

Press Release

28 August 2020

LBBW reports profit before tax of EUR 103 million in first half of 2020

- **Strong operating performance especially in Corporate Customers and Capital Markets Business**
- **Financing volume for medium-sized and large companies increased by 4 percent**
- **8,300 applications submitted for coronavirus development loans of EUR 4.2 billion**
- **Administrative expenses reduced by EUR 30 million**
- **Allowances for losses on loans and securities up due to potentially anticipated economic impact of coronavirus crisis, high expense due to single exposure already fully processed**
- **Sustainable strong capital base: Common equity Tier 1 capital ratio of 14.2%, total capital ratio of 21.8%**
- **LBBW also expects a positive result for year as a whole**
- **LBBW Chairman Neske: “We are standing by our customers’ side as a reliable partner even in these difficult times”**

LBBW’s business model has proved its worth in the first half of 2020, a period that has been defined by the coronavirus pandemic. The Bank enjoyed an excellent operational performance and provided its customers with dependable support in these extreme exceptional circumstances. In particular, interest and fee/commission income climbed perceptibly in Corporate Customers and Capital Markets

Business. At the same time, the Bank clearly increased its allowances for losses on loans and securities in preparation for the major economic challenges in conjunction with the coronavirus pandemic. Furthermore, a single major exposure – independent of Corona – resulted in a loss of around 160 million Euro, which has already been fully processed. In total, profit before tax amounted to EUR 103 million. The Bank is also forecasting a positive result for year as a whole.

“Under these extraordinary circumstances, we are showing that our business model is stable and profitable even in very difficult times,” said Rainer Neske, Chairman of the Board of Managing Directors of LBBW. “At this time we are benefiting considerably from the work done in past years, when we pushed for profitable growth, got our costs under control, and at the same time advanced the Bank’s digitalization.”

Regarding the sharp rise in allowances for losses on loans and securities, Neske explained: “As a well-balanced universal bank, we are capable of absorbing extraordinary expenses. We are anticipating a tough economic situation in Germany and Europe in the years ahead. We are well prepared for this with our consistently strong capital ratio.”

Despite the rising level of lending, LBBW still has a comfortable capital base by industry standards. The common equity Tier 1 capital ratio (CRD/CRR IV fully loaded) was 14.2% after the first half of 2020 (31 December 2019: 14.6%) with a total capital ratio of 21.8% (31 December 2019: 22.9%). The two figures are far above the regulatory requirements. Risk weighted assets grew by EUR 3 billion to around EUR 84 billion in the first half of the year. Due to the stable income and cost situation, the cost/income ratio remained constant at 71.2%.

LBBW offering customers intensive support in coronavirus crisis

The last few months have been largely dominated by the coronavirus pandemic. “We are standing by our customers’ side as a reliable partner even in these difficult times. Consulting requirements among both

corporate and private customers have been enormous. We saw strong demand for financing, investment and hedging products," said Rainer Neske. "Safeguarding liquidity was a top priority in Corporate Customers in particular." The volume of financing for medium-sized and large companies has risen by 4 percent to 53 billion EUR since the beginning of the year. LBBW has also supported these companies by passing on development loans. In the first half of the year, around 8,300 applications for coronavirus loans for EUR 4.2 billion were forwarded to KfW and the development banks of the federal states. EUR 1.7 billion of this figure was for LBBW customers and EUR 2.5 billion for savings banks customers for whom LBBW handles development loan business.

In this context, Rainer Neske highlighted the efforts of employees who, working under extreme conditions and with high home office rates, have maintained banking operations at all times and done tremendous work for customers: "Throughout the coronavirus pandemic, our employees have impressively shown that they can adapt to changing customer expectations, a difficult economic environment and external shocks with the utmost speed and dependability."

Ongoing development along the four strategic cornerstones

LBBW feels that the crisis has validated the strategy it has been implementing since the start of 2017, which is defined by the four cornerstones business focus, sustainability, digitalization and agility. It therefore consistently continued these activities in the first half of 2020 as well, for instance in the field of savings bank business, where an agreement was recently reached with BayernLB to take over interest, currency and commodities management for corporate customers of savings banks. LBBW is thus intensifying its cooperation with the savings banks while at the same time making an important contribution to bundling skills within S-Finanzgruppe.

Another example of investment in forward-thinking business areas is the creation of a team of advisors to help companies develop sustainable

business models and to use the appropriate financing instruments. LBBW is thereby shoring up its aspiration to take a leading role in sustainability. This can also be seen in its issue of what is now its second "social bond" with a volume of EUR 1 billion. Finally, 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.

LBBW has reached another milestone in digitizing its processes with the first fully digital Schuldschein loan. The Schuldschein issued by Daimler was marketed exclusively on the Debtvision financing platform, and it was processed using LBBW DLT platform and digital signature. Moreover, especially during the lockdown, digitalization initiatives of recent years paid off in various ways, such as the launch of the Corporates-Portal or the expansion of digital interfaces. The same goes for the increased use of agile working methods, which were a great help in virtualizing cooperation within the Bank in the shortest possible time.

Figures at a glance

Net interest income improved significantly by EUR 62 million to EUR 872 million despite the ongoing low interest phase and intensive competition. In addition to Capital Markets Business, this also benefited from the expansion of corporate and project financing. **Net fee and commission income** remained virtually constant year-on-year at EUR 274 million (2019: EUR 279 million). This was thanks to a positive trend in income from securities transactions by our customers, though income from guarantee business and payment transactions was down slightly.

Net gains/losses on remeasurement and disposal fell to minus EUR 182 million (previous year: EUR 154 million), mainly on account of the rise in allowances for losses on loans and securities to EUR 281 million (previous year: EUR 63 million). This was essentially related to the single major exposure mentioned above. Furthermore,

LBBW has formed additional allowances for losses on loans and securities in preparation for potentially anticipated loan losses as a result of the coronavirus pandemic. LBBW's portfolio quality remains good, and it has even expanded its exposure share of financing with good credit quality. The non-performing loan (NPL) ratio is at a low 0.8%.

Administrative expenses declined by EUR 30 million to EUR 834 million in the first half of the year thanks to successful cost management. Staff costs were down on the one hand and, on the other, savings were generated in operating costs, for instance for business travel or events.

Expenses for the bank levy and deposit guarantee system rose again by EUR 16 million to EUR 118 million in 2020, and were already fully processed in the first half of the year. This was 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.

The **net consolidated profit before tax** was EUR 103 million as at 30 June 2020 after EUR 329 million in the same period of the previous year. After deducting **income taxes** of EUR 51 million, the **net consolidated profit after taxes** amounted to EUR 52 million (2019: EUR 226 million).

Operating segments at a glance

Earnings development in the first half of 2020 demonstrates the balancing effect of the four pillars of LBBW's universal bank model: While Corporate Customers business and Real Estate/Project Finance reported declines in profit before tax, Capital Markets Business and business with Private Customers/Savings Banks were up significantly on the previous year.

The **Corporate Customers** segment stood by mid-sized and large companies as a reliable partner in the crisis with thousands of advisory

interviews, creative solutions and extensive financing. At the same time, LBBW expanded its cross-selling, in particular with hedging products in interest, currency and commodities management and corporate finance instruments such as *Schuldschein* or the securitization of receivables. Both interest and net fee/commission income improved as a result of this. However, the overwhelming majority of the Group's allowances for losses on loans and securities related to the Corporate Customers segment, resulting in a pre-tax loss of EUR 43 million despite an improved financial performance; Corporate Customers would have generated a positive result in a three digit million amount without the single negative exposure referred above.

Despite the current general conditions, the **Real Estate/Project Finance** segment generated new business of around EUR 5 billion in total in the first six months. Approximately EUR 900 million of this related to project financing while renewable energies accounted for half of this amount. At EUR 106 million, the profit before tax was once again in excess of one hundred million, albeit down slightly on the good figure for the previous year (EUR 116 million). The decline was partly due to premature termination of exposures ahead of schedule as at the end of 2019. In addition, several large property projects will not be finalized and therefore recognized in income, until the second half of 2020.

In the **Capital Markets Business** segment, among other things, brisk demand for hedging and investment products against the backdrop of the volatile market environment of the past few months caused profit before tax to surge by EUR 23 million to EUR 125 million. Primary market business was positive once again with a placement volume of almost EUR 80 billion. LBBW has a particularly strong position in Euro covered bonds; The Covered Bond Report therefore recently declared it "Euro House 2020". Its good reputation on the Pfandbrief market also helps LBBW with its own refinancing. For instance, the Bank carried out the first successful benchmark transaction after the pandemic broke out.

The **Private Customers/Savings Banks** segment handled the massive challenges of the coronavirus especially well. Its profit before tax rose

from EUR 11 million to EUR 19 million, thanks above all to improved net fee and commission income as a result of buoyant securities business and lower administrative expenses. The multi-channel strategy in retail banking with physical and digital distribution channels proved its worth during the pandemic: BW-Bank continued to provide customers with personal services at core locations throughout the lockdown, while at the same time stepping up telephone consulting and expanding digital services. Customers made intensive use of the latter in particular: the online branch was visited around 2 million times per month and online banking registrations rose by a quarter. Cooperation with the savings bank was also dominated by the coronavirus. For example, new development loan business reached a record level of EUR 6.7 billion as at 30 June, EUR 4.8 billion of which was processed by the savings banks. The liquidity loans in conjunction with coronavirus stimulus referred to above played a huge part in this.

Outlook

The coronavirus pandemic will continue to be the defining factor for the development of the global economy as a whole and thus for conditions in the finance sector in the second half of the year as well. It is still difficult to say how events will unfold. LBBW nonetheless expects a positive result before tax for the year as a whole.

Business figures for the LBBW Group as at 30 June 2020

	01/01/2020 - 30/06/2020	01/01/2019 - 30/06/2019 ¹	Change	
	EUR million	EUR million	in EUR million	in %
Net interest income	872	811	62	7.6
Net fee and commission income	274	279	- 5	- 1.6
Net gains/losses on remeasurement and disposal	- 182	154	- 336	-
of which allowances for losses on loans and securities	- 281	- 63	- 218	> 100
Other operating income/expenses	90	52	38	72.7
<i>Total operating income/expenses</i>	<i>1,055</i>	<i>1,296</i>	<i>- 241</i>	<i>- 18.6</i>
Administrative expenses	834	- 864	30	- 3.5
Expenses for bank levy and deposit guarantee system	- 118	- 102	- 16	15.5
Net income/expenses from restructuring	1	0	1	-
<i>Consolidated profit/loss before tax</i>	<i>103</i>	<i>329</i>	<i>- 226</i>	<i>- 68.7</i>
Income taxes	- 51	- 103	52	- 50.7
Net consolidated profit/loss	52	226	- 174	- 76.8

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

¹ Restatement of prior year amounts

	30/06/2020	31/12/2019	Change	
	EUR billion	EUR billion	in EUR billion	in %
Total assets	290	257	33	12.9
Risk weighted assets	84	80	3	4.1

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

	30/06/2020	31/12/2019
	in %	in %
Common equity Tier 1 capital ratio (CRR/CRD IV „fully loaded“)	14.2	14.6
Total capital ratio (CRR/CRD IV „fully loaded“)	21.8	22.9

	01/01/2020 - 30/06/2020	01/01/2019 - 30/06/2019 ¹
	in %	in %
Return on equity (ROE)	1.5	5.1
Cost/income ratio (CIR)	71.2	71.2

¹ Restatement of prior year amounts

	30/06/2020	31/12/2019	Change	
			In absolute terms	in %
Employees	10,111	10,005	106	1.1

Segments at a glance

Corporate Customers

	1/1- 30/06/2020	1/1- 30/06/2019 ¹
	EUR million	EUR million
Net interest income	410	394
Net fee and commission income	89	84
Net gains/losses on remeasurement and disposal	- 230	- 13
of which allowances for losses on loans and securities	- 233	- 39
Other operating income/expenses	- 1	4
<i>Total operating income/expenses</i>	<i>268</i>	<i>469</i>
Administrative expenses	- 295	- 294
Expenses for bank levy and deposit guarantee system	- 16	- 15
Net income/expenses from restructuring	0	0
<i>Consolidated profit/loss before tax</i>	<i>- 43</i>	<i>159</i>

¹ Restatement of prior year amounts

Real Estate/Project Finance

	1/1- 30/06/2020	1/1- 30/06/2019 ¹
	EUR million	EUR million
Net interest income	149	154
Net fee and commission income	10	11
Net gains/losses on remeasurement and disposal	- 8	- 11
of which allowances for losses on loans and securities	- 4	- 11
Other operating income/expenses	45	44
<i>Total operating income/expenses</i>	<i>196</i>	<i>197</i>
Administrative expenses	- 82	- 75
Expenses for bank levy and deposit guarantee system	- 9	- 7
Net income/expenses from restructuring	0	0
<i>Consolidated profit/loss before tax</i>	<i>106</i>	<i>116</i>

¹ Restatement of prior year amounts

Capital Markets Business

	1/1- 30/06/2020	1/1- 30/06/2019 ¹
	EUR million	EUR million
Net interest income	177	97
Net fee and commission income	73	67
Net gains/losses on remeasurement and disposal	122	193
of which allowances for losses on loans and securities	1	1
Other operating income/expenses	1	- 7
<i>Total operating income/expenses</i>	<i>372</i>	<i>351</i>
Administrative expenses	- 221	- 227
Expenses for bank levy and deposit guarantee system	- 27	- 23
Net income/expenses from restructuring	0	0
<i>Consolidated profit/loss before tax</i>	<i>125</i>	<i>101</i>

¹ Restatement of prior year amounts

Private Customers/Savings Banks

	1/1- 30/06/2020	1/1- 30/06/2019 ¹
	EUR million	EUR million
Net interest income	146	155
Net fee and commission income	122	120
Net gains/losses on remeasurement and disposal	- 1	- 13
of which allowances for losses on loans and securities	1	- 16
Other operating income/expenses	- 4	5
<i>Total operating income/expenses</i>	<i>263</i>	<i>268</i>
Administrative expenses	- 244	- 255
Expenses for bank levy and deposit guarantee system	0	- 2
Net income/expenses from restructuring	0	0
<i>Consolidated profit/loss before tax</i>	<i>19</i>	<i>11</i>

¹ Restatement of prior year amounts

Corporate Items/Reconciliation/Consolidation

	1/1- 30/06/2020	1/1- 30/06/2019 ¹
	EUR million	EUR million
Net interest income	- 9	11
Net fee and commission income	- 20	- 4
Net gains/losses on remeasurement and disposal	- 64	- 3
of which allowances for losses on loans and securities	- 45	3
Other operating income/expenses	49	6
<i>Total operating income/expenses</i>	<i>- 45</i>	<i>10</i>
Administrative expenses	7	- 13
Expenses for bank levy and deposit guarantee system	- 66	- 56
Net income/expenses from restructuring	1	0
<i>Consolidated profit/loss before tax</i>	<i>- 103</i>	<i>- 59</i>

¹ Restatement of prior year amounts

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