

6 March 2024

Press release →

Operationally strong and strategically on track: LBBW achieves pre-tax profit of more than EUR 1.3 billion

- **Strong customer business and interest rate developments: operating income increases by more than a fifth**
- **Takeover of Berlin Hyp is paying off**
- **Allowances for losses on loans and securities remain at a moderate level – portfolio model adjustments increased to more than EUR 900 million**
- **Sound capital base: common equity Tier 1 capital ratio of 14.6%**
- **Shareholder dividend of EUR 400 million proposed**

LBBW continued its successful and ongoing development of recent years also in 2023. Thanks to strong customer business and interest rate developments, the bank achieved a consolidated profit before tax of EUR 1.374 billion. This exceeded the comparable figure of EUR 901 million for the previous year, which was adjusted by a non-recurring badwill effect on the statement of financial position from the acquisition of Berlin Hyp by more than half.

“The pleasing result shows that our operating performance is strong and we are strategically on track,” said Rainer Neske, Chairman of the Board of Managing Directors. “Our customers approve of LBBW’s long-term strategy focused on continued growth and relevance and have confidence in our stability and reliability. Despite the weak economy, our customer business is growing, we are managing our costs closely and keeping our risks under control. Strategically, we are in a good position to achieve new growth even in a challenging environment while continuing to strengthen the bank’s resilience.”

Neske continues: "Unfortunately, the overall economic outlook for the current year remains extremely subdued. In addition to the current economic development, structural problems in particular are weighing on large parts of the industry. Excessive bureaucracy, exorbitant energy prices and the shortage of skilled labor are a huge burden on the economy. Companies need more space to breathe. If they get this, Germany will also be back on an upward trajectory again. In these challenging times, we believe our role at LBBW is to stand by our customers as a dependable and competent

partner. We have excellent potential in this regard with our well-balanced, resilient business model and our strong balance sheet.”

Consolidated profit before tax came to EUR 1.374 billion. In 2022, it totaled EUR 1.873 billion. However, a non-recurring effect on the statement of financial position from the initial consolidation of Berlin Hyp accounted for EUR 972 million of this. Adjusted for this non-recurring effect, the pre-tax operating profit in 2022 amounted to EUR 901 million.

Net consolidated profit after tax in 2023 totaled EUR 996 million. Return on equity (RoE) was increased to 9.1%. Thanks to income growth, the cost/income ratio (CIR) improved significantly to 59.6%.

Strong growth in income, sound risk situation

The past year’s encouraging figure was bolstered by a sharp increase in operating income, which rose by 22% to EUR 4.036 billion (2022: EUR 3.316 billion excluding badwill). In addition to strategic growth areas such as corporate finance and wealth management, the rise in interest rates in particular had a significant impact. Last year was also the first year in which Berlin Hyp, which was consolidated in July 2022, was taken into account for the full year.

Expenses rose by 11% to EUR 2.407 billion. In addition to the noticeable general inflationary pressure, this is partly due to the fact that Berlin Hyp was consolidated for the full year in 2023, but only from 1 July in 2022. LBBW also invested in the continued refinement of its IT systems with regard to areas such as cyber security as well as in the expansion of growth areas such as corporate finance and project finance for the sustainable transformation of the economy.

The risk situation remains sound. Allowances for losses on loans and securities were only slightly higher than in the previous year at EUR 254 million (previous year: EUR 239 million). Specific individual allowances remain at a moderate level despite weak economic growth. In addition, the bank has again sought to strengthen its resilience by building up additional allowances in the form of model adjustments totaling EUR 107 million. These are included in the total amount of EUR 254 million and were predominantly recognized with a view to the real estate market. Including the

adjustments already recognized in previous years, LBBW now has total adjustments of EUR 929 million – giving it a sizable buffer for potential market distortions. One indicator of the quality of the lending book is the share of non-performing exposures (NPE ratio), which at 0.5% is at a low level by industry standards.

Capitalization remains sound

At 14.6%, the common equity Tier 1 capital ratio (CRR II/CRD V fully loaded) is well above the requirements of the banking supervisory authorities. The total capital ratio is 20.1%, which means that LBBW's capitalization remains sound. In light of this, the annual general meeting will propose a dividend of EUR 400 million for shareholders of the bank. This reflects the net profit after tax in the HGB financial statements and is considerably higher than the previous year's figure of EUR 240 million.

All operating segments with profits in the three-digit million range

Operating business performance was encouraging across all major business areas. All four operating segments increased their income and they each contributed a three-digit million amount to net profit.

The **Corporate Customers** segment makes the largest contribution to net consolidated profit with a profit before tax of EUR 678 million. This represents a profit increase of around a third year-on-year. Corporate Finance business again reported significant growth. LBBW has been continuously expanding this business area for a number of years and is traditionally the market leader in Schuldschein business. Foreign business and the leasing/factoring product areas likewise performed well. Deposit business also benefited from higher interest rates.

Despite the difficult situation on the real estate markets, the **Real Estate/Project Finance** segment reported an increase in profit to EUR 361 million (2022: EUR 328 million). Among other factors, this reflects the development of project finance as a growth area through which LBBW is supporting the sustainable transformation of the economy. Focus areas include renewable energy and digital infrastructure. New project finance business amounted to around EUR 3 billion. Real estate financing made the biggest profit contribution, having achieved a very successful business performance on the back

of market turbulence. Among other factors, there is a positive effect from the acquisition of Berlin Hyp in summer 2022, which is included in segment earnings for the first full year. New commercial real estate financing business came to nearly EUR 13 billion, with LBBW accounting for just over EUR 6 billion. The exposure is around EUR 63 billion and is split evenly between LBBW and Berlin Hyp. Allowances for losses on loans and securities were increased slightly year-on-year to EUR 180 million (2022: EUR 168 million). This figure includes not only individual allowances but also EUR 97 million of the aforementioned adjustments with a view to the difficult market situation in commercial real estate financing.

In the **Capital Markets Business** segment, profit in the past year increased to EUR 230 million after EUR 183 million in 2022. Demand for certificates as investment products remains high. In interest rate, currency and commodity management, 2023 was also a strong year. The performance of foreign payment transactions and credit markets was pleasing as well. The allowances for losses on loans and securities recognized in view of Russia in 2022 were also largely reversed.

The **Private Customers/Savings Banks** segment generated profit before tax of EUR 267 million (2022: EUR 104 million). The increase was largely driven by income growth in deposit business on account of interest rate developments. The deposit and financing volumes were expanded slightly. Strategic highlights included the launch of the digital asset management service “BW-Bank ON”, the first taxonomy-aligned fixed interest bond and the continued expansion of asset and wealth management.

Outlook

For the current year, the bank anticipates a challenging environment with persistent geopolitical tensions and sustained weak economic growth. In addition, the positive effects from interest rate developments are likely to weaken. Nonetheless, LBBW expects to again achieve a profit before tax of over EUR 1 billion for the 2024 financial year.

Key figures of the LBBW Group as at 31 December 2023

Income statement

	01/01 – 31/12/2023	01/01 – 31/12/2022	Change	
	EUR million	EUR million	EUR million	%
Net interest income	2,826	2,305	521	23
Net fee and commission income	589	628	-39	-6
Net gains/losses on remeasurement and disposal	162	55	107	>100
Other operating income/expenses	205	1,061	-856	-81
<i>of which non-recurring effect from the initial consolidation of Berlin Hyp</i>	0	972	-972	
Total operating income/expenses	3,781	4,048	-267	-7
of which income	4,036	4,288	-252	-6
of which allowances for losses on loans and securities	-254	-239	-15	6
Expenses	-2,407	-2,175	-232	11
of which administrative expenses	-2,227	-1,985	-241	12
of which bank levy and deposit guarantee system	-184	-188	4	-2
of which net income/expenses from restructuring	4	-2	6	
Consolidated profit/loss before tax excluding non-recurring effect from the initial consolidation of Berlin Hyp	1,374	901	473	52
Consolidated profit/loss before tax	1,374	1,873	-499	-27
Income taxes	-378	-363	-15	4
Net consolidated profit/loss excluding non-recurring effect from the initial consolidation of Berlin Hyp	996	538	458	85
Net consolidated profit/loss	996	1,510	-514	-34

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

Key figures

	31/12/2023	31/12/2022	Change	
	EUR billion	EUR billion	EUR billion	%
Total assets	333.3	324.2	9.1	2.8
Risk-weighted assets	92.1	93.5	-1.4	-1.5

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

	31/12/2023	31/12/2022
	%	%
Common equity Tier 1 capital ratio (CRR II/CRD V "fully loaded")	14.6	14.1
Total capital ratio (CRR II/CRD V "fully loaded")	20.1	20.0

	01/01 – 31/12/2023	01/01 – 31/12/2022	01/01 – 31/12/2022 Excluding non-recurring effect Berlin Hyp
	%	%	%
Return on equity (RoE)	9.1	13.4	6.2
Cost/income ratio (CIR)	59.6	50.7	65.6

	31/12/2023	31/12/2022	Change	
			Absolute	%
Employees	10,434	10,384	50	0.5

Segments at a glance

Corporate Customers

	01/01 – 31/12/2023	01/01 – 31/12/2022
	EUR million	EUR million
Net interest income	1,149	1,024
Net fee and commission income	225	241
Net gains/losses on remeasurement and disposal	-17	-84
Other operating income/expenses	25	8
<i>Total operating income/expenses</i>	<i>1,382</i>	<i>1,189</i>
of which income	1,481	1,249
of which allowances for losses on loans and securities	-98	-61
Expenses	-704	-675
of which administrative expenses	-651	-618
of which bank levy and deposit guarantee system	-53	-57
of which net income/expenses from restructuring	0	0
<i>Consolidated profit/loss before tax</i>	<i>678</i>	<i>513</i>

Real Estate/Project Finance

	01/01 – 31/12/2023	01/01 – 31/12/2022
	EUR million	EUR million
Net interest income	929	667
Net fee and commission income	8	18
Net gains/losses on remeasurement and disposal	-217	-129
Other operating income/expenses	99	99
<i>Total operating income/expenses</i>	<i>820</i>	<i>655</i>
of which income	1,000	824
of which allowances for losses on loans and securities	-180	-168
Expenses	-459	-328
of which administrative expenses	-418	-300
of which bank levy and deposit guarantee system	-40	-28
of which net income/expenses from restructuring	-1	0
<i>Consolidated profit/loss before tax</i>	<i>361</i>	<i>328</i>

6 March 2024 – page 8

Capital Markets Business

	01/01 – 31/12/2023	01/01 – 31/12/2022
	EUR million	EUR million
Net interest income	290	371
Net fee and commission income	111	100
Net gains/losses on remeasurement and disposal	413	286
Other operating income/expenses	15	5
<i>Total operating income/expenses</i>	830	763
of which income	816	793
of which allowances for losses on loans and securities	14	-30
Expenses	-600	-580
of which administrative expenses	-533	-492
of which bank levy and deposit guarantee system	-67	-88
of which net income/expenses from restructuring	0	0
<i>Consolidated profit/loss before tax</i>	230	183

Private Customers/Savings Banks

	01/01 – 31/12/2023	01/01 – 31/12/2022
	EUR million	EUR million
Net interest income	506	347
Net fee and commission income	267	277
Net gains/losses on remeasurement and disposal	14	-17
Other operating income/expenses	11	5
<i>Total operating income/expenses</i>	798	612
of which income	787	632
of which allowances for losses on loans and securities	11	-20
Expenses	-530	-508
of which administrative expenses	-523	-505
of which bank levy and deposit guarantee system	-8	-3
of which net income/expenses from restructuring	0	0
<i>Consolidated profit/loss before tax</i>	267	104

Corporate Items/Reconciliation/Consolidation

	01/01 – 31/12/2023	01/01 – 31/12/2022
	EUR million	EUR million
Net interest income	-50	-104
Net fee and commission income	-23	-8
Net gains/losses on remeasurement and disposal	-30	-1
Other operating income/expenses	55	943
<i>Total operating income/expenses</i>	-48	830
of which income	-47	790
of which allowances for losses on loans and securities	-1	40
Expenses	-113	-84
of which administrative expenses	-101	-71
of which bank levy and deposit guarantee system	-17	-12
of which net income/expenses from restructuring	5	-1
<i>Consolidated profit/loss before tax</i>	-161	746

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