dampening effect; the increase reflected among other things substantial investing in growth initiatives.

The **Capital Markets Business** segment improved its profit before tax to EUR 194 million in 2017 against EUR 110 million the previous year, helped by higher operating earnings from all the customer business activities. For example, LBBW is supporting the savings banks with capital-market-based investment solutions for retail customers. In 2017, the bank generated strong volume sales of structured notes and was again among the three biggest providers in Germany. In the custody business for institutional clients the bank has topped the EUR 100 billion mark. There was increased demand from international banks and sovereign issuers for individual solutions in the interest rate derivatives business. In addition, the segment benefited from valuation effects on counterparty risks in the derivatives business.

The treasury activities, which are part of the Capital Markets Business segment since 2017, also played a part in the improved result, for example with income from liquidity management and sales of securities. On the funding side, LBBW has widened its investor base with its first issue of subordinated bonds denominated in Singapore dollars and Australian dollars. And the bank has also embarked on a new course with the successful issue of a green bond.

The **Retail/Savings Banks** segment generated in view of persistently high expenditure for the modernization of the bank's IT systems a loss of EUR 38 million before tax. In the previous year it came to a loss of EUR 61 million. Due to an improved net interest income and net commission income, the segment made very good progress on the road back to profitability. This is all the more pleasing as there were no large exceptional gains in the reporting period of the kind generated in 2016 from the VISA transaction. There was an increase in customer deposits and greater demand for asset management solutions, reflecting not least the bank's growth strategy in private asset management and a holistic approach to the way in which it looks after its customers. LBBW is making good progress on its way to becoming a modern, multi-channel bank with the realignment of the branch network and expansion of its digital offer. The foundations for this have been laid with the switch to OSPlus, the core banking system used by the Sparkassen-

Finanzgruppe. In the development loan business, close cooperation with the savings banks once again led to record new business of EUR 4.2 billion, with loans for innovation and digitalization standing out.

Outlook

For this year LBBW expects a consolidated profit before tax coming to a mid-three-digit million euro amount.

Preliminary figures for the LBBW Group as at 31 December 2017

	1/1-31/12/2017 EUR million	1/1-31/12/2016* EUR million	Change EUR million	in %
Net interest income	1,587	1,669	-82	-4.9
Allowances for losses on loans and advances	-92	-51	-41	81.1
Net fee and commission income	534	527	7	1.4
Net gains/losses from financial instruments measured at fair value through profit or loss	219	146	73	49.7
Net gains/losses from financial investments and net income/expenses from investments accounted for using the equity method	163	195	-32	-16.6
Other operating income/expenses	101	101	0	0.4
Total operating income/expenses (after allowances for losses on loans & advances)	**2,511**	**2,586**	**-75**	**-2.9**
Administrative expenses	-1,824	-1,814	-11	0.6
Guarantee commission for State of Baden-Württemberg	-61	-93	32	-34.1
Expenses for bank levy and deposit guarantee system	-69	-71	2	-2.1
Net income/expenses from restructuring	-41	-87	47	-53.5
Consolidated profit/loss before goodwill	515	521	-6	-1.1
Impairment of goodwill	0	-379	379	-
Consolidated profit/loss before tax	**515**	**142**	**373**	**>100**
Income taxes	-97	-131	34	-26.3
Net consolidated profit/loss	**419**	**11**	**408**	**>100**

	31/12/2017 EUR billion	31/12/2016 EUR billion	Change EUR billion	in %
Total assets	238	244	-6	-2.4
Risk weighted assets (CRR/CRD IV)	76	77	-1	-2.4

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

*after taking into account adjustments in accordance with IAS 8.

	31/12/2017 in percent	31/12/2016 in percent
Common equity Tier 1 (CET 1) Capital ratio (CRR/CRD IV fully loaded)	15.7	15.2
Total capital ratio (CRR/CRD IV fully loaded)	22.2	21.5
Cost-income ratio (CIR)	74.8	74.3
ROE	4.1	1.1

	31/12/2017	31/12/2016	Change absolute	Change in percent
Employees (group)	10,326	10,839	-513	-4.7

The above figures are preliminary only. The 2017 consolidated annual financial statements with final figures will be published with the annual report on 16/04/2018.