BayernLB
Financing progress.

Press Release

26 March 2021

BayernLB posts a profit before taxes of EUR 195 million

- Earnings marked by restructuring expenses for the Bank's transformation programme of EUR 287 million
- Risk provisions increase due to general provisions for potential coronavirus-related risks, partly mitigated by recoveries on written down receivables
- Consolidated profit (after taxes) of EUR 228 million
- Net interest and net commission income higher in all customer segments
- Capital base remains solid: CET1 ratio is at 15.9 percent
- Distribution to owners of EUR 75 million
- Transformation progressing well and on schedule despite operational challenges from the coronavirus pandemic; strategic vision confirmed

Munich – BayernLB posted a **profit before taxes** of EUR 195 million in financial year 2020 (FY 2019: EUR 656 million). **Restructuring expenses** of EUR 287 million and **risk provisions** of EUR 142 million weighed on results, while the Bank's operating earnings power increased slightly, with combined **net interest and net commission income** rising to around EUR 2.1 billion (FY 2019: around EUR 2.0 million). **Consolidated profit** (after taxes) was EUR 228 million (FY 2019: EUR 466 million).

"We are pleased with financial year 2020, not only because we generated solid operating income in customer business but also because parallel to that we made good progress with BayernLB's transformation, which is advancing on schedule. Although the associated restructuring expenses squeezed earnings for the year, they include all the restructuring expenses expected in relation to our Fokus2024 transformation programme in full," commented BayernLB's CEO Stephan Winkelmeier. "We continued to serve our customers to the best of our

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ability, as the stable reliable partner they are used to, to ensure a supply of liquidity, also during a 2020 dominated by the coronavirus pandemic."

Financial figures 2020

The BayernLB Group's **net interest income** surged EUR 46 million to EUR 1,772 million (FY 2019: EUR 1,726 million) in a challenging market environment. **Net commission income** rose to EUR 331 million (FY 2019: EUR 287 million), largely thanks to the high-commission lending and securities businesses.

Risk provisions increased to a negative EUR 142 million (FY 2019: net positive earnings contribution of EUR 251 million). The main cause of the increase is an additional, general risk provision of EUR 266 million that BayernLB recognised in preparation for potential future defaults on loans from the coronavirus crisis (known as a post model adjustment). However, net risk provisions were also impacted by recoveries on written-off receivables of EUR 182 million (FY 2019: EUR 327 million). Most of this amount came from receipts from the resolution of HETA Asset Resolution AG, Vienna.

The **NPL ratio**, which reflects the share of non-performing loans in relation to the overall lending volume, fell to 0.6 percent (FY 2019: 0.7 percent).

The **gains or losses on fair value measurement** item swung to a gain of EUR 62 million from a loss of EUR 2 million in the year before period. It was marked by a high earnings contribution from the precious metals business and good performance of customer business in interest and currency management. **Gains or losses on hedge accounting** improved sharply year-on-year to EUR 11 million (FY 2019: loss of EUR 13 million). **Gains or losses on financial investments** was also higher than a year ago at EUR 68 million (FY 2019: EUR 40 million).

Administrative expenses rose to EUR 1,520 million (FY 2019: EUR 1,446 million), with the increase mainly resulting from strategic investment in DKB's growth strategy. By contrast, general expenses fell thanks to rigorous cost management.

Expenses for the bank levy and deposit guarantee scheme comprised a total charge of EUR 161 million (FY 2019: EUR 134 million). The charge included a EUR 67 million mandatory contribution for the bank levy (FY 2019: EUR 56 million) and EUR 94 million for the mandatory contribution to the deposit guarantee scheme (FY 2019: EUR 79 million).

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Restructuring expenses amounted to EUR 287 million (FY 2019: EUR 217 million) and were in connection with BayernLB's strategic realignment.

The BayernLB Group's **total assets** swelled to EUR 256.3 billion (31 December 2019: EUR 226.0 billion). The increase is mainly due to the BayernLB Group's participation in the ECB's long-term tenders and the increase in the subsidised loan business. **Risk-weighted assets (RWAs)** stood at EUR 65.0 billion (FY 2019: EUR 64.6 billion).

BayernLB continued to enjoy a solid capital base as at 31 December 2020. The **CET1 ratio** was 15.9 percent (FY 2019: 15.9 percent).

Return on equity (RoE) stood at 1.9 percent (4.8 percent adjusted for restructuring expenses) and was therefore in line with expectations (FY 2019: 6.7 percent, adjusted 8.9 percent). The **cost/income ratio** (CIR) edged up to 66.0 percent from 65.7 percent in the year before period.

Distributions to the owners

BayernLB's owners, the Free State of Bavaria and the Bavarian savings banks, should share in BayernLB's financial success. With this in mind, the Bank is distributing EUR 75 million to its owners.

The Bank rose to the challenges posed by the coronavirus pandemic in 2020

BayernLB took action to protect its employees from infection by very quickly bringing in a comprehensive package of measures and switching over to new and mobile working models within a short period of time. Since then, over 90 percent of the workforce has been provided with the technical infrastructure to work remotely outside the Bank.

To ensure its customers are provided with liquidity, including during the coronavirus crisis, BayernLB simplified its credit processes and increased consulting capacity, especially for the subsidy programmes offered by the state development banks. This meant the Bank could process over 10,000 applications for subsidies from the coronavirus programme alone, with a volume of around EUR 2.9 billion in 2020, all the time working closely with the Bavarian savings banks as it has successfully done for many years.

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Transformation progressing well and on schedule

In the second quarter of 2020, BayernLB examined in detail the long-term impact of the coronavirus pandemic on its new strategic vision. This review basically confirmed the business strategy of the BayernLB Group and its segments that was approved in December 2019 and means we have taken the right decision to shed BayernLB's universal bank-like business model and create a streamlined, efficient, customer bank, with DKB as an innovative online bank under the Group umbrella.

Despite the operational challenges posed by the pandemic, the Group is forging rigorously ahead with its extensive transformation programme, Fokus2024, which was launched in January 2020 and will span several years. BayernLB already achieved key milestones under this project in the last financial year. For example, the Group launched **IT investment projects which will have a volume of more than EUR 700 million** by 2025, including consolidating and modernising trading IT and IT bank management at the core Bank and stepping up digitalisation at DKB. In addition, BayernLB started growth initiatives at the core Bank and DKB. This helped, for instance, increase the number of DKB's retail customers by around 300,000 to 4.6 million, while BayernLB core Bank's real estate segment concluded new business of EUR 4.9 billion in 2020.

Furthermore, the core Bank reduced **operating costs by eight percent, saving about EUR 60 million**, thanks to strict implementation of cost-cutting measures and continued efficiency improvements. The reduction to the workforce at the core Bank is progressing as planned. By the end of 2020, around one third of the planned job cuts communicated in 2020 had been contractually agreed. Alongside this, the Bank made good progress in accomplishing some fundamental changes to the organisation and infrastructure, including setting up the **new master credit process,** putting the new Credit Portfolio Management unit into operation and implementing the **new sector-based teamwork approach in the Corporates segment**. To this end, the Bank has set up dedicated teams for the focus sectors – energy, mobility, technology, manufacturing & engineering and construction & basic resources. These teams bring together experts from customer, project, analysis and research units on a cross-functional basis to support customers with their financing needs by providing in-depth sector knowledge and major structuring expertise.

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Business activities focused even more closely on sustainability

BayernLB stepped up its intensive focus on sustainable products in 2020. Accordingly, the Bank pushed forward with activities both for its own operations, which have been climate neutral at all German sites since 2015, and for its business model, through which the Group wants to further increase its sustainability focus in customer business. As one of these measures, BayernLB **created a central sustainability unit** in 2020, which reports directly to the CEO. The leading ESG rating agencies have already confirmed that BayernLB's commitment to sustainable development is above average when compared with the industry as a whole. For example, the Group **ranked among the top 10 in ISS-ESG's sustainability rating** published at the beginning of 2020 from among a total of 95 international banks rated and has been awarded the renowned oekom Prime status as a result. DKB is assessed separately by ISS-ESG and has a rating of B- in the Financials/Public & Regional Banks sector. This means it is classed as an Industry Leader. BayernLabo, the public development bank of BayernLB, is rated separately as well and also qualifies for Prime status.

BayernLB has proven its expertise in **sustainable finance** time and again. For example, the Bank very successfully placed its sustainable benchmark bond with a volume of EUR 500 million on the capital market – it is the BayernLB Group's sixth sustainable bond following several ESG issues by DKB (green senior bonds, blue social covered bond, social covered bond) and the social bond by BayernLabo. Prior to that, BayernLB was one of the first European issuers to launch a green commercial paper programme and in just a few days it placed more than EUR 150 million with institutional investors. Like the green bonds, the green commercial paper issues are based on BayernLB's Sustainable Financing Framework.

BayernLB also has many years of experience and considerable expertise in financing sustainable power plants. Since the 1990s, the core Bank has regularly played a leading role in financing projects of this type in Germany, Europe and North America. With a credit volume of over EUR 11 billion, DKB is the largest financier of the energy transition in Germany. It has already financed more than 4,700 power plants with a capacity of almost nine gigawatts, which save 12 million tonnes of CO_2 every year. The electricity produced in this way is enough to supply the equivalent of over five million two-person households.

In addition, BayernLB has been supporting sustainable issues by its customers for years. Back in 2016 it placed the first green Schuldschein in the world for a wind farm and has helped arrange nearly half of all sustainable Schuldscheins since then. In 2020, BayernLB played a leading role in issuing the first social bond for the City of Munich; the volume placed amounted to EUR 120 million. BayernLB is now adding targeted product offerings for green loans and ESG-linked instruments to its considerable expertise in supporting capital market transactions.

Earnings in the customer-serving operating segments

Real Estate & Savings Banks/Financial Institutions

The Real Estate & Savings Banks/Financial Institutions segment closed the quarter with a profit before taxes of EUR 175 million (FY 2019: EUR 314 million).

The Real Estate Division again made a significant contribution to the segment's earnings with a profit before taxes of EUR 103 million (FY 2019: EUR 246 million). The considerable year-on-year drop is due to changes in risk provisions. They amounted to EUR 50 million and were in part to cover expected charges from the coronavirus crisis. In the previous year, high releases of risk provisions resulted in a gain of EUR 116 million from this line item. Combined net interest and net commission income rose to EUR 239 million (FY 2019: EUR 208 million) as a result of good volumes and growth in margins.

The Savings Banks & Financial Institutions Division turned in a considerably higher profit before taxes of EUR 14 million (FY 2019: loss of EUR 8 million) year-on-year. Earnings of EUR 126 million from net interest and commission income were up slightly on the previous year (FY 2019: EUR 123 million). The precious metals business put in an excellent performance, significantly boosting gains or losses on fair value measurement to EUR 70 million (FY 2019: EUR 50 million). Financial year 2020 saw BayernLB trade more precious metals than ever before. In total, the Bank's precious metals specialists based in Nuremberg dispatched around 842 tonnes to its customers. Among this were 69 tonnes of gold – this was also a new record for BayernLB.

BayernLabo posted a profit before taxes of EUR 33 million (FY 2019: EUR 51 million). The fall was due to measurement losses caused by fluctuations in interest rates on the market and a rise in administrative expenses, partly as a result of complex projects. Real I.S.' profit before taxes amounted to EUR 19 million, up on the previous year (FY 2019: EUR 16 million). Profit before taxes at BayernInvest stood at EUR 5 million (FY 2019: EUR 8 million). In addition to the volatile market situation in 2020, investment in IT infrastructure contributed to the drop in income.

Corporates & Markets

Profit before taxes in Corporates & Markets stood at a negative EUR 58 million (FY 2019: loss of EUR 30 million). The decline in earnings is largely due to an increase in risk provisions to EUR 169 million (FY 2019: EUR 81 million), most of which were to cover expected losses from the coronavirus crisis. The segment increased its combined net interest and commission income to EUR 398 million (FY 2019: EUR 371 million), partly as a result of growth in margins and signing up of high-commission new business in the Corporates Business Area. The segment's earnings were also lifted by Markets' interest-rate derivatives and forex business. Administrative expenses dropped to EUR 327 million (FY 2019: EUR 365 million). In addition to lower expenses due to coronavirus, this also reflects the initial results of streamlining the capital market business.

DKB

The DKB segment posted a profit before taxes of EUR 264 million (FY 2019: EUR 301 million). The expected drop in earnings was due mainly to strategic investments in sales and digitalisation and higher expenses for the bank levy and deposit guarantee scheme. On top of that, provisions were recognised for transformation and restructuring activities. Combined net interest and net commission income was up slightly year-on-year to EUR 968 million (FY 2019: EUR 952 million). Risk provisions were lower than in the previous year (EUR 44 million versus EUR 58 million) in spite of further additions for potential credit defaults in the future in connection with the coronavirus crisis. This was due to persistently good portfolio quality. Administrative expenses grew to EUR 653 million (FY 2019: EUR 577 million). DKB expanded its retail customer base to around 4.6 million (FY 2019: approximately 4.3 million), thereby further consolidating its position as Germany's second-largest online bank and one of the country's market leaders in digital banking. The subsidiary Bayern Card-Services (BCS), which is part of this segment, posted a profit before taxes of EUR 7 million (FY 2019: EUR 10 million) with operating earnings largely stable.

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Outlook

The Group expects profit before taxes of between EUR 200 million and EUR 400 million for the full year. As it is unclear how the pandemic will unfold or what the potential, currently unpredictable impact on the German economy and financial markets will be, the forecast is fraught with a high level of uncertainty.

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Income statement (IFRS) FY 2020 and FY 2019

	1 Jan - 31 Dec 2020 EUR million	**1 Jan - 31 Dec 2019** EUR million	**Change** in %
Net interest income	1,772	1,726	2.7
Risk provisions in the credit business	(142)	251	–
Net commission income	331	287	15.2
Gains or losses on fair value measurement	62	(2)	–
Gains or losses on hedge accounting	11	(13)	–
Gains or losses on derecog-nised financial assets	(14)	4	–
Gains or losses on financial investments	68	40	70.7
Administrative expenses	(1,520)	(1,446)	5.2
Expenses for the bank levy and deposit guarantee scheme	(161)	(134)	20.0
Other income and expenses	75	159	(53.1)
Gains or losses on restruc-turing	(287)	(217)	32.2
Profit/loss before taxes	**195**	**656**	**(70.3)**
Income taxes	37	(187)	–
Profit/loss after taxes	**232**	**469**	**(50.6)**
Profit/loss attributable to non-controlling interests	(3)	(3)	(6.5)
Consolidated profit/loss	**228**	**466**	**(50.9)**

Rounding differences may occur in the tables.

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Segment reporting (IFRS) for financial year 2020

EUR million	Real Estate & Savings Banks/Financial Institutions	Corporates & Markets	DKB	Central Areas & Others (including Consolidation)	Group
Net interest income	324	293	956	199	1,772
Risk provisions in the credit business	(53)	(169)	(44)	124	(142)
Net commission income	240	105	12	(26)	331
Gains or losses on fair value measurement	67	59	19	(84)	62
Gains or losses on hedge accounting	0	2	3	5	11
Gains or losses on derecognised financial assets	0	(19)	5	0	(14)
Gains or losses on financial investments	2	(2)	37	31	68
Administrative expenses	(418)	(327)	(653)	(123)	(1,520)
Expenses for the bank levy and deposit guarantee scheme	0	0	(57)	(104)	(161)
Other income and expenses	13	0	24	39	75
Gains or losses on restructuring	0	0	(38)	(248)	(287)
Profit/loss before taxes	**175**	**(58)**	**264**	**(187)**	**195**

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Selected balance sheet figures (IFRS)

	31 Dec 2020	31 Dec 2019	Change in %
Total assets (EUR billion)	256.3	226.0	13.4
Credit volume (EUR billion)	219.8	187.6	17.2

Key financial figures

	31 Dec 2020	31 Dec 2019	Change in %
Own funds (EUR billion)	12.0	11.8	1.5
Common Equity Tier 1 capital (CET1 capital) (EUR billion)	10.3	10.3	0.4
CET1 ratio (in percent)	15.9	15.9	0.0 pp
RWAs (EUR billion)	65.0	64.6	0.6

Human resources

	31 Dec 2020	31 Dec 2019	Change in %
Number of employees	8,532	8,316	2.6

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