

Investor Call 2017 Consolidated Earnings

Munich, 22 March 2018



Contents

› Financial performance	3
› Outlook	20
› Detailed charts	22

Financial performance

CET

Very **solid capital base**:
CET1 ratio (fully loaded) up
significantly to 15.3 %



Bank plans to **distribute**
EUR 50 m **to owners**



Consolidated profit grows
more than **+24 %** to EUR
677 m and **net interest**
income increased by
around **+13 %** EUR 1,659 m

2017



High portfolio quality
resulted in **low risk**
provisions of EUR -94 m;
NPL ratio of 1.5 % is a
new best



Administrative expenses
down slightly despite higher
regulatory costs and
investment in digitalisation
(-1.8 % / EUR 1,258 m)

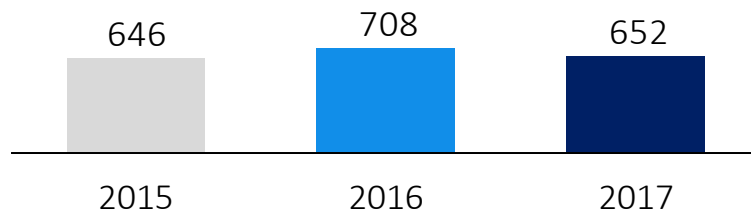


Cost/income ratio remained
in the target range at 59.9 %

Earnings remain stable and continue to perform well in the current tough market environment

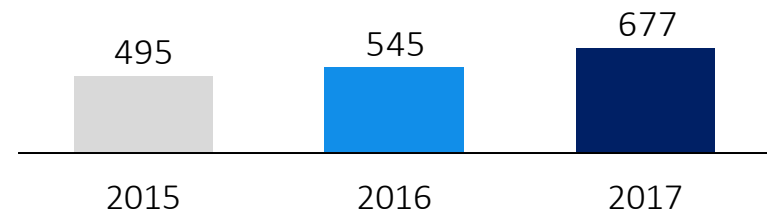
Profit before taxes

EUR million



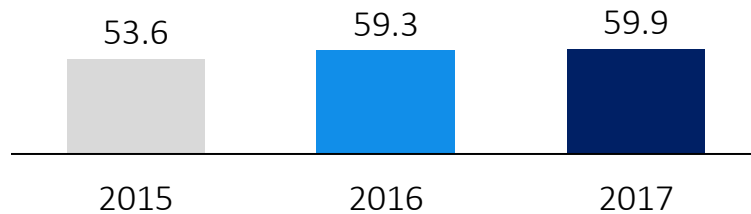
Consolidated profit

EUR million



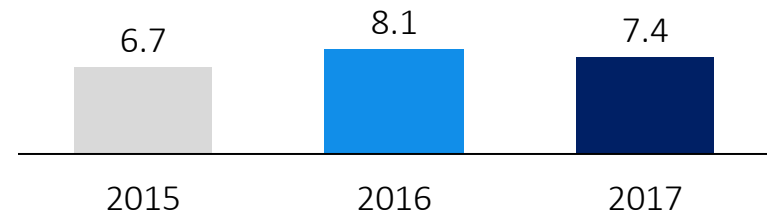
CIR

in %



RoE

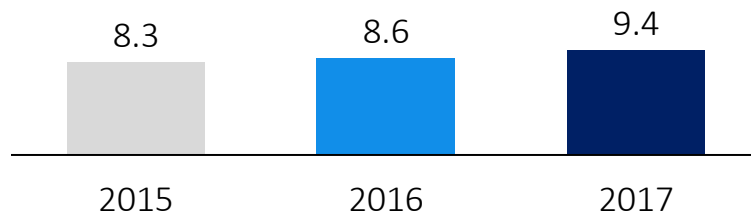
in %



Capital ratio performs very well despite repayment of state aid

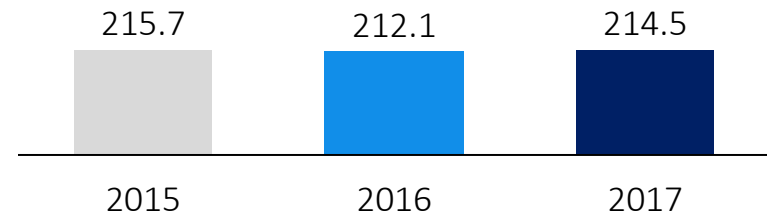
CET1 capital (fully loaded)

EUR billion



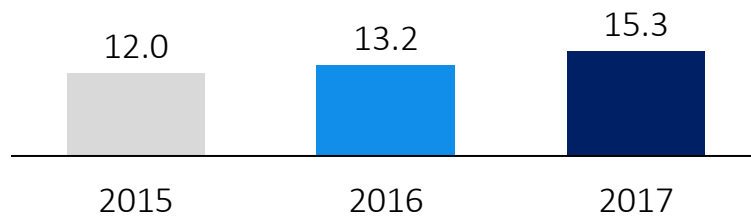
Total assets

EUR billion



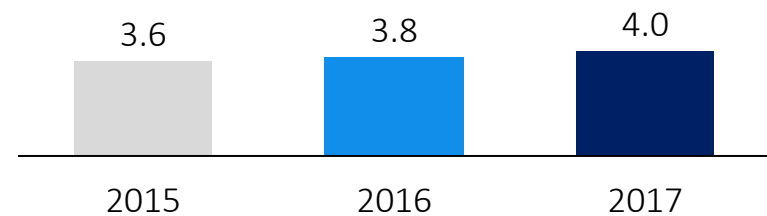
CET1 capital ratio (fully loaded)

in %



Leverage ratio

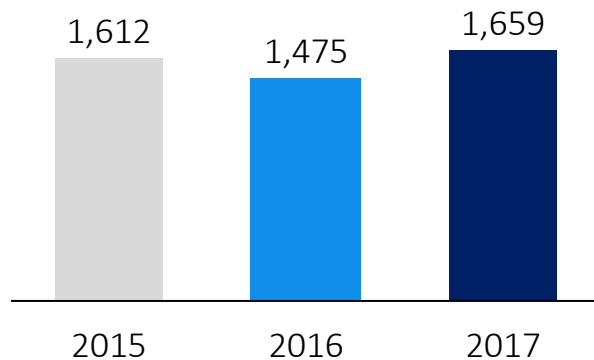
in %



Good growth in net interest income

Net interest income

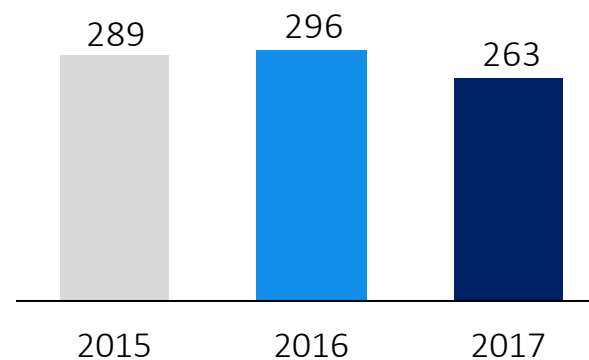
EUR million



- › Despite the tough environment, combined net interest income at BayernLB and DKB rose 12.5 % due to slightly higher business volume and lower interest expenses

Net commission income

EUR million

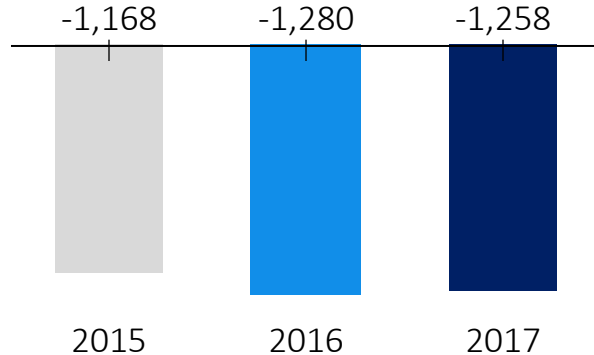


- › Net commission income down slightly year on year
- › Lower income from the credit card business at DKB

Administrative expenses fell and risk provisions were low due to good portfolio quality

Administrative expenses

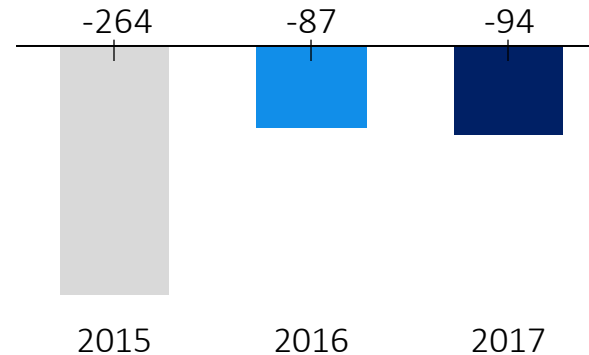
EUR million



- › Administrative expenses down 1.8 %
- › Major regulatory projects continued to drive administrative expenses
- › Tight cost discipline completely offset the increase

Risk provisions

EUR million

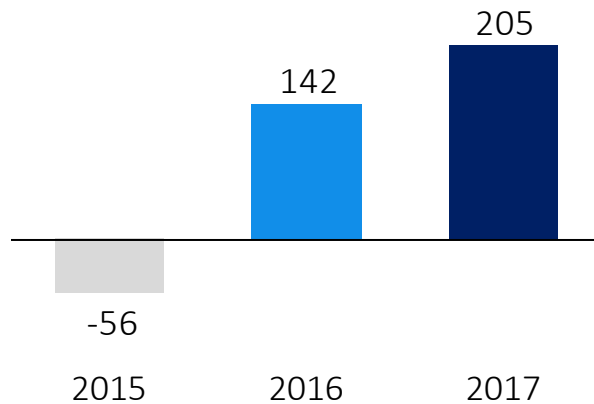


- › Risk provisions low once again due to good portfolio quality
- › Releases of risk provisions and recoveries on written down loan exposures also contributed
- › NPL ratio fell further from 1.6 % to 1.5 %

Gains or losses on fair value measurement and hedge accounting

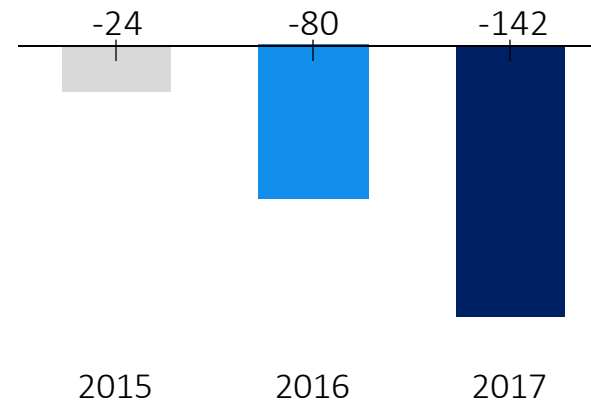
Gains or losses on fair value measurement

EUR million



Gains or losses on hedge accounting

EUR million

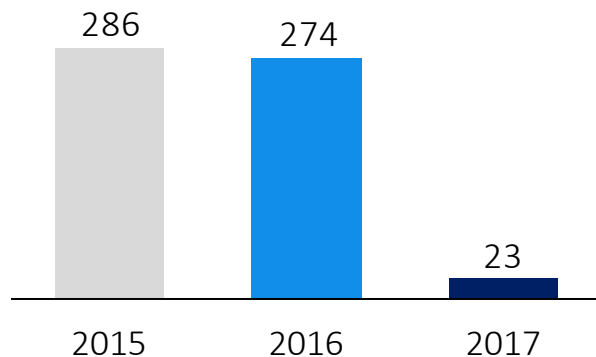


- › Stable client-driven business with Financial Markets products
- › Additional gains on fair value adjustments and swap positions of DKB
- › Includes the mark-to-market value of underlying transactions and their hedges. The differences in value balance out over the terms of the instruments and are therefore only temporary
- › There were opposite effects, particularly in gains or losses on fair value measurement

Gains or losses on financial investments and Other income and expenses

Gains or losses on financial investments

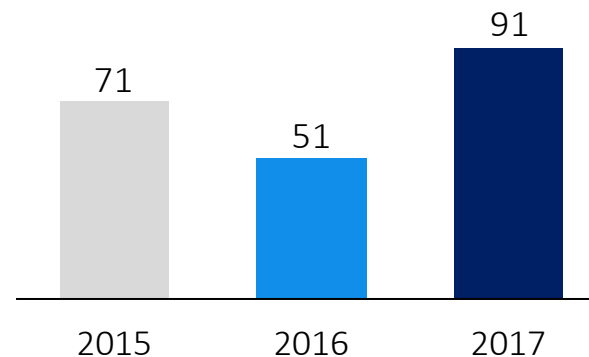
EUR million



- › Year-before period boosted by sales of shareholdings, in particular the sale of the Visa and Deutsche Factoring Bank
- › In 2017, primarily gains or losses on sales of securities

Other income and expenses

EUR million



- › Income and expenses from the non-banking activities of subsidiaries, income from releasing provisions, a positive net interest position from tax refunds and additional tax payments at BayernLB

Stable earnings overall thanks to the well diversified business model

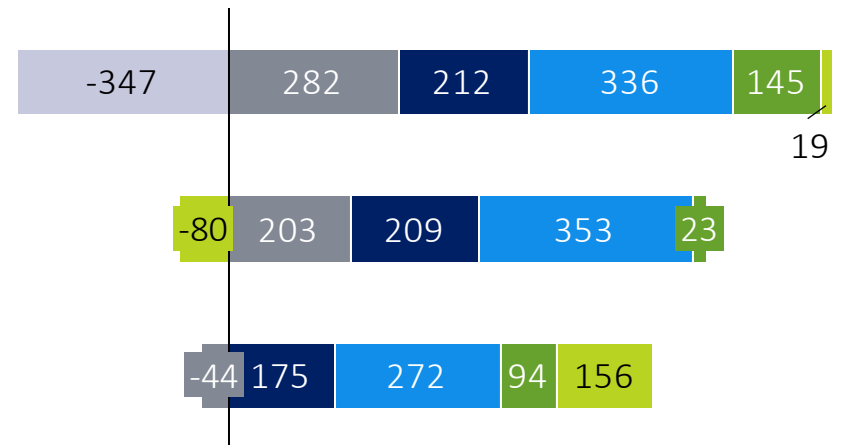
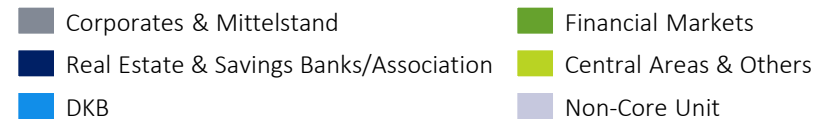
Profit before taxes 2015-2017

EUR million



Profit before taxes 2015-2017, by segment

EUR million

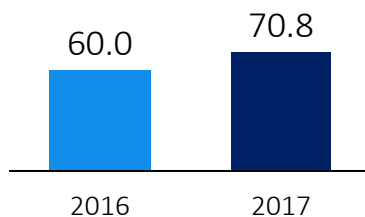


Corporates & Mittelstand segment

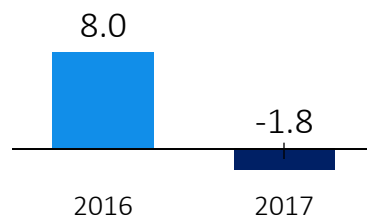
EUR million	2017	2016
Net interest income	287	304
Risk provisions in the credit business	-164	8
Net commission income	102	114
Other earnings components	22	70
Administrative expenses	-291	-293
Profit/loss before taxes	-44	203
Risk-weighted assets (RWA)	19,370	21,783

- › Profit before taxes fell, mainly due to the creation of risk provisions
- › Gross earnings declined to EUR 411 m (FY 2016: EUR 488 m), partly because of one-off income from the sale of a stake included in the previous year, low interest rates and low demand for capital market products
- › Credit volumes in the Mittelstand division were higher year on year
- › Administrative expenses remained stable despite higher costs for regulatory projects
- › The segment has made a positive start to 2018

CIR
in %



RoE
in %

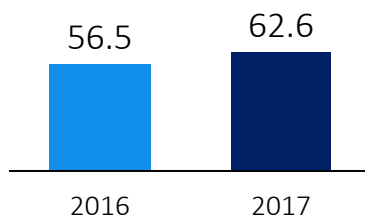


Real Estate & Savings Banks/Association segment

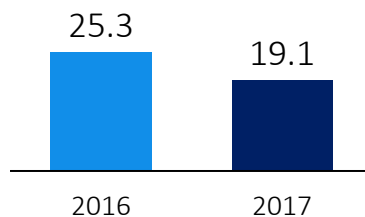
EUR million	2017	2016
Net interest income	230	236
Risk provisions in the credit business	23	24
Net commission income	144	131
Other earnings components	34	61
Administrative expenses	-255	-242
Profit/loss before taxes	175	209
Risk-weighted assets (RWA)	7,739	7,141

- › Net interest and net commission income grew to EUR 374 m (FY 2016: EUR 367 m) as new business performed well
- › Earnings contribution from risk provisions of EUR 23 m (FY 2016: EUR 24 m) was once again positive
- › Gains or losses on fair value measurement fell year-on-year to EUR 47 m (FY 2016: EUR 65 m) mainly due to measurement gains on derivatives transactions to hedge against interest rate risk at BayernLabo in the previous year
- › Profit before taxes at Real I.S. rose to EUR 8 m (FY 2016: EUR 6 m)
- › Profit before taxes at BayernLabo stable at EUR 45 m (FY 2016: EUR 77 m boosted by measurement gains)

CIR
in %



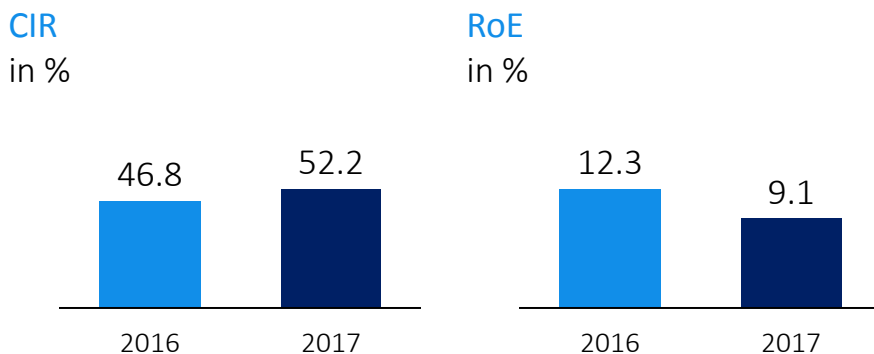
RoE
in %



DKB segment

EUR million	2017	2016
Net interest income	935	794
Risk provisions in the credit business	-127	-129
Net commission income	-6	24
Other earnings components	-54	114
Administrative expenses	-477	-450
Profit/loss before taxes	272	353
Risk-weighted assets (RWA)	24,536	24,603

- › Net interest and net commission income climbed to EUR 929 m (FY 2016: EUR 818 m) due to good performance
- › Other income and expenses in the year before was boosted significantly by proceeds of EUR 132 m from the sale of the stake in Visa Europe Ltd.
- › Administrative expenses increased to EUR -477 m (FY 2016: EUR -450 m), largely as a result of implementing new regulatory requirements
- › Number of retail customers increased further to 3.7 m
- › Profit before taxes at Bayern Card Services: EUR 7 m (FY 2016: EUR 11 m); year-before period boosted by sale of a shareholding

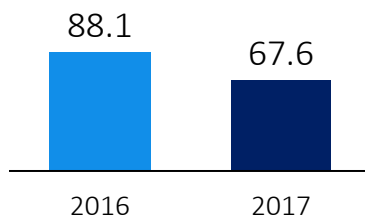


Financial Markets segment

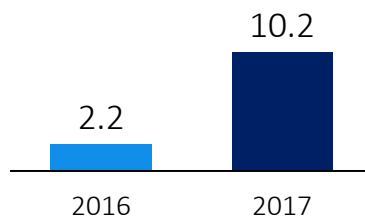
EUR million	2017	2016
Net interest income	142	40
Risk provisions in the credit business	0	-1
Net commission income	27	29
Other earnings components	121	130
Administrative expenses	-196	-176
Profit/loss before taxes	94	23
Risk-weighted assets (RWA)	6,508	8,024

- › Contribution to earnings from much higher net interest income of EUR 142 m (FY 2016: EUR 40 m) due to optimised management in the current low interest environment
- › Earnings benefited from measurement gains in existing business, e.g. on fair value adjustments to derivatives amounting to EUR 64 m (FY 2016: EUR -13 m)
- › Administrative expenses increased to EUR -196 m (FY 2016: EUR -176 m), as a result of implementing regulatory projects
- › Profit before taxes at BayernInvest stable at EUR 6 m (FY 2016: EUR 7 m)

CIR
in %



RoE
in %

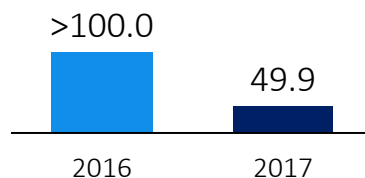


Central Areas and Others segment

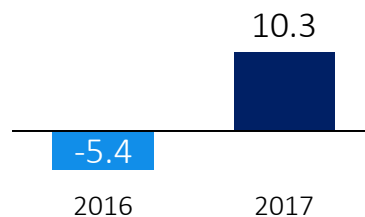
EUR million	2017	2016
Net interest income	64	101
Risk provisions in the credit business	175	12
Net commission income	-4	-2
Other earnings components	-41	-71
Administrative expenses	-38	-119
Profit/loss before taxes	156	-80
Risk-weighted assets (RWA)	3,268	3,655

- › Earnings from remaining non-core business surged to EUR 190 m (FY 2016: EUR 18 m) due to releases and recoveries on written down receivables amounting to EUR 175 m (FY 2016: EUR 12 m)
- › The high expenses for the bank levy and deposit guarantee scheme of EUR 64 m (FY 2016: EUR 60 m) continued to weigh on other income and expenses
- › The high administrative expenses in the previous year were inflated by high provisions and legal costs

CIR
in %



RoE
in %

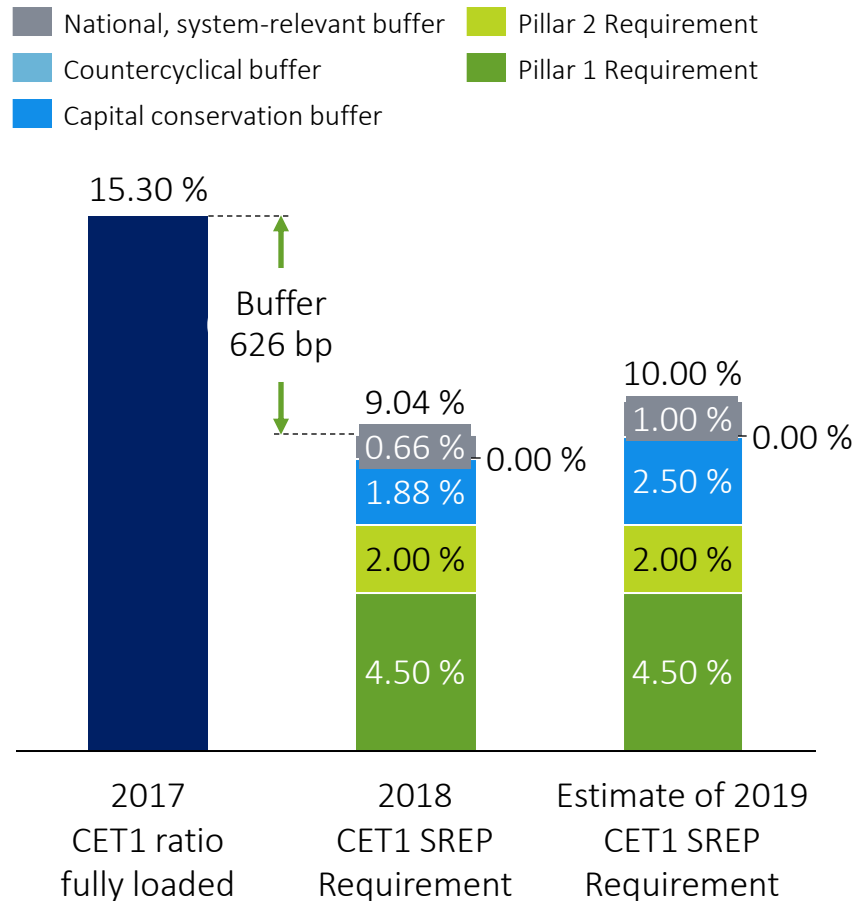


Annual net income (German Commercial Code - HGB), repayment of state aid, hybrid instruments, dividends

			
State aid repayment	Profit participation certificates	Capital contributions of silent partners	Distribution
Last tranche repaid to the Free State of Bavaria	Servicing of interest due for 2017	Servicing of interest due for 2017	to the owners
EUR 1 bn	EUR 23 m	EUR 53 m	EUR 50 m

 HGB annual net income was EUR 363 m

CET1 ratio fully loaded of 15.3 % well above SREP minimum ratios

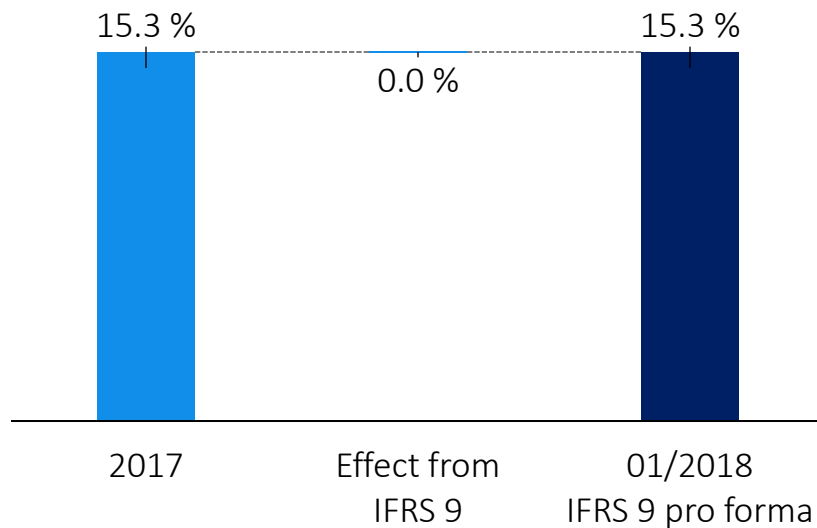


- › BayernLB's fully loaded CET1 ratio of 15.3 % on 31 Dec 2017 was well above the current SREP minimum ratio of 9.04 %
- › The capital requirements are recalibrated as part of the annual SREP
- › The minimum CET1 ratio set by CRR (Pillar 1 requirement) is 4.5 %
- › On top of that is an individual premium (Pillar 2 requirement) of 2.00 % for 2018
- › Additional mandatory capital buffers:
 - Capital conservation buffer for 2018: 1.88 %
 - Countercyclical buffer for 2018: approx. 0 %
 - Buffer for national, systemically important institutions for 2018: 0.66 %

CET1 ratio fully loaded also stable under IFRS 9

CET 1-Quote (fully loaded)

in %



- › The first-time application of IFRS 9 on 1 January 2018 will result in reporting and measurement differences compared to previous accounting under IAS 39. They must be recognised on first-time recognition directly under equity (retained earnings).
- › From the first-time application of IFRS 9, the BayernLB Group is expecting an effect (excluding deferred taxes) on reported equity of between EUR -170 m and EUR -190 m.
- › This is largely due to changes in risk provisions due to the new provisions on impairments.
- › Since the reduction in reported equity and that of the supervisory shortfall almost offset each other, the CET1 ratio (fully loaded) remains unchanged.

Outlook

Outlook for 2018

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

After the compulsory
part, it is time for
“freestyle”

Fine-tuning on the
earnings side

Our ambitions

We will consolidate
our position as one of
the strongest regional
banks in Europe

Detailed charts

Year-on-year earnings comparison

EUR million	2017	2016	Change in %
Net interest income	1,659	1,475	12.5
Risk provisions in the credit business	-94	-87	8.2
Net interest income after risk provisions	1,565	1,388	12.7
Net commission income	263	296	-11.1
Gains or losses on fair value measurement	205	142	43.9
Gains or losses on hedge accounting	-142	-80	77.2
Gains or losses on financial investments	23	274	-91.4
Administrative expenses	-1,258	-1,280	-1.8
Expenses for bank levy and deposit guarantee scheme	-98	-88	12.1
Other income and expenses	91	51	77.0
Gains or losses on restructuring	2	4	-36.2
Profit/loss before taxes	652	708	-7.9
Income taxes	27	-158	-
Profit/loss after taxes	679	550	23.5
Profit/loss attributable to non-controlling interests	-2	-5	-67.3
Consolidated profit/loss	677	545	24.4

Quarterly earnings comparison

EUR million	Q4	Q3	Q2	Q1
Net interest income	409	405	415	430
Risk provisions in the credit business	-189	6	-5	95
Net interest income after risk provisions	219	410	410	525
Net commission income	66	56	69	71
Gains or losses on fair value measurement	9	53	72	71
Gains or losses on hedge accounting	-11	-38	-46	-47
Gains or losses on financial investments	5	2	10	7
Administrative expenses	-305	-341	-289	-323
Expenses for bank levy and deposit guarantee scheme	-4	-10	-5	-79
Other income and expenses	120	-4	-31	6
Gains or losses on restructuring	-1	-1	5	-1
Profit/loss before taxes	98	127	196	230
Income taxes	146	-23	-52	-44
Profit/loss after taxes	244	105	144	186
Profit/loss attributable to non-controlling interests	0	-1	0	0
Consolidated profit/loss	244	104	144	186

Segment overview

EUR million	Corporates & Mittelstand	Real Estate & Savings Banks/ Association	DKB	Financial Markets	Central Area & Other	Group
Net interest income	287	230	935	142	64	1,659
Risk provisions in the credit business	-164	23	-127	0	175	-94
Net interest income after risk provisions	123	253	808	142	239	1,565
Net commission income	102	144	-6	27	-4	263
Gains or losses on fair value measurement	30	47	91	104	-68	205
Gains or losses on hedge accounting	0	-2	-124	-7	-8	-142
Gains or losses on financial investments	-1	3	20	2	0	23
Administrative expenses	-291	-255	-477	-196	-38	-1,258
Expenses for bank levy and deposit guarantee scheme	0	0	-35	0	-64	-98
Other income and expenses	-7	-13	-3	22	93	91
Gains or losses on restructuring	0	0	-3	0	6	2
Profit/loss before taxes	-44	175	272	94	156	652
Return on equity (RoE) (%)	-1.8	19.1	9.1	10.2	-	7.4
Cost/income ratio (CIR) (%)	70.8	62.6	52.2	67.6	-	59.9

Segment overview 2016

EUR million	Corporates & Mittelstand	Real Estate & Savings Banks/ Association	DKB	Financial Markets	Central Area & Other	Group
Net interest income	304	236	794	40	101	1,475
Risk provisions in the credit business	8	24	-129	-1	12	-87
Net interest income after risk provisions	312	259	665	39	112	1,388
Net commission income	114	131	24	29	-2	296
Gains or losses on fair value measurement	44	65	51	40	-57	142
Gains or losses on hedge accounting	0	2	-86	6	-1	-80
Gains or losses on financial investments	29	0	161	65	21	274
Administrative expenses	-293	-242	-450	-176	-119	-1,280
Expenses for bank levy and deposit guarantee scheme	0	0	-27	0	-60	-88
Other income and expenses	-2	-4	19	20	19	51
Gains or losses on restructuring	0	-1	-3	0	8	4
Profit/loss before taxes	203	209	353	23	-80	708
Return on equity (RoE) (%)	8.0	25.3	12.3	2.2	-	8.1
Cost/income ratio (CIR) (%)	60.0	56.5	46.8	88.1	-	59.3

Balance sheet overview

EUR billion	2017	2016	Change in %
Loans and advances to banks	37.8	28.8	31.2
Loans and advances to customers	134.7	134.8	-0.1
Assets held for trading	12.0	16.9	-29.3
Financial investments	23.4	26.7	-12.5
Total assets	214.5	212.1	1.1
Liabilities to banks	54.4	54.2	0.4
Liabilities to customers	91.9	86.8	5.9
Securitised liabilities	41.8	39.6	5.6
Liabilities held for trading	7.7	11.0	-30.0
Subordinated capital	1.9	3.1	-38.2
Equity	10.8	11.0	-1.9

Key capital figures

fully loaded	2017	2016
CET1 capital (EUR bn)	9.4	8.6
CET1 ratio (%)	15.3	13.2
Total capital (EUR bn)	10.3	10.4
Total capital ratio (%)	16.8	15.9
RWA (EUR bn)	61.4	65.2
Leverage ratio (%)	4.0	3.8
LCR (%)	159	136