

LB≡BW



200 Jahre  
Bereit für  
Neues.

LB≡BW

Landesbank Baden-Württemberg

11/12/2018 - Result as of 30 June 2018 including update 3<sup>rd</sup> quarter of 2018

**LBBW Group**

Result as of 30 June 2018 including update 3<sup>rd</sup> quarter of 2018

**LB≡BW**

Breaking new ground

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# LBBW with good starting position and further implementation of the strategic cornerstones

- **Economic development** slightly weakened but upward trend still intact; **interest rates** still extremely low; moreover challenges due to intense **competition** as well as **regulatory requirements** and **digitalization**
- **LBBW as mid-sized universal bank** well-positioned; continued stringent implementation of the **strategic cornerstones** of business focus, digitalization, sustainability and agility
- **Consolidated profit before tax** as of 30 June 2018 at **€ 282 mln** and thus above PY in spite of despite continuing pressure on margins and a difficult capital markets environment; for **2018** LBBW still anticipates a consolidated profit before tax **in a mid three-digit million range**
- **Capitalization** still at a **comfortable** level with **capital ratios well in excess of the requirements**, **increase in RWA** due to **growth in customer business**
- **Good portfolio quality** helps to achieve low risk provisioning level; **risk-bearing capacity** at a **comfortable** level and further improved
- **Strong funding basis** further **broadened**; good market access provides LBBW with **very competitive funding costs** in the capital markets; still **comfortable liquidity situation**

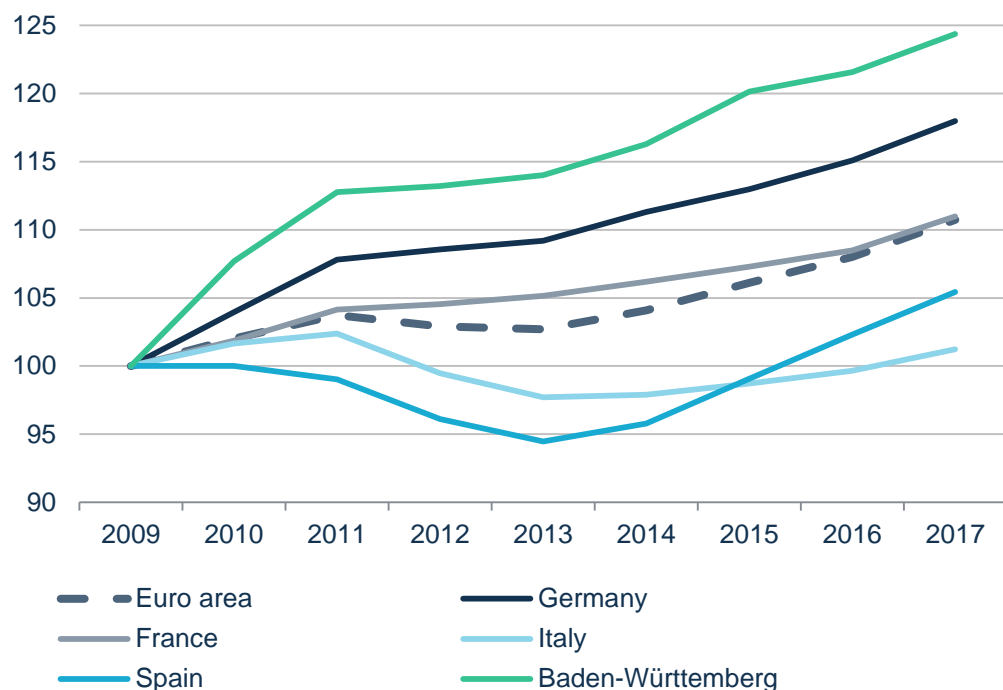
# Agenda

01	Market conditions and strategic direction	Page 4
02	Earnings performance and capital development	Page 9
03	Risk management and portfolio development	Page 27
04	Funding and liquidity	Page 34
05	Outlook	Page 37
06	Appendix	Page 39

# LBBW can count on a strong economy in Germany and Baden-Württemberg

## GDP of selected Euro area countries

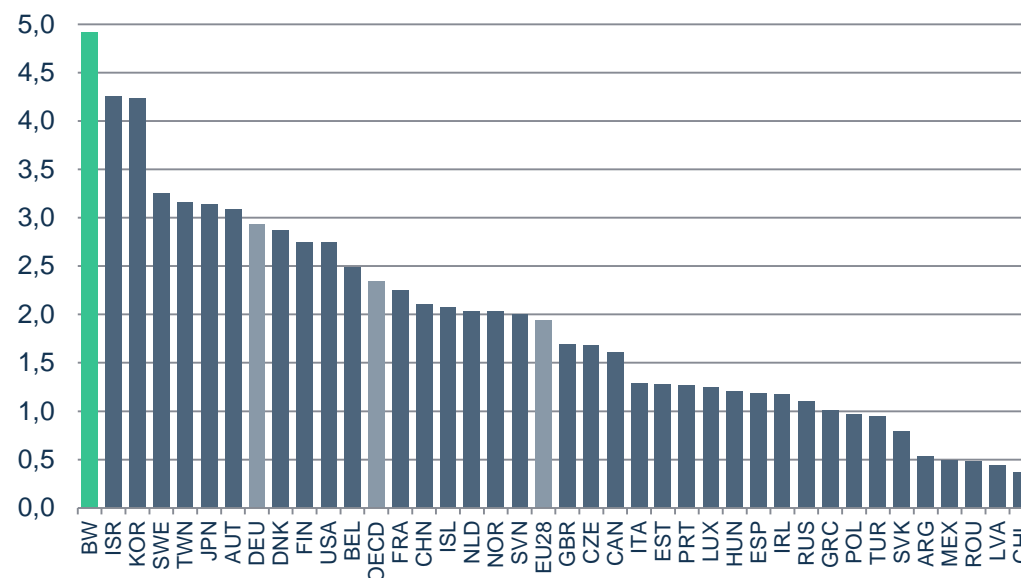
indexed to 100 points in 2009



- **Germany with strong growth**
  - Faster recovery after the financial crisis than other European countries
- **Baden-Württemberg further on a strong business location**
  - Economic output distinctly above EU average
  - Unemployment rate with 3.0% extremely low

## Intensity of R&D<sup>1</sup>

%



- **High future security in Baden-Württemberg**
  - **R&D investments** in Baden-Württemberg are the highest
  - **Baden-Württemberg** is among the **leading research-intensive states** both regarding universities as well as corporates **in the area of Artificial Intelligence**

Sources: Thomson Reuters, Statistical Office of Baden-Württemberg

<sup>1</sup> Expenses allocated for R&D in relation to nominal GDP (2016)

# Strong competitive position of LBBW's customers in Baden-Württemberg's core sectors



## Automotive

- Strong market position: 80% of the premium segment worldwide
- Job and export engine: One out of 7 jobs in Germany depends on the automotive industry
- High finance and innovative power as guarantor for successful future:
  - 3,650 patents p.a.
  - 1/3 of the German industrial R&D in the automotive industry
  - About € 40 bn will be invested in electric mobility until 2020 in Germany



## Engineering

- Technologically leading: Strong competitive position with high quality ("German Engineering")
- Pioneer in terms of digitalization (industry 4.0)
- Germany the globally leading machinery exporter (global market share 16%, i.e. € 168 bn)
- Biggest industrial employer in Germany (approximately 1 mln employees)



## Utilities and Energy

- Electricity is the basis of our daily life
- Turnaround in energy policy as a key challenge of the 21<sup>st</sup> century
- Share of renewable energies to total gross electricity: 33%
- Stable earnings due to regulated earnings
- More than 400,000 employees in Germany in the electricity and water industries, additional 370,000 in renewable energies



**Strong industrial basis in Baden-Württemberg with high innovative power and global export**

**In addition, LBBW focusses on the industry sectors healthcare/pharma, technology, media and telecommunication industry (TMT)**

# LBBW as mid-sized universal bank well-positioned

## Mid-sized universal bank

Long-grown customer relationships

Long-term oriented owners

Strong employees' identification

Deeply rooted in the regions

Strong capital base

Innovations & process excellence

High quality standards

### Business focus



- **Growth** due to
  - Increasing **profitability**
  - Stronger **use of product competences** in the business with our customers

### Digitalization



- Transfer of our **competitive advantages** into the **digital age**

### Sustainability



- Responsible **lending**
- Support of our customers in the change of their **business models**
- Orientation towards changing **investment needs**

### Agility



- Changes in customer behavior and a volatile environment require new **working methods**
  - **Cross-departmental**
  - **Fast**
  - **Unbureaucratic**
  - **Team-oriented**

# LBBW with successes in the four strategic cornerstones well-positioned for target achievement



## Business focus



- 2<sup>nd</sup> place "Best Mittelstandsbank" in the corporate customer segment<sup>1</sup>
- Awards as **financing partner** for large-volume transactions in the segment Real Estate and Projects
- Increase in volume in **investment solutions** in the Capital Markets Business
- **Growth initiatives** in private residential mortgage lending

- Schuldschein transactions with **blockchain** for customers Daimler and Telefónica
- **DEBTVISION** as digital platform for Schuldscheine
- Roll-out of innovative **digital technologies** (inter alia robotics, smart data, chatbot)
- **First f2b processes digitalized** (e.g. guarantee business process, Giro Worldwide)

## Digitalization



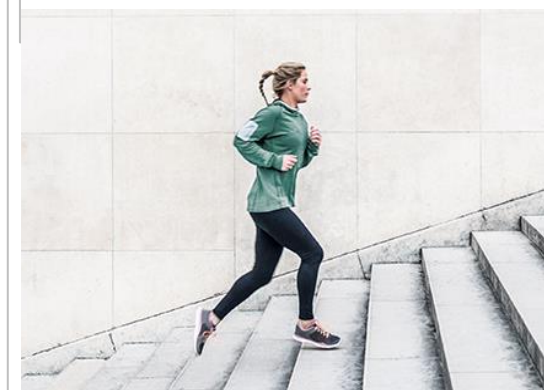
## Sustainability



- Sustainable **asset management solutions**
- Issuance of **Green Mortgage Pfandbrief** (€ 500 mln)
- Promotion of **talent management**

- Implementation of **agility managers** as central multipliers
- Conversion of key projects based on **agile project methods**
- **"Employee Journey"**: Sustainable increase of employee productivity and satisfaction through action lines identified by central workshops

## Agility



<sup>1</sup> Survey by specialist magazine „Finance“



# Agenda

01	Market conditions and strategic direction	Page 4
02	Earnings performance and capital development	Page 9
03	Risk management and portfolio development	Page 27
04	Funding and liquidity	Page 34
05	Outlook	Page 37
06	Appendix	Page 39

# LBBW Group: KPI show good starting position

## Key Performance Indicators

		Act 06/2018	Prev 06/2017	Δ %/ p.p.	Agreed target in the long-term
<b>Profitability</b>					
Consolidated profit/loss before tax	€ mln	282	279	1.4	
RoE	%	4.4	4.3	0.1	6%
CIR	%	75.4	76.4	-1.0	60%

		Act 06/2018	Prev 12/2017	Δ p.p.	Agreed target in the long-term
<b>Liquidity</b>					
LCR	%	144.6	145.8	-1.3	>110%

		Act 06/2018	Prev 12/2017	Δ %/ p.p.	Agreed target in the long-term
<b>Capital</b>					
RWA	€ bn	79.1	75.7	4.5	
CET1 capital ratio <sup>1</sup>	%	14.9	15.7	-0.7	13%
Total capital ratio <sup>1</sup>	%	21.5	22.2	-0.7	18%
Total assets	€ bn	258.5	237.7	8.8	
Leverage ratio <sup>1</sup>	%	4.3	4.6	-0.3	>4%
Utilization of aggregate risk cover	%	38.1	41.9	-3.8	<70%

## Profitability

- **Consolidated profit before tax** in challenging market environment above PY
  - Intensive competition and low interest rate level put a strain
  - In contrast lower risk provisioning and administrative expenses
  - Lower effects from the sale of securities and equity interests, in contrast no strains from restructurings and omission of guarantee provision
- **RoE** and profit above PY
- **CIR** below PY, positive development of expenditure offsets weak development of earnings

## Liquidity:

- **LCR** distinctly above regulatory minimum requirements

## Capital:

- Increase in **RWA** inter alia due to new business leads to slight decrease of **capital ratios**, but still distinctly above SREP ratio
- In addition to new business increase in **total assets** stemming from money market transactions and credit balances held with central banks; slight decrease of **leverage ratio**
- **Utilization of risk cover amount** shows comfortable risk-bearing capacity

Differences due to rounding

<sup>1</sup> Fully loaded

# LBBW Group: KPI show good starting position

## Key Performance Indicators

		Act 09/2018	Prev 09/2017	Δ %/ p.p.	Agreed target in the long-term
<b>Profitability</b>					
Consolidated profit/loss before tax	€ mln	457	447	2.0	
RoE	%	4.7	4.6	0.1	6%
CIR	%	73.6	74.5	-0.9	60%

		Act 09/2018	Prev 12/2017	Δ p.p.	Agreed target in the long-term
<b>Liquidity</b>					
LCR	%	133.4	145.8	-12.4	>110%

		Act 09/2018	Prev 12/2017	Δ %/ p.p.	Agreed target in the long-term
<b>Capital</b>					
RWA	€ bn	80.5	75.7	6.3	
CET1 capital ratio <sup>1</sup>	%	14.7	15.7	-1.0	13%
Total capital ratio <sup>1</sup>	%	21.2	22.2	-1.0	18%
Total assets	€ bn	257.9	237.7	8.5	
Leverage ratio <sup>1</sup>	%	4.2	4.6	-0.4	>4%
Utilization of aggregate risk cover	%	39.4	41.9	-2.5	<70%

### Profitability

- **Consolidated profit before tax** in challenging market environment above PY
  - Increase in volume mainly in Corporate Customers offsets margin pressure due to intensive competition and low interest rates
  - But lower risk provisioning compared to the previous year
  - In addition, lower administrative expenses and no strains from restructurings and guarantee commission
  - In contrast lower earnings from the sale of securities and equity interests
- **RoE** and **CIR** in accordance with the above mentioned developments better than the PY

### Liquidity

- **LCR** in spite of decrease still distinctly above regulatory minimum requirements

### Capital

- Increase in **RWA** inter alia due to new business leads to decrease of **capital ratios**, but still distinctly above SREP ratio
- Increase in **total assets** stemming from new business and also from money market transactions and credit balances held with central banks; slight decrease of **leverage ratio**
- **Utilization of risk cover amount** shows comfortable risk-bearing capacity

Differences due to rounding

<sup>1</sup> Fully loaded

# LBBW Group: Expansion of customer business and reduced administrative expenses

## Earnings performance

€ mln	YTD		
	Act 06/2018	Prev 06/2017	Δ %
Net interest income	796	797	-0.1
Net fee and commission income	262	270	-3.0
Net gains/losses on remeasurement and disposal	135	191	-29.5
of which allowances for losses on loans and securities <sup>1</sup>	-33	-40	-17.1
Other operating income/expenses	58	56	3.6
<b>Total operating income/expenses</b>	<b>1,250</b>	<b>1,313</b>	<b>-4.8</b>
Administrative expenses	-878	-897	-2.1
Expenses for bank levy and deposit guarantee system	-89	-69	28.7
Guarantee commission for the State of BW	0	-38	-
Net income/expenses from restructuring	0	-30	-99.9
<b>Consolidated profit/loss before tax</b>	<b>282</b>	<b>279</b>	<b>1.4</b>
Income taxes	-77	-77	-0.9
<b>Net consolidated profit/loss</b>	<b>206</b>	<b>201</b>	<b>2.3</b>

**Earnings performance:** Consolidated profit before tax above PY

- **Net interest income:** Margin pressure due to competition and low interest rates put a strain, in contrast expansion of customer business
- **Net fee and provision income:** above all, income from brokerage business was in decline, in contrast positive development of asset management
- **Net gains/losses on remeasurement and disposal:** below PY
  - Lower contributions from securities and equity investments as well as difficult conditions in the capital markets business
  - **Risk provisioning** still at low level thanks to good credit portfolio quality and stable economic situation in core markets
- **Administrative expenses:** despite investments in IT below PY due to lower staff costs and change of core banking system in the PY
- **Bank levy/Deposit guarantee scheme:** above PY mainly due to higher bank levy across the industry
- **Guarantee commission:** no expenses after sale of Sealink portfolio

Differences due to rounding

<sup>1</sup> Relates only to the category "Financial assets at amortized cost"

# LBBW Group: Expansion of customer business and reduced administrative expenses

## Earnings performance

€ mln	YTD		
	Act 09/2018	Prev 09/2017	Δ %
Net interest income	1,202	1,212	-0.8
Net fee and commission income	385	398	-3.4
Net gains/losses on remeasurement and disposal	201	251	-20.0
of which allowances for losses on loans and securities <sup>1</sup>	-53	-67	-22.1
Other operating income/expenses	90	106	-14.4
<b>Total operating income/expenses</b>	<b>1,878</b>	<b>1,967</b>	<b>-4.5</b>
Administrative expenses	-1,332	-1,354	-1.6
Expenses for bank levy and deposit guarantee system	-89	-69	28.5
Guarantee commission for the State of BW	0	-55	-
Net income/expenses from restructuring	0	-41	-99.7
<b>Consolidated profit/loss before tax</b>	<b>457</b>	<b>447</b>	<b>2.0</b>
Income taxes	-116	-127	-8.7
<b>Net consolidated profit/loss</b>	<b>340</b>	<b>320</b>	<b>6.3</b>

### Earnings performance: Consolidated profit before tax above PY

- **Net interest income:** Expansion of customer business offsets strains due to intense competition and low interest rate level
- **Net fee and commission income:** inter alia restrained customer demand in brokerage business, in contrast positive development of asset management
- **Net gains/losses on remeasurement and disposal:** below PY
  - Lower **disposal proceeds** from securities and equity investments
  - Persistently difficult environment in **Capital Markets Business**
  - **Risk provisioning** still benefits from good credit portfolio quality and stable economic situation in the core markets
- **Administrative expenses:** despite investments in IT below PY, lower staff costs and elimination of charges related to change of core banking system in the PY
- **Bank levy/deposit guarantee system:** in line with the entire sector above PY

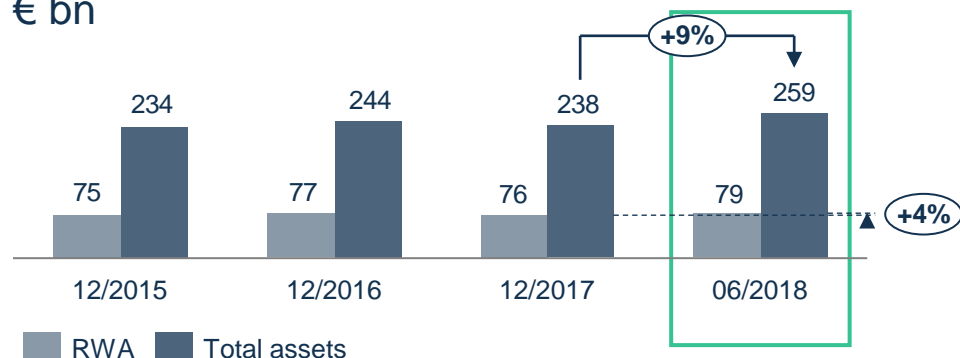
Differences due to rounding

<sup>1</sup> Relates only to the category "Financial assets at amortized cost"

# LBBW Group: Capitalization still at very comfortable level

## RWA and total assets

€ bn



**RWA** with increase to € 79 bn

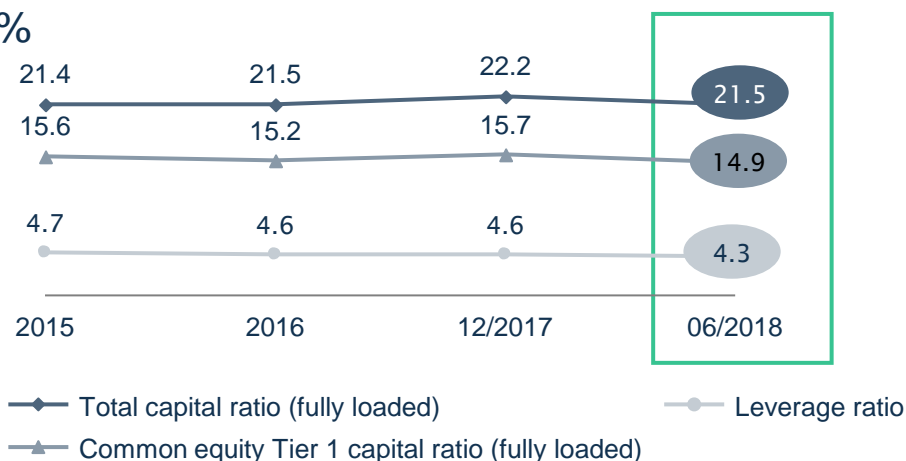
- Growth in Corporate Customers and Real Estate/Project Finance
- In contrast cutback of selected portfolios

**Total assets** with increase to € 259 bn

- In addition to growth especially higher credit balances held with central banks and money market transactions in the segment Capital Markets Business

## Capital ratios

%



**Capital ratios (CRR)** slightly declining

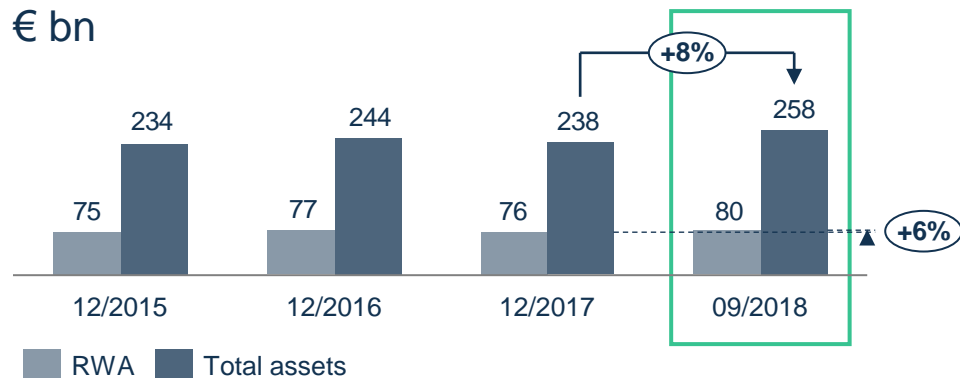
- **Common equity Tier 1 capital ratio (fully loaded)** at 14.9%
  - Development of RWA and strain on core capital due to IFRS 9 initial adoption effects (approximately -0.25%-points)
- **Total capital ratio (fully loaded)** at 21.5%
- **SREP ratio (common equity Tier 1 capital ratio; phase-in)** of 8.80% still distinctly exceeded
- **Leverage ratio** with 4.3% during the year below PY due to volume, but still significantly above the minimum requirement of 3%
- Stipulated **MREL ratio** also significantly exceeded

Differences due to rounding



# LBBW Group: Capitalization still at comfortable level

## RWA and total assets



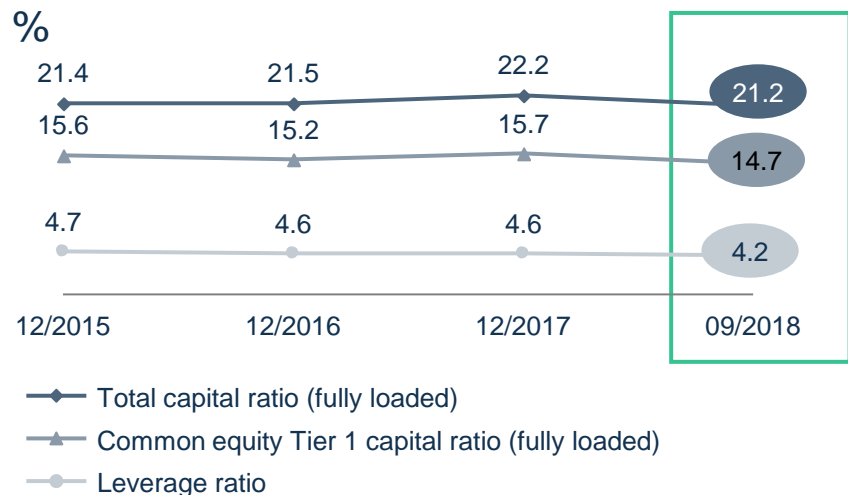
**RWA** with increase to € 80 bn

- Growth in Corporate Customers and Real Estate/Project Finance
- In contrast cutback of selected portfolios

**Total assets** with increase to € 258 bn

- In addition to growth mainly expansion of money market transactions and credit balances held with central banks in the segment Capital Markets Business

## Capital ratios



Differences due to rounding

**Capital ratios (CRR)** slightly declining, but distinctly above the level of our competitors

- **Common equity Tier 1 capital ratio (fully loaded)** at 14.7%
  - Development of RWA due to growth in customer business and strain on core capital due to IFRS 9 initial adoption effects (approximately -0.25%-points)
- **Total capital ratio (fully loaded)** at 21.2%
- **SREP ratio (common equity Tier 1 capital ratio; phase-in)** of 8.80% still distinctly exceeded
- Stipulated **MREL ratio** also significantly exceeded
- **Leverage ratio** with 4.2% during the year below PY due to volume, but still significantly above the minimum requirement of 3%

# LBBW's business model based on four operating segments



## **Corporate Customers**

Business with SMEs, key accounts and multinationals as well as the public sector



## **Real Estate / Project Finance**

Commercial real estate business as well as financing solutions for major projects and transport



## **Capital Markets Business**

Customer business with savings banks, corporates, banks and institutionals



## **Private Customers / Savings Banks**

Retail banking, private asset management as well as business customers and freelancers



# Operating segments of LBBW: Solid customer business despite challenging environment

## Key Performance Indicators

figures as of 06/2018

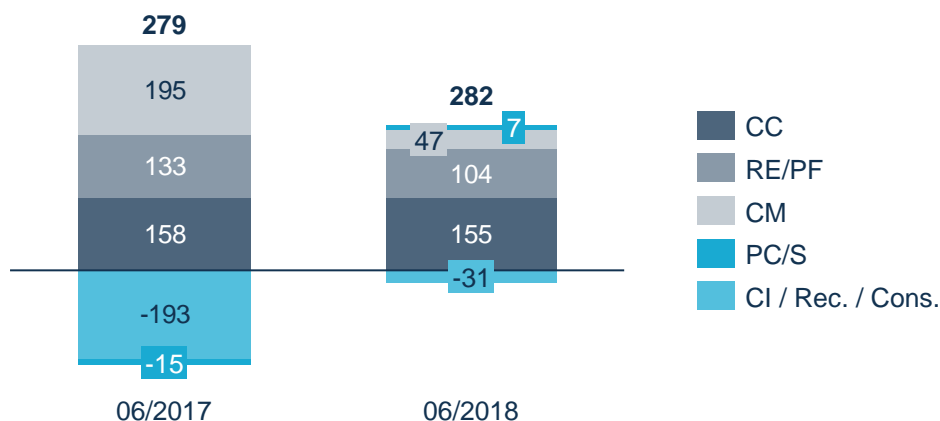
		LBBW	Operating Segments				CI / Rec. /
		LBBW Group	CC	RE/PF	CMB	PC/S	
<b>Profitability</b>							
Total operating income/expenses	€ mln	1,250	479	178	312	275	6
IFRS Profit before tax	€ mln	282	155	104	47	7	-31
RoE	%	4.4	7.1	14.7	3.4	1.2	<0
CIR	%	75.4	64.2	39.5	85.4	96.5	>100
<b>Capital</b>							
RWA	€ bn	79.1	35.6	10.6	18.3	8.0	6.5
Total assets	€ bn	258.5	56.7	24.9	154.9	13.1	8.9

### Operating segments as main earnings driver

- More than 90% of **RWA** assigned to these segments

## Segment results

€ mln



Differences due to rounding / Previous year incl. adjustments

CC=Corporate Customers / RE/PF=Real Estate/Project Finance / CM=Capital Markets Business / PC/S=Private Customers/Savings Banks

CI/Rec./Cons.=Corporate Items/Reconciliation/Consolidation

### All operating segments with positive earnings contribution in 2018

- **Margin pressure** due to competition and low interest rate level is reflected in all operating segments, **mainly CC and RE/PF**
- **Difficult environment in capital markets business** burdens segment
- **PC/S** distinctly **improved** and positive

# Segment Corporate Customers with clear growth mandate

## Segment



LBBW's Corporate Customer business comprises medium-sized corporate customers, large corporates and multinationals as well as municipalities and their companies

## Achievements



### Business focus

- Intensified acquisition of new clients in growth and existing markets aiming at expansion of the cross-selling activities
- Notable expansion of financing volume in 2018
- Ranked 2<sup>nd</sup> "Best Mittelstandsbank" and one of the top corporate finance banks: Schuldscheindarlehen #1, SynLoan #3



### Digitalization

- Further development of blockchain Schuldschein transactions
- **Establishment DEBTVISION** as open digital platform for Schuldscheine together with Stuttgart stock exchange
- Development of corporates portal and expansion of digital product offerings



### Sustainability

- Placement of green bond for innogy
- Placement of green Schuldschein for Mann + Hummel

## Outlook



→ LBBW aims at significant growth mainly in the target markets also outside Baden-Württemberg  
New: target markets in selected European countries

→ Continued clear focus on increase of cross-selling products and integrated advisory approaches

→ Further expansion of digitalization in the business with corporate customers

# Segment Corporate Customers: Distinct expansion of the financing volume

## Earnings performance

€ mln	YTD		
	Act 06/2018	Prev 06/2017	Δ %
Net interest income	383	354	8.2
Net fee and commission income	81	95	-15.2
Net gains/losses on remeasurement and disposal	11	23	-54.2
of which allowances for losses on loans and securities <sup>1</sup>	-24	-44	-45.8
Other operating income/expenses	5	5	-14.8
<b>Total operating income/expenses</b>	<b>479</b>	<b>478</b>	<b>0.3</b>
Administrative expenses	-311	-294	5.6
Expenses for bank levy and deposit guarantee system	-13	-10	36.6
Guarantee commission for the State of BW	0	0	-
Net income/expenses from restructuring	0	-16	-99.8
<b>Consolidated profit/loss before tax</b>	<b>155</b>	<b>158</b>	<b>-1.8</b>

### Earnings performance: Profit before tax at PY's level

- Margin pressure due to intense competition and low interest rates offset by expansion of financing volume
- Cross-selling below PY
- Lower risk provisioning shows unchanged good portfolio quality
- In contrast lower sales results from equity investments
- Higher administrative expenses mainly due to regulatory projects and growth initiatives

## Key Performance Indicators

%	YTD		
	Act 06/2018	Prev 06/2017	Δ p.p.
RoE	7.1	10.4	-3.3
CIR	64.2	61.2	2.9

€ bn	YTD		
	Act 06/2018	Prev 12/2017	Δ %
RWA	35.6	31.6	12.8
Total assets	56.7	54.1	4.8

### Key performance indicators

- RoE below PY mainly due to strong growth in financing volume
- CIR especially due to development of earnings above PY
- Total assets and RWA mainly due to growth in financing volume above PY

Differences due to rounding / Previous year incl. adjustments

<sup>1</sup> Relates only to the category "Financial assets at amortized cost"

# Segment Real Estate/Project Finance with focus on new growth markets

## Segment



LBBW's Real Estate and Project Finance business is pooling all asset-based topics, inter alia the commercial real estate financing business, infrastructure and transport finance and the subsidiary LBBW Immobilien Management GmbH with additional real estate services

## Achievements



### Business focus

Real Estate:

- High volume of new business (approximately € 3.7 bn)
- Various awards as financing partner for large-volume transactions
- Strengthening market presence in Canada and France

Project Finance / Transportation:

- Numerous financing contracts obtained; expansion of focus regions

LBBW Immobilien:

- Stronger new acquisition and marketing successes over plan in the core markets



### Sustainability

- Specialist for financings in the sectors renewable energies and network infrastructure
- Sustainable real estate portfolio offers investment possibilities in Green Bonds der LBBW
- LBBW Immobilien: Gold certificate of German Sustainable Building Council (DGNB) for Rebstockpark Frankfurt; three other projects are accompanied by DGNB



### Agility

- Strengthening of local resources to extend customer proximity
- Expansion of our product range via realignment of infrastructure and transport financing
- LBBW Immobilien: Establishment of a new business area Immobilien Investment Mgmt.

## Outlook



→ Implementation of growth strategy Real Estate for Canada and France

→ Expansion of logistics as compensation for retail property and part of the value added in retail

→ Stringent realignment of digital solutions at the customer needs

# Segment Real Estate/Project Finance: High volume of new business in commercial real estate financing

## Earnings performance

€ mln	YTD		
	Act 06/2018	Prev 06/2017	Δ %
Net interest income	133	155	-14.1
Net fee and commission income	7	10	-26.3
Net gains/losses on remeasurement and disposal	-8	22	-
of which allowances for losses on loans and securities <sup>1</sup>	-10	6	-
Other operating income/expenses	45	18	>100
<b>Total operating income/expenses</b>	<b>178</b>	<b>204</b>	<b>-12.9</b>
Administrative expenses	-68	-62	9.9
Expenses for bank levy and deposit guarantee system	-6	-4	47.0
Guarantee commission for the State of BW	0	0	-
Net income/expenses from restructuring	0	-5	-
<b>Consolidated profit/loss before tax</b>	<b>104</b>	<b>133</b>	<b>-22.3</b>

### Earnings performance: Profit before tax below PY

- Only successive expansion of the portfolio for project finance
- In the PY higher earnings from early reduction of commitments
- Risk provisioning shows unchanged good portfolio quality, PY benefited from net releases
- Higher administrative expenses for growth initiatives
- In contrast LBBW Immobilien with positive development in earnings

## Key performance indicators

%	YTD		
	Act 06/2018	Prev 06/2017	Δ p.p.
RoE	14.7	22.9	-8.3
CIR	39.5	35.7	3.9

€ bn	YTD		
	Act 06/2018	Prev 12/2017	Δ %
RWA	10.6	10.2	4.6
Total assets	24.9	24.6	1.1

### Key performance indicators

- RoE below PY due to earnings performance
- CIR mainly due to development of earnings above PY
- Total assets and RWA despite high volume of new business only with a slight increase, due to repayments

Differences due to rounding / Previous year incl. adjustments

<sup>1</sup> Relates only to the category "Financial assets at amortized cost"

# Segment Capital Markets Business with customer-oriented trading as key value driver

## Segment



LBBW's Capital Markets Business comprises the customer groups savings banks and banks, international banks and sovereigns, institutionals and corporate customers

## Achievements



### Business focus

- Successful meeting of individual customer demands in the customer business areas
- Expansion of the competitive position via increase in volume for investment solutions of LBBW Asset Management
- Awards, inter alia Thomson Reuters Analyst Awards Winner, Scope Certificate Management Rating, Best Euro House 2018, Regional Exporter's Choice Award for the EMEA region



### Digitalization

- Provision of customer-specific electronic trading platforms
- Acquisition of further banks for using **DEBTVISION** (digital market place for the issuance of Schuldscheindarlehen)
- Issuance of a participation certificate in the blockchain area



### Sustainability

- Own issue of a Green Mortgage Pfandbrief
- Award as Best Green Bond Issuer 2018
- Sales launch of the first equity fund in the asset class "renewable energies" for institutional clients

## Outlook



→ Consolidation of LBBW's position as bank for exporters with simultaneous expansion of the banking network and product capability abroad

→ Expansion of automation and digitalization of business and advisory processes

→ Expansion of the leading market position in Green Finance, issuance of the first Social Bond and issuance of a participation certificate in sustainability

# Segment Capital Markets Business: Difficult market conditions put a strain, customer business solid

## Earnings performance

€ mln	YTD		
	Act 06/2018	Prev 06/2017	Δ %
Net interest income	124	160	-22.5
Net fee and commission income	72	69	5.2
Net gains/losses on remeasurement and disposal of which allowances for losses on loans and securities <sup>1</sup>	116 1	213 1	-45.6 33.9
Other operating income/expenses	0	5	-
<b>Total operating income/expenses</b>	<b>312</b>	<b>447</b>	<b>-30.2</b>
Administrative expenses	-244	-231	5.9
Expenses for bank levy and deposit guarantee system	-21	-15	38.9
Guarantee commission for the State of BW	0	0	-
Net income/expenses from restructuring	0	-7	-
<b>Consolidated profit/loss before tax</b>	<b>47</b>	<b>195</b>	<b>-75.8</b>

**Earnings performance:** Profit before tax distinctly below PY

- Disruptions on the capital markets due to political risks (mainly Italy) intensify difficult market conditions
- Margin pressure and low interest rates put a strain on earnings
- Markedly lower sales proceeds from securities
- Partly subdued customer business which lags behind expectations
- Higher administrative expenses mainly due to investments in the IT

## Key performance indicators

%	Act	Prev	Δ p.p.
	06/2018	06/2017	
RoE	3.4	17.7	-14.2
CIR	85.4	56.5	28.9

€ bn	Act	Prev	Δ %
	06/2018	12/2017	
RWA	18.3	18.9	-3.0
Total assets	154.9	140.4	10.3

## Key performance indicators

- RoE mainly due to earnings performance below PY
- CIR especially due to development of earnings above PY
- Total assets expanded mainly in money markets transactions with low RWA charges

Differences due to rounding / Previous year incl. adjustments

<sup>1</sup> Relates only to the category "Financial assets at amortized cost"

# Segment Private Customers/Savings Banks: Stabilization of earnings situation thanks to strong customer business

## Segment



LBBW's segment Private Customers/Savings Banks comprises business with private customers, private wealth management as well as business customers and freelancers

## Achievements



### Business focus

- Strong growth in business volume in the core market and outside BW in the business with high-net-worth clients
- Pursuit of growth initiatives in residential mortgages and in investment business
- High new business volume in development loan business with savings banks
- Fuchs-Report foundation assets 2018 - ranked 1<sup>st</sup> in the all-time best list



### Digitalization

- Progress in conversion to multi-channel bank
- Continuous expansion of the internet and mobile banking by further customer-centered services



### Sustainability

- Expansion of the volume of sustainable investment solutions by around 20%
- Implementation of a new sustainable asset management for foundations in consideration of ESG criteria



### Agility

- For a better customer approach bundling of the sales activities in an organizational realignment of the private customer business
- Targeted orientation close to the customer due to the new business area Business Customers

## Outlook



Go-Live of new business area business customers and freelancers



Further steps to expand the range of digital offers: Lead issuer Google Pay



# Segment Private Customers/Savings Banks: Distinct increase in the business with high net-worth clients

## Earnings performance

€ mln	YTD		
	Act 06/2018	Prev 06/2017	Δ %
Net interest income	161	165	-2.7
Net fee and commission income	116	121	-3.7
Net gains/losses on remeasurement and disposal	1	5	-78.6
of which allowances for losses on loans and securities <sup>1</sup>	-3	5	-
Other operating income/expenses	-3	0	-
<b>Total operating income/expenses</b>	<b>275</b>	<b>291</b>	<b>-5.6</b>
Administrative expenses	-264	-300	-11.9
Expenses for bank levy and deposit guarantee system	-4	-3	28.4
Guarantee commission for the State of BW	0	0	-
Net income/expenses from restructuring	0	-3	-
<b>Consolidated profit/loss before tax</b>	<b>7</b>	<b>-15</b>	<b>-</b>

**Earnings performance:** Profit before tax above PY; segment again with positive earnings contribution

- Margin pressure put a strain on interest income, in contrast expansion of deposit volume
- Commissions inter alia from brokerage business lower, in contrast positive development of the asset management
- Continuously low risk provisioning but slight increase against PY, due to isolated cases and non-recurrent net risk reversals
- Distinctly lower administrative expenses due to non-recurrent high expenses stemming from the change of the core banking system in the PY

## Key performance indicators

%	Act 06/2018	Prev 06/2017	Δ p.p.
RoE	1.2	<0	-
CIR	96.5	>100	-

€ bn	Act 06/2018	Prev 12/2017	Δ %
RWA	8.0	7.9	1.2
Total assets	13.1	13.2	-0.6

### Key performance indicators

- RoE due to earnings performance above PY
- CIR due to development of expenses below PY
- Total assets and RWA at PY's level

Differences due to rounding / Previous year incl. adjustments

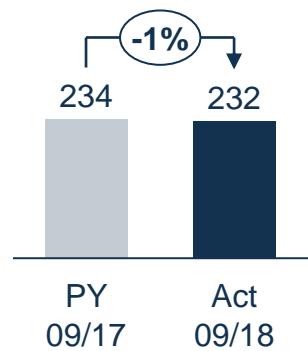
<sup>1</sup> Relates only to the category "Financial assets at amortized cost"



# All operating segments with positive earnings contribution in persistently difficult market environment

## Corporate Customers

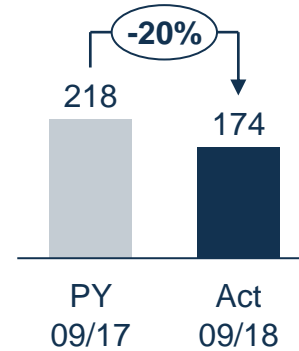
Profit before tax in € mln



- **Profit bef. tax** almost at PY's level
- **Increase in volume** offsets ongoing **margin pressure**
- Cross-selling at previous year's level
- **Risk provisioning** with easing
- Compared to the PY lower **disposal proceeds** from **equity investments**
- Higher **administrative expenses** for regulatory projects and growth initiatives

## Real Estate/Project Finance

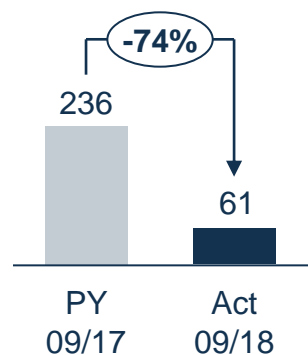
Profit before tax in € mln



- **Profit bef. tax** below PY
- **Competition and margin pressure** put a strain
- Higher **volume of new business in commercial real estate financing**, only gradual **portfolio expansion Project Finance**
- **Risk provisioning** above PY, however still low
- Higher **administrative expenses** for growth initiatives

## Capital Markets Business

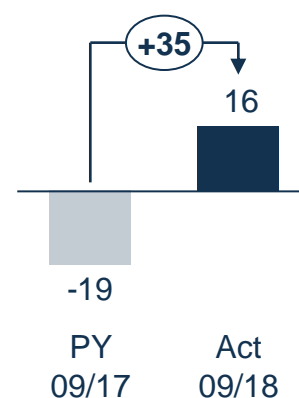
Profit before tax in € mln



- **Profit bef. tax** below PY
- **Margin pressure** and **low interest rates** put a strain as well as **difficult conditions** on the capital markets
- Positive development **Asset Management**
- In contrast lower **disposal proceeds from securities** compared to the PY
- Higher **administrative expenses** inter alia due to IT investments

## Private Customers/Savings Banks

Profit before tax in € mln



- **Profit bef. tax** above PY and positive again
- **Expansion of deposit volume**, but more than offset by **margin pressure**
- Positive development **asset management**, in contrast declining commission income from **brokerage business**
- **Risk provisioning** above PY, however PY with net reversals
- Lower **administrative expenses** due to change of core banking system in PY

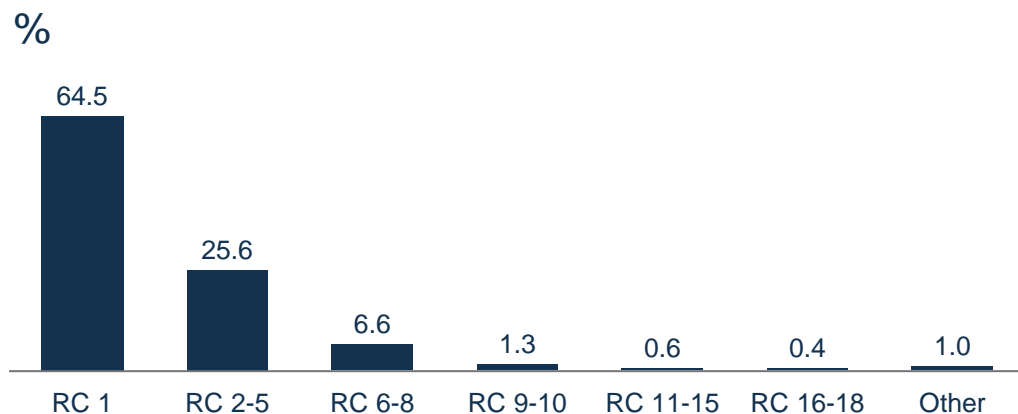
Differences due to rounding / Previous year incl. adjustments

# Agenda

01	Market conditions and strategic direction	Page 4
02	Earnings performance and capital development	Page 9
03	Risk management and portfolio development	Page 27
04	Funding and liquidity	Page 34
05	Outlook	Page 37
06	Appendix	Page 39

# LBBW still with good portfolio quality – share of default only 0.4%

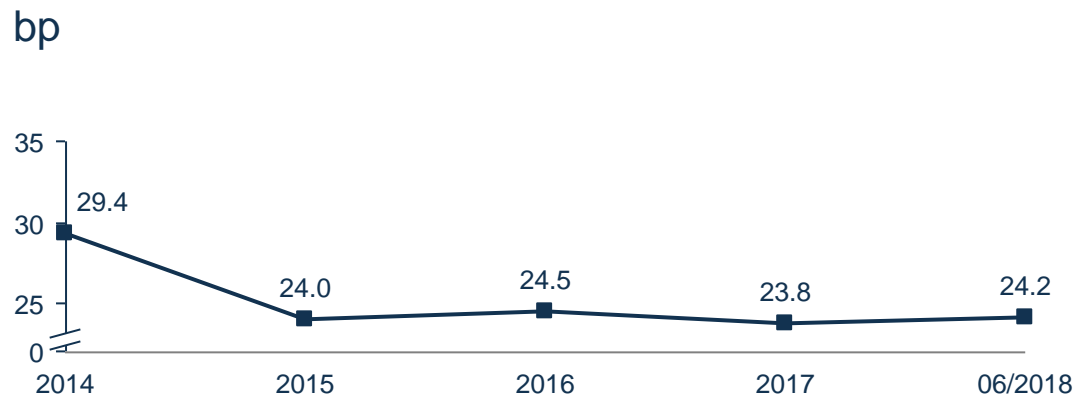
## Portfolio quality<sup>1</sup> (net exposure)



Net exposure as of 06/2018: € 191 bn

- Relative share of the portfolio as of 06/2018 with **investment grade ratings** (RC 1-5) further on above 90%, compared to 12/2017 slightly declining (-0.9%-points)
- Share of the portfolio with **higher default probability** (RC 11-15) as of 06/2018 unchanged at low 0.6%
- **Default volume** (RC 16-18) in the first half of 2018 further reduced by € -0.1 bn to € 0.8 bn and thus only at 0.4%

## Probability of default (Ø-PD net exposure)



Ø-PD (net exposure)

- Since 2014 **significant improvement of Ø-PD**
- In the **first half of 2018 slight increase** by +0.4 bp to 24.2 bp due to isolated downgrades

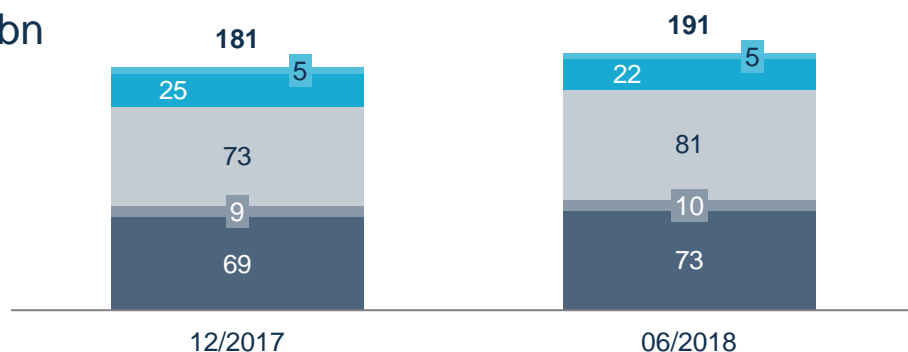
Differences due to rounding

<sup>1</sup> Internal ratings; PD = probability of default in basis points; definition of the rating classes (RC) see appendix

# Increase in LBBW's net exposure in the first half of 2018 by € 10 bn

## Main sectors

€ bn



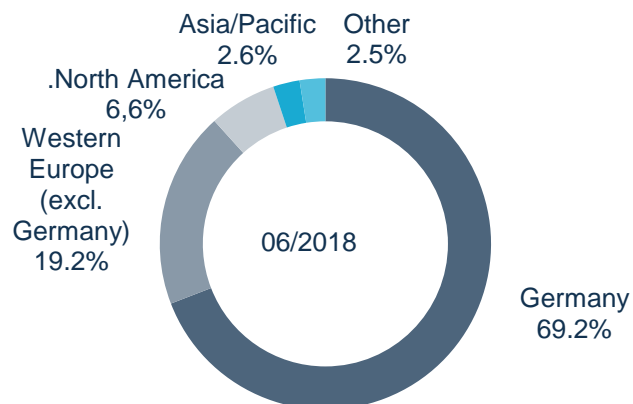
Corporates
  Financial Institutions
  Private Individuals  
 Real Estate
  Public Sector

**Net exposure:** Increase compared to 12/2017 by € 10 bn to € 191 bn

- **Financials:** Increase mainly in private banks and savings banks
- **Corporates:** Increase mainly due to the sectors industry, automotive as well as transport and logistics (€ +0.5 bn each)
- **Real Estate:** almost unchanged
- **Public Sector:** Decrease is spread over several borrowers

## Exposure by region

%



## Domestic business

- Share in the net exposure in the first half of 2018 slightly declined (-1.7%-points compared to 12/2017)
- Fundamental composition by regions largely constant

## Foreign exposures

- Mainly relate to Western Europe and North America
- Only low shares in Eastern Europe (0.8%) and Latin America (0.7%)

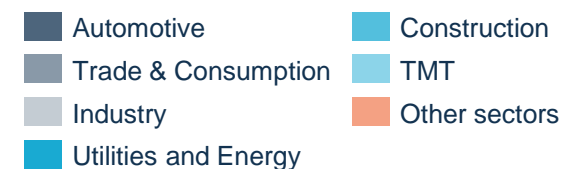
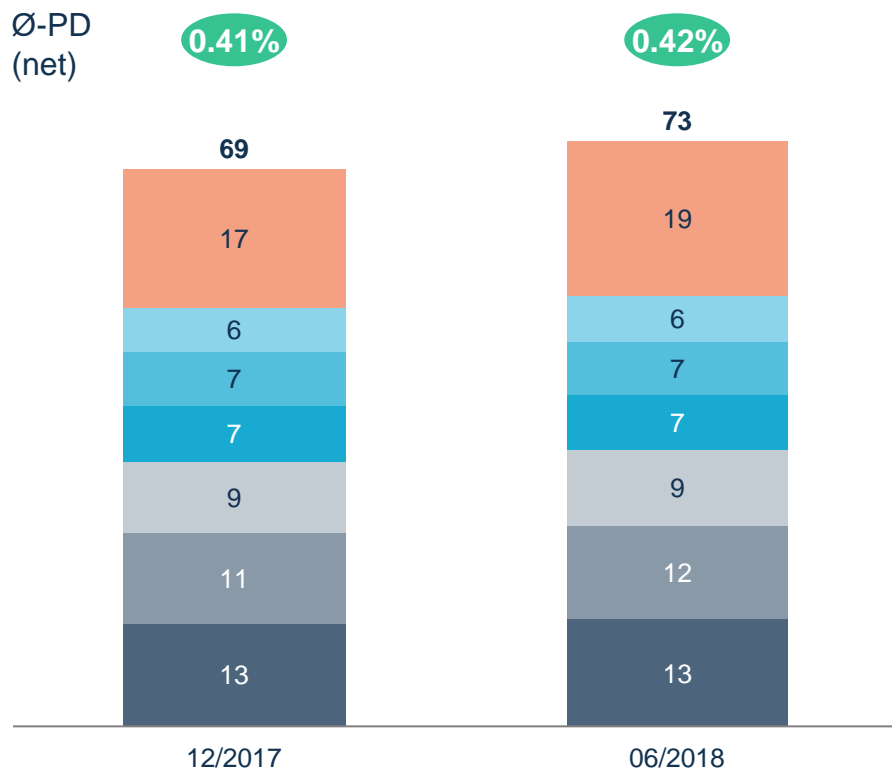
Differences due to rounding  
 Transactions without country assignment amount to 0.9% (especially loans to supranational institutions)

# Average PD for Corporates continues to be good and in investment grade area

## Net exposure main sector Corporates

€ bn

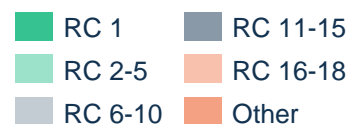
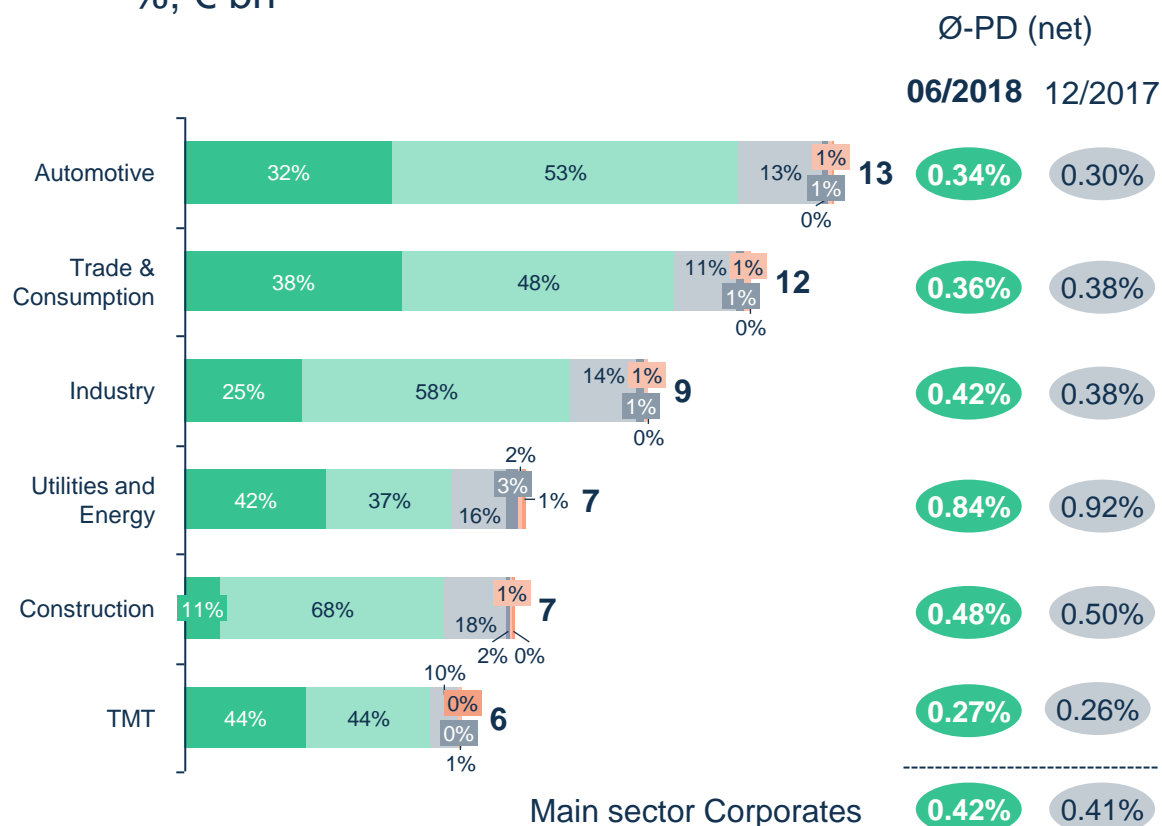
Ø-PD (net)



Differences due to rounding

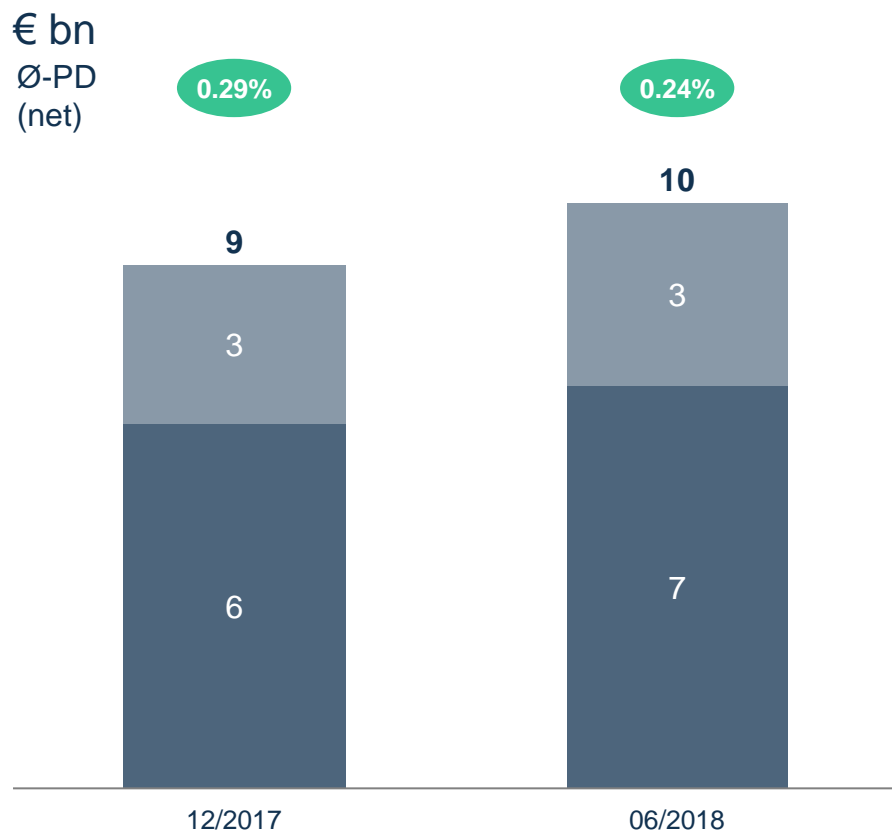
## Net exposure according to rating class

%; € bn



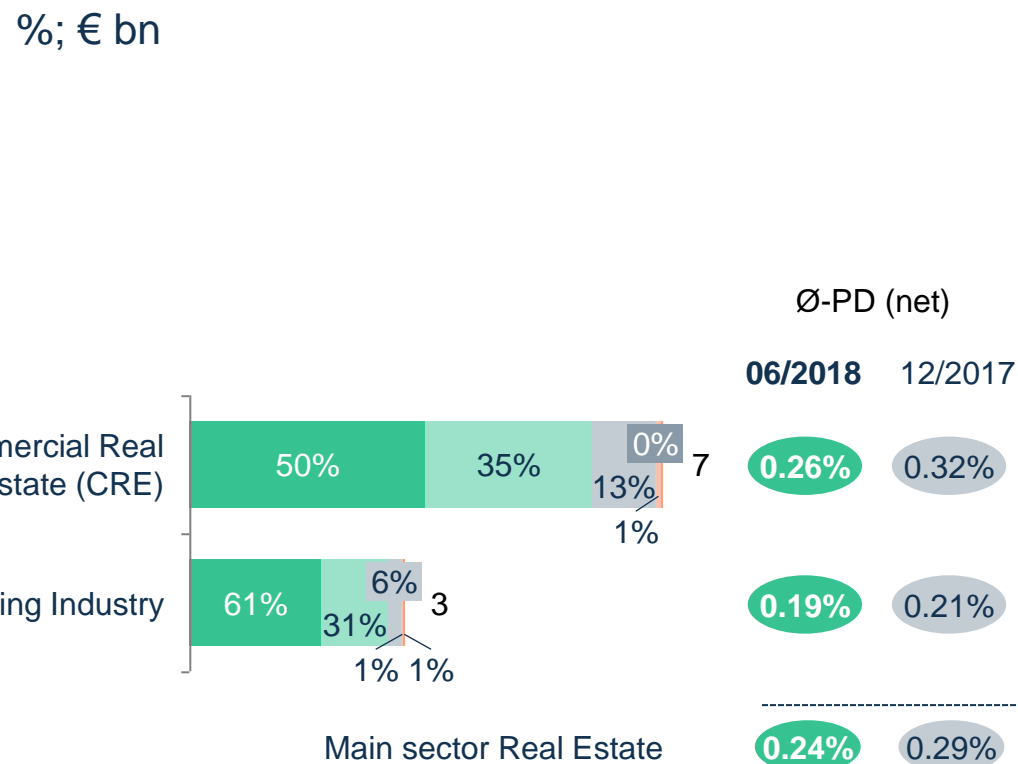
# Real Estate: Portfolio quality further improved

## Net exposure main sector Real Estate



■ Commercial Real Estate (CRE)  
■ Housing Industry

## Net exposure according to rating class



■ RC 1    ■ RC 11-15  
■ RC 2-5    ■ RC 16-18  
■ RC 6-10    ■ Other

Differences due to rounding

# Selected corporate sectors and real estate

## Automotive

### Net exposure of € 13.3 bn

- More than 5,500 borrower units (thereof about 92% with net exposure < € 0.5 mln)
- Of the net exposure are attributable
  - 42% to suppliers: Broad range from international large corporates to SMEs operating regionally
  - 26% to manufacturers with focus on German OEMs<sup>1</sup>
  - 32% to other sub industries

### Portfolio quality

- Share of net exposure in investment grade area at around 84% (12/2017: 87%)



## Trade & Consumption

### Net exposure of € 11.6 bn

- Sub industries: see below

### Portfolio quality

- **Consumer goods**
  - Share of net exposure in investment grade area at 91% (12/2017: 91%)
  - Ø-PD (net) at 0.27% (12/2017: 0.29%)
- **Durable goods**
  - Share of net exposure in investment grade area at 74% (12/2017: 72%)
  - Ø-PD (net) at 0.61% (12/2017: 0.61%)



## Real Estate

### Net exposure of € 9.9 bn

- Regional focus on Germany as well as abroad on selected large cities in Great Britain and in the USA
- Types of use: Office, residential, retail, logistics
- Almost 4,500 borrower units (thereof about 77% with net exposure < € 0.5 mln)

### Portfolio quality

- Still very good credit portfolio
- Share of net exposure in investment grade area at 87% (12/2017: 84%)
- Ø-PD (net) compared to 12/2017 improved by -5 bp to 0.24%



**Risk management runs along the respective value chain**

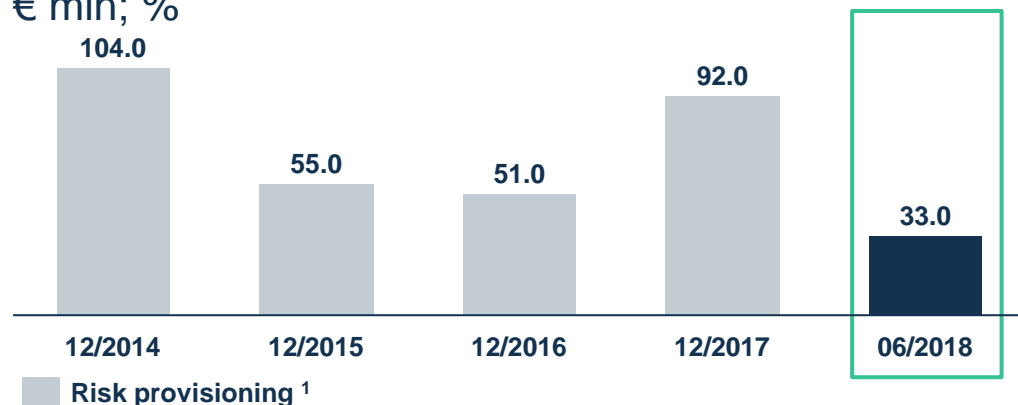
<sup>1</sup> Original Equipment Manufacturers



# Slight decline of risk provisioning as of 06/2018

## Risk provisioning (IFRS)

€ mln; %

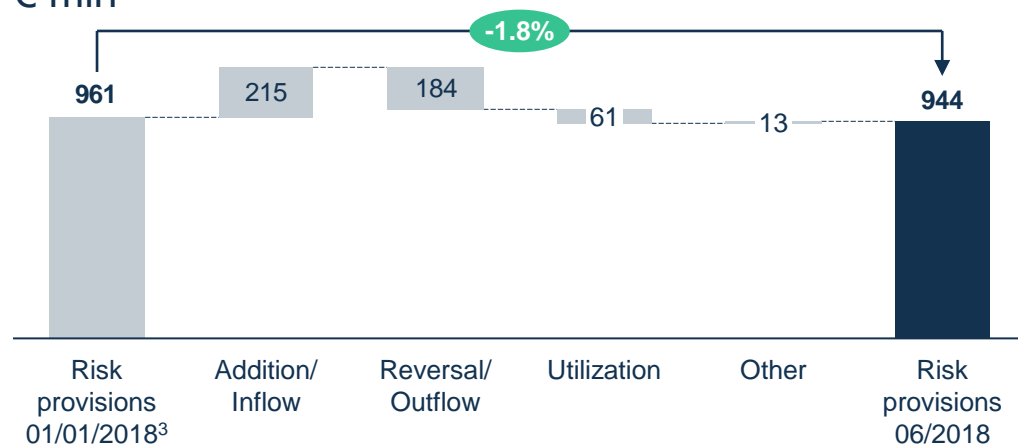


## Credit risk costs (LBBW Group)

- With € 33 mln slightly below the previous year's level (as of 06/2017: € 40 mln), but distinctly below year-end 2017 (€ 92 mln)
- **NPL ratio**<sup>2</sup> with 0.6% further reduced (YE 2917: 0.7%); underscores good portfolio quality

## Development of existing risk provisions

€ mln



## Risk provisions (LBBW Group)

- Decreased by € 17 mln as of 30 June 2018 mainly due to utilizations of € 61 mln

Differences due to rounding

<sup>1</sup> Relates only to the category "Financial assets at amortized cost"

<sup>2</sup> NPL ratio: EBA-definition based on Finrep: Share of non-performing portfolio in relation to all loans and advances to customers and banks

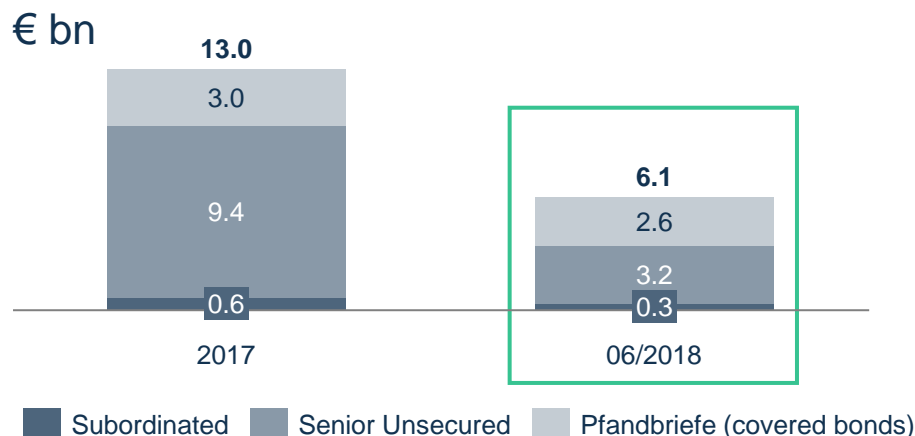
<sup>3</sup> Difference risk provisions 12/31/2017 (IAS 39) to risk provisions 01/01/2018 (IFRS 9) due to initial adoption effect of IFRS 9 of about € 0.2 bn

# Agenda

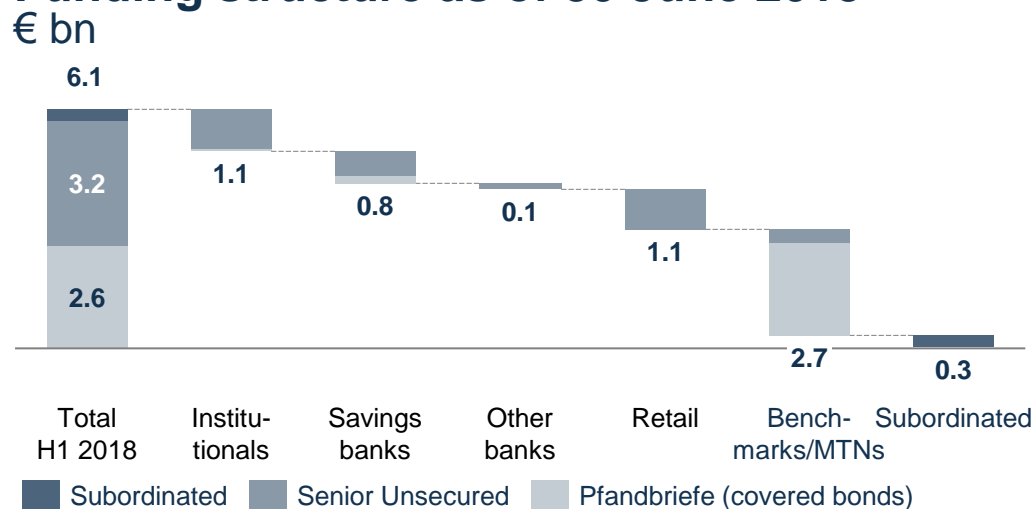
01	Market conditions and strategic direction	Page 4
02	Earnings performance and capital development	Page 9
03	Risk management and portfolio development	Page 27
04	Funding and liquidity	Page 34
05	Outlook	Page 37
06	Appendix	Page 39

# Strong funding base of LBBW further diversified

## Total volume of funding<sup>1</sup>



## Funding structure as of 30 June 2018



Differences due to rounding

Please note: ECB's exchange rates as at reporting date 06/29/2018 are underlying. Initial maturities > 1 year are mentioned

<sup>1</sup> Funding raised on the capital markets and renewals

## Good access to the capital markets for LBBW

- Frequent issuance of senior unsecured, Pfandbriefe (covered bonds) and subordinated
- LBBW issued **Mortgage Pfandbrief** at **new record level** of MS -20 bp in January 2018
  - Tightest priced EUR covered bond benchmark
- LBBW issued first **AUD subordinated issue** of a European bank this year in May
  - Use of favorable market conditions
  - Significant cost saving compared to the EUR Tier 2 market

## Senior Unsecured

- Important funding sources: Savings banks and retail investors
- In addition to three benchmark issues also diversified private placements to retail, savings banks, institutionals and international clients

## LBBW one of the leading issuers on the Pfandbrief market

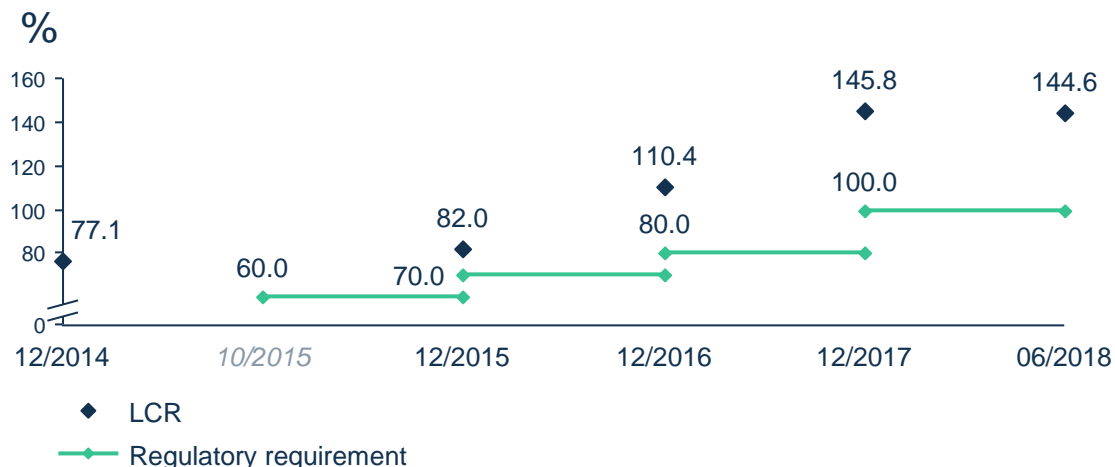
- With issuance volume of GBP 750 mln LBBW's debut benchmark transaction marks the largest GBP covered bond transaction of an European issuer
- With its inaugural Green Mortgage Pfandbrief, LBBW successfully expanded its footprint in the market for sustainable issues

# High and diversified liquidity reserve of LBBW with good quality

## Liquidity situation (3-month view)



## Liquidity Coverage Ratio<sup>1</sup> (LCR)



Differences due to rounding

<sup>1</sup> It formally applies since 1 October 2015, gradual increase by 10%-points each year (at the beginning of each new calendar year); since 1 January 2018 requirement of 100%

## Liquidity situation

- **Liquidity needs compared to available central bank eligible assets**
  - At mid-year 2018: central bank available assets of € 18.3 bn and liquidity surplus of € 6.5 bn in the next 3 months
  - In the next 12 months surplus of € 32.2 bn (mainly due to taking into account the overcollateralization of the cover pool)
  - Currently very comfortable liquidity situation (asset surplus) – see economic and regulatory liquidity ratios

## Liquidity reserve

- Liquidity reserve with focus on highly liquid and central bank eligible assets
- Conservative representation due to the use of collateral values (= price minus haircut)

## LCR

- LCR ratio significant above regulatory requirements
- LCR is key control parameter
- Long-term target >110%

# Agenda

01	Market conditions and strategic direction	Page 4
02	Earnings performance and capital development	Page 9
03	Risk management and portfolio development	Page 27
04	Funding and liquidity	Page 34
05	Outlook	Page 37
06	Appendix	Page 39

# Outlook<sup>1</sup> LBBW 2018 – Still comfortable capitalization as basis for expansion of customer business



## Market environment

- Ongoing **low interest rate level**
- **Positive macroeconomic development** of Germany and the Eurozone, but **higher risks** for the economic trend, mainly political risks
- **Current market trends:** high **competitive and margin pressure**, in addition **high regulatory requirements** and **increasing digitalization**



## Strategic positioning of LBBW

- Expansion of the activities in the four **strategic cornerstones**



## Result

- **Fiscal year 2018:** LBBW anticipates consolidated profit before tax **in a mid three-digit million range** despite challenging market environment
- **Expansion of the customer business** and continuation of extensive **future-oriented investments**



## Capital

- **Still comfortable capitalization** as basis for growth
- All **regulatory requirements** should be **exceeded**



## Risk management

- Growth in **top quality new business** is sought to preserve the **good portfolio quality**



## Funding and liquidity

- **Requirements** regarding **LCR** should be **exceeded**
- **Strong funding base** with **good access to the capital markets** as **solid basis for further funding**

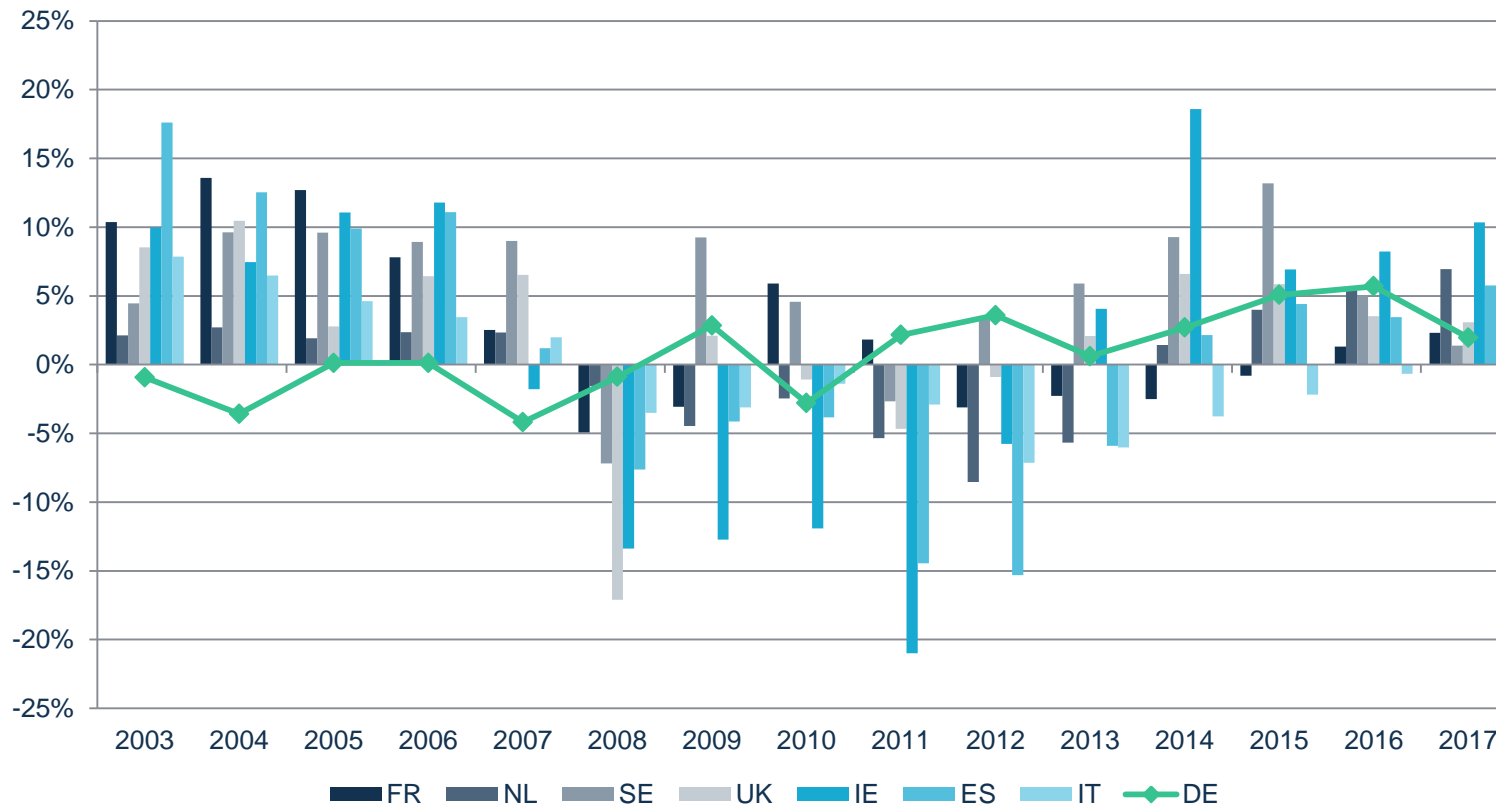
<sup>1</sup> Based on management calculations and expectations

# Agenda

01	Market conditions and strategic direction	Page 4
02	Earnings performance and capital development	Page 9
03	Risk management and portfolio development	Page 27
04	Funding and liquidity	Page 34
05	Outlook	Page 37
06	Appendix	Page 39

# Small price change on the German real estate market in European comparison

**Real Change in real estate prices in a European comparison<sup>1</sup>**  
 %, annual comparison



## Real estate prices across countries

- Fluctuations of the real property prices in a European comparison only moderate
- Decrease in dynamics can be seen
- Volatility reduced by financial features

Sources: <sup>1</sup> OECD, LBBW Research – based on real property price trend; 2017 until the 4<sup>th</sup> quarter



# Result and KPI of Group and segments at a glance

## Earnings performance and key performance indicators

Group				Corporate Customers			Real Estate/ Project Finance			Capital Markets Business			Private Customers/ Savings Banks			Corporate Items/ Reconciliation/Consolidatio		
Act 06/2018	Prev 06/2017	Δ %	€ mln	Act 06/2018	Prev 06/2017	Δ %	Act 06/2018	Prev 06/2017	Δ %	Act 06/2018	Prev 06/2017	Δ %	Act 06/2018	Prev 06/2017	Δ %	Act 06/2018	Prev 06/2017	Δ %
796	797	-0.1	Net interest income	383	354	8.2	133	155	-14.1	124	160	-22.5	161	165	-2.7	-5	-37	-86.1
262	270	-3.0	Net fee and commission income	81	95	-15.2	7	10	-26.3	72	69	5.2	116	121	-3.7	-15	-25	-39.7
135	191	-29.5	Net gains/losses on remeasurement and disposal	11	23	-54.2	-8	22	-	116	213	-45.6	1	5	-78.6	15	-72	-
-33	-40	-17.1	of which allowances for losses on loans and securities <sup>1</sup>	-24	-44	-45.8	-10	6	-	1	1	33.9	-3	5	-	3	-7	-
58	56	3.6	Other operating income/expenses	5	5	-14.8	45	18	>100	0	5	-	-3	0	-	11	27	-59.8
<b>1,250</b>	<b>1,313</b>	<b>-4.8</b>	<b>Total operating income/expenses</b>	<b>479</b>	<b>478</b>	<b>0.3</b>	<b>178</b>	<b>204</b>	<b>-12.9</b>	<b>312</b>	<b>447</b>	<b>-30.2</b>	<b>275</b>	<b>291</b>	<b>-5.6</b>	<b>6</b>	<b>-107</b>	<b>-</b>
-878	-897	-2.1	Administrative expenses	-311	-294	5.6	-68	-62	9.9	-244	-231	5.9	-264	-300	-11.9	9	-10	-
-89	-69	28.7	Expenses for bank levy and deposit guarantee system	-13	-10	36.6	-6	-4	47.0	-21	-15	38.9	-4	-3	28.4	-46	-38	20.8
0	-38	-	Guarantee commission for the State of BW	0	0	-	0	0	-	0	0	-	0	0	-	0	-38	-
0	-30	-99.9	Net income/expenses from restructuring	0	-16	-99.8	0	-5	-	0	-7	-	0	-3	-	0	0	-
<b>282</b>	<b>279</b>	<b>1.4</b>	<b>Consolidated profit/loss before tax</b>	<b>155</b>	<b>158</b>	<b>-1.8</b>	<b>104</b>	<b>133</b>	<b>-22.3</b>	<b>47</b>	<b>195</b>	<b>-75.8</b>	<b>7</b>	<b>-15</b>	<b>-</b>	<b>-31</b>	<b>-193</b>	<b>-84.0</b>

Ist 06/2018	VJ 06/2017	Δ p.p.	%	Ist 06/2018	VJ 06/2017	Δ p.p.	Ist 06/2018	VJ 06/2017	Δ p.p.	Ist 06/2018	VJ 06/2017	Δ p.p.	Ist 06/2018	VJ 06/2017	Δ p.p.	Ist 06/2018	VJ 06/2017	Δ p.p.
4.4	4.3	0.1	RoE	7.1	10.4	-3.3	14.7	22.9	-8.3	3.4	17.7	-14.2	1.2	<0	-	<0	<0	-
75.4	76.4	-1.0	CIR	64.2	61.2	2.9	39.5	35.7	3.9	85.4	56.5	28.9	96.5	>100	-	>100	<0	-

Ist 06/2018	VJ 12/2017	Δ %	€ bn	Ist 06/2018	VJ 12/2017	Δ %	Ist 06/2018	VJ 12/2017	Δ %	Ist 06/2018	VJ 12/2017	Δ %	Ist 06/2018	VJ 12/2017	Δ %	Ist 06/2018	VJ 12/2017	Δ %
79.1	75.7	4.5	RWA	35.6	31.6	12.8	10.6	10.2	4.6	18.3	18.9	-3.0	8.0	7.9	1.2	6.5	7.2	-9.5
258.5	237.7	8.8	Bilanzaktiva	56.7	54.1	4.8	24.9	24.6	1.1	154.9	140.4	10.3	13.1	13.2	-0.6	8.9	5.4	65.3

Differences due to rounding / Previous year incl. adjustments

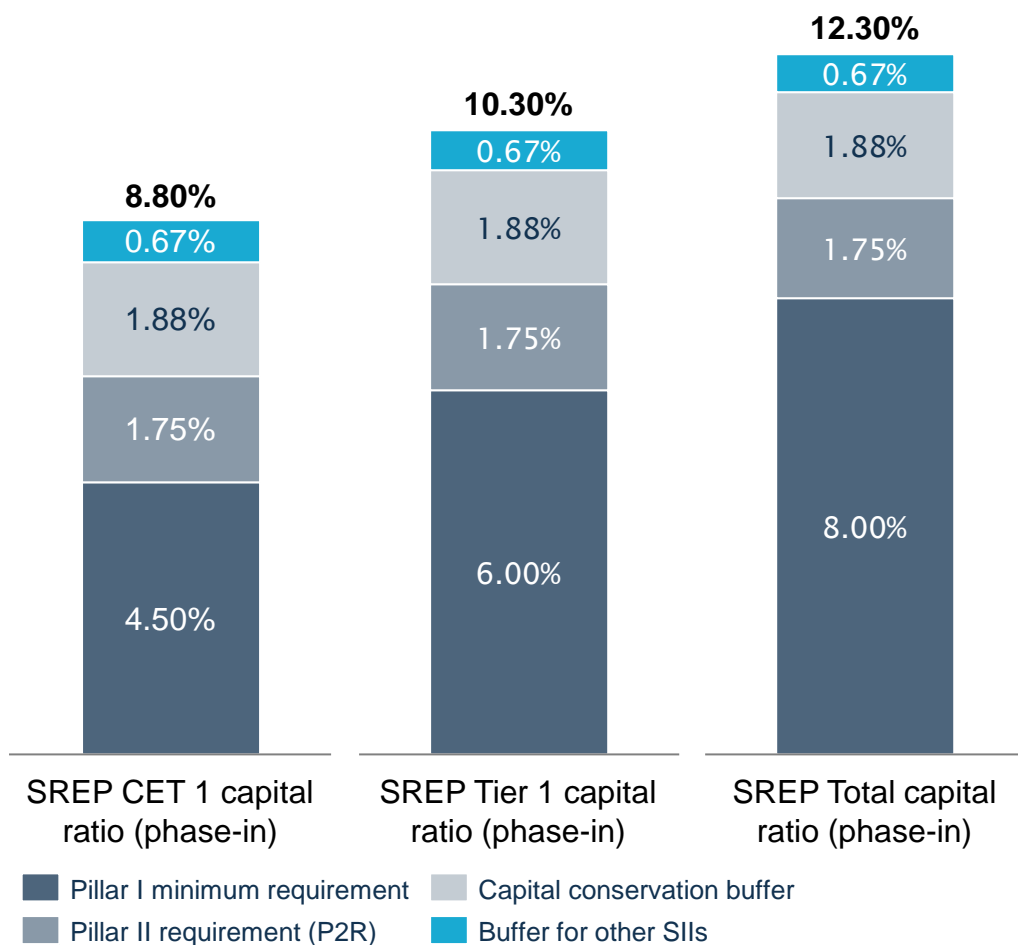
<sup>1</sup> Relates only to the category "Financial assets at amortized cost"

# LBBW can also prove its business focus with various awards



# LBBW considerably exceeds SREP requirements

## SREP ratios 2018<sup>1</sup>



- Need to maintain a **total capital ratio of 12.30%** as of 1 Jan 2018, thereof at least
  - **10.30%** of **Tier 1 capital** and
  - Thereof at least **8.80%** of **common equity Tier 1 capital**
- **Requirement for LBBW thus above the regulatory minimum requirements** as it is usual for institutions under ECB supervision, but **below EU average**
  - **LBBW considerably exceeds the requirements**
- The **ratios** contain
  - Pillar 2 requirement of 1.75%
  - Capital conservation buffer of 1.88%
  - Buffer for other systemically important institutions (SIIs) of 0.67%
- **In addition**, ECB expects the availability of further common equity Tier 1 capital within a pillar 2 guidance

Differences due to rounding

<sup>1</sup> CET 1 ratio, phase-in; this ratio includes the Pillar II capital requirement as well as the common equity Tier 1 capital to be held as a capital conservation buffer in accordance with Section 10c of the German Banking Act (KWG) and as a capital buffer in accordance with Section 10g KWG for other systemically important financial institutions; in addition, a countercyclical capital buffer must be held in accordance with Section 10d KWG as well as the Pillar 2 guidance of the ECB

# Explanation of the rating classes

## Rating classes (RC) at a glance

<ul style="list-style-type: none"> <li>• RC 1:</li> <li>• RC 2-5:</li> </ul>	PD $0.00\% \leq 0.10\%$ PD $> 0.10\% \leq 0.48\%$	Investment grade
<ul style="list-style-type: none"> <li>• RC 6-8:</li> <li>• RC 9-10:</li> <li>• RC 11-15:</li> </ul>	PD $> 0.48\% \leq 1.61\%$ PD $> 1.61\% \leq 3.63\%$ PD $> 3.63\% < 100\%$	Non-investment grade
<ul style="list-style-type: none"> <li>• RC 16-18:</li> </ul>	PD = 100%	Default <sup>1</sup>
<ul style="list-style-type: none"> <li>• Other:</li> </ul>	–	Rating waived <sup>2</sup> , not rated

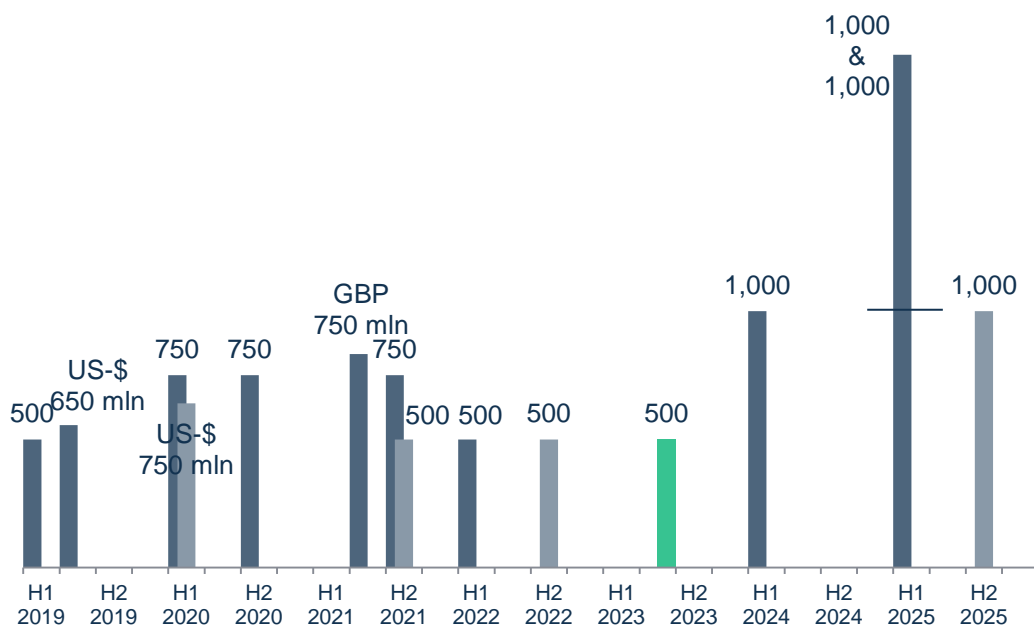
<sup>1</sup> Default refers to exposure for which a default event as defined in Art. 148 CRR has occurred. The net exposure is shown before allowances for losses on loans and advances/impairments

<sup>2</sup> Especially publicly guaranteed business or business secured by savings banks as well as credit cards

# LBBW with broadly diversified maturity profile

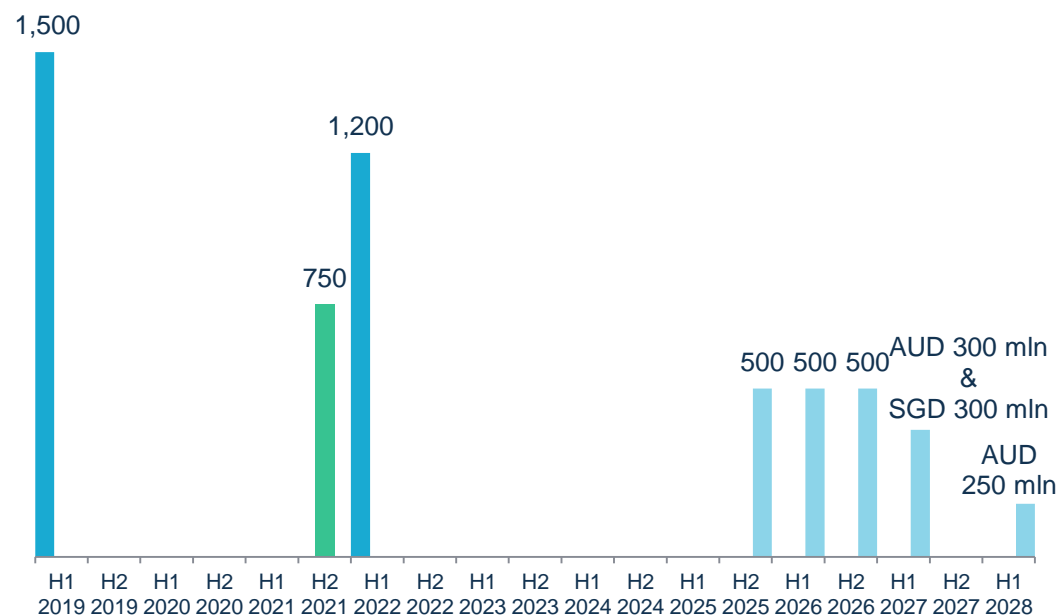
## Maturity benchmark issues<sup>1</sup>

Pfandbriefe, € mln



## Maturity benchmark issues<sup>1</sup>

Senior Unsecured / Tier 2, € mln



■ Mortgage Pfandbriefe   
 ■ Green Mortgage Pfandbriefe  
■ Public-Sector Pfandbriefe

■ Senior Unsecured   
 ■ Tier 2  
■ Green Senior Unsecured

Differences due to rounding

Please note: ECB's exchange rates as at reporting date are underlying. Initial maturities > 1 year are mentioned

<sup>1</sup> Funding raised on the capital markets and renewals

# Glossary

Term	Meaning
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## IFRS 9

**Reporting in accordance with IFRS 9**  
**Previous year**

Slight adjustments in the results and in selected figures  
 The previous year figures based on IAS 39 were transferred to the structure of the IFRS 9 schema without technical adjustments

## Abbreviations

**RoE**

Return on Equity  
 Group: (Annualized) consolidated profit/loss before tax / average equity on the balance sheet adjusted for the unappropriated profit for the current reporting period  
 Segmente: (Annualized) consolidated profit/loss before tax / maximum planned average restricted equity and average tied-up equity in the current reporting period

**CIR**

Cost Income Ratio  
 (Total administrative expenses + expenses for the bank levy and deposit guarantee system + guarantee commission for the State of Baden-Württemberg + net restructuring income) / (total net interest income + net commission income + net gains on remeasurement and disposal less allowances for losses on loans and securities + other operating income)

**LCR**

Liquidity Coverage Ratio

**RWA**

Risk weighted assets

Utilization of aggregate risk cover

Utilization of aggregate risk cover

## Explanations

**Fully loaded**

Full implementation of CRR (basis IFRS)

**Leverage Ratio**

As of January 2015 the calculation of the leverage ratio was switched to the system of the delegated act for internal purposes.  
 Until then the actual value was based on the current announcement

**SREP ratio**

CET 1 ratio, phase-in; this ratio includes the Pillar II capital requirement as well as the common equity Tier 1 capital to be held as a capital conservation buffer in accordance with § 10c KWG of the German Banking Act (KWG) and as a capital buffer in accordance with § 10g KWG for other systemically important financial institutions; in addition, a countercyclical capital buffer (§ 10d KWG) must be held and the Pillar II guidance of the ECB

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