

# BayernLB Group financial report H1 2022

Munich, 18 August 2022

 Finanzgruppe

 Bayern LB

Financing progress.

# Contents

- › Financial performance
- › Appendix

# H1 2022 highlights

- + EUR 277 m in profit before taxes thanks to good performance in all customer segments
- + Volatile environment in 2nd quarter leads to increase in customer financing demand – lending volume in core business up
- + Capital base still solid: CET1 ratio at 15.9%
- + 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

Profit before taxes

**EUR 277 m**

Consolidated profit  
(after taxes)

**EUR 175 m**

CET1 ratio

**15.9 percent**

# Transformation in customer business is on course



## Real Estate & Savings Banks/FI

- › Further growth in the real estate business: **approx. EUR 3.4 bn in new business** (EUR 1.3 bn of which through the foreign branches) and EUR 1.4 bn in renewals in first half year
- › **Stronger regional presence** in and outside Germany
- › **Precious metals business on course for a new record year: over 450 tonnes** of the commodity already traded in first half of 2022



## Corporates & Markets

- › **Lending volume in the sectors under focus** at the core Bank **up by more than EUR 0.8 bn** in first half of the year
- › **Brisk CO2 business** with improved profitability in the first half year; **20% growth in volume for whole of 2022** expected
- › Further progress in digitalisation: **stake acquired in leading private debt platform** vc trade



## DKB

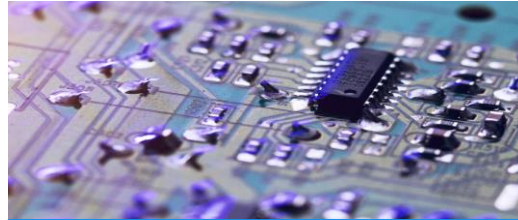
- › Growth trajectory continued, with **number of retail customers increased to 5.2 million**
- › Securities business with retail customers picking up pace: number of **accounts now topping 700,000**
- › **Brand recognition stronger than ever**: broadening through sponsorships both in professional and amateur sports (e.g. **official partner of NFL Germany since July**)

# Milestones of the transformation: sustainability, investments and costs



## Sustainability

- › **Sustainable Financing Framework broadened** to include rail transport
- › More enhanced products and services for ESG financing: **Sustainable Lending Framework** unveiled
- › **Higher portion of new business** that is **ESG-compliant**



## Investments

- Targeted investments in growth and modernisation:
- › Large-scale IT projects at the core Bank (for consolidating and **modernising the trading IT and IT Bank management**) making good operative progress
  - › More headway in DKB's pivot towards a tech bank: **faster, digital retail loan tool** rolled out



## Costs

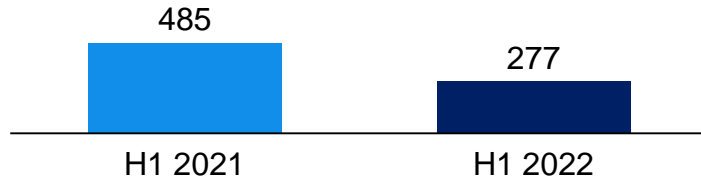
- › **Efficiency and cost-cutting** measures moving along steadily, with **processes** further **streamlined**
- › Core Bank's **administrative expenses further reduced**
- › **Downsizing** at the core Bank largely completed

# Key figures

# Earnings solid following a financial year bolstered by tender bonuses and measurement gains

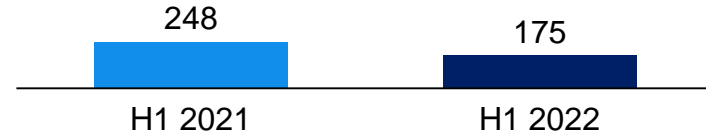
## Profit/loss before taxes

EUR m



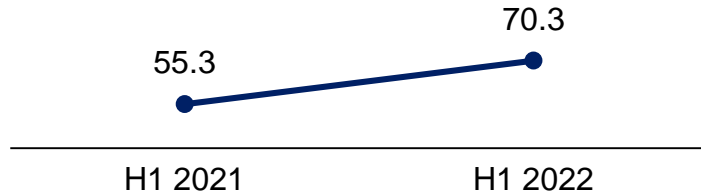
## Consolidated profit/loss

EUR m



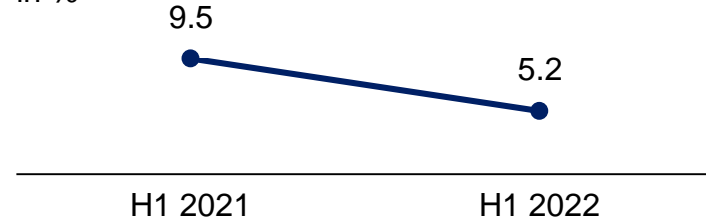
## CIR

in %



## RoE

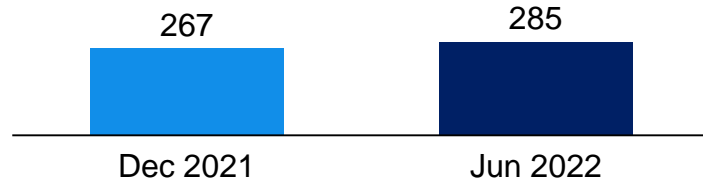
in %



# Capital base remains solid, with moderate growth in the customer business

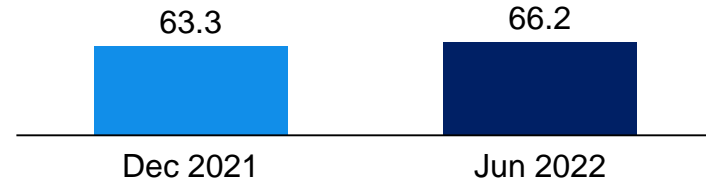
## Total assets

EUR bn



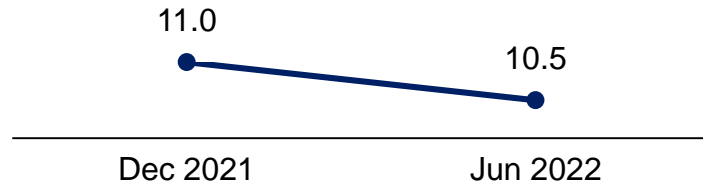
## RWAs

EUR bn



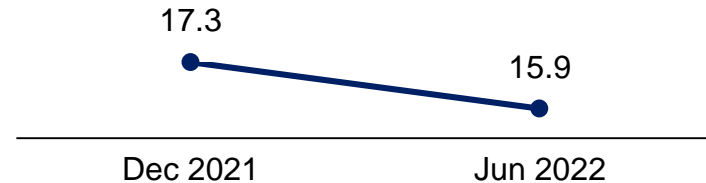
## CET1 capital

EUR bn



## CET1 capital ratio

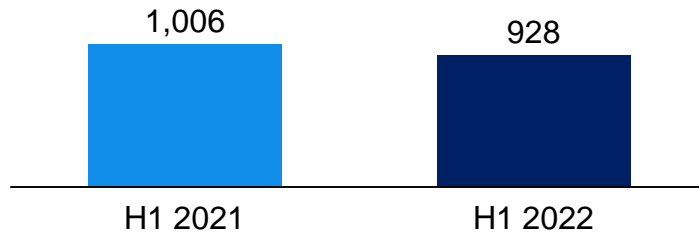
in %





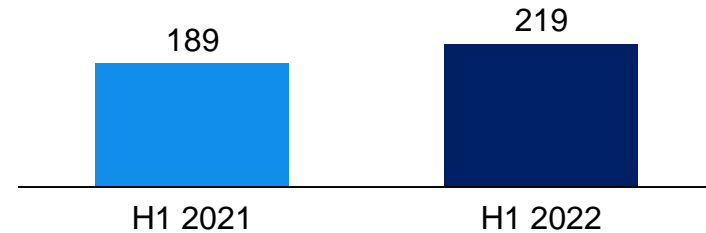
# Net interest and net commission income overall unchanged on the previous year

Net interest income  
EUR m



- › Previous-year figure enhanced by a higher tender bonus (H1 2022: EUR 47 m; H1 2021: EUR 164 m)

Net commission income  
EUR m

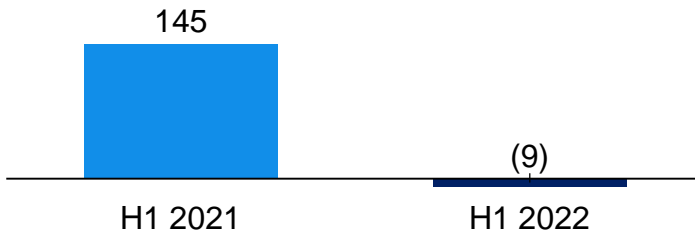


- › Earnings contributions higher thanks to the success of the credit operations at BayernLB's Real Estate Division, DKB's credit card business and the fund business run by the asset management subsidiaries, in particular Real I.S.

# Gains or losses on fair value weighed down by measurement effects; asset quality remains stable

## Gains or losses on fair value measurement

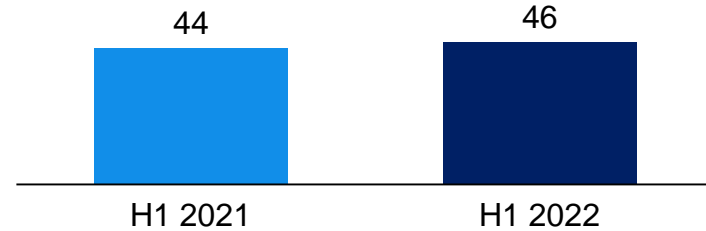
EUR m



- › Good performance in the precious metals business and in customer business with financial markets products
- › Earnings decline due mostly to market developments affecting e.g. own funds investments; previous year furthermore benefited from a one-off gain of approx. EUR 40 m

## Risk provisions

EUR m

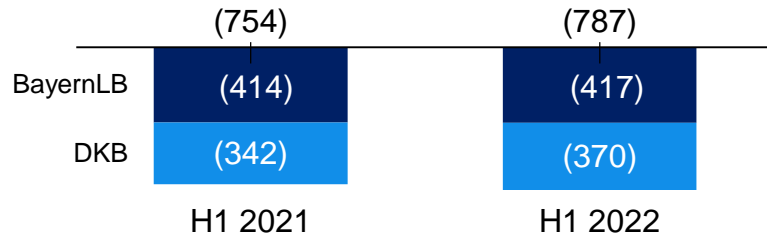


- › EUR 41 m reduction in the PMA to EUR 315 m (Dec 2021: EUR 356 m) due to an improved outlook for the portfolios hit especially hard by the Covid crisis
- › Remaining PMA portfolio serving, for example, as buffer against any possible impacts from the Russia-Ukraine war or from supply chain complications (gross and net exposure to Russia/Ukraine/Belarus: EUR 448 m and EUR 111 m, respectively)

# Total expenses essentially at previous-year level

## Administrative expenses

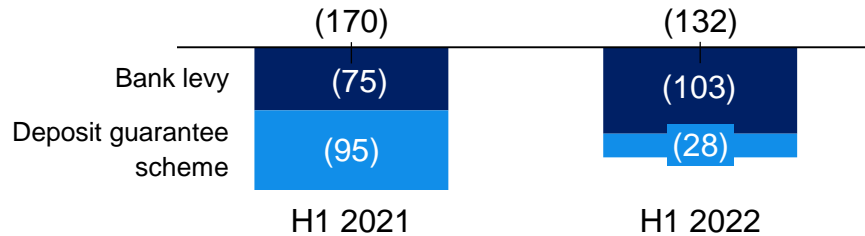
EUR m



- › Lower staff costs achieved through successful workforce reduction programme offset by temporary rise in general expenses
- › DKB posting higher expenses under its growth strategy

## Expenses for the bank levy and deposit guarantee scheme

EUR m

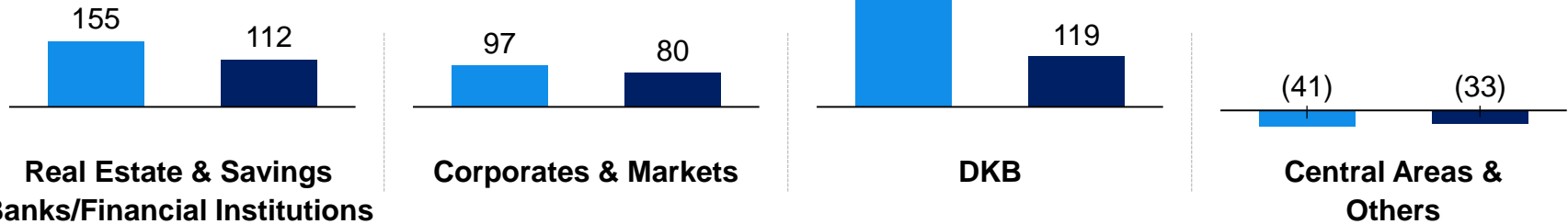


- › Bank levy considerably higher than in previous year due to overall higher charge
- › Contribution to deposit guarantee scheme down in wake of DKB's switch to the Compensation Scheme of German Private Banks (EdB)

# Segment results impacted by market developments

Profit/loss before taxes, by segment EUR m

■ H1 2021 ■ H1 2022



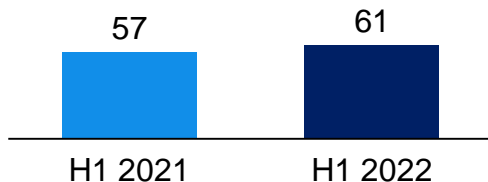
- › Real estate business expanded, as per strategy, while precious metals business continues winning streak
- › C&M operating performance within range of expectations; earnings decline caused mainly by measurement losses, due in turn to current market environment and one-off gains in previous year

- › Operating performance at DKB in line with expectations; lower earnings due chiefly to market developments affecting own funds investments and interest rate hedges; previous year saw higher bonus from tender participation and also measurement gains
- › Central Areas & Others: previous year benefited from tender bonus for BayernLB, current year marked by absence of expenses for deposit guarantee scheme and by a restructuring gain

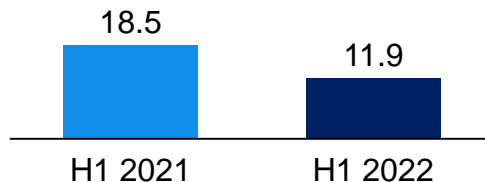
# Real Estate & Savings Banks/FI

EUR m	H1 2021	H1 2022
Net interest income	173	186
Net commission income	135	144
Gains or losses on fair value measurement	37	34
Other earnings components	7	(39)
Administrative expenses	(200)	(199)
Risk provisions	3	(14)
<b>Profit/loss before taxes</b>	<b>155</b>	<b>112</b>
Risk-weighted assets (RWAs)	11,730	13,845

CIR in %



RoE in %



## Highlights

- › Real Estate posts growth in net interest and net commission income following expansion in business volume
- › Savings Banks & Financial Institutions benefits further from high income from the precious metals business
- › Earnings decline at BayernLabo and BayernInvest due to higher interest rates and to measurement losses
- › Real I.S. at previous-year level

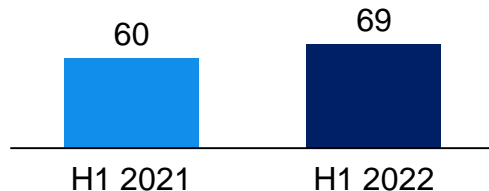
# Corporates & Markets

EUR m	H1 2021	H1 2022
Net interest income	163	137
Net commission income	43	42
Gains or losses on fair value measurement	35	4
Other earnings components	1	2
Administrative expenses	(144)	(127)
Risk provisions	(1)	22
<b>Profit/loss before taxes</b>	<b>97</b>	<b>80</b>
Risk-weighted assets (RWAs)	23,190	20,829

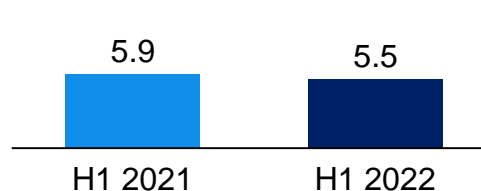
## Highlights

- › Drop in RWAs owing to the strategy of focusing on future-oriented sectors; net interest income down as a result
- › Good customer business with financial markets products weighed down by measurement losses amid the current market environment
- › Administrative expenses reduced as result of concentrating on the sectors under focus

## CIR in %

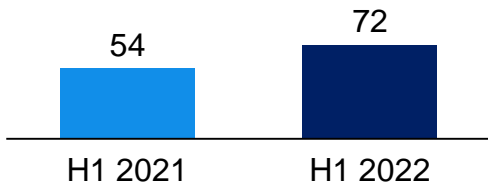


## RoE in %

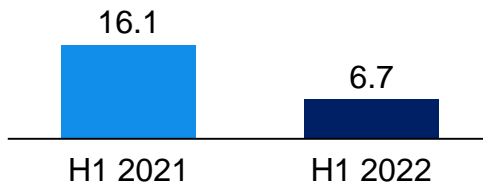


EUR m	H1 2021	H1 2022
Net interest income	566	523
Net commission income	25	43
Gains or losses on fair value measurement	28	(43)
Other earnings components	16	(7)
Administrative expenses	(342)	(370)
Risk provisions	33	42
Bank levy and deposit guarantee scheme	(54)	(71)
<b>Profit/loss before taxes</b>	<b>273</b>	<b>119</b>
Risk-weighted assets (RWAs)	24,670	25,645

CIR in %



RoE in %



## Highlights

- › Satisfactory operating performance in all customer segments – retail customers, infrastructure and corporate customers
- › Decline in earnings due mostly to lower tender bonus (H1 2021: EUR 105 m; H1 2022: EUR 47 m) and measurement losses in own funds investments and interest rate hedging instruments
- › Administrative expenses higher due to costs associated with the growth strategy
- › RWAs higher as a result of an expansion in credit volume in all customer segments

# Central Areas & Others

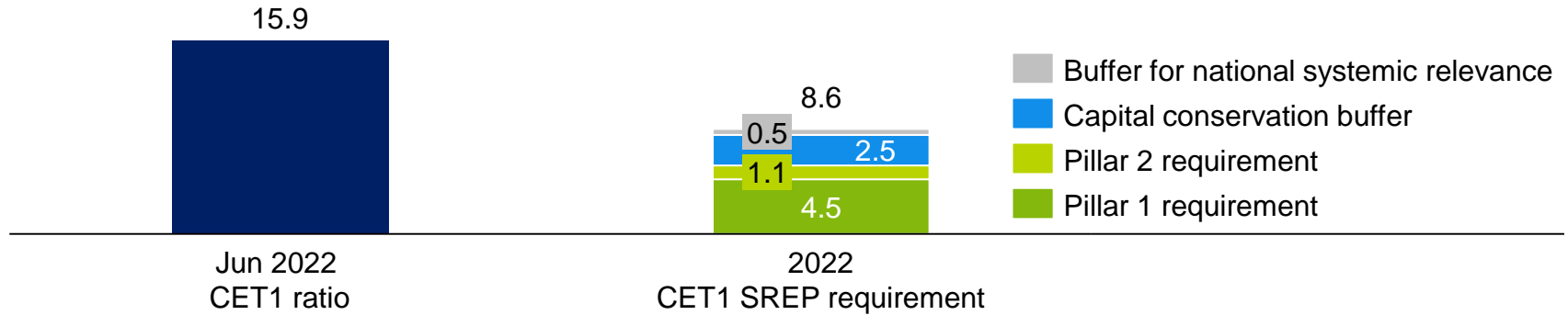
EUR m	H1 2021	H1 2022
Net interest income	104	82
Net commission income	(14)	(9)
Gains or losses on fair value measurement	45	(5)
Other earnings components	0	26
Administrative expenses	(69)	(90)
Risk provisions	9	(5)
Bank levy and deposit guarantee scheme	(116)	(61)
Gains or losses on restructuring	1	30
<b>Profit/loss before taxes</b>	<b>(41)</b>	<b>(33)</b>
Risk-weighted assets (RWAs)	5,489	5,834

## Highlights

- › Previous year includes tender bonus of EUR 59 m
- › Higher administrative expenses due to temporary costs for transformation projects
- › Measurement effects from existing provisions lead to restructuring gain



# CET1 ratio well above SREP minimum ratios



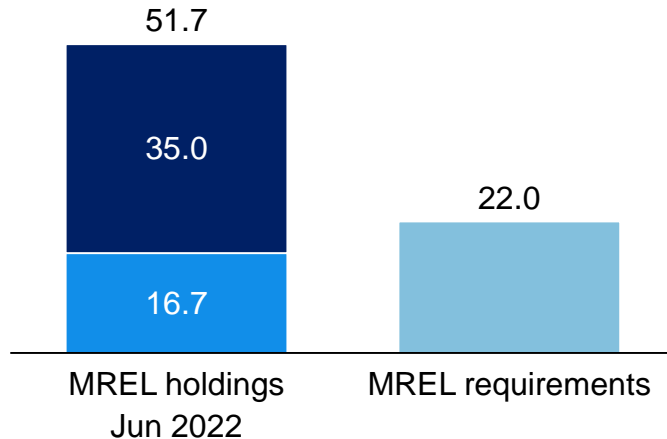
- › Capital ratio down from end of 2021 (17.3%) due to a temporarily asymmetric account-taking of interest rate effects in the supervisory capital calculation
- › 15.9% CET1 ratio as at 30 June 2022 was well above the SREP minimum ratio for 2022 – 8.6%
- › The minimum CET1 ratio set by CRR (Pillar 1 requirement) is 4.5%
- › On top of that is an individual premium (Pillar 2 requirement) of 1.125%
- › Additional capital buffers:
  - Capital conservation buffer: 2.5%
  - Buffer for national, systemically important institutions: 0.5%
- › The SREP minimum ratio is by far exceeded – even with the additional capital buffer requirements taking effect in 2023 (anti-cyclical capital buffer for Germany and systemic risk buffer for residential property) accounted for

# MREL requirement substantially exceeded

## MREL

in % of RWAs

- Senior non-preferred
- Regulatory own funds<sup>1</sup>



- › MREL requirements related to RWAs stood at 22.0%
- › MREL holdings as at 30 June 2022 made up 51.7% of RWAs, far exceeding guidance
- › Regulatory requirements already covered to a large extent by own funds
- › A large portfolio of subordinated eligible liabilities (senior non-preferred) with additional broad protection

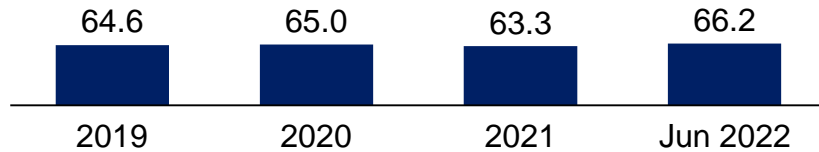
<sup>1</sup> Not including own funds which are reserved for the requirements of the combined capital buffer (approx. 3%).

# Moody's acknowledges good fundamentals

Outlook improved to "positive"

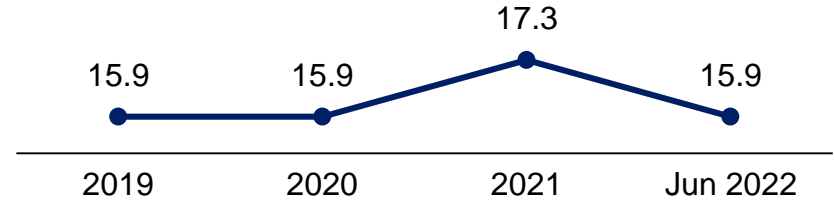
## Stable RWAs

EUR bn



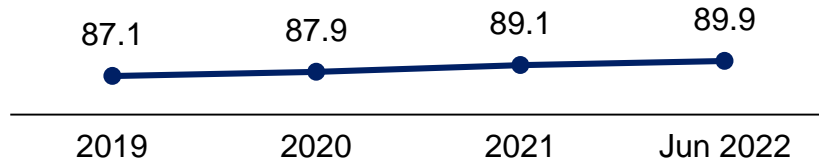
## Solid capital base

CET1 ratio in %



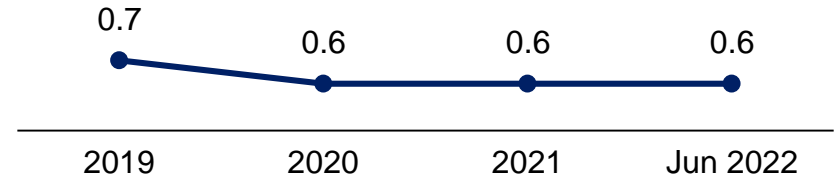
## Very good asset quality

Investment grade share in %



## Low default rate

NPL ratio in %





# Outlook:

## Profit before taxes >EUR 500 m

	Forecast for 2022 (31 Dec 2021)	Adjusted forecast for 2022 (30 Jun 2022)
Profit before taxes	EUR 300-500 m	>EUR 500 m
Return on equity (RoE)	>3%	>5%
Cost/income ratio (CIR)	63-67%	<65%
Common Equity Tier 1 ratio (CET1 ratio)	>15%	>15%
Leverage ratio	>4%	>4%

This forecast has been adjusted to EUR 500 m in minimum profit before taxes due to pending one-off proceeds.

In light of the war between Russia and Ukraine and the resulting apprehension about the future of the global economy, including potential secondary and tertiary effects, the forecast is fraught with a high level of uncertainty.

# Contents

- › Financial performance
- › Appendix

# Year-on-year earnings comparison

EUR m	H1 2022	H1 2021	Change in %
Net interest income	928	1,006	(7.7)
Net commission income	219	189	15.8
Gains or losses on fair value measurement	(9)	145	–
Other earnings components	(18)	23	–
Gains or losses on hedge accounting	(33)	(3)	>100
Gains or losses on derecognised financial assets	1	5	(83.1)
Gains or losses on financial investments	(1)	7	–
Other income and expenses	15	14	7.1
<b>Gross earnings</b>	<b>1,119</b>	<b>1,363</b>	<b>(17.9)</b>
Administrative expenses	(787)	(754)	4.3
Risk provisions	46	44	2.6
Gains or losses on restructuring	30	1	>100
<b>Profit before taxes, bank levy and deposit guarantee contribution</b>	<b>409</b>	<b>655</b>	<b>(37.6)</b>
Expenses for the bank levy and deposit guarantee scheme	(132)	(170)	(22.5)
<b>Profit/loss before taxes</b>	<b>277</b>	<b>485</b>	<b>(42.8)</b>
Income taxes	(101)	(235)	(57.3)
<b>Profit/loss after taxes</b>	<b>177</b>	<b>249</b>	<b>(29.2)</b>
Profit/loss attributable to non-controlling interests	(1)	(2)	(25.7)
<b>Consolidated profit/loss</b>	<b>175</b>	<b>248</b>	<b>(29.3)</b>

# Quarterly earnings comparison

EUR m	Q2 2022	Q1 2022
Net interest income	484	444
Net commission income	122	97
Gains or losses on fair value measurement	(30)	20
Other earnings components	(36)	17
Gains or losses on hedge accounting	(42)	9
Gains or losses on derecognised financial assets	(1)	1
Gains or losses on financial investments	(4)	2
Other income and expenses	10	4
<b>Gross earnings</b>	<b>540</b>	<b>579</b>
Administrative expenses	(384)	(402)
Risk provisions	73	(28)
Gains or losses on restructuring	33	(3)
<b>Profit before taxes, bank levy and deposit guarantee contribution</b>	<b>262</b>	<b>146</b>
Expenses for the bank levy and deposit guarantee scheme	(14)	(118)
<b>Profit/loss before taxes</b>	<b>248</b>	<b>29</b>
Income taxes	(90)	(10)
<b>Profit/loss after taxes</b>	<b>158</b>	<b>18</b>
Profit/loss attributable to non-controlling interests	(1)	–
<b>Consolidated profit/loss</b>	<b>157</b>	<b>18</b>

# Segment overview

EUR m	Real Estate & Savings Banks/FI	Corporates & Markets	DKB	Central Areas & Others	Group
Net interest income	186	137	523	82	928
Net commission income	144	42	43	(9)	219
Gains or losses on fair value measurement	34	4	(43)	(5)	(9)
Other earnings components	(39)	2	(7)	26	(18)
<b>Gross earnings</b>	<b>325</b>	<b>185</b>	<b>516</b>	<b>93</b>	<b>1,119</b>
Administrative expenses	(199)	(127)	(370)	(90)	(787)
Risk provisions	(14)	22	42	(5)	46
Gains or losses on restructuring	0	0	0	30	30
<b>Profit before taxes, bank levy and deposit guarantee contribution</b>	<b>112</b>	<b>80</b>	<b>189</b>	<b>28</b>	<b>409</b>
Expenses for the bank levy and deposit guarantee scheme	0	0	(71)	(61)	(132)
<b>Profit/loss before taxes</b>	<b>112</b>	<b>80</b>	<b>119</b>	<b>(33)</b>	<b>277</b>
Return on equity (RoE) (%)	11.9	5.5	6.7	(2.9)	5.2
Cost/income ratio (CIR) (%)	61.4	68.8	71.6	97.1	70.3



# Segment overview H1 2021

EUR m	Real Estate & Savings Banks/FI	Corporates & Markets	DKB	Central Areas & Others	Group
Net interest income	173	163	566	104	1,006
Net commission income	135	43	25	(14)	189
Gains or losses on fair value measurement	37	35	28	45	145
Other earnings components	6	1	16	0	23
<b>Gross earnings</b>	<b>351</b>	<b>242</b>	<b>636</b>	<b>135</b>	<b>1,363</b>
Administrative expenses	(200)	(144)	(342)	(69)	(754)
Risk provisions	3	(1)	33	9	44
Gains or losses on restructuring	1	0	0	1	1
<b>Profit before taxes, bank levy and deposit guarantee contribution</b>	<b>155</b>	<b>97</b>	<b>327</b>	<b>75</b>	<b>655</b>
Expenses for the bank levy and deposit guarantee scheme	0	0	(54)	(116)	(170)
<b>Profit/loss before taxes</b>	<b>155</b>	<b>97</b>	<b>273</b>	<b>(41)</b>	<b>485</b>
Return on equity (RoE) (%)	18.5	5.9	16.1	(4.6)	9.5
Cost/income ratio (CIR) (%)	56.9	59.5	53.7	51.1	55.3

# Balance sheet overview

EUR bn	Jun 2022	Dec 2021	Change in %
Loans and advances to banks	50.4	56.3	(10.5)
Loans and advances to customers	165.6	159.0	4.2
Assets held for trading	10.6	8.9	19.6
Financial investments	19.5	20.1	(2.9)
<b>Total assets</b>	<b>285.3</b>	<b>266.6</b>	<b>7.0</b>
Liabilities to banks	80.1	76.4	4.8
Liabilities to customers	130.9	119.3	9.7
Securitised liabilities	45.0	43.9	2.6
Liabilities held for trading	11.2	8.3	33.8
Subordinated capital	2.6	2.7	(4.0)
Equity	12.8	12.3	4.2

# Key capital figures

	Jun 2022	Dec 2021
CET1 capital (EUR bn)	10.5	11.0
CET1 ratio (%)	15.9	17.3
Total capital (EUR bn)	13.0	13.5
Total capital ratio (%)	19.7	21.4
RWAs (EUR bn)	66.2	63.3
Leverage ratio (%)	3.8	5.3

# Disclaimer

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