LB≡BW

Press release

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LBBW annual press conference

On track in challenging conditions

- **Profit before tax in 2015 improved to EUR 531 million (previous year: EUR 477 million)**
- **Dividend payout of EUR 290 million proposed (previous year: EUR 313 million)**
- **Steady increase in earnings despite challenging conditions**
- **Strong capital base expanded: common equity Tier 1 capital ratio of 16.4 percent and total capital ratio of 21.9 percent (in accordance with CRR/CRD IV with transitional rules)**
- **Profit before tax in 2016 expected to be slightly below the previous year's level due to investments in the future and the normalization of risk costs**

Landesbank Baden-Württemberg (LBBW) continued its risk-conscious growth course also in 2015. Consolidated profit before tax rose to EUR 531 million, up from EUR 477 million in the previous year; at the same time risk weighted assets were reduced and capitalization improved. This means that the preliminary figures released in February were confirmed. At today's annual press conference in Stuttgart the Board of Managing Directors announced that it would be proposing a dividend payout of EUR 290 million to the annual general meeting. This is equivalent to 90 percent of unappropriated *profit in accordance with HGB. «We put on a respectable performance in 2015 thanks to our systematic focus on customer business and have worked to reach a viable position, which we are using to invest in the Bank's future», explained Hans-Jörg Vetter, Chairman of LBBW's Board of Managing Directors. At present, the Bank is pushing ahead with comprehensive change initiatives to tackle the challenges presented by the low interest rates, the growing regulatory requirements and digitization.*

The steady earnings trend of the past years is based on the customer-oriented business model, which once again proved its worth in 2015. «Furthermore, sufficient capitalization is today more decisive than ever», said Hans-Jörg Vetter, Chairman of LBBW's Board of Managing Directors, at the annual press conference. «For this reason, it is important that last year we were able to further improve our respectable capital ratios and to reduce our risks even more», said Vetter. Risk weighted assets in accordance with CRR/CRD IV decreased from EUR 82 billion to EUR 74 billion. At the same time, the common equity Tier 1 capital ratio (CET 1) rose from 14.6 percent to 16.4 percent (CRR/CRD IV with transitional rules). Under CRR/CRD IV fully loaded, the CET 1 capital ratio came to 15.6 percent (previous year: 13.6 percent). The total capital ratio exceeded the 20 percent mark for the first time both under transitional rules (21.9 percent) and on a fully loaded basis (21.4 percent). The leverage ratio, which measures the ratio of Tier 1 capital to the Bank's overall exposure, was 4.7 percent in accordance with CRR/CRD IV fully loaded. «This means that we have the financial strength we need to continue our controlled growth in customer business», explained Hans-Jörg Vetter.

Against the backdrop of the historically low interest rates, rising costs due to regulation and huge changes in customer behavior as a result of digitization, LBBW invested in various reorganizing programs aimed in particular at increasing efficiency and quality in 2015. For instance, LBBW is preparing for the implementation of the new core banking system in 2017. The switch to the OSPlus system, which is already being used in more than 400 savings banks, allows the Bank to harness synergies and provides the basis for increased digitization, standardization and optimization of its business processes. A multi-year project called «Roadmap 2020» is running in the back office. This project aims to make the processing of loans faster and less expensive through greater standardization. In addition, the Group is realigning its activities in capital markets business so as to provide its customers with even more solution-oriented rather than product-related advice in future. Not least, the Bank is adapting its private customer business to meet the changed preferences of its customers. The target of BW|morgen project is to convert BW-Bank into an efficient multi-channel bank over the next four years. To this end, the digital offerings will be expanded and the branch network adjusted. «For these projects, which allow us to safeguard the bank’s future viability, we plan to invest more than EUR 400 million by the year 2020», explained Hans-Jörg Vetter.

Overview of the operating segments

The greatest contribution to net consolidated profit once again came from the **Corporates** segment with EUR 791 million, even though last year's figure of EUR 906 million, which was marked by non-recurring income from equity investment business, was not quite reached. Moreover, the persistently low interest rates and intense competition weighed on margins in large-customer business, in particular. By contrast, the Bank's conservative risk strategy and the quality of its loan portfolio provided support, resulting in a decline in allowances for losses on loans and advances.

Profit before tax of the **Retail/Savings Banks** segment decreased from EUR 70 million to EUR 2 million. This was due, in particular, to a further increase in expenditure on overall bank and IT projects. Furthermore, provisions for the realignment of the private customer business, as mentioned above, exerted an impact. Despite the increase in customer deposits, deposit business yielded lower income on account of the low interest rates.

The **Financial Markets** segment improved its profit before tax considerably by EUR 141 million to EUR 232 million. The Bank registered lively demand from its customers for hedging products against interest rate and currency risks. Moreover, the valuation discounts for counterparty risks (essentially credit valuation adjustments) were lower.

Expense and income items in accordance with IFRS

Net interest income declined from EUR 1 878 million in the previous year to EUR 1 654 million. This decrease was due, in particular, to the low interest rates and the decline in the loan book as a result of maturities. Moreover, accounting-specific effects and an increase in expenditure on trading and hedging derivatives exerted strain; due to the IFRS reporting method measurement gains on these were reported in net gains/losses from fair value changes.

Expenditure on **allowances for losses on loans and advances** fell sharply to EUR 55 million due to the balanced risk policy and good economic situation in the core markets (previous year: EUR 104 million).

Net fee and commission income stood at EUR 498 million, after EUR 518 million in the previous year. While securities and commission business and syndicate business performed well, income from brokerage business and from loan commissions and guarantees was down.

Net gains/losses from financial instruments measured at fair value through profit or loss rose sharply by EUR 347 million, to EUR 226 million. This performance was underpinned by factors including brisk new business in hedging products against foreign currency and interest rate risks as a result of the increase in market volatility in 2015. Moreover, lower valuation discounts on financial instruments (essentially credit valuation adjustments) provided support. On top of this, income was generated from hedging derivatives; as described above, this was accompanied by corresponding expenditure within net interest income in particular due to the IFRS reporting methodology.

Net gains/losses from financial investments and net income/expenses from investments accounted for using the equity method came to EUR 94 million. In the previous year high non-recurring income from equity investment business and positive measurement and realization effects from securities had led to a surge in this item to EUR 263 million; in the year under review there were no such effects of this scale.

Other operating income improved significantly to EUR 134 million (2014: EUR 101 million). For instance, the subsidiary LBBW Immobilien showed a positive performance, increasing its income from real estate investment and bringing various project developments to a successful conclusion.

At EUR 1 782 million, **administrative expenses** were maintained almost at the previous year's level (EUR 1 770 million) even though the Bank once again incurred high costs for the implementation of regulatory requirements and for reorganizing the IT architecture. For instance, as detailed above LBBW is investing in the implementation of a new core banking system.

Expenses for bank levy and deposit guarantee, which was reported separately for the first time due to its high importance, came to EUR 73 million. The item includes the Bank's contributions to the restructuring fund in accordance with European requirements and to the deposit guarantee system of the Savings Banks Finance Group. LBBW spent EUR 121 million on the **guarantee commission** for the State of Baden-Württemberg. The **restructuring expenses** of EUR 44 million essentially includes provisions for the restructuring of the branch network and personnel measures in the wake of the realignment of the private customer business, as outlined above.

Consolidated profit before tax rose to EUR 531 million in 2015, up from EUR 477 million in the previous year. **Net consolidated profit** declined slightly by EUR 15 million to EUR 422 million on account of higher tax expenses: in the previous year an exceptionally low tax rate had been recorded on account of one-time effects.

Results in accordance with HGB

Consolidated profit before tax according to German GAAP rose by EUR 53 million to EUR 385 million; **consolidated profit after tax** came to EUR 322 million (2014: EUR 313 million). The Board of Managing Directors will be proposing to the annual general meeting a dividend payout of EUR 290 million, equivalent to around 90 percent of unappropriated profit.

Outlook

LBBW expects interest rates in 2016 to remain low along with stable economic conditions in its core markets. Given increased investments in the Bank's future viability, a normalization of allowances for losses on loans and advances and a modest growth in operating customer business, the Bank expects consolidated profit before tax to be slightly lower than the previous year's level.

Business figures for the LBBW Group as at 31 December 2015

	1 Jan.- 31 Dec. 2015 EUR million	1 Jan.- 31 Dec. 2014* EUR million	Change EUR million	 in %
Net interest income	1 654	1 878	-225	-12.0
Allowances for losses on loans and advances	-55	-104	49	-47.3
Net fee and commission income	498	518	-20	-3.9
Net gains/losses from financial instruments measured at fair value through profit or loss	226	-120	347	-
Net gains/losses from financial investments, net income/expenses from investments accounted for using the equity method and net gains/losses from profit or loss transfer agreements	94	263	-169	-64.3
Other operating income/expenses	134	101	33	32.6
Total operating income/expenses (after allowances for losses on loans & advances)	**2 551**	**2 536**	**15**	**0.6**
Administrative expenses	- 1 782	- 1 770	-11	0.6
Guarantee commission for the State of Baden-Württemberg	-121	-191	70	-36.6
Expenses for bank levy and deposit guarantee	-73	-82	9	-10.7
Impairment of goodwill	0	-16	16	-100
Net income/expenses from restructuring	-44	1	-44	-
Consolidated profit/loss before tax	**531**	**477**	**54**	**11.4**
Income taxes	-109	-39	-70	>100
Net consolidated profit/loss	**422**	**438**	**-15**	**-3.5**

	31 Dec. 2015 EUR billion	31 Dec. 2014 EUR billion	Change EUR billion	 in %
Total assets	234	266	-32	-12.1
Risk weighted assets (CRR/CRD IV)	74	82	-8	-9.1

* Figures for previous year adjusted
Figures may be subject to rounding differences. Percentages are based on the exact values.

	31 Dec. 2015 in %	31 Dec. 2014 in %
Common equity Tier 1 capital ratio (CRR/CRD IV with transitional rules)	16.4	14.6
Common equity Tier 1capital ratio (CRR/CRD IV fully loaded)	15.6	13.6
Total capital ratio (CRR/CRD IV with transitional rules)	21.9	19.9
Total capital ratio (CRR/CRD IV fully loaded)	21.4	18.9

	31 Dec. 2015	31 Dec. 2014	Change absolute	in %
Employees (Group)	11 120	11 117	3	0.0