

# Group performance 9M 2018

BayernLB reports profit before taxes of  
EUR 716 million

Munich, 15 November 2018



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# Results of operations



**Profit before taxes of EUR 716 million** beats good results in the year-before period and benefits from one-off income and positive net risk provisions



**Net interest income rises 2.6%** buoyed by positive performance at DKB

**CET**

Very **solid capital base:**  
CET1 ratio at 14.7%

**9M 2018**



All customer-serving business segments make **positive contribution** once again



Good portfolio quality and high releases result in **positive net risk provisions** of EUR 122 m; **NPL ratio** improves to **1.2%**

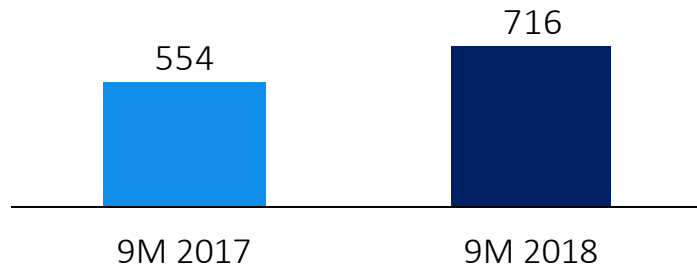


Cost/income ratio (**CIR**) remains in the target range at **58.7%**

# Earnings remained stable and continued to perform well in a persistently tough market environment

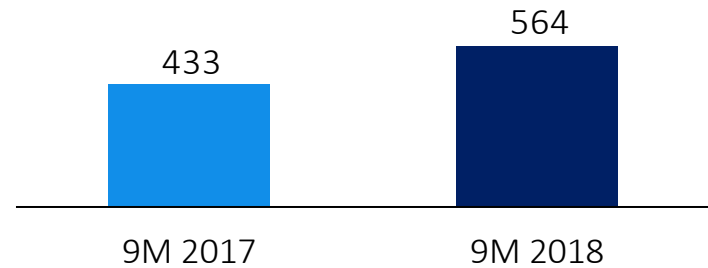
## Profit before taxes

EUR m



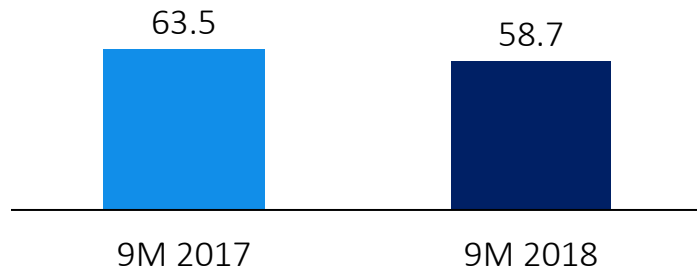
## Consolidated profit/loss

EUR m



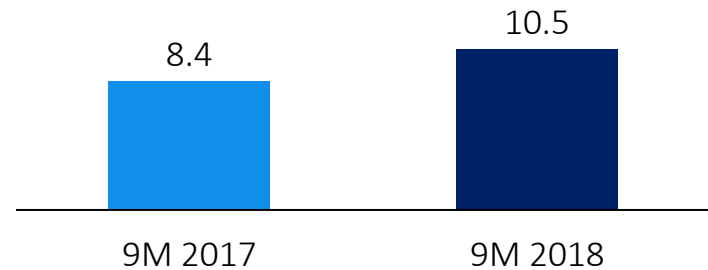
## CIR

In %



## RoE

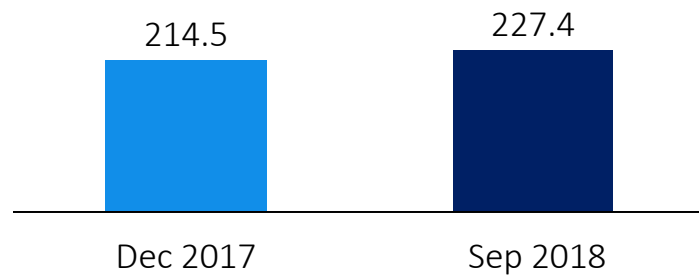
In %



# Sound capital adequacy enabled moderate growth

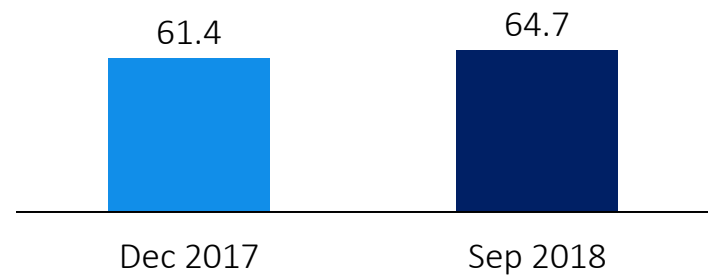
## Total assets

EUR bn



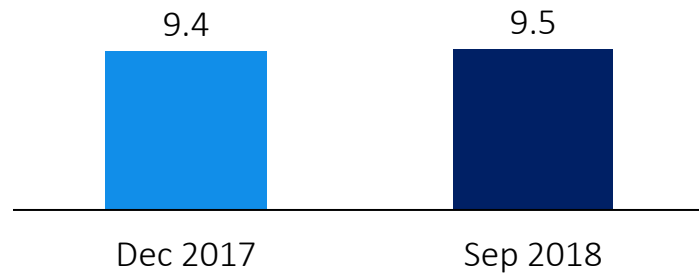
## RWAs

EUR bn



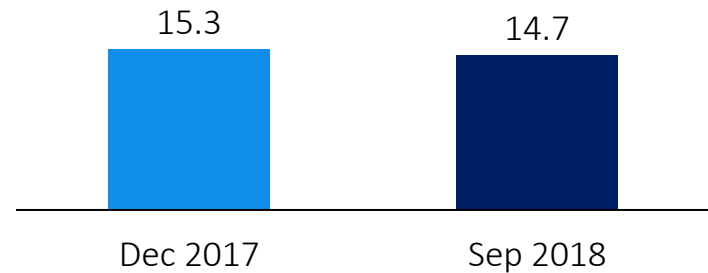
## CET1 capital (fully loaded)

EUR bn



## CET1 capital ratio (fully loaded)

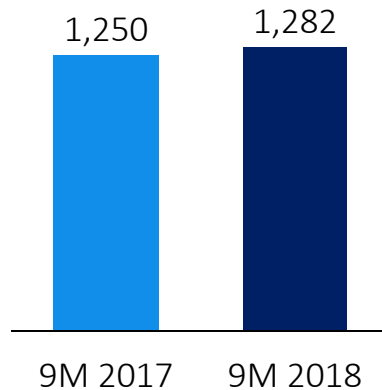
In %



# Net interest and net commission income rose on balance

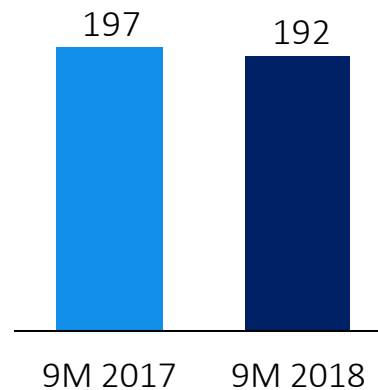
## Net interest income

EUR m



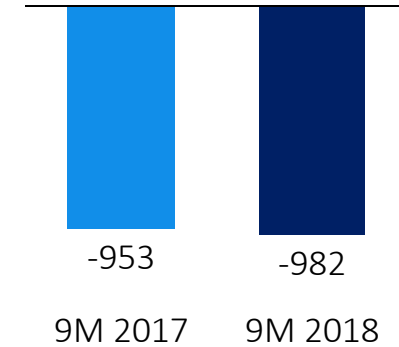
## Net commission income

EUR m



## Administrative expenses

EUR m



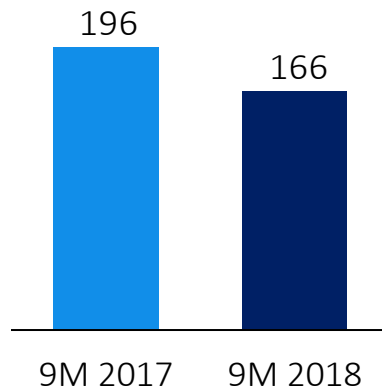
› Net interest income rose thanks to an increase at DKB

› Net commission income on par with the year-before period

› Higher expenses for major regulatory projects, investments in sales and Group-wide strategic initiatives

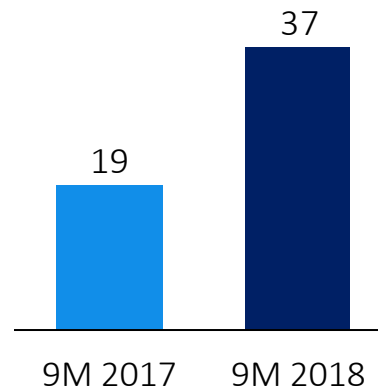
# High releases and good portfolio quality resulted in positive net risk provisions, NPL ratio improved further

Gains or losses on fair value measurement  
EUR m



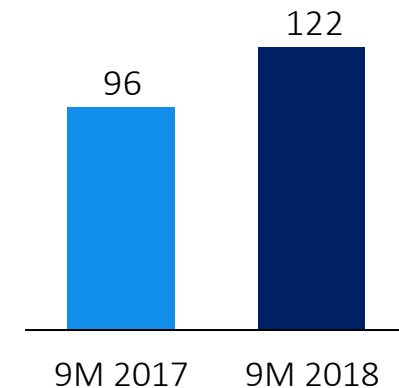
- › Year-before period saw high fair value gains at DKB and earnings shifts between gains or losses on fair value measurement and gains or losses on hedge accounting

Gains or losses on financial investments  
EUR m



- › Mainly proceeds from the sale of securities

Risk provisions  
EUR m



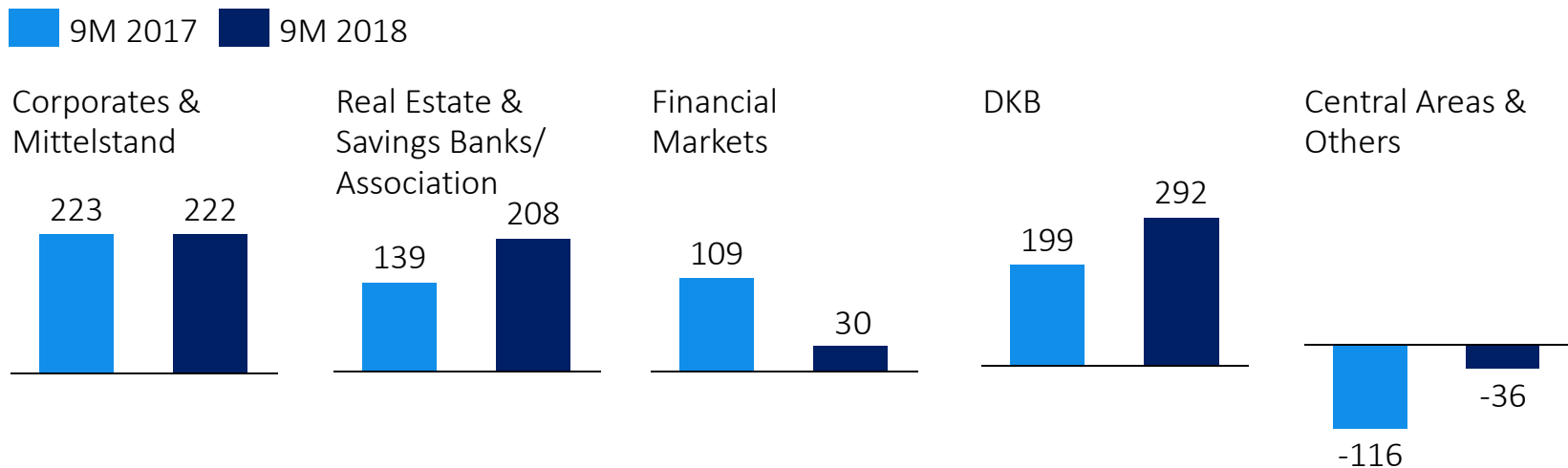
- › High releases of risk provisions and recoveries on written down receivables
- › NPL ratio reaches a new best at 1.2%



# All operating segments posted positive results in a difficult market environment

## Profit before taxes by segment

EUR m

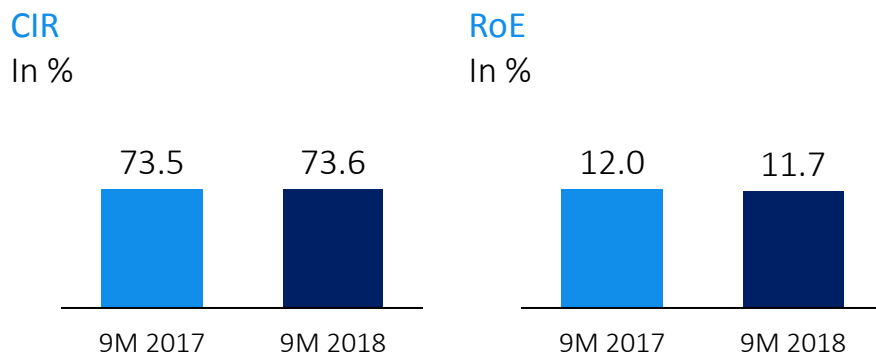


- › Corporates & Mittelstand posted stable operating earnings in a very challenging market environment. Earnings were boosted by high releases of risk provisions.
- › Operating earnings in Financial Markets were stable. The year-before period included high measurement gains.
- › Real Estate & Savings Banks/Association reported slightly positive operating earnings due to good performance of new business in the Real Estate Division. Earnings were driven up by high one-off income from a restructuring exposure.
- › DKB's operating earnings increased, as its funding structure remained favourable.

# Corporates & Mittelstand

EUR m	9M 2018	9M 2017
Net interest income	199	214
Risk provisions in the credit business	142	141
Net commission income	80	77
Other earnings components	26	17
Administrative expenses	-225	-226
<b>Profit before taxes</b>	<b>222</b>	<b>223</b>
Risk-weighted assets (RWAs)	20,556	20,220

- › Stable profit before taxes of EUR 222 m (9M 2017: EUR 223 m)
- › Stable operating performance in a tough market environment
- › Net interest income down at EUR 199 m (9M 2017: EUR 214 m) as a result of the highly competitive market and lower interest rates, while net commission income rose
- › Customer business with Financial Markets products was largely stable
- › Releases of risk provisions and recoveries on written-down receivables remained high at EUR 142 m
- › Slight increase in RWAs on year-before period



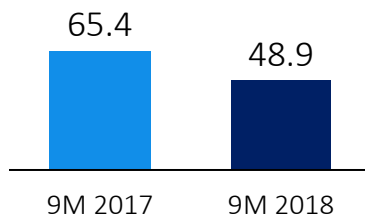
# Real Estate & Savings Banks/Association

EUR m	9M 2018	9M 2017
Net interest income	189	173
Risk provisions in the credit business	-4	34
Net commission income	96	105
Other earnings components	130	23
Administrative expenses	-203	-196
<b>Profit before taxes</b>	<b>208</b>	<b>139</b>
Risk-weighted assets (RWAs)	8,821	7,942

- › Profit before taxes increased sharply to EUR 208 m (9M 2017: EUR 139 m)
- › Positive operating performance due in particular to good new business in the Real Estate Division
- › Earnings from net interest and net commission income was up slightly year-on-year at EUR 285 m (9M 2017: EUR 278 m)
- › Other earnings components (EUR +130 m) buoyed by the sale of a restructuring exposure measured at fair value
- › Higher administrative expenses (up EUR 7 m) were the result of strategic initiatives
- › BayernLabo posts stable earnings of EUR 33 m
- › Earnings at Real I.S. Jumped to EUR 9 m (9M 2017: EUR 2 m), creation of provisions weighed on year-before period

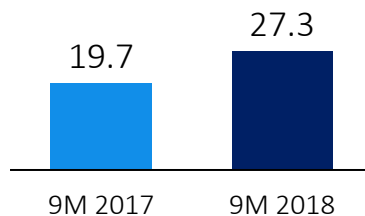
CIR

In %



RoE

In %



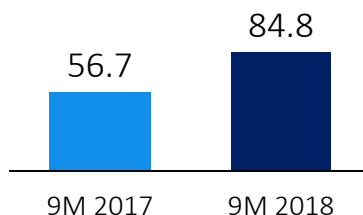
# Financial Markets

EUR m	9M 2018	9M 2017
Net interest income	127	120
Risk provisions in the credit business	0	-6
Net commission income	25	20
Other earnings components	46	126
Administrative expenses	-168	-151
<b>Profit before taxes</b>	<b>30</b>	<b>109</b>
Risk-weighted assets (RWAs)	8,611	8,091

- › Profit before taxes declined to EUR 30 m (9M 2017: EUR 109 m) while operating earnings remained stable
- › Figures for the year-before period were boosted significantly by measurement gains, such as from fair value adjustment of derivatives amounting to EUR 65 m (in 2018: EUR 24 m)
- › Despite tough market conditions, earnings from Financial Markets products for operating segments remained roughly on par with the year-before period; as usual these earnings were reported under the segments that directly sold them
- › Administrative expenses climbed due to investment in sales and Bank-wide strategic initiatives
- › Profit before taxes at BayernInvest of EUR 5 m was down on the year-before period (9M 2017: EUR 6 m) due to higher administrative expenses

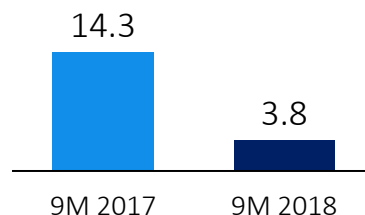
CIR

In %



RoE

In %

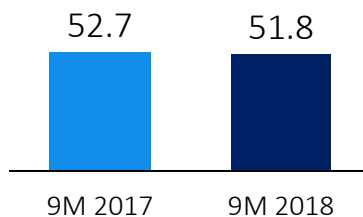


EUR m	9M 2018	9M 2017
Net interest income	733	681
Risk provisions in the credit business	-22	-83
Net commission income	-4	-1
Other earnings components	-41	-49
Administrative expenses	-374	-348
<b>Profit before taxes</b>	<b>292</b>	<b>199</b>
Risk-weighted assets (RWAs)	23,909	24,907

- › Profit before taxes surged to EUR 292 m (9M 2017: EUR 199 m) aided partly by an ongoing favourable funding structure
- › Operating performance remained positive across all sub-divisions
- › Risk provisions were down considerably on the year-before period due to a lower volume of risk provisions created and higher releases
- › Other earnings components were mainly impacted by a measurement loss related to hedge accounting
- › Administrative expenses climbed to EUR -374 m (9M 2017: EUR -348 m), partly as a result of regulatory requirements
- › Profit before taxes for Bayern Card-Services was up on the year-before period at EUR 13 m (9M 2017: EUR 5 m), driven by income from the sale of an equity interest

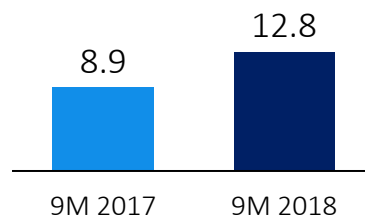
## CIR

In %



## RoE

In %



# Central Areas & Others

EUR m	Q3 2018	Q3 2017
Net interest income	34	62
Risk provisions in the credit business	7	10
Net commission income	-5	-4
Other earnings components	-58	-153
Administrative expenses	-14	-31
<b>Profit before taxes</b>	<b>-36</b>	<b>-116</b>
Risk-weighted assets (RWAs)	2,803	2,709

- › Profit before taxes amounted to EUR -36 m (9M 2017: EUR -116 m) and was impacted by the bank levy, which was recognised in full at EUR -65 m (9M 2017: EUR -64 m), and various one-off income
- › Net interest income in the year-before period was boosted by high consolidation gains, although this was offset by a decline in other earnings components
- › Administrative expenses fell to EUR 14 m (9M 2017: EUR 31 m) as a result of lower expenses for winding down non-core portfolios and for supervisory contributions as well as benefiting from the positive performance of the US dollar

## Outlook for 2018

Our previous forecast of profit before taxes in the mid-triple-digit millions is in line with operating earnings potential. We currently expect to beat the good figure for 2017, as a result of high one-off income and anticipated positive net risk provisions.

# Detailed charts



# Year-on-year earnings comparison

EUR m	9M 2018	9M 2017	Change in %
Net interest income	1,282	1,250	2.6
Risk provisions in the credit business	122	96	27.4
Net interest income after risk provisions	1,404	1,346	4.3
Net commission income	192	197	-2.3
Gains or losses on fair value measurement	166	196	-15.4
Gains or losses on hedge accounting	-51	-131	-60.9
Gains or losses on derecognised financial assets	-6	0	-
Gains or losses on financial investments	37	19	99.5
Administrative expenses	-982	-953	3.1
Expenses for the bank levy and deposit guarantee scheme	-98	-94	4.9
Other income and expenses	55	-29	-
Gains or losses on restructuring	1	4	-71.6
<b>Profit before taxes</b>	<b>716</b>	<b>554</b>	<b>29.3</b>
Income taxes	-147	-119	23.3
<b>Profit after taxes</b>	<b>569</b>	<b>435</b>	<b>31.0</b>
Profit/loss attributable to non-controlling interests	-6	-1	-
<b>Consolidated profit/loss</b>	<b>564</b>	<b>433</b>	<b>30.1</b>

# Quarterly earnings comparison

EUR m	Q3 2018	Q2 2018	Q1 2018
Net interest income	403	430	450
Risk provisions in the credit business	19	-15	117
Net interest income after risk provisions	422	415	567
Net commission income	60	72	60
Gains or losses on fair value measurement	131	-1	36
Gains or losses on hedge accounting	-8	-20	-23
Gains or losses on derecognised financial assets	-1	-8	2
Gains or losses on financial investments	4	26	7
Administrative expenses	-338	-313	-331
Expenses for the bank levy and deposit guarantee scheme	-9	10	-100
Other income and expenses	2	34	19
Gains or losses on restructuring	-1	2	-1
<b>Profit before taxes</b>	<b>264</b>	<b>215</b>	<b>237</b>
Income taxes	-42	-50	-55
<b>Profit after taxes</b>	<b>222</b>	<b>165</b>	<b>182</b>
Profit/loss attributable to non-controlling interests	0	-5	0
<b>Consolidated profit/loss</b>	<b>222</b>	<b>161</b>	<b>181</b>

# Segment overview

EUR m	Corporates & Mittelstand	Real Estate & Savings Banks/ Association	Financial Markets	DKB	Central Areas & Other	Group
Net interest income	199	189	127	733	34	1,282
Risk provisions in the credit business	142	-4	0	-22	7	122
Net interest income after risk provisions	340	185	127	711	41	1,404
Net commission income	80	96	25	-4	-5	192
Gains or losses on fair value measurement	26	125	18	12	-15	166
Gains or losses on hedge accounting	0	0	-3	-42	-6	-51
Gains or losses on derecognised financial assets	0	0	0	-6	0	-6
Gains or losses on financial investments	0	1	25	10	1	37
Administrative expenses	-225	-203	-168	-374	-14	-982
Expenses for the bank levy and deposit guarantee scheme	0	0	0	-33	-65	-98
Other income and expenses	0	4	7	18	27	55
Gains or losses on restructuring	0	0	0	0	0	1
<b>Profit before taxes</b>	<b>222</b>	<b>208</b>	<b>30</b>	<b>292</b>	<b>-36</b>	<b>716</b>
Return on equity (RoE) (%)	11.7	27.3	3.8	12.8	-	10.5
Cost/income ratio (CIR) (%)	73.6	48.9	84.8	51.8	-	58.7

# Segment overview 9M 2017

EUR m	Corporates & Mittelstand	Real Estate & Savings Banks/ Association	Financial Markets	DKB	Central Areas & Other	Group
Net interest income	214	173	120	681	62	1,250
Risk provisions in the credit business	141	34	-6	-83	10	96
Net interest income after risk provisions	356	206	114	598	72	1,346
Net commission income	77	105	20	-1	-4	197
Gains or losses on fair value measurement	22	36	117	84	-63	196
Gains or losses on hedge accounting	0	-2	-7	-111	-11	-131
Gains or losses on financial investments	1	3	2	13	0	19
Administrative expenses	-226	-196	-151	-348	-31	-953
Expenses for the bank levy and deposit guarantee scheme	0	0	0	-30	-64	-94
Other income and expenses	-6	-15	14	-4	-19	-29
Gains or losses on restructuring	0	1	0	-1	3	4
<b>Profit before taxes</b>	<b>223</b>	<b>139</b>	<b>109</b>	<b>199</b>	<b>-116</b>	<b>554</b>
Return on equity (RoE) (%)	12.0	19.7	14.3	8.9	-	8.4
Cost/income ratio (CIR) (%)	73.5	65.4	56.7	52.7	-	63.5

# Balance sheet overview

EUR bn	Sep 2018	Dec 2017	Change in %
Loans and advances to banks	38.3	37.8	1.4
Loans and advances to customers	139.3	134.7	3.4
Assets held for trading	13.2	12.0	10.3
Financial investments	24.5	23.4	4.9
<b>Total assets</b>	<b>227.4</b>	<b>214.5</b>	<b>6.0</b>
Liabilities to banks	58.2	54.4	6.9
Liabilities to customers	97.1	91.9	5.6
Securitised liabilities	43.9	41.8	4.9
Liabilities held for trading	9.2	7.7	20.3
Subordinated capital	1.9	1.9	-1.7
Equity	11.0	10.8	1.9

# Key capital figures

<b>Fully loaded</b>	<b>Sep 2018</b>	<b>Dec 2017</b>
CET1 capital (EUR bn)	9.5	9.4
CET1 ratio (%)	14.7	15.3
Total capital (EUR bn)	10.5	10.3
Total capital ratio (%)	16.3	16.8
RWAs (EUR bn)	64.7	61.4
Leverage ratio (%)	3.9	4.0
LCR (%)	153	159