



LBEBW

28/02/2019 - Result as of 31 December 2018

**LBBW Group**

Result as of 31 December 2018

**LBEBW**  
Bereit für Neues

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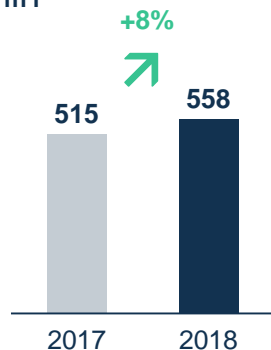
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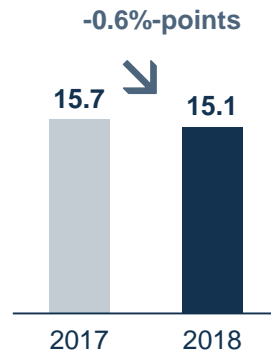
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# LBBW in 2018 with increase in results and improvement in capital and cost efficiency

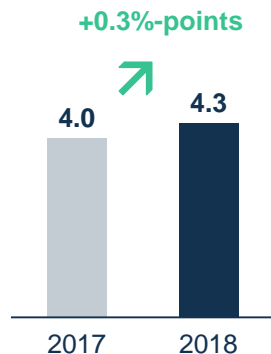
**Consolidated profit bef. tax**  
€ mln



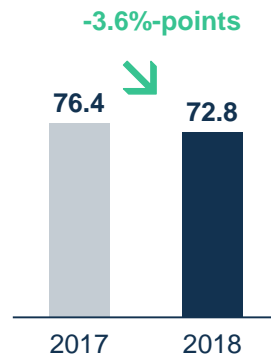
**CET1 capital ratio**  
%



**Return on Equity**  
%



**Cost Income Ratio**  
%



**Consolidated profit before tax increased** in spite of challenging market environment

**Growth in customer business**

**Administrative expenses reduced in spite of** sustained high IT investments

**CET1 capital ratio** due to growth **slightly declining** – nevertheless **still very solid capitalization as basis for further growth**

**Improvement in RoE** due to profit and in **CIR** due to expenses

Differences due to rounding



# LBBW as mid-sized universal bank with strong customer base and clear strategic focus

## Mid-sized universal bank

Long-grown customer relationships

Long-term oriented owners

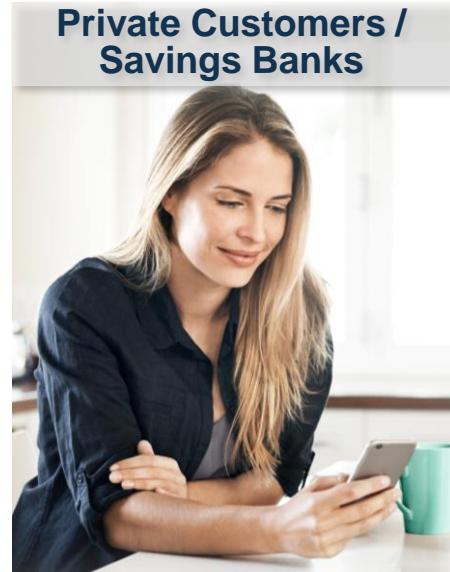
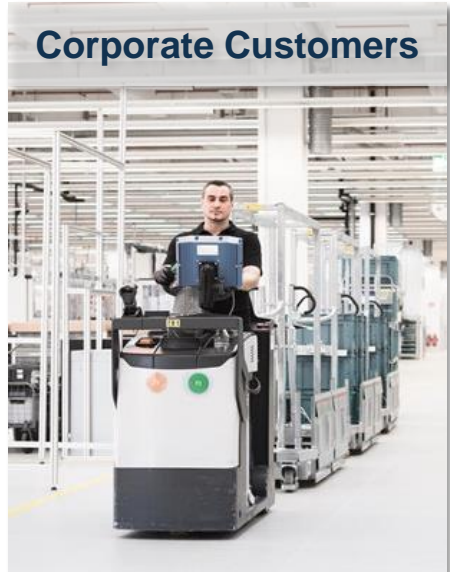
Strong employees' identification

Deeply rooted in the regions

Strong capital base

Innovations & process excellence

High quality standard




**Business focus** 

**Digitalization** 

**Sustainability** 

**Agility** 

# LBBW with its strategy well-positioned in the market and with important successes in 2018

 <p><b>Business focus</b></p>	<p><b>Corporate Customers and Real Estate:</b> 10% growth in customer business</p>	<p><b>Capital Markets Business:</b> 5% increase in volume in investment solutions</p>	<p><b>Private Customers/Savings Banks:</b> Return to profit zone</p>
 <p><b>Digitalization</b></p>	<p><b>First front to back processes digitalized</b></p>	<p><b>Innovative digital technologies put into operation</b></p>	<p><b>Digital Schuldschein<sup>1</sup> platform DEBTVISION</b></p>
 <p><b>Sustainability</b></p>	<p><b>Increase in sustainable credit portfolio to € 25 bn<sup>2</sup></b></p>	<p><b>27% of the total assets under management<sup>3</sup> are sustainable</b></p>	<p><b>Distinct improvement in sustainability rankings</b></p>
 <p><b>Agility</b></p>	<p><b>Agility managers and agile coaches as multipliers in the Group</b></p>	<p><b>Distinct expansion of optimization processes initiated by employees</b></p>	<p><b>Change of projects to agile methods</b></p>

<sup>1</sup> Schuldschein = borrower's note loan

<sup>2</sup> Promotional loans, Green Bond eligible real estate financings, project finance renewable energies as well as green ECA business

<sup>3</sup> LBBW Asset Management

# LBBW Group: Growth in customer business and reduced administrative expenses in spite of high investments

€ mln	2017		2018
Net interest income	1,587	-2%	1,558
Net fee and commission income	534	-4%	513
Net gains/losses on remeasurement and disposal	289	-23%	222
of which allowances for losses on loans and securities <sup>1</sup>	-93	53%	-142
Other operating income/expenses	101	38%	140
<b>Total operating income/expenses</b>	<b>2,511</b>	<b>-3%</b>	<b>2,433</b>
Expenses	-1,996	-6%	-1,875
<b>Consolidated profit/loss before tax</b>	<b>515</b>	<b>8%</b>	<b>558</b>
Income taxes	-97	43%	-139
<b>Net consolidated profit/loss</b>	<b>419</b>	<b>0%</b>	<b>420</b>

**Consolidated profit bef. tax increased** in spite of challenging market environment

**Growth course in customer business** confirmed in spite of strains due to low interest rate level, lower margins and uncertainty in the capital markets

**Risk provisioning** affected by the implementation of IFRS 9 and expected economic developments; still **very good portfolio quality**

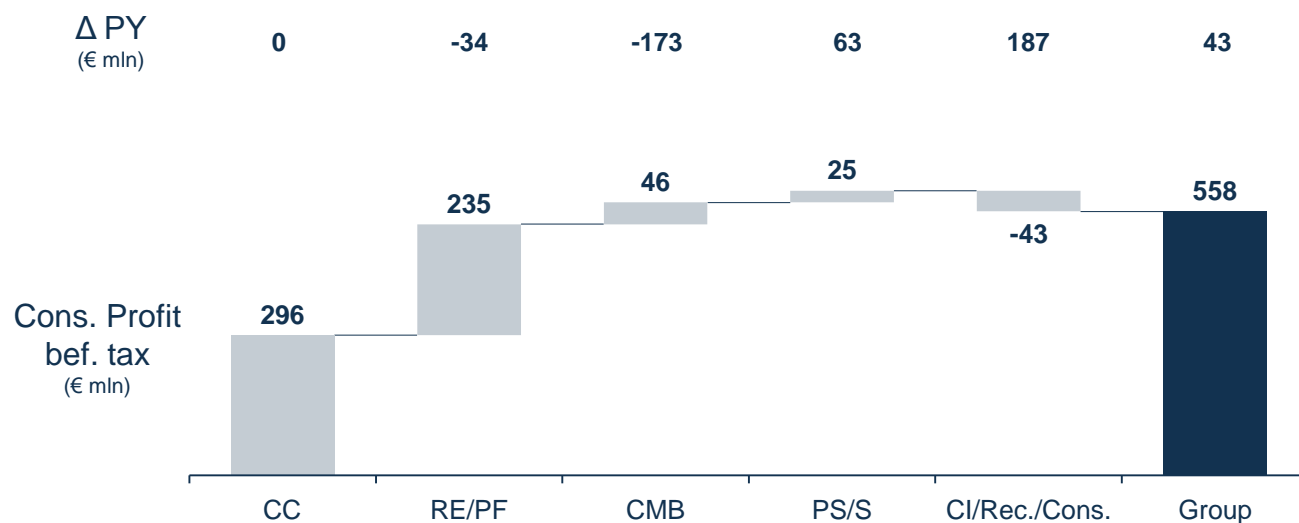
**Administrative expenses decreased** in spite of ongoing high IT investments

**End of payments** of charges related to the **guarantee commission**, in contrast **increase in bank levy**

Differences due to rounding

<sup>1</sup> Relates only to the category "Financial assets measured at amortized cost"

# All operating segments with positive earnings contribution



**CC:** Expansion of financing volume and strong growth in cross-selling

**RE/PF:** Expansion of commercial real estate financing and good start of infrastructure and project finance business

**CMB:** Maintaining strong position in primary markets and certificates business

**PC/S:** Expansion of deposit volume as well as high new business in promotional loans

RWA (€ bn)	36.0	13.1	16.7	8.3	6.2	80.3
RoE (%)	6.6	16.3	1.7	2.1	<0	4.3

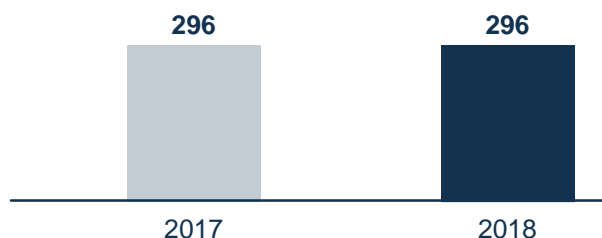
Differences due to rounding

CC=Corporate Customers / RE/PF=Real Estate/Project Finance / CMB=Capital Markets Business / PC/S=Private Customers/Savings Banks / CI/Rec./Cons.=Corporate Items/Reconciliation/Consolidation

# CC: Expansion of financing volume and strong growth in cross-selling



Cons. profit bef. tax  
€ mln



€ mln	2017		2018
Total operating income/expenses	938	1%	944
of which allowances for losses on loans and securities <sup>1</sup>	-99	-14%	-85
Expenses	-642	1%	-648
<b>Consolidated profit/loss before tax</b>	<b>296</b>	<b>0%</b>	<b>296</b>
<b>Total assets</b>	<b>54.1</b>	<b>11%</b>	<b>60.1</b>

Growth course confirmed

Expansion of financing volume by 10% for mid-sized and large corporates

Strong growth in cross-selling (international business, hedging transactions, corporate finance)

Cons. profit bef. tax at PY's level in spite of ongoing margin pressure

Defending market leadership in SSD<sup>2</sup> market, successful market launch SSD platform DEBTVISION

Compared to PY lower disposal proceeds from commercial investment business

Unchanged good portfolio quality



Strategic focus is on the **expansion** and **strengthening** of customer relationships as well as on the **optimization** of essential **core processes**

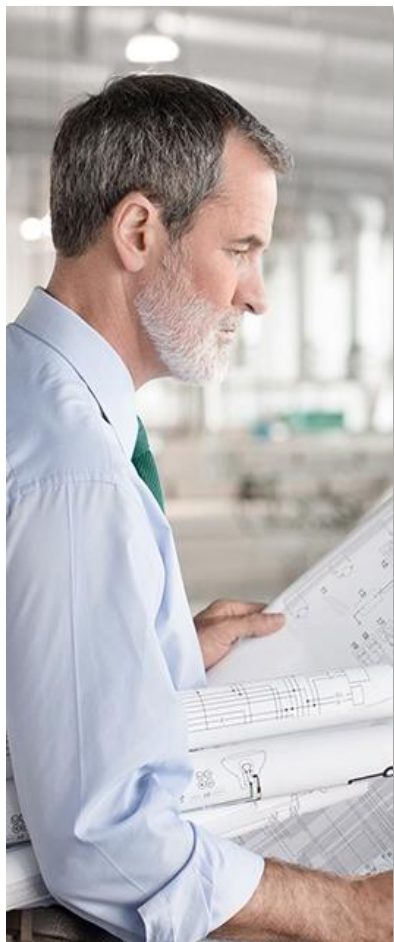
Differences due to rounding

<sup>1</sup> Relates only to the category "Financial assets measured at amortized cost"

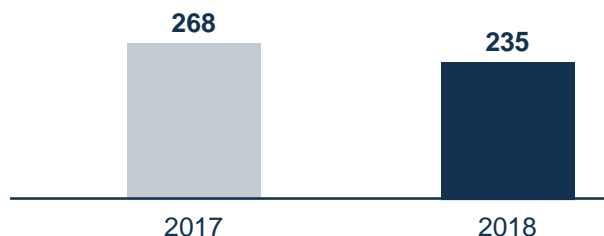
<sup>2</sup> SSD=Schuldscheindarlehen, borrower's note loans



# RE/PF: Expansion of real estate financing and good start of infrastructure and project finance business



**Cons. profit bef. tax**  
€ mln



Strong new business, especially expansion of real estate financing

Good start of infrastructure and project finance business

LBBW Immobilien with **increase** in project developments as well as rental-related services

PY benefitted from **one-off effects**, in addition in 2018 higher administrative expenses for **growth initiatives**

Unchanged **good portfolio quality** – risk provisioning in the PY with net reversals

€ mln	2017		2018
Total operating income/expenses	412	-6%	388
of which allowances for losses on loans and securities <sup>1</sup>	4	-	-9
Expenses	-144	7%	-154
<b>Consolidated profit/loss before tax</b>	<b>268</b>	<b>-13%</b>	<b>235</b>
<b>Total assets</b>	<b>24.6</b>	<b>14%</b>	<b>28.0</b>



Strategic focus is on **growth** – while maintaining the excellent portfolio quality

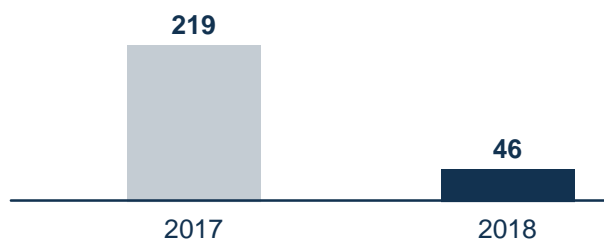
Differences due to rounding

<sup>1</sup> Relates only to the category "Financial assets measured at amortized cost"

# CMB: Maintaining strong position in primary markets and certificates business, market environment puts a strain



**Cons. profit bef. tax**  
€ mln



€ mln	2017		2018
Total operating income/expenses	737	-21%	582
of which allowances for losses on loans and securities <sup>1</sup>	-1	-	2
Expenses	-518	3%	-536
<b>Consolidated profit/loss before tax</b>	<b>219</b>	<b>-79%</b>	<b>46</b>
<b>Total assets</b>	<b>140.4</b>	<b>-4%</b>	<b>134.5</b>

Maintaining **strong position in primary markets and certificates business**

**Lower earnings in a challenging environment** of low interest rate level and uncertainty in the capital markets (spread widening)

As a consequence also **market-related restrain in the customer business**

Asset Management with **growth** of the **assets under management** by more than € 2 bn

Distinctly **lower disposal proceeds** from **securities**



Strategic focus is on **optimized customer service** as well as on the **expansion of process automation**

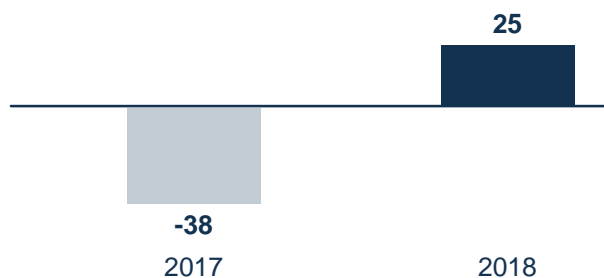
Differences due to rounding

<sup>1</sup> Relates only to the category "Financial assets measured amortized cost"

# PC/S: Expansion of deposit volume as well as high new business in promotional loans



Cons. profit bef. tax  
€ mln



€ mln	2017		2018
Total operating income/expenses	557	0%	558
of which allowances for losses on loans and securities <sup>1</sup>	-1	-	6
Expenses	-595	-10%	-534
<b>Consolidated profit/loss before tax</b>	<b>-38</b>	<b>-</b>	<b>25</b>
<b>Total assets</b>	<b>13.2</b>	<b>-1%</b>	<b>13.0</b>

Persistently returning to the profit zone

Expansion of deposit volume and high new business in promotional loans

Germany-wide growth of financing and deposit volumes of high net-worth private clients

Low interest rate level puts a strain on earnings

Cost cutting, inter alia elimination of high costs due to change of core banking system in the PY



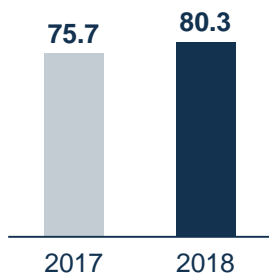
Strategic focus is on the strengthening of the **financing and investment business**, on the **expansion of the digital offer range** and on the **increase of the customer satisfaction**

Differences due to rounding

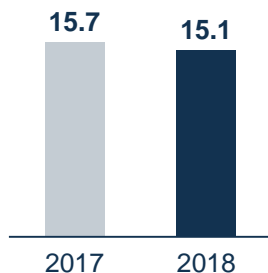
<sup>1</sup> Relates only to the category "Financial assets measured at amortized cost"

# Ongoing very solid capitalization as basis for further envisaged growth

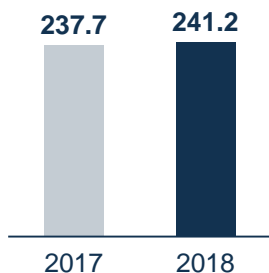
**RWA**  
€ bn



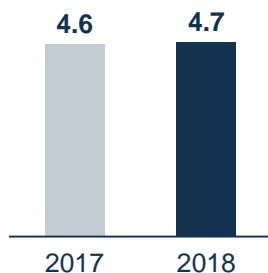
**CET1 capital ratio**  
%



**Total assets**  
€ bn



**Leverage ratio**  
%



**RWA at € 80.3 bn**

- **Increase** mainly due to **growth in customer business** in **CC** and **RE/PF**; decrease in Capital Markets Business

**CET1 capital ratio (fully loaded) at 15.1%**

- As expected due to **growth in customer business** slightly declining
- However still **very solid capitalization as basis for further growth**
- **SREP requirement 2018 of 8.80% distinctly exceeded; also considerably above SREP requirement 2019 of 9.75%**

- **Total capital ratio (fully loaded) at 21.9%** (PY: 22.2%)

**Total assets at € 241.2 bn**

- **Increase** mainly due to **growth in customer business** as well as expansion of **balances with central banks**

**Leverage ratio at 4.7%**

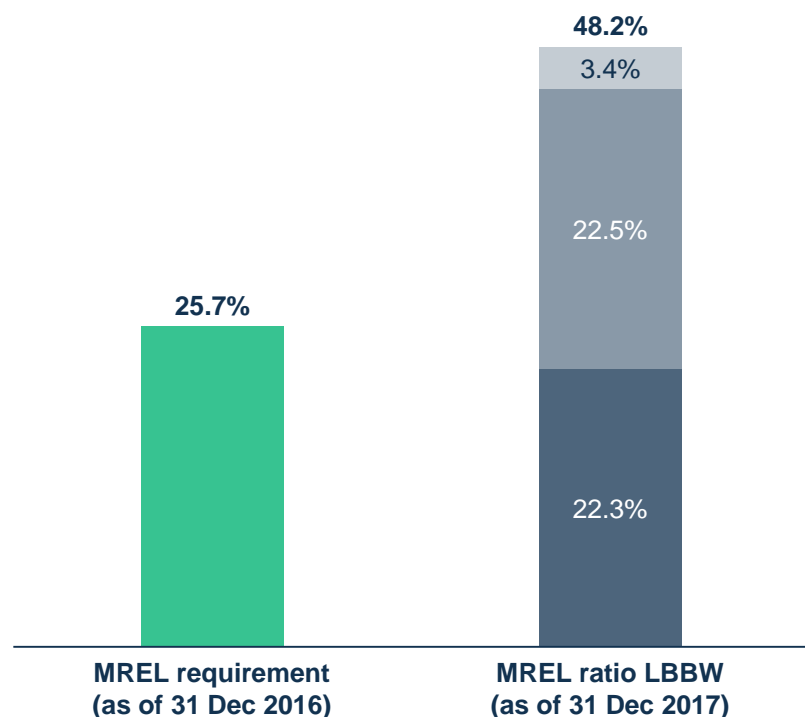
- **Slight increase** compared to PY
- **Minimum requirement of 3.0% distinctly exceeded**

Differences due to rounding



# MREL requirements distinctly exceeded

**MREL requirement and MREL ratio of LBBW**  
in % of RWA



- Senior preferred
- Subordinated capital/ Senior non-preferred
- Regulatory capital of CET1, AT1, T2
- Requirement

.....

## MREL requirement based on 31 Dec 2016<sup>1</sup>

- MREL requirement amounts to **9.16%** in relation to the **Total Liabilities and Own Funds (“TLOF“)**
- In relation to the **RWA** the requirement translates to **25.7%**

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## MREL ratio of LBBW based on 31 Dec 2017<sup>1</sup>

- MREL ratio of **LBBW** amounts to **48.2%** in relation to the **RWA**

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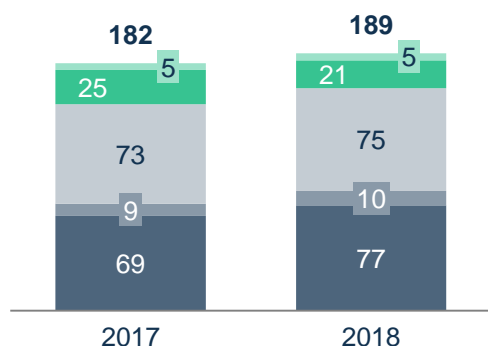
## MREL requirements thus distinctly exceeded

- **High quality of own funds and eligible liabilities**
  - MREL requirement can be **almost completely fulfilled with own funds**
  - In addition, the **eligible liabilities** consist to a **high share of subordinated liabilities**
- .....

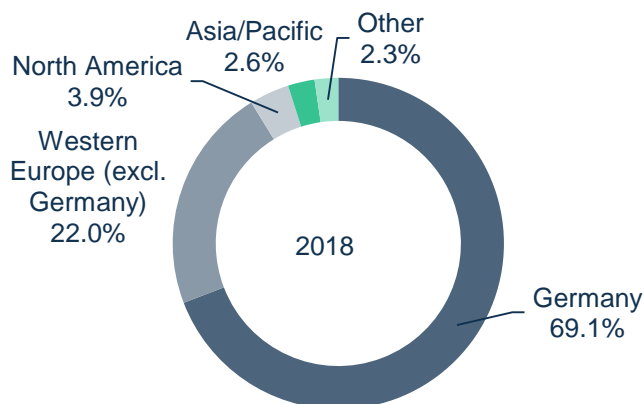
<sup>1</sup> More current requirement or ratio is not yet available

# Distinct growth of exposure with ongoing very good portfolio quality

**Net exposure by sector**  
€ bn



**Breakdown net exposure by region**  
%



**Net exposure** with increase of + € 7 bn to € 189 bn

- **Corporates:** almost all sectors with increase

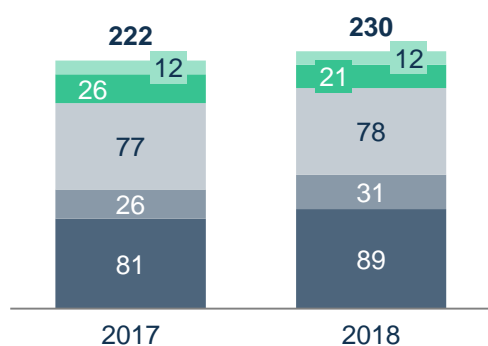
**Ø PD net exposure** in spite of slight increase **still low**

- **89%** of the net exposure in **investment grade area**

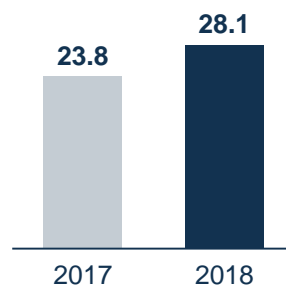
**NPL ratio<sup>1</sup>** further reduced to 0.6%

- underpins good portfolio quality

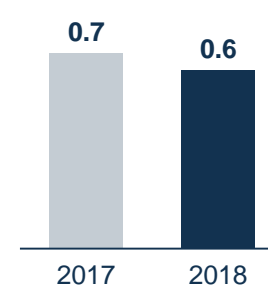
**Exposure by sector**  
€ bn



**Ø PD net exposure**  
bp



**NPL ratio<sup>1</sup>**  
%



- Corporates
- Real Estate
- Financial Institutions
- Public Sector
- Private Individuals

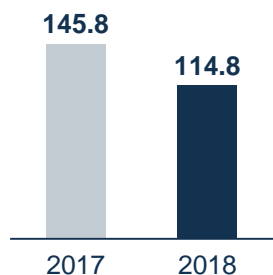
Differences due to rounding

<sup>1</sup> NPL ratio acc. to EBA definition based on Finrep; share of non-performing exposure in relation to all loans and advances to customers and banks

# High and diversified liquidity reserve of LBBW with good quality as well as a broad funding base

## Liquidity coverage ratio (LCR)

%

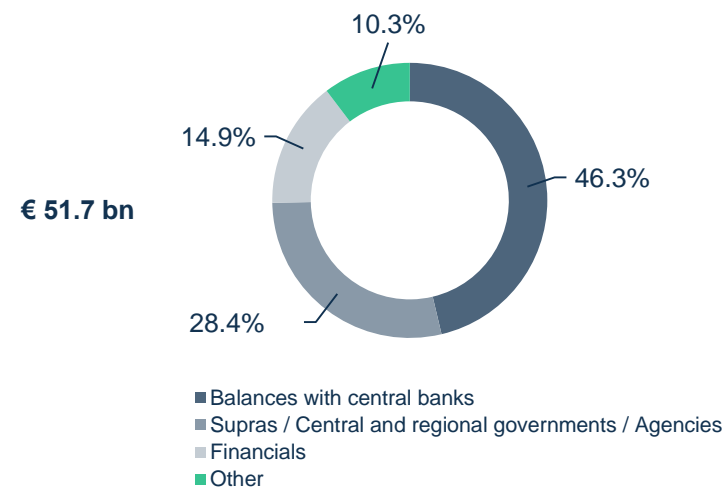


**LCR ratio** significantly above regulatory requirement

**NSFR** > 100%

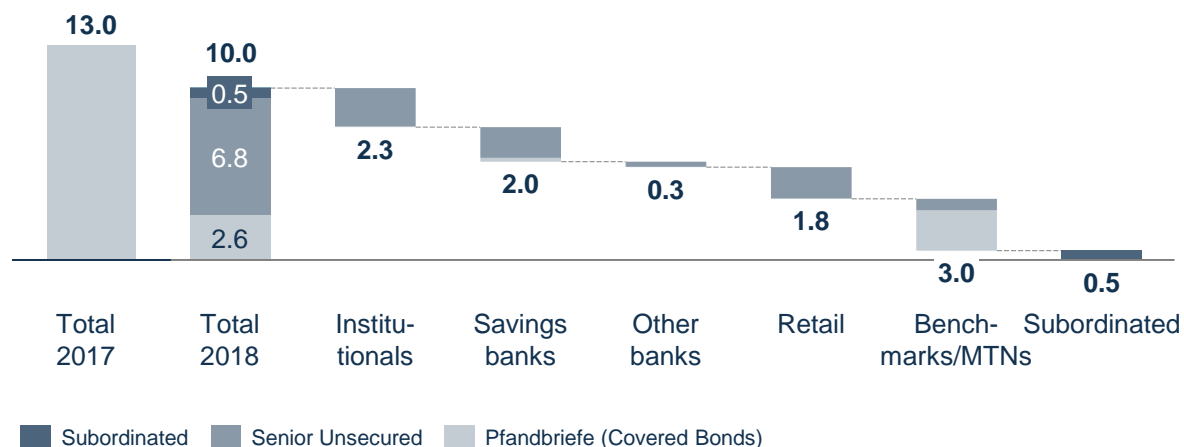
## Structure of the liquidity reserve

Type of issuer



## Funding volume in 2018

€ bn



## Good access to the capital markets

- Globally diversified funding sources
- Continued internationalization via AUD subordinated and GBP Pfandbrief issuances

## Innovation

- First **green Mortgage Pfandbrief** of LBBW in 2018
- Establishment of a Social Bond Programme

Differences due to rounding

## Strategic goals of LBBW are long-term profitability and solid capitalization

Targets	Key figure	Long-term target
Long-term profitability	Return on equity before tax	~6%
Sustained good rating	External rating	A area
Solid capitalization	CET1 capital ratio	~13%
	Total capital ratio	~18%
	Leverage ratio	>4%
	MREL ratio	Supervision
Solid liquidity position	Liquidity coverage ratio	>110%
	Net stable funding ratio	≥ 105%
Improving the efficiency	Cost/income ratio	<60%



# Outlook<sup>1</sup> LBBW 2019 – Very solid capitalization as basis for further envisaged growth in customer business



## Unchanged challenging market environment

- Low interest rates, reg. requirements, high competitive pressure & digitalization

## LBBW well-positioned as medium-sized universal bank

- Strong customer base and clear strategic directions

## Expansion and further development of the customer-oriented business model

- Business focus, digitalization, sustainability and agility

Continued **very solid capitalization** as basis

**Growth in customer business** while maintaining **good portfolio quality**

Continuation of **investments** in order to adapt to changed conditions

**LBBW expects consolidated profit bef. tax in mid three-digit Euro mln range**

<sup>1</sup> Based on management calculations and expectations

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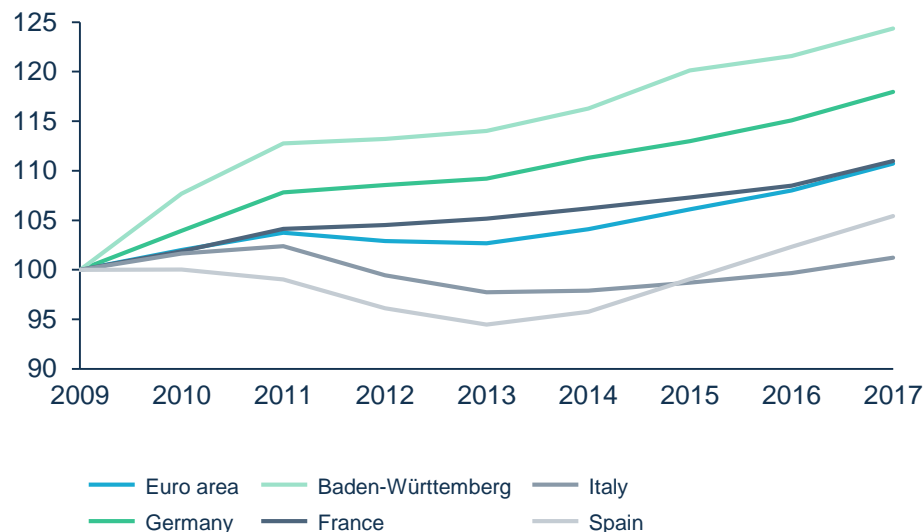
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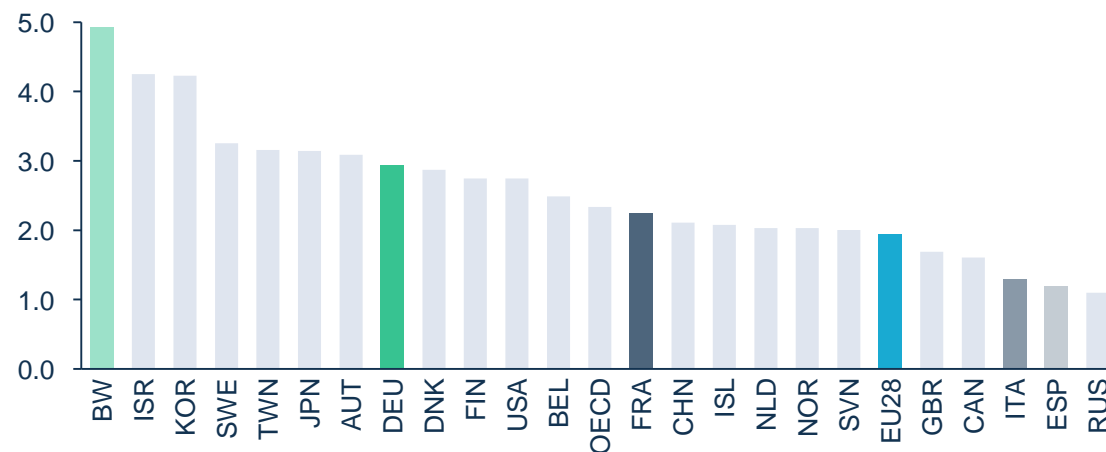
# Appendix

# LBBW can count on a strong economy in Germany and Baden-Württemberg

**GDP of selected Euro area countries**  
indexed to 100 points in 2009



**Intensity of R&D<sup>1</sup>**  
%



## Germany with strong growth

### Baden-Württemberg further on a strong business location

- Economic output distinctly above EU average
- Unemployment rate with 3.0% extremely low

## High future security in Baden-Württemberg

- R&D investments in Baden-Württemberg are the highest
- Baden-Württemberg is among the leading research-intensive states both regarding universities as well as corporates in the area of Artificial Intelligence

Sources: Thomson Reuters, Statistical Office of Baden-Württemberg  
<sup>1</sup> Expenses allocated for R&D in relation to nominal GDP (2016)



# Result and KPI for LBBW Group and segments

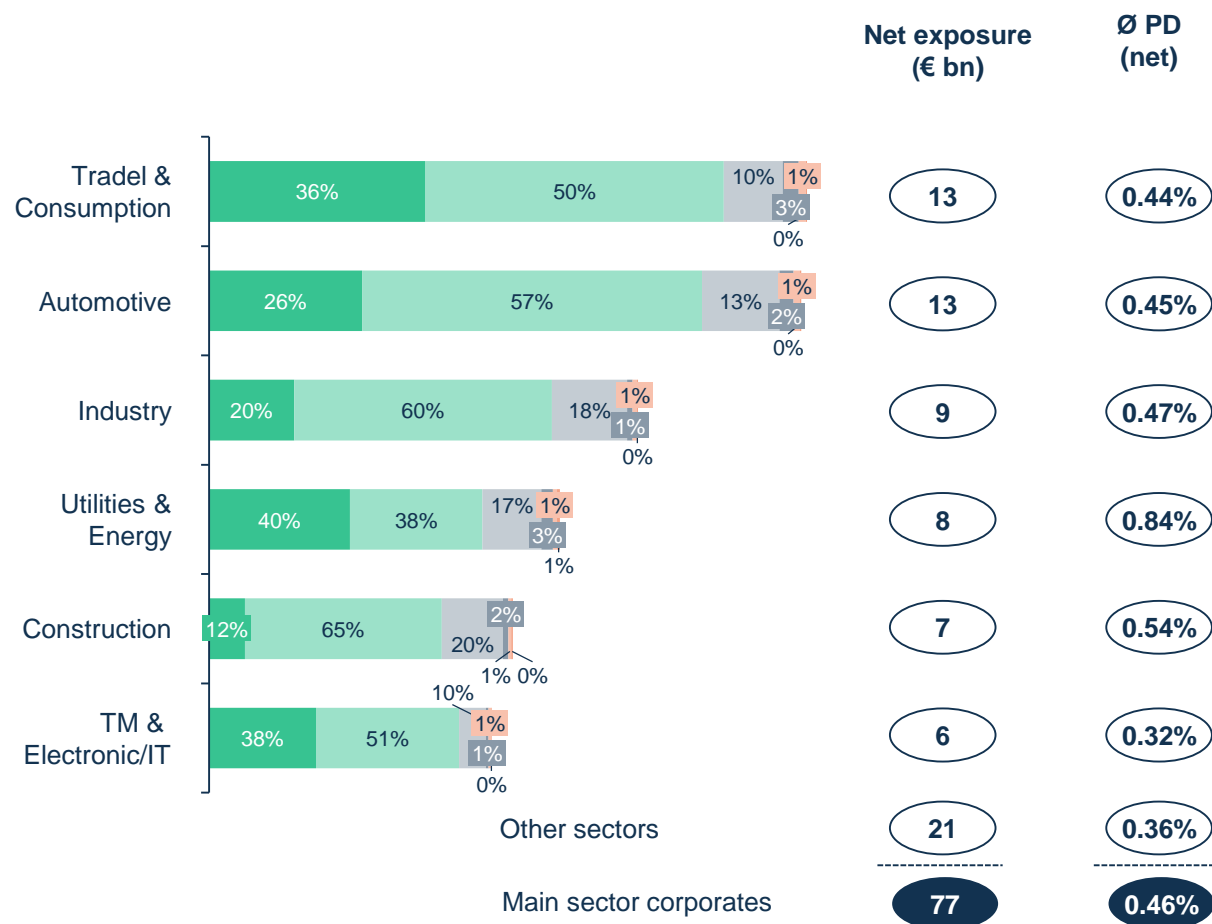
Group				Corporate Customers			Real Estate/ Project Finance			Capital Markets Business			Private Customers/ Savings Banks			Corporate Items/ Reconciliation/Consolidation		
2017	Δ %	2018	€ mln	2017	Δ %	2018	2017	Δ %	2018	2017	Δ %	2018	2017	Δ %	2018	2017	Δ %	2018
1,587	-1.8	1,558	Net interest income	726	8.7	789	300	-7.5	277	321	-53.0	151	322	-1.9	315	-82	-	26
534	-3.9	513	Net fee and commission income	195	-12.8	170	21	-26.0	15	126	3.6	131	236	-2.5	230	-43	-25.3	-32
289	-23.4	222	Net gains/losses on remeasurement and disposal	8	-	-35	30	-	-5	285	5.2	299	5	>100	14	-38	34.8	-51
-93	53.5	-142	of which allowances for losses on loans and securities <sup>1</sup>	-99	-13.8	-85	4	-	-9	-1	-	2	-1	-	6	4	-	-56
101	38.1	140	Other operating income/expenses	9	>100	20	62	62.4	101	6	-73.8	2	-6	-81.4	-1	30	-37.6	18
<b>2,511</b>	<b>-3.1</b>	<b>2,433</b>	<b>Total operating income/expenses</b>	<b>938</b>	<b>0.6</b>	<b>944</b>	<b>412</b>	<b>-5.8</b>	<b>388</b>	<b>737</b>	<b>-21.0</b>	<b>582</b>	<b>557</b>	<b>0.2</b>	<b>558</b>	<b>-133</b>	<b>-70.4</b>	<b>-39</b>
-1,996	-6.1	-1,875	Expenses	-642	0.9	-648	-144	6.7	-154	-518	3.4	-536	-595	-10.3	-534	-97	-95.9	-4
<b>515</b>	<b>8.4</b>	<b>558</b>	<b>Consolidated profit/loss before tax</b>	<b>296</b>	<b>0.0</b>	<b>296</b>	<b>268</b>	<b>-12.5</b>	<b>235</b>	<b>219</b>	<b>-78.9</b>	<b>46</b>	<b>-38</b>	<b>-</b>	<b>25</b>	<b>-230</b>	<b>-81.1</b>	<b>-43</b>
2017	Δ p.p.	2018	%	2017	Δ p.p.	2018	2017	Δ p.p.	2018	2017	Δ p.p.	2018	2017	Δ p.p.	2018	2017	Δ p.p.	2018
4.0	0.3	4.3	RoE	9.7	-3.2	6.6	23.0	-6.8	16.3	9.9	-8.2	1.7	<0	-	2.1	<0	-	<0
76.4	-3.6	72.8	CIR	61.9	1.0	62.9	35.3	3.4	38.7	70.2	22.3	92.5	>100	-	96.6	<0	-	23.9
2017	Δ %	2018	€ bn	2017	Δ %	2018	2017	Δ %	2018	2017	Δ %	2018	2017	Δ %	2018	2017	Δ %	2018
75.7	6.1	80.3	RWA	31.6	14.1	36.0	10.2	29.1	13.1	18.9	-11.5	16.7	7.9	4.7	8.3	7.2	-14.0	6.2
237.7	1.5	241.2	Total assets	54.1	11.1	60.1	24.6	13.7	28.0	140.4	-4.2	134.5	13.2	-1.1	13.0	5.4	3.0	5.6

Differences due to rounding

<sup>1</sup> Relates only to the category "Financial assets measured at amortized cost"

# Average PD for Corporates slightly higher, but still in investment grade area

**Corporates: Breakdown by rating clusters for selected sectors**  
in % of the net exposure 2018



RC1 RC 2-5 RC 6-10 RC 11-15 RC 16-18 Other

Differences due to rounding;

<sup>1</sup> Original Equipment Manufacturers

## Corporates

- Ø PD (net) slightly increased by +5 bp to 0.46% compared to the PY, but still in rating class 5

## Trade & Consumption

- The net exposure corresponds to
  - 72% to consumer goods
  - 28% to durable goods
- Share of investment grade area: 86%

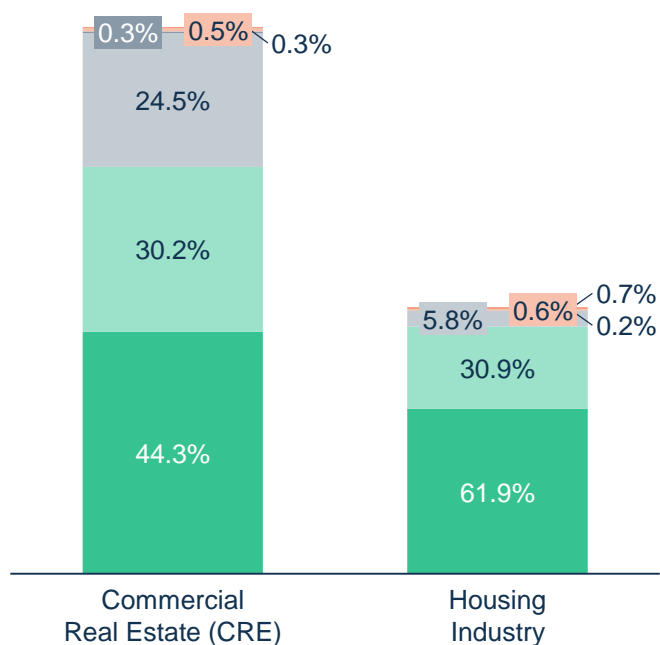
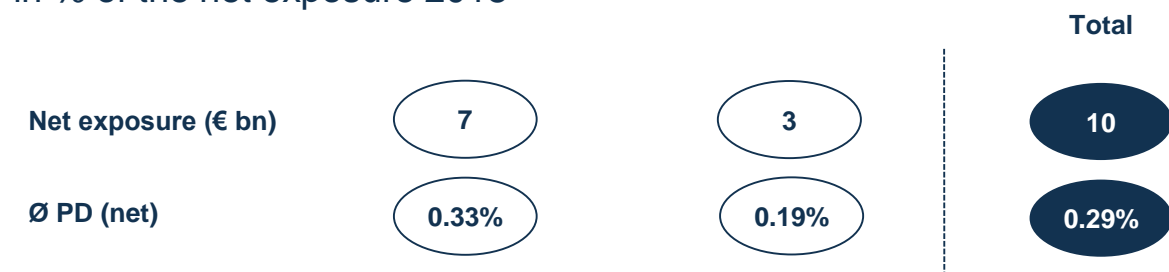
## Automotive

- The net exposure corresponds to
  - 41% to suppliers
  - 26% of manufacturers with focus on German OEMs<sup>1</sup>
  - 33% to other sub sectors
- Share of investment grade area : 83%
- Portfolio is intensely supervised within the scope of managing sector concentrations

# Unchanged good portfolio quality in Real Estate Portfolio

## Real Estate: Breakdown by rating classes

in % of the net exposure 2018



RC1 RC 2-5 RC 6-10 RC 11-15 RC 16-18 Other

Differences due to rounding

### Real Estate

- Ø PD (net) unchanged compared to the PY at 0.29% and thus still in rating class 4
- Regional focus on Germany, abroad on selected cities in GB and in the USA
- Types of use: Office, living, trade, logistics
  - In Germany the type of use living is dominant
  - In foreign markets mainly office buildings are financed

### Further real estate financings

- Further real estate financings are inter alia in the main sector Private Individuals (approx. 44% of the net exposure amounting to € 5.3 bn are allotted to home loans)

# Glossary

## IFRS 9

**Reporting in accordance with IFRS 9  
Previous year**

Slight adjustments in the results and in selected figures  
The previous year figures based on IAS 39 were transferred to the structure of the IFRS 9 schema without technical adjustments

## Explanations

**Expenses** Administrative expenses + Expenses for bank levy and deposit guarantee system + Guarantee commission for the State of BW  
+ Net income/expenses from restructuring

**RoE** Return on Equity  
Group: (Annualized) consolidated profit/loss before tax / average equity on the balance sheet adjusted for the unappropriated profit for the current reporting period  
Segmente: (Annualized) consolidated profit/loss before tax / maximum planned average restricted equity and average tied-up equity in the current reporting period

**CIR** Cost Income Ratio  
(Total administrative expenses + expenses for the bank levy and deposit guarantee system + guarantee commission for the State of Baden-Württemberg + net restructuring income) / (total net interest income + net commission income + net gains on remeasurement and disposal less allowances for losses on loans and securities + other operating income)

**RWA** Risk weighted assets

**SREP ratio** CET 1 ratio, phase-in; this ratio includes the Pillar II capital requirement as well as the common equity Tier 1 capital to be held as a capital conservation buffer in accordance with § 10c KWG of the German Banking Act (KWG) and as a capital buffer in accordance with § 10g KWG for other systemically important financial institutions; in addition, a countercyclical capital buffer (§ 10d KWG) must be held and the Pillar II guidance of the ECB

**Leverage Ratio** As of January 2015 the calculation of the leverage ratio was switched to the system of the delegated act for internal purposes.  
Until then the actual value was based on the current announcement

**Fully loaded** Full implementation of CRR (basis IFRS)

**Rating classes** Investment grade: RC 1: PD  $0.00\% \leq 0.10\%$ ; RC 2-5: PD  $> 0.10\% \leq 0.48\%$   
Non-investment grade: RC 6-8: PD  $> 0.48\% \leq 1.61\%$ ; RC 9-10: PD  $> 1.61\% \leq 3.63\%$ ; RC 11-15: PD  $> 3.63\% < 100\%$   
Default: RC 16-18: PD = 100%  
Default refers to exposure for which a default event as defined in Art. 148 CRR has occurred  
The net exposure is shown before allowances for losses on loans and advances/impairments  
Rating waived, not rated: Other  
Especially publicly guaranteed business or business secured by savings banks as well as credit cards