

Group financial report 9M 2019

BayernLB posts profit of EUR 433 m in the first 9 months of 2019

Munich, 14 November 2019



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BayernLB posts profit of EUR 433 m in the first nine months of 2019



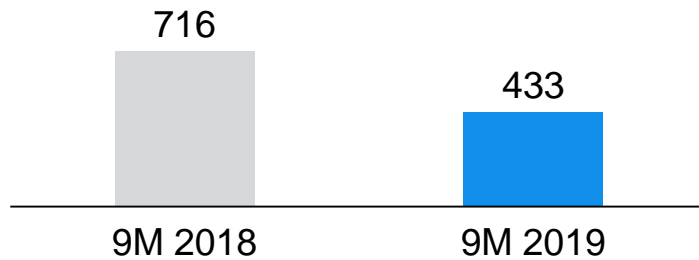
HIGHLIGHTS

- › Net interest and net commission income on par with 9M 2018 at approx. EUR 1.5 bn
- › One-off income substantially lower than in the previous year
- › Segments with mixed performance; DKB and real estate business are key earnings drivers
- › Capital base still solid: CET1 ratio of 14.5%
- › Good portfolio quality resulting in low risk provisions; NPL ratio again very good at 0.7%
- › Cost/income ratio (CIR) still in the target range at 65.3%

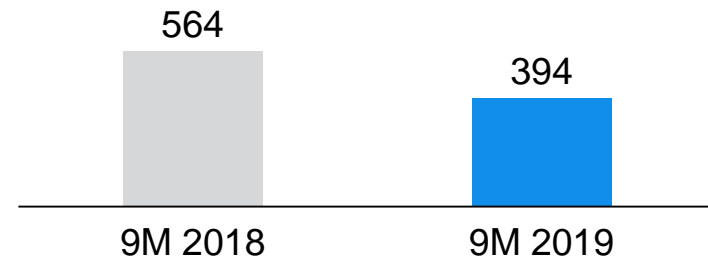
Full-year forecast unchanged: profit before taxes in the mid-triple-digit million range

Earnings in line with our expectations, decrease due to lower one-off income

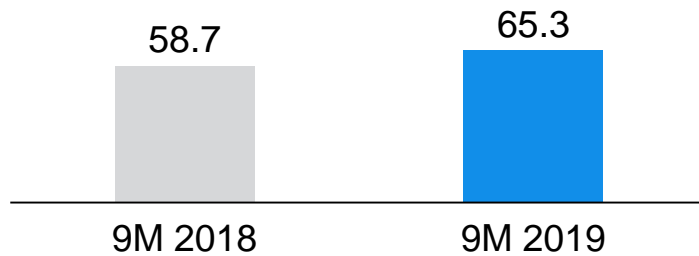
Profit before taxes
EUR m



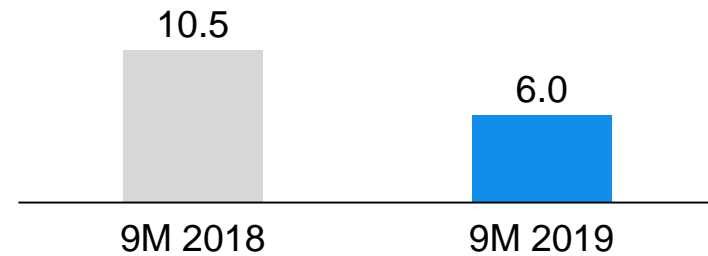
Consolidated profit/loss
EUR m



CIR
In %

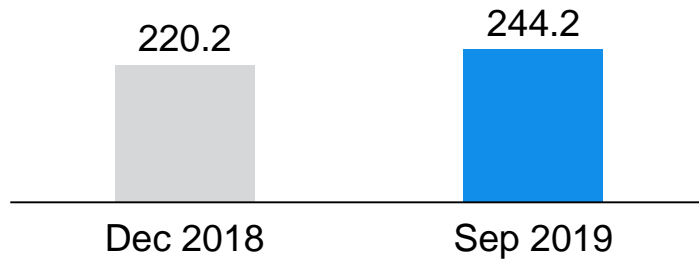


RoE
In %

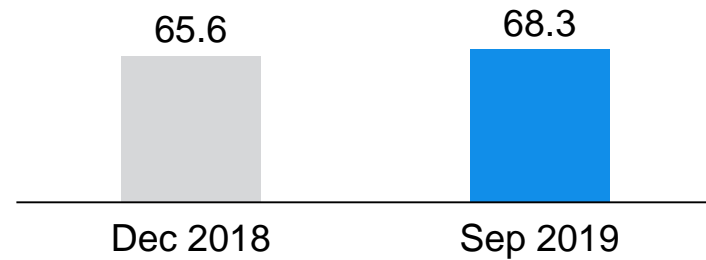


Solid capital base despite moderate growth

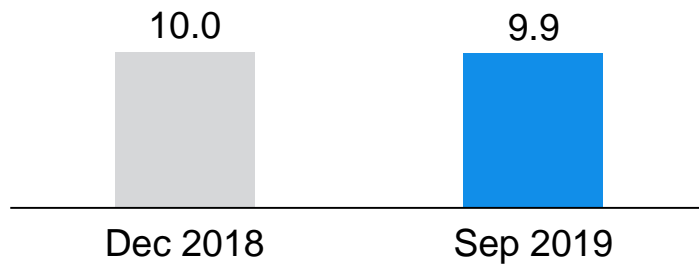
Total assets
EUR bn



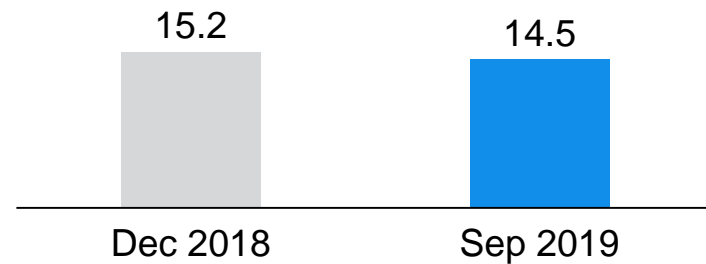
RWAs
EUR bn



CET1 capital
EUR bn

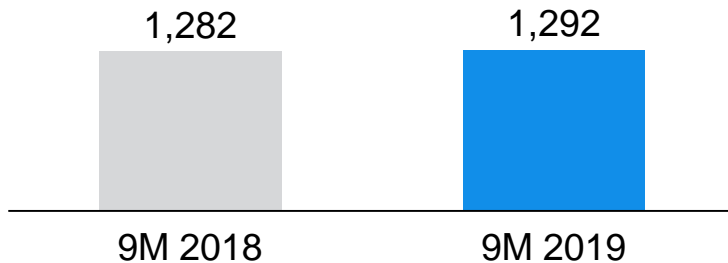


CET1 capital ratio
In %

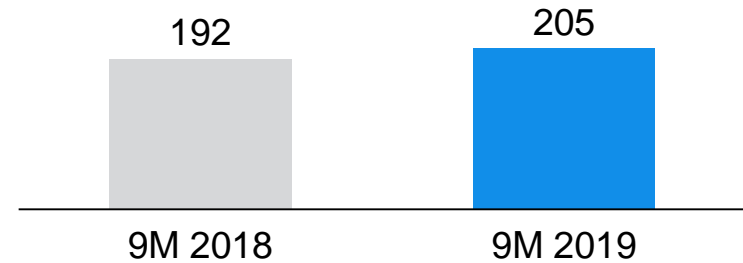


Net interest and net commission income on par with 9M 2018 at approx. EUR 1.5 bn

Net interest income
EUR m



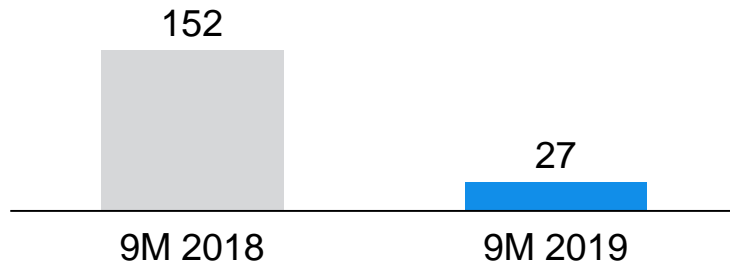
Net commission income
EUR m



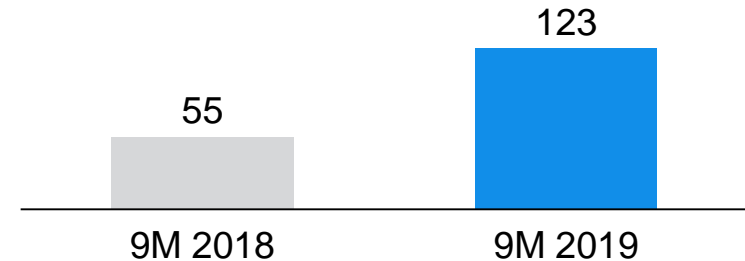
- › Net interest income in line with our expectations in an intensely competitive environment
- › Net interest income rose at BayernLB, while it fell slightly at DKB
- › Increase of some 7%

Gains or losses on fair value measurement, hedge accounting and financial investments, and other income and expenses

Sum of gains or losses on FV measurement, hedge accounting and financial investments
EUR m



Other income and expenses
EUR m

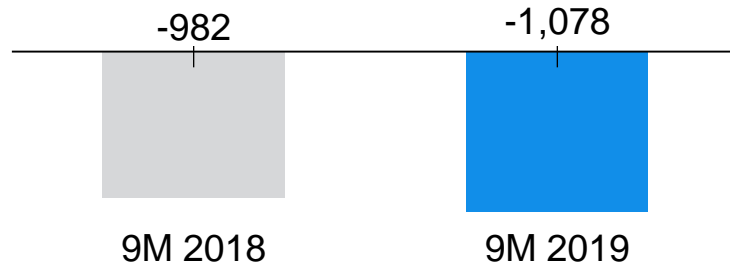


- › Unfavourable market performance weighed on gains or losses on fair value measurement
- › This was partially offset by good gains on financial investments
- › Previous-year figure included a high extraordinary gain from a restructuring exposure

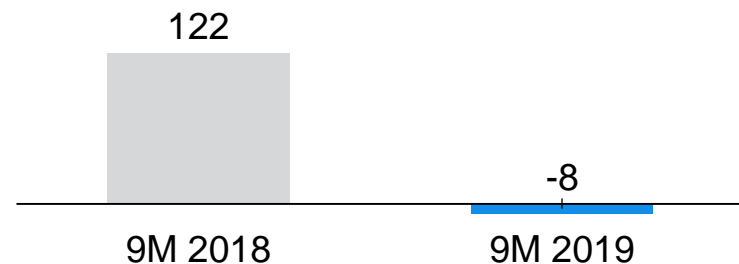
- › Other income and expenses boosted by one-off income related to a tax credit

Higher administrative expenses; very low risk provisions

Administrative expenses
EUR m



Risk provisions
EUR m



- › Higher expenses for major regulatory projects and investments in sales activities, digitalisation and Group-wide strategic initiatives
- › Increased expenses also at DKB due to faster-than-planned customer growth
- › Improved cost efficiency key goal of the strategy project
- › Very low risk provisions; year-before period buoyed by high releases and recoveries on written down receivables
- › NPL ratio remains very good at 0.7%

Major earnings contributions from real estate business and DKB

Profit before taxes by segment

EUR m

■ 9M 2018 ■ 9M 2019



- › Corporates & Mittelstand posted mostly stable operating performance in a challenging market environment. Earnings in the year-before period were favoured by high releases of risk provisions
- › Operating earnings in Real Estate & Savings Banks/Association increased thanks to good performance of new business in the Real Estate Division. Previous-year figure benefited from a large extraordinary gain from a restructuring exposure
- › The very tough market environment and measurement losses weighed on performance in the FM segment. The previous year included measurement gains
- › DKB's earnings fell as expected, due mainly to the low interest rate environment, increased expenses for faster-than-planned customer growth and strategic investments in digitalisation

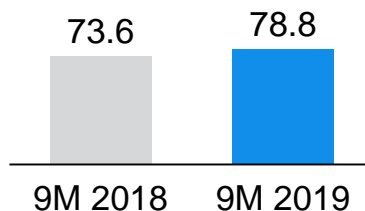
Corporates & Mittelstand

EUR m	9M 2019	9M 2018
Net interest income	197	199
Risk provisions in the credit business	0	142
Net commission income	78	80
Other earnings components	25	26
Administrative expenses	-237	-225
Profit/loss before taxes	64	222
Risk-weighted assets (RWAs)	21,291	20,556

- › Profit before taxes fell to EUR 64 m (9M 2018: EUR 222 m) as a result of high releases of risk provisions and recoveries on written down receivables in the year-before period
- › Overall predominantly stable growth amid a challengingly competitive market with margin erosion
- › Net interest income and net commission income virtually unchanged year on year
- › Income from the sale of Financial Markets products to customers exceeded that of the previous year
- › Administrative expenses were higher, driven by Bank-wide capex for sales and projects
- › RWAs swelled due to greater volumes

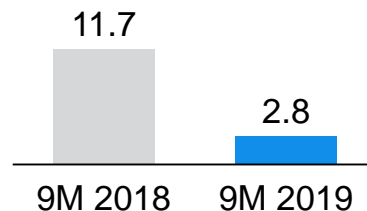
CIR

In %



RoE

In %



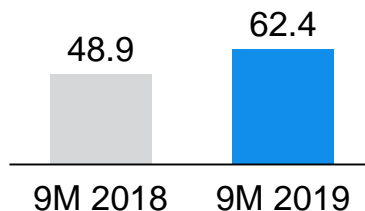
Real Estate & Savings Banks/Association

EUR m	9M 2019	9M 2018
Net interest income	210	189
Risk provisions in the credit business	21	-4
Net commission income	101	96
Other earnings components	37	130
Administrative expenses	-217	-203
Profit/loss before taxes	151	208
Risk-weighted assets (RWAs)	9,736	8,821

- › Profit before taxes dropped to EUR 151 m (9M 2018: EUR 208 m) as a result of an extraordinary gain in the year-before period
- › The positive operating performance is most evident in net interest and net commission income, which stood at EUR 311 m (9M 2018: EUR 285 m), driven in particular by good new business in Real Estate
- › Other earnings components in the previous year (EUR 130 m) were buoyed by the sale of a restructuring exposure measured at fair value
- › The increase in administrative expenses is the result of Bank-wide capex for sales and projects
- › Earnings at BayernLabo climbed to EUR 41 m (9M 2018: EUR 33 m), operating earnings were stable
- › Operating earnings at Real I.S. jumped to EUR 15 m (9M 2018: EUR 9 m)

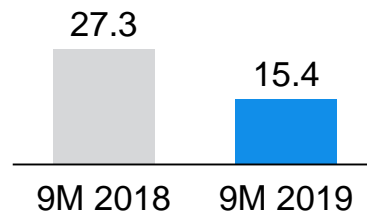
CIR

In %



RoE

In %



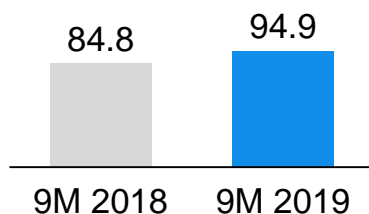
Financial Markets

EUR m	9M 2019	9M 2018
Net interest income	146	127
Risk provisions in the credit business	1	0
Net commission income	38	25
Other earnings components	-7	46
Administrative expenses	-168	-168
Profit/loss before taxes	10	30
Risk-weighted assets (RWAs)	9,844	8,611

- › Profit before taxes dropped to EUR 10 m (9M 2018: EUR 30 m), reflecting the tough market and stiff competition
- › Net commission income rose due to increasing business activities with financial institutions, which also accounts for most of the increase in RWAs
- › Other earnings components was mainly impacted by measurement losses, which were partially offset in net interest income through earnings from sales of securities. The year-before period included measurement gains
- › The earnings from Financial Markets products on behalf of the other customer-serving business segments were higher, despite the tough market conditions; they continued to be reported under the relevant segments
- › CIR of 94.9% not satisfactory
- › Profit before taxes at BayernInvest was up year on year at EUR 7 m (9M 2018: EUR 5 m)

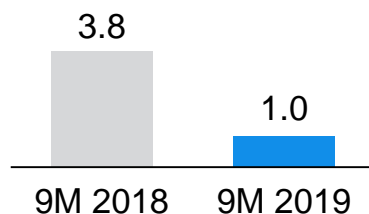
CIR

In %



RoE

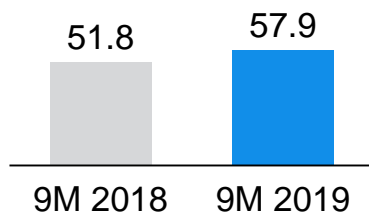
In %



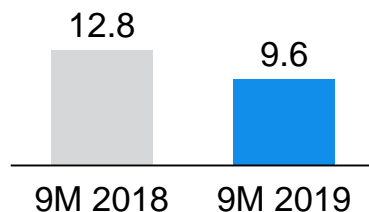
EUR m	9M 2019	9M 2018
Net interest income	718	733
Risk provisions in the credit business	-34	-22
Net commission income	-6	-4
Other earnings components	-8	-41
Administrative expenses	-428	-374
Profit/loss before taxes	241	292
Risk-weighted assets (RWAs)	24,536	23,909

- › Profit before taxes fell to EUR 241 m (9M 2018: EUR 292 m) dampened by the decline in net interest income coupled with higher risk provisions and administrative expenses
- › The decrease in net interest income was in line with expectations and stems from tightening in the interest margin as a result of market pressure
- › Other earnings components was marked by high expenses for the bank levy and deposit guarantee scheme of EUR 36 m (9M 2018: EUR 33 m) and measurement gains, for example from funds and equity interests
- › Administrative expenses rose to EUR 428 m (9M 2018: EUR 374 m), mainly driven by strategic investments in digitalisation and higher costs for faster-than-planned customer growth
- › Bayern Card-Services posted profit before taxes of EUR 2 m; figure of EUR 13 m in the year-before period was boosted by the sale of a shareholding

CIR
In %



RoE
In %



Central Areas & Others

EUR m	9M 2019	9M 2018
Net interest income	21	34
Risk provisions in the credit business	5	7
Net commission income	-6	-5
Other earnings components	-25	-58
Administrative expenses	-28	-14
Profit/loss before taxes	-33	-36
Risk-weighted assets (RWAs)	2,738	2,803

- › Other earnings components included high expenses for the bank levy and deposit guarantee scheme of EUR 87 m (9M 2018: EUR 65 m), which were offset by one-off tax-related gains
- › Increased administrative expenses of EUR 28 m (9M 2018: EUR 14 m) due to a stronger quoting of the US dollar and higher mandatory contributions

Performance in 2019 and strategy process

Performance in 2019 – forecast confirmed

We abide by our forecast that BayernLB will post a profit before taxes in the mid-triple-digit million range for the full year.

Strategy process

BayernLB is working from a position of strength on shaping the Bank's future strategic direction. In doing so, we are responding to the challenging market environment with low interest rates set to persist for years to come, intense competition and continuously growing regulatory requirements.

The goal of the strategy process is to focus our business in order to optimally position the Group for the future in the interests of our customers and owners.

Some future focal points are already emerging now that our capital market business has been merged with our corporate customer units. While we will concentrate more strongly on our capital market business, we will also seize the growth opportunities in our earnings drivers, these being essentially DKB and the commercial real estate business.



OUTLOOK

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Year-on-year earnings comparison

EUR m	9M 2019	9M 2018	Change in %
Net interest income	1,292	1,282	0.8
Risk provisions in the credit business	-8	122	-
Net interest income after risk provisions	1,284	1,404	-8.5
Net commission income	205	192	6.7
Gains or losses on fair value measurement	-29	166	-
Gains or losses on hedge accounting	-11	-51	-78.4
Gains or losses on derecognised financial assets	3	-6	-
Gains or losses on financial investments	67	37	80.8
Administrative expenses	-1,078	-982	9.8
Expenses for the bank levy and deposit guarantee scheme	-123	-98	25.4
Other income and expenses	123	55	>100.0
Gains or losses on restructuring	-8	1	-
Profit/loss before taxes	433	716	-39.5
Income taxes	-39	-147	-73.4
Profit/loss after taxes	394	569	-30.8
Profit/loss attributable to non-controlling interests	0	-6	-
Consolidated profit/loss	394	564	-30.1

Quarterly earnings comparison

EUR m	Q3 2019	Q2 2019	Q1 2019
Net interest income	422	447	423
Risk provisions in the credit business	2	-18	7
Net interest income after risk provisions	425	429	430
Net commission income	64	72	70
Gains or losses on fair value measurement	-6	-11	-13
Gains or losses on hedge accounting	-4	5	-12
Gains or losses on derecognised financial assets	0	3	0
Gains or losses on financial investments	17	19	31
Administrative expenses	-366	-347	-366
Expenses for the bank levy and deposit guarantee scheme	-5	-26	-93
Other income and expenses	-7	126	4
Gains or losses on restructuring	0	-7	0
Profit/loss before taxes	118	264	51
Income taxes	-18	-14	-7
Profit/loss after taxes	100	250	44
Profit/loss attributable to non-controlling interests	0	0	0
Consolidated profit/loss	100	250	44

Segment overview

EUR m	Corporates & Mittelstand	Real Estate & Savings Banks/ Association	Financial Markets	DKB	Central Areas & Other	Group
Net interest income	197	210	146	718	21	1,292
Risk provisions in the credit business	0	21	1	-34	5	-8
Net interest income after risk provisions	197	231	147	684	26	1,284
Net commission income	78	101	38	-6	-6	205
Gains or losses on fair value measurement	26	31	-80	18	-25	-29
Gains or losses on hedge accounting	0	2	9	-10	-12	-11
Gains or losses on derecognised fin. assets	1	0	0	2	0	3
Gains or losses on financial investments	3	2	63	12	-13	67
Administrative expenses	-237	-217	-168	-428	-28	-1,078
Expenses for the bank levy and deposit guarantee scheme	0	0	0	-36	-87	-123
Other income and expenses	-5	2	1	6	119	123
Gains or losses on restructuring	0	0	0	0	-7	-8
Profit/loss before taxes	64	151	10	241	-33	433
Return on equity (RoE) (%)	2.8	15.4	1.0	9.6	-	6.0
Cost/income ratio (CIR) (%)	78.8	62.4	94.9	57.9	-	65.3

Segment overview 9M 2018

EUR m	Corporates & Mittelstand	Real Estate & Savings Banks/ Association	Financial Markets	DKB	Central Areas & Other	Group
Net interest income	199	189	127	733	34	1,282
Risk provisions in the credit business	142	-4	0	-22	7	122
Net interest income after risk provisions	340	185	127	711	41	1,404
Net commission income	80	96	25	-4	-5	192
Gains or losses on fair value measurement	26	125	18	12	-15	166
Gains or losses on hedge accounting	0	0	-3	-42	-6	-51
Gains or losses on derecognised fin. assets	0	0	0	-6	0	-6
Gains or losses on financial investments	0	1	25	10	1	37
Administrative expenses	-225	-203	-168	-374	-14	-982
Expenses for the bank levy and deposit guarantee scheme	0	0	0	-33	-65	-98
Other income and expenses	0	4	7	18	27	55
Gains or losses on restructuring	0	0	0	0	0	1
Profit/loss before taxes	222	208	30	292	-36	716
Return on equity (RoE) (%)	11.7	27.3	3.8	12.8	-	10.5
Cost/income ratio (CIR) (%)	73.6	48.9	84.8	51.8	-	58.7

Balance sheet overview

EUR bn	Sep 2019	Dec 2018	Change in %
Loans and advances to banks	43.7	36.6	19.3
Loans and advances to customers	146.0	138.9	5.1
Assets held for trading	17.9	12.3	45.2
Financial investments	24.9	25.5	-2.2
Total assets	244.2	220.2	10.9
Liabilities to banks	58.6	54.1	8.4
Liabilities to customers	102.6	93.5	9.7
Securitised liabilities	48.9	45.5	7.5
Liabilities held for trading	13.3	8.2	61.9
Subordinated capital	2.1	1.9	11.7
Equity	11.4	11.3	1.2

Key capital figures

Fully loaded	Sep 2019	Dec 2018
CET1 capital (EUR bn)	9.9	10.0
CET1 ratio (%)	14.5	15.2
Total capital (EUR bn)	11.2	11.2
Total capital ratio (%)	16.5	17.0
RWAs (EUR bn)	68.3	65.6
Leverage ratio (%)	3.7	4.1
LCR (%)	159	143

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The Bavarian bank for
the German economy.