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5 April 2023

BayernLB posts a profit before taxes of EUR 1,122 million

- Strong profit before taxes due to good operating earnings in all customer segments, low risk provisions and non-recurring income from the sale of buildings
- RoE at 10.5 percent and CIR at 56.2 percent; administrative expenses largely stable as a result of major savings at BayernLB core Bank
- Good consolidated profit enables distributions to be made to the owners in the amount of EUR 225 million; capital base strengthened: CET1 ratio at 17.4%
- The transformation to a specialised lender is bearing fruit: profitability successfully improved in Corporates & Markets, strong new business in Real Estate, business volume and customer base at DKB increased and very good earnings in precious metals

Munich – BayernLB posted a **profit before taxes** of EUR 1,122 million for financial year 2022 (FY 2021: EUR 816 million). The results were driven by good operating earnings in all customer segments, low risk provisions and proceeds from the sale of buildings. **Consolidated profit** (after taxes) stood at EUR 1,055 million (FY 2021: EUR 553 million).

“We achieved remarkable results in 2022. We are particularly pleased that – although earnings on this scale were, of course, partly due to one-off items – the results emulated the success of our transformation programme. We significantly boosted profitability in the Corporates & Markets segment and generated a good amount of new business in real estate; in addition, we increased business volume and the customer base at DKB,” commented Stephan Winkelmeier, CEO of BayernLB. “We will push steadfastly ahead with our transformation and bring it to a close this year, so as to position BayernLB successfully as a streamlined specialised bank and financier of progress for the long term,” added Winkelmeier.

Financial figures for 2022

Net interest income of the BayernLB Group jumped to EUR 2,137 million (FY 2021: EUR 1,866 million). The increase was mostly due to further volume growth in customer business in line with strategy and to the inflection in interest rates underway since the beginning of the year. In addition, the BayernLB Group benefited from tender bonuses from the TLTRO III refinancing programme in the amount of EUR 136 million (FY 2021: EUR 166 million).

Net commission income also continued to perform well and swelled to EUR 424 million (FY 2021: EUR 380 million). This was mainly driven by the fund business of asset management companies Real I.S. and BayernInvest and DKB's card business.

The good quality of the credit portfolio meant that the BayernLB Group's **risk provisions** remained at a low EUR 70 million (FY 2021: EUR 48 million). To ensure it is prepared for future loan defaults – stemming from the war between Russia and Ukraine, an uptick in supply chain problems and further rises in interest rates, for example – the BayernLB Group has taken precautions by recognising additional general risk provisions (post model adjustment – PMA). After falling in the first half of the year, risk provisions arising from the PMA increased as a result to EUR 362 million (FY 2021: EUR 356 million).

The good quality of the credit portfolio is also evident in the non-performing loans ratio (**NPL ratio**), which remains at a low 0.6 percent (FY 2021: 0.6 percent).

Gains or losses on fair value measurement shrank to EUR 67 million (FY 2021: EUR 190 million). This was largely due to interest rate-related measurement losses from derivative exposures and measurement losses from structured products, mostly driven by the impact of higher interest rates on the equity markets. The positive contribution to earnings from business with physical precious metals was even higher than the previous year at EUR 63 million (FY 2021: EUR 46 million). Due to considerable interest rate fluctuations, the **gains or losses on hedge accounting** item came in at a loss of EUR 177 million, significantly down on the reference period (FY 2021: loss of EUR 20 million). After a gain of EUR 46 million in 2021, **gains or losses on financial investments** fell to a loss of EUR 11 million, as a result of measurement losses..

Administrative expenses of the BayernLB Group climbed slightly to EUR 1,569 million (FY 2021: EUR 1,520 million). The increase is mainly due to measures to

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position DKB for the future. BayernLB core Bank continued to resolutely implement its transformation in 2022 and cut its administrative expenses again slightly. Strategically necessary expenditure, particularly for expanding and restructuring the IT application landscape, and for digitalisation and process optimisation pushed up general expenses, which were offset by a drop in staff costs.

Expenses for the bank levy and deposit guarantee scheme shrank to EUR 140 million (FY 2021: EUR 195 million). While the mandatory contribution to the bank levy jumped again to EUR 103 million (FY 2021: EUR 75 million), the mandatory contribution to the deposit guarantee scheme fell to EUR 37 million (FY 2021: EUR 120 million).

Other income and expenses came to EUR 356 million (FY 2021: EUR 108 million) and largely comprised gains of EUR 299 million (FY 2021: EUR 101 million) from the sale of buildings at the Munich location not required for operational purposes.

Gains or losses on restructuring stood at EUR 108 million (FY 2021: EUR 2 million) and comprised restructuring gains of EUR 146 million (FY 2021: EUR 32 million) and restructuring expenses of EUR 38 million (FY 2021: EUR 30 million).

In financial year 2022, the BayernLB Group reported **tax expenses** of EUR 64 million (FY 2021: tax expenses of EUR 259 million). The item consisted of current tax expenses of EUR 128 million (FY 2021: tax expenses of EUR 132 million) and deferred tax income of EUR 64 million (FY 2021: tax expenses of EUR 127 million).

The BayernLB Group's **total assets** were EUR 259.3 billion (31 December 2021: EUR 266.6 billion). **Risk-weighted assets (RWAs)** stood at EUR 65.3 billion (31 December 2021: EUR 63.3 billion).

BayernLB continued to enjoy a solid capital base as at 31 December 2022, also compared to its peers. The **CET1 ratio** was 17.4 percent (FY 2021: 17.3 percent).

Return on equity (RoE) rose to 10.5 percent (FY 2021: 7.9 percent) and the **cost/income ratio (CIR)** improved to 56.2 percent from 59.0 percent in the year before.

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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 225 million to its owners (FY 2021: EUR 75 million).

Impact of the Russian attacks on Ukraine

Given the ongoing hostilities in Ukraine, the political situation remains fraught and is constantly evolving. BayernLB has evaluated the impact these developments, including mitigating measures, might have on the Group and taken appropriate account of them in risk management.

The majority of the remaining business volume in Russia, Ukraine and Belarus is protected, for example by German Euler-Hermes export insurance. During the reporting period, the net credit volume was reduced from EUR 0.2 billion to below EUR 0.1 billion.

All in all, the BayernLB Group is adequately prepared for a deterioration in the current situation, which could arise in particular from an economic slowdown, disrupted supply chains and a jump in energy costs.

The transformation is bearing fruit

In 2022, BayernLB continued to forge ahead with its Fokus 2024 multi-year transformation programme launched in January 2020 and already reaped considerable benefits from it.

In the Corporates division, the new teamwork model introduced as part of the transformation, comprising dedicated teams to serve the focus sectors of energy, mobility, technology, manufacturing & engineering, and construction & basic resources, is bearing fruit. Profitability continued to be boosted here, as well as in the Markets division, where focusing on high-performing products in customer business is paying off.

Real Estate & Savings Banks/FI continued to pursue its growth strategy, with success. In real estate, BayernLB enjoyed a strong year for new business; despite the current geopolitical challenges. The Germany-wide business with savings banks was marked in particular by very good earnings in the precious metals business once again.

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DKB achieved key milestones with regard to increasing the profitability of its customer business and automating credit processes for retail and commercial customers, for example. Other successes included growing business volume and expanding the customer base to around 5.3 million, along with successfully completing the project to introduce a Visa debit card as the primary customer card. In addition, DKB posted higher commission income.

On top of the benefits of the transformation in the customer segments, BayernLB also rigorously implemented efficiency and cost-cutting measures at the core Bank in 2022. Overall, operating administrative expenses at the core Bank have been cut by EUR 150 million since 2019 under Fokus 2024. The staff reduction programme was completed. Alongside this, BayernLB made considerable progress in making its workspace model more flexible and optimising its office space at its core campus in Munich.

Sustainability

Under the auspices of its transformation, BayernLB is focusing its business activities consistently on sustainability. It serves its customers as a strategic partner for sustainable finance. In 2022, BayernLB was the first bank in Germany and Europe to publish its Sustainable Lending Framework, which lays out the framework for its sustainable finance product offering.

BayernLB also continued to successfully expand its portfolio of sustainable funding instruments and is continuing on this path. To this end, the Bank broadened its Sustainable Financing Framework to accommodate its own green bond portfolio. In addition to solar and wind power, it now includes rail transport and real estate. The Framework, which serves as a basis for sustainable capital market issues, takes its lead from the goals and standards of the EU Taxonomy Regulation. BayernLB, as well as DKB and BayernLabo, have successfully placed a plethora of ESG capital market issues, making the Group one of the most experienced issuers in the sustainable transactions segment.

DKB, too, made further progress with its sustainable business model. ESG criteria, for example, were integrated more closely into its core processes. DKB's loan portfolio enjoys a so-called "SDG significance" of 79 percent, i.e. 78.6 percent of the loans DKB has issued help to promote the United Nations Sustainable Development Goals. With a financing volume of over EUR 12 billion in renewable energy, DKB is also a key financier of the energy transition. Moreover, DKB was rated "B-" by the independent agency ISS ESG for the eighth time in a row – the highest rating awarded. This makes DKB the sector leader among the 270 or so banks that fall under the “Financials/Public & Regional Banks” category. BayernLB maintained its “Prime” status, which it has been awarded regularly since 2001 for its outstanding commitment.

Earnings in the customer-serving operating segments

Real Estate & Savings Banks/Financial Institutions

Profit before taxes in BayernLB’s Real Estate & Savings Banks/Financial Institutions segment climbed to EUR 287 million (FY 2021: EUR 271 million).

Thanks to good new business and higher operating earnings, the **Real Estate** division posted a profit before taxes of EUR 187 million (FY 2021: EUR 164 million) and once again made a major contribution to the segment’s earnings. The increase in profits was largely the result of higher net interest and net commission income totalling EUR 315 million (FY 2021: EUR 280 million) due to greater volumes of business. Risk provisions were higher than in the previous year at EUR 36 million (FY 2021: EUR 26 million), due to the additional creation of post model adjustments (PMA).

The **Savings Banks & Financial Institutions** division doubled its profit before taxes to EUR 76 million (FY 2021: EUR 38 million). Both the positive impact of the rise in interest rates and high demand for precious metals products were responsible for the good earnings. BayernLB traded around 85 tonnes of gold in 2022, more than ever before. The division’s administrative expenses were cut to EUR 142 million (FY 2021: EUR 156 million) under the transformation programme. Risk provisions were slightly positive on a net basis at EUR 1 million (FY 2021: net negative EUR 6 million).

BayernLabo posted a profit before taxes of EUR 25 million (FY 2021: EUR 38 million). This decline was mostly related to the changed interest rate environment and resulting effects on earnings from hedging interest rate risk. Profit before taxes at **Real I.S.** amounted to EUR 31 million, up on the previous year (FY 2021: EUR 27 million). Profit before taxes at BayernInvest stood at EUR 4 million (FY 2021: EUR 5 million).

Corporates & Markets

Profit before taxes in the “Corporates & Markets” segment jumped to EUR 154 million (FY 2021: EUR 87 million).

Corporates & Markets' core business was marked by significantly higher volumes in credit business and an expansion of customer business with financial markets products in a volatile market environment. Lower risk provisions and reduced administrative expenses played a major part in the hike in earnings. While risk provisions of EUR 60 million were required in the previous year, in 2022 this figure was EUR 17 million, despite the creation of additional risk provisions in relation to the war between Russia and Ukraine.

By focusing on a streamlined, competitive service offering in customer business, BayernLB also cut the segment's administrative expenses to EUR 250 million (FY 2021: EUR 283 million). Net interest income was EUR 292 million (FY 2021: EUR 315 million), with the drop partly due to non-recurring items in the previous year. Net commission income was impacted by the higher volume of business with corporate clients, climbing to EUR 87 million (FY 2021: EUR 80 million).

DKB

The DKB segment posted a profit before taxes on par with the previous year at EUR 354 million, despite global market turmoil and the related risks (FY 2021: EUR 369 million).

Net interest and net commission income rose sharply to EUR 1,390 million (FY 2021: EUR 1,077 million). Net interest income swelled to EUR 1,310 million (FY 2021: EUR 1,023 million), buoyed by the impact of the inflection in interest rates and, among other things, income from participating in tenders in the amount of EUR 136 million. The major increase in net commission income to EUR 80 million (FY 2021: EUR 53 million) mainly reflects the positive performance in the card business.

Gains or losses on fair value measurement, which had benefited greatly from measurement gains in the DKB sustainability funds in the previous year, fell from a gain of EUR 51 million in 2021 to a loss of EUR 44 million due to market turmoil in the financial year under review. In the same vein, gains or losses on hedge accounting, which reflects the losses from hedging instruments at DKB as a result of the sharp rise in interest rates over the year, fell to a negative EUR 175 million (FY 2021: EUR 3 million). Risk provisions stood at a negative EUR 13 million (FY 2021: a positive EUR 3 million) and remain low thanks to a less cyclical sector portfolio, despite a difficult environment. Potential geopolitical and inflation-related risks were accounted for with additional general risk provisions of EUR 137.5 million.

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DKB expanded its retail customer base to around 5.3 million clients (FY 2021: just over 5.0 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 financial year on sales, digitalisation and workforce buildup, which pushed up administrative expenses to EUR 740 million (FY 2021: EUR 689 million). Expenses for the bank levy and deposit guarantee scheme remained at the previous year's level of EUR 79 million (FY 2021: EUR 79 million).

Outlook

The BayernLB Group expects profit before taxes of between EUR 600 million and EUR 800 million for 2023. This forecast is still fraught with significant uncertainty due to the ongoing war between Russia and Ukraine, high geopolitical risks and inflation.

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Income statement (IFRS)
FY 2022 and FY 2021

	1 Jan - 31 Dec 2022 EUR million	**1 Jan - 31 Dec 2021** EUR million	**Change** in %
Net interest income	2,137	1,866	14.5
Risk provisions	(70)	(48)	45.4
Net commission income	424	380	11.4
Gains or losses on fair value measurement	67	190	(64.9)
Gains or losses on hedge accounting	(177)	(20)	>100.0
Gains or losses on derecog-nised financial assets	(3)	6	–
Gains or losses on financial investments	(11)	46	–
Administrative expenses	(1,569)	(1,520)	3.2
Expenses for the bank levy and deposit guarantee scheme	(140)	(195)	(28.1)
Other income and expenses	356	108	>100.0
Gains or losses on restruc-turing	108	2	>100.0
Profit/loss before taxes	**1,122**	**816**	**37.6**
Income taxes	(64)	(259)	(75.4)
Profit/loss after taxes	**1,058**	**556**	**90.3**
Profit/loss attributable to non-controlling interests	(3)	(3)	–
Consolidated profit/loss	**1,055**	**553**	**90.9**

Rounding differences may occur in the tables.

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Segment reporting (IFRS) for financial year 2022

EUR million	Real Estate & Savings Banks/ Financial Institutions	Corporates & Markets	DKB	Central Areas & Others	Group
Net interest income	396	292	1,310	140	2,137
Risk provisions	(35)	(17)	(13)	(6)	(70)
Net commission income	272	87	80	(17)	424
Gains or losses on fair value measurement	71	41	(44)	(2)	67
Other earnings components	(21)	0	(162)	349	166
Administrative expenses	(396)	(250)	(740)	(182)	(1,569)
Expenses for the bank levy and deposit guarantee scheme	0	0	(79)	(61)	(140)
Gains or losses on restructuring	0	0	1	106	108
Profit/loss before taxes	**287**	**154**	**354**	**328**	**1,122**
Return on equity (RoE) in %	15.0	5.2	9.9	–	10.5
Cost-income ratio (CIR) in percent	55.2	59.5	62.5	–	56.2

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Selected balance sheet figures (IFRS)

	31 Dec 2022	31 Dec 2021	Change in %
Total assets (EUR billion)	259.3	266.6	(2.7)
Credit volume (EUR billion)	240.3	227.0	5.9

Key financial figures

	31 Dec 2022	31 Dec 2021	Change in %
Common Equity Tier 1 capital (CET1 capital) (EUR billion)	11.4	11.0	3.6
CET1 ratio (in percent)	17.4	17.3	0.1 pp
RWAs (EUR billion)	65.3	63.3	3.2

Human resources

	31 Dec 2022	31 Dec 2021	Change in %
Number of employees	8,491	8,481	0.1