LB≡BW

Press release

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LBBW with solid first quarter in 2016

- **Clearly positive net consolidated profit before tax of EUR 70 million in the first quarter despite low interest rates, strong market volatility and muted customer demand**
- **Bank levy and contribution to deposit guarantee system of EUR 74 million (previous year: EUR 31 million) for the full year already fully included**
- **Capitalization at a high level: Common Equity Tier 1 (CET 1) capital ratio of 14.9 percent and total capital ratio of 20.5 percent (according to CRR/CRD IV fully loaded)**
- **The Bank still expects net profit before tax for the year as a whole to be slightly below the previous year's level**

Landesbank Baden-Württemberg (LBBW) closed the first three months of the current year with net consolidated profit before tax of EUR 70 million (previous year: EUR 91 million). "Given the demanding conditions in the first quarter with extremely low interest rates, highly volatile capital markets and muted demand particularly in customer-oriented capital markets business we are satisfied with this result. It reflects the viability of our balanced business model", said Hans-Jörg Vetter, the Chairman of LBBW's Board of Managing Directors. The Bank's stability, he added, was also reflected *in the fact that LBBW has been in the black in every quarter for more than four years. In contrast to the previous year, expenditure on the bank levy and the deposit guarantee for the whole year was fully included in the first quarter this year. Without this effect the profit before tax of the first quarter would have outnumbered the result of the previous year.*

After the systematic reduction of risks and the strengthening of capitalization over the previous years, LBBW now has a comfortable capital basis by sector standards. Under current regulatory law (Basel III respectively CRR/CRD IV with transitional rules), the Common Equity Tier 1 (CET 1) capital ratio came to 15.5 percent as at 31 March 2016. Under CRR/CRD IV on a fully loaded basis, which does not apply until 2019, it came to 14.9 percent (31 December 2015: 15.6 percent). The total capital ratio under the transitional rules was 21.0 percent, coming to 20.5 percent (31 December 2015: 21.4 percent) under CRR/CRD IV on a fully loaded basis. Compared with the end of the year, the capital ratios have fallen slightly due to the adjustment of the regulatory transitional rules and a slight increase in risk weighted assets from EUR 74 billion to EUR 76 billion. The rise in risk weighted assets is attributable to the expansion of customer business, including corporates, among other things. The leverage ratio came to 4.4 percent. "Based on our strong capitalization and a solid risk profile, we are now investing to a greater extent in the future viability of our Bank", said Vetter. This includes the implementation of a new core banking system in 2017, the realignment of the back office and the adjustment of private customer business to the changes in customer requirements resulting from digitization.

Overview of expense and income items in the first quarter

Net interest income improved to EUR 414 million over the same quarter in the previous year (EUR 379 million) despite the persistently low interest rates. In addition to solid income from operational business, IFRS accounting-specific effects had a positive impact on the result.

Allowances for losses on loans and advances came to EUR 4 million thanks to the good state of the companies in the core markets and were thus once again clearly below the previous year's figure of EUR 29 million. However, the very low level of allowances for losses on loans and advances in the first quarter should not be extrapolated over the full year. As announced previously, the Bank expects allowances for losses on loans and advances to normalize and thus to a figure estimated above the previous year's level by the end of 2016.

Net fee and commission income remained nearly constant at EUR 135 million (previous year: EUR 140 million). Modest income growth in securities and deposit-taking business and in payments was offset by slight declines in lending and brokerage businesses.

Net gains/losses from financial instruments measured at fair value through profit or loss came to minus EUR 34 million following minus EUR 12 million as at 31 March 2015. The changes were primarily due to market-related fluctuations and measurement effects under IFRS accounting from interest rate derivatives designated as hedges.

Net gains/losses from financial investments climbed from EUR 53 million to EUR 70 million. Alongside income from securities, this was primarily due to the sale of an equity investment.

Other operating income for the first three months came to EUR 17 million and was thus below the previous year's figure of EUR 43 million. All told, the Bank's **total operating income/expenses (after allowances for losses on loans and advances)** increased by EUR 23 million to EUR 597 million over the same quarter of the previous year.

At EUR 427 million, **administrative expenses** remained more or less at the previous year's level (EUR 421 million). While personnel expenses were unchanged, material expenses rose slightly. This reflects costs in connection with future initiatives, such as the introduction of a new core banking system in 2017 and projects for the implementation of regulatory requirements.

Expenses for the **bank levy and deposit guarantee system** came to EUR 74 million, after only EUR 31 million in the first quarter of the previous year. The marked rise is attributable to the fact that in the current financial year the actual contribution for the full year fully included in the first quarter whereas an estimate of the contribution was required in the previous year.

After deducting the **guarantee commission for the State of Baden-Württemberg** amounting to EUR 26 million, net **consolidated profit before tax** for the first quarter of 2016 comes to EUR 70 million. The increased **tax expense** primarily results from the fact that the non-tax-deductible expenses for the bank levy this year were fully included in the first quarter, as mentioned above. Moreover, off-period tax refunds had exerted a positive effect in the first quarter of the previous year. **Net consolidated profit after tax** came to EUR 43 million.

Overview of the operating segments

In view of the volatile financial markets, the extremely low interest rates and, thus, the pronounced customer restraint on the capital markets, the result of the operating segments was below the previous year's level. At EUR 184 million (previous year: EUR 205 million), the largest contribution to net consolidated profit was provided by the **Corporates** segment, which includes corporate customer business and commercial real estate financing. Despite solid customer business it fell short of the previous year's result, which had benefited from high income in equity investment business. By contrast, the low allowances for losses on loans and advances exerted a favorable effect.

The **Retail/Savings Banks** segment reported lower income from fee and commission business on account of generally low interest rates and more muted customer activity in securities transactions along with higher spending on future projects, such as the new core banking system. All told, the segment broke even (previous year: EUR 29 million).

The result posted by the **Financial Markets** segment reflected the restrained customer demand typical of the entire sector as well as highly volatile markets. Earnings before taxes for the first quarter came to EUR 32 million and thus fell substantially short of the previous year's figure of EUR 88 million.

Unchanged outlook for the current year

As announced at the annual press conference in April, LBBW projects stable economic conditions in its core markets for the current year along with persistently low interest rates. Against the backdrop of increased capital spending on the Bank's future viability, the expected normalization of allowances for losses on loans and advances and modest growth in operating customer business, LBBW continues to project consolidated net profit before tax slightly below the previous year’s figure for the year as a whole.

Business figures for the LBBW Group as at 31 March 2016

	1 Jan.-31 March 2016 EUR million	1 Jan.-31 March 2015 EUR million	Change EUR million	in %
Net interest income	414	379	35	9.2
Allowances for losses on loans and advances	-4	-29	26	-87.0
Net fee and commission income	135	140	-6	-3.9
Net gains/losses from financial instruments measured at fair value through profit or loss	-34	-12	-23	>100
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	70	53	17	32.1
Other operating income/expenses	17	43	-26	-60.1
Total operating income/ expenses (after allowances for losses on loans & advances)	**597**	**574**	**23**	**4.1**
Administrative expenses	-427	-421	-6	1.5
Guarantee commission for the State of Baden-Württemberg	-26	-31	5	-16.2
Bank levy and deposit guarantee system	-74	-31	-43	>100
Net income/expenses from restructuring	0	0	0	---
Net consolidated profit/loss before tax	**70**	**91**	**-21**	**-22.9**
Income taxes	-27	-15	-12	82.5
Net consolidated profit/loss	**43**	**76**	**-33**	**-43.5**

	31 March 2016 EUR billion	31 Dec. 2015 EUR billion	Change EUR billion	in %
Total assets	251	234	17	7.4
Risk weighted assets (CRR/CRD IV)	76	74	2	2.7

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

	31 March 2016 in %	31 Dec. 2015 in %
Common Equity Tier 1 capital ratio (CRR/CRD IV with transitional rules)	15.5	16.4
Common Equity Tier 1 capital ratio (CRR/CRD IV fully loaded)	14.9	15.6
Total capital ratio (CRR/CRD IV with transitional rules)	21.0	21.9
Total capital ratio (CRR/CRD IV fully loaded)	20.5	21.4

	31 March 2016	31 Dec. 2015	Change absolute	Change in %
Employees (Group)	11,069	11,120	-51	-0.5