LB≡BW

Press Release

Bernd Wagner
Press Officer

Landesbank Baden-Württemberg
Am Hauptbahnhof 2
70173 Stuttgart
Telephone +49 711 127-76402
Fax +49 711 127-76402
Bernd.A.Wagner@LBBW.de
www.LBBW.de

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LBBW remains on course

- **As expected, slight decline in consolidated profit before tax (IFRS) to EUR 258 million (previous year: EUR 271 million) against a challenging backdrop**
- **Increase in net consolidated profit to EUR 188 million (previous year: EUR 182 million)**
- **Future projects making progress as planned**
- **Capitalization still substantially exceeds the regulatory requirements: Common Equity Tier 1 capital ratio (CET 1) of 14.7 percent and total capital ratio of 20.2 percent (in accordance with CRR/CRD IV fully loaded)**
- **The Bank continues to expect consolidated profit before tax for the year as a whole to be slightly below the previous year's level**

In the first half of 2016, Landesbank Baden-Württemberg (LBBW) achieved the expectations it had formulated at the beginning of the year. At the end of the first six months, consolidated profit before tax (IFRS) came to EUR 258 million, slightly below the previous year's figure of EUR 271 million as forecast. Net consolidated profit after tax climbed to EUR 188 million (previous year: EUR 182 million). "Given the enormous challenges facing our industry, this is an acceptable result," said Hans-Jörg Vetter, the Chairman of LBBW's Board of Managing Directors, alluding to the further *decline in interest rates, mounting regulatory requirements and the digitization. LBBW made good progress in the first half of 2016 in its efforts to consequently reorganize the Group in response to these developments.*

The stable earnings position and solid central performance indicators reflect the balanced business model oriented to long-term success and the Bank's risk-conscious strategy. LBBW has been consistently operating profitably for 18 quarters in a row now, achieves low risk costs and possesses a capital basis which still substantially exceeds the regulatory requirements. The Common Equity Tier 1 ratio stood at 15.4 percent as at 30 June 2016 under current regulatory law (CRR/CRD IV with transitional rules) and 14.7 percent in accordance with CRR/CRD IV fully loaded, which does not take effect until 2019. The total capital ratio came to 20.7 percent under the transitional rules and 20.2 percent under CRR/CRD IV on a fully loaded basis.

The capital ratios declined slightly compared with 31 December 2015. This was due, among other things, to the adjustment of the regulatory transitional rules, a slight increase in risk weighted assets from EUR 74 billion to EUR 77 billion following a moderate expansion in business activities and a drop in equity due to actuarial effects in connection with provisions for pensions caused by a reduction in the discount rate. At 4.3 percent, the leverage ratio remained comfortably above the current regulatory 3-percent minimum mark. LBBW's adequate capital base is also confirmed by the results of the EU-wide stress test published in July. "We have a resilient position, providing us with the scope we need to devote all our attention to our customers and the projects for safeguarding our Bank's future," said Hans-Jörg Vetter. "For this reason, we are now deliberately investing in projects aimed at ensuring our Bank's continued viability." One example of this is the intensive preparations that are currently ongoing for the migration to a new core banking system in 2017. In this way, the Bank will be creating the basis for greater digitization, standardization and optimization of its business processes. Restructuring of retail customer business is also progressing as planned. Thus, the Bank has expanded its digital offerings with the "AssetGo" investment app and started the previously announced reorganization of its branch network.

Overview of expense and income items in the first half

In the first six months, **net interest income** came to EUR 769 million, falling slightly short of the previous year (EUR 819 million). This was particularly due to the further decline in interest rates not least of all as a result of the ECB's interest rate policies, intense competition and the deliberate decision not to accept new business offering a higher return but also exposed to greater risks.

The fruits of this safety-oriented business policy are reflected in **allowances for losses on loans and advances**. The figure of minus EUR 1 million is an improvement over the previous year's already very low level of minus EUR 12 million thanks to the high quality of the loan portfolio. What is more, the continued stable economic conditions in core markets had a positive effect.

Net fee and commission income came to EUR 252 million at the end of the first half and was thus virtually unchanged over the previous year. Whereas income from the arrangement of structured capital market issues rose, there was a slight decline in net fee and commission income from lending business.

Net gains/losses from financial instruments measured at fair value through profit or loss dropped from EUR 97 million in the previous year to EUR 11 million. Among other things, this was due to valuation discounts for counterparty risks in the trading book and strains in the banking book from the measurement of derivatives which are used as economic hedges but cannot be included in hedge accounting in accordance with IFRS.

On the other hand, **net gains/losses from financial investments and net income/expenses from investments accounted for using the equity method** rose substantially to EUR 191 million (previous year: EUR 78 million). This increase was particularly underpinned by higher equity investment income from the sale of the subsidiary cellent AG, the shares in VISA Europe Limited and gains from the sale of securities.

At EUR 51 million, **other operating income** was influenced by numerous individual effects. The decline of EUR 8 million was primarily due to the recognition of provisions, whereas in the previous year provisions had been released.

Administrative expenses rose moderately by 3 percent to EUR 882 million. This is primarily due to spending on the aforementioned projects for the Bank's continued viability as well as pay-scale adjustments.

The **guarantee commission** payable for the guarantee provided by the state of Baden-Württemberg for loans to the special-purpose vehicle Sealink came to EUR 51 million. **Expenses for bank levy and deposit guarantee system** stood at EUR 77 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 for all of 2016. At minus EUR 5 million, **net income/expenses from restructuring** include provisions for the reorganization of the Financial Markets segment.

All told, this resulted in **consolidated profit before tax** of EUR 258 million at the end of the first six months (previous year: EUR 271 million). As income tax was lower, **net consolidated profit** came to EUR 188 million at the end of the first half of 2016 (previous year: EUR 182 million).

Overview of the operating segments

During the period under review, all operating segments made a positive contribution to the Bank's earnings, with the **Corporates** segment accounting for the greatest share. However at EUR 344 million, segment profit before tax was EUR 93 million lower than in the previous year, which had benefited from non-recurring effects in equity investment business. In addition, pressure came from the decline in net interest income from deposits due to the further drop in interest rates and from finance business due to the intense competition as well as rising investments in projects for the Bank's future viability. The commercial real estate finance and large corporates units performed encouragingly, accounting for an increased earnings contribution and growing lending volumes. The moderate requirements for allowances for losses on loans and advances relieved the strain across the entire segment.

Profit before tax in the **Retail/Savings Banks** segment dropped to EUR 24 million, down from EUR 45 million in the previous year, due to the effects of low interest rates and increased spending on modernizing the IT system. The opposite effect arose from increased deposit volumes, equity investment income from the Visa transaction and a positive contribution from allowances for losses on loans and advances due to the solid condition of the loan book.

In the **Financial Markets** segment, customer restraint in a difficult market environment and strain on net interest income as a result of lower interest rates led to profit before tax of EUR 50 million (previous year: EUR 151 million). By contrast, customer business concerning the arrangement and marketing of capital market issues performed gratifyingly.

Outlook for the current year

The underlying conditions remain characterized by extremely low interest rates and intense competition. In addition, the Bank expects allowances for losses on loans and advances to normalize. Even so, it will continue to benefit from the good quality of its loan books in a stable economic environment. Against this backdrop, LBBW expects, as already announced, to close the year with a clearly positive result before tax, which will fall slightly short of the previous year.

Business figures for the LBBW Group as at 30 June 2016

	1 Jan.-30 June 2016 EUR mn	1 Jan.-30 June 2015* EUR mn	Change EUR mn	in %
Net interest income	769	819	-49	-6.0
Allowances for losses on loans and advances	-1	-12	11	-92.6
Net fee and commission income	252	255	-3	-1.3
Net gains/losses from financial instruments measured at Fair Value through profit or loss	11	97	-86	-88.7
Net gains/losses from financial investments and net income/expenses from investments accounted for using the equity method	191	78	113	>100
Other operating income/expenses	51	58	-8	-12.9
Total operating income/ expenses (after allowances for losses on loans & advances)	**1,273**	**1,295**	**-23**	**-1.7**
Administrative expenses	-882	-854	-28	3.3
Guarantee commission for the State of Baden-Württemberg	-51	-64	13	-20.6
Expenses for bank levy and deposit guarantee system	-77	-106	29	-27.7
Net income/expenses from restructuring	-5	0	-5	-
Consolidated profit/loss before tax	**258**	**271**	**-13**	**-4.9**
Income taxes	-70	-90	20	-22.4
Net consolidated profit/loss	**188**	**182**	**7**	**3.7**

	30 June 2016 EUR bn	31 Dec 2015 EUR bn	Change EUR bn	in %
Total assets	260	234	26	11.0
Risk weighted assets (CRR/CRD IV)	77	74	2	3.3

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

	30 June 2016 in %	31 Dec 2015 in %
Common Equity Tier 1 capital ratio (CRR/CRD IV with transitional rules)	15.4	16.4
Common Equity Tier 1 capital ratio (CRR/CRD IV fully loaded)	14.7	15.6
Total capital ratio (CRR/CRD IV with transitional rules)	20.7	21.9
Total capital ratio (CRR/CRD IV fully loaded)	20.2	21.4

	30 June 2016	31 Dec 2015	Change absolute	in %
Employees (Group)	10,988	11,120	-132	-1.2

The Half-yearly financial report of LBBW will be available on LBBW´s Homepage from 25 August 2016 (www.LBBW.de > Investor Relations > Financial Information and Reports).