Pressrelease

11 May 2017

BayernLB kicks off 2017 with profit before taxes of EUR 230 million and a rating upgrade in Q1

- Earnings more than double the year-before period
- Strong earnings contribution from all business segments
- Risk provisions positive thanks to good portfolio quality
- Solid Common Equity Tier 1 ratio (CET1 ratio) of 13.1 percent fully loaded
- Moody's upgrades long-term issuer rating to A1

Munich - BayernLB posted **profit before taxes** of EUR 230 million in the first quarter of 2017, an increase of 153 percent over the year-before period (Q1 2016: EUR 91 million). BayernLB's **capital base** remains solid. The CET1 ratio of 14.6 percent on a phase-in basis and 13.1 percent fully loaded remains on a par with the good level at the end of 2016. **Return on equity (RoE)** increased to 10.5 percent (Q1 2016: 4.2 percent) while the **cost/income ratio** fell from 66.3 percent to 60.0 percent. BayernLB recognised in full the charge for the European bank levy and the contribution to the deposit guarantee scheme amounting to EUR 79 million (2016: EUR 76 million) in the first quarter.

"We made a strong start to the new year and are building on our excellent performance in 2016," commented BayernLB's CEO Johannes-Jörg Riegler. "In addition, our business model has once again proved its worth in a difficult market. The fact that all operating segments made a positive contribution to earnings underscores BayernLB's strength in customer business once again."

Despite the challenging environment, both net interest and net commission income rose. **Net interest income** increased to EUR 430 million (Q1 2016: EUR 372 million) and **net commission income** climbed to EUR 71 million (Q1 2016: EUR 58 million).

Communications & Press · Press contact
Tel +49 (0)89 2171- 27176 · Fax +49 (0)89 2171-21332 · presse@bayernlb.de · www.bayernlb.de

Thanks to the good quality of its loan book, BayernLB once again posted a gain in **risk provisions in the credit business**. Recoveries on previous loan exposures also were partly responsible for the jump to EUR 95 million (Q1 2016: EUR 15 million). Gains or losses on **fair value measurement** were up considerably year on year at EUR 71 million (Q1 2016: EUR -22 million) and **gains or losses on financial investments** stood at EUR 7 million (Q1 2016: EUR 44 million).

Administrative expenses rose to EUR 323 million (Q1 2016: EUR 301 million). This increase was driven by major regulatory projects. The benefits from the ongoing cost-cutting and efficiency programme lessened the increase but could not offset it altogether.

The Bank's capital base remains solid. The CET1 ratio was 14.6 percent (31 December 2016: 14.7 percent), while the fully loaded CET1 ratio was 13.1 percent (31 December 2016: 13.2 percent).

BayernLB's **total assets** rose 5.6 percent from the end of 2016 to EUR 224.1 billion, while **risk-weighted assets (RWA)** edged up 0.8 percent to EUR 65.7 billion.

Moody's upgrades BayernLB's long-term issuer rating to A1

BayernLB's sustained positive performance in the past few years and the success of its customer-focused business model has also been confirmed by a rating upgrade. On 13 April 2017, Moody's raised BayernLB's long-term issuer rating one notch from A2 to A1, maintaining the outlook at stable. The upgrade was largely based on an improvement in the Baseline Credit Assessment as a result of a better financial profile. In addition, the rating agency cited in particular BayernLB's solid fully loaded CET1 ratio and good asset quality.

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Earnings in the customer-serving segments

Corporates & Mittelstand

Profit before taxes in BayernLB's Corporates & Mittelstand segment was approximately 65 percent higher than the year-before period, rising to EUR 84 million (Q1 2016: EUR 51 million). The rise in earnings was mainly driven by a gain of EUR 50 million (Q1 2016: EUR 2 million) from risk provisions, which were boosted by sharply higher recoveries on written down receivables than in the year-before period. Operating earnings from net interest and net commission income remained stable, despite the persistently tough interest rate environment and were unchanged from the previous-year period at EUR 103 million (Q1 2016: EUR 103 million).

Real Estate & Savings Banks/Association

In the Real Estate & Savings Banks/Association segment, profit before taxes amounted to EUR 41 million (Q1 2016: EUR 54 million). While operating earnings and profit before taxes in the Real Estate & Savings Banks/Association divisions were in line with the year-before period, profit before taxes at BayernLabo was lower (EUR 12 million, Q1 2016: EUR 24 million). The drop in earnings at BayernLabo largely reflects mark-to-market gains on derivatives to hedge interest rate risks in the year-before period.

DKB

DKB's positive performance continued in the first quarter of 2017. Net interest income rose to EUR 209 million (Q1 2016: EUR 197 million). Nevertheless, profit before taxes of EUR 51 million was slightly down from the year-before period (Q1 2016: EUR 55 million), Accounting for the decline were administrative expenses of EUR 115 million (Q1 2016: EUR 104 million) which were pushed up slightly by the cost of implementing and fulfilling new regulatory requirements, and higher expenses for the bank levy and the deposit guarantee scheme totalling EUR 20 million (Q1 2016: EUR 15 million). In the first quarter, DKB passed the 3.5 million retail customer mark for the first time and further consolidated its position as Germany's second-largest online bank.

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Financial Markets

Financial Markets closed Q1 2017 with profit before taxes of EUR 71 million. That represents a turnaround of EUR 117 million from the year-before period (Q1 2016: EUR -46 million). The sharp increase in net interest income to EUR 67 million (Q1 2016: EUR 4 million) significantly boosted the segment's earnings. In addition, earnings were buoyed by measurement gains primarily related to the reversal of fair value adjustments. Low interest rates weighed heavily on this in the year-before period. As usual, earnings from financial market products on behalf of the customer-serving business segments were reported under those segments.

Outlook for financial year 2017

BayernLB's earnings for full-year 2017 cannot, of course, be projected by extrapolating the first quarter results. However, in view of its sound operating business, good portfolio quality and stable customer base, BayernLB expects a profit before taxes in the mid triple-digit million range once again, providing macroeconomic conditions remain unchanged.

Additional details about the BayernLB Group's financial figures in the first quarter of 2017 can be found in the supplemental presentation. It is available at: www.bayernlb.com

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Business performance as at 31 March 2017 — Results of operations

EUR million	1 Jan – 31 Mar 2017	1 Jan – 31 Mar 2016	Change in %
Net interest income	430	372	15.7
Risk provisions in the credit business	95	15	>100.0
Net interest income after risk provisions	525	387	35.7
Net commission income	71	58	23.9
Gains or losses on fair value measure-ment	71	-22	-
Gains or losses on hedge accounting	-47	-6	>100
Gains or losses on financial investments	7	44	-85.1
Administrative expenses	-323	-301	7.1
Expenses for the bank levy and deposit guarantee scheme	-79	-76	4.5
Other income and expenses	6	8	-32.9
Gains or losses on restructuring	-1	-1	-30.3
Profit/loss before taxes	**230**	**91**	**>100.0**
Income taxes	-44	-21	>100.0
Profit/loss after taxes	**186**	**70**	**>100.0**
Profit/loss attributable to non-controlling interests	0	-1	-31.9
Consolidated profit/loss	**186**	**69**	**>100.0**
Cost-income ratio (CIR)	60.0	66.3	-6.3 pp
Return on equity (RoE)	10.5	4.2	6.3 pp

Rounding differences may occur in the tables.

Balance sheet (IFRS)

EUR billion	31 Mar 2017	31 Dec 2016	Change in %
Total assets	224.1	212.1	5.6
Subordinated capital	3.1	3.1	1.3
Equity	11.2	11.1	1.7

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