Bayern LB
Financing progress.

Press Release

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BayernLB posts EUR 277 m in profit before taxes for first half of 2022

- Good results in all customer segments
- Volatile environment in second quarter leads to increase in customer demand – lending volume in core business up
- Capital base still solid: CET1 ratio at 15.9 percent
- More headway in Group transformation; downsizing at core Bank largely completed
- Outlook for 2022: EUR 500 m or more in profit before taxes given such factors as pending one-off proceeds

Munich – BayernLB has recorded EUR 277 million in profit before taxes for the first half of the year (H1 2021: EUR 485 million). The earnings are testimony to the success of the Bank’s new strategy, good portfolio quality, comfortable liquidity level and adequate risk provisions. The figure for the previous-year period was bolstered by a much larger bonus coming from the ECB tender, and by measurement gains. Consolidated profit (after taxes) came to EUR 175 million (H1 2021: EUR 248 million).

“The first half of the year proved robust for BayernLB’s business. After the first quarter, which was dampened by Russia’s brutal war on Ukraine and by the bank levy and our deposit guarantee contribution, we had such a good second quarter that our half-year results overall are quite to our liking”, said BayernLB CEO Stephan Winkelmeier. “Especially in these times of crisis, our close customer relationships are paying off. We are happy to report that business has been good in our core business areas”, Winkelmeier added.

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H1 2022 financials

Net interest income amounted to EUR 928 million in the first half of the year (H1 2021: EUR 1,006 million). Last year's counterpart figure had the benefit of a much higher bonus generated from the BayernLB Group's participation in the ECB tender. In the first half of 2021 these additional earnings stood at EUR 164 million, whereas over the first six months of 2022 they reached a mere EUR 47 million. Adjusted for these ECB tender gains, net interest income rose by about 5 percent. **Net commission income** at BayernLB climbed around 16 percent, to EUR 219 million (H1 2021: EUR 189 million). As before, the high-commission fund and credit business and also the card business accounted for a large proportion of this.

For the first half of the year the BayernLB Group has posted a net release of **risk provisions** of EUR 46 million (H1 2021: net release of EUR 44 million), which is a reflection of the overall good quality of the credit portfolio. The risk provisions item contains a **post-model adjustment (PMA)** which was carried out in order to cover potential risks from such factors as the Covid pandemic. This PMA was reduced to EUR 315 million in the first half year (31 December 2021: EUR 356 million). The remaining PMA portfolio is serving not least as a buffer against any possible impacts from the Russia-Ukraine war or from supply chain complications. The **NPL ratio**, which reflects the share of non-performing loans in relation to the overall lending volume, stood at 0.6 percent (H1 2021: 0.5 percent).

Gains or losses on fair value measurement came in at EUR -9 million (H1 2021: EUR 145 million). Both the precious metals business and customer business with financial markets products went well. The plunge was mostly the result of market changes affecting e.g. own funds investments and also of the high measurement gains in the previous year, which were also market-induced. Moreover, the first half of 2021 enjoyed a one-off gain of EUR 44 million. **Gains or losses on financial investments** fell to EUR -1 million (H1 2021: EUR 7 million).

The BayernLB Group's administrative expenses increased to EUR 787 million (H1 2021: EUR 754 million). BayernLB managed to cut down its operating expenses. However, the lower staff costs achieved through the rigorously pursued workforce reduction programme were offset by a temporary rise in general expenses, prompted mainly by high IT modernisation project expenses. DKB posted an anticipated rise in administrative expenses that was the result mostly of its strategic investments in enhancing its services as a tech bank. **Expenses for the bank levy and deposit guarantee scheme** dropped to EUR 132 million (H1 2021: EUR 170 million), with the former accounting for EUR 103 million (H1 2021: EUR 75 million) and the latter for EUR 28 million (H1 2021: EUR 95 million). The increase in the bank levy was due to an overall higher charge. The lower contribution to the deposit guarantee scheme came from DKB's switch to the Compensation Scheme of German Private Banks (EdB).

The BayernLB Group's **total assets** rose to EUR 285.3 billion (31 December 2021: EUR 266.6 billion). **Risk-weighted assets (RWAs)** stood at EUR 66.2 billion (31 December 2021: EUR 63.3 billion).

The Group continued to enjoy a solid capital base in the first half of the year, with a **CET1 ratio** as at 30 June 2022 of 15.9 percent (31 December 2021: 17.3 percent).

The **cost-income ratio (CIR)** was 70.3 percent (H1 2021: 55.3 percent). This decrease was due mainly to the lack of income from the ECB tender. **Return on equity (RoE)** stood at 5.2 percent (H1 2021: 9.5 percent).

Impact of the Russian attacks on Ukraine

The political situation remains fraught given the ongoing hostilities in Ukraine. BayernLB has evaluated the impact these developments might have on the Group and has taken appropriate measures.
In a direct response, BayernLB closed its representative office in Moscow and stopped taking on new business with Russia, Ukraine and Belarus. In the first half of the year, the gross credit volumes for these countries fell further, from EUR 0.6 billion to EUR 0.4 billion, with the net credit volume standing at EUR 0.1 billion. The Bank is closely monitoring and winding down its exposure to the countries directly affected by the Russia-Ukraine war wherever possible.

Progress in the Fokus 2024 transformation programme

Over the first half of 2022 BayernLB continued to push ahead rigorously with its Fokus 2024 multi-year transformation programme launched in January 2020. Among other things, the Bank made good operative progress in modernising its trading IT and IT bank management. DKB's transition to a tech bank also made good headway. The speedy digital “RoboKredit” tool, for example, was rolled out successfully. This feature enables customers to apply for a consumer loan online with any device and at any time, using data that is provided digitally. The automated loan approval process is then run without the need for manual checks or the customer having to submit documents.

In the first six months of 2022 BayernLB also pressed on with its transformation by continuing its efficiency and cost-cutting measures and paring down its processes further. This all led to another reduction in the core Bank’s administrative expenses. The credit process, for example, was further digitalised. In addition, most of the resolved staff reduction measures at the core Bank were finalised.

The plans for optimising the office space in Munich are also well underway. The vast majority of the employees formerly stationed in peripheral office buildings were relocated to the main campus. BayernLB is now poised to part in the second half of 2022 with other non-essential office buildings at its Munich headquarters.

In line with schedule, BayernLB put its long-term strategy to the test in the first half of the year. For all business areas, the strategy was shown to be sound, even amid the changing geopolitical circumstances, rising interest rates and inflation: strong growth in DKB’s retail customer segment; steady expansion of the real estate business; corporate customers in the focus, in particular those in future-oriented sectors; and more growth through asset-based finance.

Sustainability

Under the auspices of its transformation, BayernLB is focusing its business activities consistently on sustainability. In the first half of 2022 the Bank stepped up the ESG-compliant share of its new business. BayernLB serves its customers as a strategic partner for sustainable finance. In the first half of the year BayernLB furthermore unveiled its Sustainable Lending Framework, being one of the first banks in Germany, and indeed in all of Europe, to do so.

BayernLB also succeeded in expanding its portfolio of sustainable refinancing instruments and is continuing on this path. In the first half of the year the Bank broadened its Sustainable Financing Framework to accommodate its own green bond portfolio. In addition to solar energy and wind power, the Bank’s ESG policy

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now applies to rail transport as well. The framework, which sets the basic parameters for sustainable capital market issues, is calibrated with the goals and standards of the EU Taxonomy Regulation. With numerous successful ESG capital market issuances racked up by BayernLB, DKB and BayernLabo, the Group is one of the most experienced issuers in the segment of sustainable transactions.

DKB, too, made further progress with its sustainable business model in the first half of 2022. ESG criteria, for example, were integrated more closely into its core processes. DKB's loan portfolio enjoys a so-called "SDG significance" of 78.6 percent, i.e. 78.6 percent of the loans DKB has issued help to promote the United Nations Sustainable Development Goals.

Moreover, DKB was rated "B-" by the independent agency ISS ESG for the seventh time in a row – the highest rating awarded. This makes DKB the sector leader among the 270 banks that fall under the "Financials/Public & Regional Banks" category. BayernLB, for its part, maintained its "Prime" status, which ISS ESG has been awarding it regularly since 2001 for the Bank's above-average level of commitment.

Two of the chief goals BayernLB will be pursuing in the months ahead are: to further future-proof its ESG assessment, as this aids in identifying sustainability risks and the ways in which financing is conducive to the climate and sustainability goals in the portfolio, and to refine its method for measuring and managing the carbon footprint of its customer portfolio.

Earnings in the customer-serving operating segments

The **Real Estate & Savings Banks/Financial Institutions** segment closed the first six months with a pre-tax profit of EUR 112 million (H1 2021: EUR 155 million).
The Real Estate Division, which saw rising operating earnings and an uptick in new business, again made a significant contribution to the segment's earnings, posting EUR 82 million in profit before taxes (H1 2021: EUR 86 million). Due to the welcome growth in business volumes, the division's net interest and net commission income rose to EUR 149 million (H1 2021: EUR 129 million) in total. The moderate drop in earnings was mostly due to the EUR -14 million in risk provisions, which stands in stark contrast to the modest, but positive, EUR 2 million posted for the same period in the previous year.

Profit before taxes in the Savings Banks & Financial Institutions Division rose further, to EUR 40 million (H1 2021: EUR 30 million). The main driver for this was the decrease in administrative expenses, to EUR 74 million (H1 2021: EUR 81 million), as a result of the ongoing transformation process. The division also benefited once again from the growth in the precious metals business.
Both BayernLabo and BayernInvest recorded a decline in earnings that resulted from measurement effects. Earnings at Real I.S. stood at the level posted for the same period in the previous year.

The **Corporates & Markets** segment achieved a pre-tax profit of EUR 80 million (H1 2021: EUR 97 million). The segment's core business was marked by higher volumes and stable customer business with financial markets products despite the volatile market situation.
The decline in earnings was mainly due to the lower net interest income and more modest gains or losses on fair value measurement. Net commission income fell to EUR 137 million (H1 2021: EUR 163 million), largely owing to the strategy-compliant focus on customer business, but also to positive one-off effects in the previous year. The drop in the gains or losses on fair value measurement line item to EUR 4 million (H1 2021: EUR 35 million) is a reflection of the measurement losses caused by the current market environment. Moreover, the figure for the previous year was enhanced by positive one-off effects.
At EUR 22 million, risk provisions made a positive contribution to the segment's earnings (H1 2021: EUR -1 million). Administrative expenses in the segment sank to EUR 127 million (H1 2021: EUR 144 million) as a result of the rigorous focusing in the customer business.

In the **DKB** segment profit before taxes stood at EUR 119 million (H1 2021: EUR 273 million). In all of DKB's customer segments – retail customers, infrastructure and corporate customers – operating performance was satisfactory. The earnings decline is due mainly to the substantially lower bonus connected to the participation in the ECB tender, the negative market developments affecting own funds investments and to losses from interest rate hedging instruments.
The DKB Group's net interest income came in at EUR 523 million (H1 2021: EUR 566 million), the direct result of the above-mentioned smaller tender bonus. In the first half of 2022 the bonus was EUR 47 million, whereas for the same period in the previous year it came to EUR 105 million. Adjusted for the impact on earnings exerted by the tender participation, DKB's net interest income increased slightly, owing to the current interest rate environment and other factors. Net commission income came in higher, partly due to the good performance in the

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credit card business, rising to EUR 43 million (H1 2021: EUR 25 million). DKB expanded its retail customer base to around 5.2 million clients (H1 2021: approximately 4.8 million), thereby further consolidating its position as Germany's second-largest online bank and one of the country's market leaders in digital banking. To safeguard its market position for the long term, additional investments were made in the bank's sales activities, digitalisation and workforce growth. This pushed up administrative expenses to EUR 370 million (H1 2021: EUR 342 million). DKB also recorded an increase in expenses for the bank levy and deposit guarantee scheme, with the total amount reaching EUR 71 million (H1 2021: EUR 54 million).

Outlook for full-year 2022

BayernLB is adjusting its forecast for the whole of the year given that there are pending proceeds. At present it anticipates EUR 500 million or more in profit before taxes for the Group. In light of Russia's war in Ukraine and the resulting apprehension about the future of the global economy, including potential secondary and tertiary effects, this forecast, however, is fraught with a high level of uncertainty.

Additional details on the BayernLB Group's financial figures in the first half of 2022 can be found in the supplementary IR presentation and in the Group Financial Report as at 30 June 2022. Both documents can be downloaded at www.bayernlb.de/presse.

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Performance of the BayernLB Group

Results of operations

EUR million	1 Jan - 30 Jun 2022	1 Jan - 30 Jun 2021	Change in %
Net interest income	928	1,006	(7.7)
Risk provisions	46	44	2.6
Net interest income after risk provisions	973	1,050	(7.3)
Net commission income	219	189	15.8
Gains or losses on fair value measure-ment	(9)	145	–
Gains or losses on hedge accounting	(33)	(3)	>100.0
Gains or losses on derecognised financial assets	1	5	(83.1)
Gains or losses on financial investments	(1)	7	–
Administrative expenses	(787)	(754)	4.3
Expenses for the bank levy and deposit guarantee scheme	(132)	(170)	(22.5)
Other income and expenses	15	14	7.1
Gains or losses on restructuring	30	1	>100.0
Profit/loss before taxes	**277**	**485**	**(42.8)**
Income taxes	(101)	(235)	(57.2)
Profit/loss after taxes	**177**	**249**	**(29.1)**
Profit/loss attributable to non-controlling interests	(1)	(2)	(25.7)
Consolidated profit/loss	**175**	**248**	**(29.3)**

Rounding differences may occur in the tables.

Balance sheet (IFRS)

EUR billion	30 Jun 2022	31 Dec 2021	Change in %
Total assets	285.3	266.6	7.0
Subordinated capital	2.6	2.7	(4.0)
Equity	12.8	12.3	4.2

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