LBBW

Press release

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LBBW is still on track after the first nine months of 2018

- **Profit before taxes up at EUR 457 million**
- **Profit after taxes also up on the previous year at EUR 340 million**
- **Customer business expanded with growth on the lending and deposit side**
- **Digitalization of products and processes driven forward**
- **Falling administrative expenses despite sustained higher investments in IT**
- **Profit before tax still expected in mid-three-digit million euro range for 2018 as a whole**

In the first nine months of 2018, LBBW improved its profit before taxes to EUR 457 million (30 September 2017: EUR 447 million). After taxes, the Bank generated EUR 340 million, EUR 20 million more than in the same period last year. In the customer business, the Bank recorded a significant increase in loans to corporates; deposits from private customers also increased appreciably. "The solid result shows that our customers appreciate our reliability and high commitment to quality as a medium-sized universal bank," said Rainer Neske, Chairman of LBBW's Board of Managing Directors.

The Bank's capital base is also solid. LBBW continues to significantly exceed regulatory requirements with all relevant key figures and has also shown a good result in the recent EBA stress test. The common equity Tier 1 (CET 1) capital ratio (CRR/CRD IV fully loaded) was 14.7 percent as at 30 September 2018 (31 December 2017: 15.7 percent). The reasons for the change include the higher volume of lending and the first-time application of the new accounting standard IFRS 9, which reduced equity. The total capital ratio was 21.2 percent (31 December 2017: 22.2 percent). Risk-weighted assets rose to EUR 80 billion, mainly due to the expansion of customer business.

LBBW continued to make good progress in the first nine months as it works its way through its strategic agenda, with the four thrusts business focus, sustainability, digitalization and agility. In the corporate finance business, LBBW further expanded its excellent market position in Schuldschein and syndicated loans and successfully concluded the first transactions via its new Debtvision digital financing marketplace. In the area of sustainable investments, the Bank was the first German issuer to receive certification from the Climate Bond Initiative (CBI) in this asset class for its debut issue of a green bond in the form of a mortgage Pfandbrief. In the course of digitalization, the Bank is opting for modern payment transaction solutions. With Google Pay, Fitbit Pay and BW Bankcard Pay it introduced three mobile payment methods this summer. In addition, since the summer real time online transfers (instant payments) have been possible.

The figures at a glance

At EUR 1,202 million, **net interest income** after three quarters was almost at the pre-year level (EUR 1,212 million). The low level of interest rates was partially offset by higher financing volumes. **Net fee and commission income** fell slightly to EUR 385 million (30 September 2017: EUR 398 million). **Net gains/losses on remeasurement and disposal** fell to EUR 201 million (30 September 2017: EUR 251 million), in particular due to lower income from the sale of securities. At minus EUR 53 million (30 September 2017: minus EUR 67 million), allowances for losses on loans and securities remained low due to the ongoing favorable economic situation and LBBW's good portfolio quality.

Despite continued high investments in IT modernization, the Bank was able to reduce **administrative expenses** after nine months by EUR 22 million to EUR 1,332 million, partly due to lower personnel expenses. The **expenses for bank levy and deposit guarantee system** increased by EUR 20 million to EUR 89 million due to adjustments in the assessment basis for the bank levy. The guarantee commission is no longer incurred as the risks from the Sealink portfolio no longer apply. Unlike in the previous year, there were no notable restructuring expenses.

Consolidated profit before tax as at 30 September 2018 rose by EUR 9 million to EUR 457 million. After deducting the tax expense of EUR 116 million, **net consolidated profit** after three quarters amounted to EUR 340 million (2017: EUR 320 million).

Overview of the operating segments

All four operating segments made a positive contribution to net consolidated profit. The **Corporate Customers** segment accounted for the largest share, posting pre-tax profit of EUR 232 million after nine months, on a par with the previous year (EUR 234 million). In the same period, the financing volume in business with medium-sized and large companies rose by 12 percent to EUR 49 billion. This made it possible to largely compensate the negative impact from the persistently low interest rates and the pressure on margins resulting from intense competition.

The **Real Estate/Project Finance** segment is making progress in its growth initiatives and acquired 16 percent more new business than in the first nine months of 2017, with a total of around EUR 5.8 billion in both commercial real estate finance and infrastructure and project finance. However, as high one-off income from prepayment penalties was incurred in the previous year, the segment profit before taxes of EUR 174 million as at 30 September did not reach the level of the previous year (EUR 218 million).

In the **Capital Markets Business**, restrained customer business and the growing uncertainty on financial markets, which was reflected in higher credit spreads, led to a decline in pre-tax profit to EUR 61 million as at 30

September, compared with EUR 236 million in the same period of the previous year. High income from the sale of securities had also been generated in the favorable market environment of the previous year. LBBW Asset Management performed well, growing assets under management by five percent to EUR 73 billion since the beginning of the year.

After nine months, the **Private Customers/Savings Banks** segment confirmed the positive earnings trend and improved its pre-tax profit to EUR 16 million (2017: minus EUR 19 million). Compared with the previous year, customer deposits increased by around EUR 3 billion to EUR 28 billion. Moreover, sustainable asset management achieved a significant volume growth of around EUR 210 million in the first nine months of 2018; this means that around EUR 900 million out of a total of EUR 5.5 billion has already been invested sustainably in financial portfolio management.

Outlook

For the total year, LBBW continues to anticipate consolidated profit before tax in the mid-three-digit million euro range.

Business figures for the LBBW Group as at 30 Sept. 2018

	1 Jan 2018 – 30 Sep 2018	1 Jan 2017 – 30 Sep 2017*	Change	
	in EUR million	in EUR million	in EUR million	in %
Net interest income	1,202	1,212	– 10	– 0.8
Net fee and commission income	385	398	– 13	– 3.4
Net gains/losses on remeasurement and disposal	201	251	– 50	– 20.0
of which allowances for losses on loans and securities **	– 53	– 67	15	– 21.7
Other operating income/expenses	90	106	– 15	– 14.4
Total operating income/expenses	*1,878*	*1,967*	*– 89*	*– 4.5*
Administrative expenses	– 1,332	– 1,354	22	– 1.6
Expenses for bank levy and deposit guarantee system	– 89	– 69	– 20	28.5
Guarantee commission for the State of Baden-Württemberg	0	– 55	55	– 100.0
Net income/expenses from restructuring	0	– 41	41	– 99.7
Consolidated profit/loss before tax	*457*	*447*	*9*	*2.0*
Income taxes	– 116	– 127	11	– 8.7
Net consolidated profit/loss	340	320	20	6.3

Figures may be subject to rounding differences. Percentages are based on the exact figures.
* The previous year’s figures based on IAS 39 were transferred to the structure of the IFRS 9 scheme without adjustment.
** Relates to the category “Financial assets at amortized cost”.

	30 Sep 2018	30 Sep 2017	Change	
	in EUR billion	in EUR billion	in EUR billion	in %
Total assets	258	254	4	1.5
Risk-weighted assets	80	75	5	7.2

	30 Sep 2018	31 Dec 2017
	in %	in %
CET 1 capital ratio (CRR/CRD IV „fully loaded“)	14.7	15.7
Total capital ratio (CRR/CRD IV „fully loaded“)	21.2	22.2

	1 Jan 2018 – 30 Sep 2018	1 Jan 2017 – 30 Sep 2017*
	in %	in %
Return on equity (ROE)	4.7	4.6
Cost/income Ratio (CIR)	73.6	74.5

* After consideration of adjusted calculation according to IFRS 9 adjustment.

	30 Sep 2018	31 Dec 2017	Change	
			absolute	in %
Employees	10,021	10,326	– 305	– 3.0