

Press Release

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LBBW: Consolidated profit before tax of EUR 122 million in the first quarter

- **Rise of EUR 51 million in consolidated profit before tax over the previous year**
- **Stable results in customer business**
- **Net interest income and net fee and commission income nearly steady despite low interest rates and harsh competition**
- **Higher forward-looking investments in IT**
- **Already high capitalization once again improved: Common Equity Tier 1 capital ratio of 15.4 percent and total capital ratio of 21.7 percent (according to CRR/CRD IV fully loaded)**

Landesbank Baden-Württemberg (LBBW) started the year 2017 with profit growth thanks to solid customer business and persistently low allowances for losses on loans and advances. Profit before tax came to EUR 122 million in the first quarter, equivalent to an increase of EUR 51 million over the pre-year period. Net profit after tax rose by EUR 36 million to EUR 79 million.

Rainer Neske, Chairman of LBBW's Board of Managing Directors: "We generated a good result in the first quarter. Our customer business recorded an overall respectable performance against the backdrop of low interest rates and harsh competition in corporate customer business. At the same time, we are continuing to invest heavily in the modernization and efficiency of our IT, and the first quarter was no exception."

LBBW also reported very good capitalization by industry standards as at 31 March 2017: the Common Equity Tier 1 capital ratio stood at 15.6 percent under current regulatory law (CRR/CRD IV with transitional rules) and 15.4 percent in accordance with CRR/CRD IV (fully loaded), which takes effect in 2019. The total capital ratio came to 21.9 percent under the transitional rules and 21.7 percent under CRR/CRD IV on a fully loaded basis.

Risk weighted assets remained almost unchanged at EUR 77 billion. At 4.1 percent the leverage ratio easily exceeded the regulatory minimum of 3 percent.

Overview of expense and income items

At EUR 408 million, **net interest income** after three months was almost at the pre-year level (EUR 414 million). While lending business achieved respectable performance, the historically low interest rates resulting from the European Central Bank's expansionary monetary policy continued to exert strain.

At EUR 16 million, **allowances for losses on loans and advances** exceeded the pre-year figure of EUR 4 million, but measured against the long-term average they remain at a very low level. This fact reflects the robust economy and the good shape of the companies in LBBW's core markets.

Net fee and commission income of EUR 136 million was slightly higher than in the previous year (EUR 135 million). In the first quarter, payments and custodian business in particular contributed to this trend.

Net gains/losses from financial instruments measured at fair value through profit or loss rose sharply to EUR 86 million (previous year: net losses of EUR 34 million). This result is attributable to factors including lively customer-driven trading business and increased sales of retail certificates. In addition, negative valuation effects of interest rate derivatives failed to materialize; these effects had weighed substantially on the pre-year result.

Net gains/losses from financial investments and net income/expenses from investments accounted for using the equity method of EUR 59 million (previous year: EUR 70 million) was supported by income from securities sales and commercial investment business.

The rise in **administrative expenses** to EUR 460 million (previous year: EUR 427 million) is primarily attributable to high spending on IT modernization. LBBW recently adopted OSPlus, the core banking system of the Sparkassen-Finanzgruppe (Savings Bank Finance Group), which will form the basis for the Group's further digitalization.

The **guarantee commission** for the risk shield of the State of Baden-Württemberg stood at EUR 19 million as at 31 March. The **expenses for bank levy and deposit guarantee** came to EUR 67 million. This means that the expenses expected for the year as a whole have already been absorbed in full in the first quarter. The Bank reported expenses for ongoing internal change projects, such as the restructuring of the back office, under **net expenses from restructuring** totaling EUR 20 million.

This results in a **consolidated profit before tax** of EUR 122 million at the end of the quarter, up from EUR 70 million during the same period a year ago. **Net consolidated profit** at EUR 79 million almost doubled over the previous year (EUR 43 million).

Overview of the operating segments

The **Corporates** segment started the year 2017 with a net quarterly profit of EUR 158 million (previous year EUR 184 million). The decline was due to factors including a rise in administrative expenses following high IT spending in connection with the adoption of a new core banking system and expenses on restructuring measures. By contrast, financing business with large corporates and commercial real estate customers showed an encouraging trend.

The **Retail/Savings Banks** segment improved both its net interest income and net fee and commission income despite the difficult setting. Growth was reported by wealth management and asset management, in particular. At the same time, this segment also experienced marked strain due to the adoption of a new core banking system. This led to a loss before tax of EUR 15 million (previous year: profit of EUR 1 million).

The **Capital Markets Business** segment showed generally encouraging performance and reported a profit before tax of EUR 111 million. In particular, retail derivatives business and business with interest rate derivatives got off to a good start in the new year. By participating in major transactions LBBW once again demonstrated its advisory and execution capacity with respect to capital market issues. In addition, treasury business, which has been pooled in the Capital Markets Business since this year, made a major contribution to the

positive earnings performance. The adjusted previous year's segment result was a loss figure of EUR 44 million.

Outlook

For the current year LBBW continues to forecast consolidated profit before tax coming to a mid three-digit million euro amount.

Business figures for the LBBW Group as at 31 March 2017

	1 Jan.-31 March 2017 in EUR million	1 Jan.-31 March 2016 in EUR million	Change	
			in EUR mn	in %
Net interest income	408	414	-5	-1.3
Allowances for losses on loans and advances	-16	-4	-13	>100
Net fee and commission income	136	135	1	0.9
Net gains/losses from financial instruments measured at fair value through profit or loss	86	-34	121	---
Net gains/losses from financial investments and net income/expenses from investments accounted for using the equity method	59	70	-11	-15.5
Other operating income/expenses	15	17	-3	-14.6
Total operating income/expenses (after allowances for losses on loans & advances)	688	597	91	15.2
Administrative expenses	-460	-427	-33	7.7
Guarantee commission for the State of Baden-Württemberg	-19	-26	7	-26.7
Expenses for bank levy and deposit guarantee	-67	-74	7	-9.0
Net income/expenses from restructuring	-20	0	-20	>100
Impairment of goodwill	0	0	0	---
Consolidated profit/loss before tax	122	70	51	72.6
Income taxes	-42	-27	-15	55.4
Net consolidated profit/loss	79	43	36	83.5

	31 March 2017 EUR billion	31 Dec. 2016 EUR billion	Change	
			in EUR bn	in %
Total assets	268	244	25	10.2
Risk weighted assets (CRR/CRD IV)	77	77	-1	-0.8

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

	31 March 2017 in %	31 Dec. 2016 in %
Common Equity Tier 1 capital ratio (CRR/CRD IV with transitional rules)	15.6	15.5
Common Equity Tier 1 capital ratio (CRR/CRD IV fully loaded)	15.4	15.2
Total capital ratio (CRR/CRD IV with transitional rules)	21.9	21.7
Total capital ratio (CRR/CRD IV fully loaded)	21.7	21.5

	31 March 2017	31 Dec. 2016	Change	
			absolute	in %
Employees (Group)	10,603	10,839	-236	-2.2