

# Pressrelease

14 May 2020

## **BayernLB makes provisions for risks from the coronavirus pandemic and posts a loss in the first quarter of 2020**

- Operating performance in line with forecasts: net interest and commission income up slightly on the year-before period at just under EUR 500 million
- Risk provisions of EUR 72 million and a loss on fair value measurement of EUR 65 million weigh on earnings
- Profit before taxes in the Group is a negative EUR 151 million after recognising in full the charge for the EU bank levy and contributions to the deposit guarantee scheme of EUR 115 million
- Progress in the transformation process: initial cost-cutting measures launched
- BayernLB is on hand to serve and support its customers in the coronavirus crisis with a very solid CET1 ratio of 14.7 percent

**Munich** – BayernLB is preparing for the economy’s expected slide into recession following the coronavirus pandemic by adjusting its risk provisions. In the first quarter of 2020, the Group set aside EUR 72 million (Q1 2019: net release of EUR 7 million) to guard against credit risks. With a CET1 ratio of 14.7 percent as at 31 March 2020 (31 December 2019: 15.6 percent), the Bank has a very sound capital base to absorb such charges going forward and to support its customers through the crisis.

In operational terms, the pandemic only began to impact customer-driven business in March. In total, net interest and net commission income even rose slightly in the first quarter compared to the year-before period to EUR 498 million (Q1 2019: EUR 492 million). Nevertheless, BayernLB posted a loss before taxes for the quarter of EUR 151 million (Q1 2019: profit of EUR 51 million). This was due in particular to additions to risk provisions and measurement losses, mainly as a result of the slump in the capital markets in March. In addition, charges for the

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European bank levy and contribution for the deposit guarantee scheme, which were processed in the first quarter for the entire year, weighed on earnings. The expenses for this totalled EUR 115 million and were therefore considerably higher than the previous year's figure of EUR 93 million.

"The coronavirus crisis is now also impacting bank balance sheets, even though we don't have any specific cases requiring acute risk provisions as yet. Our decent operating business in the first quarter must not belie how heavily the pandemic is reining in economic output. Of course, we expect to see defaults on loans in this financial year due to the forecast economic downturn and we have taken measures to deal with this prospect where already possible. Nevertheless, we continue to serve our customers to the best of our ability to ensure a supply of liquidity," commented BayernLB CEO Stephan Winkelmeier on the performance of the first three months of 2020.

## Net interest income increases – gains or losses on fair value measurement impacted by market turbulence

BayernLB's **net interest income** rose slightly at Group level in the first quarter of 2020 to EUR 426 million (Q1 2019: EUR 423 million). **Net commission income** was almost unchanged at EUR 71 million (Q1 2019: EUR 70 million).

The coronavirus crisis has not impacted the **NPL ratio** as yet. This was 0.7 per cent at the end of the quarter and as such remained stable compared to 31 December 2019.

**Gains or losses on fair value measurement** was a negative EUR 65 million (Q1 2019: loss of EUR 13 million), heavily impacted by measurement losses from the turbulence on the capital markets as a result of the coronavirus pandemic and the widening of credit spreads. **Gains or losses on financial investments** amounted to EUR 11 million (Q1 2019: EUR 31 million).

**Administrative expenses** rose to EUR 390 million (Q1 2019: EUR 366 million), mainly due to capex for sales and digitalisation at DKB. Administrative expenses at BayernLB - Bank remained stable.

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BayernLB's **total assets** moved higher compared to the end of 2019, climbing to EUR 241.8 billion (31 December 2019: EUR 226.0 billion). **Risk-weighted assets** (RWAs) as at 31 March 2020 amounted to EUR 67.1 billion (31 December 2019: EUR 64.6 billion).

BayernLB's capital base remains very solid and from today's perspective the Bank is therefore well-equipped to deal with any further negative impact resulting from the coronavirus pandemic. **CET1 capital** at the end of the quarter amounted to EUR 9.9 billion (31 December 2019: EUR 10.1 billion).

## **Progress in the transformation process**

The crisis developing around the coronavirus pandemic further confirms that BayernLB is on the right path with its strategic vision of remodelling the Bank into a streamlined, efficient specialised institution by 2024, with DKB as an innovative digital bank under the Group umbrella. In the first three months of 2020, BayernLB has forged ahead with the transformation programme launched at the end of last year. A comprehensive implementation plan has been drawn up and the reorganisation in the capital market business was completed as at 1 April. In future the Bank's Markets unit will focus mainly on debt capital markets products such as Schuldschein note loans and corporate bonds, as well as money market products and hedging transactions for customers. In addition, BayernLB has taken initial steps to cut costs. The announced job cuts are also proceeding as planned and the reduction of 150 full time positions has been contractually agreed so far.

## **Customer-serving segments: operating performance on par with year-before period**

BayernLB reorganised its operating segments at the beginning of financial year 2020 and now reports the earnings from customer business in three instead of the previous four segments. The previous-year figures provided have been adjusted accordingly.

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The **Real Estate & Savings Banks/Financial Institutions** segment bundles the commercial real estate business, savings bank business, the BayernLabo development bank and – as of recently – business with banks, insurers and asset management companies. The extended segment posted profit before taxes of EUR 47 million (Q1 2019: EUR 58 million). The successfully launched growth strategy in BayernLB's real estate business is reflected in the increase in net interest and net commission income to EUR 138 million (Q1 2019: EUR 122 million). In contrast to the previous year, however, it was not possible to release a significant amount of risk provisions. The savings bank business benefited from a considerable uptick in trading with physical precious metals on behalf of customers. The BayernLB subsidiaries Real I.S. and BayernInvest reported in this segment posted earnings on par with the year-before period.

The newly formed **Corporates & Markets** segment, in which transactions with corporate customers and BayernLB's capital market activities are bundled, posted a loss before taxes of EUR 89 million after the first three months of 2020 (Q1 2019: profit of EUR 4 million). This is largely due to the increase in risk provisions to EUR 71 million (Q1 2019: EUR 3 million) in response to the coronavirus crisis, even though these provisions do not relate to specific acute cases. At the end of the quarter, the coronavirus lockdown prompted greater demand for liquidity by customers, although this did not yet have a significant impact on the figures. Net interest income remained largely unchanged at EUR 69 million (Q1 2019: EUR 71 million). Gains or losses on fair value measurement was a negative EUR 13 million (Q1 2019: gain of EUR 3 million), reflecting measurement effects associated with the widening of credit spreads.

The **DKB** segment shows the performance of BayernLB subsidiary DKB and reported profit before taxes of EUR 28 million for the first quarter of 2020 (Q1 2019: EUR 96 million). DKB continued its growth course and increased the number of retail customers it serves by 85,000 to more than 4.4 million in the reporting period. It began investing in its digital service offering as planned, causing administrative expenses to rise to EUR 165 million (Q1 2019: EUR 141 million). In addition, DKB posted measurement losses in relation to developments on the capital markets, for example from the fund portfolio. Net interest and net commission income contracted slightly compared to the year-before period to EUR 243 million (Q1 2019: EUR 247 million).

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## Outlook for full-year 2020

BayernLB is currently making every effort to ensure its customers have access to liquidity even during the coronavirus crisis. In the past few weeks the number of requests, particularly in the corporate customer segment, has climbed sharply. To allow it to react faster to its customers' needs, BayernLB has simplified some of its credit processes. In addition, it has increased consulting capacity, especially for the subsidised loan and aid programmes of the state development banks. BayernLB's specialists have held hundreds of meetings on these in recent weeks. Since mid-March Bayerische Landesbank, in concert with the Bavarian savings banks, has already processed more than 3,000 requests for subsidised loans with a volume of around EUR 1.2 billion and passed them on to KfW Bankengruppe or LfA Förderbank Bayern.

BayernLB still declines to issue an earnings forecast for the full year. As it stressed in its annual results press briefing on 3 April, the Group and the entire banking sector is facing exceptionally high uncertainty for 2020 on account of the coronavirus pandemic. The negative impact on global economic output will be considerable and will be greater the longer the pandemic continues. This will in turn require increased risk provisions. It is therefore still not possible to make a serious earnings forecast for 2020 at the moment.

*Additional details about the BayernLB Group's financial figures in the first quarter of 2020 can be found in the supplemental IR presentation at [www.bayernlb.com](http://www.bayernlb.com).*

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Performance of the BayernLB Group

## Results of operations

EUR m	1 Jan-31 Mar 2020	1 Jan-31 Mar 2019	Change In %
Net interest income	426	423	0.9
Risk provisions in the credit business	-72	7	-
Net interest income after risk provisions	354	430	-17.7
Net commission income	71	70	2.4
Gains or losses on fair value measurement	-65	-13	>100
Gains or losses on hedge accounting	-19	-12	56.8
Gains or losses on derecognised financial assets	0	0	-
Gains or losses on financial investments	11	31	-64.1
Administrative expenses	-390	-366	6.7
Expenses for the bank levy and deposit guarantee scheme	-115	-93	23.9
Other income and expenses	2	4	-47.0
Gains or losses on restructuring	0	0	-
<b>Profit/loss before taxes</b>	<b>-151</b>	<b>51</b>	<b>-</b>
Income taxes	-1	-7	-83.1
<b>Profit/loss after taxes</b>	<b>-152</b>	<b>44</b>	<b>-</b>
Profit/loss attributable to non-controlling interests	0	0	-
<b>Consolidated profit/loss</b>	<b>-152</b>	<b>44</b>	<b>-</b>

Rounding differences may occur in the tables.

## Balance sheet (IFRS)

EUR billion	31 Mar 2020	31 Dec 2019	Change In %
Total assets	241.8	226.0	7,0
subordinated capital	1.7	2.1	-17.4
Equity	11.1	11.5	-3.8