BayernLB Group financial report H1 2021

Munich, 19 August 2021

Finanzgruppe

BayernLB

Financing progress.

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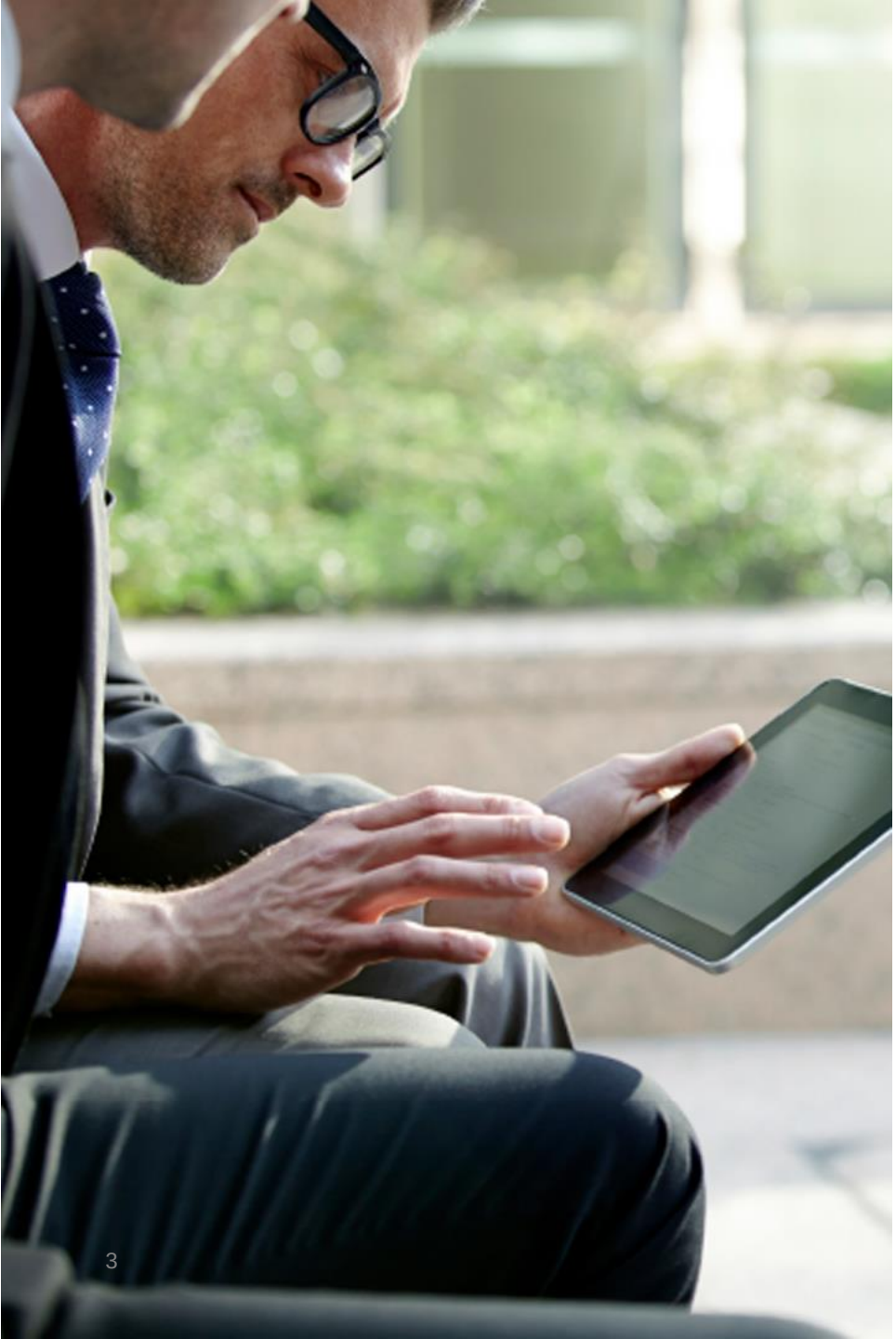
BayernLB



Financial performance

- Highlights
- Key figures

Performance highlights in H1 2021

- Pre-tax profit of EUR 485 m due to good operating earnings performance in all segments, net positive risk provisions and the bonus from tender participation
- Consolidated profit of EUR 248 m; increase in tax rate from the adjustment of deferred taxes due to the ending of the DKB income tax group
- Net interest and net commission income rise to EUR 1.2 bn (H1 2020: EUR 1.0 bn)
- Administrative expenses fall, despite growth investment in DKB's Infrastructure, thanks to savings at BayernLB core Bank
- Capital base remains good: CET1 ratio of 15.6%, solid scores achieved in EBA stress test
- Earnings forecast for financial year 2021 raised to EUR 500 – 700 million before taxes

Profit before taxes

EUR 485 m

Consolidated profit

EUR 248 m

Net interest and net commission income

EUR 1.2 bn

CET1 ratio

15.6%

BayernLB

Transformation in customer business is on course

Real Estate & Savings Banks/FI

- **Growth trajectory** in the real estate business: **financing volume increased to EUR 24.6 bn**
- **Precious metals business on course for a new record year**: 438 tonnes of precious metals already traded in the first half of the year
- Strong half-year in **state-subsidised business**: more than 15,000 loans approved

Corporates & Markets

- New sector teams launched successfully in the Corporates Business Area: **sector expertise and structuring expertise consolidated**
- **First completely digital settlement** of an OTC interest rate derivative as a "**smart derivative contract"**
- CO_2 business increased

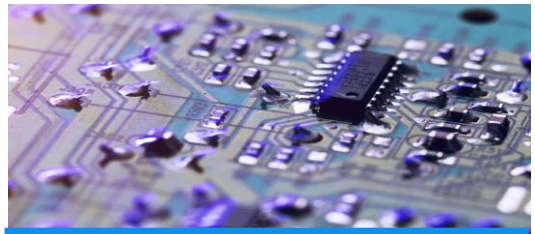
DKB

- Growth trajectory continued and number of **retail customers increased to 4.8 million**
- Very good performance in the **securities business: DKB Broker** grew by more than 30 percent to **600,000 securities accounts** compared to year-before period
- New banking app to be launched soon

Milestones of the transformation: sustainability, investments and costs

Sustainability

- PCAF enables standardised **calculation of emissions in portfolio**, gradual decarbonisation
- **Green commercial paper programme** launched
- **Two green benchmark bonds successfully placed** (green non-preferred bond and green Tier 2, with a volume of EUR 500 m each)



Investments

- **Investment projects** of over EUR 700 m by 2025 **driven forward, e.g.:**
- BayernLB: implementation started in project to **modernise** the Bank management **application landscape**
- **DKB Crowd:** retail customers can participate in **crowdfunding** for projects by DKB business customers **via a new digital platform**

Costs

- From the beginning of the transformation programme in the core Bank up to 30 June 2021, **activities to reduce costs of about EUR 100 m** (aggregated) were implemented
- Around **55 percent** of the total planned headcount reduction in the core Bank is either already **secured by contract** or soon to be so

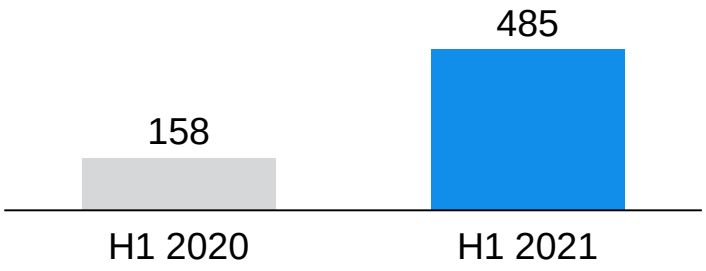
Change in the deposit guarantee scheme at DKB

- Deutsche Kreditbank AG (DKB) is an integral component of the BayernLB Group and, as an innovative digital bank, plays an important part in BayernLB's commercial success. The following changes are set to take place with respect to its deposit guarantee scheme:
- In issuing the Ordinance of 8 June 2021 on the statutory compensation scheme of the Bundesverband Öffentlicher Banken Deutschlands GmbH (EdÖ), the Federal Ministry of Finance **ended its mandate as a statutory compensation scheme** with effect from 1 October 2021.
- The Institutions currently covered by this will thus be legally assigned to the Entschädigungseinrichtung deutscher Banken GmbH (EdB), a wholly-owned subsidiary of the Association of German Banks (BdB). **Accordingly, as of 1 October DKB will also be assigned to the statutory compensation scheme EdB.**
- As a result of DKB's move to the EdB, the relationship between DKB and BayernLB will change. **BayernLB has revoked and terminated the letter of comfort for DKB effective from 30 November 2021.** Customers that become new customers of DKB after 19 August 2021 are not permitted to utilise this letter of comfort from this date. The Bank also intends to end the control and profit and loss transfer agreement between BayernLB and DKB at the next possible date in 2021. In return, BayernLB will provide DKB with a **substantial amount of additional capital** so it can maintain a market-standard capital base even without BayernLB's letter of comfort.

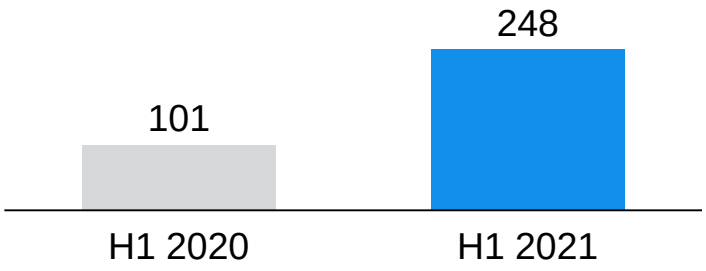
Key figures

Earnings growth thanks to good operating profit, net positive risk provisions and the tender bonus

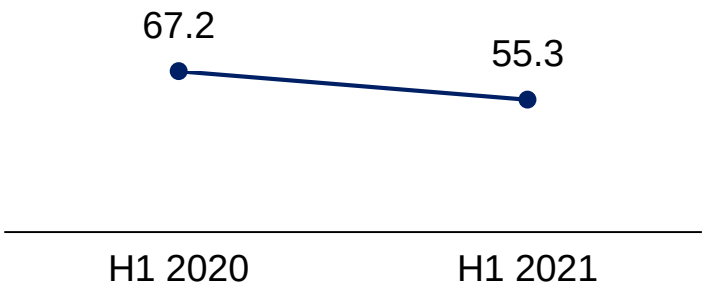
Profit/loss before taxes
EUR m



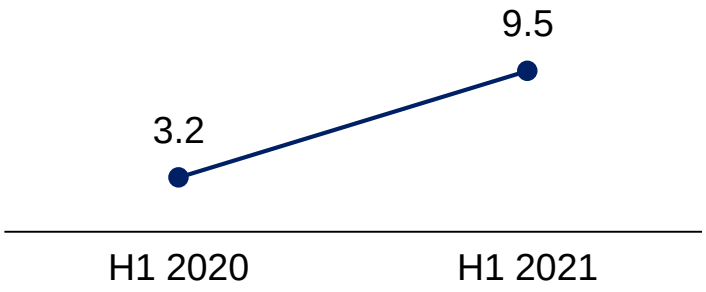
Consolidated profit/loss
EUR m



CIR
in %



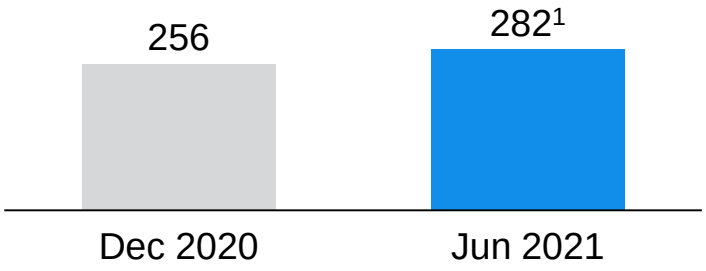
RoE
in %



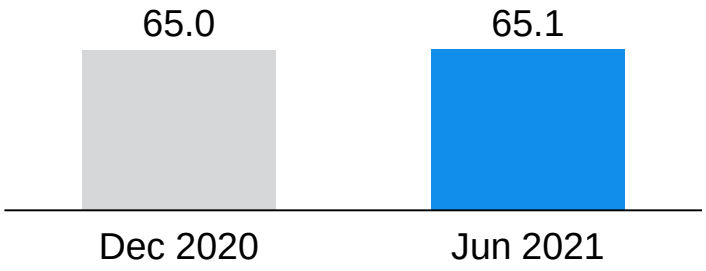
BayernLB

Capital base stable and at a solid level

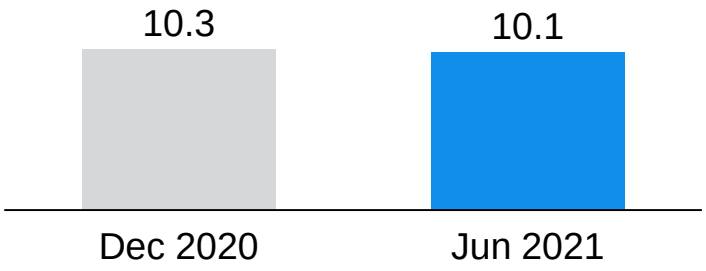
Total assets
EUR bn



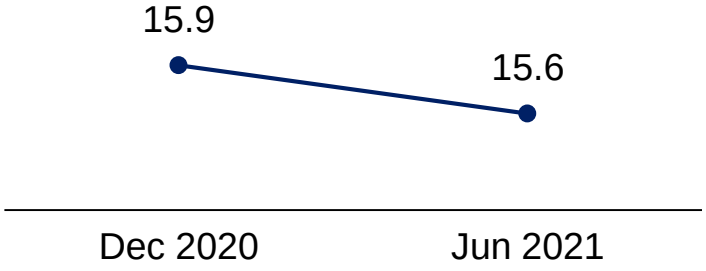
RWAs
EUR bn



CET1 capital
EUR bn



CET1 capital ratio
in %

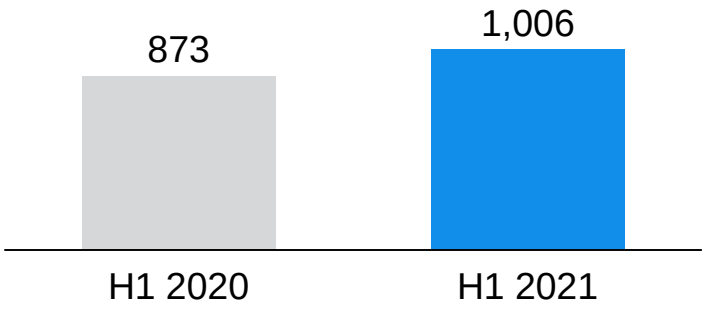


[1] Increase in total assets in particular due to participation in ECB tender (current volume of EUR 38.5 bn)

BayernLB

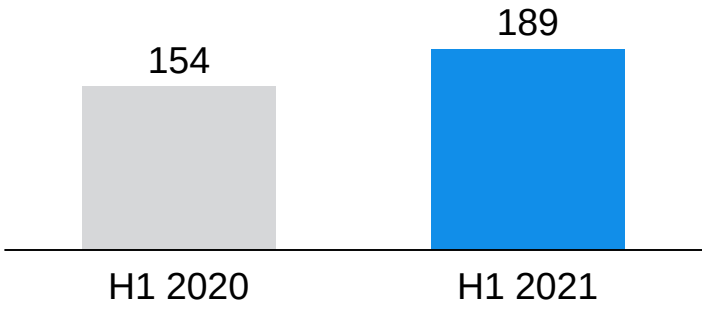
Rise in net interest and net commission income buoyed by tender bonus

Net interest income
EUR m



- Increase on year-before period thanks to stable operating customer business in all segments and the EUR 164 m bonus from tender participation
- Approx. EUR 40 m moved to gains or losses on fair value measurement as part of the Brexit-related shift from LCH.Clearnet to Eurex Clearing

Net commission income
EUR m



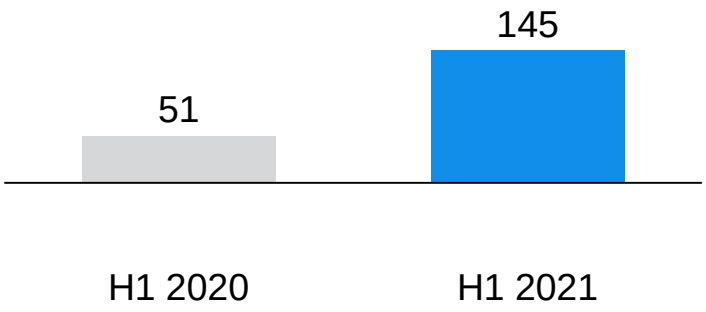
- Higher contributions from the lending and securities business, state-subsidised business and Group subsidiaries Real I.S. and DKB

BayernLB

Gains from fair value and risk provisions

Gains or losses on fair value measurement

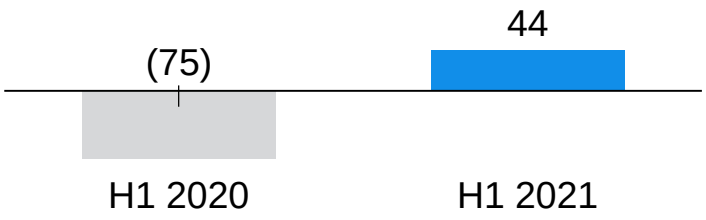
EUR m



- The rise in earnings was mostly due to good operating customer business, such as precious metals trading, and measurement gains as a result of market performance
- Derivatives transfer: contra position to net interest income, growth of approx EUR 40 m

Risk provisions

EUR m

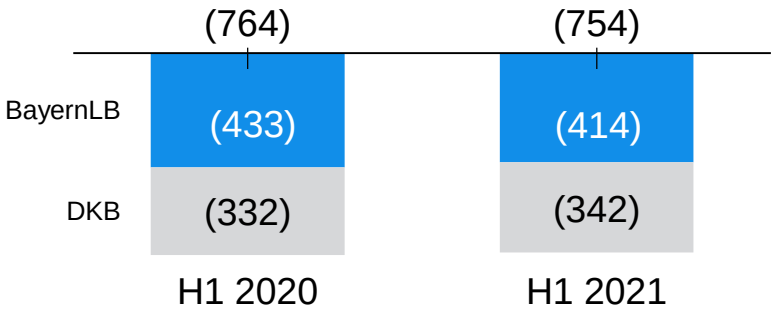


- First half buoyed by persistently good asset quality, releases of risk provisions and recoveries on written down receivables
- There remains a significant amount of the post model adjustment of EUR 292 m (Dec 2020: EUR 325 m)

BayernLB

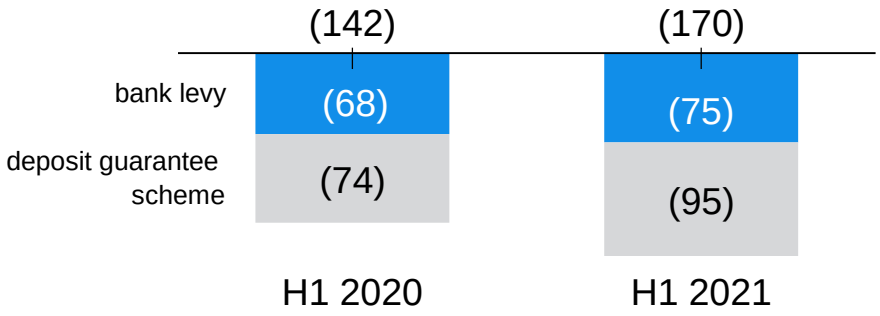
Administrative expenses lower and bank levy and deposit guarantee scheme considerably higher

Administrative expenses
EUR m



- Operating costs fell at BayernLB
- DKB posted higher expenses for infrastructure and new employees as part of its growth strategy

Expenses for the bank levy and deposit guarantee scheme
EUR million



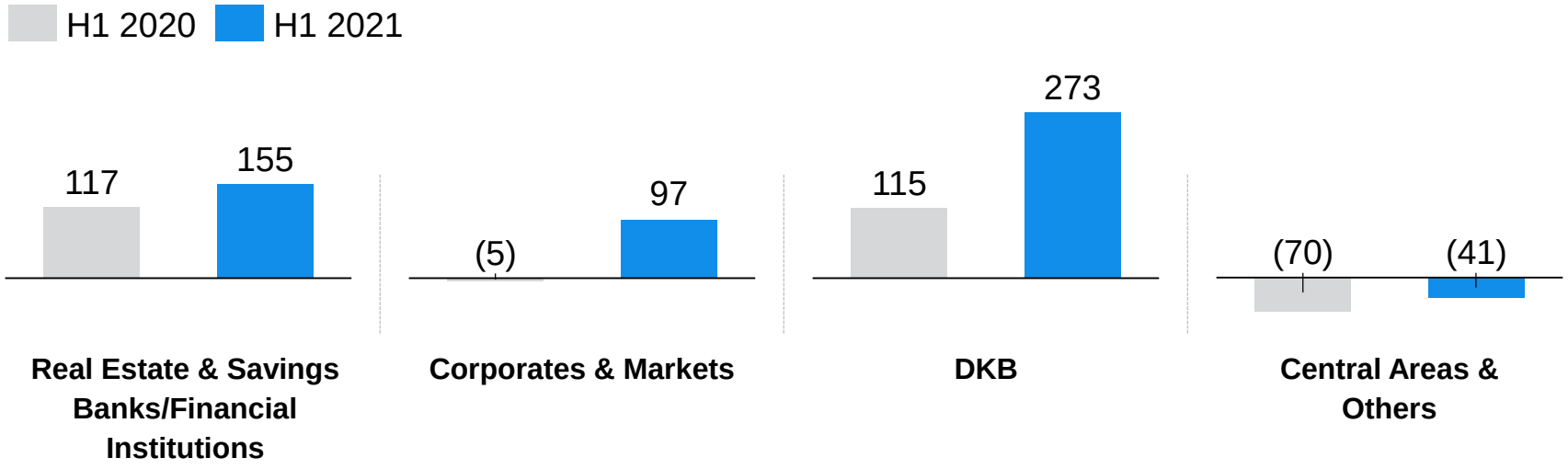
- The contributions to the deposit guarantee scheme increased in line with higher customer deposits at DKB

BayernLB

Earnings improved in all segments

Profit/loss before taxes by segment

EUR m



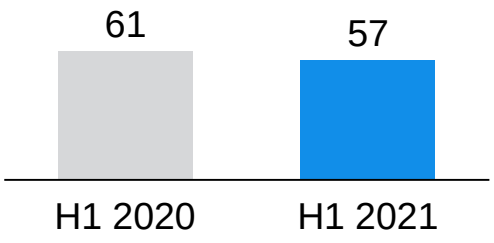
- Real Estate on growth trajectory in line with strategy; earnings in the precious metals and state-subsidised business remained high
- Corporates & Markets: good operating business and measurement gains; costs cut by streamlining in the capital market business
- DKB posts jump in earnings; growth in credit volume, successful new customer acquisition and favourable funding conditions
- Central Areas & Others: improvement in earnings driven by bonus from participating in tender

BayernLB

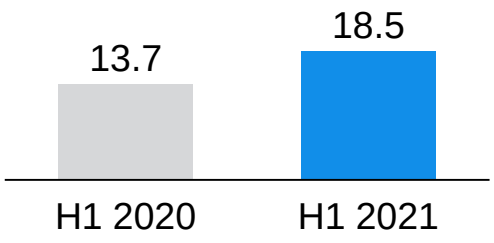
Real Estate & Savings Banks/ Financial Institutions

EUR m	H1 2020	H1 2021
Net interest income	160	173
Risk provisions in the credit business	(10)	3
Net commission income	118	135
Other earnings components	47	44
Administrative expenses	(199)	(200)
Profit/loss before taxes	**117**	**155**
Risk-weighted assets (RWAs)	12,089	11,730

CIR
In %



RoE
In %



Highlights

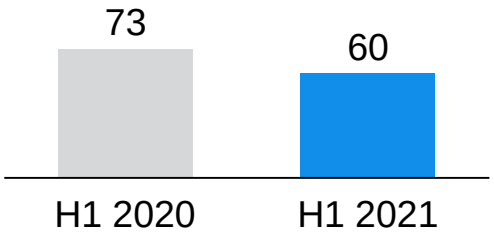
- Real Estate posts higher net interest income in line with strategy
- Savings Banks & Financial Institutions continues to benefit from high fair value gains in the previous metals business and good commission income, including in state-subsidised business
- Good operating performance at BayernLabo (profit before taxes of EUR 19 m) and at the asset management companies REAL I.S. (profit before taxes of EUR 17 m) and BayernInvest (profit before taxes EUR 3 m)

BayernLB

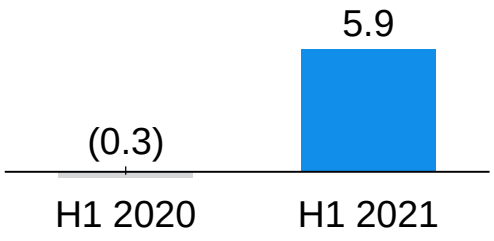
Corporates & Markets

EUR m	H1 2020	H1 2021
Net interest income	148	163
Risk provisions in the credit business	(65)	(1)
Net commission income	40	43
Other earnings components	40	36
Administrative expenses	(167)	(144)
Profit/loss before taxes	**(5)**	**97**
Risk-weighted assets (RWAs)	24,464	23,190

CIR
In %



RoE
In %



Highlights

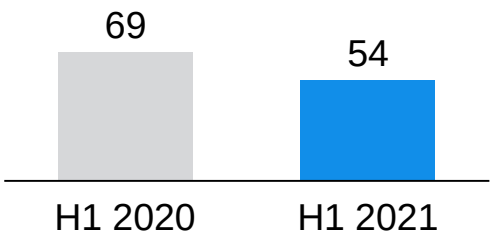
- Earnings lifted by a good performance by the customer business and net gains on measurement resulting from market trends
- Administrative expenses cut due to streamlining in the capital market business
- Reduction in RWAs reflects the implementation of the new sales approach by sector

BayernLB

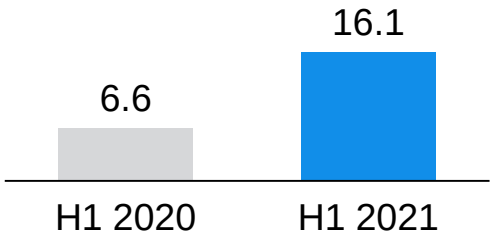
DKB

EUR m	H1 2020	H1 2021
Net interest income	476	566
Risk provisions in the credit business	2	33
Net commission income	9	25
Other earnings components	(2)	44
Administrative expenses	(332)	(342)
Bank levy and deposit guarantee scheme	(37)	(54)
Profit/loss before taxes	**115**	**273**
Risk-weighted assets (RWAs)	25,635	24,670

CIR
In %



RoE
In %



Highlights

- Good performance in all segments: retail customers, infrastructure and corporate clients
- Very positive earnings trend, primarily due to the EUR 105 m bonus from participation in tender, higher measurement gains on funds and equity interests and better risk provisions
- Reduction in RWAs resulting from regulatory relief for small and medium-sized enterprises (SMEs)

BayernLB

Central Areas & Others

EUR m	H1 2020	H1 2021
Net interest income	89	104
Risk provisions in the credit business	(1)	9
Net commission income	(13)	(14)
Other earnings components	26	45
Administrative expenses	(67)	(69)
Bank levy and deposit guarantee scheme	(104)	(116)
Profit/loss before taxes	**(70)**	**(41)**
Risk-weighted assets (RWAs)	5,405	5,489

Highlights

- Higher earnings buoyed by the tender bonus of EUR 59 m
- Earnings transfer of approx. EUR 40 m from net interest income to gains or losses on fair value measurement as a result of the derivatives transfer from LCH to EUREX

OUTLOOK

Forecast adjusted upward: profit before taxes of EUR 500-700 m

	Forecast for 2021 (31 Dec 2020)	Adjusted forecast for 2021 (30 Jun 2020)
Profit/loss before taxes	EUR 200-400 m	EUR 500-700 m
Return on equity (RoE)	>3%	>5%
Cost/income ratio (CIR)	65-70%	60-65%
Common Equity Tier 1 ratio (CET 1 ratio)	>14%	>15%
Leverage ratio	>4%	>4%

As it is unclear how the pandemic will unfold, this forecast is fraught with a high level of uncertainty.

BayernLB

Appendix

Year-on-year earnings comparison

EUR m	H1 2021	H1 2020	Change in %
Net interest income	1,006	873	15.1
Risk provisions in the credit business	44	(75)	–
Net interest income after risk provisions	1,050	799	**31.5**
Net commission income	189	154	22.8
Gains or losses on fair value measurement	145	51	>100.0
Gains or losses on hedge accounting	(3)	(9)	(65.8)
Gains or losses on derecognised financial assets	5	(1)	–
Gains or losses on financial investments	7	31	(77.1)
Administrative expenses	(754)	(764)	(1.3)
Expenses for the bank levy and deposit guarantee scheme	(170)	(142)	20.0
Other income and expenses	14	38	(64.1)
Gains or losses on restructuring	1	0	>100.0
Profit/loss before taxes	**485**	**158**	>100.0
Income taxes	(235)	(56)	>100.0
Profit/loss after taxes	**249**	**101**	>100.0
Profit/loss attributable to non-controlling interests	(2)	–	–
Consolidated profit/loss	**248**	**101**	>100.0

Quarterly earnings comparison

EUR m	Q2 2021	Q1 2021
Net interest income	530	476
Risk provisions in the credit business	13	32
Net interest income after risk provisions	543	508
Net commission income	95	94
Gains or losses on fair value measurement	60	85
Gains or losses on hedge accounting	(9)	6
Gains or losses on derecognised financial assets	2	3
Gains or losses on financial investments	1	6
Administrative expenses	(361)	(394)
Expenses for the bank levy and deposit guarantee scheme	(26)	(144)
Other income and expenses	14	0
Gains or losses on restructuring	3	(1)
Profit/loss before taxes	**321**	**164**
Income taxes	(184)	(51)
Profit/loss after taxes	**137**	**112**
Profit/loss attributable to non-controlling interests	(2)	–
Consolidated profit/loss	136	**112**

Segment overview

EUR m	Real Estate & Savings Banks/ Financial Institutions	Corporates & Markets	DKB	Central Areas & Others	Group
Net interest income	173	163	566	104	1,006
Risk provisions in the credit business	3	(1)	33	9	44
Net interest income after risk provisions	176	162	599	113	1,050
Net commission income	135	43	25	(14)	189
Gains or losses on fair value measurement	37	35	28	45	145
Gains or losses on hedge accounting	0	0	3	(6)	(3)
Gains or losses on derecognised fin. assets	0	1	4	0	5
Gains or losses on financial investments	0	0	7	0	7
Administrative expenses	(200)	(144)	(342)	(69)	(754)
Expenses for the bank levy and deposit guarantee scheme	0	0	(54)	(116)	(170)
Other income and expenses	6	0	2	5	14
Gains or losses on restructuring	1	0	0	1	1
Profit/loss before taxes	155	97	273	(41)	485
Return on equity (RoE) (%)	18.5	5.9	16.1	–	9.5
Cost/income ratio (CIR) (%)	57	60	54	–	55

Segment overview H1 2020

EUR m	Real Estate & Savings Banks/ Financial Institutions	Corporates & Markets	DKB	Central Areas & Others	Group
Net interest income	160	148	476	89	873
Risk provisions in the credit business	(10)	(65)	2	(1)	(75)
Net interest income after risk provisions	151	82	478	88	799
Net commission income	118	40	9	(13)	154
Gains or losses on fair value measurement	42	38	(12)	(18)	51
Gains or losses on hedge accounting	0	1	(5)	(6)	(9)
Gains or losses on derecognised fin. assets	0	1	(2)	0	(1)
Gains or losses on financial investments	1	0	13	18	31
Administrative expenses	(199)	(167)	(332)	(67)	(764)
Expenses for the bank levy and deposit guarantee scheme	0	0	(37)	(104)	(142)
Other income and expenses	4	0	3	32	38
Gains or losses on restructuring	0	0	0	0	0
Profit/loss before taxes	**117**	**(5)**	**115**	**(70)**	**158**
Return on equity (RoE) (%)	13.7	(0.3)	6.6	–	3.2
Cost/income ratio (CIR) (%)	61	73	69	–	67

Balance sheet overview

EUR bn	Jun 2021	Dec 2020	Change in %
Loans and advances to banks	59.1	56.2	5.1
Loans and advances to customers	154.7	152.4	1.5
Assets held for trading	9.5	12.1	(21.4)
Financial investments	20.4	21.9	(6.7)
Total assets	**282.4**	**256.3**	**10.2**
Liabilities to banks	92.5	76.0	21.7
Liabilities to customers	118.2	109.8	7.7
Securitised liabilities	46.0	43.0	6.8
Liabilities held for trading	8.0	9.4	(15.1)
Subordinated capital	2.2	1.7	31.8
Equity	12.0	11.6	3.3

Key capital figures

	Jun 2021	Dec 2020
CET1 capital (EUR bn)	10.1	10.3
CET1 ratio (%)	15.6	15.9
Total capital (EUR bn)	12.2	11.8
Total capital ratio (%)	18.8	18.2
RWAs (EUR bn)	65.1	65.0
Leverage ratio (%)	4.4	4.3

Data as reported.

Disclaimer

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