2014 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 2014	1 Jan – 31 Dec 2013	Change in %
Net interest income	1,408	1,349	4.4
Net commission income	204	177	15.1
Net income of the trading portfolio	– 120	121	–
Administrative expenses	– 895	– 1,022	– 12.4
Operating profit/loss	**– 2,100**	**– 342**	**> 100**

Balance sheet (HGB)

EUR million	31 Dec 2014	31 Dec 2013	Change in %
Total assets	178,132	201,035	– 11.4
Business volume	210,968	231,692	– 8.9
Credit volume	120,215	130,946	– 8.2
Total deposits	87,857	98,460	– 10.8
Securitised liabilities	45,925	55,420	– 17.1
Reported equity	14,817	18,208	– 18.6

Banking supervisory capital and ratios under CRR/CRD IV (after close of year)[1]

EUR billion	31 Dec 2014	31 Dec 2013
Total RWA	73.6	59.3
Own funds	12.1	16.3
Tier 1 capital	10.0	12.9
Common Equity Tier 1 capital (CET 1)	9.8	–
Total capital ratio	16.4%	27.4%
Tier 1 capital ratio	13.6%	21.8%
CET 1 ratio	13.3%	–

Employees

	31 Dec 2014	31 Dec 2013	Change in %
Number of employees	3,283	3,418	– 3.9

1 2014: based on CRR/CRD IV; 2013: based on the German Banking Act (KWG)/German Solvency Ordinance (SolvV). Due to the different legal bases used in the two years, a change column is not shown.

Contents

Report by the Supervisory Board

Ladies and gentlemen,

In 2014, renewed falls in interest rates, which at times turned negative in key segments, once again dominated the picture on international markets, particularly the German banking market. Ultra-loose monetary policy in Europe in response to a generally weak economic environment, albeit with marked regional differences, proved a mammoth challenge for banks and insurers. In consequence the euro exchange rate steadily weakened, particularly against the US dollar, driven mainly by capital exports from the eurozone.

The historic launch of a European banking union had major ramifications for the financial sector last year. In the run up to it, an asset quality review was conducted at about 130 banks in the eurozone, including BayernLB, followed by stress tests. The Single Supervisory Mechanism began its work on 4 November 2014.

BayernLB held up well in this challenging regulatory environment which has been tough for banks on many counts.

In financial year 2014, BayernLB's Supervisory Board fully performed all of its tasks and responsibilities as required by law, BayernLB's Statutes and the applicable requirements for the supervisory bodies of banks (e.g. German Banking Act, MaRisk). In this environment marked by economic uncertainty and the Bank's particular legacy problems, we advised the Board of Management on its administration of the company and continually monitored its executive functions.

BayernLB's Board of Management kept the Supervisory Board and its committees informed of key developments at the Bank and the Group at regular intervals in 2014, both promptly and comprehensively, and in writing and orally. This included its supervisory duty to disclose deficiencies detected by Internal Audit. We held detailed discussions with the Board of Management on BayernLB's business policy and fundamental issues relating to corporate planning, especially in its financial, investment and personnel aspects. We were also briefed on business performance, focusing especially on earnings, expenses, risks, liquidity and capital status, profitability, legal and business relations, and material events and business transactions of the Group.

The Supervisory Board was chaired by Michael Schneider from 1 January 2014 to 30 September 2014. He was succeeded as chairman by Gerd Haeusler on 1 October 2014. Mr Schneider and Mr Haeusler remained in regular contact with BayernLB's Board of Management between meetings. The Supervisory Board was also notified in writing of important matters between meetings and where necessary, resolutions were passed. The Supervisory Board and Board of Management always worked together under the guiding principle of securing BayernLB's future success and growth.

Supervisory Board meetings – key points in the discussions

In the reporting year the Supervisory Board held a total of ten meetings. Members of the Bavarian state ministries responsible for supervising BayernLB were present at all of the meetings while representatives of the banking supervisory authorites attended some of the meetings. Eight meetings were chaired by Michael Schneider and two by Gerd Haeusler.

The Board of Management reported regularly on BayernLB's balance sheet and earnings. We discussed the current status of risk assets and capital ratios with the Board of Management, which presented current business performance both overall and by market segment. The various issues relating to Hypo Alpe Adria (HAA) were discussed by the Board of Management in each Supervisory Board meeting on the basis of a current situation report. Each committee chair also reported, and necessary resolutions on personnel and operational issues were passed either in full meetings or in committee. These included a number of personnel changes on BayernLB's governing bodies.

In the past financial year the Supervisory Board once again turned its attention to dealing with two key legacy problems in order for the Bank to make yet more significant progress in implementing the conditions of the EU state aid proceedings. One milestone was the sale by BayernLB of Hungarian subsidiary MKB to the Hungarian government in July 2014. Another was the sale of the entire ABS portfolio to international investors in an auction in October 2014.

We also focused our attention on the proliferation of new legal and regulatory requirements and their impact on BayernLB. Examples included the creation of the architecture of the new European banking union with its two principal arms: the Single Supervisory Mechanism (SSM), including bank stress tests, and the Single Resolution Mechanism (SRM). Changes were also brought in under Germany's Remuneration Ordinance for Institutions.

In January 2014, as part of the 2013 strategy review, the Supervisory Board looked very closely at the business strategy and related sub-strategies and discussed the medium-term planning with the Board of Management. We also received reports on the status of the cost-cutting programme and the large-scale "K2" IT project.

In April 2014, the focus was on the Board of Management's Report for financial year 2013, the adoption of the annual financial statements and the approval of the consolidated financial statements. The resolution was adopted on the basis of the recommendations of the Audit Committee and a subsequent detailed discussion with the auditors Deloitte. In accordance with a proposal by the Audit Committee, the Supervisory Board recommended to the General Meeting that the auditing firm Deloitte be reappointed to audit the 2014 annual financial statements of BayernLB and the Group, which the General Meeting agreed to.

In its meetings in May and July 2014, the Supervisory Board was once again updated on the progress in implementing the cost-cutting programme. The shareholding report as at 31 December 2014 and HR report for the past year were also discussed in detail and talks were held with the Board of Management on the progress made to date in implementing the Management Agenda. Another issue looked at was the sale of Hungarian subsidiary MKB which we approved after the discussion.

In September 2014 the Board of Management reported on the latest developments with respect to the remuneration system at BayernLB and the ECB's new supervisory duties. We also discussed key issues regarding shareholdings and the Restructuring Unit's portfolio.

The sale of the ABS portfolio was the subject of an extraordinary meeting in October 2014 at which the Supervisory Board gave its approval. In November 2014, the main areas, besides the Board of Management's regular reports, were regulatory developments, particularly supervisory capital requirements and their impact on BayernLB.

Supervisory Board committees – an overview

Michael Schneider chaired the Risk Committee up to and including 30 September 2014 (five meetings). He was succeeded on 2 October 2014 by Gerd Haeusler (two meetings). The Risk Committee was involved in all major issues relating to the risk strategy agreed by the Board of Management and all aspects of BayernLB's risk situation at both Group and Bank level. It discussed the Group-wide risk strategies, which must be updated at least once a year, and approved individual loans requiring authorisation. It also examined reports by the Board of Management on sub-portfolio strategies, risk trends and especially risk-bearing capacity.

The issues the Risk Committee tackled in 2014 included the performance of the Restructuring Unit (especially the ABS portfolio), the 2013 shareholdings report and the progress in implementing various in-house projects. It also discussed the annual accounts audit with the auditors, focusing on risk management, and maintained a dialogue with the Board of Management all year long on current risk issues.

The Compensation Committee held three meetings under the chairmanship of Prof. Dr Bernd Rudolph. It discussed in particular the new rules under the Remuneration Ordinance for Institutions and their impact on BayernLB. It examined the Board of Management's reports on the structure of the remuneration systems (focusing mainly on their impact on the business and risk strategy), monitored their suitability, oversaw the appointments of remuneration officers and their deputies, and received regular updates on specific issues. It evaluated the impact of the remuneration systems of the Bank's and Group's risk, capital and liquidity situation and approved the system for setting and distributing the bonus pool. The Committee also noted the compensation officers' report on the remuneration report.

The Compensation Committee and Risk Committee worked closely together and regularly exchanged information.

Dr Klaus von Lindeiner-Wildau was chairman of the Audit Committee up to and including 30 September 2014 (two meetings). Prof. Dr Christian Rödl took over from him on 2 October 2014 (one meeting). The Audit Committee 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 2014 Internal Audit and Group Compliance reported to the Audit Committee on their work and audit findings. The Committee deliberated on the money laundering and financial crime threat analysis and conferred with the auditors Deloitte on what the audit of the 2014 annual financial statements should focus on.

Michael Schneider chaired the Nominating Committee up to and including 30 September 2014. Gerd Haeusler took over on 2 October 2014. The Committee was principally involved in the preparation of resolutions relating to Board of Management affairs as referred to in the report on the work of the full committee. Three meetings were held altogether in 2014 under the chairmanship of Michael Schneider.

The BayernLabo committee held two meetings under its chairman, Wolfgang Lazik. As required by law, the Committee dealt with all matters in respect of BayernLabo on behalf of the Supervisory Board and passed resolutions concerning BayernLabo's affairs which the Supervisory Board is responsible for.

In particular, it adopted BayernLabo's 2013 annual financial statements and recommended to the General Meeting that auditors Deloitte be reappointed for the audit of the 2014 annual financial statements, which the General Meeting agreed to. It also discussed the business and risk strategy, refinancing and HR planning with both the Board of Management and BayernLabo Management. The Committee was updated by the Board of Management and the management of BayernLabo on business performance and it approved BayernLabo's own contribution to its capital funding programmes.

The Supervisory Board and respective committees carried out the tasks assigned to them by law, the Statutes and Rules of Procedure.

Training in banking issues

The Supervisory Board received training at two information events on current issues in banking with a focus on BayernLB. The training was given by specialists in the Bank and representatives of the auditors. Topics included international accounting, the new rules under CRR/CRD IV and an overview of upcoming supervisory requirements.

In addition, the Compensation Committee received training at an information event from an external specialist on the regulatory requirements governing remuneration in banks.

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.

At its meeting today, the Supervisory Board discussed compliance with these corporate governance principles in 2014. The Board of Management, Supervisory Board and General Meeting agreed that they were aware of no evidence that these principles had not been observed in financial year 2014.

Changes in the composition of the Supervisory Board and Board of Management

Jakob Kreidl stepped down from the Supervisory Board on 3 March 2014 and was replaced by Dr Hubert Faltermeier, effective 9 May 2014. Dr Ute Geipel-Faber was appointed to the Supervisory Board with effect from 30 May 2014. Michael Schneider left on 30 September 2014 to be succeeded by Gerd Haeusler on 1 October 2014. Dr Hans Schleicher and Dr Klaus von Lindeiner-Wildau also resigned from the Supervisory Board on 30 September 2014. They were replaced by Dr Bernhard Schwab and Dr Roland Fleck on 1 October 2014.

Dr Markus Wiegelmann joined the Board of Management with effect from 1 January 2014. Gerd Haeusler and Stephan Winkelmeier stepped down from the Board of Management on 31 March 2014. Dr Johannes-Jörg Riegler was appointed to the Board of Management as from 1 March 2014 and became Chief Executive Officer on 1 April 2014. Ralf Woitschig became a member of the Board of Management on 1 October 2014.

We would like to thank the outgoing members of the Supervisory Board and Board of Management for their constructive contribution and services to the Bank in what have been challenging times.

Audit and approval of the 2014 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. Deloitte issued an unqualified opinion. The Supervisory Board and BayernLB's BayernLabo Committee each verified the independence of the auditors of the financial statements in advance.

The financial statements documentation and key audit reports were duly presented to all Supervisory Board members. BayernLabo and the Audit Committee discussed each of the documents forming part of the annual and consolidated financial statements in conjunction with the auditors' audit report and in detail with the auditors themselves. Each committee chair reported to the Supervisory Board on this matter.

4 Report by the Supervisory Board

In its meeting of 15 April 2015, the BayernLabo Committee adopted BayernLabo's submitted annual accounts and approved the management report to BayernLabo's accounts.

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 concluded that it had no reservations even after the final outcome of the audits.

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.

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 huge personal contribution this year past and for their commitment under conditions that remain tough. Over the course of the year all of us working together succeeded in laying to rest the Bank's legacy problems and putting the Bank back on a healthy footing. As proof of this, the Bank continued to reliably implement the conditions of the EU state aid ruling in 2014, including high payments out of core tier 1 capital, just as it has done in previous years.

Munich, 16 April 2015

On behalf of the Supervisory Board

Gerd Haeusler
Chairman

Management report

Overview of BayernLB

Business model and strategy

BayernLB maintained its customer-focused strategy in 2014. The framework for the strategy is the restructuring plan hammered out with the European Commission between 2009 and 2012 and the Bank's target structure on which it is based. BayernLB's focus in the first half of 2014 was on implementing the KSP cost-cutting programme launched in 2013 to permanently lower the cost base and optimise processes. In the second half of the year the strategic focus was on strengthening and increasing sales activities through long-term, full-service customer relationships.

BayernLB continues to be a strong corporate and commercial real estate lender focused geographically on the Bavarian and German markets as well as a reliable partner to the savings banks. Deutsche Kreditbank AG, Berlin (DKB), an integral part of the business model, rounds out the model by providing retail banking services as an online bank and as a specialist in the target infrastructure and business customer sectors.

The disposal of Hungarian subsidiary MKB Bank Zrt., Budapest (MKB) and the sale of the ABS portfolio with a nominal value of about EUR 6.4 billion were two important milestones in resolving the existing legacy problems and have substantially improved the Bank's risk profile. As a condition of the EU state aid proceedings, BayernLB also agreed to sell or wind down its stake in Banque LBLux S.A., Luxembourg (LBLux). LBLux focused on lending to corporate customers, mainly in the Benelux region, private banking and wealth management with international high net worth customers and custodian bank services. The sale and winding down process is now nearly complete. The private banking and wealth management arms were sold to Banque de Luxembourg on 31 May 2014. At the end of 2014, the custodian bank business was transferred to other custodian banks in Luxembourg. The corporate loan portfolio was assigned to the Restructuring Unit at BayernLB on 1 July 2014.

The sale of the ABS portfolio resulted in the termination of the "Umbrella" agreement with the Free State of Bavaria and the related state aid of about EUR 1.1 billion (clawback) was repaid to the Free State of Bavaria. In December BayernLB also transferred another EUR 700 million to the Free State of Bavaria, thus fulfilling its obligations under the EU's repayment plan in 2014 also. In total, more than 50 percent of the required state aid repayments of about EUR 5 billion have been made.

Mainly as a result of the divestment and sale of MKB and the ABS portfolio, but also on account of the systematic further winding-down of other non-core business, BayernLB's total assets at the end of 2014 had already fallen below the target of about EUR 240 billion (EUR 255 billion for the Group), which, under the EU ruling, the Bank has to achieve by the end of 2015.

The Bank continued to make progress under its KSP cost-cutting programme in 2014 and laid the groundwork for lower administrative expenses in future years by further improving the efficiency of operational processes, optimising the product range, reviewing human resources needs and upgrading its IT systems.

In the commercial and residential real estate businesses, the Bank virtually achieved its growth target for new business of EUR 3 billion. In the retail customer business area, DKB met its target of 3 million customers in 2014. BayernLB further strengthened its syndicated loan business with the Bavarian savings banks and also slightly expanded its already very strong leading position in the state-subsidised loan business. But BayernLB's Mittelstand and capital markets businesses did not meet expectations for 2014, largely due to tough competition for Mittelstand customers and challenging conditions on capital markets.

The difficult market environment in particular had an impact on BayernLB's operating business in 2014. Accordingly, the main challenges to its earnings base were persistently low interest rates, stiff competition for large corporate and Mittelstand customers, and the growing importance of non-banks. At the same time, the cost base suffered as a result of restrictive regulatory requirements, especially regarding the quantity and quality of its capital.

Given this background, BayernLB's strategic focus is currently on developing new sources of low-risk earnings, particularly by stepping up its commission business activities. Building upon this, in the annual strategic process, the Bank drew up and then fleshed out specific measures for all its business areas based on the strategic direction and goals. To ensure long-term competitiveness the Bank's main aim is to increase and intensify business with existing customers while gaining new customers in the defined core segments. The Bank will work towards achieving this by making sure products and services meet customer needs and by taking measures to step up sales and adapt them to regional preferences, partly also by selectively digitalising sales channels.

From its perspective BayernLB scored well in the Europe-wide assessment of banks, comprising the Asset Quality Review (AQR) conducted by the European Central Bank (ECB) and the stress tests conducted by the European Banking Authority (EBA). As expected, BayernLB passed the stress test thanks to its risk structure and solid capital base. Equally pleasing were the results of the AQR test which examined the risks in selected portfolios. Based on the outcome of the Asset Quality Review, the Bank had a comfortable Common Equity Tier 1 capital (CET 1) ratio as defined in the EU's Capital Requirements Regulation and Directive (CRR/CRD IV) of 13.2 percent (minimum ratio 8 percent), which formed the starting point for the stress test. In the stress test, the BayernLB Group's CET 1 ratio in the baseline scenario was 12.4 percent (minimum: 8 percent). In the adverse scenario, which simulated the impact on banks of an economic and asset price shock, BayernLB's CET 1 ratio was 9.4 percent and was thus well above the minimum ratio of 5.5 percent.

Overall it can be said that BayernLB made further important advances in 2014 in implementing the EU ruling and resolving its legacy problems, thus reducing risk and complexity. This, coupled with a solid capital base and the good, longstanding customer relationships that the Bank enjoys, will lay the foundations for preserving existing and gaining new customers going forward.

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 the 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 also uses other ratios. These include various measures of the profitability and expense of risk-weighted assets, and also economic value added (EVA). This expresses the profit of a company after deducting the cost of capital employed denominated in euro. 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 pre- and post-calculations for individual transactions right up to the Group as a whole including subsidiaries. The management cycle is a continuous process of carrying out annual medium-term planning, producing intrayear detailed target vs actual comparisons and making 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 at all times 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). To produce an in-depth, forward-looking analysis of economic capital adequacy, risk-bearing capacity is calculated based on the Business Strategy and 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 Common Equity Tier 1 (CET 1) ratio and the total capital ratio as defined by the Capital Requirements Regulation (CRR). Besides the CET 1 ratio, which takes account of transitional provisions currently applicable under CRR, capital is also managed using the fully-loaded CET 1 ratio (not applying the transitional provisions). The capital required and the corresponding capital ratios are derived from the Business and Risk Strategies 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

2014 was a year of major change. Aligning headcount with lower business volumes was at the forefront of the KSP cost-cutting programme. At the same time, in line with BayernLB's realignment, more emphasis needed to be placed on preparing managers and staff to meet the demands ahead. Managing and equipping staff with the necessary skills and qualifications plays a big role in effecting this major change.

As at 31 December 2014, a total of 3,283 staff were employed at BayernLB. Headcount fell by 135 over the year. Of this, 116 were based in Germany and 19 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. Naturally, sustainability management and reporting play no less important roles in BayernLB's business activities. BayernLB's sustainability performance is evaluated regularly by specialised, independent rating agencies.

Key changes in the participations portfolio

With effect from 3 April 2014, BayernLB sold its stake of around 44 percent in Landesbank Saar, Saarbrücken (SaarLB). On 29 September 2014 it completed the sale of MKB to the Hungarian government.

The sale of the holding in Banque LBLux S.A., Luxembourg (LBLux) is almost concluded. The private banking business was transferred to the private Luxembourg bank Banque de Luxembourg in the first half of 2014. To avoid incurring any financial disadvantage, the corporate banking portfolio, which was also classified as held for sale in December 2013, was not sold but transferred to BayernLB for winding down on 1 July 2014.

Report on the economic position

Macroeconomic and sector-specific environment

In 2014, as expected, Germany's economy moved once more in an upward trajectory overall. Gross domestic product was 1.5 percent up on the previous year.[1] But despite financing being very cheap, growth in capital expenditure was unexpectedly weak (–3.7 percent) and the rise in exports (+3.7 per cent) less pronounced than had been forecast at the start of the year. On balance, however, foreign trade pushed up growth as imports fell short of estimates. Both exports and imports felt the force of a marked deterioration in the geopolitical situation – notably the tense political situation and tit-for-tat escalation in sanctions triggered by the conflict between Russia and Ukraine – and weak economic growth in key euro countries. Growth in the eurozone (around +0.8 percent) was somewhat weaker than the Bank's already less-than-optimistic forecast at the start of the year.[2] In contrast, Germany's labour market continued to improve, as expected. Unemployment fell over the year from 6.8 percent to 6.5 percent in spite of higher labour market participation and an increase in immigration.[3] Average inflation for the year was less than forecast, dropping from 1.5 percent in the year before to 0.9 percent in 2014.[4] The main cause of this was the surprisingly sharp slump in the price of oil from mid 2014. The ECB loosened monetary policy over the course of the year much more than expected in response to sluggish growth in the eurozone economy, no pick-up in lending, downside risks to inflation and a fall in medium-term inflationary expectations. For example, it cut its key lending rate to 0.05 percent and, from the middle of the year, set a negative deposit rate for the first time ever (currently at –0.2 percent).[5] The central bank also adopted wide-ranging liquidity measures, particularly through its targeted longer-term refinancing operations (TLTRO), which are linked to lending.[6] In September it took the decision to set up ABS and covered bond purchase programmes.[7] In the wake of its accommodative monetary policy, downward pressure on money market rates in the eurozone has intensified, contrary to expectations at the start of the year. For example, the Euro OverNight Index Average (EONIA), the unsecured interbank rate for overnight lending transactions, has, save for some brief interruptions, been in negative territory since the end of August 2014.[8] The outlook for short-term interest rates fell further as the year progressed. Bank lending in Germany to companies and households rose by 0.5 percent in 2014 in spite of low interest rates, after falling

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1 See Statistisches Bundesamt 2014: "German economy in solid shape in 2014", press release 016/15 January 2015. https://www.destatis.de/EN/PressServices/Press/pr/2015/01/PE15_016_811.html.

2 See European Commission: "European Economic Forecast – Autumn 2014", 4 November 2014, http://ec.europa.eu/economy_finance/publications/european_economy/2014/pdf/ee7_en.pdf, BayernLB, 2014: Perspektiven-Update Januar 2014; http://www.bayernlb.de/internet/media/de/internet_4/de_1/downloads_5/0100_corporatecenter_8/5700_volkswirtschaft_research_2/research_3/Perspektiven-Update.pdf, Consensus Economics: January 2014 http://www.consensuseconomics.com/Eurozone_Economic_Forecasts.htm.

3 Bundesagentur für Arbeit: „Der Arbeitsmarkt im Jahr 2014: Positive Arbeitsmarktentwicklung trotz schwachem Wirtschaftswachstum", press release of 7 January 2014, http://www.arbeitsagentur.de/web/content/DE/Presse/Presseinformationen/ArbeitsundAusbildungsmarkt/Detail/index.htm?dfContentId=L6019022DSTBAI716019.

4 See Statistisches Bundesamt 2014: "Consumer prices in 2014: +0.9% on 2013", press release 017/16 January 2015 https://www.destatis.de/EN/PressServices/Press/pr/2015/01/PE15_017_611.html.

5 ECB press release of 4 September 2014, https://www.ecb.europa.eu/press/pr/date/2014/html/pr140904.en.html.

6 ECB press release of 5 June 2014,https://www.ecb.europa.eu/press/pr/date/2014/html/pr140904.en.html.

7 ECB press release of 4 September 2014, https://www.ecb.europa.eu/press/pr/date/2014/html/pr140904_1.en.html. and ECB press release of 22 January 2015, https://www.ecb.europa.eu/press/pr/date/2015/html/pr150122_1.en.html.

8 See Bloomberg Markets 2015: "Eonia Overnight Index Average Index".

by 3.3 percent (loans to non-banks, as at December 2014, year-on-year change) in the previous year.[9] Demand for credit was unexpectedly weak in the first half of the year, while the consolidation of balance sheets in the banking system ahead of the AQR by the ECB (results of the stress tests were released on 26 October 2014) had a dampening effect.

Diverging monetary policies in the eurozone and US had a major impact on the euro/dollar exchange rate in 2014. In the first half of the year, as expected, the euro was still trading above USD 1.30. But from the middle of the year it lost significantly more value than expected, depreciating by as much as 11 percent to close at USD 1.21. This occurred when the ECB significantly loosened monetary policy while the US Federal Reserve scaled back its monthly asset purchases following robust performances by the US economy and labour market. The pound sterling also strengthened much more strongly against the euro than forecast as the economic recovery that began in the UK in mid 2013 continued. In the first half of 2014, as we had anticipated, the Swiss franc stayed comfortably above the SNB's floor of 1.20 in a range of between 1.22 and 1.23 francs to the euro. But as risk aversion increased – most notably as the Ukraine-Russia conflict deepened – and bond purchases by the ECB loomed, the franc rose unexpectedly, forcing the Swiss National Bank (SNB) to intervene massively on currency markets and introduce negative interest rates to preserve the currency floor.

On bond markets, over the course of 2014, 10-year Bund yields tumbled more than expected from 1.7 percent to just below 0.4 percent. In the US, yields rose modestly, as we anticipated, while the story in the eurozone was one of deflation, speculation about quantitative easing by the ECB and an increase in safe-haven flows propelled by rising geopolitical uncertainty. With liquidity in ample supply and investment pressure continuing to build, risk premiums continued to narrow.

Risk premiums on European covered bond markets sank even more steeply in 2014 than expected at the start of the year. As forecast, the market was supported by a dearth of new issues, high levels of maturities and regulatory preference. The ECB also went beyond BayernLB's expectations in its decision in September 2014 to initiate a new purchase programme for covered bonds (CBPP3) and had bought up just under EUR 30 billion in securities by the year's end.

On European credit markets, risk premiums on investment-grade bonds, as indicated by iBoxx Euro Corporates, narrowed by around 10 basis points in 2014 and increasingly benefited from the marked fall in Bund yields.[10]

Over the whole year, the DAX rose by 2.2 percent, continuing the upward trend of the previous year, albeit at a slower pace. At the end of the year, the DAX closed at 9,805, roughly as expected. Over the 12 months, the EURO STOXX 50 rose by only just under 30 points to 3,146.

For the financial services industry, 2014 too was a year of uncertainty with a tough market environment. 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.

9 *See Deutsche Bundesbank 2014: "Banking Statistics – December 2014, Statistical Supplement 1 to the Monthly Report", Table I 6a), p. 10, http://www.bundesbank.de/Redaktion/EN/Downloads/Publications/Statistical_Supplement_1/2014/2014_12_banking_statistics.pdf?__blob=publicationFile.*

10 *See Bank of America Merrill Lynch, in house calculations.*

In addition to the sustained low interest rate environment, BayernLB's business activities in 2014 were primarily affected by notably sluggish capital spending by companies, and increasingly cut-throat competition in the core segments. 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. Moreover, non-banks are also increasingly competing selectively against established banks.

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 2014. 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 2014. Competition among these direct banks was stiff, fuelled by the arrival of foreign banks.

Course of business

BayernLB ended financial year 2014 with a net loss of EUR 2,114 million. But total earnings from net interest and net commission income were up on the previous year. The net loss for 2014 was offset by a withdrawal from capital reserves and loss absorption by silent partner contributions and profit participation rights, resulting in net retained profits of zero for the financial year.

In contrast to expectations, the loss was far more than the previous year's figure (FY 2013: net loss of EUR 475 million). It was, however, largely the result of the writedown of the receivables due from Hypo Alpe-Adria-Bank International AG, Klagenfurt, now known as HETA Asset Resolution AG, Klagenfurt (HETA), the sale of the ABS portfolio and the waiver of receivables from MKB. The sale of MKB and the ABS portfolio ahead of schedule closes two important chapters in the EU state-aid proceedings and removes other risks to BayernLB's future.

It is also pleasing that BayernLB met its repayment obligations in 2014 under the EU ruling despite the large extraordinary charges. By the end of the year it had already repaid more than half (EUR 2,660 million) of about EUR 5 billion of state aid it has to pay back to the Free State of Bavaria by the end of 2019. On the sale of the ABS portfolio the umbrella agreement with the Free State of Bavaria was terminated ahead of schedule and the related clawback payments under the EU ruling made to the Free State of Bavaria.

As at year-end, total assets amounted to EUR 178 billion, about EUR 23 billion lower than the year before. This drop was largely due to a decrease of around EUR 11 billion in credit volumes and a EUR 10 billion fall in the securities holdings, mainly as a result of the sale of the ABS portfolio. The lending business once again had a major impact on the financial position of the Bank's assets.

The financial situation was solid throughout the financial year, and sufficient liquidity was available at all times. Overall BayernLB's economic situation was stable in spite of the charges from risk provisions and the sale of the ABS portfolio.

Results of operations

EUR million	1 Jan – 31 Dec 2014	1 Jan – 31 Dec 2013	Change in %
Net interest income	1,408	1,349	4.4
Net commission income	204	177	15.1
Gross profit	**1,612**	**1,526**	**5.7**
Personnel expenses	–530	–615	–13.8
Operating expenses	–365	–408	–10.4
Administrative expenses	**–895**	**–1,022**	**–12.4**
Net income of the trading portfolio	–120	121	> –100.0
Net of other operating expenses, income and other taxes	43	80	–47.2
Risk provisions	–1,532	–506	> 100.0
Gains or losses on measurement	–1,208	–541	> –100.0
Operating profit/loss (operating earnings)	**–2,100**	**–342**	**> –100.0**
Gains or losses from extraordinary items	–12	–141	–91.2
Income taxes	–2	8	> –100.0
Net loss for the financial year	**–2,114**	**–475**	**> –100.0**
Withdrawals from capital reserve	1,536	475	> 100.0
Withdrawals from profit participation certificates	83	–	–
Withdrawals from silent partner contributions	495	–	–
Replenishment of profit participation certificates	0	0	–
Replenishment of silent partner contributions	0	0	–
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 – rose in the financial year by 4.4 percent to EUR 1,408 million (FY 2013: EUR 1,349 million). Interest income and interest expenses fell overall due to a significant reduction in the holdings of interest-bearing positions and persistently low interest rates. This, however, was more than offset by an increase in current income from profit transfers from subsidiaries from EUR 69 million to EUR 218 million.

Net commission income rose by 15.1 percent year-on-year to EUR 204 million (FY 2013: EUR 177 million). This was mainly due to a rise in net income in the credit and securities business.

Administrative expenses fell by 12.4 percent in total to EUR 895 million (FY 2013: EUR 1,022 million). This was largely attributable to the 13.8 percent fall in personnel expenses from EUR 615 million to EUR 530 million. Operating expenses fell by 10.4 percent from EUR 408 million to EUR 365 million. Although legal and consulting fees were higher due to HETA and the AQR, their impact on administrative expenses was more than offset by the significant decrease in personnel costs and lower IT expenses. The reductions in personnel and IT costs were the outcome of the ongoing systematic implementation of the KSP cost-cutting programme.

Net income of the trading portfolio was EUR –120 million (FY 2013: EUR 121 million), considerably lower than the previous year. The fall resulted mainly from the impact of valuation discounts for counterparty-specific credit rating effects on OTC derivatives, which was opposite to that of the previous year. There were additions of EUR –96 million in FY 2014 compared to income of EUR 29 million from releases in the year before. In financial year 2014, funding value adjustments of EUR –79 million were made for the first time. Another negative contribution was the result of a foreign currency loss of EUR –35 million (FY 2013: income of EUR 55 million) due to the partial buy-back of the USD hybrid bond issued by Bayern Capital LLC.

After netting other operating expenses, income and other taxes, the Bank posted net other operating income of EUR 43 million, 47.2 percent less than the year before (FY 2013: EUR 80 million). The main factors impacting this item were: releases of other provisions, which gave rise to other operating income of EUR 69 million (FY 2013: EUR 38 million) and sales of real estate, which generated other operating income of EUR 42 million. Additions to provisions for tax liabilities gave rise to other non-typical banking expenses of EUR 23 million.

The cost-income ratio (CIR)[11] was 58.3 percent (FY 2013: 59.0 percent). The slight improvement in this ratio was due to higher net interest and net commission income and lower administrative expenses.

Expenses for risk provisions, comprising risk provisions and gains or losses on securities in the liquidity reserve, totalled EUR 1,532 million (FY 2013: EUR 506 million), mainly as a result of extraordinary items. Net allocations to risk provisions in the credit business amounted to EUR 1,690 million, a significant increase on the previous year (FY 2013: EUR 532 million). Part of the increase arose from the waiver of receivables due from MKB, but a very significant impact came from the impairment of receivables due from HETA. HETA has not repaid securities and loans due totalling around EUR 2.4 billion (as at 31 December 2014) citing the Austrian Equity Capital Substitution Act. In December 2012 BayernLB therefore filed suit in Munich District Court for repayment of these receivables. In its countersuit HETA has now demanded repayment of the EUR 3.5 billion or so in interest and principal paid to BayernLB. In the opinion of BayernLB and its advisors, there are no actual grounds for the debt moratorium declared by HETA. The expert appointed by the court came to the same conclusion as the Bank in a key issue in dispute: the criteria under which a crisis can be declared under the Austrian Equity Capital Substitution Act. Based on its assessment announced so far on the background and legal situation, Munich District Court drew similar conclusions in respect of the key points of the findings of this opinion. It confirmed this stance in an oral hearing on 25 November 2014.

The special law for the resolution of HAA took effect on 1 August 2014. In respect of BayernLB's loan receivables, the special law stipulates essentially that BayernLB's claims against HETA in the amount of about EUR 800 million become void when the ordinance issued by the Austrian Financial Market Authority (FMA) in accordance with article 6 section 7 of this law takes effect. Kärntner Landesholding's legal liability to cover this debt is also cancelled. In a case currently pending before Munich District Court, BayernLB has filed suit for payment of the remainder of its

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

receivables in the amount of about EUR 1.5 billion. Under the FMA ordinance, this amount would be compulsorily deferred until 30 June 2019. Based on a legal opinion from Austrian constitutional lawyer Prof. Heinz Mayer and an examination carried out by BayernLB's legal advisors, the special law contravenes German and Austrian constitutional law and European Union law.

BayernLB filed a constitutional complaint with the Austrian Constitutional Court (VfGH) against the special law of August 2014, which many experts consider to be unconstitutional and contrary to European law, in order to have the onerous parts of the special law declared null and void. Since then a number of other creditors who have been damaged by the law have joined BayernLB and also filed suit in Austria against the law.

BayernLB has also filed a complaint with the European Commission against the HAA special law with the aim of having the Commission institute formal breach of contract proceedings against Austria. Two meetings were held with representatives of the European Commission in September and December 2014 at which BayernLB presented the facts and answered questions. The outcome of the investigation procedure is pending. More information can be found in the following sections: Events after the reporting period, Report on expected developments and opportunities, and Risk Report.

Risk provisions for securities in the liquidity reserve fell slightly to EUR 21 million (FY 2013: EUR 25 million), close to the previous year's level.

The Bank reported a large loss on measurement of EUR –1,208 million (FY 2013: EUR –541 million). This was largely due to the negative impact from the sale of the ABS portfolio (EUR –1,089 million) and the settlement of the guarantee agreement ("Umbrella") concluded with the Free State of Bavaria. The settlement includes expenses for state aid repayments to the Free State of Bavaria – as stipulated by the European Commission's ruling – of EUR –1,029 million. Gains or losses from participations came in at EUR –107 million (FY 2013: EUR –300 million).

Owing to the factors described above and the large extraordinary charges for them, there was a high operating loss (operating earnings after risk provisions/revaluation) for 2014 of EUR –2,100 million (FY 2013: loss of EUR –342 million).

The sharp increase in BayernLB's net loss resulted in a negative return on equity (RoE)[12] for financial year 2014 of –27.2 percent (FY 2013: –3.4 percent).

Gains or losses from extraordinary items came in at EUR –12 million (FY 2013: EUR –141 million). This comprises almost exclusively interest expenses on restructuring provisions for the KSP cost-cutting programme.

After tax income in the previous year of EUR 8 million, the Bank reported a tax expense of EUR –2 million, mainly in connection with tax matters arising in 2014.

Financial year 2014 ended with a net loss of EUR 2,114 million (FY 2013: net loss of EUR 475 million).

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12 *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).*

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 interest payments remain due on silent partnership contributions for the period 2008 – 2014. Interest payments of EUR 46 million on profit participation certificates due for 2014 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.

Financial position

Both total assets and business volume were lower in 2014:

EUR billion	31 Dec 2014	31 Dec 2013	Change in %
Total assets	178.1	201.0	–11.4
Business volume*	211.0	231.7	–8.9

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

BayernLB's total assets fell by 11.4 percent to EUR 178.1 billion year-on-year. Business volume was correspondingly lower. Contingent liabilities and credit commitments rose by a total of 7.1 percent to EUR 32.8 billion (FY 2013: EUR 30.7 billion).

Assets

EUR billion	31 Dec 2014	31 Dec 2013	Change in %
Credit volume*	120.2	130.9	–8.2
Due from banks	38.5	46.4	–17.1
Due from customers	70.9	73.0	–2.8
Securities	33.2	43.2	–23.1
Trading portfolio	25.5	25.8	–1.2
Participations/shares in affiliated companies	2.7	2.8	–2.4

** 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 46.4 billion to EUR 38.5 billion in Germany and abroad.

Amounts due from customers fell by a total of 13.2 percent to EUR 70.9 billion (FY 2013: EUR 73.0 million), predominantly at the medium and long end. Amounts due from domestic customers decreased by 4.7 percent to EUR 49.6 billion (FY 2013: EUR 52.1 billion). Amounts due from foreign borrowers rose by 2 percent to EUR 21.3 billion (FY 2013: EUR 20.9 billion). This was largely due to the switchover in the reporting of HETA receivables from the amounts due from banks line item to the amounts due from customers.

The securities portfolio shrank significantly from EUR 43.2 billion to EUR 33.2 billion due to the sale of the ABS portfolio (EUR 6.3 billion) and as a result of maturities and repayments of securities.

The trading portfolio with a value of EUR 25.5 billion (FY 2013: EUR 25.8 billion) mainly includes positive fair values from interest rate derivatives, bonds and notes. Most of the shrinkage was due to falling market prices for bonds and notes.

In financial year 2014, participations and shares in affiliated companies declined slightly from EUR 2.8 billion to EUR 2.7 billion.

Liabilities

The main items on the liabilities side are as follows:

EUR billion	31 Dec 2014	31 Dec 2013	Change in %
Due to banks	55.7	62.4	– 10.7
Due to customers	32.2	36.1	– 10.9
Securitised liabilities	45.9	55.4	– 17.1
Trading portfolio	19.6	19.0	3.0
Equity	9.2	12.1	– 24.4

BayernLB once again met its moderate funding needs in 2014 and either covered or exceeded them relatively cheaply. Funding management is focused on further improving the quality and mix of liabilities.

Ongoing and extensive support from central banks, which increasingly took on the role of investors, led to even lower interest rates and high demand from investors for issues, a trend from which BayernLB was able to benefit.

Amounts due to banks fell significantly from EUR 62.4 billion to EUR 55.7 billion (10.7 percent), mainly at the short end. Amounts due to customers shrank by 10.9 percent to EUR 32.2 billion (FY 2013: EUR 36.1 billion).

Securitised liabilities decreased from EUR 55.4 billion to EUR 45.9 billion, as many of the issued bonds fell due. Public-sector Pfandbriefs declined by EUR 2.4 billion to EUR 11.1 billion. Mortgage Pfandbriefs fell by EUR 1.1 billion to EUR 3.4 billion.

The trading portfolio rose by 3 percent to EUR 19.6 billion (FY 2013: EUR 19.0 billion). A significant component was negative fair values from interest rate derivatives, which rose year-on-year by EUR 0.5 billion to EUR 19.0 billion. 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 9.2 billion as at 31 December 2014, below the previous year (FY 2013: EUR 12.1 billion).

The marked fall in equity was due to the absorption of the net loss for the year by a withdrawal from the capital reserve in the amount of EUR 1.5 billion, the partial repayment of the silent partner contribution of the Free State of Bavaria in the amount of EUR 0.7 billion in compliance with the EU state-aid ruling, and loss absorption by silent partner contributions in the amount of about 18.8 percent of nominal value (EUR 0.5 billion).

Banking supervisory capital and ratios under CRR/CRD IV and KWG

Since 1 January 2014, capital has been calculated for banking supervisory purposes on the basis of CRR/CRD IV. On the whole, the first-time application of CRR/CRD IV has led to lower capital ratios as a result of a decrease in eligible capital combined with an increase in risk-weighted assets (RWA). Direct comparisons between the figures as at 31 December 2013 and 31 December 2014 are not possible.

The figures under the supervisory disclosure as at 31 December 2014 were:

EUR billion	**31 Dec 2014**	**31 Dec 2013**
Total RWA	73.6	59.3
Own funds	12.1	16.6
• Tier 1 capital	10.0	13.3
• Common Equity Tier 1 capital (CET 1)	10.0	–
Total capital ratio	16.4%	28.0%
Tier 1 capital ratio	13.6%	22.4%
CET 1 ratio	13.6%	–

Based on the adopted annual financial statements as at 31 December 2014, the Bank had CET 1 of EUR 9.8 billion and a CET 1 ratio of 13.3 percent (fully loaded: 10.7 percent). Based on own funds of EUR 12.1 billion, the total capital ratio was 16.4 percent.

As at 31 December 2014, the return on capital employed as defined in section 26a para. 1 sentence 4 of the German Banking Act was –11.9 percent.

General overview of financial performance

BayernLB's results of operations in financial year 2014 were satisfactory taking into account the difficult economic conditions, the extraordinary charge on the impairment of the HETA receivables, the sale of the ABS portfolio and further systematic downsizing of the Bank.

On the whole, a look at the earnings performance in FY 2014 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. Proper account has been taken of the risks.

BayernLB's net assets, financial position and operating results were stable in financial year 2014 despite the challenging environment. The Bank's liquidity was good 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 2014:

On 2 February 2015, BayernLB was formally served with a lawsuit for rescission (originally filed in December 2014) by the Republic of Austria against the share purchase agreement from 2009 concerning the sale of Hypo Alpe-Adria-Bank International AG, Klagenfurt (HAA now HETA) to the Republic of Austria. In bringing this lawsuit, the Republic of Austria is primarily seeking repayment of around EUR 3.5 billion and for the Republic of Austria's liability declaration, provided in the share purchase agreement, to be set aside in the event that HAA is split up. The Republic of Austria's main argument is that BayernLB had extensive knowledge at the time of HAA's future capital requirements, which it concealed from the Republic of Austria. In its submission, the Republic of Austria argues that, as a result of BayernLB's actions, it erred in its assessment of HAA's real capital requirements. Under Austrian law, this therefore justified an amendment to the share purchase agreement, with the outcome that BayernLB would have to make a (further) capital contribution of around EUR 3.5 billion. BayernLB's written response was presented to Vienna Commercial Court on 27 February 2015. The Bank's position is that BayernLB had no prior knowledge at the time. Neither BayernLB nor its advisors believe the court will rule in favour of the Republic of Austria's lawsuit.

On 1 March 2015 the Austrian Financial Market Authority (FMA) initiated the resolution of HETA and imposed a debt moratorium on HETA with effect from the same day. Under the debt moratorium, the maturity of all HETA liabilities has been postponed until 31 May 2016. The measure will have no impact on the valuation of receivables by HETA as at 31 December 2014.

Letter of comfort for Banque LBLux S.A., Luxembourg rescinded as at 1 May 2015.

BayernLB had issued a letter of comfort for Banque LBLux S.A., Luxembourg. By a resolution passed by BayernLB on 10 March 2015, this letter of comfort will be rescinded with effect from the end of 30 April 2015. As a result, the letter of comfort will in particular no longer cover liabilities of Banque LBLux S.A. that were created after 30 April 2015, and all previously issued letters are also rescinded.

No other events of major significance occurred after the close of financial year 2014.

Report on expected developments and on opportunities and risks

Report on expected developments including opportunities and risks

Economic environment

The forecasts set out in the following report relating to BayernLB's performance in 2015 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.

After a less than dynamic October-March, Germany's economic upturn should pick up over the course of the year. Growth in economic output is likely to average 1.7 percent over 2015.[13] In BayernLB's opinion, aggregate demand will be boosted by the extremely low cost of borrowing and slump in the price of oil. Consumer spending is expected to continue growing (+1.8 percent year-on-year) given the very robust labour market and the lack of incentives to save. Capital expenditure will enjoy only moderate growth (+3.3 percent). But the weak euro should increasingly boost demand for exports. Exports to the eurozone are also expected to be somewhat higher than in the previous year. With imports cheap, inflation will remain firmly subdued despite a noticeable rise in wages. The biggest risks to economic growth are a further escalation in geopolitical uncertainty and a renewed flare-up in concerns over the stability of the currency union. The latter could materialise from the ongoing discussions about Greece's exit from the eurozone and political risks from major elections, particularly in Spain and Portugal.

BayernLB believes the euro will continue to depreciate against the US dollar in 2015. But, after significantly losing value in the wake of the ECB's expansion of its bond buying programme, the currency should temporarily recover against the greenback following indications the Federal Reserve will postpone its first interest rate hike from mid 2015 to early 2016. Over a 12-month perspective, it is odds on the Fed will lift rates for the first time, favouring the US dollar, while the ECB will continue to add to its balance sheet. BayernLB believes the euro will also temporarily regain lost ground against the pound on account of political uncertainty triggered by the UK's general election in May. But by the end of the year, the Bank forecasts the currency will resume its downwards march against sterling. Weakening is expected to be moderate, however, as the first rate hike by the Bank of England – which BayernLB is predicting for May 2016 – still seems a far way off with inflation low. The Swiss franc soared in value after the SNB unexpectedly gave up its currency floor. The Bank considers it unlikely the franc will sink back to the 1.20 mark over the course of the year, but does think a level of around 1.10 is probable. This is because the sudden surge in the CHF is likely to significantly damage the Swiss economy, probably prompting the SNB to cut its deposit rate again to weaken the currency.

Regarding bond markets, BayernLB believes Bunds have additional, if limited, upside price potential after the ECB elected to expand its bond buying programme. With prices expected to climb, yields on 10-year government bonds could fall, at least temporarily, to 0.1 percent.

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13 See BayernLB 2015: "Perspektiven Februar 2015" http://www.bayernlb.de/internet/media/de/internet_4/de_1/downloads_5/0100_corporatecenter_8/5700_volkswirtschaft_research_2/research_3/Perspektiven.pdf.

Regarding the covered bond market, BayernLB predicts, in spite of a slowdown in the pace of bond purchases by the ECB, a further moderate narrowing in spreads, given that the secondary market has found itself increasingly in the doldrums and activity on the primary market is also likely to be subdued in 2015. Although a large part of the rally is now behind us, the lack of new issues, high levels of maturities and favourable regulatory treatment argue in favour of this.

The fundamental picture in 2015 will also be supportive for corporate bond prices. Low inflation combined with only moderate economic growth in the eurozone should prompt European companies to maintain a conservative credit profile. Solid corporate fundamentals and the bond buying programme announced by the ECB should crimp risk premiums in the investment grade segment by around 20 basis points over the year.

Stock markets should see more strong swings over the next few weeks and months. The drag from the economy is likely to ease overall in the second half of 2015. The moderate pickup in the global economy in 2015, modest increases in corporate earnings as forecast by BayernLB and the still ultra-accommodative monetary policy, which the ECB is loosening further, point overall to stock market gains. Corrections should therefore remain short-lived and not herald any trend reversal. The Bank expects the DAX to reach 11,200 by the end of 2015.

BayernLB's business could be given a lift by a stronger economic recovery, particularly among Bavarian-based exporters benefiting from an even weaker euro.

BayernLB's future performance

BayernLB's strategy over the coming years will continue to be based on the agreements that emerged from the EU state-aid proceedings in 2013. A key condition is therefore the repayment of the still outstanding state aid in the amount of around EUR 2.3 billion to the Free State of Bavaria. Based on current expectations and forecasts of the main influencing factors, the Bank is still confident that it can make these payments in full and on time, just as it has done in the past. For it to do so its core business must remain stable and it must wind down the remaining non-core business in the Bank's Non-Core Unit (NCU) as planned.

In 2014, as one of the key cornerstones of BayernLB's future strategic direction, the Bank defined an overarching strategic course and drew up the specific measures for achieving it. Having focused in previous reporting periods on optimising the cost base of the Group, the Bank's strategy over the next few periods will be to selectively expand the earnings base while systematically implementing the KSP cost-cutting programme. There will be opportunities for improving the cost base if administrative expenses can be reduced more quickly or more deeply than planned. On the other hand, it will be put at risk if there is a delay in meeting KSP targets or if future rounds of regulatory requirements are even stricter than expected. In order to implement the already known new regulatory requirements, such as IFRS 9 and BCBS 239, IT investment in the medium to high double-digit millions will be needed over the next few years.

The focus of the overarching strategic course for 2015 and beyond is on expanding the earnings base over the long term by systematically stepping up sales activities, gaining market share in the core business areas, securing new revenue sources and creating a permanently sustainable cost base by strictly meeting cost savings targets and optimising processes further. BayernLB's business model as a universal bank, with its geographical focus on Bavaria and Germany, will continue to shape its market presence. The Bank offers a comprehensive product mix to its corporate, retail, real estate and asset management customers, the savings banks and public sector.

The focus in respect of corporate and institutional customers is on bolstering sales capabilities while concentrating on its product strengths. The Bank believes it will boost market share principally by adapting its sales network more closely to individual regions, especially in its Mittelstand business. BayernLB has also strengthened its market presence by signing a strategic partnership with the private bank Joh. Berenberg, Gossler & Co. KG., Hamburg (Berenberg) at the end of 2014. Existing and new corporate customers of both banks will benefit from the wider range of products now available to them for their financing and investment needs.

The goals and cornerstones of the strategic focus in respect of commercial and residential real estate customers are to boost sales activities and increase market penetration by offering comprehensive customer relationship management across the full product range. BayernLB expects to achieve the necessary portfolio growth between now and 2019 by implementing the planned increases in business with existing customers and expanding the customer base, for example by opening new sales offices.

When working with the savings banks and municipalities, BayernLB will keep to its goal of providing full-service, sales-orientated customer support, ensuring products and services meet customer needs and achieving the necessary profitability. Another priority will be to expand the Bank's strong market position in both the foreign notes, coins and precious metals business and municipal business in its core Bavarian market.

DKB's strategic focus is on ensuring stable and profitable customer relationship management by achieving a good balance in its lending and deposit business. The Bank's focus here in its retail customer business will be on strengthening its position as "Your bank on the web" by further growing customer numbers. Its focus in its corporate and infrastructure customer segments is on positioning itself as a principal bank with a broad-based network and sector-specific expertise for the defined core customer groups.

BayernLB will have growth opportunities in profitable market segments particularly after opening new regional sales branches.

As the measures for winding down non-core activities have largely been implemented, BayernLB is not expecting its total assets to significantly change in 2015. Funding needs will be on par with the previous year. Funding management will continue to focus on further improving the quality and composition of liabilities (funding mix).

Thanks to BayernLB's still 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 2015 regardless of how interest rates trend on markets.

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.

Given that Europe is still enjoying a moderate economic recovery, portfolio quality is expected to remain good overall in 2015. But geopolitical risks and the oil price will be two key factors fuelling uncertainty.

In terms of sub-portfolios, the quality of the Financial Institutions sub-portfolio is expected to remain good, while the quality of the Countries/Public-Sector/Non-Profit Organisations sub-portfolio should continue to be very good and stable. The Corporates sub-portfolio should also perform well overall. The Real Estate sub-portfolio will also benefit in this environment and portfolio quality should be stable overall in 2015.

The legal disputes surrounding BayernLB's receivables from HETA will continue in 2015. In the opinion of BayernLB and its advisors, Munich District Court will not apply the Austrian special law due to its incompatibility with EU law and German constitutional law and, in 2015, will rule in favour of BayernLB and dismiss the counter claim. Based on press reports quoting statements by the president of the Austrian Constitutional Court (VfGH), the Bank anticipates this court will reach a decision in autumn 2015. BayernLB and its advisors believe it has good prospects of a ruling in its favour. All in all, given the size of the receivables in dispute, the opportunities for BayernLB could be significant, but it could also be exposed to risks depending on the outcome of the proceedings. The Swiss National Bank's decision on 15 January 2015 to give up the Swiss franc's peg to the euro increased the value in euros of the CHF-denominated receivables from HETA.

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. On the other hand, further falls in interest rates would weigh on the Bank as, for example, it would need to bolster pension provisions with additional cash injections.

BayernLB expects to post net income in the lower three-digit millions in financial year 2015. 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. Significant uncertainty will continue to come from the legal disputes relating to HETA.

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

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 2014

- Improved risk profile
- Core business expanded in line with strategy
- Significant progress in winding down non-core business
- Risk-bearing capacity maintained at all times
- Good liquidity

BayernLB's risk profile improved significantly in financial year 2014.

The major contributors to this were the sale of the ABS portfolio in the second half and the consistently stable risk profile within the core business of BayernLB.

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 continues to be reflected in the portfolio structure.

In particular, the early sale of the ABS portfolio marked a further acceleration in the reduction of RWA in the non-core portfolios. As a result, the rescaling plan was again exceeded and key EU commitments met ahead of schedule.

Gross credit volume fell by a total of EUR 11.5 billion to EUR 186.3 billion.

Portfolio quality benefited from the reduction in RWA and new transactions in the core business, and also from the favourable economic and business environment in Germany.

The investment grade share rose to 84.3 percent (FY 2013: 82.8 percent), while the non-performing loan ratio in the core business fell to 0.7 percent (FY 2013: 0.9 percent).

Germany remains the core market, accounting for a stable 67.6 percent (FY 2013: 69.3 percent). Gross credit volumes in the peripheral countries (Greece, Italy, Ireland, Portugal and Spain) fell sharply by 39.3 percent to EUR 4.1 billion.

In terms of volumes, the biggest reduction was seen in the Countries/Public-Sector/Non-Profit Organisations sub-portfolio, followed by the Financial Institutions sub-portfolio, mainly due to the sale of the ABS portfolio.

In the Commercial Real Estate sub-portfolio the reduction of foreign non-core business dominated, whereas the loan volume in the Corporates sub-portfolio rose due to new business gains. The fall in volumes was partly offset by the transfer of the portfolio of Banque LBLux S.A. (LBLux) to BayernLB.

The amount of economic capital required decreased due to the significantly lower business volume at BayernLB. Risk-bearing capacity was maintained throughout 2014 as the provision of risk capital was solid. In addition, BayernLB had a good supply of liquidity on hand.

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.

One key 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 risk management structure, which plays a significant role in ensuring risks are monitored.

Management structure

Supervisory Board and committees

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 and the risk situation on a Group-wide basis and at BayernLB itself. 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 all matters pertaining to Bayerische Landesbodenkreditanstalt (BayernLabo) on behalf of the Supervisory Board and passes resolutions concerning BayernLabo's affairs for which the Supervisory Board is responsible.

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, in particular, employees who have a significant impact on BayernLB's total risk profile.

Board of Management and committees

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 BayernLB level. To prevent conflicts of interest, Sales and Risk Office units and Trading and Settlement units are functionally separated within the business organisation.

In addition, the Board of Management is supported by the following committees:

In order to increase the efficiency of Group management, the previous Group CFO and COO Boards were combined to form a single CFO/COO Committee in 2014. This deals with introducing and implementing standards and guidelines for consistent accounting across the Group and exchanging information on current legal and technical developments in accounting, supervisory law, regulatory reporting, tax, business planning, controlling and equity planning and allocation. The committee prepares Board of Management decisions for the Group Board of Management and the relevant bodies of subsidiaries that affect the use of IT and communications technology at BayernLB Group and looks at issues relating to IT and procurement of goods and services. The members are the CFO/COO of BayernLB and DKB, along with senior management from the Financial Office and Operating Office at BayernLB.

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. The Asset Liability Committee 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.

During 2014 there was no need to convene the Recovery Committee set up in 2013. The thresholds for the recovery indicator in the recovery plan based on the Minimum Requirements for the Design of Recovery Plans (MaSan) were observed with comfortable margins.

Senior Management

The following bodies support the Board of Management at senior management level:

The Investment Committee decides for Corporates, Mittelstand & Financial Institutions on the German connectivity of customers or transactions, satisfying the conditions for transactions with borrowers imposed by the EU. Moreover, the Investment Committee is 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 Group Risk Committee focuses on both BayernLB and, in particular, on strengthening Group risk management at BayernLB Group. The Group Risk Committee replaces the former Credit Committee and the Risk Round Tables (the old CRO Board) in the Risk Office at Group level, and votes on both loan decisions which go before the Group Board of Management and also those at DKB above a certain amount and rating structure. The Group Risk Committee remains the highest authority below the Group Board of Management and decides on submissions related to credit risks that do not require the approval of the Board of Management owing to their size. The Group Risk Committee will be looking in greater detail at the Group's total risk profile across all types of risk.

Depending on the issue, the Group Risk Committee is chaired by either the head of the Credit Analysis or Group Risk Control divisions within the Risk Office. Furthermore, reflecting Group risk aspects, the senior management of both BayernLB and DKB are represented.

Since the Restructuring Unit was created, credit decisions on the BayernLB portfolios to be wound down have been taken by a separate credit committee, the Restructuring Unit Credit Committee.

In addition to ALCO, 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 Controlling divisions on issues such as liquidity and refinancing strategies and acts as a driving force by preparing courses of action for decisions to be taken by the Asset Liability Committee.

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, Restructuring Unit, Financial Office, and Operating Office Central Areas as well as the Corporate Center.

Risk Office

The Risk Office of BayernLB comprises the Group Risk Control, Credit Analysis and Research 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 management of risk types and risk-bearing capacity, 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 Group's risk situation to internal decision-makers, communication also includes external risk reports filed in accordance with legal and supervisory requirements. This contains reports on the performance of the recovery indicators and other early warning indicators contained in the Minimum Requirements for the Design of Recovery Plans regulation.

Decisions regarding risk management are made in accordance with the Business Strategy and Risk Strategy, which are harmonised with each other. Credit risk management is a joint responsibility of the Sales units and Risk Office units, with functional segregation being ensured at all times. 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 Research division is responsible for risk assessment of countries and sectors and issues economic analyses and forecasts and capital market studies and recommendations (including on bonds and notes from individual issuers). The division contributes to risk management at the BayernLB Group and provides analyses and forecasts for BayernLB customers and for the securities and currency business of the Markets business area and the Bavarian savings banks.

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 portions of the loan portfolio with banks and the public sector outside Germany, structured financing and commercial real estate financing in certain markets and regions and the LBLux portfolio transferred to BayernLB.

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

Operational implementation of Group-wide accounting standards is the responsibility of the Financial Office central area which ensures that the accounts are properly prepared. It is also responsible for establishing the accounting process and making sure it is effective.

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 systems. Upon request, the auditor takes part in the discussions of the Audit Committee and Supervisory Board on the annual financial statements and reports on the key findings of its audit.

Controlling is also located in the Financial Office central area. This unit is responsible for supervisory reporting and the operational implementation of consistent rules across the Group as part of management controlling, and lays down standard methods and procedures.

Operating Office

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

Corporate Center

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

The Internal Audit division audits BayernLB'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).

The CEO is directly in charge of the Legal, the Group Strategy & Group Communications and the Human Resources divisions.

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 also regularly reviewed, updated and published on the Bank'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.

Risk-oriented management

Risk Strategy

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 of the Risk Strategy 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 RWA

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 units are jointly responsible for earnings after risk provisions
- BayernLB applies high ethical principles in its business activities

The economic capital available for allocation is based on the long-term capital available and was allocated within BayernLB by risk type in line with the Risk Strategy in force for 2014.

The basis for setting the Risk Strategy is the annual risk inventory carried out in accordance with MaRisk and the risk-bearing capacity calculation. The risk inventory examines not only BayernLB but also all companies and special purpose entities in the BayernLB Group, regardless of whether they are consolidated under German commercial law or supervisory requirements.

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 Business and Risk Strategies at regular intervals and modify them as necessary.

Integrated risk and earnings reporting

The instruments used to manage and monitor the achievement of business and risk strategy goals are constantly refined at Group level. The Asset Liability Committee (ALCO) is the umbrella entity where earnings targets and risk management objectives are brought together. 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 own funds. As well as initiating and voting on Group rules, ALCO takes suitable measures within the Group when a liquidity crisis arises.

ALCO is supported by the Capital Management Committee (CMC), which mainly comprises the CFO and senior management from the risk control, financial control, treasury and accounting units. The CMC's task is to recommend capital management actions for approval by ALCO taking account of framework conditions such as directives from the Bank's owners and regulatory or EU requirements. Capital management deals with, among other things, changes in target regulatory capital ratios, the type and amount of the capital base and the allocation of RWA, and entails ongoing monitoring of changes. Hence the CMC is an important source of input for ALCO and the Board of Management and prepares suitable recommendations for action on matters related to capital.

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.

The processes involved in managing regulatory capital adequacy and internal capital adequacy are described in the sections below.

Regulatory capital adequacy (solvency)

To ensure the BayernLB Group has the proper amount of regulatory capital, the objectives, methods and processes below have been defined. The starting point for allocating regulatory capital is the own funds planning at the Group level. Own funds are defined as Common Equity Tier 1 capital, additional Tier 1 capital and supplementary capital. Common Equity Tier 1 capital comprises subscribed capital plus reserves and the state support mechanism of the Free State of Bavaria, less various supervisory deductions. Additional Tier 1 capital is mainly silent partner contributions. Supplementary capital comprises profit participation certificates and long-term subordinated liabilities.

Own funds planning is based largely on the internal target Common Equity Tier 1 ratio (ratio of Common Equity Tier 1 capital to RWA) and an internally set target total capital ratio (ratio of capital to RWA) 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 – is 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 (Group units) are BayernLB's defined business segments, Bayerische Landesbodenkreditanstalt (BayernLabo) and DKB.

Regulatory capital is allocated to the Group units through a top-down distribution of limits for risk-weighted assets approved by the Board of Management combined with an internally set Tier 1 capital ratio of 10 percent.

Compliance with the limits on risk asset and market risk positions available to each Group unit is constantly monitored by ALCO. The Board of Management receives monthly reports on current limit utilisations.

Information on the changes in the BayernLB Group's supervisory ratios can be found in the management report of BayernLB's annual accounts under "Banking supervisory ratios under CRR/CRD IV for the BayernLB Group". 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".

Economic capital adequacy (risk-bearing capacity)

Economic capital adequacy (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 at all times 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 accuracy of risk measurement, which correspond 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 managed at the business unit level and/or are of only minor significance for ICAAP management is also deducted (e.g. business and strategic risk).

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 for 2014 and was equivalent to 76 percent of total available economic capital as at 31 December 2014. Furthermore the Risk Strategy, in tandem with the Business Strategy, sets the risk appetite and the framework for risk planning by breaking out 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.

Current situation

The graphic below shows year-on-year changes in economic capital at BayernLB.

Risk capital requirements

EUR million	31 Dec 2014	31 Dec 2013
Risk capital requirements	**3,121**	**3,603**
• from capital provided to customers and other participations	**2,348**	**2,392**
credit risk and country risk (counterparty risk)	1,074	1,121
market risk	923	920
operational risk	263	272
participation risk	89	78
• from capital provided to institutions of the BayernLB Group	**773**	**1,211**
credit and participation risks	773	1,211

The sale of Hungarian subsidiary MKB in September 2014 also had the effect of significantly reducing the risks from providing capital to institutions within BayernLB Group.

As part of BayernLB's stress testing programme, the possibility of a severe economic downturn (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 8.0 billion (FY 2013: EUR 7.4 billion). This increase mainly reflects the inclusion of pension risks as part of market, business and strategic risk.

These changes are reflected on the capital side of BayernLB's risk bearing capacity too. Economic capital fell accordingly to EUR 13.4 billion (FY 2013: EUR 15.8 billion). A severe economic downturn (ICAAP stress scenario) would see 63.6 percent utilisation of available economic capital (FY 2013: 51.6 percent), with the minimum capital ratios being met even in the going-concern scenario.

BayernLB had adequate risk-bearing capacity as at 31 December 2014.

Inverse stress testing

Inverse stress tests were conducted at the BayernLB level as 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 BayernLB'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.

Recovery and resolution planning

As required in the Minimum Requirements for the Design of Recovery Plans (MaSan), BayernLB drew up its first recovery plan in 2013. This sets out the options open to the BayernLB Group to ensure it has sufficient capital and liquidity even in situations of extreme financial stress. Thresholds for early warning and recovery indicators are continously monitored so that early action can be taken to ensure they are not breached. The status of these indicators is reported to the Asset Liability Committee, to the Board of Management monthly and to the Risk Committee quarterly in the risk reporting.

The recovery and resolution plan is updated annually and was revised in 2014 to reflect the withdrawal from business in Eastern Europe (sale of MKB) and the HETA exposure.

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 BayernLB 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 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 potential or address 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. The cross-divisional Liquidity Management Committee, under Group Risk Control, consults with the Group Treasury and the Controlling divisions on issues such as liquidity and refinancing 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 created a stable basis for active management of liquidity reserves in 2014.

In compliance with regulatory requirements, BayernLB made its first report of month-end figures for the liquidity coverage ratio (LCR) and end-of-quarter figures for the components of the net stable funding ratio (NSFR) according to CRR as from the end of Q1 2014. Regulatory changes relating to liquidity risk in addition to these are constantly monitored so that they can be implemented as scheduled in close cooperation with all units affected. These mainly involve the new liquidity rules in CRR/CRD IV and the related technical standards issued by the EBA. This ensures reporting requirements can be properly met and liquidity can be efficiently managed in the future.

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 compared to the previous year or the more detailed description in the risk report in the 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 a 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 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 are concluded, the Investment Committees check compliance with the Credit and Country Risk Strategy and the guidelines laid down for sectors and transactions, especially compliance with the conditions imposed by the EU that customers/transactions have a connection with Germany.

The credit approval process at BayernLB 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 Group Risk Committee, which itself is 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's Risk Committee 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 an upgraded version of CreditRisk+, a software system for quantifying default risk. A correlation model quantifies interrelationships among borrowers in the portfolio. Moreover, the impact of an unexpected loss by an individual business partner on the whole portfolio is also calculated for risk analysis purposes. 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 was and will continue to be integrated into the rating systems.

In addition, all relevant borrowers/exposures are monitored by the Bank's internal early warning system. The objective is to identify negative changes in the risk profile by means of suitable early risk warning indicators so there is sufficient scope for action to avoid or minimise risk. These indicators include market price information (equities and CDSs), volatility and market capitalisation.

Price discovery methods allow a detailed picture of different features of a transaction to be created.

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 economic borrower unit is limited to EUR 500 million Group-wide. 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 approved 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).

Up to the sale of the ABS portfolio in autumn 2014, 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.

As part of its IRBA approval, 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.

Derivative instruments are used 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 as part of the generally applicable limitation process for counterparty risk. Furthermore large credit risks are subject to both regulatory and internal management methods.

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

Early warning, problem loan handling and forbearance

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. 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.

BayernLB defines forbearance exposures as problem loans in the substandard and doubtful categories.

These are mainly exposures which have been restructured in order to minimise the risk of default.

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 original loan agreement (e.g. a deferral, waiver or standstill agreement) and/or its refinancing.

Exposures cease to be reported as in forbearance if all of the following criteria apply:
- They have not been classified as non-performing (rating 22 to 24) for more than two years (probationary period).
- Interest payments and repayments have been duly made during the probationary period on a material portion of payments due.
- None of the borrower's exposure is more than 30 days overdue at the end of the probationary period.

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

Risk provisions

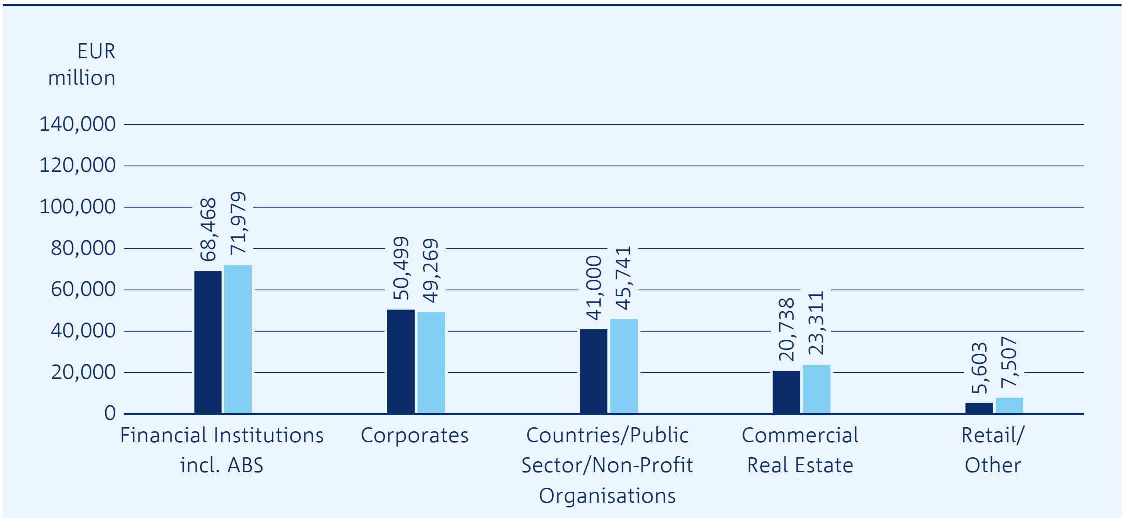
Proper account has been taken of the risks in the credit business through risk provisions. The principles governing loan loss provisioning and writedowns for problem loans establish how loans at risk of default are to be handled, valued and reported (see the note on accounting policies).

Credit portfolio

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

It contains a breakdown of BayernLB's gross credit volume by sub-portfolio, rating category and region. Gross credit volume includes the gross volume of credit transactions (drawdowns plus unutilised commitments and undrawn internal current account facilities) and the risk-weighted amounts of trading transactions (market values and the credit equivalent amount from derivatives transactions).

Gross credit volume by sub-portfolio



■ 31 Dec 2014 Total: EUR 186,308 million
■ 31 Dec 2013 Total: EUR 197,806 million

In FY 2014, the gross credit volume of BayernLB including Bayerische Landesbodenkreditanstalt (BayernLabo) decreased as planned from EUR 197.8 billion to EUR 186.3 billion, a fall of around 5.8 percent (EUR 11.5 billion). The decrease occurred in all sub-portfolios with the exception of Corporates, where there was a modest increase, mainly in the renewable energy sub-sector. The sale of the ABS portfolio cut credit volumes in Financial Institutions significantly. Following the partial sale of the LBLux banking subsidiary (the private customer portfolio), the residual portfolio of EUR 2.1 billion was transferred to BayernLB as at 1 July 2014 to run down. This was worth EUR 1.5 billion on the reporting date.

Financial Institutions sub-portfolio

In line with strategy, exposure in the Financial Institutions sub-portfolio was cut by EUR 3.5 billion (4.9 percent) in 2014. The main reasons behind the shrinkage of the sub-portfolio in 2014 are the sale of the ABS portfolio and the maturity of transactions with Landesbanks, most of which were backed by guarantee obligation. This was partly offset by the ongoing expansion of business with savings banks in line with strategy, through the Banks and Savings Banks sub-sector.

Corporates sub-portfolio

In order to optimise risk management, the sectors comprising the Corporates sub-portfolio were reviewed and the number of sectors cut from 14 to 9. The comparative figures have been restated.

Overall, the Corporates portfolio rose EUR 1.2 billion or 2.5 percent, principally due to the transfer of the LBLux sub-portfolio (EUR 0.6 billion) and new business, especially with German customers.

As in the previous year, BayernLB focused on German corporates and rigorously reduced gross credit volumes with large customers with no connection to Germany and corporates allocated to the Restructuring Unit. Disposals of high-risk transactions cut the share of problem exposures in this sub-portfolio. The German portion of the sub-portfolio was almost unchanged at 62.8 percent (FY 2013: 63.0 percent).

Most of the increase occurred in the manufacturing and engineering, automotive and utilities sectors.

The utilities sector rose EUR 0.5 billion, up to EUR 9.0 billion, taking it to 17.9 percent of the total Corporates sub-portfolio. Within the sector, renewable energy, which focuses on solar power and wind energy business with a connection to Germany, was also up. The remainder of the gross credit volume in the utilities sector comprises granular loans to the conventional electricity industry and municipally-owned and operated utility companies. Logistics declined again as planned, down EUR 0.9 billion to EUR 3.7 billion. Most of the decrease was in non-core business abroad.

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

The sharp fall of EUR 4.7 billion in the Countries/Pubic-Sector/Non-Profit Organisations sub-portfolio was primarily a result of cutting back business with the Federal Republic of Germany and German municipalities and states. Transactions executed in the US for liquidity management purposes partially compensated for this.

Commercial Real Estate sub-portfolio

The Commercial Real Estate sub-portfolio fell 11.0 percent from the previous year to EUR 20.7 billion (FY 2013: EUR 23.3 billion), mainly due to repayments of problem loans and foreign exposures. The transfer of a sub-portfolio of LBLux (EUR 0.9 billion) partly offset this.

Despite the run-down of foreign exposures in line with strategy and new business with German customers, Germany's share of the volume fell year-on-year to 68.8 percent, largely as a result of the sub-portfolio transfer mentioned above (FY 2013: 73.5 percent).

BayernLabo accounted for EUR 2.7 billion (13.0 percent) of the gross credit volume.

The remainder of the gross credit volume consists mainly of the asset classes retail and office buildings. The collateralisation ratio in the Commercial Real Estate sub-portfolio remained high in 2014. The gross credit volume of EUR 20.7 billion was offset by collateral with a value of EUR 14.7 billion.

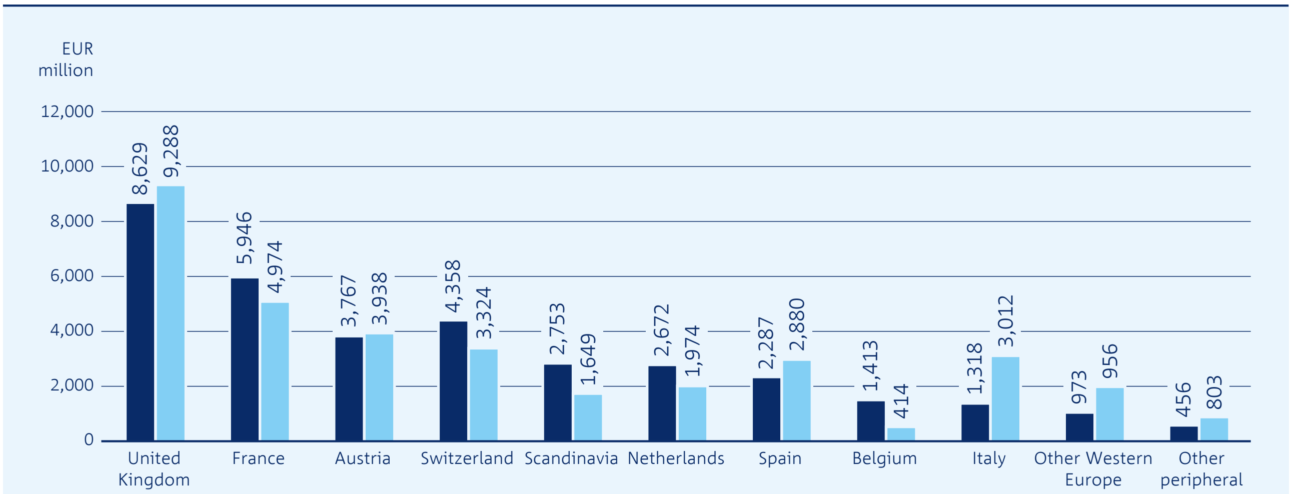
Retail/Other sub-portfolio

In the Retail/Other sub-portfolio, gross credit volume fell again to EUR 5.6 billion (FY 2013: EUR 7.5 billion).

The decline was mainly a result of the planned reduction of retail customer business, which is no longer a core activity of BayernLB and is being run down.

Gross credit volume in the peripheral EMU countries affected by the sovereign debt crisis was cut by a further 39.3 percent to EUR 4.1 billion in 2014, taking its share of credit volume in western Europe down further. A detailed breakdown of gross credit volume as in 2013 and the years before that is therefore not provided. The main countries, Italy and Spain, are included in what follows. In Spain, the decrease in gross credit volume occurred mainly in the corporates and ABS sectors. Italy saw a steep decline across all segments, particularly banks and government bonds. Included under Other are Greece, Portugal and Ireland. Credit volumes in Greece fell again to EUR 30 million (FY 2013: EUR 81 million), most of which is already covered by risk provisions.

Gross credit volume in Western European countries



■ 31 Dec 2014 Total: EUR 34,572 million
■ 31 Dec 2013 Total: EUR 33,214 million

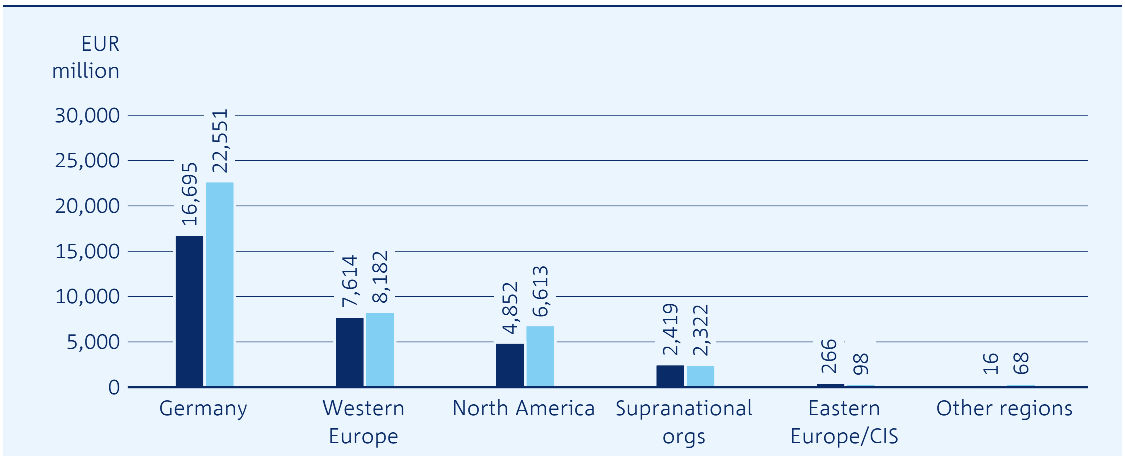
Gross exposure in the UK, Spain and Italy declined sharply (not least due to the sale of the ABS portfolio), whereas France, Switzerland and Scandinavia were up. This was partly due to stocking up on highly liquid securities for regulatory purposes.

The largest country exposures outside Germany were the US (EUR 12.0 billion; FY 2013: EUR 14.4 billion), the United Kingdom (EUR 8.6 billion; FY 2013: EUR 9.3 billion) and France (EUR 5.9 billion; FY 2013: EUR 5.0 billion).

In line with the Business and Risk Strategy, lending in Germany dominated at 67.6 percent (FY 2013: 69.3 percent).

Recent political events have focused risk management attention on business with Russian customers. Gross exposure here fell to EUR 1.8 billion (FY 2013: EUR 2.1 billion), of which EUR 746 million was backed by high-quality ECA guarantees. New business activity fell sharply from the second quarter onwards and has now largely ceased; existing positions are being monitored on a permanent basis.

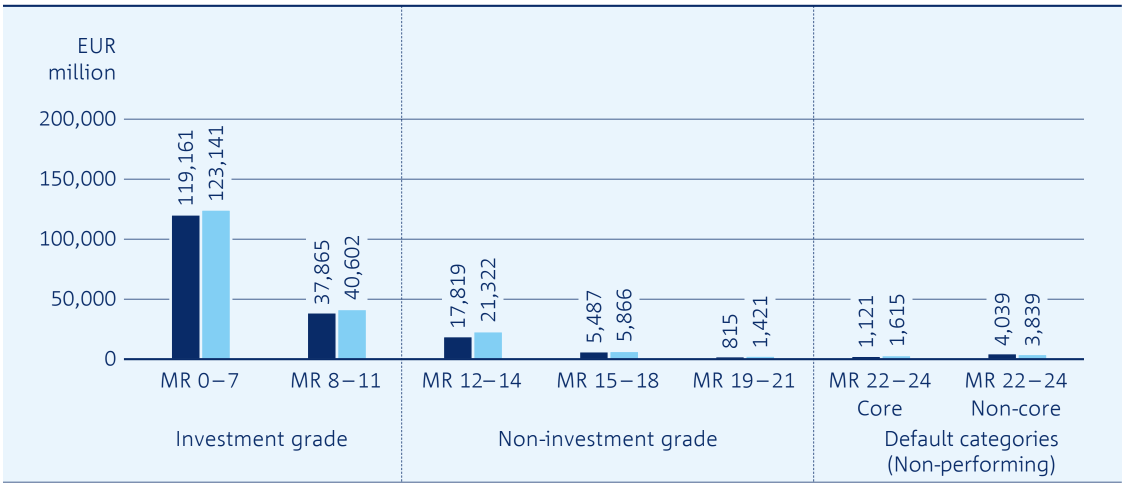
Gross issuer risk by region



■ 31 Dec 2014 Total: EUR 31,862 million
■ 31 Dec 2013 Total: EUR 39,834 million

Gross issuer risk was reduced significantly in 2014 to EUR 31.9 billion. The sale of the ABS portfolio played a major part in this. Volumes from German issuers also fell, partly the result of low interest rates.

Gross credit volume by rating category



■ 31 Dec 2014 Total: EUR 186,308 million
■ 31 Dec 2013 Total: EUR 197,806 million

The overall improvement in portfolio quality was driven by the accelerated decline in the non-investment grade (master rating MR 12–21) share of 1.5 percentage points to 12.9 percent. The investment grade share of the portfolio (master rating MR 0 – 11) rose to 84.3 percent (FY 2013: 82.8 percent).

Gross credit volume in investment grade amounted to EUR 157.0 billion or 84.3 percent.

The non-performing loan ratio rose slightly to 2.8 percent due to a single position in the non-core business (FY 2013: 2.5 percent). Broken down by core and non-core business, the non-performing loan ratio in the core business improved to 0.7 percent (FY 2013: 0.9 percent), whereas in the non-core business it rose to 23.9 percent (FY 2013: 15.5 percent).

Summary

In summary, portfolio quality at BayernLB improved significantly, not least because of the sale of the ABS portfolio and further cutbacks in problem exposures. The improvement is underlined by the large percentage in investment grade.

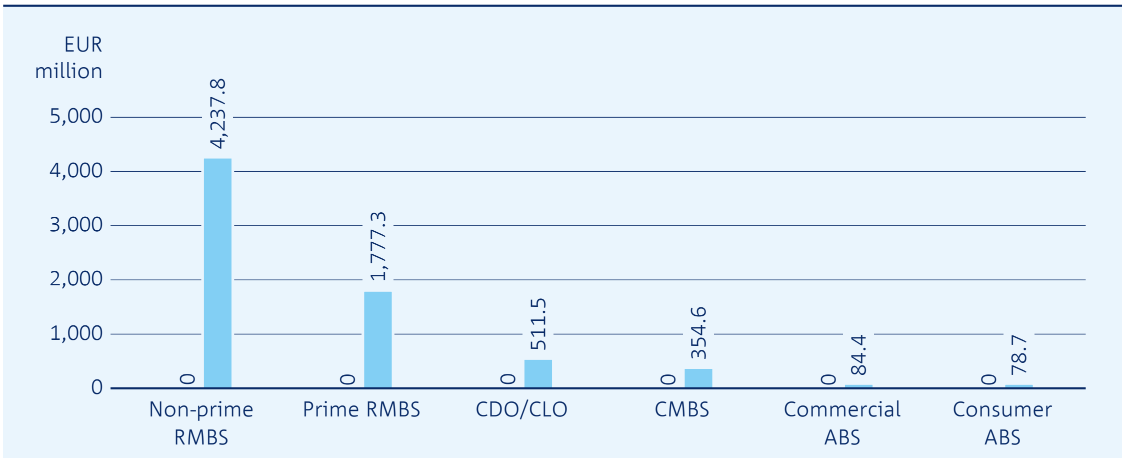
ABS portfolio

BayernLB's ABS portfolio was sold in the second half of 2014. The nominal volume of the ABS portfolio as at 30 June 2014 was EUR 6.5 billion (FY 2013: EUR 7.0 billion).

Up to the point of sale, the ABS portfolio was hedged by a guarantee agreement with the Free State of Bavaria. The ABS portfolio hedge by the Free State of Bavaria covered insolvency, non-payment of capital and interest, capital writedowns and losses incurred from any sales before maturity. Besides hedging BayernLB's ABS portfolio, the guarantee agreement with the Free State of Bavaria also made a material 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. Prior to sale, the ABS portfolio was managed by the Restructuring Unit.

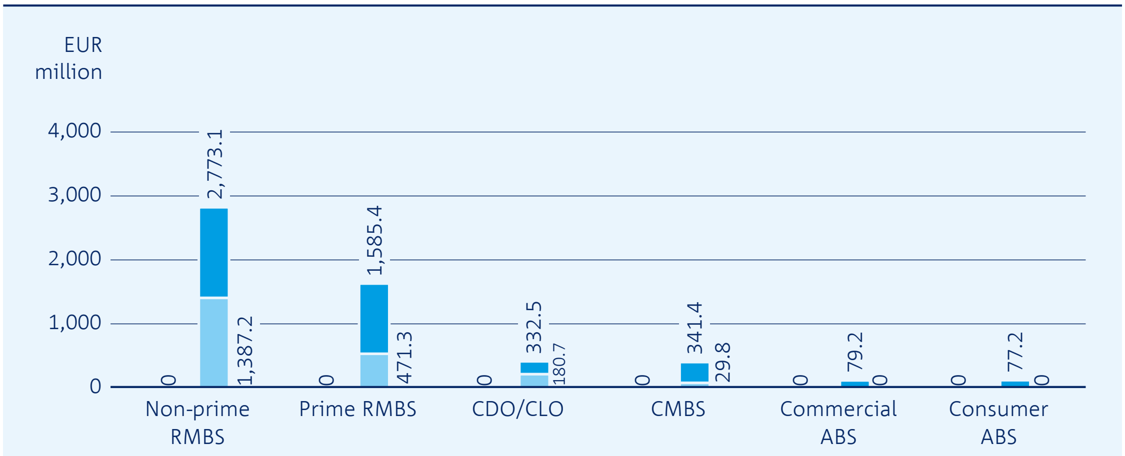
Given the sale in 2014, the following only contains figures as at 31 December 2013.

ABS portfolio by asset class



■ 31 Dec 2014 Total: EUR 0 million
■ 31 Dec 2013 Total: EUR 7,044.3 million

IFRS carrying amounts and impairments in the ABS portfolio by asset class



■ 31 Dec 2014 Total: EUR 0 million
■ 31 Dec 2013 Total: EUR 5,188.8 million
■ 31 Dec 2014 Total impaired: EUR 0 million
■ 31 Dec 2013 Total impaired: EUR 2,069.0 million

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 disposals, 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

BayernLB made further changes in its participation portfolio to bring it in line with the business model. Most notably, the stake in MKB was sold. Furthermore, following the sale of LBLux's private banking business, the remainder of its portfolio was transferred to BayernLB.

The target portfolio comprises stakes in companies that complement the business model, help to expand customer and market potential or support operating processes, and also miscellaneous participations. Key Group subsidiary DKB is an integral component of the participation portfolio.

As part of the resizing of BayernLB, the disposal of non-core shareholdings is, however, being planned 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 BayernLB's Board of Management (BoM). 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 Statutes and the Rules of Procedure of the BayernLB Board of Management.

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 held by BayernLB. Key factors in this regard are the maximum potential loss and early warning indicators.

A similar process applies for DKB. It is also built into the entire Group strategy, planning, management and monitoring process.

For CRR/CRD IV reporting purposes, participation risks are measured using the simple risk-weighted method unless they fall under the grandfathering method under article 495 para. 1 CRR.

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

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. Major shareholdings with difficulties 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.

Summary

The changes in the participations portfolio during the year under review were in line with strategy and complied with the conditions set by the EU. The sale of MKB particularly helped to further reduce risk.

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 the current Business and Risk Strategy, market risks are normally only assumed as a result of transactions on behalf of customers, including related 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. The same methods are used for both assets and liabilities in the trading book and the investment book.

Market risk measurement methods are constantly checked for the quality of their forecasting. In the backtesting process, risk forecasts are compared with actual outcomes (gains or losses). As at 31 December 2014, based on the Basel traffic light approach, the forecasting quality of the procedure for measuring market risk was good.

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. 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 VaR and related 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.

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.

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 2014, 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 factor affecting VaR is general interest rate risk. All other types of risk play a much less significant role by comparison.

VaR contribution by risk type (confidence level 99 percent)

			1 Jan 2014 to 31 Dec 2014		
EUR million	31 Dec 2014	31 Dec 2013	Average	Maximum	Minimum
General interest rate VaR	36.5	38.1	33.4	45.6	21.5
Specific interest rate VaR (credit spreads)*	5.2	5.1	5.1	6.4	3.8
Currency VaR	1.9	6.4	3.9	9.9	0.6
Equities VaR	1.9	1.2	1.7	2.2	1.2
Commodities VaR	0.6	0.9	1.1	2.2	0.6
Volatility VaR	0.7	0.5	0.7	1.7	0.3
Total VaR*	**38.2**	**38.1**	**35.4**	**47.3**	**21.7**

* *In addition to calculating VaR, premiums for credit rating risk from money market transactions and OTC derivatives are also taken into account in the risk-bearing capacity when calculating the risk capital requirement.*

Up to November, general interest rate risk declined significantly due to lower interest rate volatility, but rose again from 28 November 2014 when pension liabilities began to be included in the risk calculation, and ended 2014 roughly where it was the previous year. Currency risk was lower largely due to the sale of MKB.

Summary

Overall currency risk fell as a result of the sale of MKB, general interest rate risk was more or less unchanged on the previous year thanks to opposite effects and all other market risks remained essentially constant.

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 restrictions. 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 holdings of highly liquid securities eligible as collateral at the central bank and other collateral eligible for discounting at the central bank.

Liquidity risks from an off-balance sheet conduit 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 situation and refinancing structure are constantly analysed and monitored. There were no significant concentrations during the year under review.

A 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 2014.

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 Pfandbriefs issued by BayernLB 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 1.73 and 2.23 (FY 2013: between 1.70 and 2.07). 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 risk appetite set by BayernLB limits operational and structural liquidity surpluses separately by currency and across all currencies combined. The available liquidity thus calculated is a key figure of the amount the managing units can use each day. To support the limiting of liquidity risks, BayernLB has established uniform escalation thresholds which are likewise monitored daily.

In addition to observing the maximum utilisation of available liquidity, ensuring that the time-to-wall figures in the stress scenarios are sufficient is key to complying with the liquidity risk limits. 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 scenario-dependant minimum liquidity surplus limits to be observed at BayernLB are set in the Bank's Risk Strategy.

In 2014 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 liquidity management. To this end, BayernLB has set up an early warning system for risks and regularly conducts backtesting and validation processes.

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

Current situation

Liquidity overviews are compiled for the purpose of managing and monitoring liquidity risks. This involves calculating the liquidity surplus by subtracting in each maturity band the cumulative liquidity gaps from the realisable liquidity counterbalancing capacity. Expected cash flows from non-deterministic products are based partly on modelling assumptions.

To improve transparency and liquidity risk management, funding capacity was removed from the liquidity surplus as part of the revisions to the methodology used in the management scenario in the first half of 2014. Since then this has been taken into account in the new liquidity risk limiting.

The BayernLB management scenario yielded the following results as at 31 December 2014 compared to 31 December 2013:

31 Dec 2014 Cumulative figures in EUR million	**up to 1 month**	**up to 3 months**	**up to 1 year**	**up to 5 years**
Liquidity surplus (incl. funding capacity and minimum deposits)	**14,956**	**16,807**	**15,030**	**18,333**
Funding capacity and minimum deposits	0	2,973	12,314	17,519
Liquidity surplus	**14,956**	**13,834**	**2,716**	**814**
arising from				
• liquidity counterbalancing capacity	31,657	29,194	21,059	5,812
less				
• liquidity gap*	16,701	15,360	18,344	4,998

** Following the change in methodology, the liquidity gap is no longer broken down into commitments and guarantees.*

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 (incl. funding capacity and minimum deposits)				
arising from	**18,634**	**22,969**	**28,952**	**22,961**
• liquidity counterbalancing capacity				
less	34,711	34,829	37,577	10,886
• liquidity gap (ex. commitments and guarantees)				
• liquidity gap (from commitments and	12,044	7,128	3,292	−14,080
guarantees)	4,033	4,732	5,332	2,004

The liquidity gaps in the first five years decrease by up to EUR 14 billion due to the removal of unsecured funding components (bonds and minimum customer deposit levels). In addition, the removal of secured funding capacity reduces liquidity counterbalancing capacity in the same period by up to EUR 11 billion. The impact of these adjustments to methodology is therefore responsible for the changes in the over three months maturity band in the figures for the liquidity situation. For the purposes of transparency, funding capacity as at 31 December 2014 is presented separately.

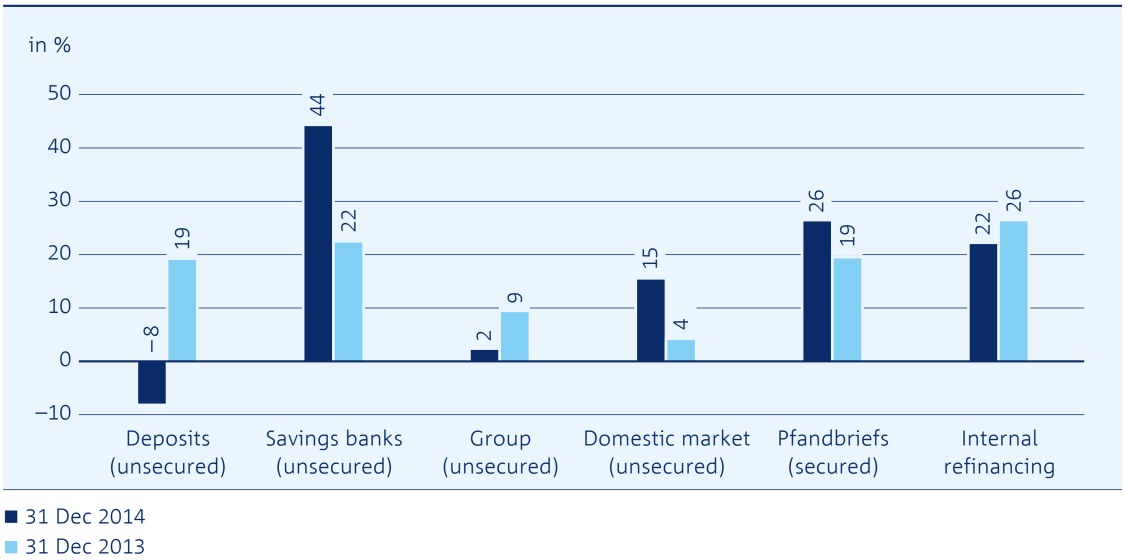
The changes in liquidity overviews between 31 December 2013 and 31 December 2014 continued to be marked by BayernLB's focus on core business areas and downsizing. The effects on the liquidity surplus of the issues with guarantee obligation maturing by the end of 2015 are evident in the maturity bands out to one year.

The liquidity surplus as at 31 December 2014 indicates that BayernLB's liquidity is good.

The recovery of the interbank market was confirmed in 2014. A few longer maturity transactions were executed again. Sufficient reserves are therefore available, supported by appropriate structural refinancing on the capital market (EUR 2.3 billion secured and EUR 3.1 billion unsecured).

The change in the refinancing structure of BayernLB for 2014 compared to the previous year was as follows:

Refinancing structure



The chart presents secured and unsecured issues in terms of sales in 2014, while deposits are shown in terms of changes in 2014. Group refinancing represents funding from the DKB subsidiary. Internal refinancing includes proceeds in excess of refinancing needs and funding freed up by the sale of assets.

The decrease in deposits at BayernLB contrasts with much faster deposit growth at DKB.

In the coming years liquidity management and monitoring at 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.

Summary

Thanks to its forward-looking liquidity management, BayernLB held sufficient liquidity throughout the period under review.

Operational risk

Definition

In line with the regulatory definition in CRR, 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 own funds backing for operational risks in risk-bearing capacity (ICAAP) into the overall risk limit system.

Risk measurement

For operational risk BayernLB uses the standardised approach (STA) set out in CRR/CRD IV to calculate the own funds requirements under CRR/CRD IV (Pillar I) and the risk capital requirement under the risk-bearing capacity assessment (ICAAP)/Basel III (Pillar II). The own funds required for operational risks was EUR 263 million as at 31 December 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. The Group Risk Control division 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. Other risk management instruments such as scenario analysis are used (replacing the risk inventory), which go beyond pure quantification of own funds backing and stress scenarios. The stress scenarios are an integral part of the cross-risk stress scenarios in ICAAP.

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.

Business Continuity Management (BCM)

BCM is used at BayernLB to manage risks to the continuation of business operations and deal with crisis situations. BCM establishes core procedures for continuing/restoring operations and has an integrated emergency/crisis management procedure for handling events that could have a sustained impact on the Bank's activities and resources.

BCM is embedded in BayernLB's Risk Strategy and the Data Security Principles. The requirements for BCM are set down in the BCM strategy.

BCM identifies time-critical activities and processes and lays down specific business continuity and restart procedures to protect these. Regular tests ensure that the emergency measures and crisis control procedures are effective and appropriate and are continually improved.

The roles and responsibilities and where these intersect are clearly defined and set out in the Bank-wide BCM standards.

The emergency officer monitors compliance with these standards and reports to the member of the Board of Management responsible for BCM on a regular basis. Central BCM information is also used to manage operational risks.

The Chief Operating Officer is responsible for BCM.

Current situation

Losses from operational risks in 2014 were EUR 47.6 million (of which EUR 47.54 million at BayernLB and EUR 0.02 million at BayernLabo), compared to EUR 48.3 million in 2013 (of which EUR 33.16 million at BayernLB and EUR 15.16 million at BayernLabo).

These losses are now shown by date of posting, rather than date of reporting as previously. Hence the losses on in-house produced software identified in 2014 were allocated to 2013 and divided between BayernLB and BayernLabo. The previous year's figures have been restated accordingly.

The losses at BayernLB in 2014 include EUR 29.6 million from litigation.

Summary

In the circumstances, the amount of operational risk losses at BayernLB in 2014 was in line with expectations.

Summary

The reduction of the non-core business in line with strategy at BayernLB has improved the overall risk profile.

BayernLB had adequate risk-bearing capacity as at 31 December 2014. 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. Equity capital for the purpose of risk coverage amounted to EUR 12.1 billion (further details are reported in the management report under the banking supervisory ratios under CRR/CRD IV and the German Banking Act (KWG)).

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

Financial statements

Balance sheet and income statement

Balance sheet – Bayerische Landesbank
as at 31 December 2014

Assets	EUR '000	EUR '000	EUR '000	2014 EUR '000	2013 EUR '000
Cash reserves					
a) Cash			20,247		19,853
b) Deposits with central banks			361,421		1,919,729
of which:					
at Deutsche Bundesbank	*141,567*				*628,738*
				381,668	**1,939,582**
Due from banks					
a) Payable on demand			949,898		6,549,697
b) Other receivables			37,556,701		39,874,082
of which:					
• *mortgage loans*	*29,717*				*11,398*
• *municipal loans*	*2,453,899*				*4,331,434*
				38,506,599	**46,423,779**
Due from customers				**70,923,190**	**72,974,418**
of which:					
• *mortgage loans*	*15,195,605*				*14,515,542*
• *municipal loans*	*31,090,685*				*31,615,953*
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		449,252			356,566
of which:					
eligible as collateral at Deutsche Bundesbank	—				—
			449,252		356,566
b) Bonds and notes					
ba) issued by public-sector borrowers		9,739,807			8,739,879
of which:					
eligible as collateral at Deutsche Bundesbank	*6,125,081*				*6,540,442*
bb) issued by other borrowers		17,405,474			27,252,006
of which:					
eligible as collateral at Deutsche Bundesbank	*16,483,881*				*17,828,134*
			27,145,281		35,991,885
c) Own debt securities			5,529,684		6,807,409
Nominal value	*5,520,392*				*6,802,665*
				33,124,217	**43,155,860**
Equities and other non-fixed income securities				**80,199**	**9,546**
Trading portfolio				**25,503,244**	**25,803,827**
Carried forward				168,519,117	190,307,012

Liabilities	EUR '000	EUR '000	EUR '000	2014 EUR '000	2013 EUR '000
Due to banks					
a) Payable on demand			5,013,097		6,536,068
b) With agreed maturity or period of notice			50,684,040		55,830,809
of which:					
• registered mortgage Pfandbriefs	*402,609*				*516,334*
• registered public Pfandbriefs	*1,362,844*				*1,573,880*
• issued to the lender to secure loans raised:					
• registered mortgage Pfandbriefs	—				—
• registered public Pfandbriefs	—				—
				55,697,137	**62,366,877**
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		6,767,747			4,794,359
bb) with agreed maturity or period of notice		25,392,603			31,299,101
of which:					
• registered mortgage Pfandbriefs	*1,487,341*				*1,496,127*
• registered public Pfandbriefs	*6,112,250*				*6,334,836*
• issued to the lender to secure loans raised:					
• registered mortgage Pfandbriefs	—				—
• registered public Pfandbriefs	—				—
			32,160,350		36,093,460
				32,160,350	**36,093,460**
Securitised liabilities					
a) Bonds issued					
aa) mortgage Pfandbriefs		3,404,755			4,500,984
ab) public Pfandbriefs		11,131,568			13,556,363
ac) other bonds		31,221,640			36,864,286
			45,757,963		54,921,633
b) Other securitised liabilities			166,979		498,619
of which:					
• money market instruments	*166,979*				*497,807*
• own acceptances and promissory notes outstanding	—				—
				45,924,942	**55,420,252**
Trading portfolio				**19,561,978**	**18,993,860**
Liabilities held in trust				**5,140,705**	**5,312,696**
of which:					
loans on a trust basis	*5,140,051*				*5,311,985*
Other liabilities				**1,025,380**	**948,902**
Carried forward				159,510,492	179,136,047

Balance sheet – Bayerische Landesbank
as at 31 December 2014 (continued)

				2014	2013
Assets	*EUR '000*	EUR '000	EUR '000	EUR '000	EUR '000
Carried forward				168,519,117	190,307,012
Participations				**209,492**	**209,656**
of which:					
• in banks	*20,375*				*24,967*
• in financial service providers	*—*				*11*
Shares in affiliated companies				**2,500,550**	**2,565,652**
of which:					
• in banks	*2,315,486*				*2,397,173*
• in financial service providers	*—*				*—*
Assets held in trust				**5,140,705**	**5,312,696**
of which:					
loans on a trust basis	*5,140,051*				*5,311,985*
Intangible assets					
a) Internally generated industrial property rights and similar rights and assets			78,003		56,652
b) Purchased licences, industrial property rights and similar rights and assets as well as licences to such rights and assets			25,212		34,566
c) Goodwill			—		—
d) Down payments effected			—		—
				103,215	**91,218**
Tangible assets				**361,195**	**394,106**
Other assets				**849,971**	**1,964,472**
Pre-paid expenses					
a) From the new issues and loans business			130,769		138,597
b) Others			316,519		51,729
				447,288	**190,326**
Total assets				**178,131,533**	**201,035,138**

Liabilities	*EUR '000*	EUR '000	EUR '000	**2014** EUR '000	**2013** EUR '000
Carried forward				159,510,492	179,136,047
Deferred income					
a) From the new issues and loans business			90,652		95,817
b) Others			582,298		216,538
				672,950	**312,355**
Provisions					
a) For pensions and similar obligations			2,112,964		1,931,320
b) For taxes			189,249		271,862
c) Other provisions			829,004		1,175,199
				3,131,217	**3,378,381**
Subordinated liabilities				**4,331,503**	**4,413,345**
Profit participation certificates				**356,876**	**439,550**
of which:					
due in less than two years	—				—
Fund for general bank risks				**955,699**	**1,221,391**
of which:					
special items pursuant to section 340e para. 4 HGB	*31,770*				*31,770*
Equity					
a) Subscribed capital					
aa) statutory nominal capital	2,800,000				2,800,000
uncalled nominal capital	—				—
called nominal capital		2,800,000			2,800,000
ab) capital contribution		612,016			612,016
ac) silent partner contributions		2,137,175			3,562,040
			5,549,191		6,974,056
b) Capital reserve			2,356,097		3,892,505
c) Retained earnings					
ca) statutory reserves		1,267,508			1,267,508
cb) other retained earnings		—			—
			1,267,508		1,267,508
d) Net retained profits			—		—
				9,172,796	**12,134,069**
Total liabilities				**178,131,533**	**201,035,138**
Contingent liabilities					
a) Contingent liabilities from the endorsement of bills rediscounted			—		—
b) Liabilities from guarantees and indemnity agreements (see also the notes)			10,785,099		11,547,748
c) Liabilities from collateral furnished for third-party obligations			—		—
				10,785,099	**11,547,748**
Other liabilities					
a) Repurchase obligations from non-genuine sale and repurchase agreements			—		—
b) Placement and underwriting commitments			—		—
c) Irrevocable loan commitments			22,050,986		19,109,032
				22,050,986	**19,109,032**

Income statement – Bayerische Landesbank
for the period from 1 January to 31 December 2014

				2014	2013
	EUR ’000	EUR ’000	EUR ’000	EUR ’000	EUR ’000
Interest income from					
a) Credit and money market transactions		2,688,888			3,003,882
b) Fixed-income securities and debt-register claims		505,706			516,406
			3,194,594		**3,520,288**
Interest expenses			**−2,018,611**		**−2,381,049**
				1,175,983	**1,139,239**
Current income from					
a) Equities and other non-fixed income securities			1,568		1,676
b) Participations			4,631		4,819
c) Shares in affiliated companies			7,754		54,066
				13,953	**60,561**
Income from profit-pooling agreements, profit transfer agreements and partial profit transfer agreements				**218,448**	**148,809**
Commission income			**269,539**		**240,490**
Commission expenses			**−65,247**		**−62,992**
				204,292	**177,498**
Net income or net expenses of the trading portfolio				**−119,592**	**121,450**
of which: allocation to/releases from the fund for general bank risks pursuant to section 340e para. 4 HGB	—				*−14,893*
Other operating income				**226,433**	**258,142**
General administrative expenses					
a) Personnel expenses					
aa) salaries and wages		−320,149			−380,359
ab) social security contributions, pensions and other employee benefits		−209,884			−234,342
			−530,033		−614,701
of which: for pensions	*−142,087*				*−146,010*
b) Other administrative expenses			−330,055		−333,174
				−860,088	**−947,875**
Amortisation, depreciation and writedowns on intangible assets and tangible assets				**−35,240**	**−74,601**
Other operating expenses				**−190,634**	**−177,820**
Carried forward				633,555	705,403

				2014	2013
	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
Carried forward				633,555	705,403
Amortisation, depreciation and writedowns on receivables and certain securities and additions to provisions in the credit business			**−1,531,981**		**−506,481**
of which:					
• *withdrawal from the fund for general bank risks*	*314,865*				—
• *allocation to the fund for general bank risks*	*−49,172*				*−54,147*
Income from reversals of writedowns on receivables and certain securities as well as from the release of provisions in the credit business			**—**		**—**
				−1,531,981	**−506,481**
Amortisation, depreciation and writedowns on participations, shares in affiliated companies and securities classified as fixed assets			**−1,203,116**		**−481,322**
Income from reversals of writedowns on participations, shares in affiliated companies and securities classified as fixed assets			**—**		**—**
				−1,203,116	**−481,322**
Expenses from loss transfers				**−4,821**	**−59,207**
Gains or losses on ordinary activities				**−2,106,363**	**−341,607**
Extraordinary income			**96**		**12,978**
Extraordinary expenses			**−12,499**		**−154,264**
Net extraordinary income/loss				**−12,403**	**−141,286**
Taxes on income and earnings			**−1,910**		**8,284**
of which: deferred taxes	—				—
Other taxes, unless disclosed under "Other operating expenses"			**6,495**		**−227**
				4,585	**8,057**
Loss for the financial year				**−2,114,181**	**−474,836**
Withdrawals from capital reserve				**1,536,408**	**474,836**
Withdrawals from profit participation certificates				**82,674**	**—**
Withdrawals from silent partner contributions				**495,099**	**—**
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.

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 2014 were the same as those used for the annual financial statements as at 31 December 2013. Any changes on the previous year are noted below.

From financial year 2014, a funding valuation adjustment was introduced to take account of bank-specific financing conditions when calculating the fair value of uncollateralised OTC derivative transactions. This resulted in an impact on earnings of EUR –79 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.

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 365 of the Capital Requirements Regulation (CRR). 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 (non-contingent bilateral credit valuation adjustment (CVA)). In the case of uncollateralised OTC derivatives, account is taken of bank-specific financing conditions using a funding valuation adjustment.

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). 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. Since 2013 fair value valuation units have also been 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.

In line with 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, it is not possible to directly match individual financial instruments with each other on a regular basis. 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 (provision for 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 takes into account the process costs for transactions in the portfolio as at the reporting date plus 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 31.99 percent, except for deferred taxes on participations in partnerships, which are computed at the corporation tax rate (including the solidarity surcharge) of 15.82 percent. Deferred taxes on municipal trade tax loss carryforwards are computed at an average municipal trade tax rate of 16.17 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 41.27 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 %	2014	2013
Actuarial interest rate	4.53	4.90
Changes in salary	2.75	2.75
Adjustments to pensions[1]	2.25	2.25
Changes in medical costs	4.25	4.00

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 2014, there was a shortfall of EUR 247 million (FY 2013: EUR 239 million). Reinsurance concluded by BayernLB to fund these retirement benefit obligations offset this amount by EUR 210 million (FY 2013: EUR 206 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	2014	2013
Due from banks	**38,507**	**46,424**
This item includes:		
Other receivables with a residual maturity of		
• up to three months (including accrued interest)	14,662	13,497
• over three months up to one year	6,806	7,713
• over one year up to five years	8,022	10,667
• over five years	8,067	7,997
Due from affiliated companies	**1,893**	**3,607**
Due from companies in which participations are held	**72**	**263**
Due from related savings banks	**14,425**	**14,514**
Subordinated receivables	**484**	**533**

Due from customers

EUR million	2014	2013
Due from customers	**70,923**	**72,974**
This item includes:		
Receivables with a residual maturity of		
• up to three months (including accrued interest)	9,849	9,309
• over three months up to one year	8,141	8,279
• over one year up to five years	22,118	23,410
• over five years	29,385	30,146
Receivables without a fixed date of maturity	**1,430**	**1,830**
Due from affiliated companies	**88**	**61**
Due from companies in which participations are held	**194**	**277**
Subordinated receivables	**544**	**330**

Bonds and other fixed-income securities

EUR million	2014	2013
Bonds and other fixed-income securities	**33,124**	**43,156**
This item includes:		
Amounts falling due in the following year (including accrued interest)	**15,656**	**5,532**
Securitised receivables from affiliated companies	**368**	**999**
Securitised receivables from companies in which participations are held	**–**	**–**
Subordinated securities	**436**	**1,436**
Marketable securities, of which		
• listed	32,252	39,179
• unlisted	872	3,963

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 24,076 million (FY 2013: EUR 33,299 million) and had a fair value of EUR 24,060 million (FY 2013: EUR 32,795 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.

Equities and other non-fixed income securities

EUR million	2014	2013
Equities and other non-fixed income securities	**80**	**10**
This item includes:		
Marketable securities, of which		
• listed	–	–
• unlisted	8	8

On the reporting date, as in the previous year, 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.

Trading portfolio

EUR million	2014	2013
Trading portfolio	**25,503**	**25,804**
This item includes:		
Positive fair values of derivative financial instruments	**20,533**	**19,213**
Receivables	**1,151**	**1,118**
Bonds and other fixed-income securities	**3,210**	**5,063**
Equities and other non-fixed income securities	**464**	**378**
Other assets	**162**	**52**
Risk discount for the whole trading portfolio	**–17**	**–20**
Subordinated securities	**6**	**3**

Participations

As at the reporting date, participations totalling EUR 1 million (FY 2013: EUR 1 million) were carried based on the less strict principle of lower of cost or market value; these had a fair value of EUR 1 million (FY 2013: EUR 1 million).

Shares in affiliated companies

EUR million	2014	2013
Shares in affiliated companies	**2,501**	**2,566**
This item includes:		
Marketable securities, of which		
• listed	–	–
• unlisted	2,342	2,423

Assets held in trust

EUR million	2014	2013
Assets held in trust	**5,141**	**5,313**
This item mainly includes housing loans granted by Bayerische Landesbodenkreditanstalt and breaks down as follows:		
Due from banks	56	71
Due from customers	5,084	5,241

Intangible assets

Research and development costs totalled EUR 36 million in the reporting year (FY 2013: EUR 55 million). This included EUR 27 million in development costs (FY 2013: EUR 27 million) resulting from internally developed intangible assets categorised as fixed assets, namely internally developed software.

Tangible assets

EUR million	2014	2013
Tangible assets	**361**	**394**
This item includes:		
Land and buildings used for own operations	296	322
Furniture and office equipment	17	21

Other assets

EUR million	2014	2013
Other assets	**850**	**1,964**
This item includes:		
Accrued income from participations	219	151
Claims from reinsurance	210	206
Emissions certificates	208	130
Claims on the German Tax Authorities	60	75
Shares in companies	10	139
Premium claims from credit derivatives (protection buyer positions)	6	769
Offsetting item for foreign currency translation	–	343

Pre-paid expenses

EUR million	2014	2013
Pre-paid expenses	**447**	**190**
This item includes: Upfront payments from swaps	289	19
Discount on liabilities	104	117
Premium on receivables	26	22

Changes in fixed assets

EUR million	Purchase/ manufacturing costs	Additions	Disposals	Transfers	Writeups	Cumulative depreciation/ writedowns	Net carrying value 31 Dec 2014	Net carrying value 31 Dec 2013	Depreciation/ writedowns for the financial year
			Changes +/–[1]						
Participations			0				209	210	
Shares in affiliated companies			–65				2,501	2,566	
Securities in the investment portfolio			–9,223				24,076	33,299	
Intangible assets[2]	254	31	1	0	–	182	103	91	19
of which: produced in house	*107*	*27*	*1*	*0*	–	*54*	*78*	*57*	*5*
Tangible assets	541	2	18	–1	–	164	361	394	16
Other fixed assets	16	0	0	–	–	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	2014	2013
Carrying values of assets transferred under sale and repurchase agreements	1,788	2,791

Assets in foreign currencies

EUR million	2014	2013
Total amount of assets denominated in foreign currency	27,224	33,741

Assets held as cover

EUR million	2014	2013
Mortgage Pfandbriefs and Landesbodenbriefs	**5,241**	**6,454**
Cover assets contained in:		
• Due from banks	28	37
• Due from customers	8,808	9,698
• Bonds and other fixed-income securities	681	751
• Additional cover	–	–
Excess cover	**4,275**	**4,032**
Public Pfandbriefs	**18,320**	**21,161**
Cover assets contained in:		
• Due from banks	3,732	5,725
• Due from customers	24,660	25,020
• Bonds and other fixed-income securities	700	–
• Additional cover	–	1,157
Excess cover	**10,772**	**10,740**

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
Equity funds					
BayernInvest AVT-Fonds	71	71	–	–	Yes

Liabilities

Due to banks

EUR million	2014	2013
Due to banks	**55,697**	**62,367**
This item includes:		
Term liabilities with a residual maturity of		
• up to three months (including accrued interest)	10,274	12,868
• over three months up to one year	8,547	5,830
• over one year up to five years	16,783	22,489
• over five years	15,080	14,643
Due to affiliated companies	**5,969**	**5,994**
Due to companies in which participations are held	**85**	**89**
Due to related savings banks	**4,959**	**5,841**

Due to customers

EUR million	2014	2013
Due to customers	**32,160**	**36,093**
This item includes:		
Other term liabilities with a residual maturity of		
• up to three months (including accrued interest)	4,776	9,440
• over three months up to one year	4,207	3,502
• over one year up to five years	6,044	7,434
• over five years	10,366	10,923
Due to affiliated companies	**154**	**198**
Due to companies in which participations are held	**29**	**34**

Securitised liabilities

EUR million	2014	2013
Securitised liabilities	**45,925**	**55,420**
This item includes:		
Bonds and notes issued		
• amounts falling due in the following year	21,146	16,019
Other securitised liabilities with a residual maturity of		
• up to three months (including accrued interest)	27	428
• over three months up to one year	140	70
• over one year up to five years	–	–
• over five years	–	–
Due to affiliated companies	**265**	**265**
Due to companies in which participations are held	**8**	**11**

Trading portfolio

EUR million	2014	2013
Trading portfolio	**19,562**	**18,994**
This item includes:		
Negative fair values of derivative financial instruments	**19,049**	**18,502**
Liabilities	**513**	**492**

Liabilities held in trust

EUR million	2014	2013
Liabilities held in trust	**5,141**	**5,313**
This item breaks down as follows:		
Due to banks	2	3
Due to customers	5,138	5,309

Other liabilities

EUR million	2014	2013
Other liabilities	**1,025**	**949**
This item includes: Offsetting item for foreign currency translation	565	–
Buy-in obligation resulting from the sale of securities borrowed	85	85
Premium liabilities from credit derivatives (protection seller positions)	6	775

Deferred income

EUR million	2014	2013
Deferred income	**673**	**312**
This item includes: Upfront payments from swaps	556	175
Premium on liabilities	72	63
Discount on receivables	18	33

Subordinated liabilities

EUR million	2014	2013
Subordinated liabilities	**4,332**	**4,413**
This item includes: **Subordinated liabilities to affiliated companies**	**726**	**639**

In the reporting year, interest expenses on subordinated liabilities were EUR 208 million (FY 2013: EUR 234 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. 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 Oct 2017
EUR bond	505	0.86%	7 Feb 2019
USD Schuldschein note loan	700	6.21%	31 May 2037

Liabilities in foreign currency

EUR million	2014	2013
Total amount of liabilities denominated in foreign currency	21,994	29,233

Contingent liabilities and other liabilities

EUR million	2014	2013
Contingent liabilities	**10,785**	**11,548**
This item includes:		
Liabilities from guarantees and indemnity agreements		
• Letters of credit	468	646
• Guarantees	2,141	2,725
• Other guarantees and indemnities	8,102	8,086

Potential liabilities from sureties, guarantees, letters of credit, other indemnities and other liabilities 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	2014	2013
Other liabilities	**22,051**	**19,109**
This item includes:		
Irrevocable loan commitments to		
• Banks	1,788	1,981
• Customers	20,263	17,128

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 81 million (FY 2013: EUR 522 million). There were unutilised lines of credit granted to two special purpose vehicles in connection with ABS customer transactions of EUR 586 million (FY 2013: EUR 429 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 the credit risk management process can be found in 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	2014	2013
Due to banks	14,754	14,671
Due to customers	898	1,232
Contingent liabilities	11	12

Collateral for own liabilities primarily relates to assigned receivables from pass-through loans to banks (EUR 14,577 million) and cash pledged as collateral for repurchase agreements (EUR 181 million).

Cash pledged as collateral of EUR 5,755 million and securities with a value of EUR 2,253 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

Counterbalancing changes 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	2014	2013
Carrying value of underlying transactions in micro valuation units	**12,082**	**16,346**
• Assets	3,106	5,141
• Liabilities	8,761	10,877
• Derivative financial instruments	215	328
Carrying value of underlying transactions in portfolio valuation units	**210**	**128**
• Assets	208	130
• Forward contracts	2	–3

Notes to the income statement

Interest income and interest expenses

Interest income includes EUR 14 million (FY 2013: EUR 29 million) of interest on tax receivables and interest expenses includes EUR 19 million (FY 2013: EUR 32 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 226 million (FY 2013: EUR 258 million) and other operating expenses of EUR 191 million (FY 2013: EUR 178 million) resulting in net other operating income for the year of EUR 36 million (FY 2013: EUR 80 million).

The Bank disclosed EUR 42 million (FY 2013: EUR 33 million) of gains on emissions certificates under other operating income and EUR 15 million (FY 2013: EUR 23 million) of losses under other operating expenses.

In the reporting year the Bank reported EUR 5 million (FY 2013: EUR 34 million) of gains arising on standalone derivatives in the non-trading portfolio in other operating income and EUR 9 million (FY 2013: EUR 3 million) of losses in other operating expenses.

Releases of other provisions gave rise to other operating income of EUR 69 million (FY 2013: EUR 38 million).

Capitalisation of interest on provisions resulted in other operating expenses of EUR 94 million (FY 2013: EUR 87 million). Expenses were higher due to the low interest rates at the time resulting in a lower discount interest rate.

The sale of the bank building at the London branch office produced other operating income of EUR 42 million.

In the reporting year, a provision in the amount of EUR 23 million for potential tax liabilities was made in connection with the sale of a participation in the previous year.

Other operating income of EUR 24 million (FY 2013: 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 contrast to the previous year, in a net amount of zero (FY 2013: EUR 9 million).

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 93 million (FY 2013: EUR 21 million).

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

This item includes a charge of EUR 1,103 million (FY 2013: EUR 194 million) in connection with the guarantee agreement with the Free State of Bavaria covering actual losses in the ABS portfolio. This includes clawback payments of EUR 1,029 million (FY 2013: EUR 120 million) resulting from the implementation of the EU Commission’s ruling on 5 February 2013 on the hearing into the state aid provided by the Free State of Bavaria in 2008/2009. The underlying ABS portfolio was sold at the end of October 2014. This guarantee agreement with the Free State of Bavaria was then terminated and the clawback payments relating to the ABS portfolio made. The loss on the sale of the ABS portfolio was largely absorbed by the guarantee with the Free State of Bavaria.

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 tangible assets and intangible assets. Deferred tax assets mainly arose from amounts due from customers and provisions.

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.

Other taxes, unless disclosed under other operating expenses

This item includes net income of EUR 10 million (FY 2013: EUR 4 million) in connection with sales tax for previous years, largely as a result of reimbursements.

Distributions on silent partner contributions and profit participation certificates

In financial year 2014, BayernLB utilised silent partner contributions and profit participation certificates to absorb losses. In accordance with the terms of the agreements, silent partner contributions and profit participation certificates shared in the loss in proportion to their share of total liable capital. EUR 495 million was taken from silent partner contributions and EUR 83 million from profit participation certificates to meet the losses. The share in the loss amounted to around 18.8 percent of these instruments’ nominal value. No distributions were made.

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 53 million (FY 2013: EUR 39 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 of the trading portfolio
- other operating income

is broken down by geographical market as follows:

EUR million	2014	2013
Germany	3,421	3,660
Europe (ex Germany)	216	262
America	208	280

Derivatives transactions

The tables below show open external interest rate, foreign currency and other 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

EUR million	Nominal value 2014	Nominal value 2013	Positive market value[1] 2014	Negative market value[1] 2014
Interest rate risks				
• Interest rate swaps	529,664	579,392	27,519	24,463
• FRAs	218,927	146,739	25	22
• Interest rate options	21,133	23,954	1,081	1,558
– *call options*	*8,529*	*11,661*	*1,040*	*38*
– *put options*	*12,605*	*12,292*	*41*	*1,520*
• Caps, floors	24,019	29,664	343	90
• Exchange-traded contracts	62,734	32,775	4	3
• Other interest-based forward transactions	3,675	1,259	9	70
Total interest rate risks	**860,153**	**813,783**	**28,981**	**26,206**
Currency risks				
• Forward exchange transactions	60,893	54,624	1,498	1,436
• Currency/cross-currency swaps	39,882	42,031	1,080	1,625
• Foreign exchange options	4,957	4,845	89	81
– *call options*	*2,575*	*2,572*	*75*	*12*
– *put options*	*2,382*	*2,273*	*14*	*70*
• Other currency-based forward transactions	201	93	3	2
Total currency risks	**105,933**	**101,593**	**2,670**	**3,145**
Equity and other price risks				
• Equity forward transactions	351	230	0	25
• Equity/index options	411	1,185	6	1
– *call options*	*372*	*384*	*6*	*–*
– *put options*	*38*	*801*	*–*	*1*
• Exchange-traded contracts	771	941	1	13
• Other forward transactions[2]	4,457	5,103	496	460
Total equity and other price risks	**5,989**	**7,458**	**503**	**499**
Credit derivative risks				
• Protection buyer	447	6,448	2	0
• Protection seller	980	1,485	0	2
Total credit derivative risks	**1,427**	**7,932**	**2**	**2**
Total	**973,502**	**930,766**	**32,156**	**29,852**

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

Derivatives transactions – maturities

EUR million	Nominal value: Interest rate risks 2014	2013	Currency risks 2014	2013	Equity and other price risks 2014	2013	Credit derivative risks 2014	2013
Residual maturities								
• up to three months	67,050	65,414	29,291	30,544	1,176	1,177	–	28
• up to one year	309,401	241,327	37,650	22,615	1,946	2,909	600	1,192
• up to five years	290,383	290,154	28,793	37,843	2,431	2,953	781	1,088
• more than five years	193,320	216,887	10,200	10,591	436	419	46	5,624
Total	**860,153**	**813,783**	**105,933**	**101,593**	**5,989**	**7,458**	**1,427**	**7,932**

Derivatives transactions – counterparties

EUR million	Nominal value 2014	Nominal value 2013	Positive market value[1] 2014	Negative market value[1] 2014
OECD banks	376,538	471,640	17,743	16,519
Non-OECD banks	1,634	1,759	12	139
Public-sector entities within the OECD	17,398	24,584	972	673
Other counterparties[2]	577,932	432,782	13,429	12,521
Total	**973,502**	**930,766**	**32,156**	**29,852**

Derivatives transactions – trading portfolios

EUR million	Nominal value 2014	Nominal value 2013	Positive market value[1] 2014	Negative market value[1] 2014
Interest rate derivatives	758,846	734,213	24,197	22,746
Currency derivatives	93,633	89,964	2,486	2,711
Equity derivatives	5,326	6,778	465	475
Credit derivatives	1,302	1,373	2	2
Total	**859,107**	**832,328**	**27,151**	**25,933**

Derivatives transactions – non-trading portfolios

EUR million	Nominal value 2014	Nominal value 2013	Positive market value[1] 2014	Negative market value[1] 2014
Interest rate derivatives	101,307	79,569	4,783	3,460
Currency derivatives	12,300	11,629	183	434
Equity derivatives	663	680	39	24
Credit derivatives	126	6,560	0	0
Total	**114,396**	**98,438**	**5,005**	**3,918**

1 Calculation of market values: see accounting policies on "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		Present value		Risk-related present value	
	2014	2013	2014	2013	2014	2013
Mortgage Pfandbriefs	**5,241**	**6,453**	**5,644**	**6,848**	**5,445**	**6,544**
Cover pools [1]	9,516	10,481	10,168	11,136	9,893	10,782
of which: derivatives	–	–	–	–	–	–
Excess cover	**4,275**	**4,029**	**4,524**	**4,288**	**4,448**	**4,238**
Public Pfandbriefs	**18,320**	**21,161**	**20,456**	**22,789**	**19,618**	**22,069**
Cover pools [1,2]	29,874	32,733	32,796	34,157	31,006	32,475
of which: derivatives	–	–	–	–	–	–
Excess cover	**11,554**	**11,571**	**12,340**	**11,368**	**11,388**	**10,406**

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

<table>
<tr><th>EUR million</th><th colspan="2">Mortgage Pfandbriefs</th><th colspan="2">Cover pools [1]</th><th colspan="2">Public Pfandbriefs</th><th colspan="2">Cover pools [1,2]</th></tr>
<tr><th></th><th>2014</th><th>2013</th><th>2014</th><th>2013</th><th>2014</th><th>2013</th><th>2014</th><th>2013</th></tr>
<tr><td>Residual maturities and interest rate lock-in periods</td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td>• up to six months</td><td>839</td><td rowspan="2">1,349</td><td>1,672</td><td rowspan="2">2,562</td><td>2,440</td><td rowspan="2">5,375</td><td>4,578</td><td rowspan="2">7,311</td></tr>
<tr><td>• over six months up to one year</td><td>260</td><td>1,327</td><td>2,597</td><td>2,256</td></tr>
<tr><td>• over one year up to eighteen months</td><td>205</td><td rowspan="2">1,063</td><td>495</td><td rowspan="2">2,150</td><td>788</td><td rowspan="2">4,730</td><td>1,761</td><td rowspan="2">4,156</td></tr>
<tr><td>• over eighteen months up to two years</td><td>621</td><td>589</td><td>1,564</td><td>996</td></tr>
<tr><td>• over two years up to three years</td><td>1,047</td><td>760</td><td>1,913</td><td>1,165</td><td>1,753</td><td>2,356</td><td>2,798</td><td>2,943</td></tr>
<tr><td>• over three years up to four years</td><td>919</td><td>998</td><td>1,327</td><td>1,869</td><td>1,096</td><td>1,750</td><td>2,213</td><td>2,668</td></tr>
<tr><td>• over four years up to five years</td><td>498</td><td>958</td><td>562</td><td>1,140</td><td>892</td><td>1,092</td><td>2,078</td><td>2,056</td></tr>
<tr><td>• over five years up to ten years</td><td>842</td><td>1,321</td><td>1,542</td><td>1,495</td><td>5,430</td><td>4,081</td><td>8,278</td><td>8,367</td></tr>
<tr><td>• over ten years</td><td>10</td><td>5</td><td>90</td><td>100</td><td>1,761</td><td>1,777</td><td>4,917</td><td>5,232</td></tr>
<tr><td>Total</td><td>5,241</td><td>6,453</td><td>9,516</td><td>10,481</td><td>18,320</td><td>21,161</td><td>29,874</td><td>32,733</td></tr>
</table>

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	2014	2013
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)	681	751
• section 20 para. 2 no. 2 of the Pfandbrief Act (PfandBG)	700	1,157
Total	**1,381**	**1,908**

Receivables used to cover mortgage Pfandbriefs by size

	Mortgages serving as cover	
EUR million	2014	2013
up to EUR 300,000	673	893
over EUR 300,000 up to EUR 1 million[1]	123	
over EUR 1 million up to EUR 10 million[1]	1,763	8,838
more than EUR 10 million[1]	6,276	
additional cover	681	751
Total	**9,516**	**10,481**

1 Previous year's figures broken down in accordance with section 28 of the Pfandbrief Act (PfandBG) as applicable on 31 December 2013: over EUR 300,000 up to EUR 5 million: EUR 968 million; over EUR 5 million: EUR 7,870 million.

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	2014	2013	2014	2013
Germany	**4,813**	**5,071**	**1,910**	**2,308**
• flats	–	–	388	494
• single-family homes	–	–	269	360
• multi-family homes	–	–	1,206	1,416
• office buildings	1,541	1,784	–	–
• retail buildings	1,673	1,648	–	–
• industrial buildings	21	26	–	–
• other commercial buildings	793	765	–	–
• unfinished new buildings not yet generating income	75	80	26	24
• building plots	29	16	21	14
• additional cover	681	751	–	–
Austria	**91**	**37**	**–**	**–**
• office buildings	31	15	–	–
• retail buildings	41	3	–	–
• other commercial buildings	19	19	–	–
Belgium	**38**	**38**	**–**	**–**
• office buildings	28	28	–	–
• building plots	9	9	–	–

EUR million	Mortgages serving as cover			
	Commercial		Residential	
	2014	2013	2014	2013
Czech Republic	**69**	**59**	**–**	**–**
• office buildings	40	40	–	–
• retail buildings	29	19	–	–
France	**611**	**702**	**–**	**–**
• office buildings	579	644	–	–
• retail buildings	32	57	–	–
• industrial buildings	–	1	–	–
Hungary	**–**	**47**	**–**	**–**
• retail buildings	–	47	–	–
Italy	**292**	**338**	**–**	**–**
• office buildings	192	211	–	–
• retail buildings	100	127	–	–
Netherlands	**399**	**429**	**–**	**–**
• office buildings	344	368	–	–
• retail buildings	35	42	–	–
• other commercial buildings	19	19	–	–
Poland	**84**	**93**	**–**	**–**
• office buildings	60	61	–	–
• retail buildings	24	32	–	–
Slovakia	**3**	**–**	**–**	**–**
• retail buildings	3	–	–	–
Spain	**50**	**60**	**–**	**–**
• office buildings	49	49	–	–
• retail buildings	1	11	–	–
Sweden	**23**	**15**	**–**	**–**
• retail buildings	23	15	–	–
Switzerland	**18**	**49**	**–**	**–**
• office buildings	–	32	–	–
• retail buildings	18	18	–	–
United Kingdom	**806**	**763**	**–**	**–**
• office buildings	460	436	–	–
• retail buildings	342	322	–	–
• other commercial buildings	4	5	–	–
USA	**309**	**472**	**–**	**–**
• office buildings	277	443	–	–
• retail buildings	9	8	–	–
• other commercial buildings	23	20	–	–
Total	**7,607**	**8,173**	**1,910**	**2,308**

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

EUR million	2014	2013
Germany	0	1
Total	**0**	**1**

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

As at the reporting date, no (FY 2013: 1) commercial and no (FY 2013: 24) residential properties were the subject of foreclosure sale proceedings. No (FY 2013: 0) commercial and no (FY 2013: 16) residential properties were under administrative receivership.

No (FY 2013: 0) commercial property and no (FY 2013: 11) residential properties were foreclosed on in the reporting year.

No properties were repossessed in 2014 or 2013 to avoid losses on mortgages.

No interest was overdue on mortgage loans on residential property (FY 2013: EUR 0.4 million) as at the reporting date.

No interest was overdue on mortgage loans on commercial property in financial years 2013 or 2014.

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

	Cover assets	
EUR million	2014	2013
Germany	**27,484**	**30,383**
• national government	1,371	1,386
• regional authorities	12,827	12,765
• local authorities	8,994	9,573
• other debtors	3,592	5,502
• additional cover	700	1,157
Austria	**29**	**38**
• national government	29	38
Canada	**142**	**136**
• regional authorities	71	68
• local authorities	71	68
Czech Republic	–	**1**
• national government	–	1
European Union	**97**	**99**
• other debtors	97	99
France incl. Monaco	**82**	**2**
• national government	82	2
Luxembourg	**30**	**36**
• national government	30	36
Spain	**135**	**165**
• regional authorities	135	165
Switzerland	**535**	**600**
• regional authorities	217	267
• other debtors	318	333
United Kingdom	**1,293**	**1,271**
• national government	584	599
• regional authorities	710	673
USA	**46**	**–**
• national government	46	–
Total	**29,874**	**32,733**

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

EUR million	2014	2013
Germany	**1**	**1**
• regional authorities	1	1
Luxembourg	**1**	–
• national government	1	–
Total	**2**	**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/ fund assets in EUR '000	Earnings in EUR '000
Subsidiaries included in the IFRS consolidated financial statements				
Banque LBLux S.A., L - Luxembourg	Direct	100.0	454,003	52,306
Subsidiaries included in the Banque LB Lux S.A. sub-group:				
• Immo 3 Rue Jean Monnet S.à.r.l., L - Luxembourg[1]	Indirect	100.0		
BayernInvest Kapitalverwaltungsgesellschaft mbH, Munich[2]	Direct	100.0	13,154	–
BayernLB Capital LLC I, USA - Wilmington	Direct	100.0	89	9
BayernLB Capital Trust I, USA - Wilmington	Direct	100.0	1	–
Deutsche Kreditbank Aktiengesellschaft, Berlin[2]	Direct	100.0	2,335,912	–
Subsidiaries included in the Deutsche Kreditbank Aktiengesellschaft sub-group:				
• DKB Finance GmbH, Berlin	Indirect	100.0	11,645	1,948
• DKB Grundbesitzvermittlung GmbH, Berlin	Indirect	100.0	101	–6
• DKB PROGES GmbH, Berlin	Indirect	100.0	480	2,050
• DKB Service GmbH, Potsdam	Indirect	100.0	133	23
• FMP Forderungsmanagement Potsdam GmbH, Potsdam	Indirect	100.0	2,891	1,293
• MVC Unternehmensbeteiligungsgesellschaft mbH, Berlin	Indirect	100.0	2,363	–32
• SKG BANK AG, Saarbrücken	Indirect	100.0	81,519	–
Real I.S. AG Gesellschaft für Immobilien Assetmanagement, Munich[2]	Direct	100.0	45,455	–
Subsidiaries not included in the IFRS consolidated financial statements				
ADEM Allgemeine Dienstleistungen für Engineering und Management GmbH, Karlsruhe	Indirect	100.0	49	2
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	–	–
Bavaria Immobilien-Beteiligungs-Gesellschaft mbH, Munich	Indirect	100.0	20	–4
Bayerische Landesbank Europa-Immobilien-Beteiligungs-GmbH, Munich	Indirect	100.0	89	–
Bayerische Landesbank Immobilien-Beteiligungs-Gesellschaft mbH & Co. KG, Munich	Direct	100.0	29,659	3,665
Bayerische Landesbank Immobilien-Beteiligungs-Verwaltungsgesellschaft mbH, Munich	Direct	100.0	46	2
Bayern Bankett Gastronomie GmbH, Munich[2]	Direct	100.0	1,164	–
Bayern Card-Services GmbH - S-Finanzgruppe, Munich	Direct	50.1	17,333	3,005
Bayern Corporate Services GmbH, Munich	Indirect	100.0	179	40
Bayern Facility Management GmbH, Munich[2]	Direct	100.0	2,560	–
BayernFinanz Gesellschaft für Finanzmanagement und Beteiligungen mbH, Munich[2]	Direct	100.0	725	–
Bayernfonds Australien 4 GmbH, Munich	Indirect	100.0	25	–
Bayernfonds BestEnergy 1 GmbH & Co. KG, Oberhaching	Indirect	100.0	40,684	–1,508
Bayernfonds Immobilien Concept GmbH, Munich	Indirect	100.0	68	–2
Bayernfonds Immobiliengesellschaft mbH, Munich	Direct and indirect	100.0	4,748	166
Bayernfonds Kambera GmbH, Munich	Indirect	100.0	25	–

Name and location of the investee	Type of share-holding	Percentage held	Equity/ fund assets in EUR ’000	Earnings in EUR ’000
Bayernfonds Opalus GmbH, Munich	Indirect	100.0	25	–
BayernInvest Luxembourg S.A., L - Munsbach	Indirect	100.0	1,327	4
BayernLB Capital Partner GmbH, Munich	Direct	100.0	1,303	71
BayernLB Capital Partner Verwaltungs-GmbH, Munich	Direct	100.0	37	6
BayernLB Mittelstandsfonds GmbH & Co. Unternehmensbeteiligungs KG, Munich	Direct and indirect	100.0	16,505	3,288
BayernLB Private Equity GmbH, Munich	Direct	100.0	51,446	–8,601
BayTech Venture Capital II GmbH & Co. KG, Munich	Direct and indirect	47.6	5,154	3,290
BayTech Venture Capital Initiatoren GmbH & Co. KG, Munich	Indirect	46.8	36	24
Berchtesgaden International Resort Betriebs GmbH, Munich[2]	Direct	100.0	9,368	–
Berthier Participations SARL, F - Paris	Direct	100.0	583	–294
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	114	–18
BGV IV Verwaltungs GmbH, Munich	Indirect	100.0	33	3
BGV V Verwaltungs GmbH, Munich	Indirect	100.0	25	2
BLB-Beteiligungsgesellschaft Sigma mbH, Munich[2]	Direct	100.0	971	–
BLB-VG22-Beteiligungsgesellschaft mbH, Munich	Direct	100.0	4,539	–198
DKB Immobilien Beteiligungs GmbH, Potsdam	Indirect	100.0	2,155	146
DKB IT-Services GmbH, Potsdam	Indirect	100.0	51	–
DKB Wohnen GmbH, Berlin	Indirect	94.5	25	–
DKB Wohnungsbau- und Stadtentwicklung GmbH, Berlin	Indirect	100.0	2,500	–
Fischer & Funke Gesellschaft für Personaldienstleistungen mbH, Coburg	Indirect	87.1	76	–
FMP Erste Objektgesellschaft mbH, Potsdam	Indirect	100.0	133	29
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	23,998	1,292
gewerbegrund AIRPORT GmbH Beteiligungsgesellschaft, Munich	Indirect	100.0	61	2
gewerbegrund Airport GmbH & Co. Hallbergmoos KG, Munich	Indirect	100.0	7,613	3,874
gewerbegrund Bauträger GmbH & Co. Objekt IGG KG, Munich	Indirect	100.0	57	–38
gewerbegrund Projektentwicklungsgesellschaft (gpe) mbH, Munich[2]	Direct	100.0	2,813	–
Global Format GmbH & Co. KG, Munich	Direct	52.4	1,510	213
Global Format Verwaltungsgesellschaft mbH, Munich	Indirect	100.0	27	1
Hausbau Dresden GmbH, Munich	Indirect	100.0	48	7
Hörmannshofer Fassaden GmbH & Co. Halle KG, Halle/Saale	Indirect	80.0	156	184
Hörmannshofer Fassaden GmbH & Co. Niederdorf KG, Niederdorf near Chemnitz	Indirect	80.0	156	20
Hörmannshofer Fassaden Süd GmbH & Co. KG, Marktoberdorf	Indirect	100.0	208	1,534
Hörmannshofer Unternehmensgruppe GmbH, Marktoberdorf	Indirect	52.6	14,962	–1,636

Name and location of the investee	Type of share-holding	Percentage held	Equity/ fund assets in EUR '000	Earnings in EUR '000
Hörmannshofer Verwaltungs GmbH, Pöttmes/Augsburg	Indirect	100.0	114	15
HPI Eisenach Hotelbesitz GmbH, Eisenach[3]	Indirect	0.0	–	804
ISU Group GmbH, Karlsruhe	Indirect	54.4	16,148	1,939
ISU Personaldienstleistungen GmbH, Karlsruhe	Indirect	100.0	51	–
Koch - Betontechnik GmbH & Co. KG, Pöttmes/Augsburg	Indirect	100.0	32	4
LBG Liebenberger Betriebsgesellschaft mbH, Löwenberger Land OT Liebenberg	Indirect	100.0	775	–
LB Immobilienbewertungsgesellschaft mbH, Munich[2]	Direct	100.0	827	–
LB-RE S.A., L - Luxembourg	Indirect	100.0	5,082	–
MRG Maßnahmeträger München-Riem GmbH, Munich	Direct	100.0	499	139
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	1
Potsdamer Immobiliengesellschaft mbH, Potsdam	Indirect	100.0	37	12
PROGES DREI GmbH, Berlin	Indirect	100.0	416	127
PROGES ENERGY GmbH, Berlin	Indirect	100.0	72	–7
PROGES Sparingberg GmbH, Berlin	Indirect	100.0	605	65
PROGES VIER GmbH, Berlin	Indirect	100.0	156	48
PROGES ZWEI GmbH, Berlin	Indirect	100.0	1,499	59
Real I.S. Australia Pty. Ltd., AUS - Buderim QLD	Indirect	100.0	394	393
Real I.S. Beteiligungs GmbH, Munich	Indirect	100.0	65	11
Real I.S. Finanz GmbH, Munich[2]	Direct	100.0	23	–1
Real I.S. Fonds Service GmbH, Munich[2]	Direct	100.0	21	–1
Real I.S. France SAS, F - Paris	Indirect	100.0	481	28
Real I.S. Fund Management GmbH, Munich	Indirect	100.0	36	10
Real I.S. Gesellschaft für Immobilienentwicklung mbH, Munich	Indirect	100.0	1,123	19
Real I.S. Gesellschaft für Immobilien Entwicklung und Projektrealisierung mbH & Co. KG, Munich	Indirect	100.0	4,503	–47
Real I.S. Grundvermögen GmbH & Co. geschlossene Investment-KG, Munich[1]	Indirect	100.0		
Real I.S. Investment GmbH, Munich	Indirect	100.0	2,645	574
Real I.S. Management Hamburg GmbH, Munich	Indirect	100.0	27	1
Real I.S. Management SA, L - Luxembourg	Indirect	100.0	240	31
Real I.S. Objekt Bruchsal Verwaltungsgesellschaft mbH, Oberhaching	Indirect	100.0	21	8
Schütz Dental GmbH, Rosbach	Indirect	100.0	2,461	–
Schütz Group GmbH & Co. KG, Rosbach	Indirect	54.4	9,101	1,230
Schütz Group Verwaltungsgesellschaft mbH, Rosbach	Indirect	100.0	42	2
SEPA Objekt Bruchsal GmbH & Co. KG, Oberhaching	Indirect	100.0	124	–
SEPA/Real I.S. Objekt Bruchsal Rathausgalerie GmbH & Co. KG, Oberhaching	Indirect	100.0	6,007	357
SEPA/Real I.S. Objekt Bruchsal Rathausgalerie Verwaltungs-GmbH, Oberhaching	Indirect	94.0	25	3
Süd-Fassaden GmbH, Königsbrunn	Indirect	100.0	81	–
Theodor Fontane Besitz- und Betriebsgesellschaft mbH, Potsdam[3]	Indirect	0.0	–	–1,413
Wallenborn Windpark Heilenbach GmbH & Co. KG, Berlin[3]	Indirect	0.0	58	–534
WPA Fonds Partners Sàrl, L - Luxembourg[1]	Indirect	100.0		
WPI Fonds Partners Sàrl, L - Luxembourg[1]	Indirect	100.0		

Name and location of the investee	Type of share-holding	Percentage held	Equity/ fund assets in EUR ’000	Earnings in EUR ’000
Other joint ventures				
ABG Allgemeine Bauträger- und Gewerbeimmobilien-gesellschaft & Co. Holding KG, Munich	Indirect	50.0	158	–54
ABG Allgemeine Bauträger- und Gewerbeimmobilien-gesellschaft mbH, Munich	Indirect	50.0	53	2
CommuniGate Kommunikations-Service GmbH, Passau	Indirect	50.0	3,906	1,199
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	542	–370
Fay & Real I.S. IE Regensburg Verwaltungs GmbH, Oberhaching	Indirect	50.0	29	3
German Centre for Industry and Trade India Holding-GmbH, Munich	Direct	50.0	904	–597
Harburg Arcaden Projektbeteiligung mbH, Essen	Indirect	50.0	52	–
SEPA/Real I.S. Objekt Solingen Verwaltungs-GmbH, Munich	Indirect	50.0	42	5
S-Karten-Service-Management GmbH - Saarbrücken - München, Munich	Indirect	50.0	102	–
TEGES Grundstücks-Vermietungsgesellschaft mbH, Berlin	Indirect	50.0	20	1
TEGES Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt Berlin KG, Berlin	Indirect	47.0	–7,397	–31
Ten Towers GbR, Munich	Indirect	50.0	115	–4
Other participations				
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	36,904	742
Bayern Mezzaninekapital Verwaltungs GmbH, Munich	Direct	49.0	42	1
Erste Tinten Holding GmbH, Hohenbrunn	Indirect	21.0	2,718	–2,903
GHM Holding GmbH, Munich	Indirect	40.0	17,293	–139
G.I.E. Estelle Bail, F - Paris[4]	Indirect	0.0	–59,548	1,511
G.I.E. Max Hymans, F - Paris	Indirect	33.3	–33,698	2,256
Neumarkt-Galerie Immobilienverwaltungs-gesellschaft mbH, Cologne	Indirect	49.0	88	–1
RSU Rating Service Unit GmbH & Co. KG, Munich	Direct	20.0	16,050	1,818
SEPA/Real I.S. Objekt Solingen GmbH & Co. KG, Munich	Indirect	49.9	48	8
WESTFALIA-Automotive Holding GmbH, Hamburg	Indirect	21.4	–33,485	–16,941
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[5]	Direct	48.5	6,865	4,530
Abacus Nine Limited, GBC - George Town/Grand Cayman[5]	Direct	48.5	6,929	4,595
Abacus Seven Limited, GBC - George Town/Grand Cayman[5]	Direct	48.5	4,376	2,042
Abacus Ten Limited, GBC - George Town/Grand Cayman[5]	Direct	43.9	2,727	373
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
Bau-Partner GmbH, Halle/Saale	Indirect	49.6	–239	–553
Corporate Computer Lease Limited, CCL.Limited, GB - Camberley, Surrey[6]	Indirect	33.3	3,951	86

Name and location of the investee	Type of share-holding	Percentage held	Equity/ fund assets in EUR '000	Earnings in EUR '000
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	255,932	14,959
GbR VÖB-ImmobilienAnalyse, Bonn[1]	Indirect	20.0		
GESO Gesellschaft für Sensorik, Geotechnischen Umweltschutz und mathematische Modellierung mbH, Jena	Indirect	43.1	–353	–
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	–	–1,688
Neue Novel Ferm Verwaltungs GmbH, Dettmannsdorf	Indirect	49.0	27	4
Novel Ferm Brennerei Dettmannsdorf GmbH & Co. KG, Dettmannsdorf	Indirect	49.0	–	26
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	709	214
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
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
Sophia Euro Lab S.A.S., F - Sophia Antipolis Cedex	Indirect	32.3	1,536	–130
SSC Sky Shop Catering GmbH & Co. KG, Kelsterbach	Indirect	100.0	1,279	825
Stadtwerke Cottbus GmbH, Cottbus	Indirect	49.9	49,051	6,898
TRMF Gewerbeimmobilien GmbH, Essen	Indirect	50.0	–2,153	606
Versorgungskasse I BayernLB Gesellschaft mit beschränkter Haftung, Munich	Direct	100.0	22,898	–3,718
Versorgungskasse II BayernLB Gesellschaft mit beschränkter Haftung, Munich	Direct	100.0	13,230	3,299

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

1 Approved annual financial statements are not available yet.

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

3 Controlling influence based on contractual legal rights to modify a legal relationship unilaterally.

4 The BayernLB Group's share of the voting rights: 20 percent; third-parties' share of the voting rights: 80 percent.

5 The BayernLB Group's share of the voting rights: 0 percent; third-parties' share of the voting rights: 100 percent.

6 The BayernLB Group's share of the voting rights: 41.7 percent; third-parties' share of the voting rights: 58.3 percent.

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
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 (details on the expiry of this letter of comfort on 1 May 2015 can be found in the management report in the section events after the reporting period)
- Deutsche Kreditbank Aktiengesellschaft, Berlin

Deutsche Kreditbank Aktiengesellschaft, Berlin is liable for ensuring that SKG BANK AG, Saarbrücken is able to fulfil its contractual obligations in proportion to the size of its equity interest except in cases of political risk.

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 affiliated company 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 25 million and liabilities from limited partnership interests of EUR 29 million. 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 152 million.

Under the terms of the statutes of the deposit insurance fund run by the Association of German Public 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.

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 net assets, financial position and results of operations 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 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 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.

Transactions with related parties were concluded at standard market terms and conditions.

Administrative bodies of BayernLB

Supervisory Board

Gerd Haeusler
since 1 October 2014
Chairman of the Supervisory Board of BayernLB
Munich

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

Dr Hubert Faltermeier
since 9 May 2014
Chief District Administrator
Kelheim

Dr Roland Fleck
since 1 October 2014
Managing Director
NürnbergMesse GmbH
Nuremberg

Dr Ute Geipel-Faber
since 30 May 2014
Senior Director – Client Portfolio Management
Invesco Real Estate GmbH
Munich

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

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

Professor Dr Christian Rödl
Managing Partner
Rödl & Partner GbR
Nuremberg

Professor Dr Bernd Rudolph
Professor at LMU Munich and
Steinbeis-Hochschule Berlin

Dr Bernhard Schwab
since 1 October 2014
Deputy Secretary
Bavarian State Ministry for Economic Affairs
and the Media, Energy and Technology
Munich

Jakob Kreidl
until 3 March 2014
Former Chief District Administrator
Fischbachau

Michael Schneider
until 30 September 2014
Chairman of the Supervisory Board of
BayernLB
Former Chairman of the
Management Board of LfA
Germering

Dr Klaus von Lindeiner-Wildau
until 30 September 2014
Member of the Executive Board (retired)
Wacker Chemie GmbH
Independent Consultant
Munich

Dr Hans Schleicher
until 30 September 2014
Deputy Secretary
Bavarian State Ministry for Economic Affairs
and the Media, Energy and Technology
Munich

Board of Management (including allocation of responsibilities as at 1 January 2015)

Dr Johannes-Jörg Riegler
since 1 March 2014
CEO since 1 April 2014
Corporate Center
Deutsche Kreditbank Aktiengesellschaft

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

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

Michael Bücker
Corporates & Mittelstand

Dr Markus Wiegelmann
CFO/COO
Financial Office
Operating Office

Ralf Woitschig
since 1 October 2014
Financial Markets
BayernInvest Kapitalverwaltungsgesellschaft mbH
Real I.S. AG Gesellschaft für Immobilien Assetmanagement

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

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

1 Dependent institution of the Bank.

Remuneration of the administrative bodies

EUR '000	2014	2014	2013	2013
Total remuneration for the financial year: Members of the Board of Management		**2,921**		**3,017**
• CEO	506		500	
– Base salary	506		500	
– Variable compensation (incl. expenses for previous years)	–		–	
• Deputy CEO	506		500	
– Base salary	506		500	
– Variable compensation	–		–	
• Full members of the Board of Management	1,811		1,958	
– Base salary	1,811		1,958	
– Variable compensation	–		–	
• Ancillary remuneration (non-cash compensation)	99		59	
Members of the Supervisory Board		**663**		**526**
Former members of the Board of Management and their surviving dependants		**4,590**		**5,428**
Pension provisions established for former members of the Board of Management and their surviving dependants		**77,954**		**71,911**

Loans to the administrative bodies

There were no loans to administrative bodies in financial year 2014.

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	
Dr Johannes-Jörg Riegler	Deutsche Kreditbank Aktiengesellschaft, Berlin
Dr Edgar Zoller	Deutsche Kreditbank Aktiengesellschaft, Berlin
Marcus Kramer	Banque LBLux S.A., L - Luxembourg Deutsche Kreditbank Aktiengesellschaft, Berlin
Michael Bücker	Deutsche Factoring Bank Deutsche Factoring GmbH & Co., Bremen
Dr Markus Wiegelmann	Deutsche Kreditbank Aktiengesellschaft, Berlin
Employees	
Dr Michael Braun	Banque LBLux S.A., L - Luxembourg Landesbank Saar, Saarbrücken
Dr Detlev Gröne	Banque LBLux S.A., L - Luxembourg
Thomas Hierholzer	Banque LBLux S.A., L - Luxembourg

1 This information is valid as at 31 December 2014.

External auditor's fees

EUR million	2014	2013
Total fees recorded as expenses in the financial year for		
• the financial statements audits	4	3
• other certification services	1	1
• tax consultancy services	–	–
• other services	2	1
Total	**6**	**5**

Number of employees (annual average)

	2014	2013
Female	1,507	1,547
Male	1,736	1,762
Total	**3,243**	**3,309**

The total figure includes 760 (FY 2013: 652) part-time employees, which corresponds to 501 (FY 2013: 414) full-time employees. The 95 (FY 2013: 69) 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, 16 March 2015

Bayerische Landesbank
The Board of Management

Dr Johannes-Jörg Riegler	Dr Edgar Zoller	Marcus Kramer
Michael Bücker	Dr Markus Wiegelmann	Ralf Woitschig

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 2014. 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 Bayerische 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 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, 16 March 2015

Deloitte & Touche GmbH
Wirtschaftsprüfungsgesellschaft

(Löffler)
German public auditor
(Wirtschaftsprüfer)

(Apweiler)
German public auditor
(Wirtschaftsprüfer)

Committees and advisory boards

We would like to thank all our committees and advisory boards for their dedicated support in financial year 2014.

Supervisory Board

Gerd Haeusler
since 1 October 2014
Chairman of the BayernLB Supervisory Board
Munich

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

Dr Hubert Faltermeier
since 9 May 2014
Chief District Administrator
Kelheim

Dr Roland Fleck
since 1 October 2014
Managing Director
NürnbergMesse GmbH
Nuremberg

Dr Ute Geipel-Faber
since 30 May 2014
Senior Director – Client Portfolio Management
Invesco Real Estate GmbH
Munich

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

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

Professor Dr Christian Rödl
Managing Partner
Rödl & Partner GbR
Nuremberg

Professor Dr Bernd Rudolph
Professor at LMU Munich and
Steinbeis-Hochschule Berlin

Dr Bernhard Schwab
since 1 October 2014
Deputy Secretary
Bavarian State Ministry for Economic Affairs
and the Media, Energy and Technology
Munich

Jakob Kreidl
until 3 March 2014
Former Chief District Administrator
Fischbachau

Dr Klaus von Lindeiner-Wildau
until 30 September 2014
Member of the Executive Board (retired)
Wacker Chemie GmbH
Independent Consultant
Munich

Michael Schneider
until 30 September 2014
Chairman of the BayernLB Supervisory Board
Former chairman of the
Management Board of LfA
Germering

Dr Hans Schleicher
until 30 September 2014
Deputy Secretary
Bavarian State Ministry of 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
until 1 June 2014
Principal for the
Association of Bavarian Savings Banks
Munich

Dr Ulrich Netzer
since 2 June 2014
Principal
President
Association of Bavarian Savings Banks
Munich

Dr Ivo Holzinger
until 3 December 2014
First Deputy Principal
Lord Mayor
Memmingen

Professor Ulrich Reuter
since 4 December 2014
First Deputy Principal
Chief District Administrator
Aschaffenburg

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

Audit Committee

Professor Dr Christian Rödl
Deputy Chairman of the Audit Committee
until 1 October 2014
Chairman of the Audit Committee
since 2 October 2014
Managing Partner
Rödl & Partner GbR
Nuremberg

Professor Dr Bernd Rudolph
Deputy Chairman of the Audit Committee
since 2 October 2014
Professor at LMU Munich and
Steinbeis-Hochschule Berlin

Dr Hubert Faltermeier
since 22 May 2014
Chief District Administrator
Kelheim

Dr Roland Fleck
since 2 October 2014
Managing Director
NürnbergMesse GmbH
Nuremberg

Dr Bernhard Schwab
since 2 October 2014
Deputy Secretary
Bavarian State Ministry of Economic Affairs
and the Media, Energy and Technology
Munich

Jakob Kreidl
until 3 March 2014
Former Chief District Administrator
Fischbachau

Dr Klaus von Lindeiner-Wildau
until 30 September 2014
Chairman of the Audit Committee
Member of the Executive Board (retired)
Wacker Chemie GmbH
Independent Consultant
Munich

Dr Hans Schleicher
until 30 September 2014
Deputy Secretary
Bavarian State Ministry of Economic Affairs
and the Media, Energy and Technology
Munich

Risk Committee

Gerd Haeusler
since 2 October 2014
Chairman of the Risk Committee
Munich

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

Dr Ute Geipel-Faber
since 10 July 2014
Senior Director – Client Portfolio Management
Invesco Real Estate GmbH
Munich

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

Michael Schneider
until 30 September 2014
Chairman of the Risk Committee
Former chairman of the
Management Board of LfA
Germering

BayernLabo Committee

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

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

Dr Hubert Faltermeier
since 22 May 2014
Chief District Administrator
Kelheim

Dr Ute Geipel-Faber
since 2 October 2014
Senior Director – Client Portfolio Management
Invesco Real Estate GmbH
Munich

Dr Bernhard Schwab
since 2 October 2014
Deputy Secretary
Bavarian State Ministry of Economic Affairs
and the Media, Energy and Technology
Munich

Jakob Kreidl
until 3 March 2014
Former Chief District Administrator
Fischbachau

Dr Hans Schleicher
until 30 September 2014
Deputy Secretary
Bavarian State Ministry of Economic Affairs
and the Media, Energy and Technology
Munich

Michael Schneider
from 7 April until 30 September 2014
Former chairman of the
Management Board of LfA
Germering

Nominating Committee

Gerd Haeusler
since 2 October 2014
Chairman of the Nominating Committee
Munich

Wolfgang Lazik
Deputy Chairman of the Nominating Committee
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

Professor Dr Christian Rödl
since 2 October 2014
Managing Partner
Rödl & Partner GbR
Nuremberg

Dr Klaus von Lindeiner-Wildau
until 30 September 2014
Member of the Executive Board (retired)
Wacker Chemie GmbH
Independent Consultant
Munich

Michael Schneider
until 30 September 2014
Chairman of the Nominating Committee
Former chairman of the
Management Board of LfA
Germering

Compensation Committee

Professor Dr Bernd Rudolph
Chairman of the Compensation Committee
Professor at LMU Munich and
Steinbeis-Hochschule Berlin

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

Ralf Haase
Chairman of the General Staff Council
BayernLB
Munich

Dr Roland Fleck
since 2 October 2014
Managing Director
NürnbergMesse GmbH
Nuremberg

Professor Dr Christian Rödl
until 1 October 2014
Managing Partner
Rödl & Partner GbR
Nuremberg

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
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 Stadtsparkassse 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

Wirtschafts- und Finanzforum Bayern (Bavarian Economic and Finance Forum) – BayernLB Economic Advisory Council (as at 16 March 2015)

Dr Markus Söder
Chairman of the BayernLB
Economic Advisory Council
State Minister
Bavarian State Ministry of Finance,
Regional Development and Regional Identity
Munich

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

Professor Dr Roland Berger
Management Consultant, Honorary Chairman
Roland Berger Strategy Consultants
Munich

Dr Manfred Bode
Chairman of the Shareholders Council
Wegmann Group
Munich

Johann Bögl jun.
Managing Partner
Max Bögl Bauunternehmung GmbH & Co. KG
Sengenthal

Simone Büber-Monath
CFO
M-net Telekommunikations GmbH
Munich

Dr Dr Axel Diekmann
Shareholder
Verlagsgruppe Passau
Passau

Klaus Dittrich
Chairman of the Management
Messe München GmbH
Munich

Rachel Empey
CFO
Telefónica Deutschland Holding AG
Munich

Dr Hubert Faltermeier
Chief District Administrator
Kelheim

Dr Roland Fleck
Managing Director
NürnbergMesse GmbH
Nuremberg

Alfred Gaffal
President
Vereinigung der Bayerischen Wirtschaft e.V.
Munich

Dr Ute Geipel-Faber
Senior Director – Client Portfolio Management
Invesco Real Estate GmbH
Munich

Ralf Haase
Chairman of the General Staff Council
BayernLB
Munich

Karl Häusgen
CEO
HAWE Hydraulik SE
Munich

Gerd Haeusler
Chairman of the Supervisory Board
BayernLB
Munich

Josef Hasler
CEO
N-Ergie AG
Nuremberg

Andreas Helber
Member of the Board of Management
BayWa AG
Munich

Ingrid Hofmann
Managing Partner
I. K. Hofmann GmbH
Nuremberg

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BayernLB 2014 Annual Report and Accounts

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Text/editorial staff/production
BayernLB
Financial Office, Rating & Investor Relations Section
Group Strategy & Group Communications,
Strategic Marketing & Special Tasks Department

Layout and printing
DruckArt c/o Gebr. Geiselberger GmbH

Closing date for submissions: 16 April 2015

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 2014 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.bayernlb.com/ir.
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.

Savings Banks Finance Group in Bavaria

Savings Banks Finance Group
Market leader in Bavaria

- **Aggregate total assets** (bank business): EUR 418 billion
- **Aggregate regulatory capital** (excl. BayernLB): EUR 17.5 billion
- **Aggregate premium volume** (insurance business): EUR 7.3 billion

BayernLB

Consolidated total assets:
EUR 232.1 billion

Staff:
Bank: 3,283
Group: 6,842

Bayerische Landesbodenkreditanstalt

Lending volume (proprietary and fiduciary business): EUR 22.5 billion

State subsidised business (number of apartments): 10,484

BayernLB Group companies include

- Deutsche Kreditbank AG, Berlin
- BayernInvest Kapitalverwaltungsgesellschaft mhH, Munich
- Real I. S. AG, Munich

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

71 savings banks

Total assets: EUR 186 billion

Staff: 43,936
- Branches: 2,327
- Self-service branches: 404
- Advisory centres: 468

Customer loans: EUR 116 billion
Customer deposits: EUR 146 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 120.8 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 7.9 billion

LBS Bayerische Landesbausparkasse
Portfolio of 2.1 million home loan savings contracts with a volume of EUR 62.0 billion

Staff: 730

Sparkassen-Immobilien
Volume of business brokered:
EUR 1.99 billion

Versicherungskammer Bayern (total insurance business)

Premium volume: EUR 7.3 billion
Staff: 6,808*
Investment portfolio: EUR 44.7 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 June 2014

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Bayern LB