LBBW

Press Release

Bernd Wagner
Manager Press Department

LBBW
Am Hauptbahnhof 2
70173 Stuttgart, Germany
Tel: +49 (0) 711 127 76402
Fax: 0711 127-6676402
Bernd.A.Wagner@LBBW.de
www.LBBW.de

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LBBW increases consolidated profit to EUR 558m and plans distribution of EUR 250m

- **Consolidated profit before tax increased by 8.4% in difficult environment**
- **Significant growth in customer business, in particular in financing for companies and real estate, while maintaining the conservative risk policy**
- **Successful turnaround: Private customer business back in the black**
- **Common equity Tier 1 capital ratio at a very solid 15.1%**
- **Despite consistently high investments in IT, cost/income ratio significantly decreased to 72.8%**
- **For 2019 as a whole, profit before tax expected in the mid-three-digit million Euro range**

Driven by a significant expansion of customer business and a decrease in costs, LBBW improved its consolidated profit before tax – based on preliminary figures – by 8.4% y-o-y to EUR 558m in 2018. "In 2018, LBBW has developed in a positive manner and achieved a good result," said Rainer Neske, Chairman of LBBW's Board of Managing Directors. "We will propose to the Annual General Meeting a distribution of EUR 250m to the owners."

The high cost discipline led to an improvement of the cost/income ratio to 72.8%. Strong business growth while maintaining the conservative risk policy resulted in an increase in risk-weighted assets to EUR 80bn. Nonetheless, LBBW's capital resources remain very comfortable and significantly exceed the regulatory capital requirements. As of 31 December 2018, the common equity Tier 1 capital ratio was 15.1% with full implementation of CRD/CRR IV (31 December 2017: 15.7%). The total capital ratio was 21.9% (31 December 2017: 22.2%). The most recent stress test by the European Banking Authority also confirmed the solid capital base, with LBBW achieving the best result among German commercial banks.

Last year, the four strategic priorities – business focus, digitalization, sustainability and agility – still served as a compass. The expansion of the financing volume of medium-sized and large corporate customers by a total of 10% to EUR 49bn shows the progress in the business focus strategic priority. Milestones in digitalization were the successful launch of the debt financing platform "Debtvision", joining the digital trade finance network Marco Polo based on the blockchain technology or the introduction of mobile payment methods in the private customer business in close cooperation with the savings banks group. In the area of sustainability, LBBW pioneered the first CBI-certified green mortgage-backed Pfandbrief (covered bond). In addition, customer assets managed under sustainability criteria increased by around 5% to approximately EUR 21bn. Last but not least, LBBW continued to drive forward the transition to a more agile corporate culture, for example by using appropriate project methods, appointing agility managers and comprehensive training measures.

The figures at a glance

At EUR 1,558m, **net interest income** was close to the previous year's level (EUR 1,587m). The increase in financing volume counteracted the negative impact from low interest rates and pressure on margins due to intense competition. Owing to a decrease in brokerage fees and financing commissions, **net fee and commission income** fell slightly to EUR 513m (31 December 2017: EUR 534m). **Net gains on remeasurement and disposal** decreased to EUR 222m (31 December 2017: EUR 289m). This was primarily attributable to lower proceeds from the sale of securities and shares as well as higher allowances for losses on loans, which LBBW uses to prepare itself for risks arising from macroeconomic, political or cyclical developments, for example. However, at EUR 142m, loan loss provisions are still below the long-term average due to the healthy loan portfolio - the proportion of non-performing loans (NPL ratio) was 0.6% in 2018.

Even though the bank continued to invest in the modernization of its technical platform, **administrative expenses** decreased by EUR 51m to EUR 1,773m last year as a result of strict cost discipline. However, the **Bank levy and deposit guarantee system** increased significantly. Due to adjustments of the assessment base for the bank levy, a total of EUR 89m was due, EUR 20m more than the previous year. After the last major burden of the financial crisis had been eliminated with the sale of the Sealink portfolio at the end of 2017, there was no **guarantee commission** in 2018. The decline in expenses for restructuring measures led to **net expenses from restructuring** of EUR 12m after EUR 41m in the previous year.

In 2018, the **consolidated profit before tax** increased by EUR 43m to EUR 558m. After the tax rate had been positively influenced by the initial recognition of deferred tax assets at the New York branch previous year, income tax expenses in the amount of EUR 139m (2017: EUR 97m) were higher again last year. As a result, the **net consolidated profit after taxes** amounted to EUR 420m (2017: EUR 419m).

The operating segments at a glance

All four customer segments contributed to the net consolidated profit last year. The **Corporate Customers** segment, which generated a profit before tax of EUR 296m in 2018, proved to be a reliable support, earning as much as in the previous year despite declining margins and consistently low interest rates. This was mainly due to the 10% increase to EUR 49bn in the financing volume in the business with medium-sized and large companies. For example, the Bank made good progress with growth in the new focus sectors utilities/energy, pharmaceuticals/ healthcare and technology/media/telecommunications. Moreover, LBBW expanded its market leadership in promissory note loans (Schuldscheine) and reinforced its strong position in the syndicated loan business.

In 2018, the **Real Estate/Project Finance** segment recorded a profit before tax of EUR 235m after a pleasing business performance. However, this did not quite reach the previous year's result of EUR 268m, which was characterized by positive one-off effects. The new business in commercial real estate financing was particularly buoyant. Its volume rose by EUR 2.3bn respectively 40% on the previous year. The expansion of the Project Finance business is also making good progress. Here, in particular renewable energies play an important role.

Over the past year, the **Capital Markets Business** was characterized by a difficult market environment. The strong widening of credit spreads as a result of growing uncertainty on the financial markets had a significant negative impact on the segment. In addition, income from the sale of securities was lower. This resulted in a profit before tax of EUR 46m after EUR 219m in the previous year. However, the certificates business developed well, mainly due to the good sales partnership with the savings banks. Also LBBW Asset Management which increased assets under management for its customers by more than EUR 2bn to around EUR 72bn made good progress. In the primary market business, LBBW defended its top position in Euro covered bonds, with lead manager mandates for more than 60 benchmark issues.

In 2018, the **Private Customers/Savings Banks** segment generated a profit before tax of EUR 25m, clearly returning to the profit zone (previous year: EUR minus 38m). Firstly, the turnaround in the private customer business was due to a significant improvement in cost structures, in particular with regard to IT. Secondly, customer business was solid despite the difficult environment. Customer deposits increased by around EUR 3bn to EUR 28bn. A successful growth area is the nationwide service for high net-worth private clients. BW Bank continued to grow in this area both on the financing side and on the deposit side last year. In addition, in summer, the new “business customers and liberal professions” business segment was established and the support for this customer group in Stuttgart was intensified.

The very intense cooperation with the **savings banks** was also reflected in the promotional loan business. The volume of new business processed again reached a very high level (EUR 4bn in 2018). The major part was attributable to promotional loans for ecological purposes. BW Bank also integrated Sparkassen-Finanzgruppe's applications into its online and mobile banking services, including the Kwitt real-time bank transfer service and instant payment.

Outlook

For 2019, LBBW is expecting a consolidated profit before tax in the mid-three-digit Euro million range.

Preliminary financial figures of the LBBW Group as of 31 December 2018

	1/1/2018 - 31/12/2018	1/1/2017 - 31/12/2017*	Change	
	EUR million	EUR million	EUR million	in %
Net interest income	1,558	1,587	– 28	– 1.8
Net fee and commission income	513	534	– 21	– 3.9
Net gains/losses on remeasurement and disposal	222	289	– 68	– 23.4
of which allowances for losses on loans and securities**	– 142	– 93	– 49	53,5
Other operating income/expenses	140	101	39	38.1
Total operating income/expenses	*2,433*	*2,511*	*– 78*	*– 3.1*
Administrative expenses	– 1,773	– 1,824	51	– 2.8
Bank levy and deposit guarantee system	– 89	– 69	– 20	28.8
Guarantee commission for the State of Baden-Württemberg	0	– 61	61	– 100.0
Net income/expenses from restructuring	– 12	– 41	28	– 69.9
Consolidated profit/loss before tax	*558*	*515*	*43*	*8.4*
Income taxes	– 139	– 97	– 42	43.4
Net consolidated profit/loss	420	419	1	0.3

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 measured at amortized cost".

	31/12/2018	31/12/2017	Change	
	EUR billion	EUR billion	EUR billion	in %
Total assets	241	238	4	1.5
Risk weighted assets	80	76	5	6,1

	31/12/2018	31/12/2017
	in %	in %
Common equity Tier 1 capital ratio (CRR/CRD IV „fully loaded")	15.1	15.7
Total capital ratio (CRR/CRD IV "fully loaded")	21.9	22.2

	1/1/2018 - 31/12/2018	1/1/2017 - 31/12/2017*
	in %	in %
Return on equity (ROE)	4.3	4.0
Cost/income ratio (CIR)	72.8	76.4

* After taking into account changed calculations based on IFRS 9 adjustments.

	31/12/2018	31/12/2017	Change	
			In absolute terms	in %
Employees	10,017	10,326	- 309	- 3.0