Group Financial Report

30 September 2016

Bayern LB

Contents

Note:
This Group financial report as at 30 September 2016 has been prepared with great care. The information is presented voluntarily for our customers and the public. The report does not contain all the information and data required under IAS 34 (Interim Financial Reporting) nor does it fully comply with the disclosure and valuation standards of IFRS. The results have not been audited or reviewed for accuracy

BayernLB Group as at 30 September 2016 at a glance

Income statement (IFRS)

EUR million	1 Jan – 30 Sep 2016	1 Jan – 30 Sep 2015	Change in %
Net interest income	1,090	1,223	– 10.8
Risk provisions in the credit business	– 44	– 32	37.6
Net commission income	181	167	8.4
Gains or losses on fair value measurement	75	– 65	–
Gains or losses on financial investments	268	242	10.9
Administrative expenses	– 889	– 842	5.6
Expenses for the bank levy and deposit guarantee scheme	– 85	– 147	– 41.8
Other income and expenses	53	50	6.6
Profit/loss before taxes	**589**	**574**	**2.7**

Balance sheet (IFRS)

EUR million	30 Sep 2016	31 Dec 2015	Change in %
Total assets	224,999	215,713	4.3
Credit volume	183,548	175,428	4.6
Equity and subordinated capital	14,565	15,789	– 7.7

Banking supervisory capital and ratios under CRR/CRD IV

EUR million	30 Sep 2016	31 Dec 2015	Change in %/pp
Common Equity Tier 1 capital (CET 1 capital)	8,720	10,537	– 17.2
Own funds	10,235	12,214	– 16.2
Total RWA	66,916	69,606	– 3.9
Common Equity Tier 1 ratio (CET 1 ratio)	13.0 %	15.1 %	– 2.1
CET 1 ratio (fully loaded)	11.6 %	12.0 %	– 0.4
Total capital ratio	15.3 %	17.6 %	– 2.3

Employees

	30 Sep 2016	31 Dec 2015	Change in %
Number of employees	7,120	7,082	0.5

Current ratings

	Long-term	Short-term	Pfandbriefs[1]
Fitch Ratings	A-	F1	AAA
Moody's Investors Service	A2	P-1	Aaa

1 Moody's rating applies to both public and mortgage Pfandbriefs; Fitch Rating applies to only public Pfandbriefs.
Rounding differences may occur in the tables.

Business performance as at 30 September 2016

Course of business

Profit before taxes in the BayernLB Group amounted to EUR 589 million in the first nine months of 2016, a EUR 15 million increase over the year-before period.

The figure includes a total of EUR 180 million in one-off items from the sale of equity interests, consisting primarily of EUR 144 million from the sale of shares in Visa Europe Ltd., London (Visa) and EUR 28 million from the the sale of shares in DEUTSCHE FACTORING BANK Deutsche Factoring GmbH & Co. KG, Bremen. The previous-year figure included a substantial contribution from the sale of securities. Consolidated net profit rose slightly to EUR 455 million (9M 2015: EUR 426 million).

Risk provisions in the credit business remained very low at EUR –44 million even though credit volume rose to EUR 183.5 billion (9M 2015: EUR 175.4 billion).

Higher expenditures to comply with regulatory requirements continued to weigh on administrative expenses which amounted to EUR –889 million.

Total assets as at 30 September 2016 were EUR 225.0 billion, 4.3 percent higher than at the end of 2015. The lending business once again had a major impact on the Group’s assets.

The financial situation was solid throughout the reporting period and sufficient liquidity was available at all times. The BayernLB Group continued to enjoy a stable economic situation.

The BayernLB Group’s capital base remains solid. The Common Equity Tier 1 (CET 1) ratio declined to 13.0 percent (31 December 2015: 15.1 percent), largely owing to a EUR 1.3 billion silent partner contribution repayment to the Free State of Bavaria in April 2016. The “fully loaded” CET 1 ratio is 11.6 percent (31 December 2015: 12.0 percent).

Results of operations

EUR million	1 Jan – 30 Sep 2016	1 Jan – 30 Sep 2015	Change in %
Net interest income	1,090	1,223	– 10.8
Risk provisions in the credit business	– 44	– 32	37.6
Net interest income after risk provisions	**1,046**	**1,191**	**– 12.1**
Net commission income	181	167	8.4
Gains or losses on fair value measurement	75	– 65	–
Gains or losses on hedge accounting	– 49	– 19	>100.0
Gains or losses on financial investments	268	242	10.9
Administrative expenses	– 889	– 842	5.6
Expenses for the bank levy and deposit guarantee scheme	– 85	– 147	– 41.8
Other income and expenses	53	50	6.6
Gains or losses on restructuring	– 11	– 3	>100.0
Profit/loss before taxes	**589**	**574**	**2.7**
Income taxes	– 127	– 148	– 14.1
Profit/loss after taxes	**462**	**426**	**8.5**
Profit/loss attributable to non-controlling interests	– 7	0	–
Consolidated profit/loss	**455**	**426**	**6.9**

In an environment dominated by low-interest rates and low demand for loans, the BayernLB Group posted **net interest income** of EUR 1,090 million in the first nine months of 2016, down EUR 133 million from EUR 1,223 million in the previous year period. Although net interest income at Deutsche Kreditbank AG, Berlin (DKB) was stable at EUR 588 million (9M 2015: EUR 592 million), the decrease in interest-bearing positions at BayernLB led to a fall in net interest income.

Risk provisions in the credit business were low again at EUR –44 million (9M 2015: EUR –32 million), reflecting the overall continuing high quality of the BayernLB Group’s credit portfolio as well as the results of the successful restructuring. This figure comprises net additions to risk provisions at DKB of EUR –96 million (9M 2015: EUR –115 million) and net releases at BayernLB of EUR 52 million (9M 2015: EUR 83 million).

Net commission income grew 8.4 percent over the year-before period to EUR 181 million (9M 2015: EUR 167 million). This was driven in part by the first-time consolidation of Bayern Card-Services GmbH – S-Finanzgruppe, München (BCS) at the end of 2015.

The **Gains and losses on fair value measurement** item experienced a EUR 140 million turnaround to a gain of EUR 75 million from a loss of EUR –65 million in the year before period. This item was boosted in particular by EUR 59 million from interest-related transactions (9M 2015: EUR 15 million) and EUR 16 million (9M 2015: EUR –120 million) from currency-related transactions. In contrast, fair value adjustments in the amount of EUR –55 million (9M 2015: EUR –30 million) weighed on earnings.

Gains or losses on financial investments amounted to EUR 268 million, an increase of EUR 26 million over the year-before period. The figure for the BayernLB Group includes a total of EUR 180 million from the sale of equity interests. The Visa transaction accounted for the largest part of the amount with EUR 144 million, of which EUR 132 million was booked by DKB.

Administrative expenses rose EUR 47 million over the year-before period to EUR 889 million (9M 2015: EUR 842 million). The 5.6 percent increase resulted in part from the first-time consolidation of BCS with around 260 employees and from higher expenditures to comply with the significant rise in regulatory requirements.

The charge for **Expenses for the bank levy and deposit guarantee scheme** amounted to a total of EUR –85 million, less than in the year-before period (9M 2015: EUR –147 million). The charge includes EUR –51 million for the bank levy (9M 2015: EUR –99 million) and EUR –35 million for the contribution to the Sparkassen-Finanzgruppe's deposit guarantee scheme (9M 2015: EUR –48 million). Expenses for the European bank levy and European deposit guarantee scheme were reported for the first time in FY 2015.

Other income and expenses in the amount of EUR 53 million (9M 2015: EUR 50 million) included income and expenses from the non-banking activities of the subsidiaries and also tax refunds to and additional tax payments by BayernLB.

In accordance with the BayernLB Group's management policy, since the beginning of financial year 2016 **Return on Equity**[1] (RoE) is no longer calculated based on reported equity but on regulatory capital calculated according to the relevant regulatory requirements. RoE in the first nine months amounted to 9.0 percent (9M 2015: 7.9 percent), the **Cost-Income Ratio**[2] **(CIR)** was 54.9 percent (9M 2015: 52.7 percent).

Core and non-core business of the BayernLB Group

Since 2009, BayernLB has been consistently focusing on its forward-looking core business and winding down all non-core activities, which were pooled into the Non-Core Unit for this purpose.

The BayernLB Group's profit before taxes of EUR 589 million (9M 2015: EUR 574 million) comprises earnings of EUR 596 million (9M 2015: EUR 724 million) from core business and a loss of EUR –7 million (9M 2015: EUR –150 million) from non-core business. In view of the current economic situation, particularly the low interest rates, and the EUR –85 million of charges for the bank levy and the deposit guarantee scheme (9M 2015: EUR –147 million), earnings in the core business can once again be described as good. The Bank continued to wind down its non-core business rapidly and systematically. Risk-weighted assets in the Non-Core Unit fell by around 40 percent from the end of 2015 to below EUR 2.9 billion.

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1 *RoE = profit before taxes/average CET 1.*

2 *CIR = administrative expenses/(net interest income + net commission income + gains or losses on fair value measurement + gains or losses on hedge accounting + gains or losses on financial investments + income from interests in companies valued at equity + other income and expenses)*

1 Jan – 30 Sep 2016	Core business EUR million	Share in percent	Non-core business EUR million
Gross earnings[3]	**1,565**	**96.7**	**53**
Risk provisions	–32	72.7	–12
Administrative expenses	–843	94.9	–46
Expenses for the bank levy and deposit guarantee scheme	–85	100.0	0
Gains or losses on restructuring	–8	77.9	–2
Profit/loss before taxes	**596**	**> 100.0**	**–7**
Risk-weighted assets	64,051	95.7	2,865

Segment reporting

The segment report is based on the monthly internal management report to the Board of Management and reflects the BayernLB Group's six segments.

As at 30 September 2016, BayernLB's core business was divided into the operating segments

- Corporates & Mittelstand
- Real Estate & Savings Banks/Association, including the legally dependent institution Bayerische Landesbodenkreditanstalt, Munich (BayernLabo)
- DKB, with the core business activities of the Deutsche Kreditbank Aktiengesellschaft, Berlin (DKB) sub-group and the consolidated subsidiary Bayern Card-Services GmbH - S-Finanzgruppe, Munich (BCS)
- Financial Markets, including the subsidiaries Real I.S. AG Gesellschaft für Immobilien Asset-management, Munich (Real I.S.) and BayernInvest Kapitalverwaltungsgesellschaft mbH, Munich (BayernInvest)

Also allocated to the core business is the Central Areas & Others segment which includes the consolidated subsidiary BayernLB Capital LLC I, Wilmington and the consolidation entries not allocated to any other segment.

The Non-Core Unit primarily includes the Restructuring Unit, which holds portfolios of non-core assets, the non-core activities of DKB, and other non-core activities such as the consolidated subsidiary Banque LBLux S.A. in Liquidation, Luxembourg (LBLux i. L.) and the loans to HETA (including their funding).

The following change was made in the segment structure compared to 30 September 2015: The subsidiary BCS was consolidated for the first time at the end of 2015 and assigned to the DKB segment as at 1 January 2015. The earnings contributions from the holding in BCS were previously reported under the Central Areas & Others segment. The segment figures for the comparison period have been adjusted accordingly.

3 Gross earnings = net interest income + net commission income + gains or losses on fair value measurement + gains or losses on hedge accounting + gains or losses on financial investments + other income and expenses.

In accordance with the BayernLB Group's management policy, since the beginning of financial year 2016 Return on Equity (RoE) is no longer calculated based on reported equity but on regulatory capital calculated according to the relevant regulatory requirements. For the purposes of internal management, economic capital is allocated to the segments in the amount of 11.5 percent of risk weighted assets (RWA). The return on equity (RoE) shown is calculated as the ratio of profit before taxes to reported equity capital. The segment figures for the comparison period have been adjusted to reflect the changes in reported equity and return on equity.

The contributions of the individual segments to the profit before taxes of EUR 589 million (9M 2015: EUR 574 million) are shown below:

EUR million	**1 Jan–30 Sep 2016**	**1 Jan–30 Sep 2015**
Corporates & Mittelstand	182	232
Real Estate & Savings Banks/Association	166	160
DKB	329	240
Financial Markets	–22	123
Central Areas & Others (including Consolidation)	–59	–31
Non-Core Unit	–7	–150

Corporates & Mittelstand segment

The Corporates & Mittelstand segment posted profit before taxes of EUR 182 million (9M 2015: EUR 232 million), lower than the year before period. Risk provisions were the main reason for the decrease in profit before taxes. Although risk provisions contributed EUR 23 million to earnings (9M 2015: EUR 59 million), the prior-year period figure was boosted by significantly higher recoveries on written down receivables. Operating earnings from net interest income and net commission income were largely stable at EUR 310 million (9M 2015: EUR 320 million) despite the difficult interest rate environment. Although earnings from the sale of Financial Markets products to customers kept pace with the pleasing figure in the prior year period, gains or losses on fair value measure amounting to EUR 34 million (9M 2015: EUR 40 million) fell slightly short of the figure in the year before period. A EUR 28 million one-time contribution to earnings came from the sale of the stake in DEUTSCHE FACTORING BANK Deutsche Factoring GmbH & Co. KG, Bremen. Administrative expenses of EUR –214 million were higher than in the previous-year period (9M 2015: EUR –188 million). This primarily reflected the increase in the segment's share of costs from major projects to comply with the significant rise in regulatory requirements. In light of the competitive market environment, the performance in terms of both earnings and new business was satisfactory overall.

Real Estate & Savings Banks/Association segment

Profit before taxes in the Real Estate & Savings Banks/Association segment rose slightly over the year before period to EUR 166 million (9M 2015: EUR 160 million).

The Real Estate division again made a significant contribution to the segment's earnings by posting a profit before taxes of EUR 103 million (9M 2015: EUR 119 million). Customer demand remains high resulting in another increase in the volume of new business. Gross earnings were unchanged from the year-before period at EUR 135 million (9M 2015: EUR 135 million). As a result of the very good quality of the portfolio, risk provisions again made a positive contribution to earnings at EUR 20 million (9M 2015: EUR 29 million).

Profit before taxes in the Savings Banks & Association division was EUR –2 million, lower than in the year-before period (9M 2015: EUR 6 million). The main factors for the negative earnings were low interest rates and the resulting weak demand for capital market products combined with high liquidity in the BayernLB Group leading to low funding needs.

At BayernLabo, profit before taxes rose sharply to EUR 66 million (9M 2015: EUR 35 million). In an interest rate environment that remains difficult for development banks, earnings from the operating business were stable with a slight upward trend. The sharp rise in earnings resulted mainly from mark-to-market gains on derivative transactions to hedge interest rate risk. This is reflected by the gains on fair value measurement of EUR 18 million (9M 2015: EUR –4 million) and by the gains or losses on hedge accounting of EUR 5 million (9M 2015: EUR –1 million).

DKB segment

Profit before taxes in the DKB segment of EUR 329 million (9M 2015: EUR 240 million) was significantly higher than the year before period.

DKB's core business continued to perform well in the first nine months of the year. The main contributor to the sharp increase in profit before taxes to EUR 313 million (9M 2015: EUR 238 million) was income of EUR 132 million from the sale of the stake in Visa Europe Ltd., London to Visa Inc., San Francisco. Despite the difficult interest rate environment, net interest income was little changed from the year-before period at EUR 582 million (9M 2015: EUR 588 million). Credit volume in the infrastructure and corporate banking business rose again even though several large loans were paid back. In retail banking, DKB further consolidated its position as Germany's second largest online bank as continuing customer growth drove the number of retail customers to nearly 3.4 million. Expenses for risk provisions at EUR –75 million (9M 2015: EUR –60 million) and administrative expenses of EUR –291 million (9M 2015: EUR –268 million) were both higher than in the prior-year period. Administrative expenses were pushed higher by outlays to comply with new regulatory requirements. The charge for the bank levy and deposit guarantee scheme came to a total of EUR –25 million (9M 2015: EUR –9 million), also higher than in the previous year period.

Consolidated since the end of 2015, the BCS subsidiary contributed EUR 15 million to profit before taxes, also benefiting from the sale of an investment.

Financial Markets segment

The Financial Markets segment posted a loss before taxes in the reporting period of EUR –22 million (9M 2015: EUR 123 million). As usual, earnings from Financial Markets products on behalf of the other customer-serving business segments were reported under those segments. Earnings from business with customers were on par with the year before period. The sharp decline in net interest income to EUR –7 million (9M 2015: EUR 90 million) had a significant impact on the segment's earnings. Continued low interest rates were the main reason for the drop. Mark-to-market valuations likewise had a big impact on earnings. Fair value adjustments, largely in connection with increased market values of derivative transactions, resulted in a total charge of EUR –57 million (9M 2015: EUR –30 million). The year-before period also included high price gains on securities.

The two consolidated subsidiaries made positive contributions to the segments earning's for the first nine months. Profit before taxes at Real I.S. climbed to EUR 6 million (9M 2015: EUR 1 million), while BayernInvest also contributed EUR 6 million (9M 2015: EUR 7 million) to profit before taxes.

Central Areas & Others segment

The Central Areas & Others segment posted profit before taxes of EUR –59 million in the first nine months (9M 2015: EUR –31 million). The figure includes consolidation entries not allocated to the segments. Weighing heavily on the segment's earnings again was a charge of EUR –60 million (9M 2015: EUR –137 million) for the bank levy and deposit guarantee scheme, not including DKB's share. The figure from the previous year period also included earnings contributions from the sale of securities and disposal of a shareholding.

As in the year before period, the consolidation entries shown in the Consolidation column had no net impact on profit before taxes. These amounts mainly arise from differences in the way internal Group transactions are measured and the application of hedge accounting to cross-divisional derivative transactions.

Non-Core Unit segment

The Non-Core Unit segment posted a loss before taxes of EUR –7 million in the first nine months of 2016 (9M 2015: EUR –150 million).

Profit before taxes in the Restructuring Unit division amounted to EUR 48 million (9M 2015: EUR 63 million). As expected, gross earnings were much lower than the year before period at EUR 33 million (9M 2015: EUR 104 million) due to the ongoing winding down of assets. The decrease was partly offset by the performance of risk provisions and administrative expenses. Risk provisions made a positive contribution to earnings of EUR 37 million (9M 2015: EUR –5 million) thanks to high reversals and recoveries on written down receivables. The fall in administrative expenses to EUR –22 million (9M 2015: EUR –37 million) also reflects the decrease in the portfolio. Risk-weighted assets contracted by EUR 1.0 billion from the end of 2015 to EUR 2.3 billion.

DKB's non-core business posted a loss before taxes of EUR –29 million (9M 2015: EUR –67 million). Risk provisions were once again the main reason for the negative result, albeit to a much lesser degree than in the year-before period.

In the Other NCU sub-segment risk provisions were also the main factor behind the profit before taxes of EUR –26 million (9M 2015: EUR –146 million). The figure for the year before period was mainly due to the measurement loss from the ending of the Swiss franc's exchange rate floor in connection with the risk provision created for the loans to HETA.

Segment reporting as at 30 September 2016

EUR million	Corporates & Mittelstand	Real Estate & Savings Banks/Association	DKB	Financial Markets	Central Areas & Others (including Consolidation)	Non-Core Unit	Group
Net interest income	228	176	582	–7	56	54	1,090
Risk provisions in the credit business	23	20	–75	0	0	–12	–44
Net commission income	82	69	10	21	–5	4	181
Gains or losses on fair value measurement	34	48	38	4	–41	–9	75
Gains or losses on hedge accounting	0	5	–64	10	0	0	–49
Gains or losses on financial investments	29	0	153	66	12	8	268
Administrative expenses	–214	–153	–310	–153	–12	–46	–889
Expenses for the bank levy and deposit guarantee scheme	0	0	–25	0	–60	0	–85
Other income and expenses	0	1	21	37	–2	–4	53
Gains or losses on restructuring	0	0	0	0	–8	–2	–11
Profit/loss before taxes	**182**	**166**	**329**	**–22**	**–59**	**–7**	**589**
Risk-weighted assets (RWA)	22,175	7,114	24,269	8,856	1,636	2,865	66,916
Average economic/regulatory equity	2,555	822	2,814	1,036	1,145	389	8,761
Return on equity (RoE) (%)	9.5	27.0	15.6	–2.9	–	–2.3	9.0
Cost-income ratio (CIR) (%)	57.5	51.1	42.0	> 100.0	–	85.7	54.9

Segment reporting as at 30 September 2015

EUR million	Corporates & Mittelstand	Real Estate & Savings Banks/Association	DKB	Financial Markets	Central Areas & Others (including Consolidation)	Non-Core Unit	Group
Net interest income	235	181	590	90	68	59	1,223
Risk provisions in the credit business	59	30	−60	0	0	−61	−32
Net commission income	85	65	−10	26	−7	9	167
Gains or losses on fair value measurement	40	31	12	21	−53	−116	−65
Gains or losses on hedge accounting	0	0	−31	12	0	0	−19
Gains or losses on financial investments	0	0	7	101	94	40	242
Administrative expenses	−188	−143	−268	−143	−9	−92	−842
Expenses for the bank levy and deposit guarantee scheme	0	0	−9	0	−137	0	−147
Other income and expenses	2	−3	8	16	11	15	50
Gains or losses on restructuring	0	0	0	0	1	−4	−3
Profit/loss before taxes	**232**	**160**	**240**	**123**	**−31**	**−150**	**574**
Risk-weighted assets (RWA)	21,591	7,384	24,819	8,720	1,934	6,646	71,093
Average economic/regulatory equity	2,543	904	2,906	1,088	1,348	847	9,636
Return on equity (RoE) (%)	12.2	23.6	11.0	15.0	–	−23.6	7.9
Cost-income ratio (CIR) (%)	52.0	52.2	46.4	53.8	–	> 100.0	52.7

Breakdown of the Central Areas & Others segment results and consolidation entries not allocated to the segments:

	1 Jan – 30 Sep 2016			1 Jan – 30 Sep 2015		
EUR million	Central Areas & Others	Consolidation	Central Areas & Others (including Consolidation)	Central Areas & Others	Consolidation	Central Areas & Others (including Consolidation)
Net interest income	28	28	56	41	27	68
Risk provisions in the credit business	0	0	0	0	0	0
Net commission income	–5	0	–5	–7	0	–7
Gains or losses on fair value measurement	–12	–28	–41	–28	–25	–53
Gains or losses on hedge accounting	0	0	0	0	0	0
Gains or losses on financial investments	12	0	12	92	2	94
Administrative expenses	–16	4	–12	–12	3	–9
Expenses for the bank levy and deposit guarantee scheme	–60	0	–60	–137	0	–137
Other income and expenses	2	–4	–2	19	–8	11
Gains or losses on restructuring	–8	0	–8	1	0	1
Profit/loss before taxes	**–58**	**0**	**–59**	**–30**	**0**	**–31**
Risk-weighted assets (RWA)	1,636	0	1,636	1,934	0	1,934
Average economic/regulatory equity	212	934	1,145	173	1,175	1,348

Financial position

Assets

EUR million	30 Sep 2016	31 Dec 2015	Change in %
Cash reserves	3,625	2,246	61.4
Loans and advances to banks	36,325	29,423	23.5
Loans and advances to customers	137,108	135,812	1.0
Risk provisions	−2,554	−2,746	−7.0
Portfolio hedge adjustment assets	1,076	1,145	−6.0
Assets held for trading	18,486	17,343	6.6
Positive fair values from derivative financial instruments (hedge accounting)	1,317	1,527	−13.7
Financial investments	26,929	28,852	−6.7
Investment real estate	32	35	−9.1
Property, plant and equipment	351	351	–
Intangible assets	98	106	−7.5
Income tax assets	379	475	−20.2
Non-current assets or disposal groups classified as held for sale	24	205	−88.2
Other assets	1,801	938	92.1
Total assets	**224,999**	**215,713**	**4.3**

Liabilities

EUR million	30 Sep 2016	31 Dec 2015	Change in %
Liabilities to banks	60,534	60,360	0.3
Liabilities to customers	89,894	86,030	4.5
Securitised liabilities	40,844	34,840	17.2
Liabilities held for trading	11,813	12,286	−3.8
Negative fair values from derivative financial instruments (hedge accounting)	1,457	1,354	7.6
Provisions	4,797	4,300	11.6
Tax liabilities	278	221	25.5
Liabilities of disposal groups	0	0	–
Other liabilities	817	532	53.6
Subordinated capital	3,514	4,719	−25.5
Equity	11,051	11,070	−0.2
Total liabilities	**224,999**	**215,713**	**4.3**

Rounding differences may occur in the tables.

Total assets in the BayernLB Group rose EUR 9.3 billion from 31 December 2015 to EUR 225.0 billion.

Loans and advances to banks were EUR 6.9 billion higher than at the end of 2015 at EUR 36.3 billion. An increase in the volume of receivables payable on demand was the main factor for the rise. **Loans and advances to customers** came to EUR 137.1 billion, 1.3 billion higher than at the end of 2015.

Despite subdued demand for credit, **total lending**[4] climbed 4.6 percent to EUR 183.5 billion.

Liabilities to banks edged up to EUR 60.5 billion from EUR 60.4 billion in the year-earlier period. **Liabilities to customers** grew by EUR 3.9 billion from the end of 2015 to EUR 90.0 billion.

Securitized liabilities amounted to EUR 40.8 billion, 6.0 billion more than at year-end 2015. This figure includes a EUR 3.5 billion increase in money market instruments issued to EUR 4.8 billion.

Provisions rose 11.6 percent overall. Provisions for pensions increased 14.5 percent from EUR 3.6 billion to EUR 4.1 billion. This was mainly due to the lower discount rate.

The **decrease in subordinated capital** to EUR 3.5 billion resulted from the EUR 1.3 billion silent partner contribution repayment to the Free State of Bavaria.

Equity was unchanged at EUR 11.1 billion.

Banking supervisory capital and ratios for the BayernLB Group under CRR/CRD IV

Common Equity Tier 1 capital (CET 1) amounted to EUR 8.7 billion as at 30 September 2016 (9M 2015: EUR 10.5 billion). The decline was largely the result of repaying a silent partner contribution of EUR 1.3 billion to the Free State of Bavaria in April 2016. Strict management cut risk-weighted assets (RWA) by 3.9 percent to EUR 66.9 billion. The CET 1 ratio was a solid 13.0 percent (31 December 2015: 15.1 percent), while the "fully loaded" CET 1 ratio was 11.6 percent (31 December 2015: 12.0 percent). Total own funds as at 30 September 2016 amounted to EUR 10.2 billion (31 December 2015: EUR 12.2 billion) and the total capital ratio decreased to 15.3 percent (31 December 2015: 17.6 percent).

Outlook

For a discussion of the economic environment, key forecasts, opportunities and other statements on the expected financial performance in financial year 2016, please refer to the 2015 Group management report.

4 Total of loans and advances to banks and customers plus contingent liabilities from guarantees and indemnity agreements

Administrative bodies of BayernLB

Supervisory Board

Gerd Haeusler
Chairman of the BayernLB Supervisory Board
Munich

Walter Strohmaier
Deputy Chairman of the BayernLB
Supervisory Board
Chairman of the Board of Directors
Sparkasse Niederbayern-Mitte
Straubing

Dr Hubert Faltermeier
until 31 October 2016
Chief District Administrator
Kelheim

Dr Roland Fleck
Managing Director
NürnbergMesse GmbH
Nuremberg

Dr Ute Geipel-Faber
Senior Advisor
Invesco Real Estate GmbH
Munich

Ralf Haase
until 31 July 2016
Chairman of the General Staff Council
BayernLB
Munich

Dr Ulrich Klein
Under Secretary
Bavarian State Ministry of Finance,
Regional Development and Regional Identity
Munich

Dr Thomas Langer
Under Secretary
Bavarian State Ministry for Economic Affairs
and the Media, Energy and Technology
Munich

Wolfgang Lazik
Deputy Secretary
Bavarian State Ministry of Finance,
Regional Development and Regional Identity
Munich

Professor Dr Christian Rödl
Managing Partner
Rödl & Partner GbR
Nuremberg

Professor Dr Bernd Rudolph
LMU Munich and Steinbeis-Hochschule Berlin

Henning Sohn
since 30 August 2016
Chairman of the General Staff Council
BayernLB since 1 August 2016
Munich

Board of Management (including allocation of responsibilities as at 1 Oct 2016)

Dr Johannes-Jörg Riegler
CEO
Corporate Center
Deutsche Kreditbank Aktiengesellschaft

Dr Edgar Zoller
Deputy CEO
Real Estate & Savings Banks/Association
Bayerische Landesbodenkreditanstalt[1]
Real I.S. AG Gesellschaft für Immobilien Assetmanagement

Marcus Kramer
CRO
Risk Office
Credit Consulting
Group Compliance

Michael Bücker
Corporates & Mittelstand

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Financial Office
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Financial Markets
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1 Dependent institution of the Bank.

Segment definitions

Corporates & Mittelstand

The Corporates & Mittelstand segment serves large German Mittelstand companies, large German corporations and international companies with a connection to Germany. Its clients include in particular DAX and MDAX-listed companies and family-owned or operated businesses which conduct international business from their German home market. To better serve clients' export and trade finance needs as well as provide payment services, this segment also includes relationships with banks in emerging markets. In addition, the Corporates & Mittelstand segment conducts the syndicated loan business together with the Bavarian savings banks for their corporate customers.

Real Estate & Savings Banks/Association

The Real Estate & Savings Banks/Association segment incorporates business with commercial and residential real estate customers, the savings banks and the public sector. In addition, the legally dependent institution BayernLabo is allocated to this segment.

Deutsche Kreditbank (DKB)

The DKB segment consists of the core business activities of the DKB sub-group. It also includes the consolidated subsidiary BCS. In addition to providing online banking for its retail customers, DKB's business activities also include the infrastructure and corporate banking markets. In these markets it specialises largely in promising sectors with long-term growth potential such as residential property, healthcare, education and research, agriculture and renewable energy.

Financial Markets

The Financial Markets segment comprises the business area of the same name and the consolidated subsidiaries BayernInvest and Real I.S. The Financial Markets business area combines all trading and issuing activities as well as asset and liability management. Related to this, BayernLB's business relationships with banks in developed markets, insurers and other institutional customers, which are primarily focused on capital market-oriented products, are allocated to this business area. The Financial Markets segment also provides a range of capital market and Treasury products that are cross-sold to BayernLB's Corporates, Mittelstand, Savings Banks and Real Estate customers. Market and default risks are hedged and solvency assured at all times through risk and liquidity management.

Central Areas & Other (including Consolidation)

The Central Areas & Others segment incorporates the central areas Corporate Center, Financial Office, Operating Office, and Risk Office. The segment also includes core business transactions that cannot be allocated to either a business area or a central area. The consolidated subsidiary BayernLB Capital LLC I, Wilmington is also allocated to this segment.

The Consolidation column, disclosed with the segment on an aggregate basis, includes consolidation entries not allocated to any segment.

Non-Core Unit

All non-core activities have been transferred to the Non-Core Unit segment. It contains the Restructuring Unit, the non-core activities of DKB and the Other NCU sub-segment, including the consolidated subsidiary Banque LBLux S.A. in Liquidation, Luxembourg, and the loans to HETA including their funding.

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