LBBW

Press release

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LBBW with solid result in first half of 2018

- **Profit before tax improves slightly to EUR 282 million despite low interest rates and higher bank levy**
- **Net profit also up slightly at EUR 206 million**
- **Significantly more loans granted to corporate customers**
- **Private customer business back in positive territory with improved result**
- **Declining administrative expenses despite sustained high investment in IT infrastructure**
- **Digital financing platform launched with Boerse Stuttgart**
- **Profit before tax still expected in the mid-three-digit million euro range for 2018 as a whole**

LBBW has made good progress in implementing its strategic priorities in the first half of 2018. The Bank has also continued to expand its business, especially with corporate customers, and has improved net consolidated profit. LBBW generated profit before taxes of EUR 282 million in the first six months, up on the previous year's figure of EUR 279 million. Net profit also rose slightly to EUR 206 million (previous year: EUR 201 million).

"We have achieved a solid result in a challenging environment. This shows that we can invest in innovation and reliably be there for our customers at the same time. We will continue to travel this path," said Rainer Neske, Chairman of the Board of Managing Directors at LBBW.

General conditions of the banking sector were characterized by again falling interest rates, intense competition and tension on the capital markets. In this environment, LBBW increased its financing volume in particular for SMEs and large corporate clients by around 10% to EUR 47 billion, thus counteracting the pressure on margins. At the same time, administrative expenses were lower than in the previous year despite continued high investment in IT and digitalization. The favorable economic situation in Germany and LBBW’s good portfolio quality are reflected in consistently low allowances for losses on loans and securities.

Aside from LBBW’s healthy credit portfolio, the capital situation of the Bank remains comfortable. The common equity Tier 1 (CET 1) capital ratio was 14.9% as at 30 June 2018 (CRR/CRD IV fully loaded; 31 December 2017: 15.7%). The reasons behind this change include increased lending to companies and the effects of the first-time adoption of the new IFRS 9, which have reduced equity. The total capital ratio was 21.5% (31 December 2017: 22.2%).

To improve its performance as a mid-sized universal bank, over the past year LBBW has defined its four strategic priorities of business focus, digitalization, sustainability and agility. Good progress was made in implementing these in the first half of 2018. For example, in its Project Finance business repositioned at the beginning of the year, the Bank has already received a large number of financing contracts, including for major infrastructure projects and in aircraft financing. The Bank built up additional expertise in the health, energy and telecoms/media/technology sectors in order to expand its activities. In its international business, the Bank above all achieved clear growth in export finance. In the area of sustainable investments, the successful placement of the first green mortgage covered bond marked a further milestone. In digitalizing the Schuldschein business, LBBW has taken another key step following its successful implementation of blockchain. In June, together with Boerse Stuttgart, it launched a digital marketplace for funding under the Debtvision brand and has already completed its first transactions. This project was carried out by an interdisciplinary team using agile methods, similar to many other projects since implemented at the Bank.

The figures at a glance

For the first time, LBBW is reporting in accordance with the new IFRS 9 accounting standards this year, resulting in adjustments to the structure of the income statement and selected key figures.

At EUR 796 million, **net interest income** was at the same level as the previous year′s figure forthe first six months (EUR 797 million). The pressure on margins owing to continued low interest rates and fierce competition was more than offset by higher financing volumes in corporate business. The interest rate environment also continued to weigh on equity investment.

Net fee and commission income was EUR 262 million as at 30 June, down from EUR 270 million in the same period of the previous year. While brokerage business with life insurance and home and savings loan contracts was in decline, growth was achieved in asset management.

Net gains/losses on remeasurement and disposal fell from EUR 191 million to EUR 135 million. The decline was caused in particular by income from sales of securities, which was significantly lower than in the more favorable environment of the first half of 2017 due to tension on the financial markets. By contrast, allowances for losses on loans and securities remained at a low level of EUR -33 million thanks to the good economic climate and the solid state of companies on the core markets (previous year: EUR -40 million). Net gains/losses from financial instruments measured at fair value through profit and loss were also similar to the previous year′s level at EUR 129 million (EUR 130 million).

Although LBBW continued to invest heavily in modifying and modernizing its IT infrastructure, **administrative expenses** fell to EUR 878 million in the first half of the year (previous year: EUR 897 million). This was primarily due to lower personnel expenses and the non-recurrence of expenses arising in the previous year for the operational launch of the new core banking system OSPlus.

This year, the Bank incurred significantly higher expenses for the **bank levy and deposit guarantee system** than in the previous year. This was mainly caused by an adjustment of the assessment base for the bank levy. However, at EUR 89 million (2017: EUR 69 million) the effects of this have already been fully absorbed in the half-year results.

As the risks from the Sealink portfolio no longer apply, the **guarantee commission** is no longer incurred. Unlike in the previous year, there were no notable **restructuring expenses**.

Consolidated profit before tax of EUR 282 million surpassed that of the previous year by EUR 4 million. **Income tax** expenses were the same as in the previous year at EUR 77 million. This results in **net consolidated profit** of EUR 206 million in the first half of 2018.

Overview of the operating segments

In the course of refining its business focus, LBBW realigned its segments at the beginning of the year, with the former Corporates segment being divided into the Corporate Customers and Real Estate/Project Finance segments.

The **Corporate Customers** segment expanded its financing volume for business with both SMEs and large customers. Alongside its traditional lending business, LBBW was also particularly successful in corporate finance. For example, the Bank further expanded its market leadership on the Schuldschein market with 29 transactions in the first half of the year. Measured by the number of transactions, it ranked among the top three in Germany for syndicated loans. The segment′s profit before tax after six months remained steady as against the previous year at EUR 155 million (previous year EUR 158 million). Negative effects were felt as a result of margin pressure due to competition and rising administrative expenses for the implementation of regulatory requirements and growth initiatives. Furthermore, income from the commercial equity business was down year-on-year.

New business in the **Real Estate/Project Finance** segment was brisk, especially in commercial real estate financing which was up year-on-year at EUR 3.7 billion (previous year: EUR 3.4 billion). The expansion of the repositioned project finance division also made good progress. Commercial real estate financing generated high non-recurring income from prepayment penalties in 2017 as a result of extraordinary loan repayments. This effect essentially led to a reduction in segment′s profit before tax to EUR 104 million in 2018 (previous year: EUR 133 million).

Profit before tax in the **Capital Markets Business** segment fell to EUR 47 million in the first half of the year (previous year: EUR 195 million). This was caused by cautious customer business and increasing credit spreads as a result of the uncertainty on the capital markets due to the political developments in Italy. Also, higher income from sales of securities was generated in a favorable market environment in the previous year. The cooperation with the savings banks, including business with certificates for private customers, continued to develop well, with LBBW maintaining its position as one of the leading companies in Germany. In primary market business, the Bank under difficult conditions even strengthened its market position in issuing covered bonds.

The **Private Customers/Savings Banks** segment returned to the black in the first six months. Its profit before tax improved to EUR 7 million after six months (previous year: EUR -15 million). This was mainly due to a significant decline in IT expenses. In customer business, mortgaging performed well with far more transactions. Growth in business with high net-worth private clients was also well above the market average. Collaborative partnerships with the savings banks once again contributed to record volumes in development lending. LBBW set a new record with a new business volume of EUR 3.55 billion in the first half of the year. This was driven by strong demand for digitalization, innovation and energy efficiency financing.

Outlook

For the year as a whole, LBBW continues to forecast consolidated profit before tax in the mid-three-digit million euro range.

Business figures for the LBBW Group as at 30 June 2018

	1 Jan 2018 – 30 Jun 2018	1 Jan 2017 – 30 Jun 2017*	Change	
	in EUR million	in EUR million	in EUR million	in %
Net interest income	796	797	– 1	– 0.1
Net fee and commission income	262	270	– 8	– 3.0
Net gains/losses on remeasurement and disposal	135	191	– 56	– 29.5
of which allowances for losses on loans and securities **	– 33	– 40	7	– 17.1
Other operating income/expenses	58	56	2	3.6
Total operating income/expenses	*1,250*	*1,313*	*– 63*	*– 4.8*
Administrative expenses	– 878	– 897	19	– 2.1
Expenses for bank levy and deposit guarantee system	– 89	– 69	– 20	28.7
Guarantee commission for the State of Baden-Württemberg	0	– 38	38	– 100.0
Net income/expenses from restructuring	0	– 30	30	– 99.9
Consolidated profit/loss before tax	*282*	*279*	*4*	*1.4*
Income taxes	– 77	– 77	1	– 0.9
Net consolidated profit/loss	206	201	5	2.3

Figures may be subject to rounding differences. Percentages are based on the exact figures.
* The previous year's figures based on IAS 39 were transferred to the structure of the IFRS 9 scheme without adjustment.
** Relates to the category "Financial assets at amortized cost".

	30 Jun 2018	31 Dec 2017	Change	
	in EUR billion	in EUR billion	in EUR billion	in %
Total assets	259	238	21	8.8
Risk-weighted assets	79	76	3	4.5

	30 Jun 2018	31 Dec 2017
	in %	in %
CET 1 capital ratio (CRR/CRD IV „fully loaded")	14.9	15.7
Total capital ratio (CRR/CRD IV „fully loaded")	21.5	22.2

	1 Jan 2018 – 30 Jun 2018	1 Jan 2017 – 30 Jun 2017*
	in %	in %
Return on equity (ROE)	4.4	4.3
Cost/income Ratio (CIR)	75.4	76.4

* After consideration of adjusted calculation according to IFRS 9 adjustment.

	30 Jun 2018	31 Dec 2017	Change	
			absolute	in %
Employees	10,143	10,326	– 183	– 1.8