

Press Release

11 March 2021

LBBW generates profit before tax of EUR 252 million while also establishing considerable risk provisions

- **Rainer Neske, Chairman of the Board of Managing Directors: “We were reliable partners to our customers in historic, exceptional circumstances”**
- **Strategy and business model prove their value even under extreme conditions**
- **Strong operating performance mainly in Corporate Customers and Capital Markets Business**
- **LBBW's leading role in sustainability further expanded**
- **Administrative expenses reduced by EUR 68 million and cost/income ratio again improved to 70.4%**
- **Significant allowances for losses on loans and securities due to anticipated impact of coronavirus crisis, high expense due to single exposure fully processed**
- **Capital resources remain excellent: Common equity Tier 1 (CET 1) capital ratio improves to 14.8%, total capital ratio of 22.8%**
- **Strategy further developed with focus on targeted growth, disciplined risk policy and further reduction of costs**
- **2021 profit expected to be in a three-digit million range, up on previous year**

In a historic year of crisis that saw severe economic turbulence, LBBW's position as a mittelstands-minded universal bank with a strong focus on sustainability has proven its worth. Despite high provisions for potential subsequent effects of the pandemic, the Bank generated profit before tax of EUR 252 million in 2020. Net consolidated profit after tax came to EUR 172 million.

"We reliably stood by our customers through an exceptional situation in historic terms," said Rainer Neske, Chairman of the Board of Managing Directors of LBBW. "Our operating business was thus very successful and we expanded our growth areas while also reducing our costs. At the same time, we made high provisions for potential negative effects in the future as a result of the economic crisis stemming from the pandemic. Given this, we are satisfied with our result. Even in times of crisis, LBBW has demonstrated its strength and stability."

LBBW handles negative effects and pays dividend

The Bank made a EUR 276 million model adjustment for potential consequences from the economic downturn triggered by the pandemic. In addition, one major insolvency (unrelated to COVID-19) also depressed earnings by around EUR 160 million. "Without these two effects, net consolidated profit would have been far higher than in the previous year," said Rainer Neske. "LBBW is strong enough to handle these types of unexpected negative effects and pay a dividend to its owners." Subject to approval by the annual general meeting, the Bank plans to distribute a total of EUR 99 million for 2020. In line with ECB requirements, EUR 19 million of this is to be paid initially.

Capitalization and the loan book at LBBW proved solid in 2020, a year marked by crisis. Risk-weighted assets rose slightly to EUR 82 billion, chiefly a result of rating premiums driven by the economy in 2020. Despite this, the common equity Tier 1 capital ratio (CRD/CRR IV fully loaded) improved to 14.8% (31 December 2019: 14.6%), putting it well in excess of regulatory capital requirements. The total capital ratio was

22.8% (31 December 2019: 22.9%). The non-performing loan (NPL) ratio was at a low 0.6%. The cost/income ratio (CIR) improved to 70.4%, thanks mainly to successful cost measures.

Crisis response: Facts and figures

The coronavirus pandemic represented an unprecedented challenge for LBBW customers in 2020, with private investors, medium-sized companies as well as savings banks and even major capital market players all affected.

- In light of this, development loan business enjoyed a veritable boom and achieved a new record for new business volume of EUR 11.4 billion.
- The specific COVID-19 programs of development banks played a key role in this. Overall, LBBW processed around 12,000 COVID-19 development loans for its own customers and savings banks customers totaling EUR 4.5 billion.
- The bank also helped supply savings banks with liquidity by providing them with around EUR 9 billion in short-term term deposits alone, far more than in normal times.

Bank employees also held many thousands of talks in all customer segments – e.g. the frequent market update calls by LBBW Research – to keep customers fully informed and to develop flexible, needs-based solutions

Ongoing development of four strategic cornerstones

The cornerstones defined in 2017 (business focus, sustainability, digitalization and agility) proved more relevant than ever during the crisis. The last two aspects in particular enabled LBBW to very quickly set up most of its employees for working from home in the spring, where they ensured that business continued to run efficiently despite the distance. Digital customer service solutions such as the corporates portal for

corporate customers, updated online and mobile banking as well as new contactless payment methods such as Apple Pay also enjoyed a surge in demand as a result of the pandemic.

Top position in sustainability issues: leading ESG issuer among major European commercial banks

At the same time, LBBW again invested substantially in its products and services related to sustainability to meet rising demand by customers and investors for ESG corporate financing and investment products (ESG = environmental, social and governance criteria).

LBBW emphasized its pioneering role here in 2020, too:

- Sustainable real estate and project financing makes it possible to issue more green and social bonds. LBBW is currently the leading ESG issuer among Europe's commercial banks.
- In 2020, LBBW was involved in a large amount of sustainable corporate financing in Germany. It supported corporate transactions with sustainability components amounting to hundreds of millions of euros by prominent customers such as Dürr and Voith.
- LBBW became the first Landesbank to sign the German finance sector's voluntary climate protection commitment to bring lending and investment portfolios into line with the objectives of the Paris Agreement.
- From 2021 onwards, LBBW's business operations will be fully carbon neutral.
- LBBW consistently receives good ratings from major sustainability ratings agencies. LBBW comes in third out of 277 international banks in sustainability ratings agency ISS ESG's ranking in the "Financials/Public & Regional Banks" category and was awarded the highest level of transparency. Ratings agency Sustainalytics gives LBBW 82 out of 100 possible points. MSCI ESG Ratings currently rates LBBW "AA" (on a scale from "AAA to CCC").

With these measures, LBBW is underlining its aspiration to take a leading role in sustainability.

Strategic consequences of the pandemic and sector trends

LBBW closely examined its strategy in summer 2020 in light of the consequences of the coronavirus pandemic. The Board of Managing Directors concluded that the Bank's strategy, with its cornerstones of business focus, digitalization, sustainability and agility defined in 2017, is still the right approach even given the new environment and found that only targeted adjustments are necessary to achieve a balance of disciplined risk management, ambitious cost reduction and, above all, to take advantage of growth opportunities.

In terms of risk, the Bank is placing even greater emphasis in Corporate Customers on stable and forward-looking sectors such as pharmaceuticals/healthcare, utilities/renewable energy, telecommunications/media and electronics/IT. These sectors have already been expanded significantly in recent years. By contrast, the Bank is taking a more cautious approach in other sectors. The automotive sector will continue to play a key role in LBBW's lending portfolio in the future, and the Bank will continue to closely accompany the transformation of this sector in the years ahead. At the same time, however, the share of this sector in LBBW's overall lending portfolio will continue to trend downwards while the share of the focus sectors will increase.

By 2024, the Bank is also planning to reduce its administrative expenses by EUR 100 million compared to 2019, in part by strengthening digitalization and boosting efficiency by automating processes. As already announced, in this connection there will also be the reduction of 700 staff positions in line with socially acceptable conditions by 2024. Talks are currently underway with the Staff Council. LBBW had 9,100 full-time positions and employed 10,121 people as at 31 December 2020.

Growth initiatives in corporate finance, capital markets business and asset and wealth management

Moving forwards, however, focus will also be on bolstering income and so the Bank is making targeted investments in areas that offer prospects for its future. These include corporate finance, where LBBW is already one of the leading companies in Germany, for example for structured financing solutions and for Schuldschein business and syndicated loans. The Bank also wants to draw on this good starting basis to gain further ground in working capital management, mergers and acquisitions and in the bond business. Advisory is another vital element. Here, a new team of sustainability advisors to help companies develop sustainable business models and to use the appropriate financing instruments has complemented the Bank's advisory skills since last year.

In Capital Markets Business, LBBW believes issuing securities (Debt Capital Markets) offers good growth opportunities, with the Bank recently achieving notable accomplishments by acting as a joint lead manager on two occasions for billion-euro issues of social bonds by the EU under the SURE program. In addition, the Bank is planning to further intensify its good collaboration with savings banks in the Capital Markets Business. One example of this is the takeover of BayernLB's interest rate, currency and commodities management business for corporate customers of savings banks last year.

Asset management, which is now bundled under LBBW Asset and Wealth Management (LBBW AWM), also offers substantial potential. Assets under management are to be increased to over EUR 150 billion by 2025 (end of 2020: EUR 119 billion). The new unit draws on its recognized expertise in foundation management and sustainable investments, which already account for around EUR 23 billion at LBBW AWM.

Figures at a glance

Net interest income rose by EUR 96 million to EUR 1,771 million despite historically low interest rates and continued intensive competition. This reflects a higher contribution from Capital Markets Business and from corporate finance products. **Net fee and commission income** slightly declined to EUR 538 million (2019: EUR 558 million). While commission from payment transactions and brokerage business decreased, it picked up for securities and custody business as customers engaged in more securities trading. Overall, net interest income and net fee and commission income were up on the previous year.

Net gains/losses on remeasurement and disposal fell to EUR – 362 million in 2020 (previous year: EUR 172 million), mainly on account of the sharp EUR 393 million rise in allowances for losses on loans and securities to EUR 544 million. This includes model adjustments of EUR 276 million, used by LBBW to establish provisions for the potential economic effects of the coronavirus pandemic. A significant individual case also had a negative impact of around EUR 160 million on allowances for losses on loans and securities.

Administrative expenses were pleasing, declining to EUR 1,743 million after EUR 1,810 million in the previous year. This reflected lower staff costs and savings in operating costs.

Expenses for the bank levy and deposit guarantee system rose again by EUR 16 million to EUR 118 million in 2020. This was predominantly on account of the higher target volume for the European resolution fund, which is based on the amount of deposits covered in the euro area.

Despite those substantial negative impacts, LBBW's **net consolidated profit before tax** as at 31 December 2020 was well into positive territory at EUR 252 million (previous year: EUR 610 million). After deducting

income taxes of EUR 80 million, **net consolidated profit after taxes** amounted to EUR 172 million (2019: EUR 443 million).

Operating segments at a glance

LBBW's universal bank model aims to balance out the strengths and weaknesses of individual segments over the financial years. The stabilizing effect of this strategy was confirmed in 2020.

The **Corporate Customers** segment saw allowances for losses on loans and securities rise considerably due to the model adjustments described above for the expected impact of the coronavirus pandemic, as well as due to a material individual case unrelated to the pandemic. By contrast, operating business performed well last year. Cross-selling proceeds continued to rise, especially in corporate finance and in interest rate, currency and commodities management, with interest and net fee and commission income almost on par with strong prior year figures despite the pandemic. Corporate Customers thus generated profit before tax of EUR 7 million despite the challenging conditions.

Performance in the **Real Estate/Project Finance** segment was encouraging despite high levels of market uncertainty. The financing volume rose to more than EUR 29 billion, driven chiefly by commercial real estate financing which generated strong new business of EUR 8.5 billion. In project financing, over half of new business (EUR 1.7 billion) was attributable to renewable energies. The segment helped propel earnings to a significant net profit before tax of EUR 205 million, although as expected this was lower than in the very strong previous year. This reflects a positive non-recurring effect in the previous year from early loan repayments and, this year, the negative impact of model adjustments in allowances for losses on loans and securities for the expected effects of the coronavirus pandemic.

Customer business in the **Capital Markets Business** segment was buoyant considering the volatile market environment, especially for

hedging and investment products. Furthermore, administrative expenses were lower thanks to high cost discipline and positive measurement effects, together resulting in considerably improved pre-tax profit of EUR 202 million.

In the **Private Customers/Savings Banks** segment, the coronavirus pandemic produced some divergent effects. While securities business and the financing volume for high-net-worth private clients rose sharply, brokerage business contracted. In addition, the pressure on margins attributable to low interest rates squeezed the deposit business. Overall, profit before tax was stable year on year at EUR 27 million.

Outlook

The current financial year also looks set to be dominated by uncertainty caused by the pandemic and historically low interest rates. However, following the slump in economic activity in 2020, the economy in Germany and in the eurozone should pick up again significantly. After high provisions for potential negative effects in 2020, LBBW expects profit to reach a three-digit million range and exceed the previous year's figure in 2021.

Key figures of the LBBW Group as at 31 December 2020

Income statement

	1/1 - 31/12/2020	1/1 - 31/12/2019 ¹	Change	
	EUR million	EUR million	EUR million	in %
Net interest income	1,771	1,676	96	5.7
Net fee and commission income	538	558	- 20	- 3.6
Net gains/losses on remeasurement and disposal	- 362	172	- 534	-
of which allowances for losses on loans and securities	- 544	- 151	- 393	> 100
Other operating income/expenses	198	148	50	34.0
<i>Total operating income/expenses</i>	<i>2,146</i>	<i>2,553</i>	<i>- 408</i>	<i>- 16.0</i>
Administrative expenses	- 1,743	- 1,810	68	- 3.7
Expenses for bank levy and deposit guarantee system	- 118	- 102	- 16	15.5
Net income/expenses from restructuring	- 32	- 31	- 2	5.7
<i>Consolidated profit/loss before tax</i>	<i>252</i>	<i>610</i>	<i>- 357</i>	<i>- 58.6</i>
Income taxes	- 80	- 167	87	- 52.2
<i>Net consolidated profit/loss</i>	<i>172</i>	<i>443</i>	<i>- 270</i>	<i>- 61.1</i>

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

¹ Restatement of prior year amounts

Key figures

	31/12/2020	31/12/2019	Change	
	in EUR billion	in EUR billion	in EUR billion	in %
Total assets	276.4	256.7	19.8	7.7
Risk-weighted assets	82.3	80.5	1.8	2.2

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

	31/12/2020	31/12/2019
	in %	in %
Common equity Tier 1 capital ratio (CRR/CRD IV "fully loaded")	14.8	14.6
Total capital ratio (CRR/CRD IV "fully loaded")	22.8	22.9

	1/1 - 31/12/2020	1/1 - 31/12/2019 ¹
	in %	in %
Return on equity (ROE)	1.9	4.6
Cost/income ratio (CIR)	70.4	71.9

¹ Restatement of prior year amounts

	31/12/2020	31/12/2019	Change	
			absolute	in %
Employees	10,121	10,005	116	1.2

Segments at a glance

Corporate Clients

	1/1 - 31/12/2020	1/1 - 31/12/2019 ¹
	EUR million	EUR million
Net interest income	802	806
Net fee and commission income	171	177
Net gains/losses on remeasurement and disposal	- 356	- 57
of which allowances for losses on loans and securities	- 411	- 128
Other operating income/expenses	26	13
<i>Total operating income/expenses</i>	<i>642</i>	<i>939</i>
Administrative expenses	- 596	- 608
Expenses for bank levy and deposit guarantee system	- 32	- 29
Net income/expenses from restructuring	- 7	0
<i>Consolidated profit/loss before tax</i>	<i>7</i>	<i>301</i>

¹ Restatement of prior year amounts

Real Estate/Project Finance

	1/1 - 31/12/2020	1/1 - 31/12/2019 ¹
	EUR million	EUR million
Net interest income	310	376
Net fee and commission income	17	20
Net gains/losses on remeasurement and disposal	- 64	26
of which allowances for losses on loans and securities	- 68	21
Other operating income/expenses	125	98
<i>Total operating income/expenses</i>	<i>388</i>	<i>520</i>
Administrative expenses	- 166	- 156
Expenses for bank levy and deposit guarantee system	- 17	- 13
Net income/expenses from restructuring	0	0
<i>Consolidated profit/loss before tax</i>	<i>205</i>	<i>351</i>

¹ Restatement of prior year amounts

Capital Markets Business

	1/1 - 31/12/2020	1/1 - 31/12/2019 ¹
	EUR million	EUR million
Net interest income	406	207
Net fee and commission income	137	130
Net gains/losses on remeasurement and disposal	153	283
of which allowances for losses on loans and securities	0	1
Other operating income/expenses	12	8
<i>Total operating income/expenses</i>	<i>708</i>	<i>628</i>
Administrative expenses	- 449	- 462
Expenses for bank levy and deposit guarantee system	- 56	- 44
Net income/expenses from restructuring	- 1	0
<i>Consolidated profit/loss before tax</i>	<i>202</i>	<i>121</i>

¹ Restatement of prior year amounts

Private Customers/Savings Banks

	1/1 - 31/12/2020	1/1 - 31/12/2019 ¹
	EUR million	EUR million
Net interest income	279	306
Net fee and commission income	248	244
Net gains/losses on remeasurement and disposal	22	0
of which allowances for losses on loans and securities	20	- 4
Other operating income/expenses	- 14	9
<i>Total operating income/expenses</i>	<i>534</i>	<i>558</i>
Administrative expenses	- 508	- 528
Expenses for bank levy and deposit guarantee system	0	- 2
Net income/expenses from restructuring	0	- 2
<i>Consolidated profit/loss before tax</i>	<i>27</i>	<i>27</i>

¹ Restatement of prior year amounts

Corporate Items/Reconciliation/Consolidation

	1/1 - 31/12/2020	1/1 - 31/12/2019 ¹
	EUR million	EUR million
Net interest income	- 26	- 19
Net fee and commission income	- 35	- 13
Net gains/losses on remeasurement and disposal	- 116	- 79
of which allowances for losses on loans and securities	- 84	- 42
Other operating income/expenses	50	20
<i>Total operating income/expenses</i>	<i>- 127</i>	<i>- 92</i>
Administrative expenses	- 24	- 56
Expenses for bank levy and deposit guarantee system	- 13	- 14
Net income/expenses from restructuring	- 25	- 29
<i>Consolidated profit/loss before tax</i>	<i>- 188</i>	<i>- 191</i>

¹ Restatement of prior year amounts

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