Press Release

10 March 2022

LBBW increases profit before tax significantly to EUR 817 million

- **Robust business model, close customer relationships and systematic implementation of long-term strategy paying off: improved result, profitability and efficiency**
- **Growth areas consistently expanded – income up 11%**
- **Profit/loss before tax increased to EUR 817 million in 2021 (2020: EUR 252 million) – the best pre-tax profit since 2008**
- **Strong performance, especially among corporate customers, real estate and in capital markets business**
- **Efficiency further improved – cost/income ratio (CIR) declines substantially to 64.7%**
- **Allowances for losses on loans and securities of EUR 240 million (2020: EUR 544 million) include additional provisions (adjustments) for other pandemic, economic and geopolitical developments of EUR 155 million**
- **Capitalization still comfortable: Common equity Tier 1 (CET 1) capital ratio of 14.6%, total capital ratio of 21.4%**
- **Return on equity raises to 6.0%**
- **Progress made in bundling strengths within the Sparkassen-Finanzgruppe**

LBBW increased its profit significantly in the last financial year thanks to strong operational business. Consolidated profit before tax rose to

EUR 817 million, up on EUR 252 million in the previous year. Net consolidated profit/loss after tax also enjoyed marked growth to EUR 418 million (previous year: EUR 172 million).

“Our strong figures show that LBBW is a healthy, profitable and sustainably successful bank,” said Rainer Neske, Chairman of the Board of Managing Directors of LBBW. “Ultimately, the result reflects our bank’s continual development in recent years. We are steadily expanding our growth areas while controlling costs and managing risks. We will maintain this course.” Commenting on the acquisition of Berlin Hyp agreed in January, Rainer Neske added: “Having recently concentrated interest-rate, currency and commodity management within Sparkassen-Finanzgruppe at our company, we are now taking the next step towards efficiently bundling skills within the Group by purchasing Berlin Hyp. This simultaneously strengthens LBBW’s business model.”

The good result for 2021 was driven by strong customer business and a lower need for allowances for losses on loans and securities compared to the previous year. Despite higher regulatory costs, the cost/income ratio (CIR) improved to 64.7% (previous year: 70.4%) thanks to the considerable increase in income combined with strict cost management.

Return on equity rose to 6.0 % (previous year: 1.9%). LBBW maintains its comfortable capitalization. The common equity Tier 1 capital ratio (CRR II/CRD V fully loaded) came to 14.6% (31 December 2020: 14.8%), again putting it well in excess of regulatory capital requirements. The total capital ratio was at 21.4% (31 December 2020: 22.8%).

Consistent implementation of long-term strategy

The bank continued to pursue the strategy it defined in 2017, which focuses on business focus, sustainability, digitalization and agility. LBBW made good progress including its growth areas. Customer relationships in pharmaceuticals and healthcare, telecommunication and IT as well as utilities and energy, which the bank defined as growth sectors many years ago, were again increased by 21%. As a result, LBBW’s lending portfolio shows a very balanced and healthy mix of various sectors.

In its Corporate Finance business, which is also considered a strategic growth area, LBBW increased the financing volume by 5%. Income picked up by 11% compared to the previous year. LBBW was again the market leader in issuing Schuldschein loans in 2021. Its strategic consulting expertise was also enhanced, chiefly in relation to mergers and acquisitions (M&A), where the bank increased its personnel and established important collaborations.

Assets under management (total assets) in the Asset and Wealth Management business area rose by just under EUR 12 billion to EUR 141 billion over the year. The merger of BW Equity, which specializes in alternative investments in tangible assets, with LBBW Asset Management means that products and services within the Group are even better integrated. The domestic presence of LBBW’s Asset & Wealth Management has been supplemented by a dedicated team of advisors in Berlin since the beginning of the year.

LBBW also specifically expanded its business with savings banks. In December 2021, LBBW agreed to mutually pool expertise with Helaba. As part of this agreement, custodian business and interest-rate, currency and commodities management business for savings banks’ corporate customers is merged at LBBW. LBBW had previously taken on interest-rate, currency and commodities management business for savings banks’ corporate customers of HCOB (formerly HSH Nordbank) and BayernLB.

The takeover of Berlin Hyp agreed in January also contributed to the bundeling of strengths within Sparkassen-Finanzgruppe. This transaction expands LBBW’s core business area of commercial real estate financing.

LBBW builds on leading sustainability position

The acquisition of Berlin Hyp also raises LBBW's sustainability profile. With a total of over EUR 6 billion each, the two banks are some of the largest issuers of ESG bonds among European commercial banks. Together, they are easily the number one. Sustainability is also increasingly important in customer business.

A constantly expanding sustainable product range and financing/ investment volume in all operating segments, as well as special training concepts for employees, helps customers manage the transformation to a carbon-neutral future. At the end of 2021, LBBW's sustainable financing volume came to around EUR 38 billion. The bank wants to increase this to EUR 65 billion by the end of 2025.

In addition, LBBW was also involved in supporting sustainable customer financing, such as ESG bonds, ESG-linked syndicated loans and green Schuldschein loans, for a total of more than EUR 90 billion. Among other things LBBW acted as joint lead manager for several major EU issues.

The range of products offered in customer business is constantly being expanded, for example with the first ESG-linked factoring transaction by SüdFactoring a few weeks ago or SüdLeasing's carbon-neutral leasing offers. Our dedicated teams of sustainability advisors are also in extremely high demand, which we have now established for corporate customers, institutional investors, banks, savings banks and non-profit organizations such as foundations.

We are also working on integrating the new regulatory requirements in relation to sustainability in our risk management and in bank management. In addition, we are continuing to develop our sustainability guidelines, both in lending and in investment business. New guidelines concerning agriculture, forestry, fishing and animal welfare are planned this year to help LBBW play an active role in preserving biodiversity. Under the ESG governance factor, LBBW is increasingly shifting focus to equality this year. For example, the bank recently signed the United Nations' Women Empowerment Principles.

Significant improvement in income, lower allowances for losses on loans and securities

All in all, LBBW boosted **income** by 11% in the last financial year to EUR 2,997 million (previous year: EUR 2,690 million) on the back of good operating performance. This was driven largely by business with corporate customers, commercial real estate financing and capital markets business. LBBW generated income of EUR 186 million from the ECB's TLTRO III refinancing operations as the lending targets connected with the program were achieved.

Allowances for losses on loans and securities came to EUR 240 million. Defaults were relatively low thanks to conservative risk management. The high quality of the lending portfolio is also reflected in the low non-performing exposure (NPE) ratio of just 0.5%. However, the bank recognized additional provisions (adjustments) of EUR 155 million in light of other pandemic, economic and geopolitical developments, which are included in the EUR 240 million figure. Allowances for losses on loans and securities in the previous year totaled EUR 544 million. As well as one major insolvency, this also included adjustments for the potential impact of the pandemic.

Expenses rose slightly to EUR 1,940 million (previous year: EUR 1,893 million). This reflected a substantial upturn in **expenses for the bank levy and deposit guarantee system** to EUR 137 million. The negative effects of this in the previous year were EUR 19 million lower. **Administrative expenses** rose to EUR 1,802 million, up on EUR 1,743 million in the previous year, in part due to increased investing in modernizing IT.

Net consolidated profit/loss before tax improved to EUR 817 million (previous year: EUR 252 million). After deducting **income taxes**, net consolidated profit after taxes amounted to EUR 418 million (previous year: EUR 172 million).

Operating segments at a glance

All four operating segments again made a positive contribution to net consolidated profit in 2021. Profit before tax in the **Corporate Customers** segment rose to EUR 405 million (2020: EUR 15 million). As well as the expansion of growth sectors, corporate finance business and export financing saw a particular jump in income. Allowances for losses on loans and securities declined significantly despite additional adjustment provisions. The segment had been impacted by a major insolvency in the previous year. Thanks to high cost discipline, expenses were stable at the previous year's level. The cost/income ratio improved from just under 60% to 51.6% and return on equity (RoE) also rose to 7.4%.

The **Real Estate/Project Finance** segment increased its pre-tax profit substantially to EUR 292 million (2020: EUR 203 million). Income saw a marked 28% increase to EUR 587 million. Customer loans in the segment rose to about EUR 31 billion. Commercial real estate financing accounted for around EUR 27 billion of this. The volume of new business in real estate financing came to around EUR 10 billion, almost three quarters of which was from Germany. The primary types of use were residential properties and office buildings. Project financing generated new business of EUR 1.6 billion, with a focus on areas including digital and social infrastructure and renewable energies.

Thanks to strong customer business, the **Capital Markets Business** segment again increased its profit before tax by about a quarter compared to the already excellent previous year figure, putting it at EUR 247 million. Pre-tax profit in the previous year was EUR 198 million. This good performance was driven chiefly by very strong retail-targeted structured note business and growth in Asset & Wealth Management. LBBW was also involved in placing several major EU issues.

The **Private Customers/Savings Banks** segment also achieved a positive result despite the challenging market environment. At EUR 14 million, however, profit before tax was lower than in the previous year (EUR 25 million), which had benefited from a net reversal of allowances for losses on loans and securities. The securities business fared particularly well in the 2021 financial year, as did the financing business. By contrast, low interest rates in the deposit business and the provisions of EUR 12 million already recognized at the half-year mark on account of the ruling on making changes to general terms and conditions had a negative effect. Administrative expenses were down slightly on the previous year thanks to strict cost management.

Outlook

The environment will remain challenging this year, especially in view of the massive increase in inflation and geopolitical tensions. The war in Ukraine has massively increased the level of uncertainty regarding economic development. Nonetheless, as things stand LBBW expects to achieve a mid triple-digit million range consolidated profit before tax for 2022.

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Key figures of the LBBW Group as at 31 December 2021

Income statement

	1 Jan. – 31 Dec. 2021	1 Jan. – 31 Dec. 2020[1]	Change	
	EUR million	EUR million	in EUR million	in %
Net interest income	2,031	1,771	260	15
Net fee and commission income	598	538	60	11
Net gains/losses on remeasurement and disposal	35	-362	397	-
Other operating income/expenses	93	198	-105	-53
Total operating income/expenses	2,757	2,146	612	29
of which income	2,997	2,690	307	11
of which allowances for losses on loans and securities	-240	-544	305	-56
Expenses	-1,940	-1,893	-47	2
of which administrative expenses	-1,802	-1,743	-59	3
of which bank levy and deposit guarantee system	-137	-118	-19	16
of which net income/expenses from restructuring	-1	-32	32	-98
Consolidated profit/loss before tax	817	252	565	> 100
Income taxes	-399	-80	-320	> 100
Net consolidated profit/loss	418	172	245	> 100

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

1 Restatement of prior year amounts

Key figures

	31 December 2021	31 December 2020	Change	
	in EUR billion	in EUR billion	in EUR billion	in %
Total assets	282.3	276.4	5.9	2
Risk-weighted assets	84.6	82.3	2.3	3

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

	31 December 2021	31 December 2020
	in %	in %
Common equity Tier 1 capital ratio (CRRII/CRD V “fully loaded”)	14.6	14.8
Total capital ratio (CRR II/CRD V “fully loaded”)	21.4	22.8

	1. Jan. – 31 Dec. 2021	1. Jan. – 31 Dec. 2020[1]
	in %	in %
Return on equity (RoE)	6.0	1.9
Cost/income ratio (CIR)	64.7	70.4

[1] Restatement of prior year amounts

	31 December 2021	31 December 2020	Change	
			absolute	in %
Employees	9,893	10,121	-228	-2.3

Segments at a glance

Corporate Customers

	1 Jan. – 31 Dec. 2021 EUR million	1 Jan. – 31 Dec. 2020[1] EUR million
Net interest income	985	844
Net fee and commission income	178	215
Net gains/losses on remeasurement and disposal	-150	-435
Other operating income/expenses	27	26
Total operating income/expenses	1,040	650
of which income	1,230	1,061
of which allowances for losses on loans and securities	-190	-411
Expenses	-635	-634
of which administrative expenses	-595	-595
of which bank levy and deposit guarantee system	-40	-32
of which net income/expenses from restructuring	0	-7
Consolidated profit/loss before tax	*405*	*15*

[1] Restatement of prior year amounts

Real Estate/Project Finance

	1 Jan. – 31 Dec. 2021 EUR million	1 Jan. – 31 Dec. 2020[1] EUR million
Net interest income	437	320
Net fee and commission income	16	17
Net gains/losses on remeasurement and disposal	-92	-73
Other operating income/expenses	132	125
Total operating income/expenses	493	390
of which income	587	458
of which allowances for losses on loans and securities	-94	-68
Expenses	-201	-187
of which administrative expenses	-182	-169
of which bank levy and deposit guarantee system	-19	-17
of which net income/expenses from restructuring	0	0
Consolidated profit/loss before tax	*292*	*203*

[1] Restatement of prior year amounts

Capital Markets Business

	1 Jan. – 31 Dec. 2021 EUR million	1 Jan. – 31 Dec. 2020[1] EUR million
Net interest income	410	355
Net fee and commission income	118	92
Net gains/losses on remeasurement and disposal	231	241
Other operating income/expenses	11	12
Total operating income/expenses	770	700
of which income	770	700
of which allowances for losses on loans and securities	0	0
Expenses	-522	-501
of which administrative expenses	-457	-445
of which bank levy and deposit guarantee system	-65	-56
of which net income/expenses from restructuring	-1	-1
Consolidated profit/loss before tax	*247*	*198*

[1] Restatement of prior year amounts

Private Customers/Savings Banks

	1 Jan. – 31 Dec. 2021 EUR million	1 Jan. – 31 Dec. 2020[1] EUR million
Net interest income	267	278
Net fee and commission income	262	248
Net gains/losses on remeasurement and disposal	1	22
Other operating income/expenses	-12	-14
Total operating income/expenses	518	533
of which income	519	514
of which allowances for losses on loans and securities	0	20
Expenses	-504	-508
of which administrative expenses	-505	-509
of which bank levy and deposit guarantee system	1	0
of which net income/expenses from restructuring	0	0
Consolidated profit/loss before tax	*14*	*25*

[1] Restatement of prior year amounts

Corporate Items/Reconciliation/Consolidation

	1 Jan. – 31 Dec. 2021 EUR million	1 Jan. – 31 Dec. 2020[1] EUR million
Net interest income	-67	-26
Net fee and commission income	24	-35
Net gains/losses on remeasurement and disposal	44	-116
Other operating income/expenses	-65	50
Total operating income/expenses	-64	-127
of which income	-109	-43
of which allowances for losses on loans and securities	46	-85
Expenses	-78	-63
of which administrative expenses	-64	-25
of which bank levy and deposit guarantee system	-14	-13
of which net income/expenses from restructuring	0	-25
Consolidated profit/loss before tax	*-141*	*-190*

[1] Restatement of prior year amounts

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