LBBW

Press Release

Bernd Wagner
Press Officer

Landesbank Baden-Württemberg
Am Hauptbahnhof 2
70173 Stuttgart (Germany)
70049 Stuttgart (Germany)
Telephone +49 711 127-76402
Telefax +49 711 127-74861
Bernd.A.Wagner@LBBW.de
www.LBBW.de

15 November 2017

LBBW with a good result in the first nine months of 2017

- **Year-on-year increase in consolidated profit before tax to EUR 447 million; net consolidated profit after tax rises to EUR 320 million**
- **Solid customer business: growth in loan demand and deposit volume**
- **Despite an increase, allowances for losses on loans and advances remain low**
- **Capitalization remains good: Common equity Tier 1 capital ratio of 15.9 percent and total capital ratio of 22.7 percent (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) closed the first nine months of the current year with improved consolidated profit. At EUR 447 million, profit before tax was 24.4 percent up on the previous year. Net profit after tax rose by 23.1 percent to EUR 320 million.

“LBBW achieved a good result in the first nine months”, said Rainer Neske, Chairman of the Board of Managing Directors of LBBW. “Our solid earnings performance shows that customers trust in our strength and reliability as a mid-size universal bank." Looking at the fourth quarter, which is traditionally weaker in banking business, Neske stated: "For the year as a whole we are still expecting a profit coming to a mid-three-digit million amount."

LBBW's capitalization remains exceptionally healthy. At 30 September the total capital ratio under current regulatory requirements (CRR/CRD IV with transitional rules) was 22.8 percent and the Common equity Tier 1 capital ratio (CET1) came to 16.0 percent. Under CRR/CRD IV fully loaded, which will come into effect in 2019, the total capital ratio came to 22.7 percent and the Common equity Tier 1 capital ratio to 15.9 percent.

Overview of expense and income items

Despite the persistent phase of low interest rates and intense competition, **net interest income** after nine months at EUR 1,212 million was at the pre-year level (EUR 1,216 million).

Allowances for losses on loans and advances this year are showing a trend towards slight normalization, although the figure at 30 September 2017 of EUR 67 million (previous year: EUR 8 million) is still very moderate when measured against the multi-year average. It reflects the good quality of the loan book and the robust economy in LBBW's core markets.

Net fee and commission income climbed by EUR 11 million to EUR 398 million. Among other things, payment transactions and fees from the securities and custody businesses showed a positive performance.

Net gains/losses from financial instruments measured at fair value through profit or loss rose sharply to EUR 182 million (previous year: EUR 18 million). This was primarily attributable to lower charges from measurement effects resulting in particular from derivative financial instruments that form part of economic hedges but cannot be included in hedge accounting. Furthermore, the result from hedge accounting stabilized with a positive contribution following a negative effect in the previous year. On top of this, positive measurement effects were observed in connection with counterparty risks (credit valuation adjustments).

At EUR 137 million, **net gains/losses from financial investments** and **net income/expanses from investments accounted for using the equity method** were gratifying even though they did not reach the previous year's figure of EUR 198 million that was marked by high non-recurring income from factors including the VISA transaction.

Other operating income improved to EUR 106 million (previous year: EUR 68 million), essentially as a result of real estate divestments and measurement effects.

Despite IT-costs remaining high **administrative expenses** were almost unchanged at EUR 1,354 million (previous year: EUR 1,356 million). A slight drop in personnel expenses contrasted with moderately higher material expenses resulting from regulatory projects, among other factors.

The **guarantee commission for the risk shield provided by the State of Baden-Württemberg** declined to EUR 55 million at 30 September. The **bank levy and the contribution for the deposit guarantee system** came to EUR 69 million and thus remained at the pre-year level.

The Bank has set aside provisions of EUR 41 million for measures in connection with planned restructuring this year, which are shown under **net income/expenses from restructuring**.

This resulted in a **consolidated profit before** tax of EUR 447 million at 30 September 2017 (previous year: EUR 360 million). **After tax** LBBW generated **consolidated profit** of EUR 320 million (previous year: EUR 260 million).

Overview of the operating segments

Profit before tax of the three operating segments came to EUR 638 million and exceeded the previous year's figure by 12.3 percent.

In the **Corporates** segment the Bank registered rising demand for loans, payment services and solutions designed to hedge interest-rate, commodity and currency risks. Despite the overall positive business performance, the segment's profit before tax fell to EUR 449 million at 30 September 2017 (previous year: EUR 516 million). The decline was attributable to factors including the normalization of allowances for losses on loans and advances, the high cost of modernizing the IT system and the segment's share in provisions for group-wide restructuring measures.

Customer business in the **Retail/Savings Banks** segment recorded a respectable performance. Interest income grew thanks to higher deposits, with wealth management, in particular, successfully attracting new funds in the wake of its growth strategy. Income from securities business, asset management and card business was also up on the previous year. The restructuring of LBBW into a powerful multi-channel bank made faster progress than planned. Among other things, the new website launched by the Bank in spring, which is closely linked with its online banking, has been gradually expanded in recent months. However, the complex switch of the core banking system weighed heavily on the segment result. Furthermore, the considerable one-off income resulting from the VISA transaction in the previous year was not repeated. As a result, at 30 September 2017 a loss before tax of EUR 20 million was recorded (previous year: profit of EUR 8 million).

The **Capital Markets Business** segment improved its pre-tax result to EUR 209 million after nine months (previous year: EUR 45 million), thanks to lively demand for capital market solutions like among others interest hedging instruments, investment products for retail clients or supporting new issues. Moreover, treasury activities, which have formed part of the Capital Markets Business segment since this year, made a significant contribution to profit growth. This was achieved for example with income from liquidity management and securities sales. The result from hedge accounting stabilized with a positive contribution following a negative effect in the previous year. Not least, the segment benefited from positive measurement effects of counterparty risks (credit valuation adjustments).

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 Sept. 2017

	1 Jan.-30 Sept. 2017 in EUR million	1 Jan.-30 Sept 2016* in EUR million	Change in EUR mn	in %
Net interest income	1,212	1,216	-4	-0.4
Allowances for losses on loans and advances	-67	-8	-60	>100
Net fee and commission income	398	386	11	3.0
Net gains/losses from financial instruments measured at fair value through profit or loss	182	18	164	>100
Net gains/losses from financial investments and net income/ expenses from investments accounted for using the equity method	137	198	-62	-31.1
Other operating income/expenses	106	68	38	55.2
Total operating income/expenses (after allowances for losses on loans & advances)	**1,967**	**1,880**	**87**	**4.6**
Administrative expenses	-1,354	-1,356	1	-0.1
Guarantee commission for the State of Baden-Württemberg	-55	-73	18	-25.0
Expenses for bank levy and deposit guarantee	-69	-71	1	-1.9
Net income/expenses from restructuring	-41	-20	-20	99.8
Consolidated profit/loss before tax	**447**	**360**	**88**	**24.4**
Income taxes	-127	-100	-28	27.7
Net consolidated profit/loss	**320**	**260**	**60**	**23.1**

	30 Sept. 2017 in EUR billion	31 Dec. 2016 in EUR billion	Change in EUR bn	in %
Total assets	254	244	11	4.3
Risk weighted assets (CRR/CRD IV)	75	77	-2	-3.0

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

* After adjustments in accordance with IAS 8.

	30 Sept. 2017 in %	31 Dec. 2016 in %
Common Equity Tier 1 capital ratio (CRR/CRD IV with transitional rules)	16.0	15.5
Common Equity Tier 1 capital ratio (CRR/CRD IV fully loaded)	15.9	15.2
Total capital ratio (CRR/CRD IV with transitional rules)	22.8	21.7
Total capital ratio (CRR/CRD IV fully loaded)	22.7	21.5

	30 Sept. 2017	31 Dec. 2016	Change absolute	 in %
Employees (Group)	10,405	10,839	-434	-4,0