BayernLB
Financing progress.

Press Release

25 March 2022

BayernLB posts a profit before taxes of EUR 816 million

- Ambitious growth targets in the real estate business met; number of DKB retail customers increased to over five million; strong earnings in the precious metals and capital market business; profitability in business with corporates improved
- Profit before taxes driven by good operating earnings, low risk provisions and non-recurring income from the ECB tender and the sale of buildings; administrative expenses stable thanks to considerable savings at BayernLB core Bank; CIR and RoE both in the target range at 59.0% and 7.9% respectively
- Sound consolidated profit of EUR 553 million (after taxes) enables distributions of EUR 75 million to be made to the owners and strengthens the capital base; CET1 ratio climbs to 17.3%
- Transformation continued successfully and key milestones met, including the launch of sector teams in the Corporates business and go-live of the new trading IT system

Munich – BayernLB posted a **profit before taxes** of EUR 816 million in financial year 2021 (FY 2020: EUR 197 million). The results were driven by good operating earnings in all customer-serving segments, low risk provisions, reduced interest rates from the BayernLB Group's participation in the ECB tender and proceeds from the sale of buildings. **Consolidated profit** (after taxes) was EUR 553 million (FY 2020: EUR 226 million).

“We are pleased with financial year 2021. All BayernLB’s customer-serving segments put in good operating performance and helped increase our earnings, at the same time we pushed rigorously ahead with our Fokus 2024 transformation programme. We have reached key milestones in our strategy as a financier of progress – for example in our plans to focus more closely on sustainability, increase our sector expertise in business with corporate clients, expand our real estate business and transform the IT at BayernLB and DKB,” commented

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Finanzgruppe

Stephan Winkelmeier, CEO of BayernLB. “However, 2021’s figures were buoyed not just by good operating earnings, but also by net positive risk provisions and non-recurring income, such as from participation in the ECB tender. So these pleasing results don’t mean we can rest on our laurels. Instead, we need to keep working undeterred on our transformation that will be ongoing until 2024, so as to secure our long-term success as a streamlined specialised bank and financier of progress,” Winkelmeier continued.

Impact of the Russian attacks on Ukraine

“This war, this unprecedented aggression on the part of Russia in Ukraine, simply beggars belief. Many of us could not imagine a war in Europe. Now is the time to show unity, cohesion and solidarity with the people of Ukraine,” said Stephan Winkelmeier.

The direct business impact on BayernLB is low. The Bank has already massively reduced its exposure to Russia in recent years. It largely consists of secured export and project finance with risk-mitigating structures. Exposure in Ukraine is extremely low. In addition, BayernLB has put a stop to new business with a connection to Russia, Belarus and Ukraine.

Financial figures for 2021

Net interest income of the BayernLB Group jumped to EUR 1,866 million (FY 2020: EUR 1,772 million). The increase came primarily from continued business growth in line with strategy, which was achieved despite the persistently challenging market environment, and from the favourable funding conditions of the ECB tender (TLTRO III). **Net commission income** also continued to perform well and swelled to EUR 380 million (FY 2020: EUR 331 million). The increase was driven in particular by the high-commission fund and lending business and the credit card business.

With regard to **risk provisions**, BayernLB benefited from the good quality of its credit portfolio and more favourable market conditions. In 2021 the Group posted risk provisions of EUR 48 million, much lower than the previous year (FY 2020: EUR 142 million). The figure for the year before had included additional general risk provisions of EUR 266 million that were recognised in preparation for potential future defaults on loans from the coronavirus crisis (known as a post model adjustment). In the past financial year, however, the post model adjustment was

only increased by EUR 32 million. In addition, repayments of problem loans and recoveries on written down receivables had a significant positive impact on the risk provisions line item. Most of the recoveries were receipts from the resolution of Austria HETA Asset Resolution AG.

The good quality of the credit portfolio is also evident in the low non-performing loans ratio (**NPL ratio**) of 0.6 percent (FY 2020: 0.6 percent).

Gains or losses on fair value measurement of EUR 190 million far surpassed the previous year's figure of EUR 62 million. This jump was largely due to measurement gains from the normalisation of financial markets and the Group's strategic focus on standardised trading products. A strong contribution to earnings also came from physical precious metals trading. **Gains or losses on hedge accounting** was a negative EUR 20 million (FY 2020: gain of EUR 11 million). **Gains or losses on financial investments** shrank to EUR 46 million (FY 2020: EUR 68 million).

Despite DKB's strategic growth initiatives and the related expenses, the BayernLB Group held **administrative expenses** stable at EUR 1,520 million (FY 2020: EUR 1,520 million). The rise at DKB was offset by significant cost cuts thanks to the successful implementation of a streamlining strategy and measures to improve efficiency at BayernLB core Bank.

Expenses for the bank levy and deposit guarantee scheme climbed to EUR 195 million (FY 2020: EUR 161 million). The charge included a EUR 75 million mandatory contribution for the bank levy (FY 2020: EUR 67 million) and EUR 120 million for the mandatory contribution to the deposit guarantee scheme (FY 2020: EUR 94 million).

Other income and expenses came to EUR 108 million (FY 2020: EUR 77 million) overall and largely comprised gains of EUR 101 million from the sale of buildings at the Munich location not required for operational purposes.

The BayernLB Group's **total assets** grew to EUR 266.6 billion (31 December 2020: EUR 256.3 billion), with the increase partly due to BayernLB's participation in the ECB tender. **Risk-weighted assets (RWAs)** stood at EUR 63.3 billion (31 December 2020: EUR 65.0 billion).

BayernLB continued to enjoy a solid capital base as at 31 December 2021. The **CET1 ratio** was 17.3 percent (FY 2020: 15.9 percent).

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Return on equity (RoE) rose to 7.9 percent (FY 2020: 2.0 percent) and the **cost/income ratio (CIR)** improved to 59.0 percent from 65.9 percent in the year before. Both figures were in the target range.

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.

Transformation progressing well and on schedule

In 2021 BayernLB continued to push ahead rigorously with its Fokus 2024 multi-year transformation programme launched in January 2020. Once again the Bank achieved key milestones of the transformation.

For example, **fundamental structural and infrastructural developments** were driven forward, including the **new teamwork model** comprising dedicated teams to serve the focus sectors of energy, mobility, technology, manufacturing & engineering, and construction & basic resources in the Corporates Business Area. Since the beginning of 2021, product specialists from corporate finance, project finance, trade & export finance, leasing and asset finance have worked hand in hand with credit and sector analysts in agile sector teams. This enables the Bank to further increase its sector expertise and improves advisory and service quality. In a customer survey recently carried out with an external service provider, customers attest to BayernLB's enhanced sector expertise. BayernLB has made more progress in streamlining its capital markets product offering and as a result achieved good operating earnings across all product groups (bond and Schuldschein business, money market trading, and interest rate and currency hedging for its own customers).

With the **"Immo 2024" initiative** launched in autumn 2021, the Bank continues to pursue its growth plans in the real estate sector, to consolidate its strong market position in Germany and effectively leverage market opportunities abroad with existing expertise. The Bank is focusing on greater regionalisation with sales managers at German and selected international locations.

The largest subsidiary **DKB** continued resolutely on its ambitious growth track and **increased its retail customer base to over five million**. In addition, the securities business with retail customers performed especially well. For example,

the number of securities accounts increased to over 660,000**.** Our online banking subsidiary has also made great strides in technically upgrading its IT infrastructure as well as improving digital processes and services, such as launching the new DKB banking app and automating loan processing in the construction finance and retail lending business.

In the project to consolidate and modernise trading IT, the **new trading system** was launched successfully for the **first product groups**. As a result, it will be possible to retire various former systems going forward. BayernLB also implemented efficiency measures and further streamlined processes as part of its transformation, which meant that the Group's administrative expenses remained almost stable overall, despite investments in growth at DKB. Systematically implementing cost cuts and continuously leveraging efficiencies has enabled BayernLB to put in place **cost-cutting measures with a volume of around EUR 100 million** since the start of Fokus 2024.

Business activities focused even more closely on sustainability

Under the auspices of its transformation, BayernLB is focusing its business activities even more closely than ever on sustainability. This applies to its own operations, which have been climate neutral at all its German sites since 2015, and to BayernLB's customer business. The Bank issued a **new sustainability strategy** in September 2021 to further its ambitions in this area.

It also aims to have a **climate-neutral portfolio before 2050**. To this end, the Bank joined the Partnership for Carbon Accounting Financials (PCAF) in June 2021. The PCAF brings a standardised methodology to the table, which BayernLB and DKB will use to calculate the emissions in their lending portfolios in future. Measuring greenhouse gas emissions is essential for managing the risk and sustainability aspects of the portfolio and gradually decarbonising it.

In addition, BayernLB has set up an **ESG Assessment** system. This enables sustainability risks and the positive impact of financing on the achievement of climate and sustainability goals in the portfolio to be identified at an advanced level. The Bank expects the ESG Assessment to provide information to help manage and develop the portfolio and further sustainable capital market business.

BayernLB serves its customers as a **strategic partner for sustainable finance**. The Bank's main focus is on helping its customers finance the transition of their business models, processes and products to more sustainable solutions, e.g.

with a view to decarbonisation, and on refining its range of products and services. BayernLB is also a pioneer of green Schuldscheine in Germany.

The BayernLB Group has already expanded its portfolio of sustainable funding instruments. Following in the footsteps of DKB, with multiple ESG issues, and BayernLabo with its social bond, BayernLB has also added to the Group's range of sustainable products. In the first half of 2021, BayernLB launched the green commercial paper programme and placed its first green benchmark bond, followed by a green subordinated benchmark (Tier 2) bond, each with a volume of EUR 500 million.

Earnings in the customer-serving operating segments

Real Estate & Savings Banks/Financial Institutions

Profit before taxes in the Real Estate & Savings Banks/Financial Institutions segment rose to EUR 271 million (FY 2020: EUR 186 million).

The **Real Estate Division** made a major contribution to this, with its profit before taxes climbing to EUR 164 million (FY 2020: EUR 104 million), due in particular to an increase in net interest and net commission income driven by higher volumes and margins. In addition, the EUR 26 million in risk provisions recognised was much lower than in the previous year.

Profit before taxes in the **Savings Banks & Financial Institutions Division** improved to EUR 38 million (FY 2020: EUR 23 million). The main driver for this increase was the drop in administrative expenses to EUR 156 million (FY 2020: EUR 179 million), due to the streamlining of the Bank under the ongoing transformation programme. The division also continued to benefit from high fair value gains in the precious metals business that the Bank has bundled at its Nuremberg site. In 2021 BayernLB traded more gold than ever before with a volume of just under 76 tonnes.

BayernLabo posted a profit before taxes of EUR 38 million (FY 2020: EUR 33 million). The main reason for the better profits was a measurement gain due to market interest rates. Profit before taxes at **Real I.S.** amounted to EUR 27 million, which was well above the previous year (FY 2020: EUR 19 million). The good net commission income due to growth in assets under management more than compensated for the rise in administrative expenses caused by business

expansion and project-related costs. **BayernInvest**'s profit before taxes held stable at EUR 5 million. The increase in net commission income due to the considerable rise in assets under control was offset by higher administrative expenses arising from various transformation projects.

Corporates & Markets

In the Corporates & Markets segment, which bundles BayernLB's business with corporate customers and capital market activities, profit before taxes soared to EUR 87 million (FY 2020: a loss of EUR 51 million). Most of this big improvement in earnings came from the drop in risk provisions. While the figure for 2020 still contained a charge of EUR 169 million, partly to cover expected credit defaults resulting from the coronavirus pandemic, risk provisions in 2021 were a mere EUR 60 million. Administrative expenses in the segment fell back to EUR 283 million (FY 2020: EUR 327 million), largely owing to the rigorous streamlining in the capital market business.

DKB

The DKB segment also posted a sharp rise in earnings, with profit before taxes jumping to EUR 369 million (FY 2020: EUR 264 million).

Most of this – EUR 363 million (FY 2020: EUR 254 million) – was produced by the DKB sub-group, which, from the fourth quarter of 2021, also included the earnings from BCS. Net interest and net commission income in the segment came in at EUR 1,076 million (FY 2020: EUR 968 million), a marked improvement on the previous year, largely as a result of reduced interest rates from the ECB tender in the amount of EUR 107 million, higher net commission income, especially in the credit card business, and fees from payments and the securities business. Measurement gains on the DKB sustainability funds also contributed to the big increase in earnings. Risk provisions showed a great improvement on the previous year (a positive EUR 3 million versus a negative EUR 44 million) in spite of further additions to cover potential future charges in connection with the coronavirus pandemic. DKB expanded its retail customer base to over five million (FY 2020: approximately 4.6 million), thereby further consolidating its position as Germany's second-largest online bank and one of the country's market leaders in digital banking.

Outlook

The Group expects profit before taxes of between EUR 300 million and EUR 500 million for the full year. In light of the war between Russia and Ukraine and the major insecurity about the future of the global economy associated with it, including potential secondary and tertiary effects, the forecast is fraught with a high level of uncertainty.

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Income statement (IFRS)
FY 2021 and FY 2020

	1 Jan - 31 Dec 2021 EUR million	**1 Jan - 31 Dec 2020** EUR million	**Change** in %
Net interest income	1,866	1,772	5.3
Risk provisions in the credit business	(48)	(142)	(65.8)
Net commission income	380	331	14.9
Gains or losses on fair value measurement	190	62	>100
Gains or losses on hedge accounting	(20)	11	–
Gains or losses on derecognised financial assets	6	(14)	–
Gains or losses on financial investments	46	68	(33.0)
Administrative expenses	(1,520)	(1,520)	–
Expenses for the bank levy and deposit guarantee scheme	195	(161)	21.1
Other income and expenses	108	77	41.2
Gains or losses on restructuring	2	(287)	–
Profit/loss before taxes	**816**	**197**	>100
Income taxes	(259)	31	–
Profit/loss after taxes	**556**	**229**	**>100**
Profit/loss attributable to non-controlling interests	(3)	(3)	–
Consolidated profit/loss	**553**	**226**	**>100**

Rounding differences may occur in the tables.

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Segment reporting (IFRS) for financial year 2021

EUR million	Real Estate & Savings Banks/Financial Institutions	Corporates & Markets	DKB	Central Areas & Others	Group
Net interest income	363	315	1,023	165	1,866
Risk provisions in the credit business	(32)	(60)	3	40	(48)
Net commission income	271	80	53	(24)	380
Gains or losses on fair value measurement	57	38	51	43	190
Gains or losses on hedge accounting	0	1	(3)	(17)	(20)
Gains or losses on derecognised financial assets	0	1	4	0	6
Gains or losses on financial investments	0	2	5	39	46
Administrative expenses	(402)	(283)	(689)	(146)	(1,520)
Expenses for the bank levy and deposit guarantee scheme	0	0	(79)	(116)	(195)
Other income and expenses	13	(6)	1	101	108
Gains or losses on restructuring	0	0	0	2	2
Profit/loss before taxes	**271**	**87**	**369**	**88**	**816**

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Selected balance sheet figures (IFRS)

	31 Dec 2021	31 Dec 2020	Change in %
Total assets (EUR billion)	266.6	256.2	4.0
Credit volume (EUR billion)	227.0	219.9	3.2

Key financial figures

	31 Dec 2021	31 Dec 2020	Change in %
Own funds (EUR billion)	13.7	12.0	13.9
Common Equity Tier 1 capital (CET1 capital) (EUR billion)	11.0	10.3	6.5
CET1 ratio (in percent)	17.3	15.9	1.4 pp
RWAs (EUR billion)	63.3	65.0	(2.6)

Human resources

	31 Dec 2021	31 Dec 2020	Change in %
Number of employees	8,481	8,532	(0.6)

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