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# Investor Call

## 2016 Consolidated Earnings

BayernLB continues to perform well: profit before taxes of EUR 708m

16 March 2017

# Agenda

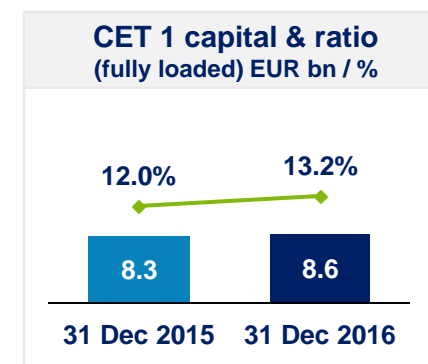
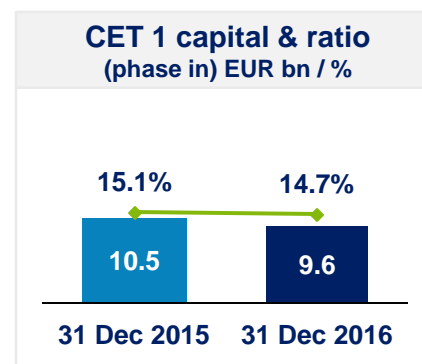
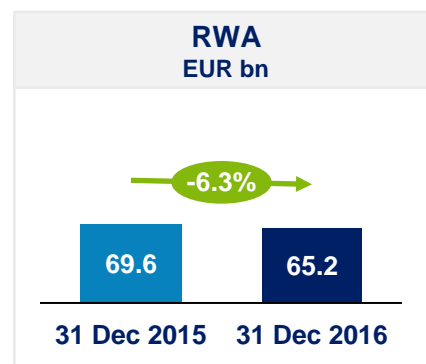
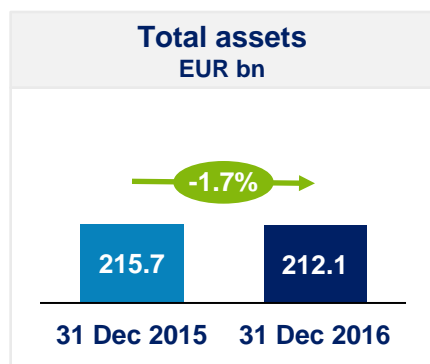
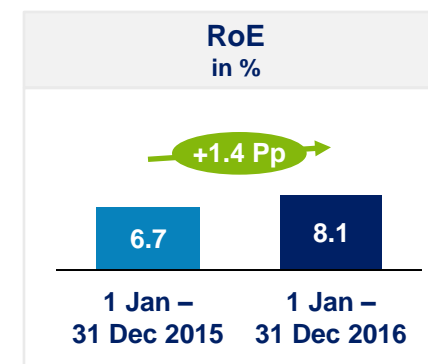
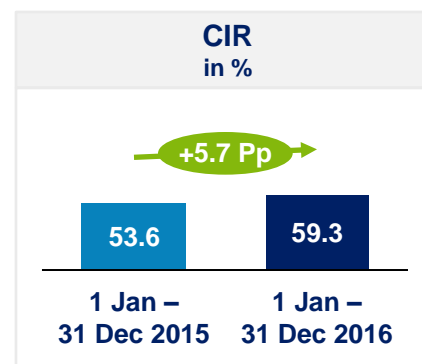
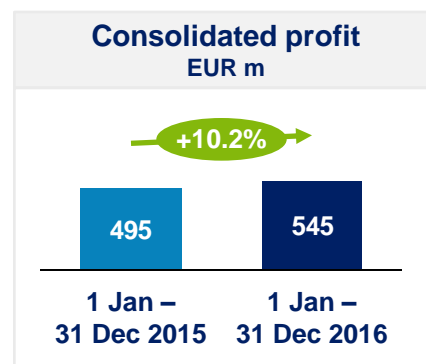
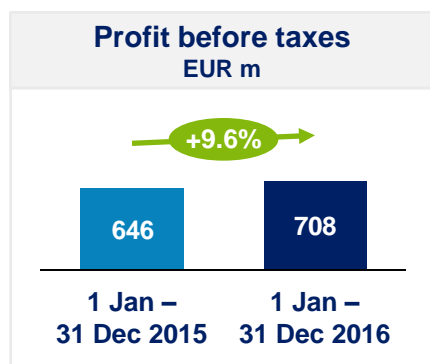
- » Financial performance
- » Outlook
- » Appendix: detailed charts

## 2016 at a glance

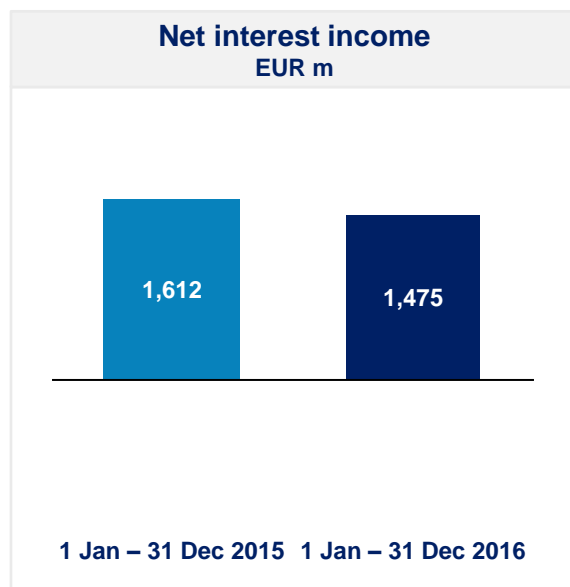
- » Profit before taxes of EUR 708m up 9.6% on the excellent year-before figure of EUR 646m
- » Very good operating profit in all customer segments; total lending to corporate and real estate customers rises, DKB gains some 400,000 new retail customers
- » High portfolio quality results in low risk provisions of EUR -87m; NPL ratio of 1.6% is one of the lowest among German banks
- » Cost/income ratio remains in the target range at 59.3%
- » Strong CET 1 ratios: improved once again to 14.7% phase in and 13.2% fully loaded despite repayment to the Free State of Bavaria from our own resources
- » All interest due on hybrid instruments for 2016 fully paid. In addition, back interest payments on dated silent partner contributions for 2010 to 2015 fully made good

# Key figures

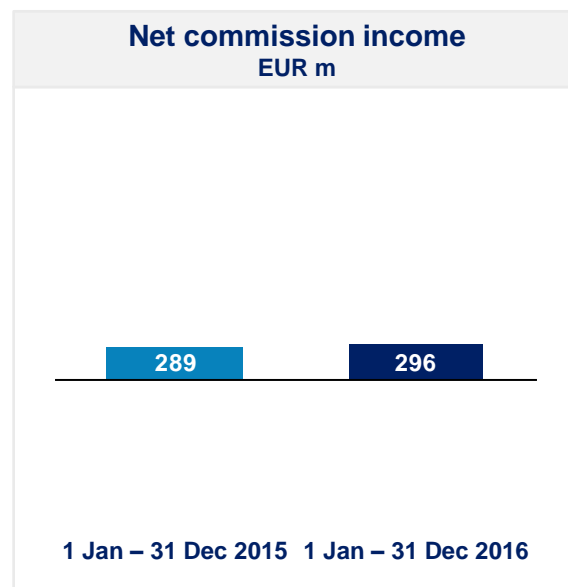
- Consolidated profit up more than 10% to EUR 545m (FY 2015: EUR 495m)
- Total assets slightly down year on year at EUR 212bn, RWA cut 6.3% to EUR 65bn thanks to strict management
- Leverage ratio phase-in 4.2%, fully loaded 3.8%



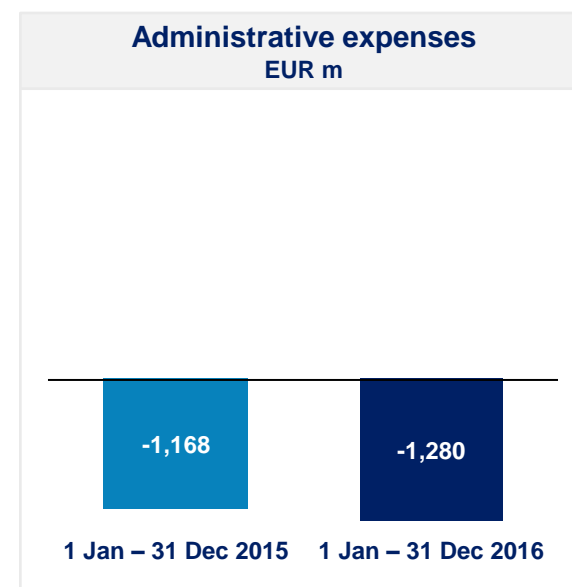
# Net interest and net commission income satisfactory



- Lower net interest income mainly due to persistently low interest rates and a decrease in assets
- Net interest income stabilised in second half of 2016



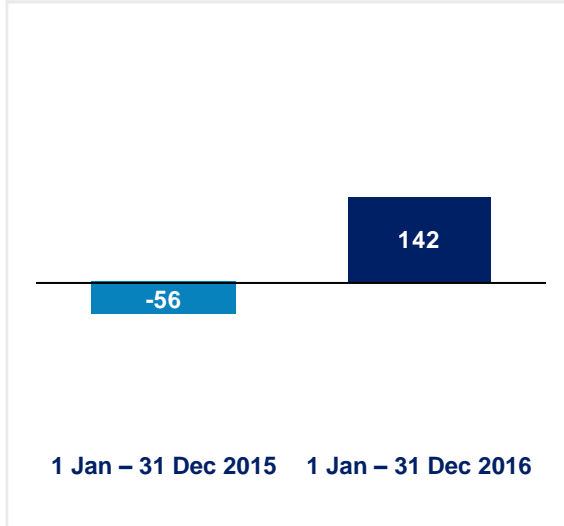
- Slight 2.2% rise year on year



- Higher expenses for complying with regulatory requirements and expenses for pension provisions and litigation
- Launch of efficiency programme to soften the impact of additional regulatory cost increases

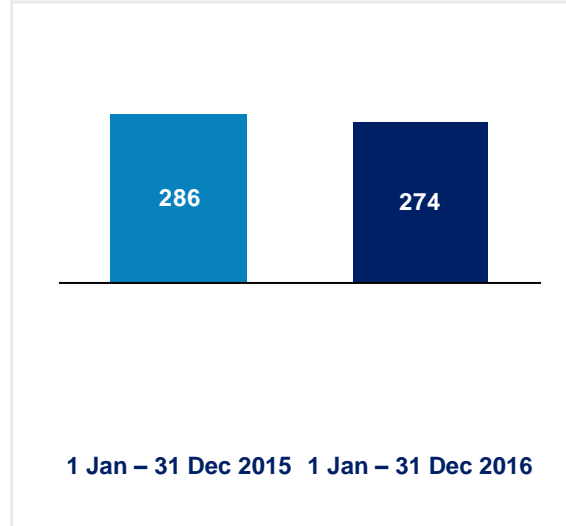
# Low risk provisions and reduced NPL ratio

Gains or losses on fair value measurement  
EUR m



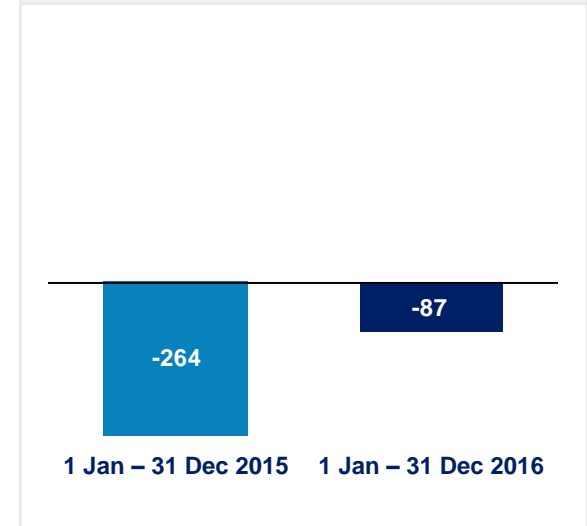
- Good gains of EUR 102m on interest-related transactions and EUR 27m on currency-related transactions

Gains or losses on financial investments  
EUR m



- Shares in Visa and Deutsche Factoring Bank sold for a total of EUR 172m
- Previous year reflected sales of securities

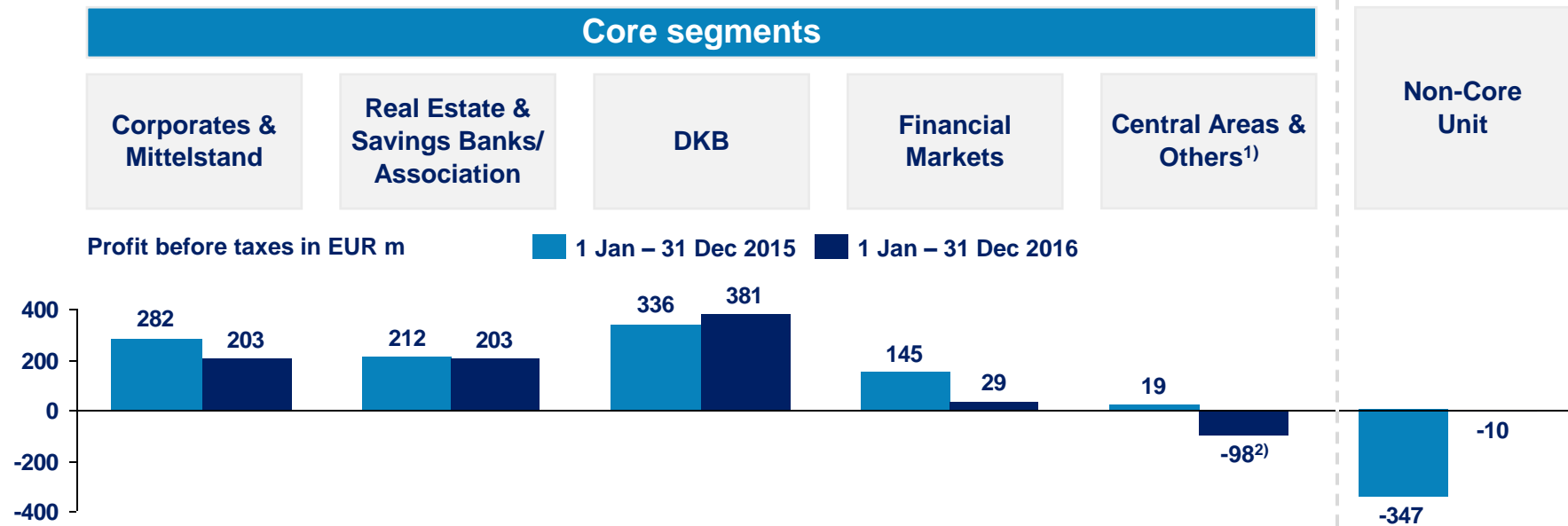
Risk provisions  
EUR m



- Net additions to risk provisions were low resulting in particular from good portfolio quality and successful restructuring
- NPL ratio fell from 2.4% to 1.6%, primarily due to derecognition of the impaired portion of the HETA exposure

# Stable performance in business with customers

- Core business contributes EUR 718m to profit before taxes, non-core business contributes EUR -10m
- Earnings from customer business in the Corporates & Mittelstand, Real Estate & Savings Banks/Association and DKB segments remained largely unchanged; risk provisions and administrative expenses weighed on earnings more heavily than the previous year in all three segments
- Earnings in the DKB segment jumped to EUR 381m due in part to sale of stake in Visa Europe Ltd. to Visa Inc.
- Financial Markets' earnings fell, mainly due to much lower net interest income because of the low interest rates and charges on the valuation of BayernLB's own issues following the Bank's rating upgrade
- Earnings in the Non-Core Unit improved considerably from the previous year thanks to very low charges overall for risk provisions; RWA in the Non-Core Unit have now been reduced to only EUR 2.6bn, just over half what they were at the end of 2015

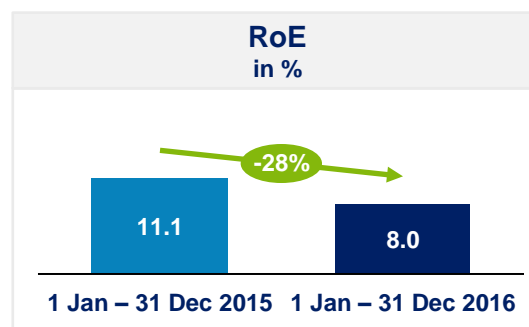
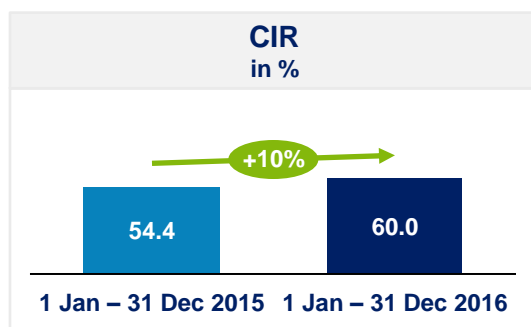


<sup>1)</sup> Incl. consolidation

<sup>2)</sup> Of which the bank levy and deposit guarantee scheme accounted for EUR -60m

# Corporates & Mittelstand

EUR million	1 Jan – 31 Dec 2016	1 Jan – 31 Dec 2015
Net interest income	304	317
Risk provisions in the credit business	8	65
Net commission income	114	115
Gains or losses on fair value measurement	44	48
Other earnings components	26	-6
Administrative expenses	-293	-258
<b>Profit/loss before taxes</b>	<b>203</b>	<b>282</b>
Risk-weighted assets (RWA)	21,783	22,196

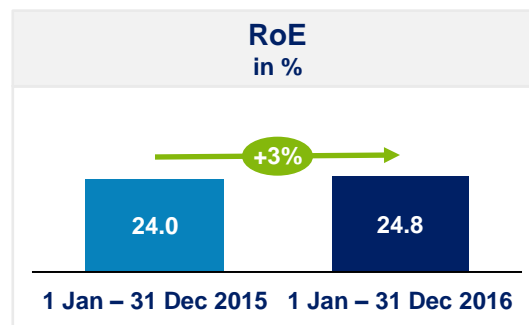
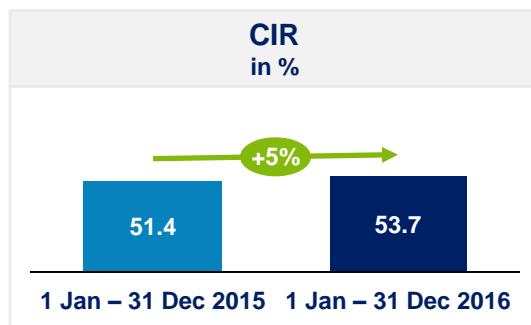


- Operating earnings from net interest and net commission income largely stable at a total of EUR 418m (FY 2015: EUR 432m) despite persistently low interest rates and the competitive market environment
- Earnings from the sale of Financial Markets products to customers remain pleasing and were up slightly year on year
- One-time gain of EUR 28m resulted from sale of shares in Deutsche Factoring Bank
- Risk provisions contributed EUR 8 million to profit before taxes (FY 2015: EUR 65m), but year-before period was boosted by much higher recoveries on written down receivables
- Administrative expenses rose to EUR -293m (FY 2015: EUR -258m) mainly due to higher costs for major projects to implement and fulfil new regulatory requirements



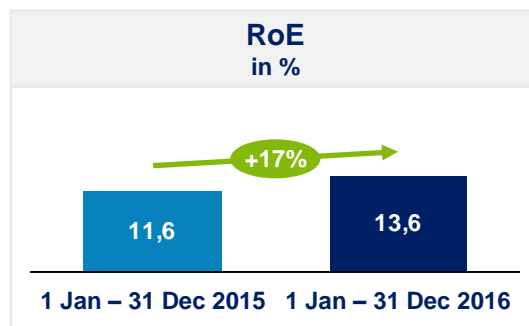
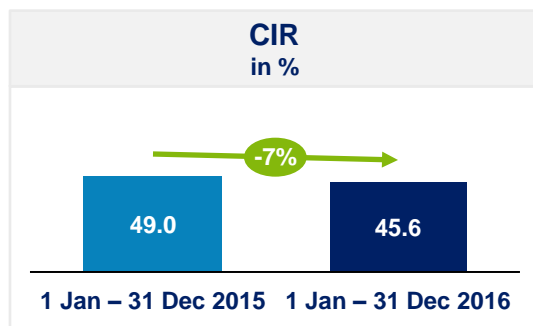
# Real Estate & Savings Banks/Association

EUR million	1 Jan – 31 Dec 2016	1 Jan – 31 Dec 2015
Net interest income	235	244
Risk provisions in the credit business	24	38
Net commission income	89	81
Gains or losses on fair value measurement	65	50
Other earnings components	0	-10
Administrative expenses	-210	-191
<b>Profit/loss before taxes</b>	<b>203</b>	<b>212</b>
Risk-weighted assets (RWA)	7,095	7,110



- Profit before taxes largely unchanged at EUR 203m (FY 2015: EUR 212m)
- Solid operating earnings from net interest and net commission income totalled EUR 324m (FY 2015: EUR 325m) despite tough interest rate environment
- Measurement gains on derivatives transactions to hedge against interest rate risk prompted a surge in earnings to EUR 77m (FY 2015: EUR 47m) at BayernLabo
- Earnings contribution from risk provisions (particularly in the Real Estate division) was once again positive, boosted by very good portfolio quality at EUR 24m (FY 2015: EUR 38m)
- The increase in administrative expenses to EUR -210m (FY 2015: EUR -191m) primarily weighed on the earnings of the Real Estate and Savings Banks & Association divisions; the main cause is higher costs for major projects to implement and meet new regulatory requirements

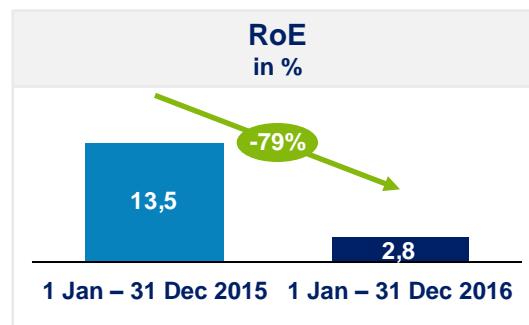
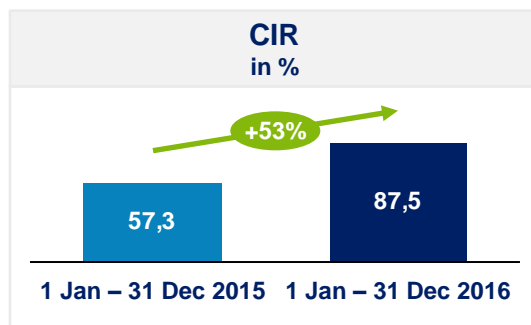
EUR million	1 Jan – 31 Dec 2016	1 Jan – 31 Dec 2015
<b>Net interest income</b>	786	789
<b>Risk provisions in the credit business</b>	-108	-64
<b>Net commission income</b>	23	22
<b>Gains or losses on fair value measurement</b>	51	15
<b>Other earnings components</b>	61	-28
<b>Administrative expenses</b>	-432	-398
<b>Profit/loss before taxes</b>	381	336
<b>Risk-weighted assets (RWA)</b>	24,163	24,806



- Earnings rose from EUR 336m to EUR 381m, driven mainly by EUR 132m from sale of stake in Visa Europe Ltd.
- Net interest income on a par with last year at EUR 786m (FY 2015: EUR 789m) despite persistently tough interest rate environment
- Charge for risk provisions up year on year at EUR -108m (FY 2015: EUR -64m); rise posted across all sub-segments
- Implementing and meeting new regulatory requirements weighed heavily on administrative expenses of EUR -432m (FY 2015: EUR -398m)
- Expenses from the bank levy and deposit guarantee scheme totalling EUR -27m (FY 2015: EUR -14m) were almost double that in 2015
- Bayern Card-Services reports profit before taxes of EUR 11m (FY 2015: EUR 4m), which also benefited from the sale of an investment

# Financial Markets

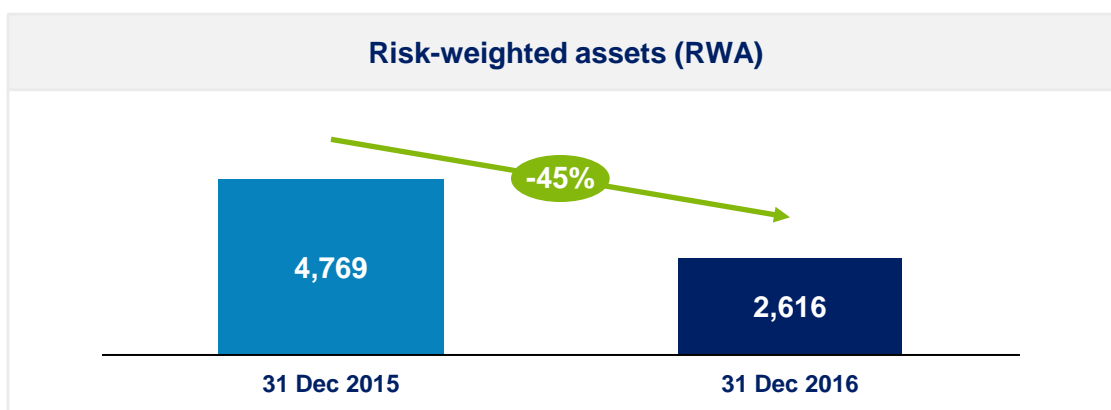
EUR million	1 Jan – 31 Dec 2016	1 Jan – 31 Dec 2015
Net interest income	41	100
Risk provisions in the credit business	-1	0
Net commission income	71	67
Gains or losses on fair value measurement	41	56
Other earnings components	86	114
Administrative expenses	-208	-193
<b>Profit/loss before taxes</b>	<b>29</b>	<b>145</b>
Risk-weighted assets (RWA)	8,070	8,543



- Profit before taxes: EUR 29m (FY 2015: EUR 145m)
- Earnings from Financial Markets products sold by customer-serving segments slightly higher year on year; earnings continue to be reported under the respective segments
- Segment's earnings hurt by sharp drop in net interest income to EUR 41m (FY 2015: EUR 100m). Low interest rates and the sale of securities in the year-before period were the chief reasons for the difference
- Due to an increase in BayernLB's credit rating, the valuation of the Bank's own issues resulted in charge of EUR -25m (FY 2015: EUR +61m); it also made a measurement loss overall in relation to fair value adjustments but this was less than the previous year
- Profit before taxes of consolidated subsidiaries: BayernInvest EUR 7m (FY 2015: EUR 8m), Real I.S. EUR 6m (FY 2015: EUR 6m)

# Non-Core Unit (NCU)

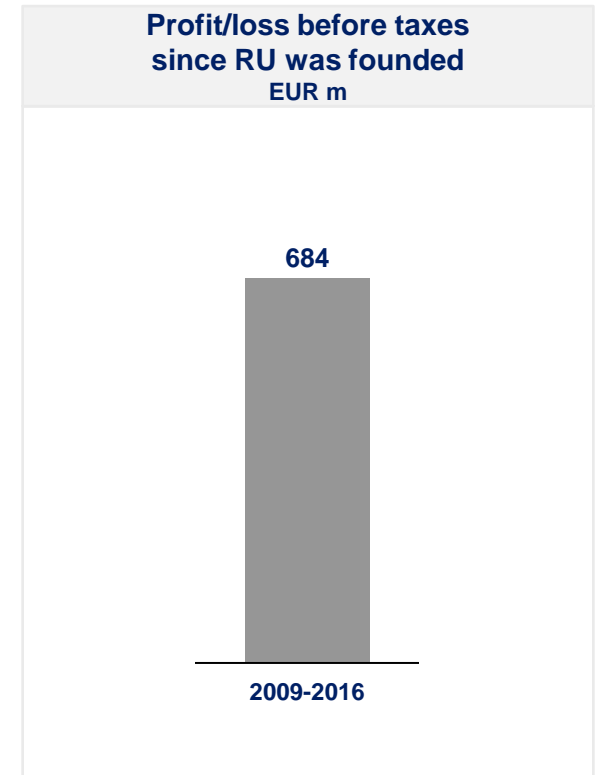
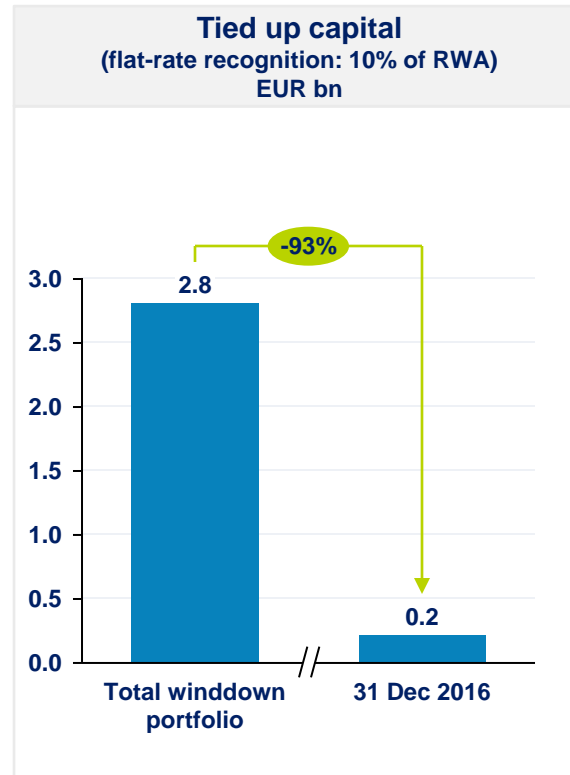
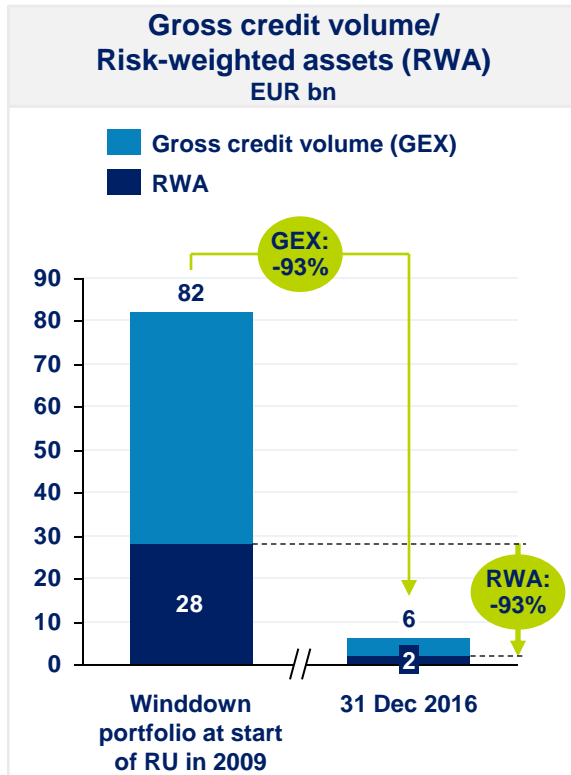
EUR million	1 Jan – 31 Dec 2016	1 Jan – 31 Dec 2015
Net interest income	71	81
Risk provisions in the credit business	-9	-304
Net commission income	4	11
Gains or losses on fair value measurement	0	-121
Other earnings components	-16	104
Administrative expenses	-60	-118
<b>Profit/loss before taxes</b>	<b>-10</b>	<b>-347</b>



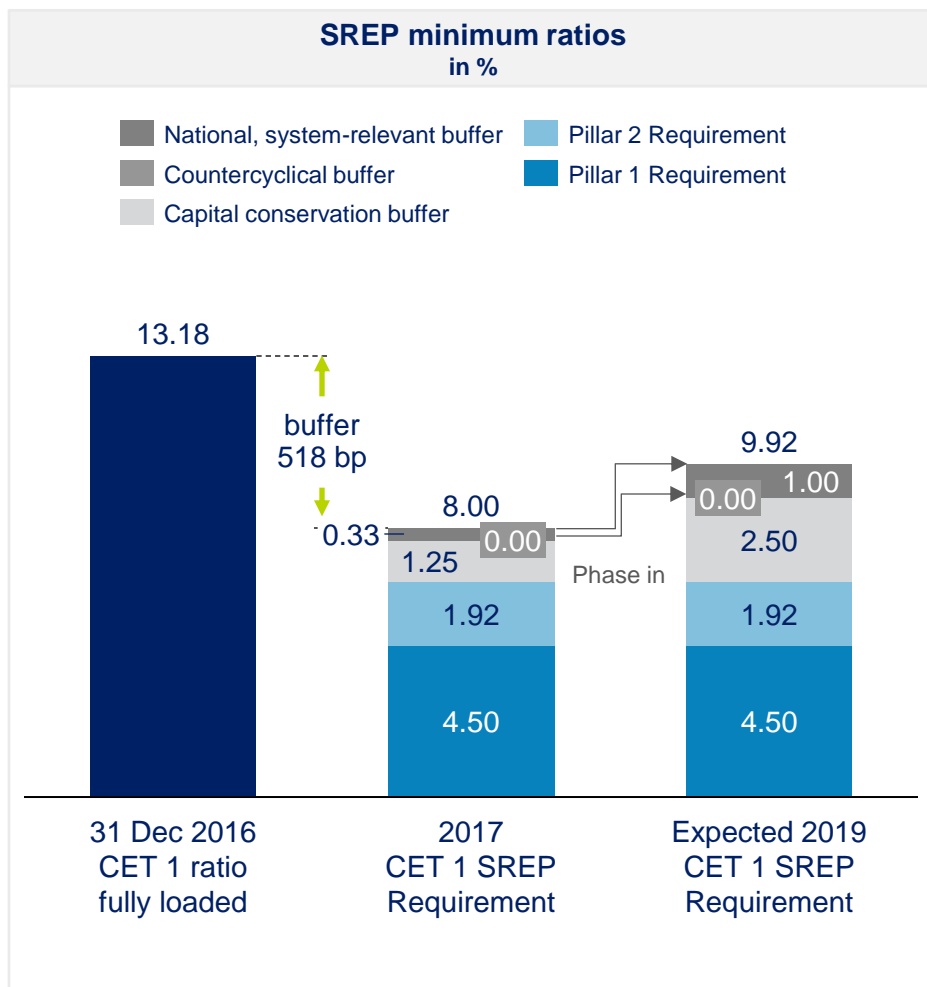
- Systematic winding down of RWA continues: RWA cut by another 45 percent from year-end 2015 to EUR 2.6bn.
- A significant improvement in profit before taxes to EUR -10m from EUR -347m in the year-before period resulted predominantly from a much smaller charge for risk provisions of EUR -9m (FY 2015: EUR -304m)
- In addition, HETA-related impairments weighed heavily on the year-before period
- Restructuring Unit: profit before taxes of EUR 70m (FY 2015: EUR -94m) is a marked improvement on the previous year; the decline in gross earnings due to winding down the portfolio was more than offset by the positive performance of risk provisions
- DKB Non-Core: the main cause of the loss before taxes of EUR 28m (FY 2015: EUR -55m), as in the previous year, was the creation of risk provisions

# RU winddown mandate fulfilled; release of tied up capital and profits since 2009 contribute significantly to the repayment plan

- Winddown portfolio cut to below EUR 6bn as at 31 December 2016
- The remaining winddown portfolios will be reported under Central Areas & Others in the future
- Portfolio winddown clearly has a positive impact on the CET 1 ratio (fully loaded)



# SREP minimum ratios: well below BayernLB's CET 1 fully loaded ratio of 13.2%



- BayernLB's CET 1 ratio fully loaded of 13.2% on 31 Dec 2016 is well above the current SREP minimum ratio of 8%
- The capital requirements are recalibrated as part of the annual SREP
- The minimum CET 1 ratio set by CRR (Pillar 1 requirement) is 4.5%
- On top of that is an individual premium (Pillar 2 requirement) of 1.92%
- Additional mandatory capital buffers:
  - Capital conservation buffer for 2017: 1.25%
  - Countercyclical buffer for 2017: 0%
  - Buffer for nationally systemically important banks 2017: 0.33%

# Agenda

- » Financial performance
- » Outlook
- » Appendix: detailed charts

# Outlook



**Tough competition**

Profitable growth with no change in risk profile – forge ahead with digitalisation



**Costly regulations**

Continue to optimise costs to soften the impact of high regulatory expenses



**Low interest rates**

Solid capital base as foundation for growth in the core business



**Economic risks**

Profit before taxes expected in the mid-triple-digit million range



# Agenda

- » Financial performance
- » Outlook
- » Appendix: detailed charts

# EU repayment well advanced

- Nearly EUR 4.4bn paid so far – around EUR 4bn counts as a repayment
- Remaining amount of state aid EUR 1bn

## Repayment of approx. EUR 5bn in state aid to the Free State of Bavaria (EUR million)

Date	Payments to the Free State of Bavaria	of which silent partner contributions	of which clawback	Umbrella fee	Remaining balance of state aid
Target		3,000	1,960		4,960
2009 to 2012	446	-	240	206	4,720
2013	830	-	691	139	4,029
2014	1,809	700	1,029	80	2,300
April 2016	1,300	1,300			1,000
<b>Total</b>	<b>4,385</b>	<b>2,000</b>	<b>1,960</b>	<b>425</b>	<b>1,000</b>

# Year-on-year earnings comparison

EUR million	1 Jan – 31 Dec 2016	1 Jan – 31 Dec 2015	Change in %
Net interest income	1,475	1,612	-8.5
Risk provisions in the credit business	-87	-264	-67.2
Net interest income after risk provisions	1,389	1,348	3.0
Net commission income	296	289	2.2
Gains or losses on fair value measurement	142	-56	-
Gains or losses on hedge accounting	-80	-24	>100.0
Gains or losses on financial investments	274	286	-4.0
Administrative expenses	-1,280	-1,168	9.6
Expenses for the bank levy and deposit guarantee scheme	-88	-90	-2.0
Other income and expenses	51	71	-27.2
Gains or losses on restructuring	4	-10	-
<b>Profit/loss before taxes</b>	<b>708</b>	<b>646</b>	<b>9.6</b>
Income taxes	-158	-150	5.2
<b>Profit/loss after taxes</b>	<b>550</b>	<b>496</b>	<b>10.9</b>
Profit/loss attributable to non-controlling interests	-5	-1	>100.0
<b>Consolidated profit/loss</b>	<b>545</b>	<b>495</b>	<b>10.2</b>

# Quarterly earnings comparison

EUR million	Q4 2016	Q3 2016	Q2 2016	Q1 2016
Net interest income	385	362	356	372
Risk provisions in the credit business	-43	-40	-19	15
Net interest income after risk provisions	343	322	337	387
Net commission income	115	62	61	58
Gains or losses on fair value measurement	67	62	35	-22
Gains or losses on hedge accounting	-31	-21	-22	-6
Gains or losses on financial investments	6	52	172	44
Administrative expenses	-391	-311	-277	-301
Expenses for the bank levy and deposit guarantee scheme	-3	8	-17	-76
Other income and expenses	-2	9	36	8
Gains or losses on restructuring	15	-2	-8	-1
<b>Profit/loss before taxes</b>	<b>119</b>	<b>180</b>	<b>318</b>	<b>91</b>

# Segment overview

EUR m 1 Jan – 31 Dec 2016	Corporates & Mittelstand	Real Estate & Savings Banks/Association	DKB	Financial markets	Central Areas & Others (including Consolidation)	Non-Core Unit	Group
Net interest income	304	235	786	41	38	71	1,475
Risk provisions in the credit business	8	24	-108	-1	0	-9	-87
Net commission income	114	89	23	71	-6	4	296
Gains or losses on fair value measurement	44	65	51	41	-57	0	142
Gains or losses on hedge accounting	0	2	-86	6	-1	0	-80
Gains or losses on financial investments	29	0	156	64	12	13	274
Other income and expenses	-2	-1	19	16	45	-26	51
Administrative expenses	-293	-210	-432	-208	-77	-60	-1,280
Expenses for the bank levy and deposit guarantee scheme	0	0	-27	0	-60	0	-88
Gains or losses on restructuring	0	-1	0	0	8	-3	4
<b>Profit/loss before taxes</b>	<b>203</b>	<b>203</b>	<b>381</b>	<b>29</b>	<b>-98</b>	<b>-10</b>	<b>708</b>
Return on equity (RoE) (%)	8.0	24.8	13.6	2.8	-	-2.7	8.1
Cost/income ratio (CIR) (%)	60.0	53.7	45.6	87.5	-	96.3	59.3

# Segment overview 2015

EUR m 1 Jan – 31 Dec 2015	Corporates & Mittelstand	Real Estate & Savings Banks/Association	DKB	Financial markets	Central Areas & Others (including Consolidation)	Non-Core Unit	Group
Net interest income	317	244	789	100	79	81	1,612
Risk provisions in the credit business	65	38	-64	0	0	-304	-264
Net commission income	115	81	22	67	-6	11	289
Gains or losses on fair value measurement	48	50	15	56	-103	-121	-56
Gains or losses on hedge accounting	0	-2	-40	15	3	0	-24
Gains or losses on financial investments	0	0	11	107	94	74	286
Other income and expenses	-6	-2	14	-8	37	35	71
Administrative expenses	-258	-191	-398	-193	-10	-118	-1,168
Expenses for the bank levy and deposit guarantee scheme	0	-1	-14	0	-75	0	-90
Gains or losses on restructuring	0	-5	0	0	0	-5	-10
<b>Profit/loss before taxes</b>	<b>282</b>	<b>212</b>	<b>336</b>	<b>145</b>	<b>19</b>	<b>-347</b>	<b>646</b>
Return on equity (RoE) (%)	11.1	24.0	11.6	13.5	-	-44.1	6.7
Cost/income ratio (CIR) (%)	54.4	51.4	49.0	57.3	-	>100,0	53.6

# Balance sheet overview

EUR bn	31 Dec 2016	31 Dec 2015	Change in %
Loans and advances to banks	28.8	29.4	-2.1
Loans and advances to customers	134.8	135.8	-0.8
Assets held for trading	16.9	17.3	-2.3
Financial investments including interests in companies	26.7	28.9	-7.4
<b>Total assets</b>	<b>212.1</b>	<b>215.7</b>	<b>-1.7</b>
Liabilities to banks	54.2	60.4	-10.2
Liabilities to customers	86.8	86.0	0.9
Securitised liabilities	39.6	34.8	13.7
Liabilities held for trading	11.0	12.3	-10.7
Subordinated capital	3.1	4.7	-34.7
Equity	11.1	11.1	-0.1

# BayernLB. The Bavarian Bank.

 Finanzgruppe

 Bayern LB