

# Group performance H1 2018

BayernLB's solid performance continues, with profit before taxes for the first half of 2018 up at EUR 452 m

Munich, 17 August 2018



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# Results of operations



Profit before taxes of  
**EUR 452 m** up 6.0% on strong  
year-before period figure of  
EUR 426 m



Net interest income rises 4.0%,  
buoyed by positive  
performance at DKB

**CET**

Very **solid capital base**:  
CET1 ratio at 14.4%

# H1 2018



All **operating segments** make  
**positive contribution**  
to earnings



Good portfolio quality and high  
releases result in **net positive risk**  
**provisions** of EUR 103 m; **NPL**  
**ratio** remains at **1.3%**

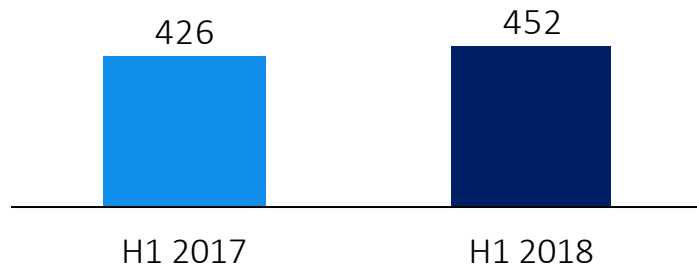


Cost side under control,  
**CIR 59.5%**

# Earnings remained stable and continued to perform well in a persistently tough market environment

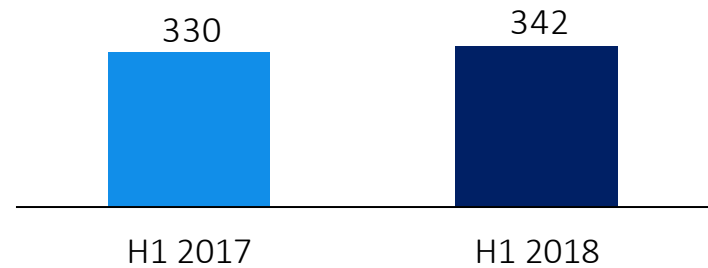
## Profit/loss before taxes

EUR m



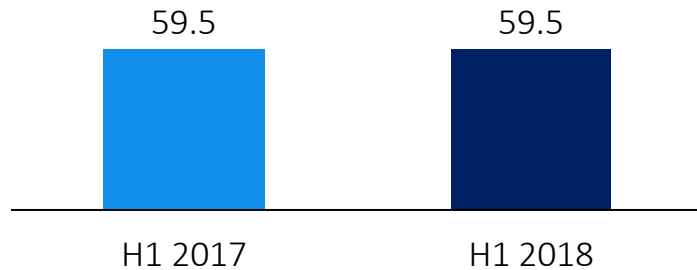
## Consolidated profit/loss

EUR m



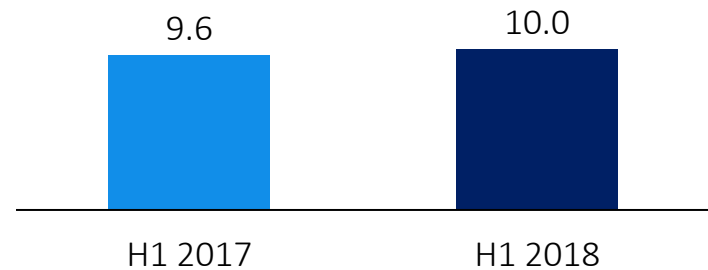
## CIR

In %



## RoE

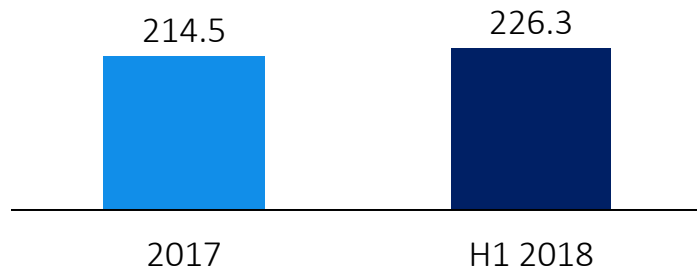
In %



# Higher money market and lending transactions resulted in elevated RWAs and an increase in total assets

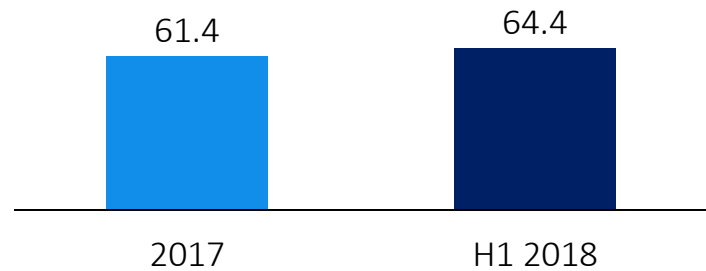
## Total assets

EUR bn



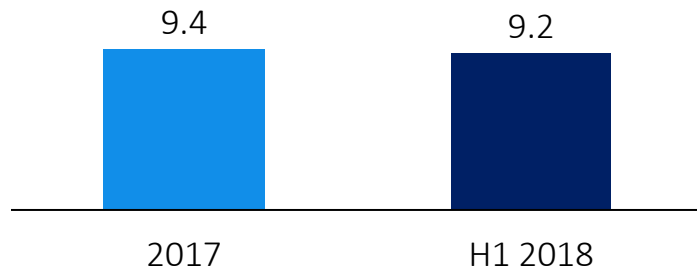
## RWAs

EUR bn



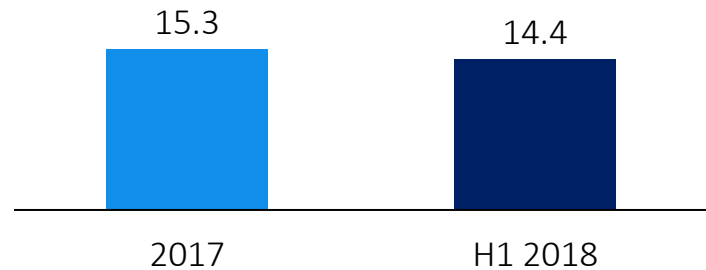
## CET1 capital (fully loaded)

EUR bn



## CET1 capital ratio (fully loaded)

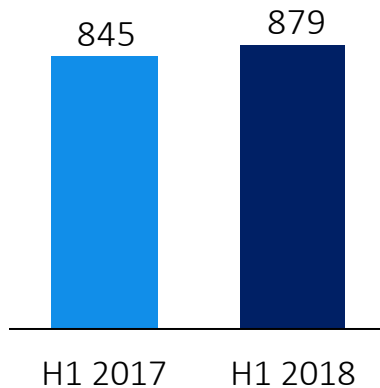
In %



# Net interest and net commission income rose on balance

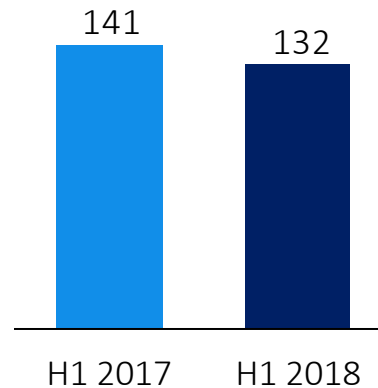
## Net interest income

EUR m



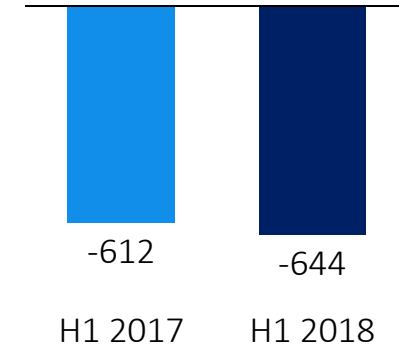
## Net commission income

EUR m



## Administrative expenses

EUR m



› Net interest income rose thanks to a considerable increase at DKB

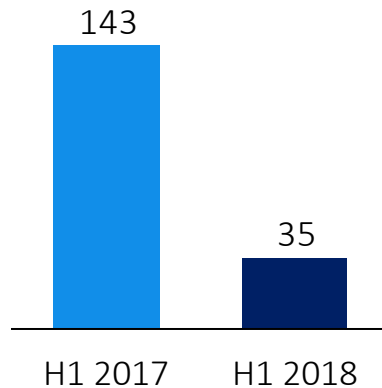
› Net commission income down on year-before period due to lower income from the credit business

› Higher expenses for major regulatory projects, investments in sales and Group-wide strategic initiatives

# High releases and good portfolio quality resulted in net positive risk provisions

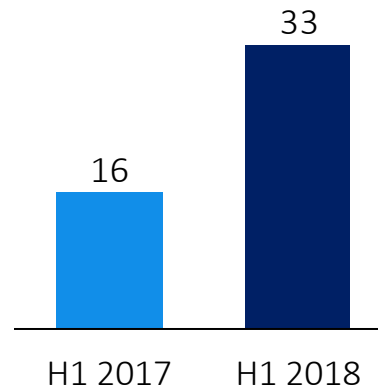
## Gains or losses on fair value measurement

EUR m



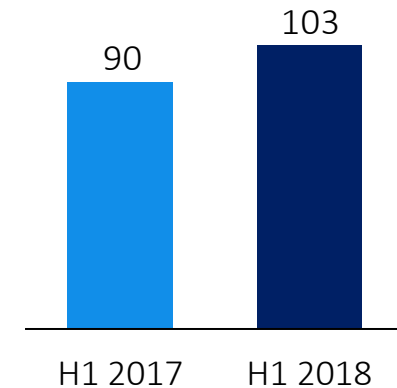
## Gains or losses on financial investments

EUR m



## Risk provisions

EUR m



- › Year-before period saw high fair value gains at DKB and earnings shifts between gains or losses on fair value measurement and gains or losses on hedge accounting

- › Mainly proceeds from the sale of securities

- › High releases of risk provisions and recoveries on written down receivables
- › NPL ratio remains at 1.3%

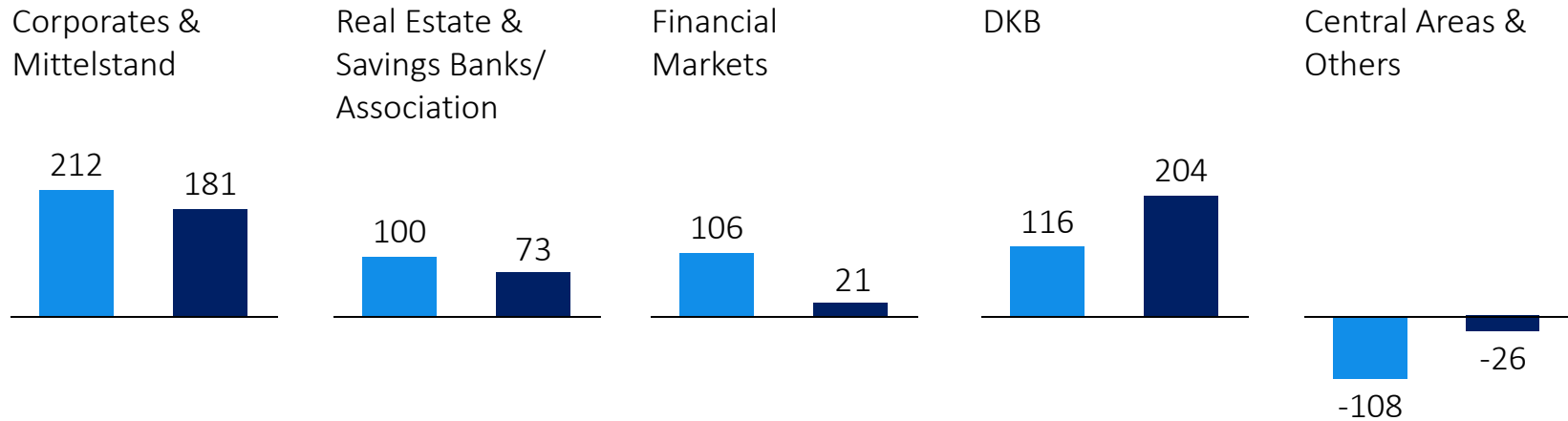


# All operating segments posted positive results in a difficult market environment

## Profit before taxes by segment

EUR m

■ H1 2017 ■ H1 2018



- › Earnings at DKB swelled thanks to customer growth and a better funding structure
- › CA & Others includes a high bank levy
- › The Corporates & Mittelstand, Real Estate & Savings Banks/Association and Financial Markets segments were unable to fully escape the difficult market environment. In addition, the year-before period was boosted by higher net positive risk provisions

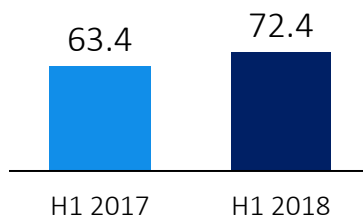
# Corporates & Mittelstand

EUR m	H1 2018	H1 2017
Net interest income	131	145
Risk provisions in the credit business	125	133
Net commission income	53	56
Other earnings components	18	16
Administrative expenses	-147	-138
<b>Profit/loss before taxes</b>	<b>181</b>	<b>212</b>
Risk-weighted assets (RWAs)	20,499	19,698

- › Profit before taxes declines to EUR 181 m (H1 2017: EUR 212 m).
- › Net interest down at EUR 131 m (H1 2017: EUR 145 m) as a result of the highly competitive market and lower interest rates.
- › Commission and customer business with Financial Markets' products largely stable.
- › Once again high releases of risk provisions and recoveries on written down receivables of EUR 125 m.
- › RWAs up on year-before period.
- › Rising administration costs due to Bank-wide strategic investments.

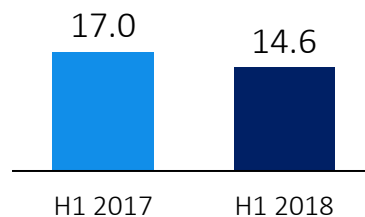
CIR

In %



RoE

In %



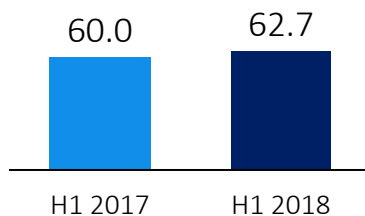
# Real Estate & Savings Banks/Association

EUR m	H1 2018	H1 2017
Net interest income	125	118
Risk provisions in the credit business	-5	18
Net commission income	62	68
Other earnings components	20	18
Administrative expenses	-130	-121
<b>Profit/loss before taxes</b>	<b>73</b>	<b>100</b>
Risk-weighted assets (RWAs)	8,176	7,858

- › Profit before taxes slid to EUR 73 m (H1 2017: EUR 100 m), mainly due to a high release of risk provisions in the year-before period
- › Earnings from net interest and net commission income remained largely unchanged at EUR 187 m (H1 2017: EUR 186 m)
- › Higher administrative expenses (up EUR 9 m) were the result of planned sales expansion and Bank-wide strategic initiatives
- › Profit before taxes at BayernLabo dropped slightly to EUR 19 m (H1 2017: EUR 23 m), due to measurement losses on interest hedges
- › Real I.S. posted stable earnings of EUR 6 m (H1 2017: EUR 6 m)

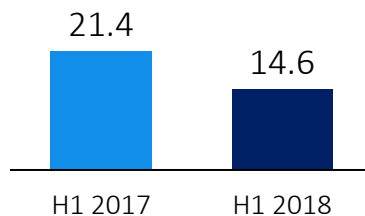
CIR

In %



RoE

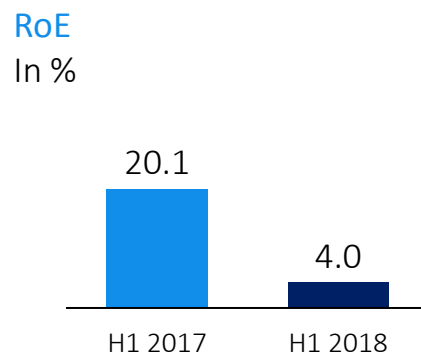
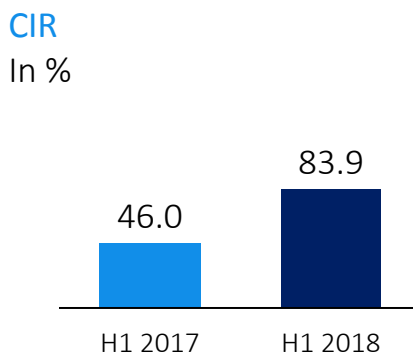
In %



# Financial Markets

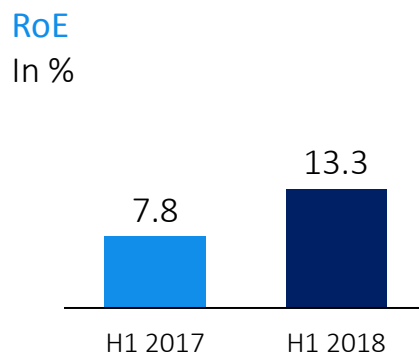
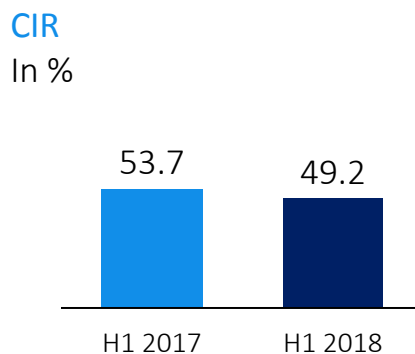
EUR m	H1 2018	H1 2017
Net interest income	83	99
Risk provisions in the credit business	0	-7
Net commission income	17	17
Other earnings components	32	95
Administrative expenses	-110	-97
<b>Profit/loss before taxes</b>	<b>21</b>	<b>106</b>
Risk-weighted assets (RWAs)	8,318	8,941

- › Profit before taxes declined to EUR 21 m (H1 2017: EUR 106 m)
- › Figures for the year-before period were boosted significantly by one-off income in net interest income and measurement gains, such as from fair value adjustment of derivatives amounting to EUR 58 m (in 2018: EUR 8 m)
- › Administrative expenses were higher due to investment in sales and Bank-wide strategic initiatives
- › Despite tough market conditions, earnings from Financial Markets products for operating segments remained stable; as usual these earnings were reported under the segments that directly sold them
- › Profit before taxes at BayernInvest of EUR 3 m was down on the year-before period (H1 2017: EUR 5) due to higher administrative expenses



EUR m	H1 2018	H1 2017
Net interest income	511	429
Risk provisions in the credit business	-23	-59
Net commission income	4	2
Other earnings components	-41	-24
Administrative expenses	-248	-232
<b>Profit/loss before taxes</b>	<b>204</b>	<b>116</b>
Risk-weighted assets (RWAs)	24,543	24,579

- › Profit before taxes surged to EUR 204 m (H1 2017: EUR 116 m) aided in particular by an improved funding structure
- › Risk provisions were considerably lower than the year-before period due to higher releases of risk provisions
- › Other earnings components were mainly impacted by a measurement loss related to hedge accounting
- › Administrative expenses climbed to EUR 248 m (H1 2017: EUR 232 m), largely as a result of higher expenses for implementing regulatory requirements
- › Profit before taxes for Bayern Card-Services was up on the year-before period at EUR 12 m (H1 2017: EUR 2 m), driven by additional income from the sale of an equity interest



# Central Areas & Others

EUR m	H1 2018	H1 2017
Net interest income	29	55
Risk provisions in the credit business	5	6
Net commission income	-3	-3
Other earnings components	-47	-141
Administrative expenses	-10	-24
<b>Profit/loss before taxes</b>	<b>-26</b>	<b>-108</b>
Risk-weighted assets (RWAs)	2,833	2,556

- › Loss before taxes amounted to EUR 26 m (H1 2017: loss before taxes of EUR 108 m) and was impacted by the bank levy, which was recognised in full at EUR 61 m (H1 2017: EUR 60 m), in addition to extraordinary tax-related income
- › Net interest income in the year-before period was boosted by high consolidation gains, although this was offset by a decline in other earnings components
- › Administrative expenses fell to EUR 10 m (H1 2017: EUR 24 m) as a result of lower expenses for winding down non-core portfolios and for supervisory contributions as well as benefiting from the positive performance of the US dollar

### Outlook for 2018

Profit before taxes  
expected to be in the  
mid-triple-digit  
million range again

After the compulsory  
part, it is time for  
“freestyle”

Fine-tuning on the  
earnings side

### Our aspiration

Consolidate our  
position as one of the  
strongest regional  
banks in Europe

# Detailed charts



# Year-on-year earnings comparison

EUR m	H1 2018	H1 2017	Change in %
Net interest income	879	845	4.0
Risk provisions in the credit business	103	90	14.1
Net interest income after risk provisions	982	935	5.0
Net commission income	132	141	-6.0
Gains or losses on fair value measurement	35	143	-75.7
Gains or losses on hedge accounting	-44	-93	-53.2
Gains or losses on derecognised financial assets	-6	0	-
Gains or losses on financial investments	33	16	>100
Administrative expenses	-644	-612	5.4
Expenses for the bank levy and deposit guarantee scheme	-90	-84	7.6
Other income and expenses	52	-25	-
Gains or losses on restructuring	2	4	-65.8
<b>Profit/loss before taxes</b>	<b>452</b>	<b>426</b>	<b>6.0</b>
Income taxes	-105	-96	8.7
<b>Profit/loss after taxes</b>	<b>347</b>	<b>330</b>	<b>5.2</b>
Profit/loss attributable to non-controlling interests	-5	0	-
<b>Consolidated profit/loss</b>	<b>342</b>	<b>330</b>	<b>3.8</b>

# Quarterly earnings comparison

EUR m	Q2 2018	Q1 2018
Net interest income	430	450
Risk provisions in the credit business	-15	117
Net interest income after risk provisions	415	567
Net commission income	72	60
Gains or losses on fair value measurement	-1	36
Gains or losses on hedge accounting	-20	-23
Gains or losses on derecognised financial assets	-8	2
Gains or losses on financial investments	26	7
Administrative expenses	-313	-331
Expenses for the bank levy and deposit guarantee scheme	10	-100
Other income and expenses	34	19
Gains or losses on restructuring	2	-1
<b>Profit/loss before taxes</b>	<b>215</b>	<b>237</b>
Income taxes	-50	-55
<b>Profit/loss after taxes</b>	<b>165</b>	<b>182</b>
Profit/loss attributable to non-controlling interests	-5	0
<b>Consolidated profit/loss</b>	<b>161</b>	<b>181</b>

# Segment overview

EUR m	Corporates & Mittelstand	Real Estate & Savings Banks/ Association	Financial Markets	DKB	Central Areas & Other	Group
Net interest income	131	125	83	511	29	879
Risk provisions in the credit business	125	-5	0	-23	5	103
Net interest income after risk provisions	257	120	83	488	34	982
Net commission income	53	62	17	4	-3	132
Gains or losses on fair value measurement	19	18	4	7	-13	35
Gains or losses on hedge accounting	0	0	-3	-34	-6	-44
Gains or losses on derecognised financial assets	0	0	0	-6	0	-6
Gains or losses on financial investments	0	2	25	6	1	33
Administrative expenses	-147	-130	-110	-248	-10	-644
Expenses for the bank levy and deposit guarantee scheme	0	0	0	-29	-61	-90
Other income and expenses	0	-1	7	16	31	52
Gains or losses on restructuring	0	0	0	0	1	2
<b>Profit/loss before taxes</b>	<b>181</b>	<b>73</b>	<b>21</b>	<b>204</b>	<b>-26</b>	<b>452</b>
Return on equity (RoE) (%)	14.6	14.6	4.0	13.3	-	10.0
Cost/income ratio (CIR) (%)	72.4	62.7	83.9	49.2	-	59.5

# Segment overview H1 2017

EUR m	Corporates & Mittelstand	Real Estate & Savings Banks/ Association	Financial Markets	DKB	Central Areas & Other	Group
Net interest income	145	118	99	429	55	845
Risk provisions in the credit business	133	18	-7	-59	6	90
Net interest income after risk provisions	278	135	91	370	60	935
Net commission income	56	68	17	2	-3	141
Gains or losses on fair value measurement	15	19	88	72	-50	143
Gains or losses on hedge accounting	0	-2	-4	-79	-8	-93
Gains or losses on financial investments	1	0	3	13	0	16
Administrative expenses	-138	-121	-97	-232	-24	-612
Expenses for the bank levy and deposit guarantee scheme	0	0	0	-24	-60	-84
Other income and expenses	0	-1	8	-5	-27	-25
Gains or losses on restructuring	0	1	0	-1	4	4
<b>Profit/loss before taxes</b>	<b>212</b>	<b>100</b>	<b>106</b>	<b>116</b>	<b>-108</b>	<b>426</b>
Return on equity (RoE) (%)	17.0	21.4	20.1	7.8	-	9.6
Cost/income ratio (CIR) (%)	63.4	60.0	46.0	53.7	-	59.5

# Balance sheet overview

EUR bn	H1 2018	2017	Change in %
Loans and advances to banks	37.6	37.8	-0.5
Loans and advances to customers	137.9	134.7	2.4
Assets held for trading	13.3	12.0	11.2
Financial investments	23.5	23.4	0.5
<b>Total assets</b>	<b>226.3</b>	<b>214.5</b>	<b>5.5</b>
Liabilities to banks	61.5	54.4	12.9
Liabilities to customers	94.0	91.9	2.2
Securitised liabilities	44.3	41.8	5.8
Liabilities held for trading	8.0	7.7	4.6
Subordinated capital	1.9	1.9	-1.8
Equity	10.9	10.8	0.7

# Key capital figures

<b>Fully loaded</b>	<b>H1 2018</b>	<b>2017</b>
CET1 capital (EUR bn)	9.2	9.4
CET1 ratio (%)	14.4	15.3
Total capital (EUR bn)	10.3	10.3
Total capital ratio (%)	15.9	16.8
RWAs (EUR bn)	64.4	61.4
Leverage ratio (%)	3.8	4.0
LCR (%)	131	159