LBBW

Press release

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LBBW shows stable earnings trend for the first nine months of 2016

- **At EUR 360 million (previous year: EUR 350 million), consolidated profit before tax marginally above the previous year – net consolidated profit EUR 260 million (previous year: EUR 237 million)**
- **Underlying conditions remain extremely challenging: burdens posed by ongoing phase of low interest rates and high regulatory requirements**
- **Capital ratios still substantially exceed the minimum requirements: common equity Tier 1 (CET 1) capital ratio of 14.5 percent and total capital ratio of 20.5 percent (in accordance with CRR/CRD IV fully loaded)**

Notwithstanding the persistently challenging market environment, Landesbank Baden-Württemberg (LBBW) increased its earnings slightly in the first nine months of 2016. Consolidated profit before tax rose by EUR 10 million over the same period of the previous year to EUR 360 million. Net consolidated profit amounted to EUR 260 million (previous year: EUR 237 million). This confirms the viability of LBBW's customer-oriented business model. The Bank still expects consolidated profit before tax to come in below the previous year's figure.

LBBW continued to develop its business in the first three quarters in a challenging market environment. The Bank, which has posted a profit for 19 consecutive quarters now, moderately extended its lending to large corporate customers and its business in commercial real estate financing, among other things. As at 30 September, risk weighted assets increased to EUR 78 billion from EUR 74 billion at the start of the year. The Bank continues to maintain a very comfortable capital base. Under current regulatory law (CRR/CRD IV with transitional rules), the common equity Tier 1 (CET 1) capital ratio was 15.2 percent and 14.5 percent under CRR/CRD IV fully loaded, which does not come into effect until 2019. The total capital ratio amounted to 21.0 percent under CRR/CRD IV with transitional rules and 20.5 percent on a CRR/CRD IV fully loaded basis. At 4.3 percent, the leverage ratio on a CRR/CRD IV fully loaded basis significantly exceeded the minimum 3 percent mark targeted by the regulatory authorities. So LBBW commands a solid position with regard to capitalization and risk profile, allowing the bank to provide support to its customers as a reliable lender on an ongoing basis.

Overview of expense and income items

At 30 September 2016, **net interest income** amounted to EUR 1,172 million after EUR 1,231 million for the same period of the previous year. The decline reflects the further drop in interest rates and intense level of competition in the market.

As regards **allowances for losses on loans and advances**, the Bank continued to benefit from the robust economy and the good shape of the companies in its core markets, as well as its prudent risk policy. After three quarters, allowances amounted to only minus EUR 8 million and were therefore below previous year's figure of minus EUR 27 million.

Net fee and commission income rose compared to the previous year by EUR 16 million to EUR 376 million. The securities and custody business in particular, as well as the brokerage business, contributed to the improvement.

Net gains/losses from financial instruments measured at fair value through profit or loss fell from EUR 120 million to EUR 73 million. This was largely attributable to charges resulting from the valuation of derivatives in the banking book, which, although they are used as economic hedges, cannot be included in hedge accounting in accordance with IFRS. In contrast, the customer-driven trading business was pleasing.

Net gains/losses from financial investments and net income/expenses from investments accounted for using the equity method rose from EUR 89 million to EUR 198 million in the first nine months. As already reported in the first half-year, the key factor here was the investment income generated from the sale of the subsidiary cellent AG and the shares in VISA Europe Ltd. Gains from the sale of securities also made a positive contribution. At EUR 68 million, **other operating income** was down slightly on the previous year's figure of EUR 82 million.

Administrative expenses of EUR 1,356 million were higher than the previous year (EUR 1,305 million). Despite strict cost discipline, the increase was due, in particular, to investments in upgrading the IT system and pay-scale increases.

The **guarantee commission** payable for the risk shield provided by the State of Baden-Württemberg stood at EUR 73 million as at 30 September. The **bank levy** and the contribution for the **deposit guarantee system** amounted to EUR 71 million. **Net income/expenses from**

restructuring of minus EUR 20 million featured provisions for change projects, for instance the reorganization of the capital markets business.

All in all, this resulted in **consolidated profit before tax** totaling EUR 360 million after the first three quarters of the year, thus exceeding the previous year's figure by EUR 10 million. **Net consolidated profit** of EUR 260 million was also up on the previous year (EUR 237 million). **Total assets** climbed due to liquidity management in the course of the year to EUR 259 billion as at 30 September from EUR 234 billion at the start of the year.

Overview of the operating segments

The results of the operating segments reflect the challenging situation on the markets and the burdens arising from future-proofing initiatives. Whilst their contribution to consolidated profit was therefore lower than in the previous year, it nonetheless remained consistently positive.

The **Corporates** segment posted profit before tax of EUR 521 million after nine months (previous year: EUR 579 million). This was because of the decline in net interest income due to low related margins in the deposit-taking business as a result of low interest rates, among other things. Higher administrative expenses were also incurred in the course of implementing projects for safeguarding the Bank's future viability such as the change of the core banking system. Net gains/losses from financial investments fell significantly due to the absence of non-recurring effects from the sale of equity investments in the previous year. But there were also positive effects by reversals of allowances for losses on loans and advances thanks to the sound condition of the loan book. The business with large corporates and in commercial real estate financing performed particularly well in the first three quarters. The Bank was able to extend more loans and generate more income here than in the previous year.

Historically low interest rates had a particular significant impact on the **Retail/Savings Banks** segment that traditionally has high deposit volumes. Profit before tax fell to EUR 9 million after EUR 44 million in the previous year on the back of lower net interest income and high levels of investment in modernizing the IT system, together with other effects. Proceeds from the Visa transaction and the allowances for losses on loans and advances contributed positively to the result.

The **Financial Markets** segment generated profit before tax of EUR 93 million. The previous year's figure of EUR 184 million was marked by an unusually favorable market environment. The segment result in the first nine months of the current year was impacted in particular by valuation discounts on counterparty risks (credit value adjustments) and expenses in conjunction with the realignment of the customer-oriented capital markets business. The customer business on the other hand was stable overall. The Bank succeeded in extending its position in arranging and marketing of securities transactions for international issuers on the primary market.

Outlook

LBBW assumes the market environment will remain challenging for the time being, with very low interest rates, an intense level of competition and growing regulatory requirements. LBBW continues to expect a consolidated profit before tax for the full year 2016 below the value of the previous year.

Business figures for the LBBW Group as at 30 September 2016

	1 Jan. – 30 Sept. 2016 in EUR million	1 Jan. – 30 Sept. 2015 in EUR million	Change in EUR million	in %
Net interest income	1,172	1,231	-59	-4.8
Allowances for losses on loans and advances	-8	-27	20	-71.9
Net fee and commission income	376	360	16	4.5
Net gains/losses from financial instruments measured at fair value through profit or loss	73	120	-47	-39.3
Net gains/losses from financial investments and net income/expenses from investments accounted for using the equity method	198	89	110	>100
Other operating income/expenses	68	82	-14	-17.5
Total operating income/expenses (after allowances for losses on loans & advances)	**1,880**	**1,854**	**25**	**1.4**
Administrative expenses	-1,356	-1,305	-51	3.9
Guarantee commission for the State of Baden-Württemberg	-73	-95	21	-22.7
Expenses for bank levy and deposit guarantee system	-71	-105	35	-32.9
Net income/expenses from restructuring	-20	0	-20	-
Consolidated profit/loss before tax	**360**	**350**	**10**	**2.8**
Income taxes	-100	-113	13	-11.4
Net consolidated profit/loss	**260**	**237**	**23**	**9.6**

	30 Sept. 2016 in EUR billion	31 Dec. 2015 in EUR billion	Change in EUR billion	in %
Total assets	259	234	25	10.9
Risk weighted assets (CRR/CRD IV)	78	74	3	4.6

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

	30 Sept. 2016 in %	31 Dec. 2015 in %
Common equity Tier 1 capital ratio (CRR/CRD IV with transitional rules)	15.2	16.4
Common equity Tier 1 capital ratio (CRR/CRD IV fully loaded)	14.5	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

	30 Sept. 2016	31 Dec. 2015	Change absolute	Change in %
Employees (Group)	10,903	11,120	-217	-2.0