



Rating & Investor Relations

# Group financial report 30 September 2017

BayernLB on track with profit before taxes of EUR 554m for the first nine months of 2017

16 November 2017

# Agenda

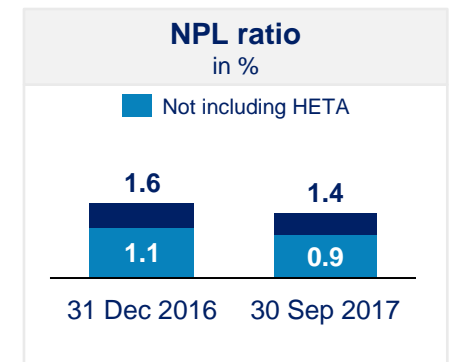
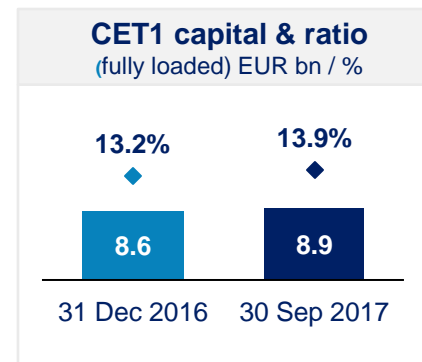
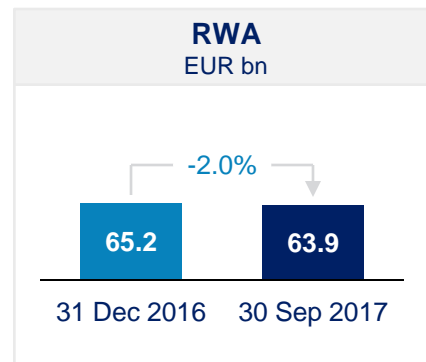
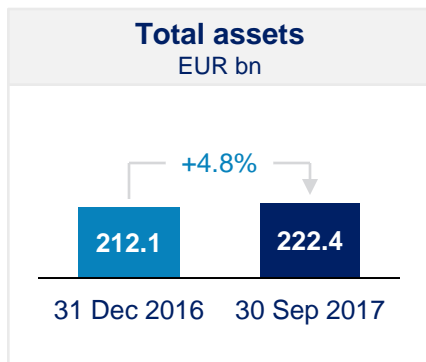
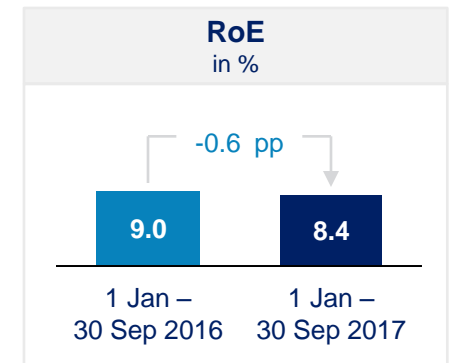
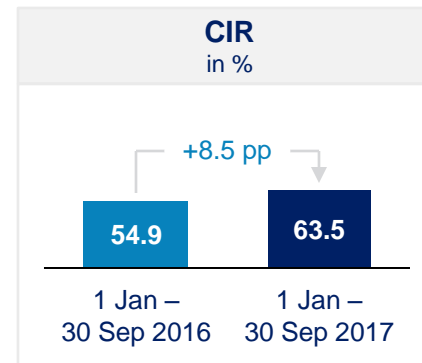
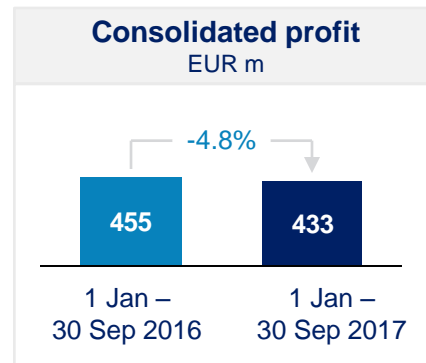
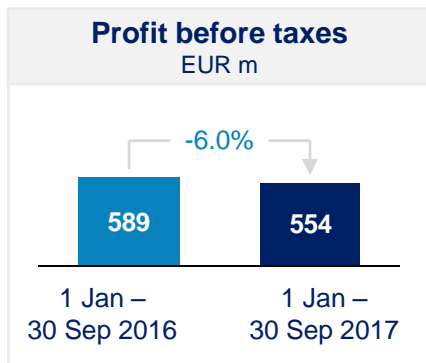
- » **Overview of first nine months of 2017**
- » Appendix

# The first nine months of 2017 at a glance

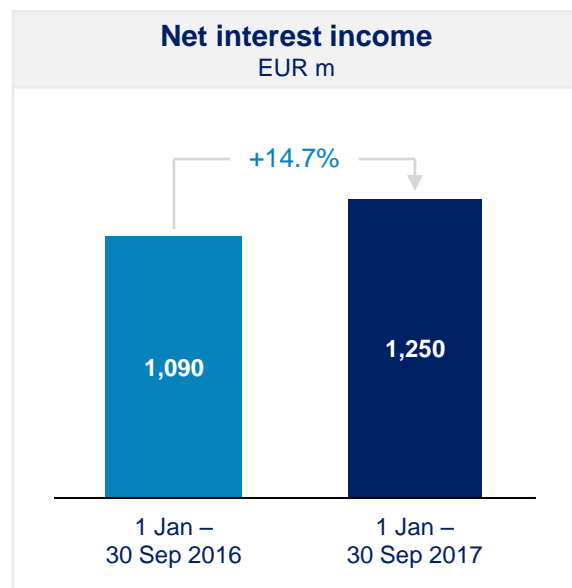
- » Good profit before taxes of EUR 554m, slightly lower than the EUR 589m before taxes in the year-before period, which was boosted considerably by proceeds from the sale of shareholdings
- » All operating business segments made positive contributions to earnings
- » Gain of EUR 96m from risk provisions thanks to good portfolio quality and recoveries on written down receivables
- » CET1 ratio fully improved from 13.2% to 13.9%
- » Strategic initiatives launched to further boost profitability and improve efficiency
- » BayernLB reiterates its full-year 2017 forecast of profit before taxes in the mid triple-digit million range

# Key figures

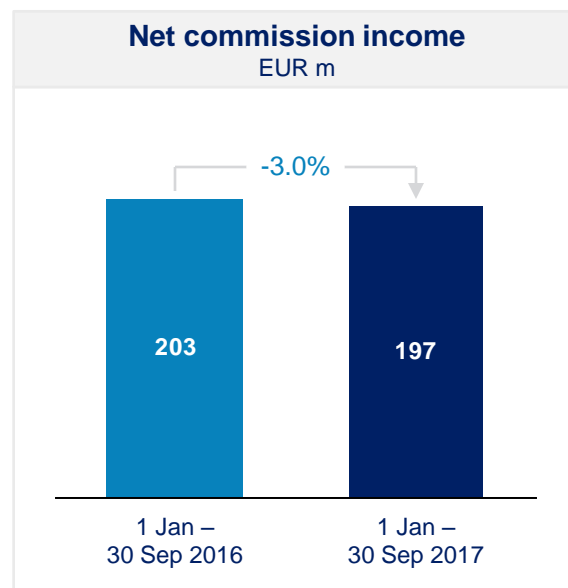
- Consolidated profit slightly lower year-on-year at EUR 433m (9M 2016: EUR 455m)
- RWA cut to EUR 63.9bn by good portfolio quality and strict management, despite higher loans and advances to customers
- Total assets up slightly at EUR 222bn, leverage ratio fully loaded 3.7%



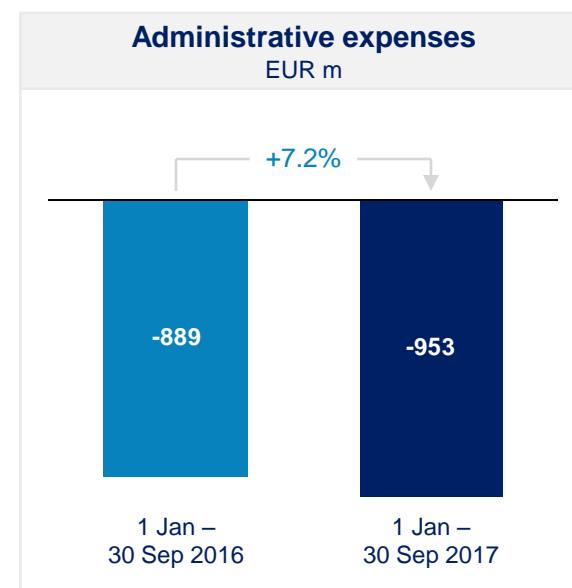
# Net interest income performed well, net commission income on par with 9M 2016



- Combined net interest income at BayernLB and DKB rose 15% due to slightly higher business volume and improved funding structure

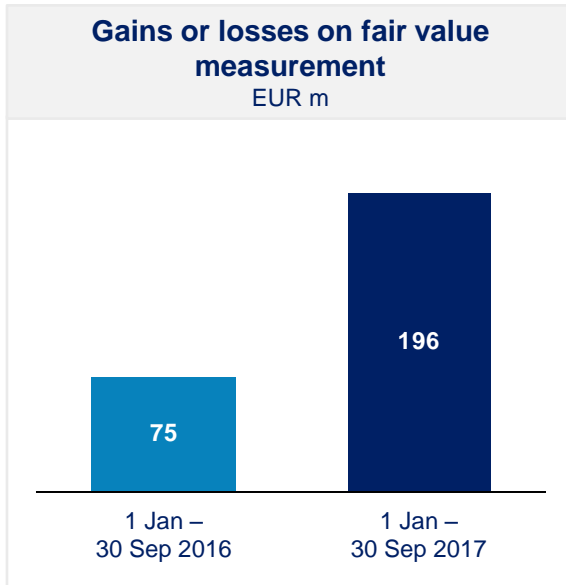


- Net commission income was EUR 197m, in line with the year-before period

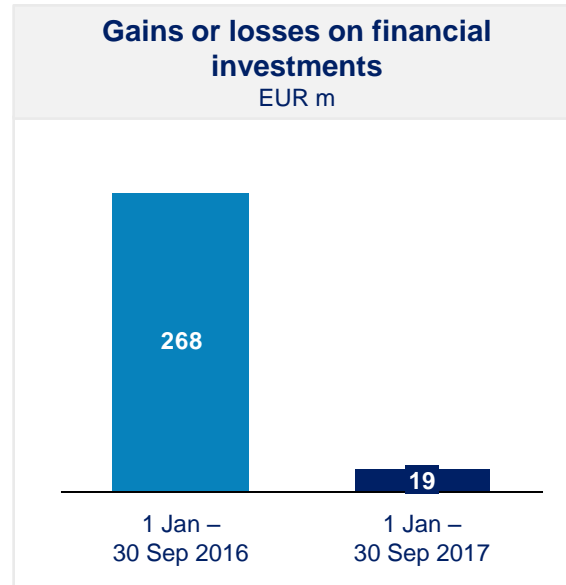


- Major regulatory projects continued to drive up administrative expenses
- Tight cost discipline dampened the increase but could not offset it completely

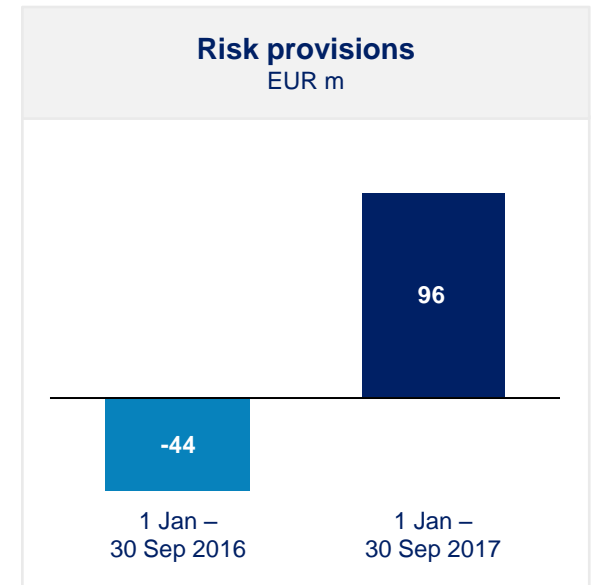
# Gains on risk provisions and low NPL ratio



- Gain driven mainly by fair value adjustments of EUR 72m and DKB swaps of EUR 84m



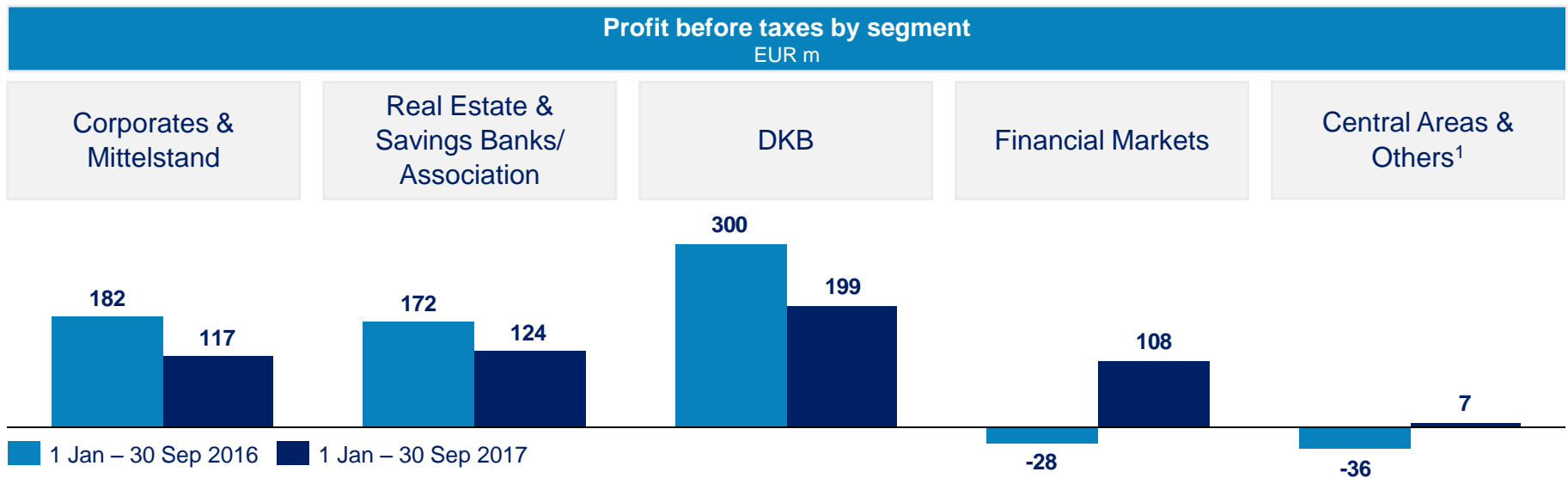
- Year-before period boosted by sales of shareholdings, in particular the sale of the Visa stake for EUR 142m



- Low additions to risk provisions due to good portfolio quality
- Releases of risk provisions and recoveries on written down loan exposures also contributed significantly

# All business areas held their own in a difficult business environment

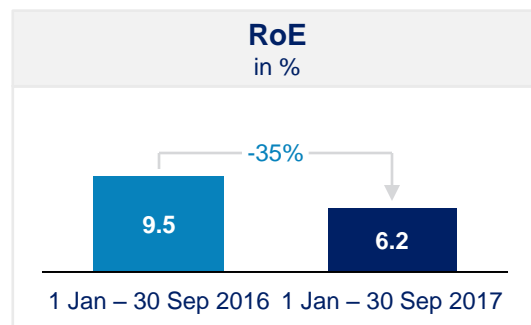
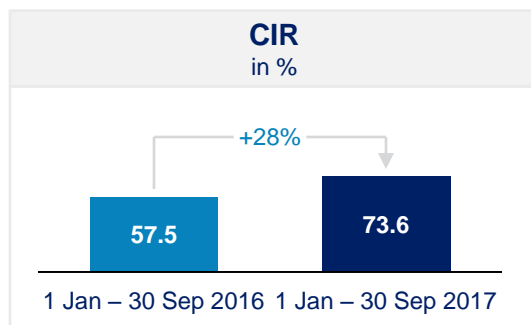
- All four operating segments contributed to profit before taxes of EUR 554m
- Operating earnings from customer business in Corporates & Mittelstand, Real Estate & Savings Banks/Association, and DKB remained predominantly stable; increase in administrative expenses for major regulatory projects weighed on all segments
- Corporates & Mittelstand's earnings in the year-before period included income from the sale of a stake in Deutsche Factoring Bank; Real Estate & Savings Banks/Association benefited in the year-before period from mark-to-market gains on derivatives transactions at BayernLabo; DKB's earnings from the year-before period included income from the sale of shares in Visa Europe Ltd. to Visa Inc.
- The approximately EUR 136m swing in earnings in Financial Markets resulted primarily from much higher net interest income and mark-to-market valuations of fair value adjustments for derivatives transactions



<sup>1</sup> Incl. consolidation

# Corporates & Mittelstand

EUR m	1 Jan - 30 Sep 2017	1 Jan - 30 Sep 2016
Net interest income	218	228
Risk provisions in the credit business	34	23
Net commission income	78	82
Gains or losses on fair value measurement	23	34
Other earnings components	-6	29
Administrative expenses	-230	-214
<b>Profit/loss before taxes</b>	<b>117</b>	<b>182</b>
Risk-weighted assets (RWA)	20,424	22,175

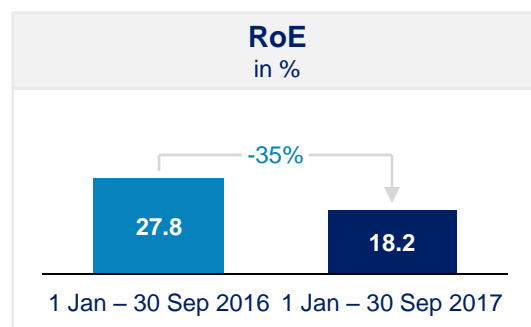
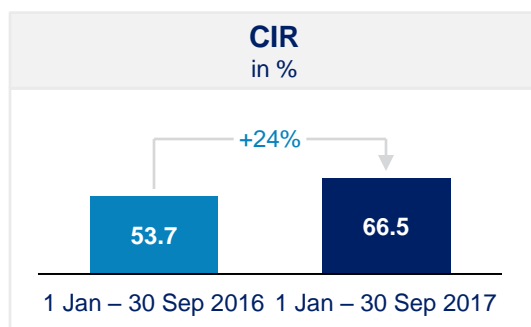


- Profit before taxes: EUR 117m (9M 2016: EUR 182m)
- Earnings decline mainly reflected the EUR 28m boost in the year-before period from the sale of a stake in Deutsche Factoring Bank
- Earnings from net interest and net commission income totalling EUR 296m (9M 2016: EUR 310m) were down on the year-before period due to low interest rates
- Gain of EUR 34m from risk provisions (9M 2016: EUR 23m) driven sharply by recoveries on written down receivables (particularly in the Global Corporates division)
- Weak demand for capital market products weighed on the gains on fair value measurement of EUR 23m (9M 2016: EUR 34m)
- Administrative expenses grew to EUR -230m (9M 2016: EUR -214m) largely reflecting the segment's share of the costs for major Bank-wide regulatory projects



# Real Estate & Savings Banks/Association

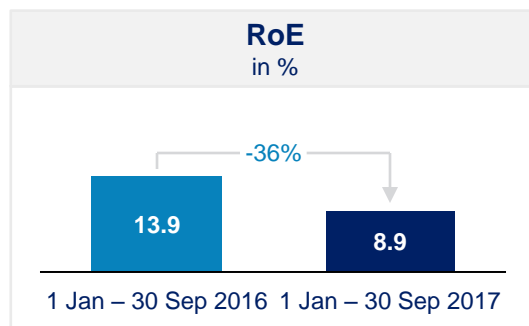
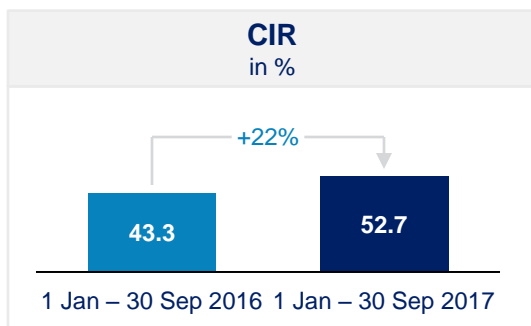
EUR m	1 Jan - 30 Sep 2017	1 Jan - 30 Sep 2016
Net interest income	169	177
Risk provisions in the credit business	24	20
Net commission income	104	92
Gains or losses on fair value measurement	36	48
Other earnings components	-12	11
Administrative expenses	-196	-176
<b>Profit/loss before taxes</b>	<b>124</b>	<b>172</b>
Risk-weighted assets (RWA)	7,740	7,160



- Profit before taxes: EUR 124m (9M 2016: EUR 172m)
- Net interest income of EUR 169m was below year-before period (9M 2016: EUR 177m) due to low interest rates
- Net commission income and other earnings components totalling EUR 92m fell year-on-year (9M 2016: EUR 102m) due to an extraordinary item
- Gain of EUR 24m from risk provisions (9M 2016: EUR 20m) thanks to very good quality of the portfolio
- Gains or losses on fair value measurement down to EUR 36m (9M 2016: EUR 48m), primarily due to lower mark-to-market gains on derivatives transactions to hedge against interest rate risks at BayernLabo
- Administrative expenses grew to EUR -196m (9M 2016: EUR -176m) largely reflecting the segment's share of the costs for major Bank-wide regulatory projects
- Profit before taxes at Real I.S. of EUR 2m (9M 2016: EUR 6m) was down year-on-year due to an extraordinary item; however operating profit was much higher than 9M 2016

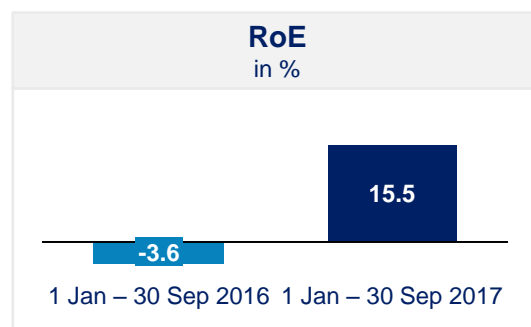
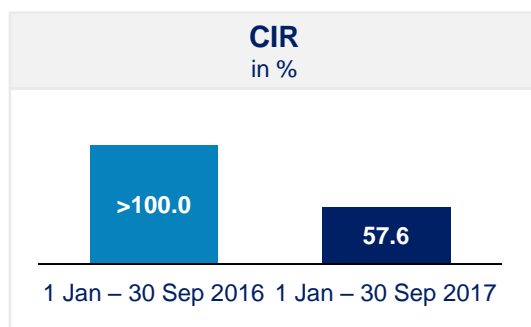
EUR m	1 Jan - 30 Sep 2017	1 Jan - 30 Sep 2016
Net interest income	681	588
Risk provisions in the credit business	-83	-96
Net commission income	-1	11
Gains or losses on fair value measurement	84	37
Other earnings components <i>of which: Expenses for bank levy and deposit guarantee scheme</i>	-133 -30	83 -25
Administrative expenses	-348	-323
<b>Profit/loss before taxes</b>	<b>199</b>	<b>300</b>
Risk-weighted assets (RWA)	24,907	24,749

- Profit before taxes: EUR 199m (9M 2016: EUR 300m)
- Earnings decline mainly reflected the EUR 132m boost in the year-before period from sale of stake in Visa Europe Ltd.
- Net interest income rose from EUR 588m in 9M 2016 to EUR 681m as a result of good business performance
- Expense for risk provisions lower at EUR -83m (9M 2016: EUR -96m); decrease mainly due to gains in the remaining non-core business
- Administrative expenses increased to EUR -348m (9M 2016: EUR -323m), largely as a result of implementing new regulatory requirements
- Profit before taxes at Bayern Card Services: EUR 5m (9M 2016: EUR 15m); year-before period boosted by sale of a shareholding



# Financial Markets

EUR m	1 Jan - 30 Sep 2017	1 Jan - 30 Sep 2016
Net interest income	115	-8
Risk provisions in the credit business	-1	0
Net commission income	17	19
Gains or losses on fair value measurement	114	4
Other earnings components	9	86
Administrative expenses	-147	-130
<b>Profit/loss before taxes</b>	<b>108</b>	<b>-28</b>
Risk-weighted assets (RWA)	7,574	8,810



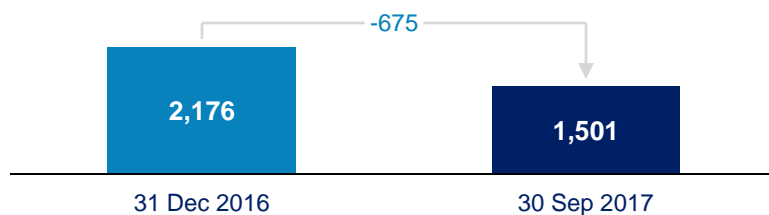
- Profit before taxes: EUR 108m (9M 2016: EUR -28m)
- Net interest income surged to EUR 115m (9M 2016: EUR -8m) mainly thanks to effective measures to counteract low interest rates
- Earnings benefited from mark-to-market gains of EUR 65m (9M 2016: EUR -57m) from release of fair value adjustments on the market value of derivatives; fair value adjustments weighed on the year-before period as a result of falling interest rates
- Administrative expenses increased to EUR -147m (9M 2016: EUR -130m) primarily due to major regulatory projects
- Weak demand for capital market products weighed on earnings from Financial Markets products; as usual these earnings are reported under the segments that directly sold them
- Profit before taxes at BayernInvest remained unchanged at EUR 6m (9M 2016: EUR 6m)

# Central Areas & Others segment

EUR m	1 Jan - 30 Sep 2017	1 Jan - 30 Sep 2016
Net interest income	67	105
Risk provisions in the credit business	122	9
Net commission income	-2	-2
Gains or losses on fair value measurement	-61	-49
Other earnings components	-89	-54
<i>of which: Expenses for bank levy and deposit guarantee scheme</i>	-64	-60
Administrative expenses	-31	-45
<b>Profit/loss before taxes</b>	<b>7</b>	<b>-36</b>
Risk-weighted assets (RWA)	3,225	4,021

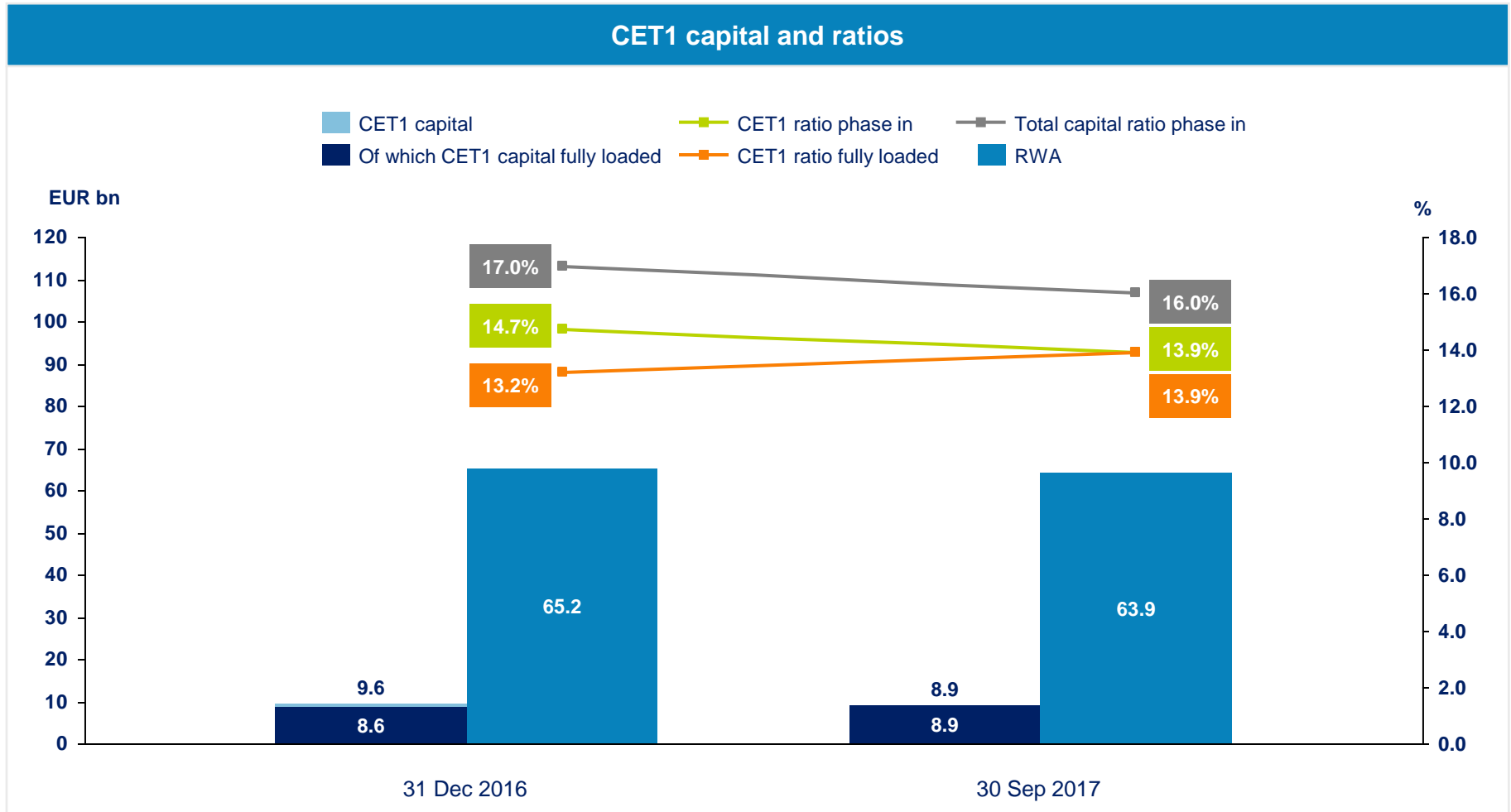
## RWA in BayernLB's remaining non-core business

EUR m



- Profit before taxes: EUR 7m (9M 2016: EUR -36m)
- Estimated expenses for the bank levy and deposit guarantee scheme recognised in the first quarter (EUR -64m altogether, not including DKB's share; 9M 2016: EUR -60m) weighed on earnings
- Profit before taxes from remaining non-core business amounting to EUR 108m (9M 2016: EUR 22m) was once again positive. This was mainly due to the EUR 122m contribution to earnings from risk provisions (9M 2016: EUR 9m), which benefited from high releases and recoveries on written down receivables
- Systematic winding down of RWA in the remaining non-core business continued: decrease of approx one-third from end of 2016 to EUR 1.5bn

# Solid capital ratios



# Agenda

- » Overview of first nine months of 2017
- » **Appendix**

# Year-on-year earnings comparison

EUR m	1 Jan - 30 Sep 2017	1 Jan - 30 Sep 2016	Change in %
Net interest income	1,250	1,090	14.7
Risk provisions in the credit business	96	-44	-
Net interest income after risk provisions	1,346	1,046	28.6
Net commission income	197	203	-3.0
Gains or losses on fair value measurement	196	75	>100
Gains or losses on hedge accounting	-131	-49	>100
Gains or losses on financial investments	19	268	-93.1
Administrative expenses	-953	-889	7.2
Expenses for the bank levy and deposit guarantee scheme	-94	-85	9.8
Other income and expenses	-29	31	-
Gains or losses on restructuring	4	-11	-
<b>Profit/loss before taxes</b>	<b>554</b>	<b>589</b>	<b>-6.0</b>
Income taxes	-119	-127	-6.3
<b>Profit/loss after taxes</b>	<b>435</b>	<b>462</b>	<b>-6.0</b>
Profit/loss attributable to non-controlling interests	-1	-7	-80.8
<b>Consolidated profit/loss</b>	<b>433</b>	<b>455</b>	<b>-4.8</b>

# Quarterly earnings comparison

EUR m	Q3 2017	Q2 2017	Q1 2017
Net interest income	405	415	430
Risk provisions in the credit business	6	-5	95
Net interest income after risk provisions	410	410	525
Net commission income	56	69	71
Gains or losses on fair value measurement	53	72	71
Gains or losses on hedge accounting	-38	-46	-47
Gains or losses on financial investments	2	10	7
Administrative expenses	-341	-289	-323
Expenses for the bank levy and deposit guarantee scheme	-10	-5	-79
Other income and expenses	-4	-31	6
Gains or losses on restructuring	-1	5	-1
Profit/loss before taxes	127	196	230



# Segment overview

EUR m 1 Jan - 30 Sep 2017	Corporates & Mittelstand	Real Estate & Savings Banks/Association	DKB	Financial Markets	Central Areas & Others (including Consolidation)	Group
Net interest income	218	169	681	115	67	1,250
Risk provisions in the credit business	34	24	-83	-1	122	96
Net commission income	78	104	-1	17	-2	197
Gains or losses on fair value measurement	23	36	84	114	-61	196
Gains or losses on hedge accounting	0	-2	-111	-7	-11	-131
Gains or losses on financial investments	0	3	13	2	1	19
Other income and expenses	-6	-15	-4	14	-19	-29
Administrative expenses	-230	-196	-348	-147	-31	-953
Expenses for the bank levy and deposit guarantee scheme	0	0	-30	0	-64	-94
Gains or losses on restructuring	0	1	-1	0	3	4
<b>Profit/loss before taxes</b>	<b>117</b>	<b>124</b>	<b>199</b>	<b>108</b>	<b>7</b>	<b>554</b>
Return on equity (RoE) (%)	6.2	18.2	8.9	15.5	-	8.4
Cost/income ratio (CIR) (%)	73.6	66.5	52.7	57.6	-	63.5

# Segment overview 2016

EUR m 1 Jan - 30 Sep 2016	Corporates & Mittelstand	Real Estate & Savings Banks/Association	DKB	Financial Markets	Central Areas & Others (including Consolidation)	Group
Net interest income	228	177	588	-8	105	1,090
Risk provisions in the credit business	23	20	-96	0	9	-44
Net commission income	82	92	11	19	-2	203
Gains or losses on fair value measurement	34	48	37	4	-49	75
Gains or losses on hedge accounting	0	5	-64	10	0	-49
Gains or losses on financial investments	29	0	153	67	20	268
Other income and expenses	0	7	21	9	-7	31
Administrative expenses	-214	-176	-323	-130	-45	-889
Expenses for the bank levy and deposit guarantee scheme	0	0	-25	0	-60	-85
Gains or losses on restructuring	0	0	-2	0	-8	-11
<b>Profit/loss before taxes</b>	<b>182</b>	<b>172</b>	<b>300</b>	<b>-28</b>	<b>-36</b>	<b>589</b>
Return on equity (RoE) (%)	9.5	27.8	13.9	-3.6	-	9.0
Cost/income ratio (CIR) (%)	57.5	53.7	43.3	>100.0	-	54.9

# Balance sheet overview

EUR bn	30 Sep 2017	31 Dec 2016	Change in %
Loans and advances to banks	36.3	28.8	26.2
Loans and advances to customers	136.6	134.8	1.3
Assets held for trading	12.9	16.9	-23.5
Financial investments	23.8	26.7	-10.9
<b>Total assets</b>	<b>222.4</b>	<b>212.1</b>	<b>4.8</b>
Liabilities to banks	61.5	54.2	13.4
Liabilities to customers	91.6	86.8	5.5
Securitised liabilities	41.7	39.6	5.2
Liabilities held for trading	8.0	11.0	-27.1
Subordinated capital	3.0	3.1	-2.1
Equity	10.6	11.1	-3.8

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