2013
Annual Report and Accounts

Separate Financial Statements
Facts. Figures.

BayernLB

BayernLB’s financial statements at a glance

Income statement (HGB)

EUR million	1 Jan–31 Dec 2013	1 Jan–31 Dec 2012	Change in %
Net interest income	1,349	1,672	–19.4
Net commission income	177	175	1.6
Net income from the trading portfolio	121	152	–20.0
Administrative expenses	–1,022	–926	10.4
Operating profit/loss	**–342**	**63**	

Balance sheet (HGB)

EUR million	31 Dec 2013	31 Dec 2012	Change in %
Total assets	201,035	231,918	–13.3
Business volume	231,692	263,336	–12.0
Credit volume	130,946	145,411	–9.9
Total deposits	98,460	100,673	–2.2
Securitised liabilities	55,420	64,371	–13.9
Reported equity	18,208	19,727	–7.7

Banking supervisory ratios under the German Banking Act (KWG)

EUR billion	31 Dec 2013	31 Dec 2012	Change in %
Core capital	13.3	12.5	6.4
Own funds	16.6	17.0	–2.4
Risk positions under the Solvency Ordinance	59.3	71.8	–17.4
Core capital ratio	22.4%	17.5%	4.9 Pp[1]
Own funds ratio (overall ratio)	28.0%	23.7%	4.3 Pp[1]

1 *Percentage points.*

Employees

	31 Dec 2013	31 Dec 2012	Change in %
Number of employees	3,418	3,471	–1.5

Contents

Report by the Supervisory Board

In 2013 banks in Germany faced tough times and stiff competition in a still unforgiving environment. As Europe's financial institutions are closely interconnected, the country's own financial system was exposed once again to the risk of default and contagion as the European debt crisis continued to threaten financial stability. To mitigate future problems, further work was carried out on creating a single supervisory mechanism, including a restructuring and resolution framework, and the new CRD IV/CRR regulations. The German banking system was also plagued by structurally weak earnings due to rock-bottom interest rates and fierce competition caused by overcapacity.

BayernLB, too, had to fight hard to maintain its position in a generally challenging market environment. It buttressed its capital base, adopted supervisory requirements and implemented a wide range of measures in the reporting period. It also forged ahead with its transformation partly as a result of the formal conclusion of the European Commission's state aid proceedings in 2012. With effect from 1 July 2013, the Board of Administration was converted into the Supervisory Board with a stronger presence of external members. Michael Schneider was elected chairman at its constituent meeting. Besides creating a new committee for BayernLabo affairs, the Board also responded to the expected changes in the German Banking Act and established from its members a nominating committee and a compensation committee. The amendments to the Landesbank Act and the Statutes needed for these changes were made in advance.

In the rest of the report on the work of the supervisory body, for ease of presentation, reference will only be made to the "Supervisory Board". This shall be deemed to apply equally to the Board of Administration (1 January to 30 June 2013).

Throughout the course of the year, the Supervisory Board regularly advised the Board of Management and monitored its management of the business. The Board of Management provided the Supervisory Board and all committees formed from among its members with regular, up-to-date and comprehensive verbal and written reports on the Bank's business policy and general issues related to corporate planning, particularly financial, investment and human resource planning. The Board of Management also supplied the Supervisory Board with regular, comprehensive and up-to-date information on the Bank's performance, focusing especially on earnings, expenses, risks, liquidity and capital status, the Bank's profitability, legal and business relations with associates, and material events and business transactions, particularly in the case of associates.

In addition, the Supervisory Board looked at the plethora of legal and regulatory requirements and their potential impact on BayernLB and its subsidiaries. The Supervisory Board also had extensive discussions with the Board of Management on the Bank's strategy and its implementation, particularly the transformation process and resulting downsizing of the Bank to meet the European Commission's conditions. In connection with the winding down of non-core activities within BayernLB, the Supervisory Board devoted much of its attention to the sale of the holdings in GBW AG, SaarLB and the disposal of Bulgaria's Unionbank (subsidiary of BayernLB subsidiary MKB) before giving its approval. In its meetings the Board was also kept up to date on the implementation of the measures to reduce BayernLB's cost base over the long term and adapt infrastructure to the significant decrease in total assets. Furthermore, BayernLB kept the Supervisory Board informed on the major legal disputes the Bank is involved in.

As the macroeconomic situation in Hungary remained unsettled in 2013, the Supervisory Board was kept regularly informed of the current status of the subsidiary MKB, which is part of the non-core business. Due to the extraordinary negative impact of the measures implemented by the Hungarian government since 2010 (non-earnings related bank levy and the Foreign Currency Loan Repayment Law), increasingly tough capital requirements imposed by the Hungarian banking supervisory authority and poor economic growth in the country, MKB Bank Zrt. needed a capital injection once again in 2013. The Supervisory Board approved this measure and looked in detail at the possibility of spinning off MKB's high-risk commercial real estate portfolio into a separate company.

In 2013 four meetings were held under the chairmanship of State Minister Dr Markus Söder and a further five under the chairmanship of Michael Schneider. The Board of Administration meetings were held on 7 February 2013, 8 April 2013, 15 April 2013 and 13 May 2013; the Supervisory Board meetings took place on 4 July 2013, 17 October 2013, 21 November 2013, 2 December 2013 and 16 December 2013.

The committee chairpersons regularly reported on the work of their respective committees over the course of the reporting period to a full session of the Board. With effect from 4 July 2013, Michael Schneider took over from Alexander Mettenheimer as chairman of the Risk Committee of the Supervisory Board.

The Risk Committee was involved in all major issues relating to the Risk Strategy drafted and approved by the Board of Management and then approved by the Risk Committee, and all aspects of BayernLB's risk situation at both the Group and Bank level. It discussed and approved the Group-wide risk strategies and decided on all loans requiring approval by the Supervisory Board. It also examined the reports by the Board of Management on sub-portfolio strategies, risk trends and especially risk-bearing capacity.

In 2013 the Risk Committee was briefed on the progress of the Restructuring Unit (in particular the ABS portfolio), the 2012 participations report, and the implementation status of various internal projects from a risk standpoint. The Committee regularly exchanged views with the auditors on certain aspects of its work and had lively discussions with the Board of Management on current issues. The Risk Committee held six meetings in 2013.

The Audit Committee, under its chairman Dr Klaus von Lindeiner-Wildau, mainly dealt with the monitoring of the accounting process and the effectiveness of the internal control system, the internal auditing system and the system used for risk management. It also discussed in detail the monitoring of the audit of the annual financial statements and of the consolidated financial statements and the review and monitoring of the independence of the auditors, particularly the additional services performed by the auditors for the Bank. In 2013 the Audit Committee received updates on the work and audit results of Internal Audit and Group Compliance. It also considered assessments on the threats from money laundering and financial crime and what the focuses of the audit of the 2013 Annual Report should be in accordance with section 30 of the German Banking Act.

The Audit Committee held four meetings in 2013.

The BayernLabo Committee, Compensation Committee and Nominating Committee held their constituent meetings in the reporting period. The Nominating Committee held four further meetings in 2013. The main area of discussion was forthcoming appointments to the Board of Management.

The CEO (chairman of the Board of Management) promptly informed the chairman and deputy chairmen of the Supervisory Board about any events that were of material significance in assessing the Bank's situation and performance. The Supervisory Board chairman then briefed the full Board at its next meeting. The regulatory requirements governing the reporting by the Board of Management of irregularities identified by Internal Audit were met.

At their various meetings the Supervisory Board and respective committees passed the resolutions required by law and under the Statutes and Rules of Procedure. In addition, important issues and pending decisions were also discussed in regular meetings between the chairmen of the Supervisory Board and Board of Management. Almost all meetings were held in person, in some cases with some members participating via conference call. Resolutions between meetings were passed using a circulation procedure.

Corporate governance

The BayernLB Corporate Governance Principles set out the regulations on corporate management and corporate supervision that apply to BayernLB on the basis of binding and in-house regulations.

In its meeting of 11 April 2014, the Supervisory Board discussed compliance with these corporate governance principles in 2013. Mindful of the Bayerische Landesbank Act and BayernLB's statutes, the Board of Management, the Supervisory Board and the General Meeting agreed that they were aware of no evidence that these principles had not been observed in financial year 2013.

Board members

On 1 July 2013 the following changes were made to the composition of the Supervisory Board in connection with the restructuring of the boards.

Michael Schneider was appointed the new chairman. Dr Hans Schleicher, Dr Ulrich Klein and Prof. Dr Bernd Rudolph were made members. Walter Strohmaier was elected the new deputy chairman.

Dr Markus Söder, State Minister of Finance, and Joachim Herrmann, State Minister of the Interior, stepped down. Alexander Mettenheimer and Martin Zeil also stood down.

Dr Dr Axel Diekmann's term on the Board ended on 31 October 2013. Jakob Kreidl stood down on 3 March 2014.

The Supervisory Board would like to thank the departing Board members for their constructive contribution and services to the Bank over their terms of office.

The following changes took place to the Board of Management in 2013.

Jan-Christian Dreesen stepped down from the Board with effect from 31 January 2013; Michael Bücker was appointed to succeed him on 1 February 2013. With effect with 17 October 2013, Nils Niermann stood down from the Board, and the Supervisory Board in its meeting on 2 December 2013 appointed Dr Markus Wiegelmann to the Bank's Board of Management with effect from 1 January 2014. As Gerd Haeusler is stepping down as CEO, the Supervisory Board in this meeting appointed Dr Johannes-Jörg Riegler as a member of the Board with effect from 1 March 2014 and as CEO, effective from 1 April 2014.

Audit and approval of the 2013 annual accounts

Deloitte & Touche GmbH Wirtschaftsprüfungsgesellschaft conducted the audit of the annual financial statements and consolidated financial statements of the Bank, the management report and the Group management report, and the annual financial statements and management report of BayernLabo, a legally dependent institution of the Bank. BayernLB's Supervisory Board duly verified the independence of the auditors before recommending their approval by the General Meeting.

Unqualified opinions were granted upon completion of the audit in all cases. The BayernLabo and Audit Committees discussed each of the documents forming part of the annual and consolidated financial statements in conjunction with the auditors' audit report and with the auditors themselves. The committee chairmen reported the results of this discussion to the Supervisory Board in its meeting today.

In its meeting of 7 April 2014, the BayernLabo Committee adopted BayernLabo's annual financial statements submitted by the Board of Management.

In its meeting today, on the recommendation of the Audit Committee, and after examining the auditors' reports and the annual and consolidated financial statements documentation and discussing these in detail with the auditors, the Supervisory Board approved the findings of the audit and, following the final outcome of the audit, concluded that it had no reservations.

Furthermore, in its meeting today, the Supervisory Board adopted the Bank's annual accounts submitted by the Board of Management and approved the management report; it also approved the consolidated financial statements and Group management report.

The Supervisory Board also proposed to the General Meeting that the Board of Management be discharged. The General Meeting gave its approval to these proposals in its meeting today.

4 Report by the Supervisory Board

A thank you to the customers, the Board of Management and the staff

The Supervisory Board would like to thank all of BayernLB's customers and business partners for their loyalty over this past financial year. It also thanks the members of the Board of Management and all of BayernLB's staff for their work over the past year and for their commitment under extremely challenging conditions. One notable success was the improvement in BayernLB's already solid capital base. This is of prime concern not just for the forthcoming asset quality review by the European Central Bank, but is also a condition governing future repayments to the Free State of Bavaria that was laid down in the state aid proceedings of the European Commission. Since November 2012, approximately EUR 1.6 billion has been paid back to the Bank's owners.

The Supervisory Board would also like to wish the Bank another very successful year in tackling the key tasks for 2014, particularly the challenges in further implementing the EU conditions and reducing costs across the Group. The Supervisory Board is confident that the new BayernLB will bolster its strong position in the German banking market and continue to move along the successful path it has chosen for the foreseeable future.

Munich, 11 April 2014
The Supervisory Board

Michael Schneider
Chairman

Management report

Overview of BayernLB

Business model and strategy

No fundamental changes were made to the business model or strategy of Bayerische Landesbank, an institution established under public law, Munich (BayernLB) in 2013, the first full year after the European Commission's state aid proceedings were concluded in 2012. The customer-focused business model, which was agreed with the European Commission (EC) in the previous years after painstaking negotiations, continues to form the basis for the current and future strategic direction.

After nearly four years of EU state aid proceedings, BayernLB continued in the past financial year to implement its vision of transforming itself into a lean, solid customer-focused bank with a long and successful future ahead of it. BayernLB continues to be a strong corporate and commercial real estate lender focused on the Bavarian and German markets as well as a reliable partner to the savings banks. Complementing this is the subsidiary Deutsche Kreditbank AG, Berlin (DKB), which is an integral part of the Bank's business model in terms of the customer groups it serves, as a specialist for the long-term target sectors in the infrastructure and corporate customer segments, and as an online bank.

The (re)focusing of BayernLB's business model, initiated in 2009, is complete insofar as only customer groups and segments that correspond to the EU restructuring plan are being targeted. In terms of strengthening the operating business in these core business segments, last year can be regarded as satisfactory for BayernLB.

In 2013 BayernLB's core business was mainly focused on Bavarian and German corporate and real estate customers, selected international customers and transactions with the required connection to Germany, savings banks (as customers and strategic sales partners) and the public sector. Business activities were affected by the general state of the market, the low interest rates, corporate reluctance to make capital investments and regulatory factors.

Major disposals from the participation portfolio brought BayernLB a good step closer towards its target structure. Besides selling several smaller non-core holdings, the main disposals were the stakes in GBW AG, Munich (GBW) and Deutsche Lufthansa AG, Cologne, the remaining interests in Landesbank Saar, Saarbrücken (SaarLB), the private banking business belonging to Banque LBLux S.A., Luxembourg (LBLux) and fund and asset management specialist KGAL Gmbh & Co. KG, Grünwald (KGAL).

Some major divestments were completed significantly ahead of the EU Commission deadline.

Besides DKB, a strategic subsidiary, the prime purpose of the remaining core shareholdings is to support the business model and processes.

In its eastern Europe arm, BayernLB divested itself of MKB-Unionbank AD, Sofia and NEXTEBANK S.A., Bucharest, which had been held through subsidiary MKB-Bank Zrt. Budapest (MKB). This was a key milestone both in MKB's restructuring and on the path to reducing the (south) eastern European exposure. Pending approval by supervisory authorities, the NEXTEBANK transaction is expected to close in the first half of 2014. At the end of the year a decision was taken to postpone until further notice the spin-off of the Special Credit Unit (a division in MKB which mainly handles troubled assets) from the MKB core bank, which had been planned for 2013. The process is still on hold. BayernLB is nevertheless working hard to complete the sale of MKB within the deadline set by the EU Commission.

Apart from selling equity stakes, BayernLB also significantly shrank in size in 2013 as it continued to systematically reduce its non-core business. The Restructuring Unit (RU), the internal unit at BayernLB which manages non-core business, must take a large share of the credit for this yet again.

But full implementation of the EU's restructuring plan does not end with just the (re)focus in terms of size, customers and business activities. As volumes of assets and risk positions have shrunk considerably, resulting in a corresponding decrease in the Bank's sources of earnings, BayernLB is now seeking to bring costs down proportionately. By 2017, for example, it aims to cut administrative expenses by about EUR 130 million from the 2012 level. After defining the new Business Strategy, specific measures aimed at bringing BayernLB's business processes, product range, human resources, IT systems and therefore its costs in line with the Bank's smaller size and focused business model were introduced from the end of 2012 onwards.

By the end of 2013, specific measures had been identified to achieve the targets in BayernLB's cost-cutting programme. From 2014 onwards, priority will be on finalising the concrete details, particularly with regard to implementation. The Bank considers it essential to look more closely at potential efficiency improvements and cost restructuring so it can complete its long-term realignment and meet the EU Commission's repayment plan. This will not be possible without reducing headcount. Between 450 and 500 jobs are likely to go by 2017.

BayernLB met in full its repayment obligations to the Free State of Bavaria under the EU ruling in financial year 2013. By the end of 2013, payments to the Free State of Bavaria including those made in previous years totalled significantly more than EUR 1 billion. EUR 931 million of this was to meet EU repayment obligations, with the rest for the guarantee fee to hedge the ABS portfolio. All in all, around 19 percent of the required state aid repayments totalling about EUR 5 billion have already been made. Including the replenishment of the silent partner contributions of the Free State of Bavaria and Bavarian savings banks, BayernLB has transferred more than EUR 1.6 billion to the owners since the EU ruling.

Overall BayernLB made additional significant progress in its fundamental realignment and the implementation of and compliance with the EU conditions in 2013. Since the capital increase at BayernLB Holding AG, Munich (BayernLB Holding) level in June 2013 by the Association of Bavarian Savings Banks (SVB), the Bank looks well positioned going forward with the savings banks, the second owners, as heavyweights alongside the Free State of Bavaria. As a result of the capital increase, the Bavarian savings banks indirectly hold around 25 percent of BayernLB, while the Free State of Bavaria's share fell to around 75 percent.

Internal management system

BayernLB is included in the BayernLB Group's management process. The BayernLB Group's management system is based on managing the inter-related variables of profitability, risk, liquidity and capital. One of the main goals of the internal management system is to continuously optimise resources employed while simultaneously ensuring the Group's capital base is adequate. This should also enable BayernLB to comply with terms of the repayment plan agreed with the EU.

The profitability of the BayernLB Group is managed using two key financial ratios that act as crucial indicators of performance. The main one is Return on Equity, or RoE. This is calculated by dividing pre-tax profit by average capital employed during the year. Depending on the management level, capital employed is derived from either the balance sheet or the risk-weighted assets of the individual underlying transactions in accordance with regulatory standards. Cost efficiency is monitored by means of the cost/income ratio (CIR), the ratio of administrative expenses to gross profit. In addition to measuring return on equity and cost efficiency, BayernLB uses a value-oriented management approach. The figure used for this is economic value added (EVA). This indicator expresses the profit of a company after deducting the cost of capital employed denominated in euro. EVA is calculated in BayernLB's management system by multiplying the average capital employed during the year by the after-tax cost of capital and deducting this from profit after taxes. In order to ensure integrated and consistent management, these figures are used at all levels of management. Measurement and management therefore always uses a consistent metric, all the way from calculations before and after individual transactions right up to the Group as a whole including subsidiaries. The management cycle is a continuous process of annual medium-term planning, detailed budget vs. actual comparisons during the year and regular projections to the year-end.

Risk-bearing capacity is monitored using the Internal Capital Adequacy Assessment Process (ICAAP). This is done at BayernLB, the BayernLB Group and at each of the subsidiaries. The aim of ICAAP is to ensure that there is sufficient economic capital for the risks assumed or planned. For risk management, BayernLB follows a liquidation-based approach in ICAAP that is designed to protect senior creditors. The method for calculating risk-bearing capacity is assessed and refined on a regular basis to ensure it takes adequate account of external factors and internal strategic targets. The economic capital is of suitable quality to absorb any losses and is calculated, based on the liquidation approach, by deducting from the sum of equity and subordinated capital those items that are not available in the event of liquidation (e.g. intangible assets). For an in-depth, forward-looking analysis of economic capital adequacy, the calculation of risk-bearing capacity is based on the Business Strategy and is supplemented by stress tests.

The strategic principles for dealing with liquidity risk within the BayernLB Group are set out in the Group Risk Strategy. The overriding priority of liquidity risk management and monitoring is to ensure that the BayernLB Group can meet its payment obligations and obtain funding at all times. In addition to stringently ensuring solvency, the primary goal of BayernLB's liquidity management is to ensure adequate access to markets. In the BayernLB Group, daily limits are placed on liquidity risks at the operating unit level based on defined scenarios. Amongst other things, operating liquidity management is based on capital flow accounts and limit utilisation ratios. Additional information can be found in the Risk Report.

Capital is managed using the core tier 1 ratio as defined by the European Banking Association, taking account of the total capital ratio required by regulators. The capital required and the corresponding capital ratios are derived from the Business and Risk Strategy and the latest medium-term planning. Risk positions are allocated, limited and monitored to ensure compliance at all times with the capital ratios planned and required by the regulator as a basic condition for all business activities. As part of overall bank management, the Asset Liability Committee integrates target capital amounts, risk-bearing capacity and funding.

Human resources

Changes to the workforce will be needed to manage BayernLB's realignment to meet the EU conditions, the fluid situation regarding the market and competition, and regulatory requirements. Employee numbers and staff costs will need to be brought into line with the lower volume of business. At the same time the workforce must receive the ongoing qualifications and training it needs to meet the challenges ahead. Well qualified and motivated staff are key to BayernLB's success.

As at 31 December 2013, a total of 3,418 staff were employed at BayernLB. Headcount fell by 53 over the year. Of this, 16 were based in Germany and 37 abroad.

Corporate responsibility

One of BayernLB's stated corporate goals is to achieve commercial success while meeting its social responsibilities. BayernLB therefore attaches great importance to its work in the community, the fields of education and science and the world of art and culture – investing ultimately therefore in its own success. Naturally, sustainability management and reporting play no less important roles in BayernLB's business activities.

Report on the economic position

Macroeconomic and sector-specific environment

The German economy recovered over the course of 2013 with full-year economic output rising 0.4 percent[1], in line with expectations. But the relatively modest growth rate was due to a statistical gap from the previous year and belies the robustness of the momentum.

On the demand side, Germany's economy was driven mainly by private consumption in 2013. Capital expenditure, the second pillar of domestic demand, once more disappointed – as expected. Conditions for it had indeed been very favourable. Interest rates were kept very low by a combination of Germany's status as a "safe haven", which makes it a magnet for domestic and foreign capital, and the ECB's expansive monetary policy. But the still relatively high levels of slack in the economy, continuing fears over the stability of the currency union and the economic health of major eurozone economies dampened enthusiasm for capital spending. Investment spending by the government was also weak.

As anticipated, the labour market continued to move in the right direction. Although unemployment rose during 2013, the pace of new job creation was intact. Averaged out over the year the number in work rose by 233,000 to 41.8 million.[1] The reasons for the divergence in the indicators were increased labour market participation and a jump in immigration. Consumer prices rose at a very moderate rate once again in 2013. The average annual rise in inflation was 1.5 percent, down from 2 percent in 2012.[1]

Bank lending in Germany to companies and households fell by 3.1 percent in 2013 according to Deutsche Bundesbank's monthly report for December 2013. By contrast it had risen by 0.4 percent the year before (loans to non-banks). This can be traced to weak demand for credit, consolidation of balance sheets in the banking system ahead of the comprehensive assessment by the European Central Bank (ECB) and the implementation of additional regulatory requirements.

Over the course of 2013 the symptoms of the European debt crisis eased markedly. In response to the downside risks to inflation, the ECB loosened monetary policy once more by cutting its headline rate to 0.25 percent in November.

At the start of 2013 Hungary pulled through the recession which it had slipped back into in 2012 for the first time since the financial crisis and economic downturn began. In calendar year 2013 its gross domestic product grew by 1.1 percent year-on-year.[2] This was driven mainly by higher demand for exports which also lifted capex slightly. Nevertheless, the impetus could not alleviate the difficult economic situation facing many companies or reduce high levels of household debt.

The financial services sector too, found 2013 a year of uncertainties and change. The main challenges were fierce competition, historically low interest rates, and the morass of ever more complex and numerous guidelines and regulations at national and international level. Consequently, during the year, financial services providers had to devote more resources to preparing for the Capital Requirements Regulation (CRR) and the Capital Requirements Directive IV (CRD IV), which come into force in 2014.

1 Source: German Federal Statistical Office
2 Source: Hungarian Central Statistical Office

In addition to the sustained low interest rate environment, BayernLB's business activities were primarily affected by sluggish capital spending by companies and increasingly cut-throat competition in its core business areas. It faces competitors in all three pillars of the German banking landscape: large German and international commercial banks, Landesbanks, and special institutions which operate in selected segments, such as real estate financing.

In spite of falling demand for credit and the economic uncertainties in European markets, international banks increasingly homed in on large corporate and Mittelstand customers in Germany in 2013. The proliferation of competitors and plentiful supply of liquidity in the market had a direct impact on BayernLB as prices were cut to gain an edge. Mittelstand firms with good to very good credit ratings were assiduously courted.

The online banking market grew slightly once again in 2013. Competition among these direct banks was stiff, fuelled by the arrival of foreign banks, especially in the overnight money segment. Despite these conditions, DKB increased retail customer deposits once more.

In Hungary most of MKB's competitors were other banks operating there. Given MKB's regional focus, its earnings were weighed on by the weak growth of the Hungarian economy, a rise in insolvencies and the impact on the country of external economic policy which cannot be planned for.

Course of business

BayernLB ended financial year 2013 with a net loss of EUR 475 million. In contrast to its own previous forecasts, this was far less than the previous year figure (FY 2012: net income of EUR 28 million). The net loss for 2013 was offset by a withdrawal from the capital reserves, resulting in net retained profits for the financial year of zero.

The prime reason for the 2013 net loss was Hungarian subsidiary MKB. In view of the ongoing economic weakness and associated uncertainties about the future profitability of MKB as well as the stricter capital requirements imposed by Hungarian banking supervisory authorities, charges totalling EUR 849 million were recognised in FY 2013.

On a positive note, BayernLB complied with all of its repayment obligations under the EU ruling either on time or ahead of schedule in 2013. By year-end 2013, BayernLB had already repaid EUR 931 million of the approximately EUR 5 billion in state aid it has to pay back to the Free State of Bavaria by the end of 2019.

As at year-end, total assets amounted to EUR 201 billion, about EUR 31 billion lower than the year before. Although foreign activities were cut back further during 2013, the credit business remained the key factor affecting the financial position.

The financial situation was solid throughout the financial year, and sufficient liquidity was available at all times. Overall BayernLB's economic situation was stable despite the ongoing losses from MKB.

BayernLB continues to enjoy a solid capital base and there was a further improvement in its core capital ratio, which stood at 22.4 percent as at 31 December 2013 (FY 2012: 17.5 percent).

Results of operations

EUR million	1 Jan–31 Dec 2013	1 Jan–31 Dec 2012	Change in %
Net interest income	1,349	1,672	–19.4
Net commission income	177	175	1.6
Gross profit	**1,526**	**1,847**	**–17.4**
Personnel expenses	–615	–521	17.9
Operating expenses	–408	–404	0.9
Administrative expenses	**–1,022**	**–926**	**10.4**
Net income of the trading portfolio	121	152	–20.0
Net of other operating expenses, income and taxes	80	229	–65.0
Risk provisions	–506	–9	> 100.0
Gains or losses on measurement	–541	–1,231	56.1
Operating profit/loss (operating earnings)	**–342**	**63**	**–**
Gains or losses from extraordinary items	–141	–8	> 100
Income taxes	8	–27	–
Net income/loss for the financial year	**–475**	**28**	**–**
Withdrawals from capital reserve	475	438	8.5
Withdrawals from profit participation certificates	–	–	–
Withdrawals from silent partner contributions	–	–	–
Replenishment of profit participation certificates	0	–10	–
Replenishment of silent partner contributions	0	–455	–
Net retained profits	–	–	–

Rounding differences may occur in the tables.

Net interest income, the difference between interest income and interest expenses – including current income from equities and other non-fixed income securities, participations, shares in affiliated companies and profit transfers – fell in the financial year by 19.4 percent to EUR 1,349 million (FY 2012: EUR 1,672 million). The fall is mainly due to a decline in current income from profit transfers from subsidiaries of EUR 109 million to EUR 149 million and the loss of EUR 109 million in net interest income from LBS Bayerische Landesbausparkasse, Munich (LBS Bayern), which was sold at the end of 2012.

Net commission income rose by 1.6 percent year-on-year to EUR 177 million (FY 2012: EUR 175 million). Although commission income was lower primarily due to lower income in the credit and securities business, this was offset by an even larger decrease in commission expenses as LBS Bayern's commission expenses are no longer included.

Administrative expenses rose by 10.4 percent in total to EUR 1,022 million (FY 2012: EUR 926 million). Personnel expenses rose by 17.9 percent to EUR 615 million. Although FY 2013's financial accounts no longer include certain personnel items that weighed on FY 2012's results (expenses for LBS Bayern's personnel and a charge for implementing the ruling by the German Federal Employment Court in connection with the eligibility of some staff for a pension plan modelled on that for civil servants), this was more than offset by higher expenses for pensions and other employee benefits and also provisions required especially to end or avoid further suits related to the civil servant pension scheme.

Operating expenses rose slightly by 0.9 percent to EUR 408 million. However, impairments on software developed internally were almost completely offset by the sharp fall in IT and building costs.

Net income from the trading portfolio was EUR 121 million (FY 2012: EUR 152 million), lower than the previous year. The decline resulted mainly from the impact of the risk discount required under section 340e, para. 3 HGB, which was opposite to that of the previous year. There was a charge of EUR 3 million for additions to provisions in FY 2013 compared to income of EUR 41 million from releases in the previous year. There was a substantial foreign currency gain of EUR 55 million (FY 2012: EUR 21 million). However, income from customer-related securities and derivatives trading fell to EUR 51 million (FY 2012: EUR 66 million). EUR 29 million (FY 2012: EUR 37 million) was realised from reversing valuation discounts for counterparty-specific credit rating effects on OTC derivatives.

After netting other operating expenses, income and taxes, the Bank posted net other operating income of EUR 80 million, 65.0 percent less than the year before (FY 2012: EUR 229 million). The previous year's figure included a one-time gain of EUR 282 million on the disposal of LBS Bayern.

The cost-income ratio (CIR)[3] rose to 59.0 percent (FY 2012: 41.5 percent). The higher ratio resulted mainly from the lower gross earnings in the interest business. The year before's figure was boosted by extraordinary items.

Expenses for risk provisions came in at EUR 506 million (FY 2012: EUR 9 million), mainly as a result of extraordinary items. For risk provisions in the credit business there was a net expense of EUR 469 million (FY 2012: net gain of EUR 27 million) due to the writeoff of loans to MKB of EUR 401 million. Risk provisions for securities in the liquidity reserve amounted to EUR 25 million (FY 2012: EUR 78 million). The fall was mainly due to income from successful restructuring in the credit business and the proceeds from the sale of the stake in Deutsche Lufthansa totalling EUR 40 million (FY 2012: EUR 1 million).

3 *CIR = administrative expenses / (gross profit + net income/losses from the trading portfolio + net of other operating expenses and income)*

In financial year 2013 the gains or losses on measurement item once again posted a large negative figure of EUR –541 million (FY 2012: EUR –1,231 million). This includes expenses for payments to the Free State of Bavaria – as stipulated by the European Commission's ruling – of EUR 194 million (FY 2012: EUR 193 million) related to the EUR 4.8 billion guarantee ("Umbrella") provided in December 2008 to hedge the ABS portfolio. The previous year's figure also included a claw back payment to the Free State of Bavaria of EUR 451 million as laid down by the EU proceedings. Gains or losses from participations came in at EUR –300 million (FY 2012: EUR –526 million), largely as a result of writedowns and provisions related to the Hungarian subsidiary MKB totalling EUR 448 million. Of this, EUR 233 million (FY 2012: EUR 503 million) was a writedown on the carrying value of participations and EUR 215 million was an expense to create a provision for anticipated losses associated with a capital measure carried out in January 2014. Income from the sale of participations and revaluation of shares was not able to offset the negative impact.

Owing to the factors described above and the significant non-recurring charges for them, there was an operating loss (operating earnings after risk provisions/revaluation) for 2013 of EUR –342 million (FY 2012: EUR +63 million).

BayernLB's lower earnings led to a lower return on equity (RoE)[4] for FY 2013 of –3.4 percent (FY 2012: 1.9 percent).

Gains or losses from extraordinary items came in at EUR –141 million (FY 2012: EUR –8 million). The significant rise is related to the cost cutting programme launched in financial year 2013. EUR 153 million was added to restructuring provisions in 2013 (FY 2012: EUR 8 million). This addition was partly offset by releases of provisions no longer needed in the amount of EUR 13 million.

After a tax expense in the previous year of EUR 27 million, the Bank reported tax income of EUR 8 million, mainly from the release of provisions for income tax liabilities in Germany.

Financial year 2013 ended with a net loss of EUR 475 million (FY 2012: net income of EUR 28 million).

Because of the net loss for the year, no distributions on silent partner contributions or profit participation certificates were made. A total of EUR 7 million in deferred distributions remain due on silent partnership contributions for the period 2008–2013. Distributions of EUR 23 million on profit participation certificates due for 2013 have been deferred. Deferred payments may only be made during the lifetime of these instruments and only if their payment does not produce or increase a net accumulated loss.

4 *RoE = (operating profit + change in fund for general bank risks under section 340g HGB)/(average, relevant reported equity + average fund for general bank risks under section 340g HGB).*

Financial position

Both total assets and business volume were lower in 2013:

EUR billion	31 Dec 2013	31 Dec 2012	Change in %
Total assets	201.0	231.9	–13.3
Business volume*	231.7	263.3	–12.0

** Total assets plus contingent liabilities and credit commitments.*

BayernLB's total assets fell by 13.3 percent to EUR 201.0 billion year-on-year. Business volume was correspondingly lower. Contingent liabilities and credit commitments fell by a total of 2.4 percent to EUR 30.7 billion. The outcome reflects the business model's aim of reducing the size of the balance sheet.

Assets

EUR billion	31 Dec 2013	31 Dec 2012	Change in %
Credit volume*	130.9	145.4	–10.0
Due from banks	46.4	48.7	–4.6
Due from customers	73.0	84.1	–13.2
Securities	43.2	43.3	–0.4
Trading portfolio	25.8	43.1	–40.1
Participations/shares in affiliated companies	2.8	3.6	–22.3

** Due from banks and customers plus contingent liabilities from guarantees and indemnity agreements.*

The Bank's lending business continued to shrink. Amounts due from banks went down – as in previous years – decreasing from EUR 48.7 billion to EUR 46.4 billion. Hypo Alpe Adria Bank International AG (HAA) notified BayernLB in December 2012 that it would not repay several loans totalling around EUR 1.8 billion which were due at the end of 2013, citing the Austrian Equity Capital Substitution Act. The same month BayernLB petitioned Munich District Court for a declaratory judgement that the loans and the bond must be repaid as specified in the terms of the contract. In its countersuit HAA demanded repayment of the interest and principal paid to BayernLB. This claim for repayment is covered in the declaratory judgement petitioned by BayernLB in December 2012. Munich District Court ruled that the payment claims being lodged fall within its jurisdiction (except for the bond, which falls within the legal jurisdiction of Frankfurt am Main) and appointed a German professor of law to provide an advisory opinion on the Austrian Equity Capital Substitution Act. BayernLB, its advisors and experts continue to affirm the legal validity of BayernLB's position in the proceedings in Munich.

Amounts due from customers fell by a total of 13.2 percent to EUR 73.0 billion (FY 2012: EUR 84.1 million), predominantly at the short end. Amounts due from domestic borrowers decreased by 9.4 percent to EUR 52.1 billion. Amounts due from foreign borrowers fell in line with strategy by 21.5 percent to EUR 20.9 billion.

The securities portfolio shrank slightly from EUR 43.3 billion to EUR 43.2 billion largely as a result of maturities and repayments of securities.

There was a significant reduction in the trading portfolio from EUR 43.1 billion to EUR 25.8 billion. The portfolio consists largely of interest rate derivatives, bonds and notes. This is due firstly to a significant fall in volumes as a result of early close outs thanks to participation in the TriOptima netting procedure and backloading with LCH.Clearnet, and secondly to changes in market prices as interest rates moved.

Participations and shares in affiliated companies declined in FY 2013 from EUR 3.6 billion to EUR 2.8 billion, primarily as a result of the disposal of GBW and the writedown on the carrying amount of the stake in MKB.

Liabilities

The main items on the liability side are as follows:

EUR billion	31 Dec 2013	31 Dec 2012	Change in %
Due to banks	62.4	57.6	8.3
Due to customers	36.1	43.1	−16.2
Securitised liabilities	55.4	64.4	−14.0
Trading portfolio	19.0	37.2	−49.0

BayernLB once again covered or exceeded its moderate funding needs according to plan and relatively cheaply in 2013. Funding management is focused on further improving the quality and mix of liabilities.

Ongoing and extensive support by the central banks led to a significant recovery in capital markets, accompanied by a marked narrowing of spreads and a broad pick-up in issuing activity. BayernLB benefited from this trend and deliberately raised more funding than it needed in 2013.

Amounts due to banks rose significantly from EUR 57.6 billion to EUR 62.4 billion (8.3 percent), mainly at the short end. Amounts due to customers fell by 16.2 percent to EUR 36.1 billion (FY 2012: EUR 43.1 billion).

Securitised liabilities fell from EUR 64.4 billion to EUR 55.4 billion, largely due to a reduction in other bonds and public Pfandbriefs. Mortgage Pfandbriefs fell by EUR 1.1 billion to EUR 4.5 billion.

The trading portfolio decreased by 49.0 percent to EUR 19.0 million. This trend was in line with trading assets.

Further information on liquidity management and the liquidity situation is provided in the Risk Report.

Equity

The Bank’s reported equity totalled EUR 12.1 billion as at 31 December 2013, below the previous year (FY 2012: EUR 13.0 billion).

Several measures were implemented in the first half of 2013 in connection with the conditions of the European Commission’s state aid ruling and to ensure that BayernLB’s capital meets the forthcoming requirements under CRR/CRD IV for classification as core tier 1 capital. On 1 January 2013, for example, the contractual provisions relating to the former specific-purpose capital were amended in line with CRR/CRD IV requirements. The restructured capital instrument has been reported under subscribed capital as a capital contribution since the start of the year. In financial year 2013 BayernLB’s statutory nominal capital rose by EUR 500 million to EUR 2.8 billion through a withdrawal from the capital reserve.

At BayernLB Holding level, the Bavarian savings banks subscribed to a capital increase of around EUR 832 million through the Association of Bavarian Savings Banks (SVB). This took effect on 25 June 2013 when it was recorded in the Commercial Register. The SVB’s indirect stake in BayernLB rose to around 25 percent as a result, with the Free State of Bavaria’s stake falling correspondingly to around 75 percent. The capital increase was funded by both a cash injection and a contribution in kind from all the perpetual silent partner contributions of the Bavarian savings banks of about EUR 797 million. The capital raised was transferred directly from BayernLB Holding to BayernLB’s capital reserve.

Banking supervisory ratios under the German Banking Act (KWG)

Risk positions were calculated in accordance with the German Solvency Ordinance (SolvV). The core capital ratio includes risk assets, operating risk and market risk positions.

EUR billion	31 Dec 2013	31 Dec 2012
Risk positions under SolvV	59.3	71.8
Own funds	16.6	17.0
• core capital	13.3	12.5
Overall ratio as reported	28.0%	23.7%
Core capital ratio as reported	22.4%	17.5%

Core capital under the Solvency Ordinance was EUR 13.3 billion (up EUR 0.8 billion from 31 December 2012). One factor behind this increase was the replenishment of silent partner contributions to nominal value in the 2012 annual financial statements. The decline in equity is largely due to maturing subordinated liabilities.

Partly as a result of the sharp drop in risk positions in the non-core business, capital ratios improved further. The core capital ratio was a solid 22.4 percent (31 December 2012: 17.5 percent), while the own funds ratio was 28.0 percent (31 December 2012: 23.7 percent).

General overview of financial performance

BayernLB's results from operations in financial year 2013 were satisfactory in spite of the challenging situation facing Hungarian subsidiary MKB and the further downsizing that occurred.

On the whole, a look at the earnings performance in FY 2013 shows that the Bank is well on track in its core business areas and its business model has proven effective even in the difficult market environment throughout the period. Moreover, risks were reduced further and appropriate measures taken for the future in the reporting year.

BayernLB's financial position and financial performance was stable overall in financial year 2013 despite the challenging environment. The Bank had comfortable levels of liquidity throughout the reporting period. The Risk Report contains additional information on the financial position.

Events after the reporting period

The following events of major significance to BayernLB occurred after the close of financial year 2013:

As required by the European Commission, participations will continue to be sold in 2014. BayernLB signed an agreement with the Saarland on 13 November 2013 to transfer the remaining shares in SaarLB with effect from 2 January 2014. The deal is expected to close in the first quarter of 2014.

HAA failed to repay a CHF 300 million debt instrument due on 20 January 2014, as it did with loans that fell due on 31 December 2013. For more on the subject of HAA, please see the explanation in “Due from banks” above and the information in the Report on expected developments below.

No other events of major significance occurred after the close of financial year 2013.

Risk report

Principles

This risk report is prepared in accordance with the requirements of the German Commercial Code (Handelsgesetzbuch (HGB)) on risk reporting. The following information relates to the provision in section 289 para. 5 HGB, which requires corporations within the meaning of section 264d HGB in conjunction with section 340a HGB to describe the key features of the internal monitoring and risk management system they use for the accounting process.

Key developments in 2013

- Risk profile remained stable
- Core business expanded in line with strategy
- Progress in winding down non-core business
- Risk-bearing capacity maintained at all times
- Risk capital requirements for market risk rose due to a change in methodology
- Liquidity levels were comfortable

BayernLB's risk profile was stable on the whole in financial year 2013.

The Bank's focused business model as a corporate and real estate lender and partner to the savings banks with a regional focus on Bavaria and Germany is increasingly reflected in the portfolio structure.

This was driven mainly by the ongoing winding down of non-core business and the continued growth of core business in line with strategy.

Gross credit volume fell by a total of EUR 14.7 billion to EUR 197.8 billion.

Portfolio quality rose thanks to new business in core business areas, upbeat business and economic conditions in Germany and the decrease in volumes in less creditworthy portfolios.

This led to an increase in the share of investment grade assets to 82.8 percent. The non-performing ratio edged down slightly to 2.8 percent (FY 2012: 2.9 percent).

Germany, the core market, accounts for 69.3 percent. In contrast, the foreign portfolio experienced a sharp fall. Gross credit volumes fell significantly, particularly in western Europe and the GIIPS countries (Greece, Italy, Ireland, Portugal and Spain).

In volume terms, the largest decrease occurred in the Financial Institutions sub-portfolio (incl. ABSs). In the Corporates and Commercial Real Estate sub-portfolios, the cutbacks centred on non-core assets outside Germany.

Besides meeting regulatory capital adequacy requirements, BayernLB also had an adequate risk-bearing capacity (Internal Capital Adequacy Assessment Process (ICAAP)) throughout the reporting period. The calculated risk requirement only utilised 22.1 percent of the available economic capital as at 31 December 2013 (FY 2012: 28.4 percent). The increase in risk capital required that occurred during the year was due to changes in the methodology for calculating market risk. This had decreased by the end of the year partially as a result of the continued cutback in the portfolio and less volatile credit spreads.

BayernLB's had a comfortable supply of liquidity on hand at all times. The steady liquidity surplus resulted from both the continued winding down of the portfolio designated as non-core and from a forward-looking, conservative funding plan.

Internal control and risk management system

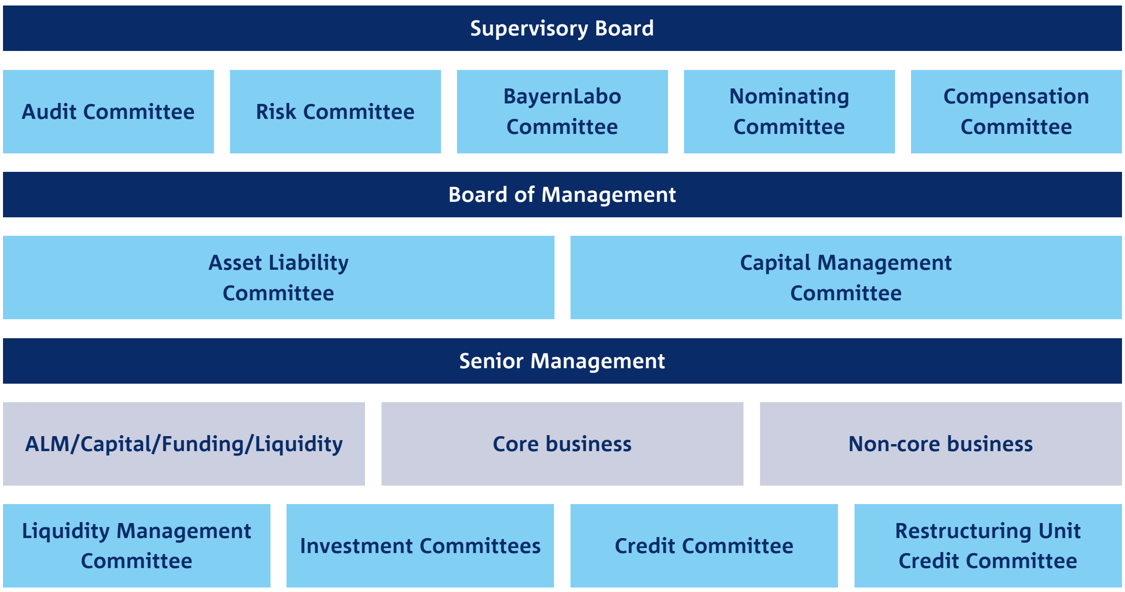
Tasks and objectives

BayernLB has established an internal control system (ICS) to ensure that its accounts are properly prepared and reliable. This includes principles, procedures and measures for ensuring the accounts are produced in an efficient and cost-effective manner. Consequently, the internal control system also helps to limit risks in the accounting process and plays a key role in providing a true and fair view of BayernLB's net assets, financial position and operating results.

The primary aim of the internal control system is to ensure that all transactions are fully and properly entered, processed and documented in accordance with legal requirements and standards, the Bank's statutes and other internal directives. This also ensures that risks are disclosed in line with supervisory requirements. The IT systems used by the central areas participating in the process are suitable for this purpose and the staff have been given adequate training in the legal and internal standards and in how to use the IT systems.

Management structure

BayernLB has established an appropriate management structure, which plays a significant role in securing the risk monitoring.



The Supervisory Board monitors and advises BayernLB's Board of Management. It is assisted in its work by the committees described below:

The Audit Committee monitors the accounting process, the effectiveness of the risk management system, particularly the internal control system and Internal Audit unit, and the correction of open findings from audits and the annual accounts.

The Risk Committee mainly deals with issues relating to the Risk Strategy approved by the Board of Management as well as the risk situation. The Risk Committee decides on loans requiring approval by the Supervisory Board under the German Banking Act and BayernLB's competence regulations.

The BayernLabo Committee handles matters pertaining to Bayerische Landesbodenkreditanstalt (BayernLabo) on behalf of the Supervisory Board and passes resolutions concerning BayernLabo's affairs which the Supervisory Board is responsible for. In particular, the committee monitors BayernLabo's management team.

The Nominating Committee assists the Supervisory Board to appoint new members to the Board of Management and other positions.

The Compensation Committee monitors the appropriateness of the compensation schemes for members of the Board of Management, and employees who have a significant impact on BayernLB's total risk profile. It also assists the Supervisory Board to monitor the appropriateness of the compensation scheme for BayernLB's other employees.

BayernLB's Board of Management is responsible for providing BayernLB with a proper business organisation, which, in addition to having suitable internal monitoring processes, is capable in particular of ensuring major risks are appropriately managed and monitored at Group level. To prevent conflicts of interest, Sales and Risk Office units and Trading and Settlement units are functionally separated within the business organisation.

As a committee of the Board of Management, the primary tasks of the Asset Liability Committee (ALCO) are managing and allocating the key resources of capital and liquidity, as well as managing the balance sheet structure. It is supported by the Capital Management Committee (CMC), which mainly comprises the Chief Financial Officer and senior management from the risk control, financial control, treasury and accounting units. The Recovery Committee, which was created in December 2013, only comes into action if the Bank has to be resolved in accordance with the German Minimum Requirements for the Design of Recovery Plans regulation.

At senior management level, the Liquidity Management Committee deals with asset liability management issues, the Credit Committee approves loans in the core business area after applications have been reviewed by the Investment Committees, and the Restructuring Unit Credit Committee is responsible for winding down non-core business.

Organisation

Besides separating the functions of the Sales and Risk Office units and the Trading and Settlement units, a business organisation must have adequate internal control procedures and mechanisms to manage and monitor key risks.

The Board of Management is chiefly supported in this task by the Risk Office central area, the Restructuring Unit central area, the Financial Office central area, the Operating Office central area, Group Compliance and Internal Audit.

Risk Office

The Risk Office comprises the Group Risk Control and Credit Analysis divisions. The Group Risk Control division independently identifies, values, analyses, communicates, documents and monitors all risk types at aggregated level. For the purposes of operational risk management and risk-bearing capacity management, Group Risk Control provides the Board of Management and other governing bodies with independent and risk-relevant reports.

In addition to periodic and ad-hoc reporting on the risk situation to internal decision-makers, communication also includes external risk reports filed in accordance with legal and supervisory requirements. This includes reports on the performance of the recovery indicators and other early warning indicators contained in the Minimum Requirements for the Design of Recovery Plans (MaSan) regulation in the future.

Decisions regarding risk management are made in accordance with the Business Strategy and Risk Strategy, which are harmonised with each other.

The Risk Strategy is set by the Board of Management and the Risk Committee of the Supervisory Board based on the Business Strategy and checked regularly. The general objectives and guidelines and the strategic requirements for the different types of risk are drawn up based on the Business Strategy.

The Risk Strategy sets the following main objectives and guidelines:

Objectives:
- To sustainably preserve capital, both regulatory and economic
- To ensure BayernLB is solvent at all times
- To achieve sustainable earnings using value-based management of risk positions

Guidelines:
- BayernLB only takes on risks it is able to assess and manage
- In those areas where the strategy allows for portfolio growth, quality takes priority over quantity
- Sales and Risk Office units are jointly responsible for earnings after risk provisions
- BayernLB applies high ethical principles in its business activities

The Risk Strategy for 2013 further limited the economic capital available for allocation. The capital available on a long-term basis will be used as a limiting factor for economic risk-bearing capacity and allocated across the different types of risk within BayernLB.

Credit risk management is a joint responsibility of the Sales units and Risk Office units. In this management process, the Credit Analysis division is responsible for analysing, assessing and managing the risk-relevant exposures in the core business (the Risk Office role). It takes the lead in setting the Credit Risk Strategy for individual customers, sectors, countries and special products such as leasing, project finance and acquisition finance, is responsible for ongoing credit and transaction analysis and votes on behalf of the Risk Office in the credit approval process.

The instruments used to manage and monitor the achievement of Business and Risk Strategy goals are constantly refined. Earnings targets and risk management goals are harmonised by the Asset Liability Committee (ALCO). As a committee of the Board of Management, the primary tasks of ALCO are managing and allocating the key resources of capital and liquidity, as well as managing the balance sheet structure. ALCO also manages the risk/reward profile of the Bank's portfolio of its invested capital. As well as initiating and voting on Group rules, ALCO takes suitable measures when a liquidity crisis arises.

ALCO is supported by the Capital Management Committee (CMC), which recommends capital management actions for approval taking account of framework conditions such as directives from the Bank's owners and regulatory or EU requirements.

In addition to the Group Risk Control risk report, the main elements of the risk and earnings reporting system are the ALCO report and the MIS (Management Information System) report.

Restructuring Unit

The Restructuring Unit manages non-core business activities with the aim of progressively winding them down. The overall winddown strategy set by the Board of Management lays down the objectives and general principles for planning the winddown and for the credit decisions in the Restructuring Unit. The winddown strategies for individual exposures are decided by the relevant competence holders.

The portfolios to be wound down include in particular ABSs, portions of the loan portfolio with banks and the public sector outside Germany, as well as structured financing and commercial real estate financing in certain markets and regions.

The Restructuring Unit performs the roles of both the Sales units and the Risk Office for the exposures and portfolios assigned to it for winding down. In addition, this unit also handles exposures in restructuring or liquidation as well as collateral.

Financial Office

The Financial Office central area ensures that the accounts are correctly prepared and sets up and ensures the effectiveness of the accounting process. Its key tasks include preparing the annual financial statements and management report, establishing accounting policies, initiating accounting-related projects, and providing guidance on national and international developments in accounting.

The Financial Office also implements the relevant accounting standards and legal requirements on accounting, which are detailed in the directives for preparing the accounts. These directives, which are an important component of the accounting-related internal control system, are summarised and documented for BayernLB in the annual accounts handbook, various accounting manuals, and in organisational and procedural instructions.

The annual financial statements and management report are compiled in accordance with the directives for preparing the annual accounts, produced by directive of the Board of Management, checked by the auditors and submitted to the Supervisory Board for approval. The Supervisory Board has set up an Audit Committee whose duties include discussing the audit reports and preparing the resolution for the Supervisory Board's approval of the annual financial statements and the management report prepared under the German Commercial Code. The Audit Committee also monitors the accounting process and the efficacy of the internal monitoring, auditing and risk management system. The auditor is invited to take part in the discussions of the Audit Committee and Supervisory Board on the annual financial statements and report on the key findings of its audit.

In addition to the accounting and tax departments, the Financial Office central area is responsible for the Group Controlling division and the Rating & Investor Relations department.

Operating Office

The Operating Office central area is responsible for BayernLB's operating processes and supporting these in the Group IT, Operations & Services and Organisation Development divisions.

Group Compliance

The Group Compliance division monitors and ensures compliance with legal and supervisory requirements and reports directly to the Chief Risk Officer.

Internal audit

The Audit division audits the Bank's business operations and reports directly to the CEO. Taking a risk-oriented auditing approach, its auditing activities embrace basically all activities and processes within BayernLB, even those that have been outsourced. It also examines the efficacy and adequacy of the internal control system and risk management.

It carries out the tasks assigned to it independently of the activities, processes and functions to be audited, in accordance with applicable legal and supervisory requirements such as the German Banking Act (KWG) and Minimum Requirements for Risk Management (MaRisk).

Scope of monitoring and monitoring procedures

The internal control and risk management system is governed by the internal, written organisational rules (schriftlich fixierte Ordnung (SFO)).

The rules governing the accounting-related internal monitoring system are set out in the directives for preparing the accounts. These directives are principally based on the annual accounts handbook, which sets out the key requirements for ensuring that accounting policies are uniformly applied within BayernLB in accordance with the requirements of the German Commercial Code. BayernLB has also prepared accounting manuals and organisational and procedural instructions containing mandatory regulations on accounting-related issues and processes.

Rules on the treatment of material risks at BayernLB level, derived from the Group Risk Guidelines, also exist for the purposes of risk management. These rules govern the risk management and monitoring processes used for the timely identification, full documentation and appropriate disclosure of major risks.

The annual accounts handbook, accounting manuals, accounting-related instructions and risk management rules are regularly reviewed, updated and published on BayernLB’s intranet.

To ensure transactions are fully and correctly processed, and that bookings, data entry and documentation are in compliance, a number of internal control procedures have been implemented within BayernLB. Measures include the segregation of functions, a differentiated access authorisation system to prevent unauthorised intruders, ongoing checks within the workflow process applying the dual control principle and checks programmed into the IT systems. The internal monitoring process reconciles ledgers and sub-ledgers, monitors manual bookings in the main ledgers and conducts posting runs. Additional checks and reconciliations are also conducted to ensure data is correctly transferred between IT systems.

When preparing the accounts, checks are carried out to determine if the underlying data is properly presented, and the quality of the data in the accounts is assessed.

In BayernLB, the accounting process is checked regularly for inherent risks, so that measures can be taken when necessary to refine the internal monitoring system.

BayernLB has outsourced some of its services (principally IT services, payment services and securities back office operations) to external companies. Outsourced areas are integrated into BayernLB’s internal control system mainly through an outsourcing officer who monitors the external companies on an ongoing basis. Companies performing outsourced activities are also regularly checked by BayernLB’s internal audit division.

The following sections describe in detail the risk management objectives, formulated in agreement with risk tolerance, and the methods for managing each type of risk.

Capital management

Capital management is based on a planning process that incorporates strategic, risk-based and regulatory factors into a long-term operational plan. The starting point of the planning process is to review BayernLB's harmonised Business and Risk Strategies at regular intervals and modify them as necessary. The Risk Strategy is confirmed or changed as appropriate by the Board of Management and submitted to the Risk Committee of the Supervisory Board for approval.

The processes involved in managing regulatory capital adequacy and internal capital adequacy are described in the "Regulatory capital adequacy" and "Risk-bearing capacity" sections below.

Regulatory capital adequacy (solvency)

To ensure the Bank has the proper amount of regulatory capital, the objectives, methods and processes below have been defined. The starting point for the allocation of regulatory capital is the BayernLB Group's own funds planning. Own funds consist of liable capital – the sum of core capital and supplementary capital – plus tier 3 capital. Core capital consists of subscribed capital plus reserves and other capital. Supplementary capital comprises profit participation certificates and long-term subordinated liabilities. Own funds planning is based largely on the internal target core capital ratio (ratio of core capital to risk positions) and an internally set target overall ratio (ratio of own funds to risk positions) for the BayernLB Group. It establishes upper limits for risk assets, market risk positions and operational risks arising from business activities in the planning period. The impact of market movements – simulated in stress tests – are taken into account by means of capital buffers to ensure solvency ratios are complied with at all times.

Regulatory capital is allocated in the Group planning process to the individual planning units. The planning units are BayernLB's defined business segments and Bayerische Landesbodenkreditanstalt (BayernLabo).

Regulatory capital is allocated to the planning units through a top-down distribution of limits on risk assets and market risk positions approved by the Board of Management, requiring, in addition to segment-specific targets, a minimum regulatory core capital ratio of more than 8 percent for the Group. Compliance with the limits on risk asset and market risk positions available to each planning unit is constantly monitored by ALCO. The Board of Management receives monthly reports on current limit utilisations.

Information on the changes in supervisory ratios at BayernLB can be found in this management report in the section "Banking supervisory ratios under the German Banking Act (KWG)". BayernLB publishes additional information in the disclosure report in accordance with section 26a of the German Banking Act (KWG). The disclosure report can be found on BayernLB's website under "Disclosure Report".

Risk-bearing capacity

Risk-bearing capacity is monitored using the Internal Capital Adequacy Assessment Process (ICAAP). The aim of ICAAP is to ensure that there is sufficient economic capital for the risks assumed or planned.

For risk management, BayernLB follows a liquidation-based approach in ICAAP that is designed to protect senior creditors. This is computed using internal target standards for the precision of risk measurement, which corresponds to a confidence level of 99.95 percent. The method for calculating risk-bearing capacity is assessed and refined on a regular basis to ensure it takes adequate account of external factors and internal strategic targets.

The available economic capital is of suitable quality to absorb any losses and is calculated, in accordance with the liquidation approach, by deducting from the sum of equity and subordinated capital those items that are not available in the event of liquidation (e.g. intangible assets). A buffer for risk types that are not controlled at business unit level and/or have little controlling relevance for ICAAP is also deducted.

The Risk Strategy allows only a proportion of the available economic capital to be allocated to risk types in the course of business activities. This upper limit at Group level was set at EUR 10 billion at the start of 2013 and as at 31 December 2013 represented 59.5 percent of the entire available economic capital. Furthermore the Risk Strategy, in tandem with the Business Strategy, determines the risk appetite and the framework for risk planning by dividing the allocation basis for the risk types.

The planning of economic risks for the risk-bearing capacity calculation and the planning of the available economic capital are integral parts of the Group planning process described under “Regulatory capital adequacy”.

For an in-depth, forward-looking analysis of economic capital adequacy, the calculation of risk-bearing capacity is based on the Business Strategy and is supplemented by stress tests. Both scenario and sensitivity analyses are carried out for this purpose. In addition to historical scenarios, the impact of adverse changes in risk factors both on specific risk types and across all risk types is also analysed using hypothetical scenarios. The latter in particular have a major role in the analysis of situational scenarios. The liquidation-based analysis of risk-bearing capacity is supplemented by a going concern perspective by means of the five-year loss scenario. This analyses capital adequacy with respect to the sustainability of the business model in the event of a loss that is statistically probable only once over a rolling five-year planning horizon.

Sensitivity analysis also plays a part in the comprehensive analysis of risk-bearing capacity by increasing awareness of the impact of potential changes in individual risk factors (such as the impact of changes in interest rates).

Risk-bearing capacity is quantified routinely and as required from both a liquidation and a going concern perspective and is reported as part of the regular ongoing internal risk reporting, together with the results and key assumptions of the stress tests performed.

Risk capital requirements

EUR million	31 Dec 2013	31 Dec 2012
Risk capital requirements	**3,603**	**4,567**
• **from capital provided to customers and other participations**	**2,392**	**2,762**
credit risk and country risk (counterparty risk)	1,121	1,540
credit risk (specific interest rate risks)		464
market risk*	920	245
operational risk	272	281
participation risk	78	232
• **from capital provided to institutions of the BayernLB Group**	**1,211**	**1,805**
credit and participation risks	1,211	1,751
other risks	–	54

** As of 30 April 2013 this includes specific interest rate risk.*

The decline in counterparty risk is largely the result of the reduction in the portfolio that has taken place in line with the strategy and the improved macroeconomic situation.

The increase in market risk is largely due to a change in methodology that became effective on 30 April 2013. To harmonise the holding periods for market risk positions with the risk observation horizons of the other risk types in the risk-bearing capacity, they were set at a uniform 250 days Group-wide. This has resulted in much more conservative assumptions of market risk in risk-bearing capacity. In this context and taking account of correlations, general market risks and specific interest rate risks, which had been reported separately, were merged into the single risk type “market risk”. As a result of the change in methodology, the bulk of the increase in risk capital requirements was due to market risk and specific interest rate risks.

Following the change in methodology, the amount of risk capital required for market price risks declined due to the decrease in the portfolio in line with strategy. Stable portfolio quality along with a decrease in the volatility of credit spreads also helped reduce risk.

Other risks predominantly included currency risks, which will in future be reported under market price risks.

As part of BayernLB’s stress testing programme, the possibility of a severe economic downturn (the ICAAP stress scenario) is routinely calculated. Under the severe recession scenario, the risk capital requirement for the individual risk types rises to a total of EUR 7.4 billion (FY 2012: EUR 9.1 billion).

As at 31 December 2013, BayernLB had available economic capital of EUR 16.3 billion (FY 2012: EUR 16.1 billion). A severe economic downturn (ICAAP stress scenario) would only see 49.5 percent utilisation of available economic capital (FY 2012: 56.4 percent), with the minimum capital ratios also being met in the going concern scenario. The BayernLB Group had adequate risk-bearing capacity as at 31 December 2013.

Inverse stress testing

Inverse stress tests are an integral element of the stress testing programme. Contrary to the logic of conventional stress tests, scenarios that could potentially jeopardise the existence of the Bank's current business model are identified using a retrograde procedure. Inverse stress tests are conducted for both individual risk types and across all risk types. The integration of different divisions in the scenario parameters makes it possible to analyse varying perspectives of the Bank's risk and earnings situation simultaneously and integrate them into the stress testing in a consistent manner. Both qualitative and quantitative analyses are carried out, based in particular on the effects of current developments in external and internal risk factors on BayernLB.

Liquidity management

The strategic principles for dealing with liquidity risk in BayernLB are set out in the Risk Strategy. The overriding priority of liquidity risk management and monitoring is to ensure that BayernLB and the Group can meet their payment obligations and obtain funding at all times. In addition to stringently ensuring solvency, the primary goal of BayernLB's liquidity management is to ensure adequate access to the market.

These strategic goals are detailed in the Group Treasury Principles, Group Pricing Guidelines and Group Liquidity Guidelines, in conjunction with the emergency plan for safeguarding liquidity for daily management. These define the processes, management tools and hedging instruments needed to avert or address potential or real acute crises. They also contain an escalation mechanism, which comes into operation when early warning signals are triggered.

At BayernLB, daily limits are placed on liquidity risks at the operating unit level based on defined scenarios. This ensures that liquidity risks taken are managed and escalated in a consistent and effective manner at all times.

Responsibility for strategic and operational liquidity management at BayernLB during the year under review belonged to the Group Treasury and Treasury Products divisions within the Markets business area. This is also where operational liquidity is managed on the market and adequate liquidity reserves are ensured at all times. Liquidity overviews (e.g. capital flow accounts, limit utilisation ratios and Group-wide risk monitoring of liquidity risks) are produced in the Group Risk Control division of the Risk Office central area. In addition, the cross-divisional Liquidity Management Committee, under Group Risk Control, provides extra transparency on the liquidity risk and earnings situation, consults with the Group Treasury and Group Controlling divisions on issues such as liquidity and funding strategies and acts as a driving force by preparing courses of action for decisions to be taken by the Asset Liability Committee.

BayernLB started early to increase both the quantity and quality of its substantial liquidity reserves in order to comply with the future requirements under MaRisk and the Capital Requirements Regulation (CRR). This strategy was systematically continued in 2013.

Credit risk

In accordance with its business model as a corporate and real estate lender and partner to the savings banks with a regional focus on Bavaria and Germany, the largest risk for BayernLB is credit risk. No significant changes have been made in the instruments and methods for measuring, controlling and monitoring credit risks described in the risk report in the annual financial statements or the more detailed description in the risk report in the 2012 consolidated financial statements.

Definition

Counterparty risks arise if a transaction results in a claim against a borrower, issuer of securities or counterparty. If these fail to meet their obligations, the Bank suffers a loss equal to the unpaid amount less the value of any realised collateral plus the related settlement costs. This definition covers both lending and guarantee risks from the credit business, and issuer and counterparty risks from trading activities.

Risks from changes in the credit rating of securities are managed primarily through the management of interest rate risks. When managing interest rate risks, a distinction is made between market-related and credit rating-related interest rate risks; this is also reflected in the separate presentation of the risk capital requirements for counterparty risks and market risks.

Country risks, which are another type of counterparty risk, are also measured, managed and monitored. Country risk is defined in the narrow sense as the risk of a country or business partner whose registered office is located in another country failing to meet its obligations on time or at all due to sovereign acts or economic or political problems (transfer and conversion risks). Country ratings are a key tool for measuring individual country risk. At BayernLB, both country risk in the narrow sense and the sum of the assumed counterparty risks of individual customers in the respective countries (domicile principle) with the exception of Germany are considered when measuring and limiting risks.

Credit Risk Strategy and approval process

The Credit Risk and Country Risk Strategy – which is part of the comprehensive Risk Strategy – is set by the Board of Management for BayernLB taking account of risk-bearing capacity considerations. A detailed credit policy is drawn up from the Credit Risk Strategy and used as a basis for operational implementation.

Before transactions with borrowers based abroad are executed, they are checked to ensure they comply with the EU conditions for transactions with foreign borrowers. In the Corporates, Mittelstand & Financial Institutions business area, the Investment Committee decides whether a customer and/or transaction has a connection with Germany. The Investment Committee is moreover a standing body in Corporates, Mittelstand & Financial Institutions and the highest decision-making body with authority to allocate capital and resources below the Board of Management member responsible for the business area. There is also a similar Investment Committee in the Real Estate & Savings Banks/Association business area for the Real Estate division.

The credit approval process consists of several stages. The Competence Regulations define the authority of the different competence holders based on the loan volume to be approved, the business area it is allocated to and the rating classification. Credit decisions that ultimately require approval by the Board of Management or Risk Committee of the Supervisory Board must first go through the responsible Credit Committee which is itself also a competence holder. Since the Restructuring Unit was created, credit decisions on the portfolios to be wound down have been taken by a separate credit committee, the Restructuring Unit Credit Committee. The Supervisory Board monitors risk management through its Risk Committee. The latter decides on all credits that require the approval of the Supervisory Board under the German Banking Act or the Competence Regulations.

New products and products for new markets are subjected to a stringent new product process.

Risk measurement and internal rating systems

Risk is measured at portfolio level using a version of CreditRisk+, an analytical software system for quantifying default risks. The impact of an unexpected loss by an individual business partner on the whole portfolio is also calculated for risk analysis purposes. A correlation model quantifies dependencies among borrowers in the portfolio. In addition, the effects of rating migrations and uncertainties in calculating loss ratios are also taken into account.

In accordance with the Internal Ratings Based Approach (IRBA), BayernLB uses rating procedures that are approved by the supervisory authorities. These assign borrowers to rating categories in a 25-tier master rating scale on the basis of the probability of default.

To maintain and refine the rating procedures, BayernLB works mainly with RSU Rating Service Unit GmbH & Co. KG and Sparkassen Rating und Risikosysteme GmbH. All rating procedures are subject to an ongoing validation process to ensure they are able to correctly determine the default probabilities in each customer and financing segment. This process draws on quantitative and qualitative analyses. These assess the rating factors, the accuracy and calibration of the procedure, the data quality and the design of the model using statistical and qualitative analyses, and users' feedback. Further information can be found under "Disclosure Report" on BayernLB's website.

The rating procedures demonstrated their robustness and accuracy during the recession. It became clear that taking account of market-induced factors significantly improved the capture of the volatility of financial markets during the crisis. As far as possible, this additional information has been and will continue to be integrated into the rating systems.

Appropriate indicators in the early warning procedures allow negative changes in the risk profile to be identified in good time. These indicators include prices (equities and CDSs), volatility, market capitalisation and other factors from peer group comparisons.

Limiting risk at the business partner and portfolio levels

In accordance with MaRisk, counterparty risks at borrower and borrower unit level are monitored daily by the Group Risk Control division using a Bank-wide limitation system. The limitation process also takes account of the timing structure of default risks by sub-dividing limits into maturity bands.

To limit large credit risks, the maximum gross credit volume for each borrower unit is limited to EUR 500 million Group-wide in accordance with section 19 para. 2 of the German Banking Act (Kreditwesengesetz (KWG)). Justified exemptions can be approved in accordance with the Competence Regulations.

To prevent risk concentrations in individual sub-portfolios, risk-based upper limits are set and monitored. Examples include sector-specific or country risk limits. Both qualitative and quantitative limits are set for sectors. In addition to the Group-wide sector limits, additional specific guidelines are set for each sector and issued by the Board of Management. Country limits at Group level are set by the Board of Management based on the country risk analysis and the vote by the Risk Office. Sector and country limits and guidelines are monitored by the Group Risk Control division in the Risk Office central area. Sector and country strategies are reviewed annually. Irrespective of this, strategies can be changed as events arise.

Collateral

Another key way in which risks are limited is by accepting the usual types of bank collateral and valuing them on an ongoing basis. When deciding what collateral is needed, particular account is taken of the type of financing, the borrower's available assets, their value and liquidity and whether the relative costs are reasonable (costs of acceptance and ongoing valuation). Collateral also included monolines (insurance companies that specialise in hedging structured securities) for the ABS portfolio to the extent this can be recognised as protecting value.

Collateral is processed and valued in accordance with the relevant directives which set out the procedures for valuing the collateral, any discounts to be applied, and how often the valuation must be reviewed. Net risk positions are calculated on the basis of the liquidation value of the collateral.

The German Federal Financial Supervisory Authority (BaFin) has granted BayernLB approval to lower its regulatory capital requirements through the use of real estate liens, ship mortgages, registered liens on aircraft, guarantees, financial collateral in the form of securities and cash deposits, and credit derivatives under its IRBA approval.

BayernLB employs derivative instruments to reduce market and counterparty risks. In derivatives trading, the usual practice is to conclude master agreements for the purposes of close-out netting. Collateral agreements exist with certain business partners restricting the default risk associated with certain trading partners to an agreed maximum and authorising a call for additional collateral should this limit be exceeded. Banks and public-sector customers are the main counterparties in the derivatives business. Limits are imposed using the generally applicable limitation process for counterparty risk. Regulatory and internal management methods for large credit risks also apply.

In credit default swaps (CDS), BayernLB takes positions as both protection seller and protection buyer, but its focus is not on actively trading credit derivatives. CDSs are valued and monitored at individual transaction level daily. Gains and losses on these positions are calculated daily on the basis of these valuations.

Early warning and problem loan handling

A reporting system is used to constantly monitor all credit exposures in terms of their financial status and collateral, compliance with limits, fulfilment of the terms of agreements, and compliance with external and internal requirements. The monitoring process is supported by an escalation procedure. Exposures with elevated risk are identified promptly in the early risk detection process using a set of early warning indicators. The early warning indicators are regularly tested for adequacy.

Problem exposures are classified in accordance with the standard international categories ("special mention", "substandard", "doubtful" and "loss") in terms of their level of risk, and a special restructuring and risk monitoring process is implemented if warranted.

By initiating suitable measures as part of an intensive support or problem loan handling process at an early stage, BayernLB aims to minimise or completely prevent defaults from occurring.

Exposures in problem loan treatment which have been restructured in order to minimise the risk of default are defined by BayernLB as forbearance exposures.

An exposure has been restructured if concessions have been granted to a counterparty in financial difficulties. Concessions are defined as the modification of the terms and conditions of the loan agreement (e.g. a deferral, waiver or standstill agreement) or its refinancing.

Please see the accounting policies in the Notes for details of how risk provisions are calculated and assets written down.

Risk provisions

Proper account has been taken of the risks in the credit business through risk provisions. The principles governing loan loss provisioning and writedowns for problem loans establish how loans at risk of default are to be handled, valued and reported (see the note on accounting policies).

Credit portfolio

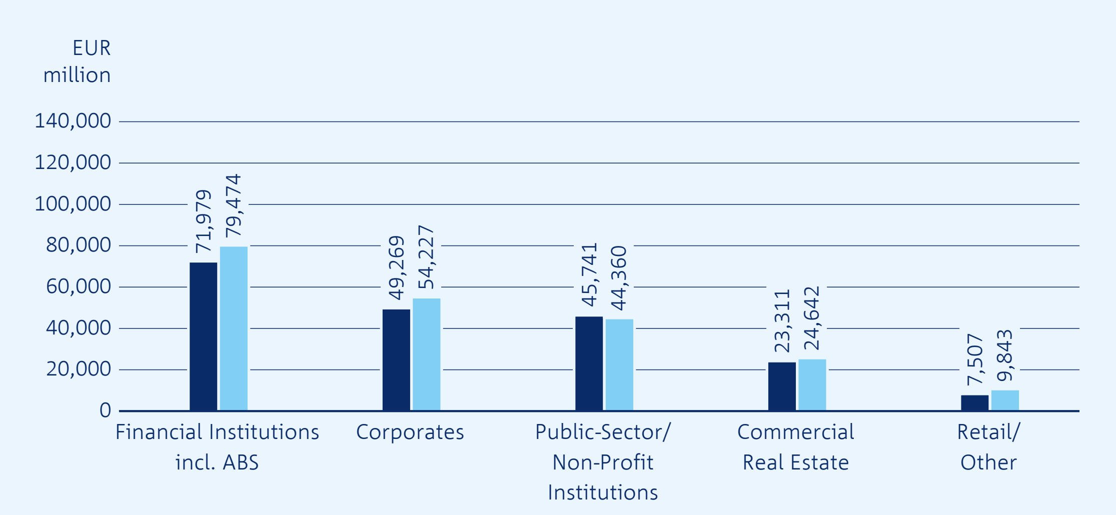
The following credit portfolio charts are based on the internal risk reports to the Board of Management and the Risk Committee of the Supervisory Board.

In FY 2013, the credit volume of BayernLB including Bayerische Landesbodenkreditanstalt (BayernLabo) decreased as planned from EUR 212.5 billion to EUR 197.8 billion, a fall of around 6.9 percent (EUR 14.7 billion). The decrease is spread across all sub-portfolios. In addition to banks/savings banks, foreign corporate customers accounted for the bulk of the decrease.

The charts below show a breakdown of BayernLB's credit volume by sub-portfolio, rating category and region.

The Retail/Other sub-portfolio was redefined in 2013. As at 31 December 2013 it included private individuals and self-employed customers with a gross credit volume of no more than EUR 5 million. Based on this change, there were shifts within the Corporates, Commercial Real Estate and Retail/Other sub-portfolios.

Gross credit volume by sub-portfolio



■ 2013 Total: EUR 197,806 million
■ 2012 Total: EUR 212,546 million

Financial Institutions sub-portfolio

In line with strategy, exposure in the Financial Institutions including ABS sub-portfolio was cut by EUR 7.5 billion (9.4 percent) in 2013. The biggest part of the decrease resulted from the portion of the government-guaranteed business with savings banks and Landesbanks which matured in 2013.

Corporates sub-portfolio

The overall fall in the Corporates portfolio was EUR 5.0 billion or 9.1 percent.

As part of the concentration on German corporate customers, gross credit exposure to large customers with no connection to Germany and those corporates allocated to the Restructuring Unit continued to be reduced. By contrast, relationships with core customers, particularly those in Germany, grew again. As a result, the share of corporate customers with a connection to Germany in the portfolio rose from 56.0 percent to 63.0 percent.

Among the sectors, the largest decreases occurred in the oil and gas industry and the logistics and utilities sectors. In all three cases, the reduction in credit volume was related mainly to customers with no connection to Germany.

Although its credit volume fell slightly by EUR 1.0 billion to EUR 8.6 billion, the utilities sector accounted for 17.4 percent of total corporates business as at 31 December 2013. This amount includes EUR 1.9 billion in credit to the area of renewable energy, mainly to wind power and solar energy projects. The remainder of the gross credit volume lent to the utilities sector represents mostly loans to the conventional electricity industry and municipally-owned and operated utility companies. Foreign customers accounted for nearly all of the decrease in gross credit volume, as a result of which Germany's share rose from 38.7 percent to 43.1 percent. The quality of the portfolio remained largely stable, with an investment grade share of 80.1 percent (FY 2012: 82.9 percent).

Countries/Public-Sector/Non-Profit Institutions sub-portfolio

The slight increase in the Countries/Public-Sector/Non-Profit Institutions sub-portfolio of EUR 1.4 billion was largely due to the customer relationship with the US Federal Reserve Bank, which is used for liquidity management purposes.

Commercial Real Estate sub-portfolio

The gross credit volume in the Commercial Real Estate sub-portfolio fell to EUR 23.3 billion (FY 2012: EUR 24.6 billion).

Here too, Germany's share of the portfolio rose to 73.5 percent (FY 2012: 67.4 percent), due to more business from core areas and the ongoing winding down of business with customers based abroad in line with strategy.

BayernLabo accounted for EUR 5.2 billion (22 percent) of the gross credit volume. Most of this comprises fiduciary transactions (pass-through transactions on behalf of/for the account of the Free States of Bavaria and Thuringia) and credit transactions on its own account backed by the Free States of Bavaria and Thuringia with no credit risk.

The remainder of the gross credit volume consists mainly of the asset classes retail and office buildings. The level of collateralisation in the Commercial Real Estate sub-portfolio remained high in 2013. Thus, the gross credit volume of EUR 23.3 billion was offset by collateral with a value of EUR 17.2 billion.

Retail/Other sub-portfolio

The Retail/Other sub-portfolio fell to a total of EUR 7.5 billion (FY 2012: EUR 9.8 billion).

The Retail/Other sub-portfolio was redefined in 2013. As at 31 December 2013, it included private individuals and self-employed customers with a gross credit volume of no more than EUR 5 million.

As a result, a total of EUR 766 million was shifted into the Corporates (EUR 117 million) and Commercial Real Estate (EUR 589 million) sub-portfolios.

The remainder of the decrease was due to the planned reduction in retail customer business.

Gross credit volume in selected EMU countries

EUR million	31 Dec 2013	31 Dec 2012
Spain	2,880	3,491
Italy	3,012	2,753
Ireland	378	379
Portugal	349	313
Greece	76	132
Total	**6,696**	**7,067**

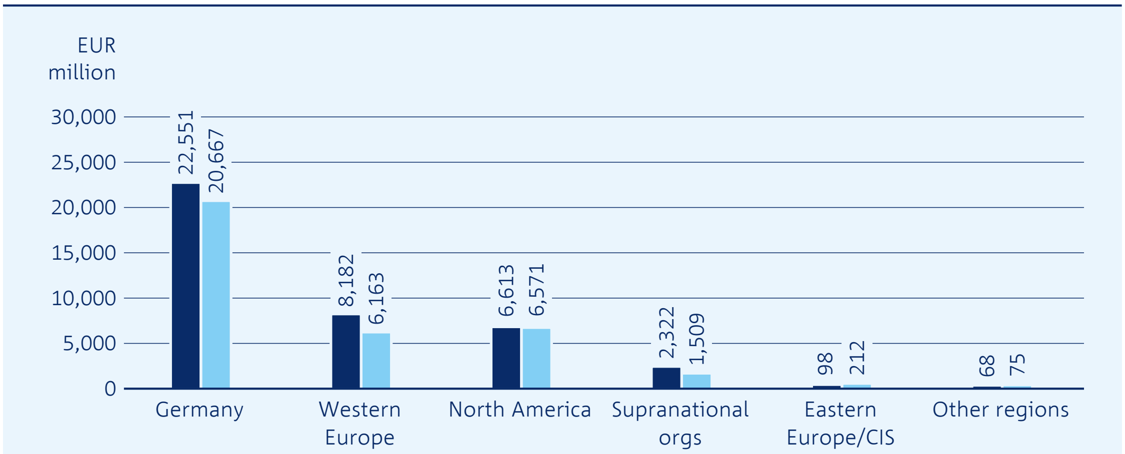
2013 saw a further reduction in exposure to the financially weaker peripheral countries. The gross credit volume fell by EUR 371 million or 5.3 percent to a total of EUR 6.7 billion.

Credit volume actually fell much more sharply by EUR 1.3 billion in 2013, but this was largely offset by the more conservative calculation of derivative transactions in the gross credit volume (increase of EUR 891 million). As a result, the credit volume climbed slightly in some countries.

Germany's share of the gross credit volume rose to 69.3 percent (FY 2012: 68.0 percent).

BayernLB's gross credit exposure to customers in Hungary fell by 60.7 percent to EUR 233 million and mainly comprises corporate and commercial real estate customers.

Gross issuer risk by region

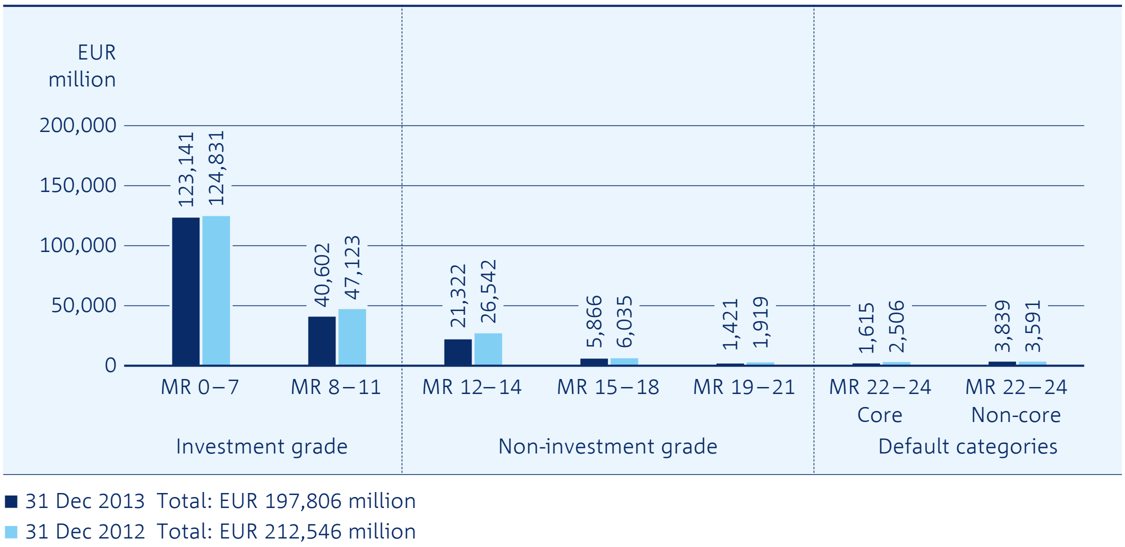


■ 31 Dec 2013 Total: EUR 39,834 million
■ 31 Dec 2012 Total: EUR 35,197 million

Gross issuer risk rose in 2013 by EUR 4.6 billion (13.2 percent) to a total of EUR 39.8 billion. The increase was largely the result of a more conservative calculation of derivative transactions when calculating the gross credit volume.

The bulk of the issuer risk resulted from business with banks and sovereign/public-sector borrowers in Germany and western Europe. In the sovereigns/public-sector segment, the decrease in foreign issuer risk, primarily in the US, was overshadowed by new transactions with the Federal Republic of Germany, German states and supranational organisations.

Gross credit volume by rating category



The overall quality of the portfolio improved as a result of the stronger decline (16.1 percent) in the non-investment grade category. The investment grade share of the portfolio (master rating MR 0–11) rose to 82.8 percent (FY 2012: 80.9 percent).

The gross credit volume in the investment grade category totalled EUR 163.7 billion.

As a result of the successful portfolio reduction in the default categories, the overall non-performing ratio fell to 2.8 percent (FY 2012: 2.9 percent). Broken down into core and non-core business, the non-performing ratio in the core business amounts to 0.9 percent and to 15.5 percent in the non-core business.

ABS portfolio

The nominal volume of asset-backed securities at BayernLB fell to EUR 7.0 billion in 2013, mainly due to repayments (FY 2012: EUR 9.5 billion).

BayernLB's ABS portfolio is hedged by the guarantee agreement with the Free State of Bavaria described below.

Guarantee agreement with the Free State of Bavaria

On 19 December 2008, a guarantee agreement was concluded between the Free State of Bavaria as the protection seller and BayernLB as the protection buyer. The guarantee covers actual losses in the ABS portfolio above a first loss of EUR 1.2 billion. The guarantee is limited to EUR 4.8 billion.

The ABS portfolio hedge covers insolvency, non-payment of capital and interest, capital write-downs and losses incurred from any sales before maturity. Besides hedging BayernLB's ABS portfolio, the guarantee agreement with the Free State of Bavaria also makes a significant contribution to reducing BayernLB's capital charge for the ABS portfolio and minimising the impact on the income statement from the ongoing marking to market of the ABS portfolio.

Since 1 July 2009, the entire ABS portfolio has been managed by the Restructuring Unit, which has been systematically reducing the portfolio while ensuring losses are kept to a minimum.

Up to 31 December 2013, losses totalling EUR 1.1 billion (FY 2012: EUR 850 million) had occurred and were charged against the first-loss amount.

The losses currently projected by both BayernLB and the external portfolio advisors appointed under the guarantee agreement are within the guarantee limits under all scenarios currently used over the full remaining term of the portfolio.

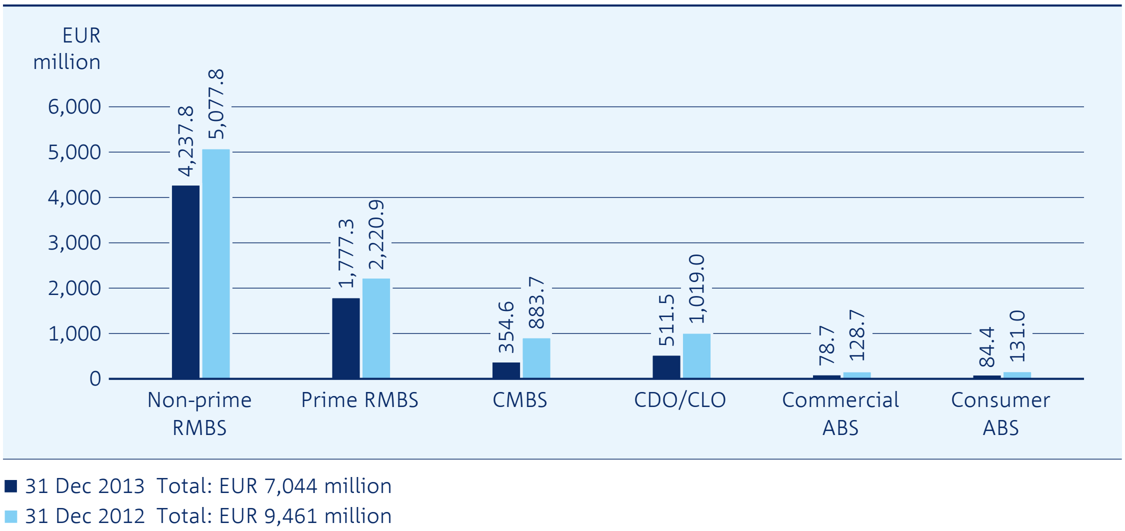
Measurement of the ABS portfolio

In its ongoing assessment of the credit quality of an ABS holding, BayernLB focuses largely on the value and expected change in value of the underlying pool of securitised receivables and the suitability of the credit enhancement elements available. In addition, the impact of structural factors and influence of the parties involved at individual transaction level are factored in. The forecasts are made for the remaining terms of each asset-backed security using cash-flow models. The assumptions used in the models are checked continuously for suitability by BayernLB and the portfolio advisors.

In the current market environment, BayernLB relies on market prices where available to measure the value of asset-backed securities. Otherwise it uses indicative prices obtained from market data providers, counterparties, brokers and the portfolio advisors. Prices from different sources are adjusted for statistical outliers and the average then taken. If a security has a wide range of prices compared with similar securities, it is assessed separately and implausible prices are eliminated. After this quality assurance check, the price of the security for valuation purposes is calculated using an averaging procedure.

The following information on the composition of the portfolio relates to BayernLB's EUR 7.0 billion portfolio of asset-backed securities covered by the guarantee agreement with the Free State of Bavaria.

ABS portfolio by asset class



Based on ratings assigned by Standard & Poor's and Moody's, 30.7 percent of the portfolio was investment grade (rating categories AAA to BBB) as at 31 December 2013 (31 December 2012: 38.7 percent) and 61.3 percent was sub-investment grade (rating categories BB and below) (31 December 2012: 60.1 percent). Asset-backed securities without an external rating account for 8 percent of the portfolio (FY 2012: 1.2 percent).

The year-on-year shift in portfolio quality resulted mainly from repayments in the investment grade segment and was therefore expected. 78 percent of sub-investment grade asset-backed securities are US RMBS transactions which were downgraded due to turmoil on the US real estate markets. These securities were originally rated AAA on issue and most of the downgrades occurred between 2007 and 2009. The remaining sub-investment grade asset-backed securities are distributed among the CDO/CLO, CMBS and RMBS asset classes. These asset-backed securities were downgraded from their original ratings between AAA and A largely due to their exposure to the European peripheral countries or the mezzanine nature of the transaction structures. The resulting default risk is taken into account in the portfolio loss projections of the Bank and its advisors.

Participation risk

Definition

Participation risk (shareholding risk) comprises BayernLB's counterparty (default) risk arising from its shareholdings.

This risk entails a potential loss in value arising from the following:
- The provision of equity or equity-type financing (e.g. silent partner contributions), such as suspension of dividends, partial writedowns, losses on disposal, or reductions in hidden reserves
- Liability risks (e.g. letters of comfort) and/or profit and loss transfer agreements (e.g. assumption of losses)
- Capital contribution commitments

Group Risk Control is responsible for setting standards and reporting at portfolio level. BayernLB has an independent central unit with the authority to issue guidelines for all methods and processes relating to participation risk monitoring. Operational implementation of the risk management instruments is the responsibility of the business units concerned.

Risk strategy

As part of its new strategy, BayernLB is aligning its participations portfolio to the requirements of the new business model. The goal is to hold a core portfolio of shareholdings that support business activities.

The participations portfolio is therefore divided into a core and a non-core portfolio.

The core portfolio comprises stakes in companies which expand customer and market potential, support the business model or operating processes, and also miscellaneous investments. DKB is an integral component of the core portfolio.

As part of the resizing of BayernLB, the disposal of the non-core shareholding is, however, being examined and, in some instances, sale negotiations are already under way.

Participation risks are handled in accordance with the Risk Strategy, which is derived from the Business Strategy and also the participation risk policy. These govern the investment process, the capital base and controlling and reporting. All participations are approved by the Board of Management. Approvals by the BoM must be endorsed by the Supervisory Board. Other issues to be decided and mandatory consent for investments are governed by the Bayerische Landesbank Act, the Statues and the Rules of Procedure of the Board of Management of BayernLB.

Measuring and monitoring risk

A classification procedure for identifying and measuring risk with clear guidelines on the early detection of risks has been implemented for all participations. Key factors in this regard are the maximum loss potential and early warning indicators.

For Solvency Ordinance (SolvV) reporting purposes, participation risks are measured using the simple risk-weighted method under SolvV where the grandfathering method under section 338 para. 4 SolvV is not applied.

Risk capital requirements arising from participation risk in ICAAP are measured using the regulatory PD/LGD method according to SolvV.

Risks from participations are reported to the Board of Management in the regular risk reporting process as well as in an annual participations report using the relevant procedures (classification, early warning). If early warning signals are triggered, the decision-makers are notified without delay. Significant, critical participations are monitored in the intensive support or problem-loan processes and reported to the Board of Management on a quarterly basis. The participation report sets out in particular recommendations for action and the implementation status of measures already executed.

Where BayernLB provides both equity and debt capital, it examines any additional risks, particularly those arising from its status as a lender.

Market risk

Definition

Market risk is the risk of potential losses in value from changes in market prices (interest rates, credit spreads, exchange rates, equity and commodity prices) and other parameters (correlations, volatility) that affect prices. Accordingly, BayernLB breaks down its market risks into general and specific interest rate risk, currency risk, equity price risk, commodity risk and volatility risk.

Risk strategy

The Risk Strategy sets out the strategic principles for handling market risks and prescribes the amount of economic capital to be made available for them. Market risks may only be taken on within approved limits and are regularly measured and monitored.

The amount of economic capital provided for market risks is broken down by risk unit and individual market risk type and implemented in the form of value-at-risk (VaR) limits.

In accordance with current Business and Risk Strategy, market risks are normally only assumed as a result of transactions on behalf of customers, including corresponding hedge transactions. Moreover, market risks may also result from transactions for liquidity management, asset/liability management or the non-core businesses that are being wound down.

New products and products for new markets are subjected to a stringent new product process.

Risk measurement

BayernLB uses historical simulation as the main value-at-risk method, which is able to take account of correlations between the various types of market risk. Calculations for daily management and monitoring are based on a one-day holding period and a confidence level of 99 percent.

Market risk measurement methods are regularly assessed for the quality of their forecasting. In the backtesting process, the risk forecast is compared with actual outcomes (gains or losses). As at 31 December 2013, based on the Basel traffic light approach, the forecasting quality of the procedure for measuring market risk was good. The same methods are used for both assets and liabilities in the trading book and the investment book.

The outcomes of value-at-risk based risk measurement must always be looked at in the context of the assumptions used in the model (mainly the confidence level selected, a one-day holding period, and the use of historical data over a period of around one year to forecast future events). For this reason, risk positions are subjected to regular stress tests based on historical crises and hypothetical changes in market prices and then the potential risks are analysed. The stress tests take into account all relevant types of market risk and are regularly reviewed to assess the suitability of the parameters used, with parameter changes being made where required.

The standard approach is currently used at BayernLB to calculate the regulatory capital backing for trading transactions.

Risk monitoring

In BayernLB, several tools are used to monitor and limit market risks, including value at risk (VaR) and corresponding VaR limits, risk sensitivity and stress tests, all of which form part of the mix in the assessment of risk-bearing capacity to various degrees. The method of measuring, managing and monitoring market risks described in the risk report of the 2012 consolidated financial statements has changed as follows: the limits for the individual market risk types were supplemented on 30 April 2013 by corresponding total VaR limits to take account of correlations with different market risk types. These total VaR limits were incorporated in the ongoing monitoring process including risk-bearing capacity.

Market risks are monitored daily by the market risk controlling units independently of trading units and forwarded as part of the daily reporting to the responsible members of the Board of Management. Supervisory requirements are implemented and risk transparency is assured by means of regular reporting to those responsible for positions in the divisions. If a VaR limit is breached, appropriate measures are taken as part of an escalation procedure.

The interest rate risk in the investment books forms part of the daily risk calculation and monitoring processes of the market risk controlling units. Contractual or legal termination rights are modelled as options and incorporated into the risk calculation.

Alongside the regulatory interest rate shock scenario of +/–200 basis points calculated for the interest rate risk in the investment book, additional interest rate shock scenarios are also calculated and limited. As at 31 December 2013, the change in the present value relative to BayernLB's liable capital in the interest rate shock scenario of +/–200 basis points was well below the 20 percent limit set in BaFin's criterion for "institutions with elevated interest rate risk".

As part of risk reporting the Board of Management is informed monthly and the Risk Committee of the Supervisory Board is informed quarterly about the market risk situation.

Current situation

At BayernLB, the main factors affecting value at risk are general interest rate risks, followed by currency risks and specific interest rate risks. Commodity, equity and volatility risks are of secondary importance in relation to overall market risk.

VaR contribution by risk type (confidence level 99%)

			1 Jan 2013 to 31 Dec 2013		
EUR million	31 Dec 2013	31 Dec 2012	Average	Maximum	Minimum
General interest rate VaR	38.1	33.9	36.9	47.2	26.8
Specific interest rate VaR (credit spreads)*	5.1	13.4	7.3	10.9	4.7
Currency VaR	6.4	2.9	4.6	11.9	1.5
Equities VaR	1.2	1.1	1.2	1.5	0.7
Commodities VaR	0.9	1.3	1.3	2.4	0.7
Volatility VaR	0.5	0.9	0.8	1.6	0.3
Total VaR	**38.1**	**29.9**	**35.8**	**44.2**	**26.3**

* *Intragroup positions are eliminated upon Group consolidation. In addition to calculating overall VaR, premiums for credit rating risk from money market transactions and OTC derivatives are also taken into account when calculating the risk capital requirement.*

The increase in general interest rate risk was mainly the result of the higher interest rate volatility, particularly in June 2013. There was a notable fall in specific interest rate risk from the previous year, principally caused by narrower credit spreads and the fall in market volatility.

Liquidity risk

Definition

BayernLB defines liquidity risk as the risk of being unable to meet payment obligations in full or as they fall due, or, in the event of a liquidity crisis, only being able to obtain refinancing at higher market rates or sell assets at a discount to market rates. Further information on the risk strategy for managing liquidity risks is given above in the section "Liquidity management".

Risk measurement

BayernLB produces daily liquidity overviews to measure, analyse, monitor and report on liquidity risk. These project and compare to an accuracy of one day the liquidity gaps, i.e. the net deterministic and non-deterministic future payment inflows and outflows, and the realisable liquidity counterbalancing capacity.

The liquidity counterbalancing capacity quantifies in terms of volumes and timing the ability of BayernLB to obtain cash at the earliest opportunity at market rates and in accordance with supervisory requirements. It indicates the ability to cover liquidity gaps and therefore all cash flow-based liquidity risks. The most important components of liquidity counterbalancing capacity are the portfolio of highly liquid securities eligible as collateral at the central bank, additional eligible collateral available, and the issue potential in the register of public and mortgage cover.

Liquidity risks from off-balance sheet conduits are fully incorporated. Model assumptions are regularly validated using backtesting and adjusted.

To be adequately prepared for various risk situations, BayernLB also calculates and limits its liquidity on the basis of the management scenario and several stress scenarios (systematic and idiosyncratic stress scenarios, and a combination of both).

BayernLB regularly analyses the sensitivity of the liquidity risk profile to a series of extreme hypothetical stress scenarios. A check is also carried out to identify conditions that represent inverse scenarios which could jeopardise normal operations at BayernLB.

Potential concentrations in the liquidity position and refinancing structure are constantly analysed and monitored. There were no significant concentrations during the year under review.

A specific net cash flow figure for the next 180 days is calculated daily for the public Pfandbrief register and the mortgage register. In accordance with section 27 of the Pfandbrief Act (Pfandbriefgesetz), the results and other indicators with respect to the register of cover are reported quarterly to the Board of Management. The balance of cumulative cash flows and available liquidity indicated there was surplus liquidity throughout 2013.

Risk management

To safeguard solvency even in times of crisis, BayernLB has a suitable portfolio of liquidity reserves comprising highly liquid securities, central bank facilities and available economic capital in the registers of cover. The liquid funds that these can generate serve to cover unplanned payment obligations, even in a stress scenario.

The medium to long-term structure of the liquidity is managed over all maturities. To safeguard the solvency of BayernLB and the BayernLB Group and their ability to refinance, suitable tools are used to create a refinancing structure that is balanced in terms of maturities, instruments and currencies. The key management tool is the Group-wide refinancing planning, which is regularly adjusted in line with the current liquidity situation.

The liquidity transfer price system set up in BayernLB is another instrument to efficiently manage liquidity risks. This ensures that all relevant liquidity risks, costs and benefits are matched up internally to avoid misallocations in liquidity management.

The quality of assets in the register of cover for Pfandbriefs is set by law. This, combined with matching currencies and maturities, ensures that issued Pfandbriefs meet high standards. BayernLB's Collateral Management makes sure that standards are maintained. This ensures that BayernLB has an ongoing ability to issue bonds in the Pfandbrief segment.

Operational liquidity management (observation period of up to one year) also ensures compliance with the supervisory requirements of the Liquidity Ordinance (Liquiditätsverordnung (LiqV)). In the year under review, BayernLB had a liquidity ratio of between 1.70 and 2.07 (FY 2012: between 1.82 and 2.41). The supervisory requirement that there is always sufficient available cash to cover callable payment obligations over the same period (ratio always in excess of 1.0) was therefore observed at all times.

Risk monitoring

Group Risk Control independently monitors liquidity risks and calculates and limits ratios derived from the daily scenario-based liquidity overview.

The readily realisable liquidity reserves held by BayernLB (liquidity counterbalancing capacity) limit the maximum operational and structural liquidity gaps tolerated by individual currency and across all currencies combined. To support the limiting of liquidity risks, uniform escalation boundaries have been established in the Bank and these are monitored daily.

The main factors in complying with liquidity risk limits are not exceeding the maximum allowed utilisation figure for the liquidity counterbalancing capacity and ensuring the time-to-wall figure under the defined stress scenarios is sufficient. Time-to-wall shows the earliest point at which the forecast liquidity requirement ceases to be met by the liquidity counterbalancing capacity. The time-to-wall to be observed every day and the maximum permitted utilisation of liquidity counterbalancing capacity at BayernLB are set in the Bank's Risk Strategy.

In 2013 the limitation of liquidity risks once again ensured BayernLB was solvent and able to fund itself at all times and made a valuable contribution to optimising the management of short-term and structural liquidity.

BayernLB will continue to adapt the monitoring of liquidity risk as market circumstances and regulatory requirements change so as to optimise the management of liquidity. To this end, BayernLB has set up an early warning system for risks and regularly conducts backtesting and validation processes.

The liquidity overviews, limit utilisations and other relevant ratios form part of the risk reports submitted regularly to the Board of Management, the Asset Liability Committee (ALCO), the Liability Management Committee (LMC) and the responsible controlling units.

Current situation

Liquidity overviews are compiled for the purpose of managing and monitoring liquidity risks economically. This involves calculating the liquidity surplus by subtracting in each maturity band the cumulative liquidity gaps from the realisable liquidity counterbalancing capacity. Economically expected cash flows from non-deterministic products are mapped in part using modelling assumptions.

The BayernLB management scenario yielded the following results as at 31 December 2013 compared to 31 December 2012:

31 Dec 2013 Cumulative figures in EUR million	**up to 1 month**	**up to 3 months**	**up to 1 year**	**up to 5 years**
Liquidity surplus	**18,634**	**22,969**	**28,952**	**22,961**
arising from				
• liquidity counterbalancing capacity	34,711	34,829	37,577	10,886
less				
• liquidity gap (ex. commitments and guarantees)	12,044	7,128	3,292	−14,080
• liquidity gap (only commitments and guarantees)	4,033	4,732	5,332	2,004

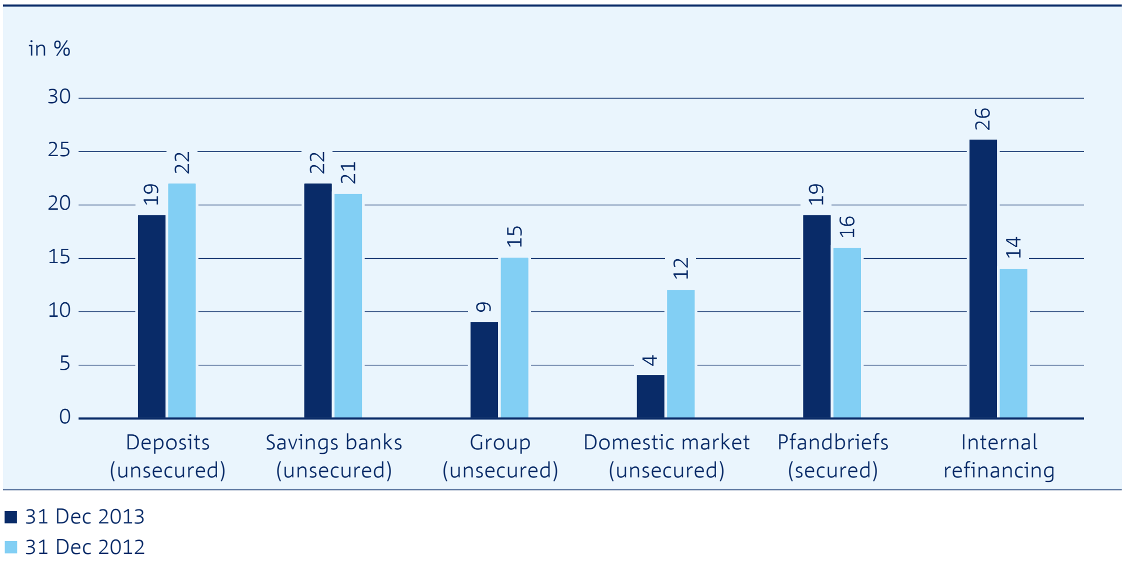
31 Dec 2012 Cumulative figures in EUR million	**up to 1 month**	**up to 3 months**	**up to 1 year**	**up to 5 years**
Liquidity surplus	**15,194**	**18,537**	**23,932**	**17,337**
arising from				
• liquidity counterbalancing capacity	25,527	29,253	32,571	14,143
less				
• liquidity gap (ex. commitments and guarantees)	7,182	6,800	3,549	−5,379
• liquidity gap (only commitments and guarantees)	3,150	3,917	5,091	2,184

The changes in liquidity overviews between 31 December 2012 and 31 December 2013 continued to be affected by BayernLB's focus on core business areas and downsizing. The good liquidity situation is confirmed by the high liquidity surpluses across all maturity bands as at 31 December 2013, as shown in the table.

The slight recovery in interbank trading continued in 2013. Short-term liquidity in particular (up to one month) was once again available in sufficient quantity in the market at all times. Sufficient reserves are therefore available, supported by appropriate structural refinancing on the capital market (EUR 2.8 billion secured and EUR 3.8 billion unsecured).

The refinancing structure in BayernLB was as follows as at 31 December 2013:

Refinancing structure



The chart presents secured and unsecured issues in terms of sales in 2013, while deposits are shown in terms of growth in 2013. Group refinancing represents funding from BayernLB Group subsidiaries. Internal refinancing includes proceeds in excess of refinancing needs and funding freed up by the sale of assets.

In the coming years liquidity management and monitoring in BayernLB will continue to revolve around the refinancing options available and focus on ensuring liquidity reserves are always adequate, even in stress situations. The management of liquidity reserves takes account of the requirements resulting from the refining of CRD IV and CRR. This ensures not only that BayernLB is technically able to promptly comply with reporting requirements but also that management is involved in seeing requirements are efficiently implemented.

BayernLB took measures early and before the law took effect to achieve an adequate LCR ratio and also participated in quantitative impact studies (QIS).

As well as actively managing liquidity reserves, the management of supervisory and economic liquidity risk at BayernLB will continue to be built around a broadly-diversified refinancing structure, supported by a reliable base of domestic investors and retail customer deposits at its DKB subsidiary.

Thanks to its forward-looking liquidity management, BayernLB holds sufficient liquidity.

Operational risk

Definition

In line with the regulatory definition in section 269 of the Solvency Ordinance (SolvV), BayernLB defines operational risk (OpRisk) as the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. This includes legal risks.

Legal risks are risks of loss from non-observance of legal provisions and rulings due to ignorance, lack of diligence in applying the respective law or a delay in reacting to changes in the legal framework. Legal risks do not include the risk of loss from changes in the legal framework that could make the future business activity of BayernLB more difficult.

Risk strategy

The treatment of operational risks is set out in the Risk Strategy, operating instructions and an OpRisk handbook. The strategic objective is to minimise or avoid risk in such a way that the costs of doing so do not exceed the risk of loss from operational risks. This requires operational risks to be identified and assessed as completely as possible. The Risk Strategy integrates the limits on capital backing for operational risks in risk-bearing capacity (ICAAP) into the overall risk limit system.

Risk measurement

For operational risks BayernLB uses the standardised approach (STA) set out in SolvV to calculate the capital requirements under SolvV/Basel II (Pillar I) and the risk capital requirement under the risk-bearing capacity assessment (ICAAP)/Basel II (Pillar II). The capital required for operational risks was EUR 272 million as at 31 December 2013. BayernLB will switch to a risk-sensitive process (Op-VaR) for the risk-bearing capacity calculation in 2014.

Risk management and monitoring

Operational risk is managed and monitored both centrally in the Group Risk Control division and locally in the individual business areas and central areas. Group Risk Control has the authority to establish guidelines for all methods, processes and systems. Responsibility for OpRisk management resides with the business areas and central areas. When it comes to monitoring operational risks both BayernLB loss data and external loss data are taken into consideration, via the OpRisk data consortium DakOR and the ÖffSchOR loss database for publicly known OpRisk losses. In addition to straightforward quantification of capital backing and stress scenarios, other risk management instruments such as risk inventories combining self-assessment and scenario analyses are also used. The stress scenarios are an integral part of the cross-risk stress scenarios in ICAAP.

Business continuity management

Business continuity management is a part of the Risk Strategy and includes important measures to ensure essential resources are available and maintain/restore time-critical business processes.

Emergencies can escalate into crises that place the operations of the entire Bank in jeopardy. The Crisis Management team operates in accordance with the Crisis Manual in a crisis situation.

Reporting

Operational risk at BayernLB is reported to the Board of Management every quarter as part of the regular reporting on overall risk and on an ad hoc basis as required. The operational risk loss situation and trends and the risk-bearing capacity and stress analyses (ICAAP) form a major part of the regular reporting. This ensures that operational risks are systematically included in stress analyses and the monitoring of risk-bearing capacity across all types of risk and integrated into the overall management of risk and the Risk Strategy.

Current situation

Operational risk losses of EUR 2.7 million in 2013 (BayernLabo reported no losses from operational risks in 2013) were up from EUR 1.3 million in 2012 (of which EUR 1.24 million at BayernLB and EUR 0.08 million at BayernLabo).

This rise in losses at BayernLB is mainly due to a verdict by the German Federal Court of Justice in 2013 on objections relating to consumer loans secured by liens.

The ongoing legal dispute with HAA had no impact on the amount of losses. For more information on litigation risks, please see the remarks in the report on the economic position under “Due from banks” and the explanation in the report on expected developments and opportunities.

Summary

The overall stable risk trend at BayernLB was marked by the move to focus on core business and wind down non-core business in line with strategy.

BayernLB had adequate risk-bearing capacity as at 31 December 2013. The stress scenarios run also confirm that adequate capital is held. In addition, BayernLB had a comfortable supply of liquidity on hand. Risk provisions take appropriate account of known risks. The regulatory solvency requirements were met. Own funds available to cover risks amounted to EUR 16.6 billion. For more details, please see the section “Banking supervisory ratios under the German Banking Act (KWG)” in the management report.

The risk management and controlling system at BayernLB has appropriate processes to ensure compliance with regulatory requirements and manage risks from an economic viewpoint.

Report on expected developments and opportunities

Economic environment

The forecasts set out in the following report relating to BayernLB's performance in 2014 may differ substantially from the actual outcome should one of the following uncertain factors or other uncertainties occur or should the assumptions underlying our forecasts prove incorrect. BayernLB is under no obligation to update its forecasts in light of new information or future events outside the regular reporting schedule.

In its December 2013 monthly report, the Bundesbank forecasts that the economic upturn in Germany will continue in 2014, chiefly driven by consumption as before. But capital expenditure is also playing a greater role in the pick-up in momentum against a backdrop of rising capacity utilisation, low interest rates, and a brighter outlook for major foreign markets. Exports should also make a mild positive contribution to growth on balance now that the economic health of the main eurozone economies and the US is improving. Overall, the Bundesbank forecasts that growth in Germany will average 1.7 percent for the year. With the economy still weak, inflation will remain very low for the foreseeable future in Germany and the eurozone, but should gradually rise. Deflationary risks in the currency zone as a whole remain low, but could re-emerge were a new shock to occur.

As a result, BayernLB expects job creation over the year to accelerate and unemployment to fall further to 6.7 percent despite rising labour market participation and immigration, while price rises, subdued again by cheap imports, are likely to be modest in 2014. Slightly higher inflation is unlikely to emerge until the end of the year when the impact of wage increases, which are expected to be higher, feeds through. Risks to the economic upturn remain, however. The European debt and banking crisis could flare up again as the European Court of Justice puts the European Central Bank's Outright Monetary Transactions (OMT) programme under the microscope, but markets may also take strong exception to the Federal Reserve's tapering. The turmoil which struck some emerging economies at the start of the year could intensify over the course of the year.

A more rapid relaxation on financial markets would lead to opportunities from the valuation of securities portfolios and resulting gains.

In 2014 Bund yields will be mainly driven by a gradual improvement in fundamentals in the eurozone and other developed economies. This is in marked contrast to the past three years where the European sovereign debt crisis held sway over markets. The debt crisis is not yet over, but will likely stay in the background compared to previous years and only moderate the upward trend in yields. In BayernLB's view, over a 12-month perspective, a yield of about 2.4 percent on 10-year Bunds is achievable.

BayernLB sees opportunities if the economic data turns out better than expected. A more rapid increase in interest rates would help the contribution from investing capital, and thus net interest income.

BayernLB's future performance

The strategic guidelines for BayernLB for 2014 and beyond are in principle set by and based on the outcome of the EU state aid proceedings concluded in 2012. In the coming years BayernLB will continue to follow the course it is on to resize and focus the Bank in order to further strengthen its business activities with customers in the core areas of the new business model and further cut total assets significantly. With the exception of MKB, BayernLB no longer holds any large equity stakes which have to be sold under the EU ruling. It has therefore almost achieved the targets set by the European Commission in this respect too. It will continue to wind down the non-core business managed in the Restructuring Unit (RU), most of which is located in western Europe and North America. In addition to winding down transactions as they mature, the Bank will also take advantage of opportunities on the secondary market to sell assets before they mature. This also serves to help it to achieve its overriding strategic aims in terms of target total assets, focusing on the new business model/core business and, last but not least, freeing up capital.

One of the most important EU conditions and critical factors in the coming years will be the phased repayment of core capital to the Free State of Bavaria, which was originally about EUR 5 billion, and this will have a constraining affect across the board. Based on current expectations and forecasts of the main influencing factors, BayernLB's long-term forecast indicates that it will be able to meet its payment obligations under the EU ruling as it did in FY 2013.

In BayernLB's view, it is now essential to shift its focus from the business model to making improvements in the areas of costs, efficiency and workflows. After setting targets and identifying areas for action, the cost-cutting programme, which ran through 2013 will move into the implementation phase in 2014. The approaches and measures identified will be fleshed out and then implemented. By the end of 2016, BayernLB aims to have completed a substantial part of its plan to permanently cut administrative expenses by approximately EUR 130 million from the 2012 level by the end of 2017. Administrative expenses are expected to fall sharply in 2014 as the cost cutting programme is pushed through rigorously. Personnel measures will be implemented on the basis of an agreement with the General Staff Council to reduce headcount in Germany by mutual agreement from the start of 2014.

There will be a positive impact on BayernLB's economic situation if the planned measures and packages can be implemented much faster than expected.

BayernLB will further significantly reduce total assets in non-core activities in 2014, while its funding needs will remain more or less unchanged from last year. Funding management will focus on drawing more heavily on funding from the savings banks customer group and continuing to improve the quality and composition of the funding mix.

Thanks to BayernLB's good liquidity and funding situation, and with the expectation that central banks will continue to support the economy with their policies so that the much improved market conditions remain intact, no problems in obtaining liquidity are expected in 2014.

BayernLB's available economic capital is sufficient to cover the risk capital requirement in the business plan for the various risk types, even allowing for a stress buffer in the planning horizon.

In light of the forecast economic recovery in Europe, portfolio quality in 2014 is expected to remain stable overall. In terms of sub-portfolios, the quality of the Financial Institutions sub-portfolio is expected to remain good and steady compared to FY 2013, while the quality of the Countries/Public-Sector/Non-Profit Institutions sub-portfolio should continue to be very good and stable. The Corporates sub-portfolio will also remain stable on the whole. Any weakening in the credit quality of individual sectors of the Corporates sub-portfolio should be mitigated by the expected economic revival in Europe and continuing GDP growth in Germany. Given the moderately better economic outlook for Germany, the quality of the Commercial Real Estate and Retail sub-portfolios is likewise expected to be stable. The tough economic situation in Hungary remains a source of uncertainty. If the economy were to improve even more, it could have a positive impact on risk provisions.

In 2014 BayernLB will also press on with legal actions related to Hypo Group Alpe Adria, Klagenfurt (HAA). BayernLB is suing the members of the previous Board of Management for damages before Munich District Court I, alleging they committed multiple breaches of their fiduciary duties when they acquired HAA. BayernLB considers its legal position has been given credence by the fact that six defendants were put on trial before the sixth criminal division of Munich District Court I in January 2014. The allegations by the prosecution include a breach of fiduciary duty through the acquisition of shares in HAA. BayernLB has also brought a test case before the Vienna Commercial Court against one of the sellers of the shares in HAA. The Bank contends that the seller deliberately concealed details which would have been of relevance to BayernLB when making the purchase, i.e. confidential agreements with holders of preference shares which bar shares from being counted as equity in HAA. BayernLB also considers its legal position here has been given credence by the fact that four former board members of HAA went on trial on criminal charges in November 2013. The prosecution alleges they were in breach of their fiduciary duties and in some cases committed accounting fraud in connection with confidential side agreements in favour of preference shareholders. On 27 February 2014 the Klagenfurt District Court found Dr Wolfgang Kulterer and two other defendants guilty and imposed prison sentences. For procedural reasons, the court was unable to hand down a ruling on 27 February 2014 concerning the fourth defendant Dr Tilo Berlin. Dr Wolfgang Kulterer and Dr Tilo Berlin were chairmen in 2007 of the management board of the seller being sued by BayernLB.

From 1 April 2014 HAA will have been in material arrears for over 90 days, according to the CRR rules. The result will be a need for some EUR 1 billion of capital purely for supervisory reasons but this will not have any impact on reported equity. This increased requirement has already been taken into account in BayernLB's capital planning.

BayernLB will forge ahead with the restructuring of its operating business by strengthening existing long-term customer relationships and acquiring new business partners and business opportunities with the necessary connection to Germany. For 2014, BayernLB's targets, especially for the Mittelstand segment, include acquiring well over 100 new customers, expanding key and core bank relationships, further strengthening the syndicated loan business with the Bavarian savings banks and maintaining its very good market position in the subsidised loan business.

In commercial and residential real estate BayernLB is forecasting around EUR 3 billion in new business, the same as in 2013. DKB is aiming to boost the number of retail customers from just under 2.8 million at present to 3 million.

Non-core business must be clearly separated from the growth-focused core business in terms of planned trends in volumes and profit. The goal is to rapidly wind down exposures and portfolios while preserving capital. Opportunities will occur if capital is released sooner than expected, or in larger amounts.

Despite the aforementioned challenges posed by the environment, repayment obligations and regulatory requirements, BayernLB is confident overall that it has created the prerequisites for achieving all of its goals.

BayernLB expects to break even in FY 2014. This forecast is subject to the proviso that no major negative economic or financial events occur in the eurozone or global economy. Further significant regulatory intervention could also impact the Bank's planning. The EU ruling requires MKB to be sold by the end of 2015; if this occurs in 2014, BayernLB's earnings could be hit by a further charge. In view of the difficult regulatory environment in Hungary, MKB's future performance is hard to predict, so any charges cannot yet be quantified. Given these imponderables, the possible impact of a sale of MKB has not been taken into account in the 2014 earnings forecast.

It cannot be ruled out that any change in the assumptions underlying the outlook may affect BayernLB, and its financial position and performance.

Financial statements

Balance sheet and income statement

Balance sheet – Bayerische Landesbank
as at 31 December 2013

Assets	EUR '000	EUR '000	EUR '000	2013 EUR '000	2012 EUR '000
Cash reserves					
a) Cash			19,853		17,400
b) Deposits with central banks			1,919,729		357,404
of which:					
at Deutsche Bundesbank	*628,738*				*72,572*
				1,939,582	**374,804**
Due from banks					
a) Payable on demand			6,549,697		8,708,093
b) Other receivables			39,874,082		39,952,543
of which:					
• *mortgage loans*	*11,398*				*11,712*
• *municipal loans*	*4,331,434*				*7,276,387*
				46,423,779	**48,660,636**
Due from customers				**72,974,418**	**84,097,906**
of which:					
• *mortgage loans*	*14,515,542*				*16,920,498*
• *municipal loans*	*31,615,953*				*34,496,838*
Bonds and other fixed-income securities					
a) Money market instruments					
aa) issued by public-sector borrowers		—			—
of which:					
eligible as collateral at Deutsche Bundesbank	—				—
ab) issued by other borrowers		356,566			121,091
of which:					
eligible as collateral at Deutsche Bundesbank	—				—
			356,566		121,091
b) Bonds and notes					
ba) issued by public-sector borrowers		8,739,879			7,475,943
of which:					
eligible as collateral at Deutsche Bundesbank	*6,540,442*				*4,958,866*
bb) issued by other borrowers		27,252,006			27,356,577
of which:					
eligible as collateral at Deutsche Bundesbank	*17,828,134*				*15,996,805*
			35,991,885		34,832,520
c) Own debt securities			6,807,409		8,210,829
Nominal value	*6,802,665*				*8,205,425*
				43,155,860	**43,164,440**
Equities and other non-fixed income securities				**9,546**	**169,533**
Trading portfolio				**25,803,827**	**43,079,477**
Carried forward				190,307,012	219,546,796

				2013	2012
Liabilities	*EUR '000*	EUR '000	EUR '000	EUR '000	EUR '000
Due to banks					
a) Payable on demand			6,536,068		5,139,220
b) With agreed maturity or period of notice			55,830,809		52,444,393
of which:					
• *registered mortgage Pfandbriefs*	*516,334*				*569,977*
• *registered public Pfandbriefs*	*1,573,880*				*1,955,091*
• *issued to the lender to secure loans raised:*					
• *registered mortgage Pfandbriefs*	—				—
• *registered public Pfandbriefs*	—				—
				62,366,877	**57,583,613**
Due to customers					
a) Savings deposits					
aa) with agreed period of notice of three months		—			—
ab) with agreed period of notice of more than three months		—			—
			—		—
b) Other liabilities					
ba) payable on demand		4,794,359			5,122,559
bb) with agreed maturity or period of notice		31,299,101			37,966,776
of which:					
• *registered mortgage Pfandbriefs*	*1,496,127*				*1,820,961*
• *registered public Pfandbriefs*	*6,334,836*				*6,967,129*
• *issued to the lender to secure loans raised:*					
• *registered mortgage Pfandbriefs*	—				—
• *registered public Pfandbriefs*	—				—
			36,093,460		43,089,335
				36,093,460	**43,089,335**
Securitised liabilities					
a) Bonds issued					
aa) mortgage Pfandbriefs		4,500,984			5,613,782
ab) public Pfandbriefs		13,556,363			15,748,661
ac) other bonds		36,864,286			42,452,885
			54,921,633		63,815,328
b) Other securitised liabilities			498,619		555,408
of which:					
• *money market instruments*	*497,807*				*535,881*
• *own acceptances and promissory notes outstanding*	—				—
				55,420,252	**64,370,736**
Trading portfolio				**18,993,860**	**37,207,729**
Liabilities held in trust				**5,312,696**	**5,721,848**
of which:					
loans on a trust basis	*5,311,985*				*5,721,544*
Other liabilities				**948,902**	**1,216,269**
Carried forward				179,136,047	209,189,530

Balance sheet – Bayerische Landesbank
as at 31 December 2013 (continued)

				2013	2012
Assets	*EUR '000*	EUR '000	EUR '000	EUR '000	EUR '000
Carried forward				190,307,012	219,546,796
Participations				**209,656**	**254,364**
of which:					
• in banks	*24,967*				*110,792*
• in financial service providers	*11*				*11*
Shares in affiliated companies				**2,565,652**	**3,390,048**
of which:					
• in banks	*2,397,173*				*2,506,353*
• in financial service providers	*—*				*—*
Assets held in trust				**5,312,696**	**5,721,848**
of which:					
loans on a trust basis	*5,311,985*				*5,721,544*
Intangible assets					
a) Internally generated industrial property rights and similar rights and assets			56,652		76,908
b) Purchased licences, industrial property rights and similar rights and assets as well as licences to such rights and assets			34,566		33,932
c) Goodwill			—		—
d) Down payments effected			—		—
				91,218	**110,840**
Tangible assets				**394,106**	**393,252**
Other assets				**1,964,472**	**2,285,386**
Pre-paid expenses					
a) From the new issues and loans business			138,597		151,165
b) Others			51,729		64,252
				190,326	**215,417**
Total assets				**201,035,138**	**231,917,951**

				2013	2012
Liabilities	*EUR '000*	EUR '000	EUR '000	EUR '000	EUR '000
Carried forward				179,136,047	209,189,530
Deferred income					
a) From the new issues and loans business			95,817		106,761
b) Others			216,538		97,665
				312,355	**204,426**
Provisions					
a) For pensions and similar obligations			1,931,320		1,754,460
b) For taxes			271,862		282,822
c) Other provisions			1,175,199		760,175
				3,378,381	**2,797,457**
Subordinated liabilities				**4,413,345**	**5,137,105**
Profit participation certificates				**439,550**	**449,550**
of which:					
due in less than two years	—				—
Fund for general bank risks				**1,221,391**	**1,152,351**
of which:					
special items pursuant to section 340e para. 4 HGB	*31,770*				*16,877*
Equity					
a) Subscribed capital					
aa) statutory nominal capital	2,800,000				2,300,000
uncalled nominal capital	—				—
called nominal capital		2,800,000			2,300,000
ab) capital contribution		612,016			—
ac) silent partner contributions		3,562,040			4,772,367
			6,974,056		7,072,367
b) Specific-purpose capital			—		612,016
c) Capital reserve			3,892,505		4,035,641
d) Retained earnings					
da) statutory reserves		1,267,508			1,267,508
db) other retained earnings		—			—
			1,267,508		1,267,508
e) Net retained profits			—		—
				12,134,069	**12,987,532**
Total liabilities				**201,035,138**	**231,917,951**
Contingent liabilities					
a) Contingent liabilities from the endorsement of bills rediscounted			—		—
b) Liabilities from guarantees and indemnity agreements (see also the notes)			11,547,748		12,652,673
c) Liabilities from collateral furnished for third-party obligations			—		—
				11,547,748	**12,652,673**
Other liabilities					
a) Repurchase obligations from non-genuine sale and repurchase agreements			—		—
b) Placement and underwriting commitments			—		—
c) Irrevocable loan commitments			19,109,032		18,765,328
				19,109,032	**18,765,328**

Income statement – Bayerische Landesbank
for the period from 1 January to 31 December 2013

				2013	2012
	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
Interest income from					
a) Credit and money market transactions		3,003,882			3,934,370
of which Bausparkasse interest income:					
• from home loan savings loans	–				*71,390*
• from preliminary and interim financing loans	–				*124,587*
• from other building loans	–				*10*
b) Fixed-income securities and debt-register claims		516,406			711,141
			3,520,288		**4,645,511**
Interest expenses			**–2,381,049**		**–3,326,145**
of which Bausparkasse interest expenses:					
for home loan savings deposits	–				*–204,693*
				1,139,239	**1,319,366**
Current income from					
a) Equities and other non-fixed income securities			1,676		20,256
b) Participations			4,819		6,705
c) Shares in affiliated companies			54,066		68,109
				60,561	**95,070**
Income from profit-pooling agreements, profit transfer agreements and partial profit transfer agreements				**148,809**	**258,016**
Commission income			**240,490**		**364,590**
of which Bausparkasse commission income:					
• from concluding and procuring contracts	–				*63,534*
• from loan administration after allotment	–				*3,016*
• from providing and processing preliminary and interim financing loans	–				–
Commission expenses			**–62,992**		**–189,832**
of which Bausparkasse commission expenses: for concluding and procuring contracts on behalf of Bausparkasse	–				*–101,149*
				177,498	**174,758**
Net income or net expenses of the trading portfolio				**121,450**	**151,892**
of which: allocation to/releases from the fund for general bank risks pursuant to section 340e para. 4 HGB	*–14,893*				*–16,877*
Other operating income				**258,142**	**458,131**
General administrative expenses					
a) Personnel expenses					
aa) salaries and wages		–380,359			–346,087
ab) social security contributions, pensions and other employee benefits		–234,342			–175,398
			–614,701		–521,485
of which: for pensions	*–146,010*				*–125,329*
b) Other administrative expenses			–333,174		–364,434
				–947,875	**–885,919**
Amortisation, depreciation and writedowns on intangible assets and tangible assets				**–74,601**	**–39,854**
Other operating expenses				**–177,820**	**–215,277**
Carried forward				705,403	1,316,183

				2013	2012
	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
Carried forward				705,403	1,316,183
Amortisation, depreciation and writedowns on receivables and certain securities and additions to provisions in the credit business			**–506,481**		**–8,998**
of which:					
• *withdrawal from the fund for general bank risks*	*—*				*—*
• *allocation to the fund for general bank risks*	*–54,147*				*–662,474*
Income from reversals of writedowns on receivables and certain securities as well as from the release of provisions in the credit business			**—**	**–506,481**	**—**
					–8,998
Amortisation, depreciation and writedowns on participations, shares in affiliated companies and securities classified as fixed assets			**–481,322**		**–1,227,379**
Income from reversals of writedowns on participations, shares in affiliated companies and securities classified as fixed assets			**—**	**–481,322**	**—**
					–1,227,379
Expenses from loss transfers				**–59,207**	**–3,438**
Gains or losses on ordinary activities				**–341,607**	**76,368**
Extraordinary income			**12,978**		**—**
Extraordinary expenses			**–154,264**		**–7,677**
Net extraordinary income/loss				**–141,286**	**–7,677**
Taxes on income and earnings			**8,284**		**–27,381**
of which: deferred taxes	—				—
Other taxes, unless disclosed under "Other operating expenses"			**–227**		**–13,797**
				8,057	**–41,178**
Loss for the financial year/Net income				**–474,836**	**27,513**
Withdrawals from capital reserve				**474,836**	**437,762**
Replenishment of profit participation certificates				—	**–10,330**
Replenishment of silent partner contributions				—	**–454,945**
Net retained profits				—	—

Notes

The annual financial statements of Bayerische Landesbank, an institution established under public law, Munich, Germany (BayernLB), have been prepared in accordance with the provisions of the German Commercial Code (HGB), the Ordinance Regulating the Accounting Requirements for Financial Institutions and Financial Service Providers (RechKredV), the provisions of the Pfandbrief Act (PfandBG), the supplementing regulations of the Bayerische Landesbank Act, and the Bank's Statutes.

The layout of the balance sheet and income statement complies with RechKredV and includes items required for Pfandbrief banks and home loan and savings banks (Bausparkassen).

Figures are given in millions of euros. Rounding differences may occur in the tables.

Accounting policies

Assets and liabilities are measured in accordance with the general measurement provisions of sections 252 et seq. HGB, taking account of the special provisions applicable to banks (sections 340 et seq. HGB).

The accounting policies used for the annual financial statements as at 31 December 2013 were the same as those used for the annual financial statements as at 31 December 2012. Any changes on the previous year are noted below.

BayernLB switched the discounting of secured foreign currency interest rate derivatives to the overnight interest rate swap curve, so as to react to current market trends. As a result, the measurement of the trading portfolio and loss-free measurement of the banking book give rise to a changeover effect totalling EUR –12 million.

Since the reporting year, securities allocated to the investment portfolio have been included in the calculation of general loan loss provisions in order to better reflect the actual hidden risks of default. This produced a net impact on earnings of EUR –23 million. In a changeover, existing premiums and discounts were amortised on a pro-rata temporis basis through the income statement instead of on the maturity date of the security. The reversal of premiums and discounts reduced earnings by EUR 43 million in the reporting year.

Receivables and liabilities (non-trading portfolio)

Receivables in the non-trading portfolio are reported at nominal amount or at cost. Low-interest or non-interest bearing receivables are discounted if necessary.

All identifiable risks are taken into account through risk provisions. Risk provisions are calculated in accordance with the methods used in the IFRS consolidated accounts. On indications of impairment, specific loan loss provisions are calculated by deducting from the carrying amount of the receivable the present value of future expected cash flows calculated using the original effective interest rate. Additions to or releases of risk provisions are made if expected cash flows change. Only the principal is reduced by cash payments for impaired receivables.

Furthermore, general loan loss provisions are made for hidden credit risks and calculated on the basis of historical probabilities of default, loss ratios and the latest ratings. General loan loss provisions are made for receivables due from banks, from customers and off-balance sheet transactions.

General loan loss provisions specifically for country risks are made for country risks not already taken into account in specific loan loss provisions. These are calculated based on the probabilities of default and loss rates specific to each country.

Reserves have been established to meet general bank risks in accordance with sections 340f and 340g HGB. The reserves in accordance with section 340f HGB were deducted from assets.

Liabilities in the non-trading portfolio are recognised at their settlement value. Discounted bonds and similar liabilities are reported at their net present value.

Premiums and discounts on receivables and liabilities are reported under the pre-paid and deferred items and amortised on a pro-rata temporis basis.

Securities (non-trading portfolio)

The securities portfolios in the liquidity reserve are measured according to the strict principle of lower of cost or market value observing the requirement to reverse writedowns. Securities in the "securities measured as investments" portfolio (investment portfolio) are measured according to the less strict principle of lower of cost or market value; any premiums and discounts arising are amortised on a pro-rata temporis basis. Securities allocated to the investment portfolio are tested for permanent impairment on an ongoing basis; the actual hidden risks of default are recognised through the creation of general loan loss provisions.

As there is still no active market for asset-backed securities in BayernLB's portfolio, they are measured on the basis of indicative prices from brokers, market data providers or lead managers (arrangers). These prices are checked for plausibility by using several price sources aided by statistical methodology. If a security has a wide range of prices compared with similar securities, it is assessed separately and implausible prices are eliminated. In certain cases, credit quality is also assessed.

Trading portfolio

All financial instruments in the trading portfolio, including executory contracts concluded for trading, are measured at fair value less a risk discount.

The methodology used to calculate the risk discount is based on the supervisory regulations of the Minimum Requirements for Risk Management (Mindestanforderungen an das Risikomanagement (MaRisk)) and the requirements of section 315 of the Solvency Ordinance (Solvabilitätsverordnung (SolvV)). The risk discount is calculated in the form of value-at-risk (VaR) with a confidence level of 99 percent, a holding period of 10 days and an observation period of one year. The risk discount for the whole trading portfolio is recognised under the "trading assets" item.

All income and expenses from the trading portfolios, including their refinancing costs, are recognised under the net income or net expenses of the trading portfolio item. In accordance with section 340e para. 4 HGB, allocations to/releases from the fund for general bank risks required by section 340g HGB are made from the net income or net expenses of the trading portfolio.

The Bank's own criteria for including financial instruments in the trading portfolio were left unchanged in the financial year.

Fair value

The fair value of a financial instrument is the amount for which it could be exchanged between knowledgeable, willing parties in an arm's length transaction.

The fair value is calculated where possible by referring to a quoted price on an active market (e. g. stock market price). A market is considered active for a financial instrument if quoted prices are readily and regularly available from an exchange, dealer or similar, and these prices represent actual and regularly occurring market transactions between knowledgeable, willing parties in an arm's length transaction.

If no active market exists, the fair value is calculated using a range of measurement methods including measurement models based on the net present value method and indicative valuation prices. The goal is to establish what the transaction price would have been in an arm's length exchange between knowledgeable, willing parties on the valuation date. An inactive market is characterised by very limited trading volumes, very wide bid/offer spreads and wide swings in indicative prices.

Other measurement models

Fair values are also calculated using recognised measurement models based largely on market data. The net present value method and option price models are among the measurement models used.

When a market price is not available, the net present value method is used for interest-bearing financial instruments. Values are measured on the basis of cash flow structures and take account of nominal values, residual maturities and the agreed day-count convention. If the financial instrument has a contractually agreed fixed cash flow, the cash flow structure is calculated using the agreed cash flows. In the case of variable rate instruments, cash flows are determined using forward curves. Discounting uses matching currency and maturity and secured and unsecured yield curves, and a risk-adjusted spread. Market data is used where spreads are publicly available. In the case of OTC derivatives, counterparty risk at business partner level is also considered.

Options and other derivative financial instruments with option characteristics are measured largely using the Black-Scholes option pricing model. The following valuation parameters are used when measuring: cumulative probability distribution function for standard normal distribution, option strike prices, continuously compounding risk-free interest rates (for different currencies and maturities), price volatility, option time to expiry, estimated dividends, interest rate and pricing barriers, discounts, increments and probability of occurrence.

If an option has several possible exercise dates, it is measured using a binomial model and publicly accessible market data.

Credit derivatives are measured using the hazard rate model based on the latest credit spread.

Summary of key measurement models by derivative product group:

Product group	Principal valuation model
Interest rate swaps	Present value method
Forward rate agreements	Present value method
Interest rate options	Black 76
Forward exchange transactions	Present value method
Currency swaps/cross-currency swaps	Present value method
Foreign exchange options	Black 76, Trinomial tree (Cox-Ross-Rubinstein)
Equity/index options	Black-Scholes, Roll-Geske-Whaley
Commodity caps/floors	Vorst
Credit derivatives	Hazard rate model

Securities lending transactions

Secured securities lending transactions are treated on the balance sheet as genuine repurchase agreements. Loaned securities remain part of the securities portfolio and are recognised and measured according to whether they have been allocated to the investment portfolio, trading portfolio or liquidity reserve. Borrowed securities are not recognised. Cash pledged as collateral for securities lending transactions is recognised as a receivable (depending on the counterparty, either as “due from banks” or “due from customers”) and received collateral as a liability (depending on the counterparty, either as “due to banks” or “due to customers”). Precious metal transactions (except for gold) are recognised and measured in the same way.

Derivative financial instruments

Derivative financial instruments (mainly forward transactions, swaps, options, credit derivatives) are allocated to a hedging or trading portfolio depending on their intended use. As executory contracts, they are not disclosed in the balance sheet if the intended use is as a hedging transaction. Option premiums paid or received, premiums that are not yet due for credit derivatives, and offsetting payments for price changes from total return swaps over the term are reported under the “other assets” or “other liabilities” items. Premiums from credit default swaps (non-trading portfolio) are recognised on a pro-rata basis under interest income. Upfront payments for interest rate and (cross) currency swaps (non-trading portfolio) are recognised under the pre-paid and deferred items.

Derivative financial instruments in the trading portfolio are measured at fair value less a risk discount and recognised in the respective "trading portfolio" item (under assets if the fair value is positive and under liabilities if the fair value is negative). If the requirements for offsetting financial assets against financial liabilities are met, the market values from derivative financial instruments in the trading portfolio with the variation margins received or paid are reported net. Provisions for expected losses from executory contracts are made for stand-alone derivative financial instruments in the non-trading portfolio that are not part of a valuation unit.

If interest rate and currency risks from the banking book are transferred to the trading book, internal deals are recognised in the same way as external deals in accordance with the mirroring principle.

Option premiums from caps, collars and floors are recognised under the items "other assets" and "other liabilities". Under accounting standards IDW RS BFA 5 and IDW RS BFA 6, gains or losses on realisation and measurement of stand-alone derivatives in the non-trading portfolio (excluding credit derivatives) are recognised under the items "other operating income" and "other operating expenses" in the income statement. Gains or losses on realisation of interest rate derivatives are recognised under interest income.

Structured products

Structured products in the trading portfolio and the liquidity reserve are reported as a uniform financial instrument as they are measured at fair value less a risk discount (trading portfolio) or at the strict principle of lower of cost or market value (liquidity reserve). Embedded credit default swaps from securitised ABS instruments measured as investment assets are shown as guarantees under contingent liabilities. Structured liabilities are recognised at the settlement value.

Valuation units

BayernLB utilises valuation units (underlying transactions and their related hedges) in accordance with section 254 HGB. Micro fair-value valuation units are predominantly used. They are therefore reported in accordance with the risk management approach of the corresponding non-trading books. Interest rate risk is normally hedged. If the product is structured, other market risks (equity, currency and commodity risks) may also be hedged. In a few exceptional cases, credit risk may also be hedged. For the first time in 2013 fair value valuation units were created on portfolios of emission rights.

In accordance with the Risk Strategy, micro valuation units are normally created on inception and end when the underlying and hedging transactions mature. The total volumes of the transactions are hedged in each case. Underlying transactions in a valuation unit may be assets, liabilities or derivative financial instruments. The critical term match method is used to test prospective and retrospective effectiveness in perfect 1:1 hedges. The level of ineffectiveness is calculated using the cumulative changes in the value of the underlying and hedging transaction. If the net value is negative, a provision for expected losses is shown. For imperfect hedges, effectiveness is tested using the dollar-offset method and the variant reduction method. As with perfect hedges, net negative amounts are shown as provisions for expected losses. The effective portions of the valuation units shown are recognised in accordance with the freeze method. These are recognised in the income statement in the same way as the gains or losses on measurement of the underlying transactions.

Depending on the Risk Strategy, portfolio valuation units on emission rights are created on inception. The total volumes of the transactions are hedged in each case. Underlying transactions in a valuation unit may be assets or derivative financial instruments. The prospective effectiveness is verified using correlation analysis. The level of ineffectiveness is calculated using the cumulative changes in the value of the underlying and hedging transaction. The effective portions of the valuation units shown are recognised in accordance with the book-through method. Consequently assets and derivative financial instruments are recognised under other assets or other liabilities. Reporting in the income statement is under other operating income or other operating expenses.

Loss-free measurement in the banking book

IDW RS BFA 3 governs specific issues relating to the loss-free measurement of the banking book under HGB. Due to the nature of banks' business in the banking book, individual financial instruments cannot be pooled together. The banking book is managed as a whole. For all interest-bearing on and off-balance sheet financial instruments in the banking book, the principle of prudence is observed by making a provision for any surplus of liabilities in accordance with section 249 HGB (expected losses). BayernLB calculates potential surpluses of liabilities using the net present value method. Besides the net present values and carrying amounts of interest-bearing financial instruments in the non-trading portfolio, the calculation to determine whether a provision for expected losses must be made takes account of administrative and standard risk costs. Administrative costs are calculated based on internal cost controlling. This calculation considers the process costs for current transactions on the reporting date and a surcharge for overheads and inflation. Standard risk costs are calculated using the same method as for risk costs. It is based on the expected losses over several years. BayernLB had no surplus liabilities on the reporting date. No provision for expected losses from loss-free measurement was required.

Participations and shares in affiliated companies

Participations and shares in affiliated companies are valued at cost in accordance with the rules for investment assets or – if an impairment is expected to be permanent – at the lower of cost or market value as at the reporting date, taking account of the IDW's position on accounting standard IDW RS HFA 10. Where there is no further reason for impairment, a reversal is made.

Intangible assets and tangible assets

Intangible assets and tangible assets have been measured at cost less depreciation where applicable. The period of depreciation is equivalent to their economic life.

Software developed internally is capitalised. After large-scale renovation work, buildings are measured using the component method. Separate wear and tear of individual components is recognised as a partial disposal and their replacement as a partial addition. They are depreciated separately over their useful life. Low value items are fully written off in the year acquired.

Deferred taxes

In accordance with section 274 HGB, deferred taxes are calculated on the temporary differences between the accounting value and the tax value of assets, liabilities and pre-paid and deferred items that give rise to a future tax liability or benefit, and on tax loss carryforwards. BayernLB, the parent company of the tax group, also recognises the temporary differences of its subsidiaries. Deferred taxes are computed in Germany (for the tax group) at the combined corporation tax and municipal trade tax rate (including the solidarity surcharge) of 31.96 percent, except for deferred taxes on participations in partnerships, which are computed at the corporation tax rate (including the solidarity surcharge) of 15.83 percent. Deferred taxes on municipal trade tax loss carryforwards are computed at an average municipal trade tax rate of 16.13 percent. For BayernLB's foreign branches, deferred taxes are measured on the basis of the local tax rates applicable in the country concerned; the range is between 20.00 percent and 44.91 percent.

A deferred tax liability is recognised if a tax liability remains after netting. As permitted under section 274 para. 1 HGB, BayernLB has elected not to recognise any deferred taxes if a tax benefit is left after netting. Tax assets exceeded tax liabilities in the financial year. No deferred taxes were therefore recognised.

Provisions

In accordance with section 253 HGB, provisions are recognised at the settlement amount dictated by prudent business judgement, taking into account future rises in prices and costs. Provisions with a residual term of more than one year are discounted at the average market rate for the past seven financial years that corresponds to their residual term as published by Deutsche Bundesbank. Provisions with a residual term of less than one year are not discounted.

Pension provisions for direct retirement benefit obligations are calculated using the projected unit credit method. The actuarial report in this case is based on biometric assumptions using Klaus Heubeck's "Richttafeln 2005 G" (actuarial tables) and future expected salary and pension increases. In accordance with section 253 para. 2 sentence 2 HGB, discounting is carried out on a simplified basis using an average market rate published by Deutsche Bundesbank calculated on the assumption of a residual term of 15 years. This method meets the requirements of the IDW's position on accounting standard IDW RS HFA 30. The fiscal net present value as calculated in accordance with section 6a EStG is exceeded.

Pension provisions are calculated using the following actuarial assumptions:

in %	**2013**	**2012**
Actuarial interest rate	4.90	5.06
Changes in salary	2.75	3.20
Adjustments to pensions[1]	2.25	2.00
Changes in medical costs	4.00	3.00

1 Eligible social insurance pensions were calculated to have increased by 1 percent.

Besides the pension system, for which pension provisions are made, BayernLB has two legally independent support funds for indirect retirement benefits payable to employees within Germany. The Bank regularly contributes to the fund assets of these support funds where permitted under tax law. In accordance with Art. 28 para. 1 sentence 2 EGHGB, pension provisions are not made for indirect retirement benefits. As at 31 December 2013, there was a shortfall of EUR 239 million (FY 2012: EUR 229 million). Reinsurance concluded by BayernLB to fund these retirement benefit obligations offset this amount by EUR 206 million (FY 2012: EUR 201 million).

Currency translation

Currencies are translated in accordance with the principles of sections 256a and 340h HGB and the IDW's position on accounting standard IDW RS BFA 4. Assets, liabilities and spot transactions denominated in foreign currencies that are not yet settled are translated at the mid-market spot rate on the reporting date. In accordance with the less strict principle of the lower of cost or market value, assets denominated in a foreign currency that are treated as fixed assets and not hedged in the same currency are recognised at cost. Assets and liabilities on the balance sheet and executory contracts denominated in a foreign currency are treated in accordance with section 340h HGB if they are specifically hedged. Currency risks arising in non-trading portfolios are transferred to the trading books. Income and expenses from currency translation are recognised under the "net income or net expenses of the trading portfolio" item.

Notes to the balance sheet

Unless otherwise stated, information in the tables includes accrued interest.

Assets

Due from banks

EUR million	2013	2012
Due from banks	**46,424**	**48,661**
This item includes:		
Other receivables with a residual maturity of		
• up to three months (including accrued interest)	13,497	7,392
• over three months up to one year	7,713	9,605
• over one year up to five years	10,667	14,601
• over five years	7,997	8,354
Due from affiliated companies	**3,607**	**5,503**
Due from companies in which participations are held	**263**	**1,830**
Due from related savings banks	**14,514**	**15,638**
Subordinated receivables	**533**	**760**

Due from customers

EUR million	2013	2012
Due from customers	**72,974**	**84,098**
This item includes:		
Receivables with a residual maturity of		
• up to three months (including accrued interest)	9,309	12,490
• over three months up to one year	8,279	11,464
• over one year up to five years	23,410	27,069
• over five years	30,146	31,739
Receivables without a fixed date of maturity	**1,830**	**1,337**
Due from affiliated companies	**61**	**294**
Due from companies in which participations are held	**277**	**328**
Subordinated receivables	**330**	**473**

Bonds and other fixed-income securities

EUR million	2013	2012
Bonds and other fixed-income securities	**43,156**	**43,164**
This item includes:		
Amounts falling due in the following year (including accrued interest)	**5,532**	**2,463**
Securitised receivables from affiliated companies	**999**	**833**
Securitised receivables from companies in which participations are held	**–**	**1,826**
Subordinated securities	**1,436**	**1,615**
Marketable securities, of which		
• listed	39,179	39,454
• unlisted	3,963	3,691

In the investment portfolio as a whole, bonds and other fixed-income securities were recognised on the basis of the less strict principle of lower of cost or market value at a carrying value of EUR 33,299 million (FY 2012: EUR 32,146 million) and had a fair value of EUR 32,795 million (FY 2012: EUR 31,207 million). No writedown is made if the Bank does not consider the current fluctuations in value to be long term and assumes that the securities will be repaid in full when they mature.

Part of the investment portfolio comprises asset-backed securities with a carrying value of EUR 5,549 million (FY 2012: EUR 7,205 million) and a fair value of EUR 5,157 million (FY 2012: EUR 6,504 million). In return for a premium paid by the Bank, the Free State of Bavaria concluded a guarantee agreement in 2008 which guaranteed losses from the ABS portfolio of up to EUR 4.8 billion. The guarantee covers losses above a first loss of EUR 1.2 billion which is borne by BayernLB. Since the guarantee agreement was concluded, EUR 1.4 billion in writedowns above the first loss have thus been avoided.

Equities and other non-fixed income securities

EUR million	2013	2012
Equities and other non-fixed income securities	**10**	**170**
This item includes:		
Marketable securities, of which		
• listed	–	119
• unlisted	8	26

On the reporting date no equities or other non-fixed income securities were recognised on the basis of the less strict principle of lower of cost or market value. In the previous year, equities and other non-fixed interest securities were disclosed at a carrying amount of EUR 25 million based on the less strict principle of lower of cost or market value, while the fair value of these holdings was EUR 24 million.

Trading portfolio

EUR million	2013	2012
Trading portfolio	**25,804**	**43,079**
This item includes:		
Positive fair values of derivative financial instruments	**19,213**	**36,736**
Receivables	**1,118**	**1,149**
Bonds and other fixed-income securities	**5,063**	**4,845**
Equities and other non-fixed income securities	**378**	**219**
Other assets	**52**	**148**
Risk discount for the whole trading portfolio	**–20**	**–17**
Subordinated securities	**3**	**3**

Participations

As at the reporting date, participations totalling EUR 0.9 million (FY 2012: EUR 7 million) were carried based on the less strict principle of lower of cost or market value; these had a fair value of EUR 0.7 million (FY 2012: EUR 5 million).

Shares in affiliated companies

EUR million	2013	2012
Shares in affiliated companies	**2,566**	**3,390**
This item includes:		
Marketable securities, of which		
• listed	–	–
• unlisted	2,423	3,205

Assets held in trust

EUR million	2013	2012
Assets held in trust	**5,313**	**5,722**
This item mainly includes housing loans granted by Bayerische Landesbodenkreditanstalt and breaks down as follows:		
Due from banks	71	86
Due from customers	5,241	5,635

Intangible assets

Research and development costs totalled EUR 55 million in the reporting year (FY 2012: EUR 65 million). This included EUR 27 million in development costs (FY 2012: EUR 35 million) resulting from internally developed intangible assets categorised as fixed assets, namely internally developed software.

Tangible assets

EUR million	2013	2012
Tangible assets	**394**	**393**
This item includes:		
Land and buildings used for own operations	322	316
Furniture and office equipment	21	24

Other assets

EUR million	2013	2012
Other assets	**1,964**	**2,285**
This item includes:		
Premium claims from credit derivatives (protection buyer positions)	769	964
Offsetting item for foreign currency translation	343	457
Claims from reinsurance	206	202
Accrued income from participations	151	278
Shares in companies	139	8
Emissions certificates	130	136
Claims on the German Tax Authorities	75	67

Pre-paid expenses

EUR million	2013	2012
Pre-paid expenses	**190**	**215**
This item includes:		
Discount on liabilities	117	129
Premium on receivables	22	22
Upfront payments from swaps	19	21

Changes in fixed assets

EUR million	Purchase/ manufacturing costs	Additions	Disposals	Transfers	Writeups	Cumulative depreciation/ writedowns	Net carrying value 31 Dec 2013	Net carrying value 31 Dec 2012	Depreciation/ writedowns for the financial year
			Changes +/−[1]						
Participations			−45				210	254	
Shares in affiliated companies			−824				2,566	3,390	
Securities in the investment portfolio			+1,128				33,299	32,171	
Intangible assets[2]	234	40	20	–	–	163	91	111	59
of which: produced in house	*78*	*29*	*–*	*–*	*–*	*50*	*57*	*77*	*49*
Tangible assets	553	16	28	–	–	147	394	393	16
Other fixed assets	16	–	–	–	–	3	13	13	–

1 BayernLB elected to use the aggregation option under section 34 para. 3 RechKredV.
2 Additions include capitalised development costs plus licence costs.

Genuine sale and repurchase agreements

EUR million	2013	2012
Carrying values of assets transferred under sale and repurchase agreements	2,791	2,680

Assets in foreign currencies

EUR million	2013	2012
Total amount of assets denominated in foreign currency	33,741	49,952

Assets held as cover

EUR million	2013	2012
Mortgage Pfandbriefs and Landesbodenbriefs	**6,454**	**7,923**
Cover assets contained in:		
• Due from banks	37	43
• Due from customers	9,698	11,255
• Bonds and other fixed-income securities	751	1,421
• Additional cover	–	–
Excess cover	**4,032**	**4,796**
Public Pfandbriefs	**21,161**	**24,364**
Cover assets contained in:		
• Due from banks	5,725	7,413
• Due from customers	25,020	25,370
• Bonds and other fixed-income securities	–	1,508
• Additional cover	1,157	1,225
Excess cover	**10,740**	**11,152**

Units in funds carried in the investment book where more than 10 percent of the shares of the fund are held

Fund name	Fair value EUR million	Carrying value EUR million	Difference between fair value and carrying value EUR million	Distribution of earnings EUR million	Daily redemption possible
Bond funds					
BayernInvest Renten Europa-Fonds	10	8	2	0	yes

Liabilities

Due to banks

EUR million	2013	2012
Due to banks	**62,367**	**57,584**
This item includes:		
Term liabilities with a residual maturity of		
• up to three months (including accrued interest)	12,868	5,804
• over three months up to one year	5,830	7,557
• over one year up to five years	22,489	22,996
• over five years	14,643	16,087
Due to affiliated companies	**5,994**	**5,427**
Due to companies in which participations are held	**89**	**902**
Due to related savings banks	**5,841**	**6,065**

Due to customers

EUR million	2013	2012
Due to customers	**36,093**	**43,089**
This item includes:		
Other term liabilities with a residual maturity of		
• up to three months (including accrued interest)	9,440	15,064
• over three months up to one year	3,502	4,677
• over one year up to five years	7,434	6,715
• over five years	10,923	11,511
Due to affiliated companies	**198**	**113**
Due to companies in which participations are held	**34**	**29**

Securitised liabilities

EUR million	2013	2012
Securitised liabilities	**55,420**	**64,371**
This item includes:		
Bonds and notes issued		
• amounts falling due in the following year	16,019	13,867
Other securitised liabilities with a residual maturity of		
• up to three months (including accrued interest)	428	343
• over three months up to one year	70	212
• over one year up to five years	–	1
• over five years	–	–
Due to affiliated companies	**265**	**265**
Due to companies in which participations are held	**11**	**10**

Trading portfolio

EUR million	2013	2012
Trading portfolio	**18,994**	**37,208**
This item includes:		
Negative fair values of derivative financial instruments[1]	**18,502**	**37,040**
Liabilities	**492**	**167**

1 Includes counterparty-specific credit-rating effects with respect to OTC derivatives.

Liabilities held in trust

EUR million	2013	2012
Liabilities held in trust	**5,313**	**5,722**
This item breaks down as follows:		
Due to banks	3	6
Due to customers	5,309	5,716

Other liabilities

EUR million	2013	2012
Other liabilities	**949**	**1,216**
This item includes:		
Premium liabilities from credit derivatives (protection seller positions)	775	987
Buy-in obligation resulting from the sale of securities borrowed	85	54

Deferred income

EUR million	2013	2012
Deferred income	**312**	**204**
This item includes:		
Upfront payments from swaps	175	45
Premium on liabilities	63	63
Discount on receivables	33	44

Subordinated liabilities

EUR million	2013	2012
Subordinated liabilities	**4,413**	**5,137**
This item includes:		
Subordinated liabilities to affiliated companies	**639**	**668**

In the reporting year, interest expenses on subordinated liabilities were EUR 234 million (FY 2012: EUR 261 million).

If BayernLB goes insolvent or is liquidated, the subordinated liabilities cannot contractually be repaid until the claims of all senior creditors have been settled. Creditors have no right to seek early repayment. They meet the requirements for inclusion as liable capital in accordance with section 10 paras 5a and 7 KWG (applicable up to 31 December 2013). The terms and conditions for subordinated bonds apply. There are no provisions for a conversion into equity or another debt instrument.

The following borrowings exceed 10 percent of the total subordinated liabilities:

	Volume in EUR million	Interest rate	Maturity
EUR bond	1.000	5,75%	23/10/2017
EUR bond	505	4,50%	07/02/2019
USD Schuldschein note loan	616	6,21%	31/05/2037

Liabilities in foreign currency

EUR million	2013	2012
Total amount of liabilities denominated in foreign currency	29,233	41,080

Contingent liabilities and other liabilities

EUR million	2013	2012
Contingent liabilities	**11,548**	**12,653**
This item includes:		
Liabilities from guarantees and indemnity agreements		
• Letters of credit	646	363
• Guarantees	2,725	3,789
• Other guarantees and indemnities	8,086	8,501

Potential liabilities from sureties, guarantees and letters of credit acquired by the Bank in the course of its ordinary business with customers are recognised under contingent liabilities. There is also a small volume of guarantees to affiliated companies.

EUR million	2013	2012
Other liabilities	**19,109**	**18,765**
This item includes:		
Irrevocable loan commitments to		
• Banks	1,981	2,942
• Customers	17,128	15,823

Other liabilities result from irrevocable loan commitments, mainly granted to customers in the course of ordinary business.

Irrevocable loan commitments to affiliated companies made as part of the Group-wide management system (Group management) totalled EUR 522 million (FY 2012: EUR 771 million). There were unutilised lines of credit granted to three special purpose vehicles in connection with ABS customer transactions of EUR 429 million (FY 2012: EUR 250 million). The loan commitments will ensure that each of the special purpose vehicles can gain access to funding if they are unable to place securitised instruments on the market as planned.

No individual off-balance sheet amounts are material in relation to overall activities.

The risks from drawdowns for contingent liabilities and other liabilities are assessed on the basis of the creditworthiness of the principal or borrower. Provisions are made if creditworthiness deteriorates to the extent that it is no longer expected that the drawdown will be repaid in full or in part. Information on this process can be found in the credit risk management section of the risk report.

Assignment of collateral for the Bank's own liabilities

In addition to the assets transferred under sale and repurchase agreements and receivables used as cover pools for issued Pfandbriefs, assets have been assigned as collateral in the case of the following own liabilities in the amounts shown below:

EUR million	2013	2012
Due to banks	14,671	14,989
Due to customers	1,232	755
Contingent liabilities	12	12

Collateral for own liabilities primarily relates to assigned receivables from pass-through loans to banks (EUR 14,218 million) and cash pledged as collateral for repurchase agreements (EUR 66 million).

Cash pledged as collateral of EUR 3,648 million and securities with a value of EUR 2,426 million have also been deposited as collateral for derivatives transactions, non-cash lending transactions and transactions on futures and options exchanges and other stock exchange and clearing systems.

Valuation units

Countermovements in values and cash flows were almost fully balanced on the reporting date and should continue to offset each other. When the underlying and hedging transactions mature and the valuation units therefore expire, the changes in value arising from the hedged risks will have completely offset each other.

	Hedged amount	
EUR million	2013	2012
Carrying value of underlying transactions in micro valuation units	**16,346**	**19,802**
• Assets	5,141	5,631
• Liabilities	10,877	13,454
• Derivative financial instruments	328	717
Carrying value of underlying transactions in portfolio valuation units	**128**	**–**
• Assets	130	–
• Forward contracts	–3	–

Notes to the income statement

The 2012 income statement includes the full income and expenses of Bayerische Landesbausparkasse (LBS Bayern) up to the date of its spin-off on 31 December 2012.

Interest income and interest expenses

As there was a net loss for the year, there were no interest expenses on profit participation certificates; in 2012, interest expenses amounted to EUR 47 million, half resulting from deferred claims due for distribution in 2011 and half from those due in financial year 2012.

Interest income includes EUR 29 million (FY 2012: EUR 8 million) of interest on tax receivables and interest expenses includes EUR 32 million (FY 2012: EUR 27 million) of interest on tax liabilities.

Other operating income and other operating expenses

In the reporting year, the Bank produced other operating income of EUR 258 million (FY 2012: EUR 458 million) and other operating expenses of EUR 178 million (FY 2012: EUR 215 million) resulting in net other operating income for the year of EUR 80 million (FY 2012: EUR 243 million).

The Bank disclosed EUR 33 million (FY 2012: EUR 20 million) of gains on emissions certificates under other operating income and EUR 23 million (FY 2012: EUR 66 million) of losses under other operating expenses.

In the reporting year the Bank reported EUR 34 million (FY 2012: EUR 13 million) of gains arising on stand-alone derivatives in the non-trading portfolio in other operating income and EUR 3 million of losses (FY 2012: EUR 5 million) in other operating expenses.

Releases of other provisions gave rise to other operating income of EUR 38 million (FY 2012: EUR 33 million).

Capitalisation of interest on provisions resulted in other operating expenses of EUR 87 million (FY 2012: EUR 67 million).

The release of the redundant extraordinary liability to the guarantee fund of the Landesbanks and central giro institutions resulted in other operating income of EUR 30 million.

Other operating income of EUR 65 million came from payments from settlements in respect of losses in the ABS portfolio. This was offset against changes in the value of the guarantee agreement with the Free State of Bavaria, resulting in a net amount of EUR 9 million.

The previous year's other operating income included a gain of EUR 282 million from the sale of LBS Bayern.

Amortisation, depreciation and writedowns on intangible assets and tangible assets

This line item includes a EUR 47 million impairment on intangible assets produced in house resulting from the introduction of new credit software.

Amortisation, depreciation and writedowns on receivables and certain securities and additions to provisions in the credit business

This item includes a gain from recoveries on written-off receivables of EUR 21 million (FY 2012: EUR 67 million). Loan receivables of EUR 401 million from MKB Bank Zrt., Budapest (MKB) were written off.

Amortisation, depreciation and writedowns on participations, shares in affiliated companies and securities classified as fixed assets

This item includes a charge of EUR 448 million (FY 2012: EUR 503 million) due to the valuation of the holding in MKB.

This item also includes a gain of EUR 195 million on the sale of GBW AG, Munich.

Expenses of EUR 194 million (FY 2012: EUR 645 million) in connection with the guarantee agreement with the Free State of Bavaria covering actual losses in the ABS portfolio were also recognised. This includes clawback payments totalling EUR 120 million (FY 2012: EUR 571 million) resulting from the implementation of the EU Commission's ruling on 5 February 2013 on the hearing into the rescue package provided by the Free State of Bavaria in 2008/2009.

Extraordinary income and extraordinary expenses

Extraordinary income and extraordinary expenses includes only income and expenses from restructuring measures.

Taxes on income and earnings

Corporation tax, municipal trade tax, solidarity surcharge and income taxes in other countries were reported as income tax expenses. The largest part of income taxes was paid on earnings from ordinary activities.

Deferred tax liabilities mainly arose from the differences in the methods for valuing real estate. Deferred tax assets arose from provisions not recognisable for tax purposes, differences in the values of pension provisions, other provisions, and bonds and notes, and amounts due from customers.

Deferred tax assets were offset against deferred tax liabilities. BayernLB elected to use the option under section 274 para. 1, sentence 2 HGB and did not capitalise the deferred tax assets remaining after offsetting.

Distributions on silent partner contributions and profit participation certificates

No distributions were made to silent partner contributions or profit participation certificates for financial year 2013 due to the net loss for the year. A total of EUR 7 million in deferred distributions remain due on dated silent partnership contributions for the period 2008–2013. Distributions of EUR 23 million on profit participation certificates due for 2013 have been deferred. Deferred payments may only be made during the lifetime of these instruments and only if their payment does not produce or increase a net accumulated loss.

Amount not available for distribution

In accordance with section 268 para. 8 HGB, the full amount that BayernLB was not allowed to distribute in the reporting year was EUR 39 million (FY 2012: EUR 52 million). As in the previous year, this amount resulted solely from the capitalisation of intangible assets produced in house. Reserves are available to cover the full amount that may not be distributed under section 268 para. 8 HGB.

Geographical markets

The sum of earnings from the following income statement items
- interest income
- current income from equities and other non-fixed income securities, participations and shares in affiliated companies
- commission income
- net income or net expenses of the trading portfolio
- other operating income

is broken down by geographical market as follows:

EUR million	2013	2012
Germany	3,660	4,966
Europe (ex Germany)	262	419
America	280	330

Derivatives transactions

The tables below show open interest rate, foreign currency and other external forward transactions and credit derivatives as at the reporting date. The transactions are primarily for hedging changes in interest rates, exchange rates or market prices and conducting trades for customers. They also include derivatives that form part of a hedge.

Derivatives transactions – volumes

	Nominal value		Positive market value[1]	Negative market value[1]
EUR million	2013	2012	2013	2013
Interest rate risks				
• Interest rate swaps	579,392	712,632	20,645	17,379
• FRAs	146,739	240,515	18	17
• Interest rate options	23,954	23,465	564	827
– *call options*	*11,661*	*10,149*	*546*	*22*
– *put options*	*12,292*	*13,316*	*18*	*805*
• Caps, floors	29,664	41,035	342	120
• Exchange-traded contracts	32,775	22,052	1	1
• Other interest-based forward transactions	1,259	858	6	10
Total interest rate risks	**813,783**	**1,040,557**	**21,576**	**18,353**
Currency risks				
• Forward exchange transactions	54,624	65,123	993	944
• Currency/cross-currency swaps	42,031	45,967	1,191	723
• Foreign exchange options	4,845	6,225	53	68
– *call options*	*2,572*	*3,078*	*39*	*10*
– *put options*	*2,273*	*3,147*	*14*	*59*
• Other currency-based forward transactions	93	389	7	0
Total currency risks	**101,593**	**117,704**	**2,244**	**1,735**
Equity and other price risks				
• Equity forward transactions	230	135	–	57
• Equity/index options	1,185	3,444	7	1
– *call options*	*384*	*2,626*	*7*	*–*
– *put options*	*801*	*818*	*–*	*1*
• Exchange-traded contracts	941	1,206	8	40
• Other forward transactions[2]	5,103	1,219	225	90
Total equity and other price risks	**7,458**	**6,004**	**241**	**189**
Credit derivative risks				
• Protection buyer	6,448	7,161	643	65
• Protection seller	1,485	1,472	2	179
Total credit derivative risks	**7,932**	**8,633**	**645**	**245**
Total	**930,766**	**1,172,899**	**24,706**	**20,522**

1 Calculation of market values: see accounting policies: "fair value" and "derivative financial instruments"
2 Exclusively energy and commodities-related transactions.

Derivatives transactions – maturities

	Nominal value							
	Interest rate risks		Currency risks		Equity and other price risks		Credit derivative risks	
EUR million	2013	2012	2013	2012	2013	2012	2013	2012
Residual maturities								
• up to three months	65,414	73,931	30,544	35,938	1,177	939	28	197
• up to one year	241,327	353,480	22,615	28,444	2,909	3,491	1,192	113
• up to five years	290,154	375,057	37,843	40,675	2,953	1,180	1,088	2,671
• more than five years	216,887	238,089	10,591	12,647	419	394	5,624	5,652
Total	**813,783**	**1,040,557**	**101,593**	**117,704**	**7,458**	**6,004**	**7,932**	**8,633**

Derivatives transactions – counterparties

	Nominal value		Positive market value[1]	Negative market value[1]
EUR million	2013	2012	2013	2013
OECD banks	471,640	824,312	17,429	15,720
Non-OECD banks	1,759	1,790	11	87
Public-sector entities within the OECD	24,584	23,339	1,349	473
Other counterparties[2]	432,782	323,458	5,917	4,242
Total	**930,766**	**1,172,899**	**24,706**	**20,522**

Derivatives transactions – trading portfolios

	Nominal value		Positive market value[1]	Negative market value[1]
EUR million	2013	2012	2013	2013
Interest rate derivatives	734,213	989,748	18,738	16,771
Currency derivatives	89,964	110,091	1,858	1,573
Equity derivatives	6,778	5,191	146	174
Credit derivatives	1,373	1,393	11	7
Total	**832,328**	**1,106,423**	**20,753**	**18,525**

Derivatives transactions – non-trading portfolios

	Nominal value		Positive market value[1]	Negative market value[1]
EUR million	2013	2012	2013	2013
Interest rate derivatives	79,569	50,809	2,838	1,582
Currency derivatives	11,629	7,613	386	162
Equity derivatives	680	813	95	15
Credit derivatives	6,560	7,240	634	237
Total	**98,438**	**66,476**	**3,953**	**1,997**

1 Calculation of market values: see accounting policies: "fair value" and "derivative financial instruments"
2 Including exchange-traded contracts.

Notes pursuant to section 35 para. 1 no. 7 RechKredV in connection with section 28 of the Pfandbrief Act (PfandBG)

Outstanding Pfandbriefs and cover pools

EUR million	Nominal value 2013	Nominal value 2012	Present value 2013	Present value 2012	Risk-related present value 2013	Risk-related present value 2012
Mortgage Pfandbriefs	**6,453**	**7,921**	**6,848**	**8,456**	**6,544**	**8,147**
Cover pools [1]	10,481	12,715	11,136	13,828	10,782	13,385
of which: derivatives	–	–	–	–	–	–
Excess cover	**4,029**	**4,793**	**4,288**	**5,372**	**4,238**	**5,238**
Public Pfandbriefs	**21,161**	**24,364**	**22,789**	**26,782**	**22,069**	**25,945**
Cover pools [1,2]	32,733	36,401	34,157	39,486	32,475	37,502
of which: derivatives	–	–	–	–	–	–
Excess cover	**11,571**	**12,037**	**11,368**	**12,704**	**10,406**	**11,557**

1 Including additional cover assets pursuant to sections 19 para. 1 and 20 para. 2 PfandBG.
2 Including discount for BayernLabo's receivables at below-market interest rates.

Maturities structure of outstanding Pfandbriefs and interest rate lock-in periods of cover pools

EUR million	Mortgage Pfandbriefs 2013	Mortgage Pfandbriefs 2012	Cover pools [1] 2013	Cover pools [1] 2012	Public Pfandbriefs 2013	Public Pfandbriefs 2012	Cover pools [1,2] 2013	Cover pools [1,2] 2012
Residual maturities and interest rate lock-in periods								
• up to one year	1,349	1,961	2,562	2,617	5,375	5,468	7,311	8,194
• over one year up to two years	1,063	1,409	2,150	2,351	4,730	4,921	4,156	4,294
• over two years up to three years	760	805	1,165	2,616	2,356	4,815	2,943	5,361
• over three years up to four years	998	654	1,869	1,230	1,750	2,361	2,668	2,593
• over four years up to five years	958	925	1,140	1,676	1,092	1,762	2,056	2,535
• over five years up to ten years	1,321	2,162	1,495	2,058	4,081	3,193	8,367	8,335
• over ten years	5	5	100	166	1,777	1,844	5,232	5,090
Total	**6,453**	**7,921**	**10,481**	**12,715**	**21,161**	**24,364**	**32,733**	**36,401**

1 Including additional cover assets pursuant to sections 19 para. 1 and 20 para. 2 PfandBG.
2 Including discount for BayernLabo's receivables at below-market interest rates.

Composition of other cover assets used to cover Pfandbriefs

EUR million	2013	2012
Cover assets in accordance with		
• section 19 para. 1 no. 2 of the Pfandbrief Act (PfandBG)	–	–
• section 19 para. 1 no. 3 of the Pfandbrief Act (PfandBG)	751	1,421
• section 20 para. 2 no. 2 of the Pfandbrief Act (PfandBG)	1,157	1,225
Total	**1,908**	**2,646**

Receivables used to cover mortgage Pfandbriefs by size

	Mortgages serving as cover	
EUR million	2013	2012
up to EUR 300,000	893	1,083
over EUR 300,000 up to EUR 5 million	968	1,057
more than EUR 5 million	7,870	9,154
additional cover	751	1,421
Total	**10,481**	**12,715**

Receivables used to cover mortgage Pfandbriefs by country where the real estate collateral is located and by type of use

	Mortgages serving as cover			
	commercial		residential	
EUR million	2013	2012	2013	2012
Germany	**5,071**	**5,603**	**2,308**	**2,584**
• flats	–	–	494	596
• single-family homes	–	–	360	451
• multi-family homes	–	–	1,416	1,500
• office buildings	1,784	1,777	–	–
• retail buildings	1,648	1,543	–	–
• industrial buildings	26	33	–	–
• other commercial buildings	765	746	–	–
• unfinished new buildings not yet generating income	80	253	24	11
• building plots	16	30	14	26
• additional cover	751	1,221	–	–
Austria	**37**	**47**	**–**	**–**
• office buildings	15	43	–	–
• retail buildings	3	3	–	–
• other commercial buildings	19	–	–	–
• building plots	–	1	–	–
Belgium	**38**	**38**	**–**	**–**
• office buildings	28	28	–	–
• building plots	9	9	–	–

EUR million	Mortgages serving as cover			
	commercial		residential	
	2013	2012	2013	2012
Czech Republic	**59**	**67**	**–**	**–**
• office buildings	40	48	–	–
• retail buildings	19	19	–	–
France	**702**	**838**	**–**	**–**
• office buildings	644	745	–	–
• retail buildings	57	92	–	–
• industrial buildings	1	–	–	–
Hungary	**47**	**60**	**–**	**–**
• retail buildings	47	60	–	–
Italy	**338**	**431**	**–**	**–**
• office buildings	211	254	–	–
• retail buildings	127	177	–	–
Luxembourg	**–**	**200**	**–**	**–**
• additional cover	–	200	–	–
Netherlands	**429**	**400**	**–**	**–**
• office buildings	368	331	–	–
• retail buildings	42	46	–	–
• other commercial buildings	19	23	–	–
Poland	**93**	**81**	**–**	**–**
• office buildings	61	51	–	–
• retail buildings	32	30	–	–
Spain	**60**	**107**	**–**	**–**
• office buildings	49	93	–	–
• retail buildings	11	15	–	–
Sweden	**15**	**33**	**–**	**–**
• retail buildings	15	33	–	–
Switzerland	**49**	**48**	**–**	**–**
• office buildings	32	27	–	–
• retail buildings	18	21	–	–
United Kingdom	**763**	**1,647**	**–**	**–**
• office buildings	436	761	–	–
• retail buildings	322	783	–	–
• other commercial buildings	5	93	–	–
• industrial buildings	–	10	–	–
USA	**472**	**531**	**–**	**–**
• office buildings	443	477	–	–
• retail buildings	8	43	–	–
• other commercial buildings	20	11	–	–
Total	**8,173**	**10,131**	**2,308**	**2,584**

Total amount of mortgage receivables overdue for at least 90 days by country where the real estate collateral is located

EUR million	2013	2012
Germany	1	1
Total	**1**	**1**

Additional information on mortgage receivables pursuant to section 28 para. 2 no. 3 PfandBG

As at the reporting date, 1 (FY 2012: 1) commercial and 24 (FY 2012: 39) residential properties were the subject of foreclosure sale proceedings. No (FY 2012: 0) commercial and 16 (FY 2012: 23) residential properties were under administrative receivership.

No (FY 2012: 0) commercial property and 11 (FY 2012: 23) residential properties were foreclosed on in the reporting year.

No properties were repossessed in 2013 or 2012 to avoid losses on mortgages.

Overdue interest payable by mortgage debtors on residential property amounted to EUR 0.4 million (FY 2012: EUR 0.4 million) as at the reporting date.

No interest was overdue on mortgage loans on commercial property in financial years 2012 or 2013.

Receivables used to cover public-sector Pfandbriefs by debtor, guarantor and its domicile

	Cover assets	
EUR million	2013	2012
Germany	**30,383**	**33,887**
• national government	1,386	1,468
• regional authorities	12,765	12,797
• local authorities	9,573	9,780
• other debtors	5,502	8,617
• additional cover	1,157	1,225
Austria	**38**	**45**
• national government	38	45
Canada	**136**	**152**
• regional authorities	68	76
• local authorities	68	76
Cyprus	**–**	**–**
• national government	–	–
Czech Republic	**1**	**2**
• national government	1	2
European Union	**99**	**100**
• other debtors	99	100
France incl. Monaco	**2**	**5**
• national government	2	5
Luxembourg	**36**	**41**
• national government	36	41
• other debtors	–	–
• additional cover	–	–
Poland	**–**	**–**
• national government	–	–
Spain	**165**	**286**
• regional authorities	165	286
Switzerland	**600**	**688**
• regional authorities	267	312
• other debtors	333	375
• additional cover	–	–
United Kingdom	**1,271**	**1,194**
• national government	599	498
• regional authorities	673	696
USA	**–**	**1**
• national government	–	1
Total	**32,733**	**36,401**

Total amount of public-sector receivables overdue for at least 90 days and their regional distribution

EUR million	2013	2012
Germany		
• national government	–	–
• regional authorities	1	1
Total	**1**	**1**

Overdue public-sector receivables due from regional authorities are principally receivables from private individuals which regional authorities have guaranteed.

Supplementary information

Shareholdings

Name and location of the investee	Type of share-holding	Percentage held	Equity in EUR '000	Earnings in EUR '000
Subsidiaries included in the IFRS consolidated financial statements				
Banque LBLux S.A., L - Luxembourg	Direct	100.0	376,138	−46,314
BayernInvest Kapitalanlagegesellschaft mbH, Munich[1]	Direct	100.0	11,654	–
BayernLB Capital LLC I, USA - Wilmington	Direct	100.0	70	15,826
BayernLB Capital Trust I, USA - Wilmington	Direct	100.0	1	–
Deutsche Kreditbank Aktiengesellschaft, Berlin[1]	Direct	100.0	2,335,912	–
Subsidiaries included in the Deutsche Kreditbank Aktiengesellschaft sub-group:				
• DKB Finance GmbH, Berlin	Indirect	100.0	9,697	1,320
• DKB Grundbesitzvermittlung GmbH, Berlin	Indirect	100.0	108	7
• DKB PROGES GmbH, Berlin	Indirect	100.0	480	2,111
• FMP Forderungsmanagement Potsdam GmbH, Potsdam	Indirect	100.0	2,368	1,368
• MVC Unternehmensbeteiligungsgesellschaft mbH, Berlin	Indirect	100.0	2,394	−1,910
• SKG BANK AG, Saarbrücken	Indirect	100.0	81,519	–
• Stadtwerke Cottbus GmbH, Cottbus	Indirect	74.9	46,153	10,253
MKB Bank Zrt., H - Budapest	Direct	98.6	512,086	−21,188
Subsidiaries included in the MKB Bank Zrt. sub-group:				
• Euro-Immat Üzemeltetési Kft., H - Budapest	Indirect	100.0	39,522	−11,469
• Exter-Bérlet Kft., H - Budapest	Indirect	100.0	−1,600	−1,218
• Extercom Vagyonkezelő Kft., H - Budapest	Indirect	100.0	−4,114	−1,194
• Exter-Immo Zrt., H - Budapest	Indirect	100.0	1,467	319
• MKB Befektetési Alapkezelő Zrt., H - Budapest	Indirect	100.0	568	–
• MKB - Euroleasing Autóhitel Zrt., H - Budapest[2]	Indirect	47.9	17,605	−3,492
• MKB - Euroleasing Autólízing Szolgáltató Zrt., H - Budapest	Indirect	100.0	3,264	−373
• MKB Nyugdíjpénztárt és Egészségpénztárt Kiszolgáló Kft., H - Budapest	Indirect	100.0	1,336	765
• MKB Üzemeltetési Kft., H - Budapest	Indirect	100.0	184,479	−6,658
• NEXTEBANK S.A., RO - Targu Mures	Indirect	96.3	27,854	−11,515
• Resideal Zrt., H - Budapest	Indirect	100.0	−9,283	−2,215

Name and location of the investee	Type of share-holding	Percentage held	Equity in EUR '000	Earnings in EUR '000
• S.C. Corporate Recovery Management S.R.L., RO - Bucharest	Indirect	100.0	−10,170	−15,047
Real I.S. AG Gesellschaft für Immobilien Assetmanagement, Munich[1]	Direct	100.0	45,455	–
Joint ventures measured at equity in the IFRS consolidated financial statements				
Joint ventures included in the MKB Bank Zrt. sub-group:				
• MKB Autopark OOD, BG - Sofia	Indirect	50.0	70	17
• MKB - Euroleasing Autópark Zrt., H - Budapest	Indirect	50.0	2,695	279
• MKB - Euroleasing Zrt., H - Budapest	Indirect	50.0	28,154	−2,180
Affiliated companies measured at equity in the IFRS consolidated financial statements				
Affiliated companies included in the MKB Bank Zrt. sub-group:				
• Giro Elszámolásforgalmi Zrt., H - Budapest	Indirect	22.2	20,949	7
• MKB Általános Biztosító Zrt., H - Budapest	Indirect	37.5	4,007	−2,486
• MKB Életbiztosító Zrt., H - Budapest	Indirect	37.5	4,047	−1,225
• Pannonhalmi Apátsági Pincészet Kft., H - Pannonhalma	Indirect	45.5	3,108	–
Subsidiaries not included in the IFRS consolidated financial statements				
ADEM Allgemeine Dienstleistungen fur Engineering und Management GmbH, Karlsruhe	Indirect	100.0	49	2
Asset Lease Beteiligungsgesellschaft mbH, Munich	Direct	100.0	21	−1
Bauland GmbH, Baulandbeschaffungs-, Erschließungs- und Wohnbaugesellschaft, Munich	Indirect	94.5	−10,106	–
Bavaria Immobilien-Beteiligungs-Gesellschaft mbH & Co. Objekt Fürth KG, Munich	Indirect	100.0	–	30,111
Bavaria Immobilien-Beteiligungs-Gesellschaft mbH, Munich	Indirect	100.0	20	5
Bayerische Landesbank Europa-Immobilien-Beteiligungs-GmbH, Munich	Indirect	100.0	89	–
Bayerische Landesbank Immobilien-Beteiligungs-Gesellschaft mbH & Co. KG, Munich	Direct	100.0	23,843	14,814
Bayerische Landesbank Immobilien-Beteiligungs-Verwaltungsgesellschaft mbH, Munich	Direct	100.0	44	2
Bayern Bankett Gastronomie GmbH, Munich[1]	Direct	100.0	1,164	–
Bayern Card-Services GmbH - S-Finanzgruppe, Munich	Direct	50.1	16,078	2,448
Bayern Corporate Services GmbH, Munich	Indirect	100.0	179	40
Bayern Facility Management GmbH, Munich[1]	Direct	100.0	3,495	934
BayernFinanz Gesellschaft fur Finanzmanagement und Beteiligungen mbH, Munich[1]	Direct	100.0	725	–
Bayernfonds Australien 4 GmbH, Munich	Indirect	100.0	25	–
Bayernfonds BestEnergy 1 GmbH & Co. KG, Oberhaching	Indirect	100.0	42,204	−7,522
Bayernfonds Immobilien Concept GmbH, Munich	Indirect	100.0	70	−2
Bayernfonds Immobiliengesellschaft mbH, Munich	Direct and indirect	100.0	4,582	232
Bayernfonds Kambera GmbH, Munich	Indirect	100.0	25	–
Bayernfonds Opalus GmbH, Munich	Indirect	100.0	25	–
BayernInvest Luxembourg S.A., L - Luxembourg	Indirect	100.0	1,341	18
BayernLB Capital Partner GmbH, Munich	Direct	100.0	1,732	−1,620
BayernLB Capital Partner Verwaltungs-GmbH, Munich	Direct	100.0	31	6

Name and location of the investee	Type of share-holding	Percentage held	Equity in EUR '000	Earnings in EUR '000
BayernLB Mittelstandsfonds GmbH & Co. Unternehmensbeteiligungs KG, Munich	Direct and indirect	100.0	26,503	2,459
BayernLB Private Equity GmbH, Munich	Direct	100.0	56,547	267
BayTech Venture Capital II GmbH & Co. KG, Munich	Direct and indirect	46.6	8,885	−5,315
BayTech Venture Capital Initiatoren GmbH & Co. KG, Munich	Indirect	46.8	332	−61
Berchtesgaden International Resort Betriebs GmbH, Munich[1]	Direct	100.0	9,368	–
Berthier Participations SARL, F - Paris	Direct	100.0	877	−826
BestLife 3 International GmbH & Co. KG, Munich	Indirect	50.4	18,679	−83
BGFM Bayerische Gebäude- und Facilitymanagement AG & Co. KG, Munich	Indirect	100.0	138	67
BGV IV Verwaltungs GmbH, Munich	Indirect	100.0	30	1
BGV V Verwaltungs GmbH, Munich	Indirect	100.0	23	−2
BLB-Beteiligungsgesellschaft Sigma mbH, Munich[1]	Direct	100.0	971	–
BLB-VG22-Beteiligungsgesellschaft mbH, Munich	Direct	100.0	4,557	132
Cottbuser Energieverwaltungsgesellschaft mbH, Cottbus	Indirect	100.0	23	–
CountryDesk Beteiligungs GmbH, Munich	Direct	100.0	23	−1
Degg`s Immobilienprojektentwicklung GmbH & Co. Einkaufspassage KG, Essen	Indirect	99.1	2,789	−221
DKB Immobilien Beteiligungs GmbH, Potsdam	Indirect	100.0	2,009	156
DKB IT-Services GmbH, Potsdam	Indirect	100.0	51	–
DKB PROGES ZWEI GmbH, Berlin	Indirect	100.0	1,440	189
DKB Service GmbH, Potsdam	Indirect	100.0	110	8
DKB Wohnen GmbH, Berlin	Indirect	94.5	25	–
DKB Wohnungsbau- und Stadtentwicklung GmbH, Berlin	Indirect	100.0	2,500	–
Elektroenergieversorgung Cottbus GmbH, Cottbus	Indirect	100.0	12,081	–
Exter-Estate Ingatlanforgalmazási Kft., H - Budapest[3]	Indirect	100.0		
Exter-Reál Ingatlanforgalmazási Korlátolt Felelősségü Társaság, H - Budapest	Indirect	100.0	7	−42
Fischer & Funke Gesellschaft fur Personaldienstleistungen mbH, Coburg	Indirect	87.1	76	–
FMP Erste Objektgesellschaft mbH, Potsdam	Indirect	100.0	104	38
Füred Service Üzemeltetési Kft., H - Balatonfüred	Indirect	100.0	77	1
Gas-Versorgungsbetriebe Cottbus GmbH, Cottbus	Indirect	63.0	5,620	–
GbR Olympisches Dorf, Potsdam	Indirect	100.0	–	–
GDF Gesellschaft für dentale Forschung und Innovationen GmbH, Rosbach	Indirect	100.0	1,485	–
German Centre for Industry and Trade Shanghai Co. Ltd., PRC - Shanghai/PRC	Indirect	100.0	32,221	1,658
German Centre Limited, BVI - Tortola	Direct	100.0	24,107	14
gewerbegrund AIRPORT GmbH Beteiligungsgesellschaft, Munich	Indirect	100.0	59	3
gewerbegrund Airport GmbH & Co. Hallbergmoos KG, Munich	Indirect	100.0	3,739	3,254
gewerbegrund Airport GmbH & Co. Schwaig KG, Munich	Indirect	100.0	1,028	−2,899
gewerbegrund Bauträger GmbH & Co. Objekt IGG KG, Munich	Indirect	100.0	95	10
gewerbegrund Projektentwicklungsgesellschaft (gpe) mbH, Munich[1]	Direct	100.0	11,595	–
Global Format GmbH & Co. KG, Munich	Direct	52.4	1,299	195

Name and location of the investee	Type of share-holding	Percentage held	Equity in EUR '000	Earnings in EUR '000
Global Format Verwaltungsgesellschaft mbH, Munich	Indirect	100.0	26	1
Hausbau Dresden GmbH, Munich	Indirect	100.0	41	1
HKW Heizkraftwerksgesellschaft Cottbus mbH, Cottbus	Indirect	100.0	28	–
Hörmannshofer Fassaden GmbH & Co. Halle KG, Halle/Saale	Indirect	80.0	156	−545
Hörmannshofer Fassaden GmbH & Co. Niederdorf KG, Niederdorf by Chemnitz	Indirect	80.0	156	104
Hörmannshofer Fassaden Süd GmbH & Co. KG, Marktoberdorf	Indirect	100.0	81	–
Hörmannshofer Unternehmensgruppe GmbH, Marktoberdorf	Indirect	52.6	15,125	852
Hörmannshofer Verwaltungs GmbH, Pöttmes/Augsburg	Indirect	100.0	99	16
ISU Group GmbH, Karlsruhe	Indirect	54.4	14,208	1,106
ISU Personaldienstleistungen GmbH, Karlsruhe	Indirect	100.0	51	–
Koch - Betontechnik GmbH & Co. KG, Pöttmes/Augsburg	Indirect	100.0	32	5
LBG Liebenberger Betriebsgesellschaft mbH, Löwenberger Land OT Liebenberg	Indirect	100.0	775	–
LB Immobilienbewertungsgesellschaft mbH, Munich[1]	Direct	100.0	1,227	440
LBLux SICAV-FIS TR Global, L - Luxembourg	Indirect	100.0	11	615
LB-RE S.A., L - Luxembourg	Indirect	100.0	5,082	–
Medister Egészségügyi Beruházó és Üzemeltető Kft., H - Budapest	Indirect	100.0	−1,448	−714
MKB Pénzügyi Zrt., H - Budapest	Indirect	100.0	390	−29
MRG Maßnahmeträger München-Riem GmbH, Munich	Direct	100.0	612	252
North American Realty LLC, USA - New York	Direct	100.0	5,305	70
Oberhachinger Bauland GmbH, Wohnbau- und Erschließungsgesellschaft, Munich	Indirect	91.0	−2,416	2
Potsdamer Immobiliengesellschaft mbH, Potsdam	Indirect	100.0	43	−11
PROGES DREI GmbH, Berlin	Indirect	100.0	289	121
PROGES ENERGY GmbH, Berlin	Indirect	100.0	218	125
PROGES Sparingberg GmbH, Berlin	Indirect	100.0	541	252
PROGES VIER GmbH, Berlin	Indirect	100.0	109	69
Real I.S. Australia Pty. Ltd., AUS - Buderim QLD	Indirect	100.0	639	639
Real I.S. Beteiligungs GmbH, Munich	Indirect	100.0	54	12
Real I.S. France SAS, F - Paris Cedex 16	Indirect	100.0	500	−45
Real I.S. Fund Management GmbH, Munich	Indirect	100.0	26	14
Real I.S. Gesellschaft fur Immobilienentwicklung mbH, Munich	Indirect	100.0	1,105	10
Real I.S. Gesellschaft fur Immobilien Entwicklung und Projektrealisierung mbH & Co. KG, Munich	Indirect	100.0	4,551	3,704
Real I.S. Investment GmbH, Munich	Indirect	100.0	2,070	297
Real I.S. Management Hamburg GmbH, Munich	Indirect	100.0	26	1
Real I.S. Management SA, L - Luxembourg	Indirect	100.0	210	52
Real I.S. Objekt Bruchsal Verwaltungsgesellschaft mbH, Oberhaching	Indirect	100.0	12	−13
Schütz Dental GmbH, Rosbach	Indirect	100.0	2,461	–
Schütz Group GmbH & Co. KG, Rosbach	Indirect	54.4	7,902	1,026
Schütz Group Verwaltungsgesellschaft mbH, Rosbach	Indirect	100.0	40	4
SEPA Objekt Bruchsal GmbH & Co. KG, Oberhaching	Indirect	100.0	124	−6
SEPA/Real I.S. Objekt Bruchsal Rathausgalerie GmbH & Co. KG, Oberhaching	Indirect	100.0	5,656	−59
SEPA/Real I.S. Objekt Bruchsal Rathausgalerie Verwaltungs-GmbH, Oberhaching	Indirect	94.0	22	1

Name and location of the investee	Type of shareholding	Percentage held	Equity in EUR '000	Earnings in EUR '000
Süd-Fassaden GmbH, Königsbrunn	Indirect	100.0	81	–
WPI Fonds Partners Sàrl, L - Luxembourg[3]	Indirect	100.0		
Other joint ventures				
ABG Allgemeine Bauträger- und Gewerbeimmobiliengesellschaft & Co. Holding KG, Munich	Indirect	50.0	158	−18
ABG Allgemeine Bauträger- und Gewerbeimmobiliengesellschaft mbH, Munich	Indirect	50.0	53	14
CommuniGate Kommunikations-Service GmbH, Passau	Indirect	50.0	3,906	1,199
EDE Duna Kft., H - Budapest	Indirect	50.0	−3,250	−2,266
Einkaufs-Center Györ Verwaltungs G.m.b.H., Hamburg	Indirect	50.0	37	2
Fay & Real I.S. IE Regensburg GmbH & Co. KG, Oberhaching	Indirect	50.0	916	901
Fay & Real I.S. IE Regensburg Verwaltungs GmbH, Oberhaching	Indirect	50.0	26	1
German Centre for Industry and Trade India Holding-GmbH, Munich	Direct	50.0	1,231	−1,679
Harburg Arcaden Projektbeteiligung mbH, Essen	Indirect	50.0	64	10
Mogyoróskert Kft., H - Budapest	Indirect	50.0	–	–
MOM-Bajor Beruházó és Szolgáltató Korlátolt Felelősségü Társaság, H - Budapest	Indirect	50.0	30	−2
MOM-Park Lakásépitö Ingatlanforgalmazó és Beruházó Betéti Társaság, H - Budapest	Indirect	49.9	−309	2,256
Objektgesellschaft Bad Rappenau Verwaltungs-GmbH, Stuttgart	Indirect	49.0	24	−2
Rathenau-Passage Verwaltungs-Gesellschaft mbH, Bad Homburg	Indirect	50.0	20	−1
Rathenau Passage Verwaltungs-GmbH & Co. Grundstücks KG, Bad Homburg	Indirect	50.0	–	2
SEPA/Real I.S. Objekt Solingen Verwaltungs-GmbH, Munich	Indirect	50.0	37	3
SKAF Ingatlanforgalmazó és Befektetési Kft., H - Budapest	Indirect	50.0	−10,536	−3,706
S-Karten-Service-Management GmbH - Saarbrücken - München, Munich	Indirect	50.0	102	–
Ten Towers GbR, Munich	Indirect	50.0	119	4
Other participations				
ae group AG, Gerstungen	Indirect	46.2	8,848	3,250
AVA Acht Vermögensverwaltung GmbH, Munich	Indirect	40.0	15,157	68
BAYERN CONSULT Unternehmensberatung GmbH, Munich	Direct	35.0	725	76
Bayerngrund Grundstücksbeschaffungs- und -erschließungs-Gesellschaft mit beschränkter Haftung, Munich	Direct	50.0	8,921	−25
Bayern Mezzaninekapital GmbH & Co. KG - Unternehmensbeteiligungsgesellschaft, Munich	Direct	25.5	31,776	−4,160
Bayern Mezzaninekapital Verwaltungs GmbH, Munich	Direct	49.0	41	2
Erste Tinten Holding GmbH, Hohenbrunn	Indirect	21.0	1,196	1,062
Garchinger Technologie- und Gründerzentrum GmbH, Garching	Direct	20.0	52	25
G.I.E. Max Hymans, F - Paris	Indirect	33.3	−33,698	2,256
KGAL GmbH & Co. KG, Grünwald[4]	Direct	27.0	72,721	4,032
KGAL Verwaltungs-GmbH, Grünwald	Direct	30.0	7,162	−1,526
Landesbank Saar, Saarbrücken	Direct	43.9	709,740	–
Neumarkt-Galerie Immobilienverwaltungsgesellschaft mbH, Cologne	Indirect	49.0	88	5
RSU Rating Service Unit GmbH & Co. KG, Munich	Direct	20.0	15,251	1,500

Name and location of the investee	Type of share-holding	Percentage held	Equity in EUR ’000	Earnings in EUR ’000
SEPA/Real I.S. Objekt Solingen GmbH & Co. KG, Munich	Indirect	49.9	45	−55
TEGES Grundstücks-Vermietungsgesellschaft mbH, Berlin	Indirect	50.0	19	–
TEGES Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt Berlin KG, Berlin	Indirect	47.0	−7,368	1
WESTFALIA-Automotive Holding GmbH, Hamburg	Indirect	21.4	–	−6,926
Other significant shareholdings of 20% or more				
560 Lexco L.P., USA - New York	Indirect	25.0	−1,730	3,980
Abacus Eight Limited, GBC - George Town/Grand Cayman	Direct	48.5	7,265	4,825
Abacus Nine Limited, GBC - George Town/Grand Cayman	Direct	48.5	7,322	4,883
Abacus Seven Limited, GBC - George Town/Grand Cayman	Direct	48.5	4,035	1,595
Abacus Ten Limited, GBC - George Town/Grand Cayman	Direct	43.9	3,125	664
ADS-click S.A., CH - Geneva	Indirect	49.5	2,593	−1,097
Aero Lloyd Erste Beteiligungsgesellschaft GmbH, Kelsterbach	Indirect	100.0	24	−1
Aero Lloyd Flugreisen GmbH & Co. Luftverkehrs-KG, Oberursel	Indirect	66.3	20,405	−5,671
Aero Lloyd Flugreisen GmbH, Oberursel	Indirect	94.0	77	7
Aero Lloyd ReiseCenter GmbH, Oberursel	Indirect	100.0	65	−17
Bauland 3. Immobilien Verwaltungsgesellschaft mbH i.L., Munich	Indirect	100.0	35	−2
Bau-Partner GmbH, Halle/Saale	Indirect	49.6	–	−1,475
Corporate Computer Lease Limited, CCL.Limited, GB - Camberley, Surrey	Indirect	33.3	3,951	86
DELTA Asigurari S.A. i.L., RO - Bucharest	Indirect	35.1	11,268	–
Euro Ingatlan Center Kft., H - Budapest	Indirect	100.0	117	109
Euro Ingatlan Kft., H - Budapest	Indirect	100.0	527	−1,523
Euro Park Házak Kft., H - Budapest	Indirect	100.0	343	−138
Film und Video Untertitelung Gerhard Lehmann AG i.L., Potsdam	Indirect	33.3	−1,997	−495
Fondations Capital I S.C.A., L - Senningerberg	Direct	23.1	201,624	−4,580
GbR VÖB-ImmobilienAnalyse, Bonn[3]	Indirect	20.0		
GESO Gesellschaft fur Sensorik, Geotechnischen Umweltschutz und mathematische Modellierung mbH, Jena	Indirect	43.1	−353	8
Indexa Proinvest Immobiliaria, S.A., E - Las Rozas/Madrid	Indirect	25.0	−1,798	−685
KADIMA Grundstücksgesellschaft mbH & Co. KG i.L., Grünwald	Indirect	50.0	7	−12
Kun Street Kft., H - Budapest	Indirect	100.0	104	−47
MB Holding GmbH, Lüdenscheid	Indirect	54.6	3,025	1,488
Mediport Venture Fonds Zwei GmbH, Berlin	Indirect	53.8	267	−1,687
mfi Grundstück GmbH & Co. Harburg Arcaden KG, Essen	Indirect	42.1	–	−1,192
Neue Novel Ferm Verwaltungs GmbH, Dettmannsdorf	Indirect	49.0	23	1
Novel Ferm Brennerei Dettmannsdorf GmbH & Co. KG, Dettmannsdorf	Indirect	49.0	−7,405	−4,759
PWG - Bau Pfersee Wohn- und Gewerbebauträger Verwaltungs - GmbH i.L., Munich	Indirect	50.0	9	–
REAL I.S. Project GmbH i.L., Munich	Indirect	50.5	495	−15
RealMatch Ltd., IL - Kfar Sava	Indirect	23.2	1	−7
RSA Capak alma ve kesme Sistemlerim San. Ve. Tic. Ltd. Sti., TR - Izmit KOCAELI	Indirect	100.0	−64	−6
RSA Entgrat- u. Trenn-Systeme GmbH & Co. KG, Lüdenscheid	Indirect	100.0	1,026	2,179

Name and location of the investee	Type of share-holding	Percentage held	Equity in EUR '000	Earnings in EUR '000
RSA Entgrat- u. Trenn-Systeme Verwaltungs-GmbH, Lüdenscheid	Indirect	100.0	62	4
RSA Systèmes Ebavurage et Tronconnage S.A.R.L., F - Sarreguemines Cedex	Indirect	100.0	26	−54
SAI Globinvest SA, RO - Cluj Napoca	Indirect	20.0	2,539	362
Smaltit Anlagen-Vermietungs GmbH, Oberursel	Indirect	100.0	13	−1
Sophia Euro Lab S.A.S., F - Sophia Antipolis Cedex	Indirect	32.3	1,666	−27
SSC Sky Shop Catering GmbH & Co. KG, Kelsterbach	Indirect	100.0	1,279	825
STOP AND BUY HOLDING Kft., H - Budapest	Indirect	100.0	–	–
TRMF Gewerbeimmobilien GmbH, Essen	Indirect	50.0	−2,759	−35
Versorgungskasse I BayernLB Gesellschaft mit beschränkter Haftung, Munich	Direct	100.0	26,591	−3,499
Versorgungskasse II BayernLB Gesellschaft mit beschränkter Haftung, Munich	Direct	100.0	9,931	2,254

The information is based on the most recent available annual accounts of the investees. Foreign currency amounts were converted to euros at the respective spot exchange rate at the end of the year.

1 A profit and loss transfer agreement has been concluded with the company.

2 Control through an agreement with the other shareholders and business interlinking.

3 Approved annual financial statements are not available yet.

4 Includes 3.4 percent held through an put option.

Participations in large limited companies (including credit institutions) exceeding 5 percent of the voting rights

Name and location of the investee
AKA Ausfuhrkredit GmbH, Frankfurt/Main
Banque LBLux S.A., L - Luxembourg
BayBG Bayerische Beteiligungsgesellschaft mbH, Munich
Bayerische Garantiegesellschaft mbH für mittelständische Beteiligungen, Munich
Bayern Card-Services GmbH - S-Finanzgruppe, Munich
B+S Card Service GmbH, Frankfurt/Main
Deutsche Factoring Bank Deutsche Factoring GmbH & Co., Bremen
Deutsche Kreditbank Aktiengesellschaft, Berlin
DKB Service GmbH, Potsdam
MKB Bank Zrt., H - Budapest
MKB - Euroleasing Autóhitel Zrt., H - Budapest
MKB - Euroleasing Autópark Zrt., H - Budapest
MKB Üzemeltetési Kft., H - Budapest
NEXTEBANK S.A., RO - Targu Mures
Real I.S. AG Gesellschaft für Immobilien Assetmanagement, Munich
SKG BANK AG, Saarbrücken

As at the reporting date, BayernLB was a general partner in the following entities:

- ABAKUS, Hannover, GbR
- GbR Datenkonsortium OpRisk, Bonn, GbR
- GbR der Altgesellschafter der Deutsche Leasing AG, Bad Homburg, GbR
- GLB GmbH & Co. OHG, Frankfurt/Main, GmbH & Co. OHG

Letters of comfort

Certain of BayernLB's subsidiaries and their creditors have been issued with letters of comfort, giving them significant benefits in terms of improved business terms and better financing conditions. BayernLB also benefits as the value of its subsidiaries is enhanced. At the same time, however, it is also potentially liable for losses.

BayernLB is liable for ensuring that the companies listed below are able to fulfil their contractual obligations in proportion to the size of its equity interest except in cases of political risk:
- Banque LBLux S.A., Luxembourg
- Deutsche Kreditbank Aktiengesellschaft, Berlin

Expiry of the letter of comfort for LB(Swiss) Privatbank AG as at 21 December 2009 and for Landesbank Saar as at 21 June 2010

Prior to the reporting year, BayernLB issued letters of comfort for LB(Swiss) Privatbank AG, Zurich (LB(Swiss)) and Landesbank Saar, Saarbrücken (SaarLB). At the end of 21 December 2009 BayernLB transferred its equity interest in LB(Swiss) to Landesbank Hessen-Thüringen, Frankfurt/Main and at the end of 21 June 2010 sold a 25.2 percent stake in SaarLB to the government of Saarland. SaarLB therefore no longer qualifies as an associate of BayernLB under section 271, para. 2 HGB. As a result the letter of comfort for LB(Swiss) expired at the end of 21 December 2009 and for SaarLB at the end of 21 June 2010. The liabilities of LB(Swiss) created after the end of 21 December 2009 and the liabilities of SaarLB created after the end of 21 June 2010 are not covered by the letters of comfort and therefore any previous declarations are revoked.

Other financial obligations

Other financial obligations, which arise from daily operations principally from agency, rental, lease, usage, service and maintenance, consulting and marketing agreements, were within normal bounds.

As at the reporting date, there were call commitments for capital not fully paid up of EUR 29 million and liabilities from limited partnership interests of EUR 29 million. There were additional funding obligations of EUR 36 million and a directly enforceable guarantee for the funding obligation of shareholders of the Frankfurt-based Liquiditäts-Konsortialbank GmbH, who are members of the German Savings Bank Association. Amounts due to affiliated companies totalled EUR 42 million.

As at the reporting date, BayernLB's liability as a member of the guarantee fund of the Landesbanks and central giro institutions was EUR 207 million.

Under the terms of the statutes of the deposit insurance fund run by the Association of German Public-Law Banks (VÖB), BayernLB has undertaken to exempt the VÖB from any losses arising from measures taken on behalf of private-law credit institutions in which it has a majority stake.

In a letter of comfort dated 16 December 2013, BayernLB gave the Hungarian financial supervisory authority an undertaking to ensure that MKB meets current supervisory requirements. BayernLB implemented the necessary measures in January and February 2014 to ensure this.

Under the terms of the contract of 10 December 2012 to spin off Bayerische Landesbausparkasse (LBS AöR-old) to LBS Bayerische Landesbausparkasse (LBS AöR-new), BayernLB and LBS AöR-new are jointly and severally liable for BayernLB's liabilities that were created up until the date of spin-off and assigned to LBS AöR-new in the spin-off agreement. BayernLB is liable for the liabilities within the meaning of the preceding sentence only if they mature within five years of the date of spin-off and the resulting claim is legally asserted against BayernLB. Due to the stable financial position and financial performance of LBS AöR-new there is currently no risk of a claim being brought.

Transactions with related parties under section 285 no. 21 HGB

BayernLB maintains commercial relationships with related parties. These include the Free State of Bavaria and the Association of Bavarian Savings Banks, Munich (SVB), whose indirect stakes in BayernLB as from 25 June 2013 are 75 percent and 25 percent respectively, subsidiaries, joint ventures and associates. In addition, the members of BayernLB's Board of Management and Supervisory Board (up to 30 June 2013, the Board of Administration) and their close family members and companies controlled by these parties or jointly controlled if these parties are members of their management bodies are also deemed related parties.

BayernLB has a guarantee agreement with the Free State of Bavaria in the form of a credit derivative covering actual losses in the ABS portfolio above a first loss of EUR 1.2 billion. The guarantee is limited to EUR 4.8 billion. As protection seller, the Free State of Bavaria hedges BayernLB's ABS portfolio for a premium. Expenses of EUR 194 million (FY 2012: EUR 645 million) in connection with the guarantee agreement were also recognised in the income statement.

The other transactions with related parties were concluded at standard market terms and conditions.

Administrative bodies of BayernLB

Board of Administration to 30 June 2013

Dr Markus Söder
Chairman
State Minister
Bavarian State Ministry of Finance
Munich

Alexander Mettenheimer
First Deputy Chairman
Former financier
Munich

Walter Strohmaier
Second Deputy Chairman
Chairman of the Board of Directors
Sparkasse Niederbayern-Mitte
Straubing

Dr Dr Axel Diekmann
Shareholder of
Verlagsgruppe Passau GmbH
Passau

Ralf Haase
Chairman of the General Staff Council
BayernLB
Munich

Joachim Herrmann
State Minister
Bavarian State Ministry of the Interior
Munich

Jakob Kreidl
Chief District Administrator
Miesbach

Wolfgang Lazik
Deputy Secretary
Bavarian State Ministry of Finance
Munich

Dr Klaus von Lindeiner-Wildau
Member of the Executive Board (retired)
Wacker Chemie GmbH
Independent Consultant
Munich

Professor Dr Christian Rödl
Managing Partner
Rödl & Partner GbR
Nuremberg

Martin Zeil
State Minister
Bavarian State Ministry of Economic Affairs,
Infrastructure, Transport and Technology
Munich

Supervisory Board from 1 July 2013

Michael Schneider
Chairman
since 4 July 2013
Former Chairman of the
Management Board of LfA
Germering

Walter Strohmaier
Deputy Chairman
since 4 July 2013
Chairman of the Board of Directors
Sparkasse Niederbayern-Mitte
Straubing

Dr Dr Axel Diekmann
until 31 October 2013
Shareholder of
Verlagsgruppe Passau GmbH
Passau

Ralf Haase
Chairman of the General Staff Council
BayernLB
Munich

Dr Ulrich Klein
Under Secretary
Bavarian State Ministry of Finance,
Regional Development and Regional Identity
Munich

Jakob Kreidl
until 3 March 2014
Chief District Administrator
Miesbach

Wolfgang Lazik
Deputy Secretary
Bavarian State Ministry of Finance,
Regional Development and Regional Identity
Munich

Dr Klaus von Lindeiner-Wildau
Member of the Executive Board (retired)
Wacker Chemie GmbH
Independent Consultant
Munich

Professor Dr Christian Rödl
Managing Partner
Rödl & Partner GbR
Nuremberg

Professor Dr Bernd Rudolph
Professor Emeritus at the
Ludwig-Maximilians-Universität München
Faculty of Business Administration
Munich

Dr Hans Schleicher
Deputy Secretary
Bavarian State Ministry of Economic Affairs
and the Media, Energy and Technology
Munich

Board of Management (including allocation of responsibilities as at 1 March 2014)

Gerd Haeusler
until 31 March 2014
CEO
Markets
Corporate Center
Deutsche Kreditbank Aktiengesellschaft

Dr Johannes-Jörg Riegler
since 1 March 2014
Designated CEO from 1 April 2014

Dr Edgar Zoller
Deputy CEO
Real Estate & Savings Banks/Association
Bayerische Landesbodenkreditanstalt[1]
Human Resources

Marcus Kramer
CRO
Risk Office
Restructuring Unit
Group Compliance
Banque LBLux S.A.

Stephan Winkelmeier
until 31 March 2014
COO
Operating Office
MKB Bank Zrt.

Michael Bücker
since 1 February 2013
Corporates, Mittelstand & Financial Institutions

Dr Markus Wiegelmann
since 1 January 2014
CFO
Financial Office[2]

Nils Niermann
until 17 October 2013
formerly Markets

Jan-Christian Dreesen
until 31 January 2013
formerly Corporates, Mittelstand & Retail Customers

1 Dependent institution of the Bank.
2 Not including the preparation of the separate financial statements in accordance with HGB and the consolidated financial statements in accordance with IFRS for financial year 2013, which remains the responsibility of Stephan Winkelmeier.

Remuneration of the administrative bodies

EUR '000	2013	2013	2012	2012
Total remuneration for the financial year: Members of the Board of Management		**3,017**		**3,047**
• CEO	500		500	
– Base salary	500		500	
– Variable compensation (incl. expenses for previous years)	–		–	
• Deputy CEO	500		500	
– Base salary	500		500	
– Variable compensation	–		–	
• Full members of the Board of Management	1,958		2,000	
– Base salary	1,958		2,000	
– Variable compensation	–		–	
• Ancillary remuneration (non-cash compensation)	59		47	
Members of the Supervisory Board		**526**		**376**
Former members of the Board of Management and their surviving dependants		**5,428**		**4,442**
Pension provisions established for former members of the Board of Management and their surviving dependants[1]		**71,911**		**68,998**

1 *Previous year's figure adjusted to include provisions established for vested benefit obligations to former members of the Board of Management.*

Loans to the administrative bodies

EUR '000	2013	2012
Total amount of advances, loans and guarantees granted to members of the Board of Management and the Supervisory Board:		
Members of the Board of Management	–	–
Members of the Supervisory Board	–	1,110

Mandates held by legal representatives or by other employees

Name	Mandates held in supervisory bodies constituted under German law for large companies (including all credit institutions)[1]
Board of Management	
Gerd Haeusler	Deutsche Kreditbank Aktiengesellschaft, Berlin Liquiditäts-Konsortialbank GmbH, Frankfurt am Main MKB Bank Zrt., H - Budapest
Dr Edgar Zoller	Deutsche Kreditbank Aktiengesellschaft, Berlin
Marcus Kramer	Banque LBLux S.A., L - Luxembourg Deutsche Kreditbank Aktiengesellschaft, Berlin Landesbank Saar, Saarbrücken MKB Bank Zrt., H - Budapest
Stephan Winkelmeier	Deutsche Kreditbank Aktiengesellschaft, Berlin MKB Bank Zrt., H - Budapest
Michael Bücker	Deutsche Factoring Bank Deutsche Factoring GmbH & Co., Bremen Deutsche Kreditbank Aktiengesellschaft, Berlin
Dr Markus Wiegelmann[2]	Deutsche Kreditbank Aktiengesellschaft, Berlin MKB Bank Zrt., H - Budapest
Employees	
Dr Michael Braun	Banque LBLux S.A., L - Luxembourg Landesbank Saar, Saarbrücken
Dr Winfried Freygang	Landesbank Saar, Saarbrücken
Dr Detlev Gröne	Banque LBLux S.A., L - Luxembourg
Thomas Hierholzer	Banque LBLux S.A., L - Luxembourg
Andreas Leonhard	MKB Bank Zrt., H - Budapest
Bernd Mayer	Real I.S. AG Gesellschaft für Immobilien Assetmanagement, Munich
Roland Reichert	Real I.S. AG Gesellschaft für Immobilien Assetmanagement, Munich

1 This information is valid as at 31 December 2013.
2 As at 31 December 2013 not yet a member of the Board of Management.

External auditor's fees

EUR million	2013	2012
Total fees recorded as expenses in the financial year for		
• the financial statements audits	3	4
• other certification services	1	–
• tax consultancy services	–	–
• other services	1	1
Total	**5**	**5**

Number of employees (annual average)

	2013	2012
Female	1,547	1,973
Male	1,762	2,075
Total	**3,309**	**4,048**

The total figure includes 652 (FY 2012: 881) part-time employees, which corresponds to 414 (FY 2012: 565) full-time employees. The 69 (FY 2012: 81) trainees and students on a vocationally integrated course at a vocational academy are not included.

Responsibility statement by the Board of Management

To the best of our knowledge, and in accordance with the applicable reporting principles for the preparation of the annual financial statements, the Bank's financial statements give a true and fair view of the net assets, financial position and results of operations of Bayerische Landesbank, Munich, and the management report includes a fair review of the development and performance of the business and the position of Bayerische Landesbank, together with a description of the principal opportunities and risks associated with the expected performance of Bayerische Landesbank.

Munich, 18 March 2014

Bayerische Landesbank
The Board of Management

Gerd Haeusler Dr Edgar Zoller

Marcus Kramer Stephan Winkelmeier Michael Bücker

Dr Markus Wiegelmann Dr Johannes-Jörg Riegler

Auditor's Report

We have audited the annual financial statements – comprising the balance sheet, the income statement and the notes to the financial statements – together with the bookkeeping system, and the management report of Bayerische Landesbank, Munich for the financial year from 1 January to 31 December 2013. The maintenance of the books and records and the preparation of the annual financial statements and management report in accordance with German commercial law and supplementary provisions of the Bayerische Landesbank Act (Gesetz über die Bayerische Landesbank) and the Statutes of Bayerische Landesbank (Satzung der Bayerischen Landesbank) are the responsibility of the Company's management. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, and on the management report based on our audit.

We conducted our audit of the annual financial statements in accordance with section 317 HGB ("German Commercial Code") and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the annual financial statements in accordance with German principles of proper accounting and in the management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Company and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the books and records, the annual financial statements and the management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the annual financial statements and management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the annual financial statements of Bayerische Landesbank, Munich, comply with the legal requirements and supplementary provisions of the articles of the Bayerische Landesbank Act and the Statutes of Bayerische Landesbank and give a true and fair view of the net assets, financial position and results of operations of BayernLB in accordance with German principles of proper accounting. The management report is consistent with the annual financial statements and as a whole provides a suitable view of the Company's position and suitably presents the opportunities and risks of future development.

Munich, 18 March 2014

Deloitte & Touche GmbH
Wirtschaftsprüfungsgesellschaft

(Löffler)
German public auditor
Wirtschaftsprüfer

(Apweiler)
German public auditor
Wirtschaftsprüfer

Committees and advisory boards
Locations and addresses

We would like to thank all our committees and advisory boards for their dedicated support in financial year 2013.

Board of Administration until 30 June 2013

Dr Markus Söder
Chairman
State Minister
Bavarian State Ministry of Finance
Munich

Alexander Mettenheimer
First Deputy Chairman
Former financier
Munich

Walter Strohmaier
Second Deputy Chairman
Chairman of the Board of Directors
Sparkasse Niederbayern-Mitte
Straubing

Dr Dr Axel Diekmann
Shareholder
Verlagsgruppe Passau GmbH
Passau

Ralf Haase
Chairman of the General Staff Council
BayernLB
Munich

Joachim Herrmann
State Minister
Bavarian State Ministry of the Interior
Munich

Jakob Kreidl
Chief District Administrator
Miesbach

Wolfgang Lazik
Deputy Secretary
Bavarian State Ministry of Finance
Munich

Dr Klaus von Lindeiner-Wildau
Member of the Executive Board (retired)
Wacker Chemie GmbH
Independent Consultant
Munich

Professor Dr Christian Rödl
Managing Partner
Rödl & Partner GbR
Nuremberg

Martin Zeil
State Minister
Bavarian State Ministry of Economic Affairs,
Infrastructure, Transport and Technology
Munich

Supervisory Board as from 1 July 2013

Michael Schneider
Chairman
since 4 July 2013
Former Chairman of the
Management Board of LfA
Germering

Walter Strohmaier
Deputy Chairman
since 4 July 2013
Chairman of the Board of Directors
Sparkasse Niederbayern-Mitte
Straubing

Dr Dr Axel Diekmann
until 31 October 2013
Shareholder
Verlagsgruppe Passau GmbH
Passau

Ralf Haase
Chairman of the General Staff Council
BayernLB
Munich

Dr Ulrich Klein
Under Secretary
Bavarian State Ministry of Finance,
Regional Development and Regional Identity
Munich

Jakob Kreidl
until 3 March 2014
Chief District Administrator
Miesbach

Wolfgang Lazik
Deputy Secretary
Bavarian State Ministry of Finance,
Regional Development and Regional Identity
Munich

Dr Klaus von Lindeiner-Wildau
Member of the Executive Board (retired)
Wacker Chemie GmbH
Independent Consultant
Munich

Professor Dr Christian Rödl
Managing Partner
Rödl & Partner GbR
Nuremberg

Professor Dr Bernd Rudolph
Professor Emeritus at the
Ludwig-Maximilians-Universität München
Faculty of Business Administration
Munich

Dr Hans Schleicher
Deputy Secretary
Bavarian State Ministry for Economic Affairs
and the Media, Energy and Technology
Munich

General Meeting

Free State of Bavaria

Dr Markus Söder
Chairman and Principal
State Minister
Bavarian State Ministry of Finance,
Regional Development and Regional Identity
Munich

Harald Hübner
First Deputy Principal
Deputy Secretary
Bavarian State Ministry of Finance,
Regional Development and Regional Identity
Munich

Frieder Jooß
until 16 February 2014
Second Deputy Principal
Assistant Secretary
Bavarian State Ministry of Finance,
Regional Development and Regional Identity
Munich

Dr Heiko Bauer
since 17 February 2014
Second Deputy Principal
Senior Government Councillor
Bavarian State Ministry of Finance,
Regional Development and Regional Identity
Munich

Association of Bavarian Savings Banks

Theo Zellner
Principal
President
Association of Bavarian Savings Banks
Munich

Dr Ivo Holzinger
First Deputy Principal
Lord Mayor
Memmingen

Walter Pache
Second Deputy Principal
Chairman of the Board of Directors
Sparkasse Günzburg-Krumbach
Günzburg

Audit Committee (reconstituted on 4 July 2013)

Dr Klaus von Lindeiner-Wildau
Chairman
Member of the Executive Board (retired)
Wacker Chemie GmbH
Independent Consultant
Munich

Professor Dr Christian Rödl
Deputy Chairman
Managing Partner
Rödl & Partner GbR
Nuremberg

Jakob Kreidl
until 3 March 2014
Chief District Administrator
Miesbach

Professor Dr Bernd Rudolph
Professor Emeritus at the
Ludwig-Maximilians-Universität München
Faculty of Business Administration
Munich

Dr Hans Schleicher
Deputy Secretary
Bavarian State Ministry for Economic Affairs
and the Media, Energy and Technology
Munich

Risk Committee (reconstituted on 4 July 2013)

Michael Schneider
Chairman
Former Chairman of the
Management Board of LfA
Germering

Walter Strohmaier
Deputy Chairman
Chairman of the Board of Directors
Sparkasse Niederbayern-Mitte
Straubing

Dr Dr Axel Diekmann
until 31 October 2013
Shareholder
Verlagsgruppe Passau GmbH
Passau

Ralf Haase
Chairman of the General Staff Council
BayernLB
Munich

Dr Ulrich Klein
Under Secretary
Bavarian State Ministry of Finance,
Regional Development and Regional Identity
Munich

BayernLabo Committee (constituted on 4 July 2013)

Wolfgang Lazik
Chairman
Deputy Secretary
Bavarian State Ministry of Finance,
Regional Development and Regional Identity
Munich

Dr Ulrich Klein
Deputy Chairman
Under Secretary
Bavarian State Ministry of Finance,
Regional Development and Regional Identity
Munich

Dr Dr Axel Diekmann
until 31 October 2013
Shareholder
Verlagsgruppe Passau GmbH
Passau

Jakob Kreidl
until 3 March 2014
Chief District Administrator
Miesbach

Dr Hans Schleicher
Deputy Secretary
Bavarian State Ministry for Economic Affairs
and the Media, Energy and Technology
Munich

Michael Schneider
since April 7 2014
Former Chairman of the
Management Board of LfA
Germering

Nominating Committee (constituted on 4 July 2013)

Michael Schneider
Chairman
Former Chairman of the
Management Board of LfA
Germering

Wolfgang Lazik
Deputy Chairman
Deputy Secretary
Bavarian State Ministry of Finance,
Regional Development and Regional Identity
Munich

Walter Strohmaier
Chairman of the Board of Directors
Sparkasse Niederbayern-Mitte
Straubing

Dr Klaus von Lindeiner-Wildau
Member of the Executive Board (retired)
Wacker Chemie GmbH
Independent Consultant
Munich

Compensation Committee (constituted on 4 July 2013)

Professor Dr Bernd Rudolph
Chairman
Professor Emeritus at the
Ludwig-Maximilians-Universität München
Faculty of Business Administration
Munich

Dr Ulrich Klein
Deputy Chairman
Under Secretary
Bavarian State Ministry of Finance,
Regional Development and Regional Identity
Munich

Ralf Haase
Chairman of the General Staff Council
BayernLB
Munich

Professor Dr Christian Rödl
Managing Partner
Rödl & Partner GbR
Nuremberg

Remuneration of the members of the Supervisory Board:

Remuneration for the members of the Supervisory Board was increased with effect from 1 July 2013 by way of resolution passed by the General Meeting.

The decision by the General Meeting takes account of the new demands placed on the position of Supervisory Board member and of the fact that the market rate for Supervisory Board members has gone up since the last raise, which was in 2002.

The members of the Supervisory Board thus receive the following remuneration:

in EUR	Chairman	Deputy Chairman	Member
Base salary	80,000	60,000	40,000
Committee salary: (varies among the committees)	10,000 to 15,000	7,500 to 11,250	5,000 to 7,500

The members of the Supervisory Board may also receive an additional, variable remuneration of up to 20% of their base salary per business year. The General Meeting makes a decision each year as to the disbursement and amount of the variable remuneration.

Trustees

Herbert Scheidel
since 1 January 2009
Vice President of the State Office
for Taxes (retired)

Norbert Schulz
First Deputy
since 1 November 1991
Senior Assistant Secretary (retired)

Klaus Puhr-Westerheide
Second Deputy
since 1 July 2009
Senior Assistant Secretary (retired)

Savings Bank Advisory Council

Renate Braun
Savings Bank Director
Chairwoman of the Board of Directors
Sparkasse Passau
Passau

Roland Schmautz
since 1 April 2013
Vice President
Association of Bavarian Savings Banks
Munich

Roland Friedrich
Savings Bank Director
Chairman of the Board of Directors
Sparkasse Bad Kissingen
Bad Kissingen

Dr Rudolf Gingele
Savings Bank Director
Member of the Board of Directors
Sparkasse Regensburg
Regensburg

Hermann Krenn
Savings Bank Director
Chairman of the Board of Directors
Sparkasse Dachau
Dachau

Winfried Nusser
Savings Bank Director
Chairman of the Board of Directors
Kreis- und Stadtsparkasse Kaufbeuren
Kaufbeuren

Thomas Orbig
Savings Bank Director
Member of the Board of Directors
Vereinigte Sparkassen im Landkreis Weilheim i. OB
Weilheim

Walter Pache
Savings Bank Director
Chairman of the Board of Directors
Sparkasse Günzburg-Krumbach
Günzburg

Dr Klaus-Jürgen Scherr
Savings Bank Director
Chairman of the Board of Directors
Sparkasse Kulmbach-Kronach
Kulmbach

Hans Wölfel
Savings Bank Director
Chairman of the Board of Directors
Sparkasse Fürth
Fürth

Economic Advisory Council

Dr Otto Beierl
Chairman of the Management Board
LfA Förderbank Bayern
Munich

Dr Manfred Bode
Chairman of the Shareholders Council
Wegmann & Co.
Unternehmens-Holding KG
Munich

Dr Dr Axel Diekmann
Shareholder
Verlagsgruppe Passau GmbH
Passau

Klaus Dittrich
Chairman of the Management
Messe München GmbH
Munich

Werner Frischholz
until 31 December 2013
Member of the Board of Directors
KRONES AG
Neutraubling

Dipl.-Ing. Peter Hamberger
Managing Director
Hamberger Industriewerke GmbH
Rosenheim

Josef Hasler
since 1 June 2013
Chief Executive Officer
N-Ergie AG
Nuremberg

Andreas Helber
Member of the Board of Management
BayWa AG
Munich

Dr.-Ing. E.h. Martin Herrenknecht
Chairman of the Board of Directors
Herrenknecht AG
Schwanau-Allmannsweier

Erwin Horak
President
Staatliche Lotterieverwaltung
Munich

Hanswilli Jenke
Managing Director
Haslberger Finanzdienstleistungs- und
Beteiligungs GmbH
Freising

Dr Hermann Jung
Member of the Group Board of Directors
Voith AG
Heidenheim

Daniel Just
since 1 April 2013
Chairman of the Board of Management
Bayerische Versorgungskammer
Munich

Dr Michael Kerkloh
Chief Executive Officer
Flughafen München GmbH
Munich

Dr.-Ing. Martin Komischke
Chairman of the Group's Management
Hoerbiger Holding AG
Zug

Dipl.-Kfm. Xaver Kroner
Director
Verband bayerischer Wohnungsunternehmen e.V.
Munich

Dr Ingo Luge
Chairman of the Management
E.ON Deutschland
Essen

Frank H. Lutz
until 28 February 2013
Member of the Board of Directors
MAN SE
Munich

Alexander Mettenheimer
Former financier
Munich

Dr Klaus N. Naeve
Chairman of the Board of Directors
Schörghuber Stiftung & Co. Holding KG
Munich

Professor Dr Matthias Ottmann
Managing Partner
Ottmann GmbH & Co. Südhausbau KG
Munich

Rainer Otto
Managing Director
Wirtgen Beteiligungs GmbH
Windhagen

Lothar Panzer
until 31 January 2013
Chairman of the Board of Management
Bayerische Versorgungskammer
Munich

Dr Helmut Platzer
Chairman of the Board of Directors
AOK Bayern – Die Gesundheitskasse
Munich

Professor Dr Wolfgang Plischke
Member of the Board of Directors
Bayer AG
Leverkusen

Dr Matthias J. Rapp
Member of the Management Board / CFO
TÜV SÜD AG
Munich

Professor Dr Klaus Rauscher
Potsdam

Markus Reif
Archepiscopal Financial Director
Archdiocese Munich and Freising
Archepiscopal Diocesan Authorities
Financial Department
Munich

Jürgen Reimer
since 1 September 2013
Member of the Management Board / CFO
Webasto SE
Stockdorf

Angelique Renkhoff-Mücke
Chairwoman of the Board of Directors
WAREMA Renkhoff SE
Marktheidenfeld

Andreas Renschler
Member of the Board of Directors
Daimler AG
Stuttgart

Hans Peter Ring
until 31 January 2013
Chief Financial Officer
EADS N.V.
Ottobrunn

Randolf Rodenstock
Managing Partner
Optische Werke G. Rodenstock GmbH & Co. KG
Munich

Professor Dr Christian Rödl
Managing Partner
Rödl & Partner GbR
Nuremberg

Professor Dr Bernd Rudolph
Professor Emeritus at the
Ludwig-Maximilians-Universität München
Faculty of Business Administration
Munich

Maria-Elisabeth Schaeffler
until 11 February 2014
Shareholder
INA-HOLDING SCHAEFFLER GmbH & Co. KG
Herzogenaurach

Dipl.-Kfm. Peter Scherkamp
General Manager
Wittelsbacher Ausgleichsfonds
Munich

Siegmund Schiminski
until 31 August 2013
Chairman of the Board of Directors
Sparkasse Bayreuth
Bayreuth

Dr Jörg Schneider
Member of the Board of Directors
Munich Re
Munich

Dipl.-Kfm. Dieter Schön
Managing Director
Schön-Klinik Verwaltung GmbH
Prien

Dieter Seehofer
since 1 September 2013
Chairman of the Board of Directors
Sparkasse Ingolstadt
Ingolstadt

Axel Strotbek
Member of the Board of Directors
AUDI AG
Ingolstadt

Christoph Thomas
Managing Partner
HAMA GmbH & Co. KG
Monheim

Dr Frank Walthes
Chairman of the Board of Management
Versicherungskammer Bayern
Munich

Dr Wolfgang Weiler
Spokesman of the Board of Directors
HUK-Coburg
Coburg

Alexander Wiegand
Managing Partner
WIKA Alexander Wiegand GmbH & Co. KG
Klingenberg

Dr Lorenz Zwingmann
Member of the Board of Directors
Knorr-Bremse AG
Munich

Locations and addresses

Germany

Head Office: Munich
BayernLB
Brienner Strasse 18
80333 Munich
Tel +49 89 2171-01
Fax +49 89 2171-23579
SWIFT BIC: BYLA DE MM
info@bayernlb.de
www.bayernlb.de

Nuremberg
BayernLB
Lorenzer Platz 27
90402 Nuremberg
Tel +49 911 2359-0
Fax +49 911 2359-212
SWIFT BIC: BYLA DE 77
info@bayernlb.de
www.bayernlb.de

Düsseldorf
BayernLB
Cecilien-Palais
Cecilienallee 10
40474 Düsseldorf
Tel +49 211 92966-100
Fax +49 211 92966-190
info@bayernlb.de
www.bayernlb.de

BayernLabo
Brienner Strasse 22
80333 Munich
Tel +49 89 2171-08
Fax +49 89 2171-600388
info@bayernlabo.de
www.bayernlabo.de

Foreign entities and branches

London
BayernLB
Bavaria House
13/14 Appold Street
London EC2A 2NB
United Kingdom
Tel +44 20 72 47 00 56
Fax +44 20 79 55 51 73
SWIFT BIC: BYLA GB 22
Info.london@bayernlb.co.uk

Luxembourg
BayernLB
3, rue Jean Monnet
2180 Luxembourg
Luxembourg
Tel +352 43 3122-1
Fax +352 43 3122-4599
SWIFT BIC: BYLA LU LB
Direction.nlblb@lblux.lu

Milan
BayernLB
Via Cordusio, 2
20123 Milan
Italy
Tel +39 02 86 39 01
Fax +39 02 86 42 16
SWIFT BIC: BYLA IT MM
info@bayernlb.de

New York
BayernLB
560 Lexington Avenue
New York, N.Y. 10022
USA
Tel +1 212 3 10-9800
Fax +1 212 3 10-9822
SWIFT BIC: BYLA US 33

Paris
BayernLB
Succursale de Paris
203, rue du Faubourg Saint-Honoré
75380 Paris Cedex 08
France
Tel +33 1 44 21 14 00
Fax +33 1 44 21 14 44

Representative office

Moscow
BayernLB
Bolshaya Ordynka 40, Building 4
Moscow 119017
Russia
Tel +7 495 544 54 33
Fax +7 495 544 54 34
info@bayernlb.de

Subsidiaries

Banque LBLux S.A.
3, rue Jean Monnet
2180 Luxembourg
Luxembourg
Tel +352 42 434-1
Fax +352 42 434-5099
SWIFT BIC: BYLA LU LL
bank@lblux.lu
www.lblux.lu

Deutsche Kreditbank Aktiengesellschaft
Taubenstrasse 7-9
10117 Berlin
Tel +49 30 120 300 00
Fax +49 30 120 300 01
SWIFT BIC: BYLADEM 1001
info@dkb.de
www.dkb.de

MKB Bank Zrt.
Váci utca 38
1056 Budapest
Hungary
Tel +36 1 327 8600
Fax +36 1 327 8700
SWIFT BIC: MKKB HU HB
mkb@mkb.hu
www.mkb.hu

BayernLB 2013 Annual Report and Accounts

Publisher
Bayerische Landesbank
Brienner Strasse 18
80333 Munich
Germany
Phone +49 89 2171-01
Fax +49 89 2171-23578
Reuters Dealing BLAM, BLAS, BLAX
SWIFT BIC: BYLA DE MM
info@bayernlb.de
www.bayernlb.de

Text/editorial staff/production
BayernLB
Financial Office, Rating & Investor Relations department
Group Strategy & Group Communications division,
Marketing department

Concept and layout
dassel & schumacher werbeagentur gmbh, Munich

Printed by
Lipp GmbH, Graphische Betriebe, Munich

Closing date for submissions: 15 April 2014

The Annual Report is printed on environmentally compatible elemental chlorine-free bleached paper. The CO_2 emissions which resulted from paper consumption at BayernLB in 2013 have been offset by the purchase and invalidation of emission certificates from a certified climate protection project.

The Annual Report can be downloaded as a PDF file from www.ar13.bayernlb.com. It is also available in German.

The translation of the annual financial statements, comprising the balance sheet, the income statement and the notes to the financial statements, together with the management report and the report by the Supervisory Board of the Bayerische Landesbank as well as the auditor’s report is for convenience only; the German versions prevail.

Sparkassen-Finanzgruppe in Bavaria

Sparkassen-Finanzgruppe
Market leader in Bavaria

- **Aggregate total assets** (bank business): EUR 438 billion
- **Aggregate regulatory capital** (excl. BayernLB): EUR 18.6 billion
- **Aggregate premium volume** (insurance business): EUR 7.2 billion

BayernLB

Consolidated total assets:
EUR 255.6 billion

Staff:
Bank: 3,418
Group: 8,568

Bayerische Landesbodenkreditanstalt

Lending volume (proprietary and fiduciary business): EUR 25.0 billion

State subsidised business in 2013 (number of apartments and residences): 8,774

BayernLB Group companies include

- Deutsche Kreditbank AG, Berlin
- BayernInvest Kapitalanlage-gesellschaft mhH, Munich
- Real I. S. AG, Munich
- MKB Bank Zrt., Budapest

as well as many other subsidiaries which offer special services to savings banks

71 savings banks

Total assets: EUR 182 billion

Staff: 44,769
- Branches: 2,354
- Self-service branches: 392
- Advisory centres: 465

Customer loans: EUR 113 billion
Customer deposits: EUR 142 billion

Market share
- Approx. 40 % of SMEs
- Two-thirds of trade businesses
- 50 % of company start-ups

DekaBank
Share of Bavarian savings banks organisation: 14.7 %
Consolidated total assets:
EUR 118.9 billion**

Landesbank Berlin
Share of Bavarian savings bank organisation
incl. VKB share: 13.6 %

Deutsche Leasing
Share of Bavarian savings banks: 12.54 %
New business volume of Deutsche Leasing Group: EUR 7.75 billion

Bayerische Landesbausparkasse
Portfolio of 2.1 million home loan savings contracts with a volume of EUR 60.2 billion

Sparkassen-Immobilien
Volume of business brokered:
EUR 2.02 billion

Versicherungskammer Bayern

Premium volume: EUR 7.2 billion

Staff: 6,730*
Investment portfolio: EUR 42.5 billion

Germany's largest public-sector insurance provider

Market leader in Bavaria and the Palatinate

Entities within the Versicherungskammer Bayern Group (VKB)

- Composite insurers
- Life insurers
- Health insurers
- Re-insurers

Association of Bavarian Savings Banks

Association members: 71 Bavarian savings banks and their owners

Not incl. external sales force
*** As at: 30 Sep 2013*

Bayerische Landesbank
Brienner Strasse 18
80333 Munich
Germany

www.bayernlb.com

Bayern LB