2012 Annual Report and Accounts

Separate Financial Statements
Facts. Figures.

BayernLB's financial statements at a glance

Income statement (HGB)

EUR million	1 Jan–31 Dec 2012	1 Jan–31 Dec 2011	Change in %
Net interest income	1,672	1,611	3.8
Net commission income	175	159	10.3
Net income from the trading portfolio	152	–50	
Administrative expenses	–926	–735	26.0
Operating profit/loss	**63**	**–97**	

Balance sheet (HGB)

EUR million	31 Dec 2012	31 Dec 2011	Change in %
Total assets	231,918	256,728	–9.7
Business volume	263,336	293,743	–10.4
Credit volume	145,411	162,132	–10.3
Total deposits	100,673	110,840	–9.2
Securitised liabilities	64,371	79,019	–18.5
Reported equity	19,727	19,181	2.8

Banking supervisory ratios under the German Banking Act (KWG)

EUR billion	31 Dec 2012	31 Dec 2011	Change in %
Core capital	13.2	12.5	5.6
Own funds	17.4	17.9	–2.8
Risk positions under the Solvency Ordinance	71.8	85.8	–16.3
Core capital ratio	18.4%	14.6%	3.8 Pp[1]
Own funds ratio (overall ratio)	24.2%	20.8%	3.4 Pp[1]

1 *Percentage points.*

Employees

	31 Dec 2012	31 Dec 2011	Change in %
Number of employees	3,471	4,139	–16.1

Contents

BayernLB · 2012 Annual Report and Accounts

Report by the Board of Administration

Report by the Board of Administration

Report by the Board of Administration

2012 was yet another challenging year for banks. The main issues were the impact of the sovereign debt crisis that continued to spread, particularly in the eurozone, the low interest-rate environment throughout the period, and the upcoming need to implement stricter regulatory requirements which are scheduled to come into effect in the next few years.

Like other banks, BayernLB also had to compete and try to grow in the stressful and difficult market conditions. An important milestone was reached when the EU Commission concluded its state aid proceedings on 25 July 2012, thereby officially endorsing the viability of BayernLB's business model. Within the agreed formula, BayernLB will now continue along its chosen path of becoming a corporate and real estate lender and dependable partner to the savings banks, with a strong regional focus on Bavaria and Germany. This and the long-term stability of the Bank will be the top priorities of the Board of Administration and Board of Management.

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

The Board of Administration also looked at the plethora of legal and regulatory requirements and their potential impact on BayernLB and its subsidiaries. The Board of Administration had extensive discussions with the Board of Management on the Bank's strategy and its implementation. The supervisory board was regularly advised on the progress of the negotiations with the European Commission and, following intense and detailed discussions in its meeting on 2 July 2012, passed the resolution concluding the state aid proceedings. High on the Board of Administration's agenda was the sales process for GBW AG and the sale of LBS Bayern to the Bavarian savings banks in accordance with the objective to steadily and carefully wind down the Bank's non-core business and implement the European Commission's requirements.

As the macroeconomic situation in Hungary remained unsettled in 2012, the Board of Administration was kept regularly informed of the current status of the subsidiary MKB, which is part of the non-core business. Due to the extraordinary negative impact of the Hungarian government's non-earnings related bank levy, the Foreign Currency Loan Repayment Law, tougher capital requirements imposed by the Hungarian banking supervisory authority and poor economic growth in the country, MKB Bank Zrt. needed a capital increase in 2012. The Board of Administration approved this measure in its meeting in September and a special meeting in December.

In December 2012 the members and deputy members of the Board of Administration were briefed on new accounting rules by the Group Accounting & Tax division and the auditors.

A total of 11 meetings were chaired by Bavarian Minister of Finance Dr Markus Söder in 2012.

The chairmen of both the Audit Committee and Risk Committee regularly reported on their work to a full session of the Board of Administration.

Under its chairman Dr Klaus von Lindeiner-Wildau, the main tasks of the Audit Committee are to monitor the accounting process and the effectiveness of the internal control system, the internal auditing system and the system used for risk management, the audit of the annual financial statements and of the consolidated financial statements, and to review and monitor the independence of the auditors, particularly the additional services performed by the auditors for the Bank. The Board of Administration assigned additional duties to the Audit Committee. During the year, for example, the Audit Committee received updates on the work and audit results of Internal Audit and Compliance. It also considered assessments on the threats from money laundering and financial crime and what the focuses of the audit of the 2012 Annual Report should be as permitted by section 30 of the German Banking Act. The Audit Committee was also kept informed of the selection procedure to appoint a monitoring trustee following the conclusion of the EU state aid proceedings.

The Audit Committee held three meetings in 2012.

Under its chairman Alexander Mettenheimer, the Risk Committee was involved in all major issues relating to the risk strategy drafted and approved by the Board of Management and then approved by the Risk Committee, and all aspects of BayernLB's risk situation at both the Group and Bank level. It discussed and approved the risk and sub-portfolio strategies established by the Board of Management group-wide, discussed the reports by the Board of Management on BayernLB's performance in relation to the risk situation (particularly risk-bearing capacity), and decided on all loans requiring approval by the Board of Administration.

Other issues discussed by the Risk Committee in 2012 included the work of the Restructuring Unit (particularly the ABS portfolio) and the progress in implementing the third amendment to the MaRisk regulations at BayernLB as well as the outlook for the fourth MaRisk amendment. It was also regularly updated on the ongoing European sovereign debt crisis. The Risk Committee held seven meetings in 2012.

The chairman of the Board of Management promptly informed the chairman and deputy chairmen of the Board of Administration about any events that were of material significance in assessing the Bank's situation and performance. The regulatory requirements governing the reporting by the Board of Management of irregularities identified by Internal Audit were met.

At their various meetings the Board of Administration, Audit Committee and Risk Committee passed the resolutions required by law and under the Statutes and the Rules of Procedure of the respective committees. In addition, important issues and pending decisions were also discussed in regular meetings between the chairmen of the Board of Administration and Board of Management. Meetings were held both in person and in the form of telephone conferences. When necessary, resolutions were also passed between meetings using a circulation procedure.

Corporate governance

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

In its meeting of 7 February 2013, the Board of Administration discussed compliance with these corporate governance principles in 2012. It agreed with the Board of Management that it was aware of no evidence that these principles had not been observed. The General Meeting passed a resolution to the same effect.

Board members

The following changes to the composition of the Board of Administration were made in 2012.

The terms of the Lord Mayor Hans Schaidinger and Professor Dr Georg Crezelius ended on 31 July 2012. They were succeeded by Dr Jakob Kreidl and Professor Dr Christian Rödl with effect from 1 August 2012. Mr Schaidinger will continue to be available to the governing body in his role as a deputy member.

The Board of Administration would like to thank Mr Schaidinger and Dr Crezelius for their constructive contribution and services to the Bank over their terms of office.

There were no changes to the composition of the Board of Management in 2012. However, Mr Jan-Christian Dreesen stepped down from the Board of Management with effect from 31 January 2013. On 23 November 2012 the Board of Administration approved the appointment of Mr Michael Bücker as his successor, with effect from 1 February 2013.

Audit and approval of the 2012 annual accounts

Deloitte & Touche GmbH Wirtschaftsprüfungsgesellschaft conducted the audit of the Bank's annual financial statements and consolidated financial statements, the management report and Group management report, and the annual financial statements and management reports of BayernLabo and LBS Bayern (the latter before it was divested), both of which are legally dependent institutions of the Bank. BayernLB's Board of Administration duly verified the independence of the auditors before recommending their approval by the General Meeting.

Unqualified opinions were granted upon completion of the audit in all cases. The Audit Committee discussed each of the documents forming part of the annual and consolidated financial statements in conjunction with the auditors' audit report and with the auditors themselves. The chairman of the Audit Committee reported the results of this discussion to the Board of Administration 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 Board of Administration 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 Board of Administration 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 Board of Administration 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 Board of Administration would like to thank all of BayernLB's customers and business partners for their loyalty over this past financial year. It also thanks the members of the Board of Management and all of BayernLB's staff for their work over the past year, which was a critical one for the Bank's future, and for their commitment under extremely challenging conditions. One notable success was the payment in November 2012 and February 2013 of a total of EUR 800 million to the Free State of Bavaria as a first step in complying with one of the key conditions of the EU state aid proceedings.

The Board of Administration would also like to wish the Bank every success in tackling the key tasks for 2013, particularly the challenges in pushing on with the restructuring of the Group. The Board of Administration is confident that BayernLB will bolster its strong position in the German banking market and continue to move along the successful path it has chosen.

Munich, 15 April 2013
The Board of Administration

Dr Markus Söder
Bavarian Minister of Finance
Chairman

Management report

Management report

BayernLB · 2012 Annual Report and Accounts

Overview

Economic environment

The German economy ended a difficult 2012 in good shape overall. Adjusted GDP rose just 0.7 percent after the 3.0 percent and 4.2 percent gains of the two previous years. But given the numerous drags on growth, this is a very respectable showing and underscores how structurally and competitively strong the corporate landscape is. The principal drags were the contraction in global economic growth (down half a percentage point to 2.5 percent), the deep recession in several eurozone countries and persistently high levels of uncertainty fanned by the European sovereign debt crisis. Consequently the year-on-year gap in overall output narrowed from 1.2 percent in the first quarter of 2012 to just 0.4 percent in the final quarter.

Exports, which account for upwards of half of GDP, making them the second-largest component of demand, rose by just 3.7 percent in real terms, half as much as in 2011. German exporters were helped by the high technical quality of their products and a strong presence in the growth regions of the world, particularly in Asia. Exports to the eurozone, easily the largest consumer, fell by 2.1 percent, but shipments elsewhere rose by 8.8 percent.

Flagging exports, and more importantly the high levels of uncertainty fanned by the still unresolved eurozone sovereign debt crisis, took their toll on capital expenditure, the main driver of growth and productivity. Companies scaled back spending on plant and equipment by 4.8 percent in real terms and on commercial buildings by 1.8 percent. However, consumer spending had a stabilising effect, rising by an adjusted 0.6 percent as the situation on the labour market improved and private households enjoyed rising incomes. This was also the principal reason why the German economy managed to avoid the severe slump experienced by some other countries in the eurozone. Residential construction, which grew by 0.9 percent, also gave a lift to the economy. This was due in part to the more buoyant labour market, rising incomes and very low interest rates, but also concerns over the euro's survival and its monetary value.

The German labour market went from strength to strength. At the end of the year 41.7 million people were gainfully employed, 289,000 more than at the end of the previous year and the highest number since reunification in 1990. The decline in unemployment had, however, flatlined by early 2012 and has since risen moderately. At the end of 2012, 2.9 million people were registered unemployed, 60,000 more than at the end of 2011. Despite widespread fears of inflation, consumer prices rose by just 2.0 percent during the year under review. However, if energy prices – which were highly volatile and significantly affected by events on the global market – are stripped out of the equation, the cost of living for private households went up again by only 1.5 percent. The asset bubble that was feared in certain quarters also failed to materialise.

And lastly, on a positive note, a small budget surplus was achieved after a five-year hiatus (EUR 4.2 billion). The federal and state governments posted a combined shortfall of nearly EUR 20 billion. But this was counterbalanced by a similar-sized surplus in the social security fund. Germany has therefore managed to meet the terms of the "debt brake" provision in its constitution four years ahead of the legal deadline. The job of balancing the books, however, cannot be considered complete in view of the huge tasks ahead presented by the problems of demographics, social security, energy, the environment, and Europe. And of course, despite the budgetary surplus, it has the rising national debt to contend with, which, at the end of 2012, stood at 82 percent of

GDP, or nearly EUR 2.2 trillion. Financial assistance for eurozone countries and costs of stabilising the financial system are increasing the national debt but these do not show up in the budget.

Bank lending to companies and individuals in Germany only rose by 0.9 percent over the year, a far cry from the 2.6 percent of the year before. Low demand for credit is mainly to blame. The regular bank lending surveys by the Bundesbank and company credit constraints surveys by the Institute for Economic Research show that borrowers have no real difficulty gaining access to funding if their credit rating is good enough.

Much progress was made in the battle royal to stabilise the eurozone, and this was reflected on financial markets in late summer. The countries in crisis made significant headway in reducing new debt and strengthening their competitiveness. Their reward was growing exports and falling current account deficits. Governance at EU/EMU level was buttressed significantly. The key development was the decision to create a banking union supervised uniformly by the European Central Bank (ECB). The breakthrough came in late summer when the ECB announced it would intervene without limit in the sovereign bond market under certain circumstances. It was then clear to all investors that the euro was not up for negotiation. The ECB also introduced two long-term financing operations (LTRO) to further stabilise the currency thus significantly increasing liquidity in the banking system.

On forex markets the euro moved in line with the changing perceptions of the sovereign debt crisis in the eurozone. Against the dollar the single currency had depreciated to 1.23 by July 2012 before regaining ground and ending the year at 1.33, basically its level 12 months previously. The euro's real trade-weighted value – where the exchange rate is calculated against a basket of currencies of the most important trading partners – declined significantly up to July and, despite its subsequent recovery, was still 2 percent lower at the end of 2012 than a year before. Overall the price competitiveness of companies in the eurozone significantly improved on the years before.

Because of the unsettled conditions in the eurozone, yields in Germany plunged further in 2012. The backdrop for this was the decision by the ECB to cut its key (main refinancing) rates in November and December 2011 and in July 2012 to a record low of 0.75 percent. As Germany is predominantly regarded as a safe haven within the eurozone, yields on long-dated government bonds fell to 1.2 percent in July and were negligibly higher at the end of 2012. Over the year yields were negative in real terms, averaging 1.5 percent. This was 1 percentage point lower than in 2011 and significantly below the inflation rate. If interest rates remain extremely low for a prolonged period of time, the stability of the financial system could be threatened and the risk of bad investments may increase.

Risk premiums narrowed on the Pfandbrief market. As demand for lending went down and financing to the public-sector decreased, issue volumes fell significantly to EUR 57 billion in 2012. Risk premiums on corporate bonds (ex financials) also fell all along the curve. The issue volume of EUR 230 billion was the second highest since the euro was introduced. In 2012 the German stock market was also a beneficiary of investors' increasing appetite for risk. DAX companies posted better-than-expected earnings. Despite some volatility the German blue-chip index rose by nearly 30 percent over the year, significantly more than the average of its international peers. Its eurozone counterpart, the EURO STOXX 50, only rose by 14 percent.

Business model and strategy

A key milestone for Bayerische Landesbank, an institution established under public law, Munich (BayernLB) in financial year 2012 was the conclusion of the EU state aid proceedings that the European Commission brought to a close on 25 July 2012. The aid granted by the Free State of Bavaria to the Bank at the start of the financial crisis was approved under certain conditions. The conclusion of these proceedings gives BayernLB the planning certainty it needs for its business model and therefore the opportunities for action so that it can continue along its chosen path of becoming a corporate and real estate lender and reliable partner of the savings banks with a clear regional focus on Bavaria and the rest of Germany. Implementation of many of the conditions and measures that are now contained in the EU's ruling, particularly on downsizing the Bank, started as early as 2009, immediately following the recapitalisation by the Free State of Bavaria. The goal of the requirements within the EU's ruling is to restore the viability of the Bank that was temporarily lost at the start of the financial crisis and ensure it remains so over the long term. The distortion in competition brought about by the provision of aid must, however, be counterbalanced. To that end, BayernLB must divest itself of profitable business activities, including whole business units and participations in other companies. An external, independent monitoring trustee will monitor compliance with the requirements on behalf of the European Commission.

The main points of the European Commission's decision are that Bayern LB must repay around EUR 5 billion in aid to the Free State of Bavaria by 2019. In complying with this condition of the European Commission to repay capital, the stability of BayernLB has, however, top priority. These payments to the Free State of Bavaria are subject to the approval of the competent national supervisory authority, currently the German Federal Financial Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht – BaFin). This mechanism will ensure that the Bank always has an adequate capital ratio (core tier 1), which, for example, will enable the Bank to pass stress tests or weather stress situations. The payments were initiated in November 2012. The Bank will downsize further, primarily to repay the full amount of around EUR 5 billion, and by the end of 2015 the BayernLB Group will have reduced its total assets by nearly 50 percent since 2008.

Having already discontinued or wound down certain business activities, it will mainly achieve this by disposing of or selling other participations. In 2012 BayernLB, in addition to selling or liquidating smaller participations, sold its stake in DKB Immobilien AG, Berlin held through Deutsche Kreditbank Aktiengesellschaft, Berlin (DKB) and disposed of Bayerische Landesbausparkasse, Munich (LBS Bayern) to the Association of Bavarian Savings Banks, Munich by the deadline of the end of 2012. The process of selling the stake in GBW AG, Munich was initiated in October 2012. The transaction is expected to be concluded in early 2013. Participations will be steadily reduced in 2013 and in subsequent years.

The implementation of the EU requirements and further focusing of the business model ahead of the final EU decision were the main strategic measures of 2012. The creation of the new chief operating officer position with a separate Board of Management area of responsibility (Operating Office) is an organisational change that will enable the Bank and its operating processes to focus more intensively on customers in future and conduct a review of existing processes throughout the Bank.

The new core business is focused on the Bavarian and German retail, corporate and real estate customer segments, the partnership with the savings banks, both as customers and as strategic sales partners, and the public sector. Besides its head office in Munich, BayernLB has offices in Nuremberg and Düsseldorf. As before, BayernLB's international business activities are focused on German customers abroad and on foreign customers if they or their business activities have a German connection. Outside Germany, BayernLB is represented in New York, London, Luxembourg, Milan and Paris. By exercising prudence and keeping a close eye on risk, the Bank can and will thrive in its core business.

In 2012 the core business was divided into the following three pillars:
- the Corporates, Mittelstand & Retail Customers business area
- the Real Estate & Savings Banks/Association business area (including the public sector) and
- the Markets business area.

The Corporates, Mittelstand & Retail Customers business area focused on the Mittelstand-dominated Bavarian and German economy and on German and selected large international companies with a strong German interest. Besides traditional lending, its core competences are principally export financing and leasing products, project financing and loan syndication, and corporate bond and Schuldschein note loan placements. Professional solutions for payment transactions and cash investments round off its range of products.

The Real Estate & Savings Banks/Association business area pools together commercial and residential real estate customers, the savings banks, which are important customers and sales partners for BayernLB, and the public sector. The development bank Bayerische Landesbodenkreditanstalt, Munich (BayernLabo) is also allocated to this business area.

The Markets business area has global responsibility within BayernLB for capital market and treasury products; its activities are principally focused on serving the needs of customer-driven business which Markets also supplies products to. Markets provides a comprehensive service to banks worldwide and institutional business partners such as insurers and investment companies.

Non-core activities are mostly bundled in the internal Restructuring Unit (RU) established in 2009.

Participations portfolio

In the reporting year BayernLB forged ahead with its programme to reduce its holdings and divested itself of additional non-strategic participations. The number of direct participations fell to 97 (FY 2011: 105). The stake in DKB Immobilien AG held indirectly through DKB was sold. The stake in DKB is and will remain an integral element of the new BayernLB. Particularly in the field of online retail banking, the subsidiary has achieved great success over the years, forging a name for itself as "Your bank on the web".

Human resources

As at 31 December 2012, a total of 3,471 staff were employed at BayernLB. Headcount fell by 668 over the year, partly due to the spin off of LBS Bayern. Of these, 639 were based in Germany and 29 abroad.

			Change	
	2012	2011	absolute	in %
Number of employees at year-end	**3,471**	**4,139**	**–668**	**–16.1**
of which				
• Germany	3,179	3,818	–639	–16.7
• Abroad	292	321	–29	–9.0
of which				
• BayernLB excluding BayernLabo and LBS Bayern	3,234	3,216	18	0.6
• BayernLabo	237	235	2	0.9
• LBS Bayern	0	688	–688	–100.0
of which				
• Male	1,861	2,134	–273	–12.8
• Female	1,610	2,005	–395	–19.7
of which				
• Full-time employees	2,831	3,270	–439	–13.4
• Part-time employees	640	869	–229	–26.4
Average length of service in the Bank (in years)*	**13.9**	**14.2**	**–0.3**	**–2.1**
Average age (in years)*	**42.4**	**42.2**	**0.2**	**0.5**

** The average figures shown relate to all active members of staff in Germany and abroad including LBS Bayern (2012: 4,173; of these, 702 were working at LBS Bayern at the time of the spin off; 2011: 4,139).*

As at 31 December 2012, a total of 127 (2011: 118) junior staff were employed at BayernLB. These comprised:

			Change	
	2012	2011	absolute	in %
Year-end junior staff headcount at BayernLB in Germany and abroad	**127**	**118**	**9**	**7.6**
of which				
• Banking apprentices	31	36	–5	–13.9
• Students on a vocationally integrated course at a cooperative university	60	47	13	27.7
• Trainees	36	35	1	2.9

As at the reporting date, 640 staff (18.44 percent) (2011: 869 staff; 21.0 percent) were employed part time. The fall was due to the spin off of LBS Bayern.

Staff turnover (due to employees leaving) as a percentage of the workforce in Germany and abroad fell to 1.6 percent (2011: 2.2 percent including LBS Bayern).

Corporate responsibility

BayernLB's stated corporate mission is to achieve sustainable commercial success while meeting its social responsibilities. It takes these responsibilities seriously. Sustainability management and reporting play just as important a part in BayernLB's business activities as its commitment to the community, education and science, and art and culture.

Community work

In 2012 BayernLB continued to support the charity Sternstunden e.V., Munich (Sternstunden), which funds projects helping disadvantaged children and adolescents in a variety of ways, for example by covering administration costs. Staff at BayernLB, BayernLabo and LBS Bayern volunteered their time on Sternstunden day to take telephone donations. Around EUR 6 million was collected, which marked a new record. In 2012 Sternstunden raised nearly EUR 13 million in donations. Since it was founded in 1993 it has provided more than EUR 150 million in funding for more than 2,200 projects to help children.

The "Corporate Volunteering" scheme had a second successful year. Many staff took up the offer to do voluntary work for up to two working days. For example they volunteer to take part in the mentoring programme at the charity JOBLINGE AG, Munich to train unemployed young people for a trainee position or job. BayernLB supports the initiative financially by covering the costs of three scholarships.

BayernLabo supported the social project of the "Schüler helfen Leben e.V." (children helping the lives of others) association and once again gave young people the opportunity to work one day at the Bank. Their pay for the day was donated to youth and educational projects in south eastern Europe. LBS Bayern funded the "little discoverers" project which gives children a sample of science and taste of technology.

Art and culture

Five Bavarian savings banks hosted BayernLB's "Gold from the Bavarian Rivers" touring exhibition in 2012. The centrepiece is an almost complete collection of valuable historical gold coins.

BayernLB once again sponsored the open-air classical music concert in Munich's Odeonsplatz in 2012. The Bank took the opportunity at this well-established summer event, featuring Bavarian radio's symphony orchestra and the Munich Philharmonic, to strengthen ties with customers.

Education and science

In 2012 the successful cooperation between BayernLB and the Entrepreneurship Center at Ludwig Maximilian University in Munich (LMU) entered a second year. The partnership has been particularly beneficial to the Bank in helping it expand its Mittelstand sector know-how and making contact with new talent as a potential employer.

BayernLB also has ties with the elite Finance & Information Management (FIM) course offered jointly by Augsburg University and the Technical University of Munich to give the financial managers of the future the vocational training and support they need.

For more than 15 years, BayernLB has presented the “innovation in healthcare award” in honour of outstanding ideas in the healthcare sector. The theme in 2012 was “The challenges of demographic change - tomorrow’s geriatric preventive healthcare”. The special prize was dedicated to the theme “Dying with Dignity”. A total of EUR 25,000 is awarded.

Support for the “Munich Financial Center Initiative”

The primary goal of the Munich Financial Center Initiative (fpmi) is to strengthen and improve the image of Bavaria, especially Munich, as a financial centre and to improve the area’s standing outside the region. Regular discussions are held with representatives of the European Commission and the European Parliament in Brussels, members of the German parliament and government representatives in Berlin. The fpmi furthers the interests of all players within Bavaria’s financial sector. Participants are companies from the banking and insurance sectors, the Bavarian State Ministry of Economic Affairs, Infrastructure, Transport and Technology, the Deutsche Bundesbank, Munich’s stock exchange, business and trade associations and research institutions linked to universities.

As a member of the Bavarian Center of Finance, BayernLB helps promote its activities, particularly collaborative projects between Bavarian universities and financial service providers with a practical focus, a careers centre for newly qualified talent and the exchange of knowledge and experience at specially organised events. The sixth Bavarian Finance Summit in Munich brought together high-ranking names from the worlds of business, finance and politics once again. This year’s theme was: “Public finances, social security, demographics and ratings – a challenge for banks, insurers and businesses”. The Bank continued to actively support the “Financial Center Germany Dialogue Forum” (DFD). The DFD is a broadscale initiative by the German financial sector to promote Germany as a financial centre.

Environmental protection at BayernLB

Although the impact of bank products on the natural environment and the climate must ultimately be accorded greater weight than the impact associated with the operating side of the business, environmental protection within BayernLB itself is nevertheless an important aspect of sustainability management. BayernLB has therefore taken its corporate responsibilities seriously for decades and has steadily reduced the impact of its internal operations on the environment.

It has made improvements through a structured management system accredited under the Environmental Management and Audit Scheme (EMAS) Ordinance and been certified since 2011 under environmental management standard ISO 14001. At the heart of the management system is the sustainability policy, which is supplemented, clarified and adapted to the specific circumstances of the Group units.

These standards provide a regulatory framework that takes account of environmental aspects along the entire value chain. Under the climate protection stategy, steps are taken to avoid using up resources, to substitute CO_2 intensive energy sources and offset unavoidable CO_2 emissions. The Bank is climate neutral at almost all its business locations in Germany.

Sustainable financial solutions

The measures in place for protecting the environment and the wide variety of social and corporate activities are complemented by a sustainable business and product policy that has produced a large range of sustainable financial solutions. BayernLB has, for example, launched the "donation bond campaign" for the savings banks, a concept by which retail investors invest in a fixed-income security while at the same time supporting charity projects.

Societal considerations must play a role in financing. The Bank, for example, has pledged not to finance any businesses with links to human trafficking or child labour or which breach the World Bank's environmental and social standards.

BayernLB wants to help its customers meet the challenges ahead and leverage the business potential from the energy transition, and therefore make an important contribution to successfully implementing the energy transition concept. The Bank is also conscious that the implementation of projects in this area could pose considerable risks at an environmental, social and societal level. It is dedicated to minimising the potential impact on the environment and community by complying with internal guidelines framed for the purpose and by selectively excluding individual transactions that pose unacceptable environmental and social risks (e.g. oil production from oil sands).

Financial position and financial performance

In a challenging environment and despite negative factors, BayernLB posted a net income in FY 2012 of EUR 28 million, a significant improvement on the previous year (FY 2011: EUR –328 million).

The operating business areas in the core business performed particularly well. The Bank is making rapid progress in restructuring itself to becoming more customer focused and in implementing the provisions of the EU ruling. Despite the fall in total assets, the customer business has reported stable earnings. Risk provisions in the credit business were at moderate levels. Non-core business was steadily reduced once more. The Bank's performance was aided by the relatively favourable economic conditions in the core markets, especially in Germany.

Despite the progress achieved in its strategic realignment, MKB Bank Zrt., Budapest (MKB) remained a key negative factor. To maintain the equity ratio, BayernLB carried out capital increases in the financial year without using fresh funds by converting EUR 441 million of debt into equity. On the reporting date an additional writedown of EUR 503 million (FY 2011: EUR 576 million) on the carrying amount of its stake in MKB was necessary.

The European Commission's ruling on 25 July 2012 concerning the rescue package BayernLB received from the Free State of Bavaria in 2008/2009 gives BayernLB the planning certainty it needs to implement and develop its business model. At the same time, it requires BayernLB to repay around EUR 5 billion of the aid received by 2019. Deferred payments of EUR 120 million each from FY 2010 and FY 2011 were paid to the Free State of Bavaria in November 2012. Further state aid repayments of EUR 571 million were recognised in the 2012 annual financial statements, bringing the total expense amount for repayment of state aid to EUR 811 million.

Also weighing on the bottom line was a EUR 133 million addition to pension provisions following a ruling by the German Federal Employment Court (FEC) on 15 May 2012 relating to BayernLB's pension system in Germany.

Net income was boosted by a gain of EUR 282 million from the sale of Bayerische Landesbausparkasse, Munich (LBS Bayern) to the Association of Bavarian Savings Banks, Munich, a condition of the European Commission's ruling on 25 July 2012.

The Bank closed financial year 2012 with an operating profit of EUR 63 million (FY 2011: operating loss of EUR 97 million).

All outstanding obligations from profit participation certificates were met from the earnings in financial year 2012. Moreover, silent partner contributions were replenished in full by a EUR 455 million payment under the terms of the EU Commission ruling. EUR 438 million (FY 2011: EUR 215 million) was released from capital reserves to replenish the silent partnership contributions.

The main impact on the Bank's financial position came from the credit business. While the interbank business and foreign activities decreased further, the credit business with customers in the core areas was further expanded.

The financial situation was solid throughout the reporting year and sufficient liquidity was available at all times. The Bank continued to enjoy a very solid capital base with an own funds ratio of 23.7 percent (FY 2011: 20.9 percent). The financial position overall was therefore stable.

The significant trends in financial year 2012 and their impact on the financial position and financial performance are shown below.

Financial performance

EUR million	1 Jan – 31 Dec 2012	1 Jan – 31 Dec 2011	Change in %
Net interest income	1,672	1,611	3.8
Net commission income	175	159	10.3
Gross profit	**1,847**	**1,770**	**4.4**
Personnel expenses	– 521	– 360	44.7
Operating expenses	– 404	– 374	8.0
Administrative expenses	**– 926**	**– 735**	**26.0**
Net income of the trading portfolio	152	– 50	–
Net balance of other operating expenses, income and taxes	229	– 190	–
Risk provisions	– 9	– 162	– 94.5
Gains or losses on measurement	– 1,231	– 730	68.7
Operating profit/loss (operating result)	**63**	**– 97**	**–**
Gains or losses from extraordinary items	– 8	– 5	51.6
Income taxes	– 27	– 225	– 87.9
Net income/loss for the financial year	**28**	**– 328**	**–**
Withdrawals from capital reserve	438	215	> 100.0
Withdrawals from profit participation certificates	–	11	–
Withdrawals from silent partner contributions	–	102	–
Replenishment of profit participation certificates	– 10	–	–
Replenishment of silent partner contributions	– 455	–	–
Net retained profits	**–**	**–**	**–**

Tables may contain rounding differences.

Despite a fall in amounts due and persistently difficult market conditions, notably falling interest rates, net interest income was a stable EUR 1,672 million and even slightly higher than the previous year's figure of EUR 1,611 million. Weighing on this item were distributions for profit participation certificates totalling EUR 47 million for financial years 2011 and 2012 (FY 2011: EUR 0 million). Income from profit-pooling agreements rose by EUR 131 million, mainly fuelled by higher income at the subsidiary DKB.

Net commission income rose to EUR 175 million (FY 2011: EUR 159 million). A sharp fall in fees paid to the German Financial Market Stabilisation Fund (SoFFin) to EUR 2 million (FY 2011: EUR 32 million) after the guaranteed bond matured in January 2012 contributed significantly to this gain. Net income from the credit business in Germany was higher than the year before, but lower in the foreign branches as a result of the downscaling of foreign activities.

Administrative expenses rose from EUR 735 million to EUR 926 million in total. The personnel expenses component rose by 44.7 percent to EUR 521 million, mainly due to the extraordinary charge following the FEC pension fund ruling. Operating expenses rose by 8.0 percent to EUR 404 million, driven in large part by higher IT costs caused by a higher number of projects and unscheduled depreciation on real estate. This was partially offset by a fall in legal and consulting fees.

Net income of the trading portfolio amounted to EUR 152 million (FY 2011: EUR –50 million). This included a gain of EUR 37 million (FY 2011: EUR –50 million) from the reversal of the valuation discount for counterparty-specific credit rating effects on OTC derivatives. Also contributing was a reduction of EUR 41 million in the risk discount for the trading portfolio in accordance with Section 340e HGB. This compares with additions of EUR –41 million to the reserve in FY 2011. Income from customer-driven securities and derivatives trading rose to EUR 66 million (FY 2011: EUR 7 million).

Other income and expenses (net balance of other operating income and expenses and other taxes) swung to a gain of EUR 229 million from a loss of EUR –190 million in FY 2011 that resulted from extraordinary items. Proceeds from the sale of LBS Bayern (EUR 282 million) were largely responsible for the increase. The German bank levy was EUR 3 million (FY 2011: EUR 61 million) due to the net loss in the year 2011.

The cost-income ratio (CIR)[1] fell to 41.5 percent (FY 2011: 48.0 percent).

Expenses for risk provisioning fell to EUR 9 million (FY 2011: EUR 162 million). For risk provisions in the credit business there was a net gain of EUR 27 million compared to an expense of EUR 18 million in FY 2011. Net additions to specific loan loss provisions totalled EUR 96 million (FY 2011: EUR 171 million). EUR 45 million of general loan loss provisions were released (FY 2011: EUR 78 million). Risk provisions for securities in the liquidity reserve were EUR 78 million (FY 2011: expense of EUR 66 million). This is primarily due to the positive impact on earnings (writeups and realisations) from market returns from own issues and the release of provisions for contingent losses. Writedowns of securities were also much lower than in the previous year. To build up hard core capital, EUR 581 million of the provisions for general bank risks in accordance with Section 340f HGB were released and the same amount paid into the fund for general bank risks in accordance with Section 340g HGB.

Gains or losses on measurement totalled EUR -1,231 million (FY 2011: EUR -730 million). The large negative amount of EUR -705 million (FY 2011: EUR -121 million) from the measurement of securities includes – as stipulated by the European Commission's ruling – expenses of EUR 645 million for payments to the Free State of Bavaria (FY 2011: EUR 193 million). These represent state aid repayments and premiums related to the EUR 4.8 billion guarantee ("Umbrella") provided in December 2008 to hedge the ABS portfolio. Gains or losses from participations totalled EUR -526 million (FY 2011: EUR -608 million) and include a EUR 503 million writedown on the carrying amount of Hungarian subsidiary MKB (FY 2011: EUR 576 million).

1 CIR = administrative expenses/(gross profit + net income or losses of the trading portfolio + net balance of other operating expenses and income).

Despite a large amount of special items, there was a net operating profit (after risk provisioning/ revaluation) for financial year 2012 of EUR 63 million (FY 2011: operating loss of EUR –97 million).

Return on equity (RoE)[2] in financial year 2012 was 1.9 percent (FY 2011: negative). Economic Value Added (EVA) is used as a key management tool at Group level.

Gains or losses from extraordinary items totalled EUR -8 million (FY 2011: EUR –5 million).

Income taxes for financial year 2012 totalled EUR 27 million (FY 2011: EUR 225 million).

Net income for the year was EUR 28 million (FY 2011: EUR net loss for the year of EUR 328 million).

In financial years 2009 and 2011, BayernLB utilised silent partner contributions and profit participation certificates to absorb losses. Consequently, in accordance with the contractual terms, the amount to be replenished to holders of silent partnership contributions was EUR 455 million and to holders of profit participation certificates was EUR 10 million as at the reporting date of 31 December 2012.

All outstanding liabilities from profit participation certificates were met from the net income for financial year 2012. In addition to replenishing all these liabilities in full, the deferred claims for 2011 of EUR 23 million were settled in full and current distributions on profit participation certificates of EUR 23 million were paid out in full.

The silent partnership contributions were replenished in full. No distributions on silent partner contributions were made as there was no contractual obligation to do so. The remaining deferred claims for interest payable on silent partner contributions for 2008 to 2012 totalled EUR 37 million. During the lifetime of these instruments deferred payments may only be made if their payment does not produce or increase a net accumulated loss. EUR 438 million was released from the capital reserves to replenish the silent partnership contributions. BayernLB recognised net retained profits for the year of zero.

Financial position

Both total assets and business volumes were lower in 2012:

EUR billion	31 Dec 2012	31 Dec 2011	Change in %
Total assets	231.9	256.7	– 9.7
Business volumes*	263.3	293.7	– 10.4

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

Total assets fell by 9.7 percent to EUR 231.9 billion. Business volumes were correspondingly lower. Contingent liabilities and credit commitments fell by a total of 15.1 percent to EUR 31.4 billion. This reflects the new, refocused business model whose aim is to reduce the balance sheet.

2 RoE = (operating profit + partial profit transfer + change in fund for general bank risks (excluding reclassification of EUR 581 million in 2012 from Section 340f HGB reserves to Section 340g HGB reserves))/(average, relevant reported equity + average fund for general bank risks).

Due to the sale of LBS Bayern on 31 December 2012, LBS Bayern's assets and liabilities are no longer included in the annual financial statements. The overall impact from this is of marginal importance. In certain items an adjustment to the previous years' figures to account for LBS Bayern's share has been made in the comments where a year-on-year comparison would have been difficult.

Credit operations

EUR billion	31 Dec 2012	31 Dec 2011	Change in %
Credit volumes*	145.4	162.1	– 10.3
Due from banks	48.7	56.5	– 13.8
Due from customers	84.1	91.7	– 8.3
Securities	43.3	47.7	– 9.2
Trading portfolio	43.1	48.7	11.5

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

The Bank's lending business continued to shrink. The trend in receivables underlines the Bank's strategic realignment as a customer bank focusing on German and selected international counterparties.

Amounts due from banks went down – as in previous years – decreasing from EUR 56.5 billion to EUR 48.7 billion. Business with both German and international banks declined. In December 2012 Hypo Alpe-Adria-Bank International AG, Klagenfurt announced that until further notice it would make no more payments of interest and principal on refinancing loans it has been granted as it is of the opinion that these loans granted after 2008 must be classified as capital instead. Based on all available information and several expert reports, it is BayernLB's unreserved opinion that principal and interest payments must continue to be made under the terms of the contract. To enforce its legal rights, BayernLB has petitioned the Munich District Court for a declaratory judgement and anticipates that its claim will be granted in full.

Adjusted for LBS Bayern, amounts due from customers fell by a total of 2.7 percent to EUR 84.1 billion (FY 2011: EUR 86.4 billion adjusted). Pleasing growth of 3.0 percent to EUR 57.5 billion was seen in amounts due from domestic borrowers, while amounts from foreign borrowers fell in line with strategy by 13.1 percent to EUR 26.6 billion.

The securities portfolio fell from EUR 47.7 billion to EUR 43.3 billion, due largely to maturities and repayments of securities in the asset-backed security portfolio.

Assets held for trading – comprising largely interest rate derivatives and bonds – fell by EUR 48.7 billion to EUR 43.1 billion, largely due to the winding down of bonds.

Refinancing

BayernLB once again covered or exceeded its moderate funding needs according to plan and relatively cheaply in 2012. Refinancing management is focused on further improving the quality and composition of liabilities.

Ongoing and extensive support by the central banks led to a significant recovery in capital markets in financial year 2012, accompanied by a marked narrowing of spreads and a broad pick-up in issuing activity. BayernLB benefited from this trend and deliberately raised more funding than it needed in 2012.

The main individual items on the liability side are as follows:

	BayernLB		
EUR billion	31 Dec 2012	31 Dec 2011	Change in %
Due to banks	57.6	59.8	–3.7
Due to customers	43.1	51.0	–15.6
Securitised liabilities	64.4	79.0	–18.5
Trading portfolio	37.2	36.7	1.4

Amounts due to banks were down from EUR 59.8 billion to EUR 57.6 billion. Adjusted for LBS Bayern, amounts due to customers rose by 4.2 percent to EUR 43.1 billion (FY 2011: EUR 41.4 billion adjusted) on the reporting date.

Securitised liabilities fell in line with strategy from EUR 79.0 billion to EUR 64.4 billion, largely due to a reduction in bonds and public Pfandbriefs. Mortgage Pfandbriefs remained stable.

The trading portfolio rose slightly, by EUR 0.5 billion to EUR 37.2 billion.

Further information on liquidity management and the liquidity situation is provided in the risk report.

General economic situation

BayernLB's financial position and financial performance was stable overall in financial year 2012, despite the challenging environment.

Capital adequacy

Equity capital was unchanged on the previous year at EUR 13.0 billion (FY 2011: EUR 13.0 million). The increase in silent partner contributions of EUR 4.3 billion to EUR 4.8 billion was balanced by a reduction in the capital reserves of EUR 4.5 billion to EUR 4.0 billion.

Banking supervisory ratios under the German Banking Act (KWG)

The risk positions, which, together with the risks assets and operational risk also include market risk positions, were calculated on the basis of the Solvency Ordinance (SolvV). As reported on 31 December 2012 the core capital ratio was a solid 17.5 percent (FY 2011: 14.9 percent) and the overall ratio 23.7 percent (FY 2011: 20.9 percent).

EUR billion	**31 Dec 2012**	**31 Dec 2011**
Risk positions under SolvV	71.8	85.8
Own funds	17.0	17.9
• core capital	12.5	12.8
Overall ratio as reported	23.7%	20.9%
Core capital ratio as reported	17.5%	14.9%

The increase in the capital ratios is largely explained by the marked reduction in risk positions, even though equity is slightly lower. The reduction in equity is due to accounting effects from financial year 2011 – which, due to regulatory requirements, were not recognised until financial year 2012 – and to gains from the partial repurchase of a USD hybrid bond.

Including the net income for the year, the core capital ratio rose to 18.4 percent (FY 2011: 14.6 percent) and the own funds ratio improved to 24.2 percent (FY 2011: 20.8 percent).

Events after the end of the reporting period

The following events of major significance to BayernLB occurred after the close of the 2012 financial year:

As required by the European Commission, shareholdings (participations) will continue to be sold in 2013. In January 2013 BayernLB sold its 2 percent shareholding in Deutsche Lufthansa AG, Cologne. On 31 January 2013 it started the sales process to fully dispose of Banque LBLux S.A., Luxembourg (LBLux). At the end of January 2013 the BayernLB Board of Management approved the closure of the Luxembourg branch on 31 December 2013.

In a ruling by the European Commission on 5 February 2013 the English language version of the European Commission's ruling dated 25 July 2012 was replaced by a German language version which is now the binding version of the state aid proceedings. The contents of the version of 5 February 2013 correspond to the earlier version of July 2012.

In compliance with the European Commission's state aid ruling, the specific-purpose capital and the capital acquired from the transfer of special-purpose assets were transferred to a new silent participation with effect from 1 January 2013. The measure will ensure adequate levels of core tier 1 capital are maintained and the pending capital requirements under CRR/CRD IV are met.

No other events of major significance occurred after the close of financial year 2012.

Outlook

The forecasts set out in the following report relating to BayernLB's performance in 2013 and 2014 may differ substantially from the actual outcome should one of the following uncertain factors or other uncertainties occur, or should the assumptions underlying our forecasts prove incorrect. BayernLB is under no obligation to update its forecasts in light of new information or future events taking place in the forecast period.

Economic environment

The German and eurozone economies bottomed out in the October 2012-March 2013 period. The recovery will, however, be subdued, with the German economy expected to grow at an average annual rate of only 0.5 percent in 2013. The ongoing recession in the southern half of the eurozone spells stagnation at best for the eurozone as a whole. Higher growth in emerging markets in Asia and Latin America will provide opportunities for German exporters, but that will not be enough to offset the persistent weakness in most European markets. Export growth will thus continue to decelerate in 2013, which means that companies will once again put a cap on capital spending in response. Private consumption and residential construction will help stabilise the German economy in 2013. A moderate rise in employment and higher pay settlements will translate into higher incomes, and financing conditions will remain benign. Meanwhile, inflationary pressures are likely to ease slightly.

Possible black clouds on the horizon in 2013 may come from the global economic environment. The US is making only limited progress in balancing the books, potentially weakening faith in the dollar. The dispute around Iran's nuclear power programme continues to smoulder and could escalate in the first half of the year. In the eurozone, governments in the crisis-hit countries will have to continue working hard in 2013 to consolidate their budgets and improve their competitiveness if they are to overcome the sovereign debt crisis. Governance at EU/EMU level must be further reinforced, partly to free the European Central Bank from its difficult position. Barring major disruptions, yields on German government bonds are expected to rise to 2 percent by the end of the year. Conservative valuations mean that the German stock market has moderate potential to rise in the coming year.

BayernLB's future performance

After more than three years, the EU state aid proceedings concluded in summer 2012. This provides one of the key elements necessary to continue or possibly even complete BayernLB's strategic realignment, which is already well underway. One of BayernLB's key requirements is the condition to repay around EUR 5 billion of capital to the Free State of Bavaria by no later than 2019, which will have clear consequences for BayernLB's growth in the years ahead. More than EUR 800 million of this sum was recognised as expenses in the 2012 reporting period.

In 2013 and 2014 the pillars of BayernLB's focused business model will be further refined and strengthened within the limited strategic scope for action permitted by the EU requirements. BayernLB will continue its drive to separate future core and non-core business and this may require organisation and procedural changes.

By exercising prudence and keeping a close eye on risk, the Bank can and will thrive in its core business. The “Corporates & Mittelstand”, “Real Estate & Savings Banks/Association” (including the public sector) and “Markets” business areas remain at the heart of the new, focused business model. In 2013, in the “Corporates & Mittelstand” and “Real Estate & Savings Banks/Association” business areas especially, BayernLB will endeavour to further improve its focus as a regional bank.

Following the implementation of its new segment structure on 1 January 2013 the Bank will place all the business activities that fall outside the new business model and are due to be discontinued or sold off as part of the realignment in the new “Non-Core Unit” (NCU) business segment. Many of these activities are currently in the internal “Restructuring Unit” (RU) that was set up in 2009. The entire RU will be transferred to the new NCU. All participations, including MKB and LBLux, that BayernLB must spin off in accordance with the EU’s requirements will also become part of the NCU.

In 2013 and subsequent years even more efforts will be made to modify cost structures and operating processes in line with the new business model and greater focus on customers. In the run up to this an intensive cross-divisional review of current workflows and production processes is envisaged. In autumn 2012 a separate Board of Management division, the Operating Office, was created with the task of ensuring the Bank is and remains competitive in the long term.

Besides meeting the operational planning targets, which is critical to ensuring the EU Commission’s repayment conditions are met, restructuring the subsidiary MKB will continue to be a priority in 2013 and 2014. The persistently difficult economic situation and past and pending regulatory intervention by the Hungarian government is likely, however, to have an impact on the restructuring of MKB in the years ahead.

Besides complying with the EU requirements, BayernLB also faces, as a bank considered systemically relevant to the country, a further challenge in meeting the growing numbers of regulations from numerous national and international supervisory authorities. In common with other banks another priority in 2013 will be to prepare a comprehensive recovery plan in conformity with the “Minimum Requirements for Recovery Plans for Financial Institutions” (MaSan).

As in previous financial years BayernLB will continue legal investigations into the causes of and the parties responsible for the high losses in connection with the investments in asset-backed securities and the acquisition of Hypo Group Alpe Adria, Klagenfurt. These are expected to run into 2014.

Despite the aforementioned challenges posed by the environment, repayment obligations and regulatory requirements, BayernLB is confident overall that it is now in a position to achieve its ambitious goals in their entirety: it has the planning security it needs following the EU ruling; it has largely implemented the new business model; and it has made and is continuing to drive ahead with efficiency improvements. Given the still volatile conditions in the sixth year of a global financial crisis, future conditions cannot be forecast with any certainty. The possibility cannot be excluded that any change in the assumptions underlying the outlook may affect BayernLB and its financial position and financial performance.

Financial position and financial performance

Based on the decision of the European Commission, BayernLB will focus on the customer business within the approved framework in 2013 and 2014. The economic conditions, particularly in Germany, should make this possible, although additional risk provisions may be necessary if the picture becomes gloomy. Further charges and writedowns at the subsidiary MKB cannot be ruled out, given the difficult economic environment in eastern and south eastern Europe and government intervention such as the extremely high bank levy in Hungary that is not linked to earnings.

Besides expanding business activities, BayernLB will focus on making efficiency improvements to reduce administrative costs. The aim of the measures, to increase profits on the one hand and reduce expenses on the other, is to sustainably increase profitability.

Meanwhile, the task of rapidly scaling down non-core activities will continue. This is also necessary to free up the capital needed to meet the ambitious repayment plan. The requirement to reduce consolidated total assets by nearly 50 percent from the amount in 2008 by 2015 will have a corresponding impact on BayernLB's total assets.

Due to the relatively high surplus of liabilities, BayernLB forecasts that its refunding needs for 2013 will be on par with those of the previous year. In managing its funding needs, it will focus on improving the quality and composition of the liabilities. Due to the stable excess liquidity and in the expectation that the vastly improved conditions on the capital market will continue, the Bank does not expect its liquidity or funding situation to deteriorate.

Overall, BayernLB is confident that in 2013 and 2014 it will continue to make good progress along the path it has chosen and that it can meet the ambitious planning targets set within the framework of the European Commission's state aid proceedings. Full-year earnings are expected to be positive subject to the proviso that no major negative economic or financial events occur in the eurozone or global economy. The Bank's forecast could also be affected by new or additional regulatory requirements.

For additional information on the likely future trends in the risk situation, we refer you to the relevant section of the risk report.

Risk report

Principles

This risk report is prepared in accordance with the requirements of the German Commercial Code (Handelsgesetzbuch (HGB)) on risk reporting.

Key developments in 2012

The rigorous implementation of the new business model adopted in 2009 and confirmed by the European Commission in July 2012 determines the risk trend; overall the risk profile at BayernLB is stable and requires significantly less capital.

Given its solid equity base, the BayernLB Group continued to have adequate risk-bearing capacity and sufficient liquidity available in 2012.

The risk capital requirement declined by EUR 1.1 billion or 18.8 percent, mainly due to the considerable reduction in credit risk.

The cut in credit risk was even more than in the previous year. In 2011 the credit portfolio was trimmed by 4.9 percent or EUR 12.4 billion, whereas 2012 saw a reduction of 11.3 percent or EUR 27.1 billion to EUR 212.5 billion.

A large part of this (EUR 8.2 billion) was the result of the sale of Bayerische Landesbausparkasse (LBS Bayern) to the Association of Bavarian Savings Banks (SVB).

Further progress was made in reducing the loan portfolio in the Financial Institutions sub-portfolio, which was down 13.9 percent or EUR 12.9 billion; the focus was on cutting commitments outside Germany and portfolios with elevated risk profiles (including ABSs).

Exposure to the financially weaker EU periphery countries dropped sharply by 26 percent to EUR 7.1 billion. The cuts focused on Spain, which was down 31 percent or EUR 1.5 billion to EUR 3.5 billion.

The steady liquidity surplus resulted from both the continued winding down of portfolios designated as non-core and from a forward-looking, conservative funding plan.

Besides meeting regulatory capital adequacy requirements, the risk-bearing capacity (Internal Capital Adequacy Assessment Process (ICAAP)) was also adequate throughout the reporting period. The risk capital requirement only utilised 28.4 percent of the available economic capital as at 31 December 2012 (FY 2011: 33.1 percent).

Risk situation forecast for 2013 and 2014

The statements made in this report on future performance constitute forecasts that are subject to uncertainty and are based on the assumptions shown in each case. Among the variables that could significantly affect the quality of the forecast statements are the difficult economic and political situation in Hungary, which is the domestic market of subsidiary MKB, the crisis affecting some financially weaker EMU countries, and the general performance of the economy in the future.

Regardless of these incalculable factors, BayernLB is continuing to restructure itself into a bank that purely serves customers. As part of this process, a long-term approach to business with customers in the core business areas of Corporates, Retail Banking and Real Estate as well as with the savings banks and the public sector stands at centre stage. In accordance with the conditions imposed by the European Commission, BayernLB will realign its business segments to systematically and fully segregate its core business activities from those which are being discontinued or disposed of under its new business strategy. The new segment structure will continue in force even after the conditions of the EU Commission's state aid ruling have been met in full. From 2013 these activities and the remaining Restructuring Unit (RU) portfolios will be grouped together in the new internal Non-Core Unit segment and wound down.

The planning for the next two years provides for a further reduction in the scale of business. Successful reduction will depend on the use of contractual maturities, the performance of the secondary markets and movements in the exchange rate of the euro to the US dollar and British pound as some of this portfolio is denominated in these currencies.

Should the economic situation in Europe worsen, a deterioration in the rating structure of customers is likely. With this in mind, portfolios were screened again to identify credit risks in the BayernLB Group. For sectors particularly likely to be affected by an economic slowdown, active countermeasures such as changes to limits and guidelines are put in place.

The ongoing difficult economic situation in Hungary which may require it to obtain support from the European Union and/or the International Monetary Fund, means that MKB will continue to focus on reducing risks in its portfolios.

BayernLB's access to liquidity is assured.

Nonetheless, any potential deterioration in the economic situation in Hungary could have a negative impact on BayernLB's rating and therefore its funding costs.

The risk cover funds available are sufficient to cover the risk capital requirement in the business plan for the various risk types, even in the stress scenarios.

Internal control and risk management system

The following information relates to the provision in Section 289 para. 5 HGB, which requires joint-stock companies 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.

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 helps to limit risks in the accounting process and plays a key role in providing a true and fair view of BayernLB's net assets, financial position and operating results.

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

Organisation

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

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

Risk Office

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

In addition to periodic and ad-hoc reporting on the risk situation to internal decision-makers, communication also includes external risk reports filed in accordance with legal and supervisory requirements. The Group Risk Control Division creates and updates the methods and processes needed for management and operational monitoring.

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 Board of Administration based on the business strategy and checked regularly. The general objectives and guidelines and the strategic requirements for the different types of risk are drawn up based on the business strategy.

The main reason for the revision of the risk strategy in 2012 was the successful completion of the EU state aid proceedings. The capital available on a long-term basis after complying with conditions imposed by the EU will be used as a limiting factor for economic risk-bearing capacity and allocated across the different types of risk within BayernLB.

The risk strategy sets the following objectives and guidelines:

Objectives:
- To sustainably preserve capital, both regulatory and economic
- To ensure BayernLB is solvent at all times

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

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

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

The main components of the risk and earnings reporting system, in addition to the risk report, are the ALCO report and the MIS (management information system) report.

The Group Risk Control Division ensures that the Board of Management and the Risk Committee of the Board of Administration receive independent, risk-adequate reports so that all risk types can be operationally managed and risk-bearing capacity maintained.

Risk management is a joint responsibility of the Sales and Risk Office units. In the management process, the Credit Analysis Division is responsible for analysing, assessing and managing risk relevant exposures in the core business (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.

Restructuring Unit

The Restructuring Unit manages non-core business activities with the aim of progressively winding them down. The Group Risk Control Division is responsible for independently identifying, valuing, analysing, communicating and monitoring the risk types in the Restructuring Unit (RU), just as it is for risks in the core business.

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

The goal is to free up the capital and liquidity resources in the non-core business as efficiently as possible.

The RU's task of winding down assets is thus directly derived from the Bank's focus on its future business activities.

The RU performs the roles of both the Sales units and the Risk Office for the exposures and portfolios assigned to it for winding down.

It also handles all exposures in restructuring or liquidation regardless of whether they are allocated to the core business or the reduction portfolio.

Financial Office

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

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

The annual financial statements and management report are prepared in accordance with the directives for preparing the annual account produced by directive of the Board of Management, checked by the auditors and submitted to the Board of Administration for approval. The Board of Administration has also set up an Audit Committee whose duties include discussing the audit report and preparing the resolution for the Board of Administration'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 internal monitoring, auditing and risk management systems. The auditor is invited to take part in the discussions of the Audit Committee and Board of Administration on the annual financial statements and report on the key findings of its audit.

Operating Office

The Operating Office Central Area under the COO is responsible for BayernLB's operating processes and supporting these in the Group IT, Operations & Services, Human Resources and Organisation Development Divisions.

Group Compliance

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

Internal audit

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

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

Scope of monitoring and monitoring procedures

The internal control and risk management system is governed by the "Written organisational rules of Bayerische Landesbank" (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 Management Principles and Group Risk Guidelines, also exist for the purposes of risk management. These rules on risk management govern the risk management and monitoring processes used for the timely identification, full documentation and appropriate disclosure of major risks. The annual accounts handbook, accounting manuals, accounting-related instructions and risk management rules are regularly reviewed, updated and published on BayernLB's intranet.

To ensure transactions are fully and correctly processed, and that bookings, data entry and documentation are in compliance, a number of internal control procedures have been implemented within BayernLB. Measures include the segregation of functions, a differentiated access authorisation system to prevent unauthorised intruders, ongoing checks within the workflow process based on 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 are properly presented, and the quality of the data in the accounts is assessed.

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. Outsourced companies are also regularly checked by BayernLB's internal audit.

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.

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

Capital management

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

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

Regulatory capital adequacy (solvency)

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

Regulatory capital is allocated in the Group planning to the individual planning units. The planning units are BayernLB's defined business segments, Bayerische Landesbodenkreditanstalt (BayernLabo) and, until 31 December 2012, LBS Bayern.

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

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

Risk-bearing capacity

Risk-bearing capacity is monitored at both BayernLB and Group level using the Internal Capital Adequacy Assessment Process (ICAAP). The aim of ICAAP is to ensure there is sufficient economic capital for the risks assumed and planned.

The methodology of the internal management model for risk-bearing capacity aims to ensure the protection of senior creditors in the event of BayernLB's liquidation.

For an in-depth, forward-looking analysis of economic capital adequacy, the calculation of risk-bearing capacity is based on planned business activity 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 liquidation and going-concern perspectives and reported as part of the regular ongoing internal risk reporting, together with the results and key assumptions of the stress tests performed.

The risk strategy sets the proportion of available economic capital that can be allocated to risk types in the course of business activities. Currently, no more than 75 percent of available economic capital can be allocated. In 2012, as part of the revision of the risk strategy, the upper limit for the capital to be allocated to risk types was restricted further. The upper limit applies from 2013.

The available economic capital is calculated by deducting the items not available in the event of liquidation (e.g. intangible assets) from the sum of equity and subordinated capital, less a buffer for risk types which are not controlled at business unit level and/or have little controlling relevance for ICAAP. 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".

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 confidence interval used in the ICAAP to calculate economic risk is 99.95 percent, which is equivalent to the external rating A2 on the Moody's scale.

Risk capital requirements

EUR million	31 Dec 2012	31 Dec 2011
Risk capital requirements	**4,567**	**5,626**
• **from capital provided to customers and other participations**	**2,762**	**4,203**
credit risk and country risk (counterparty risk)	1,540	2,158
credit risk (specific interest rate risks)	464	1,159
market risk	245	462
operational risk	281	224
investment risk	232	180
other risks	–	20
• **from capital provided to institutions of the BayernLB Group**	**1,805**	**1,423**
credit and participation risks	1,751	1,418
other risks	54	5

The decline in counterparty, specific interest rate and market risk is largely the result of the reduction in the portfolio that has taken place in line with strategy. Stable portfolio quality along with a decrease in the volatility of credit spreads also helped reduce risk.

The increase in the risk capital requirement for participation risks was the result of a change in methodology that outweighed the divestment of participations.

The sale of Bayerische Landesbausparkasse means that a particular liquidity risk of LBS Bayern previously shown under Other Risks no longer applies.

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 9.1 billion (FY 2011: EUR 10.1 billion).

As at 31 December 2012, BayernLB had economic capital of EUR 16.1 billion (FY 2011: EUR 16.9 billion). A severe economic downturn (the ICAAP stress scenario) would only see 56.4 percent utilisation of available economic capital (FY 2011: 59.3 percent), and the minimum capital ratios are also met in the going-concern scenario. BayernLB had adequate risk-bearing capacity as at 31 December 2012.

Inverse stress testing

Inverse stress tests are an integral element of the stress testing programme. Contrary to the logic of conventional stress tests, scenarios that could potentially jeopardise the existence of the Bank 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 differing perspectives of the Bank's risk and earnings situation simultaneously and integrate them into the stress testing in a consistent manner. Both qualitative and quantitative analyses are carried out, based in particular on the effects of current developments in external and internal risk factors on BayernLB.

Liquidity management

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

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

At BayernLB, liquidity risks are limited daily 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.

In the reporting year, strategic and operational liquidity management at BayernLB was the responsibility of the Group Treasury and Treasury Products Divisions within the Markets Business Area. This is also where operational liquidity is managed on the market and ample 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.

BayernLB started early to increase both the quantity and quality of its substantial liquidity reserves in order to comply with the future requirements under MaRisk and the Capital Requirements Regulation (CRR). This strategy was systematically continued in 2012.

Credit risk

In accordance with its business model as a corporates and real estate lender and partner to the savings banks with a regional focus on Bavaria and Germany, the largest risk for the BayernLB Group is credit risk. No significant changes have been made in the instruments and methods for measuring, controlling and limiting credit risks described in the risk report in the BayernLB individual report or the more detailed description in the risk report in the 2011 Group annual accounts.

Definition

Counterparty risks arise if a transaction results in a claim against a borrower, issuer of securities or counterparty. Their value is calculated by deducting the value of any realised collateral plus the related settlement costs from the unpaid amount. 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, especially specific interest rate risk.

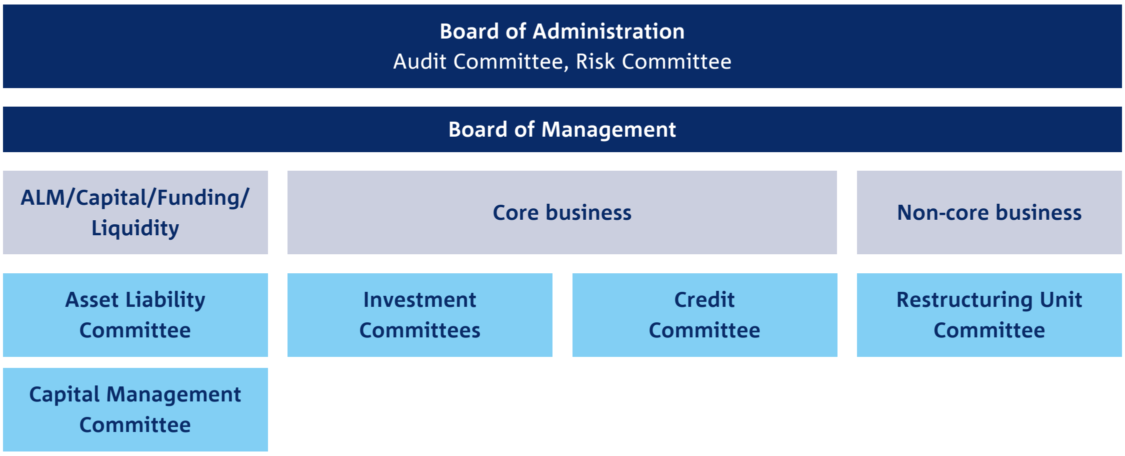
Country risks, which are another type of counterparty risk, are also measured, managed and monitored. Country risk is defined in the narrow sense as the risk of a country or business partner whose registered office is located in another country failing to meet its obligations on time or at all due to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

Credit risk strategy and approval process

The credit risk 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.

Compliance with the EU conditions for transactions with borrowers based abroad is checked before executing transactions with borrowers based abroad. For Corporates, Mittelstand & Retail Customers the Investment Committee decides whether a client and/or transaction has a connection with Germany. The Investment Committee is moreover a standing body in Corporates, Mittelstand & Retail Customers 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.

Management structure



The credit approval process consists of several stages. The Competence Regulations define the authority of the different competence holders based on the loan volume to be approved, the business area it is allocated to and the rating classification. Credit decisions that ultimately require approval by the Board of Management or Risk Committee of the Board of Administration must first go through the responsible subordinate credit committee which are themselves also competence holders. 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 Committee. The Board of Administration monitors risk management through its Risk Committee. The latter decides on all credits that require the approval of the Board of Administration under the German Banking Act or the Competence Regulations.

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

Risk measurement and internal rating systems

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

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

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

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

Appropriate indicators in the early warning procedures allow negative changes in the risk profile to be identified in good time. These indicators include prices (shares and CDSs), volatility, market capitalisation and other factors from peer group comparisons. The pricing methods have been fundamentally revised and now allow for an even more detailed mapping of the different characteristics of a transaction.

Limiting risk at the business partner and portfolio levels

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

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

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

Collateral

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

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

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

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

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

Early warning and problem loan handling

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

Restructuring problem loans to minimise default risk can require modification to the terms originally agreed on a loan, such as changes to the interest rate, term extensions, reductions in the amount to be repaid/interest accrued or deferral agreements. Please see the accounting policies in the Notes for details of how risk provisions are calculated and written off.

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.

Risk provisions

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

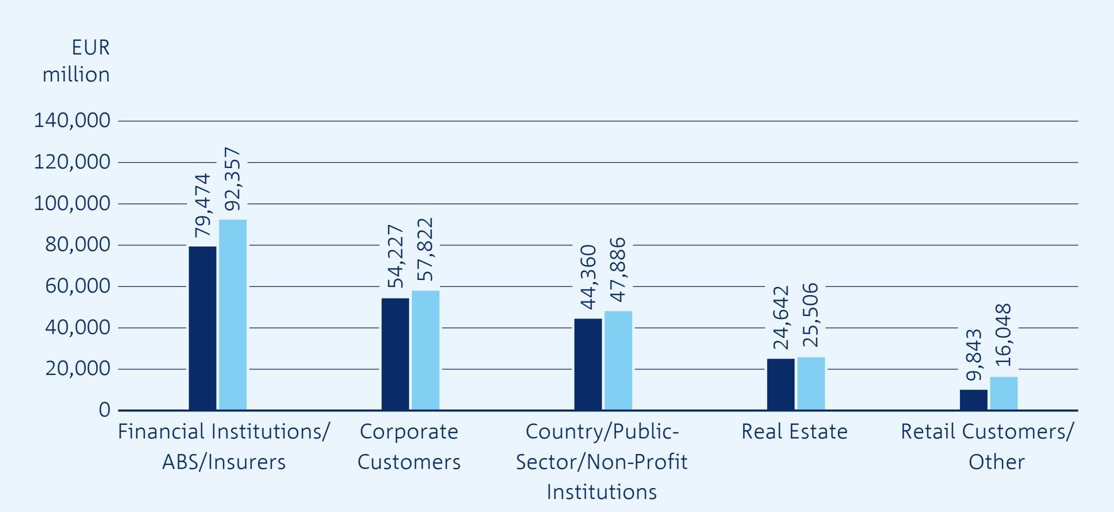
Credit portfolio

The following figures for the credit portfolio are based on the internal risk reporting used by management as a basis for managing credit risks.

In 2012, the credit volume of BayernLB including Bayerische Landesbodenkreditanstalt (BayernLabo) decreased as planned from EUR 239,621 million to EUR 212,546 million, a fall of around 11.3 percent. The main factor in the fall was the sale of LBS Bayern as of 31 December 2012, which cut exposure by EUR 8,190 million. The remainder of the reduction was due to the planned winding down as part of the re-sizing of BayernLB.

The figures below show BayernLB's gross customer credit volume in terms of portfolio structure and quality compared to 2011.

Gross credit volume by sub-portfolio



■ 2012 Total: EUR 212,546 million
■ 2011 Total: EUR 239,621 million

In line with strategy, exposure was cut by EUR 12,883 million (–13.9 percent) in 2012, particularly in the Financial Institutions/ABS/Insurance sub-portfolio. The focus was on continuing to reduce large exposures to banks in Europe, especially in the financially weaker EMU countries and North America, and further cutting the ABS portfolio.

The EUR 3,528 million fall in the Country/Public-sector/Non-profit Institutions sub-portfolio is largely down to the reduction in holdings of US Treasuries and repayments of loans by Swiss cities and cantons.

As part of the concentration on German corporate customers, exposure to large clients with no connection to Germany and those corporates allocated to the Restructuring Unit continued to be reduced. The overall fall in the Corporates portfolio was EUR 3,595 million or 6.2 percent. Within the Corporates sub-portfolio, the main cuts as of 31 December 2012 were in the aerospace, hotels/tourism, oil & gas and utilities sectors.

By contrast, relationships with core customers, particularly those in Germany grew again. Business with corporate customers rose as a share of the total portfolio from 24.1 percent to 25.5 percent.

The Real Estate sub-portfolio fell slightly; gross exposure was EUR 24,642 million. While there were reductions in the RU portfolio in the USA, Hong Kong and France, there was new business in Germany in particular.

The sharp fall of EUR 6,205 billion or 38.7 percent in Retail customers/Other was largely the result of the sale of LBS Bayern. Around 90 percent of the remaining EUR 9,843 million in retail business is covered by collateral.

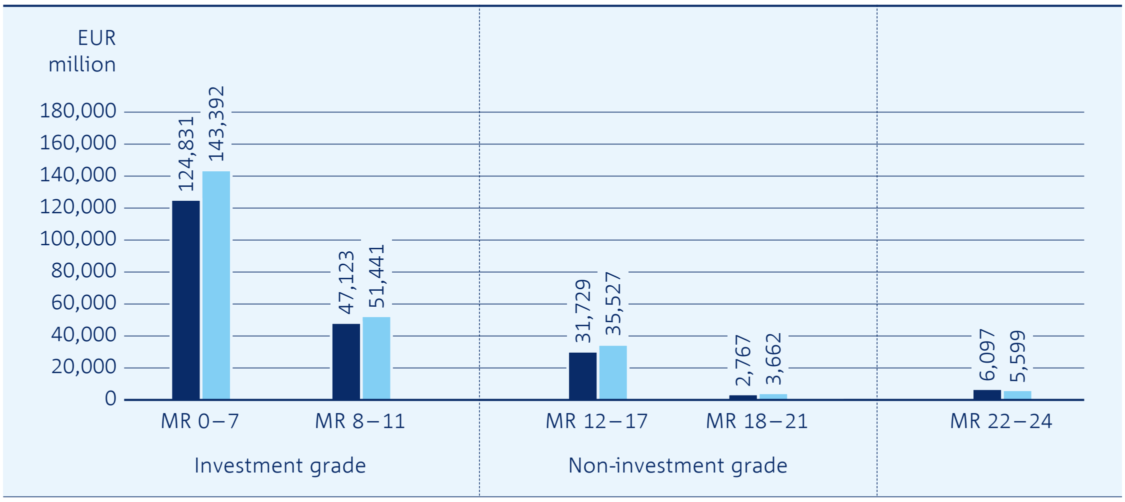
Gross credit volume in selected EMU countries

EUR million	**31 Dec 2012**	**31 Dec 2011**
Spain	3,491	5,025
Italy	2,753	3,211
Ireland	379	636
Portugal	313	561
Greece	132	158
Total	**7,067**	**9,591**

2012 saw a further reduction in exposure to the financially weaker peripheral countries. The reduction in credit volume over the year was EUR 2,524 million or –26 percent to EUR 7,067 million. The only sovereign debt exposure to these countries was a EUR 463 million holding of Italian bonds.

BayernLB’s gross credit exposure to customers in Hungary is EUR 593 million (FY 2011: EUR 921 million). This amount includes receivables from state-related customers totalling EUR 100 million.

Gross credit risk by rating class



■ 2012 Total: EUR 212,546 million
■ 2011 Total: EUR 239,621 million

Despite the large reduction, portfolio quality only changed slightly. The share of investment grade (master rating 0–11) was 80.9 percent, essentially unchanged over the year (FY 2011: 81.3 percent). Total investment-grade credit volume was EUR 171,953 million. Non-performing loans (default classes MR 22–24) were EUR 6,097 million (FY 2011: EUR 5,599 million). Owing to the large cutback in BayernLB's portfolio, the non-performing ratio was 2.9 percent (FY 2011: 2.3 percent).

The ABS portfolio

The nominal volume of asset-backed securities at BayernLB fell from EUR 12.2 billion as at 31 December 2011 to approximately EUR 9.5 billion as at 31 December 2012, mainly due to repayments.

BayernLB's ABS portfolio is covered by hedging transactions with third parties (EUR 58 million) and the guarantee agreement described below with the Free State of Bavaria for a portfolio with a nominal volume of EUR 9.5 billion.

Guarantee agreement with the Free State of Bavaria

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

The ABS portfolio hedge covers insolvency, non-payment of capital and interest, capital write-downs and losses incurred from any sales before maturity. The risk umbrella for the ABS portfolio under the guarantee agreement with the Free State of Bavaria also makes a material contribution to reducing BayernLB's capital charge for the ABS portfolio and minimising the P&L implications from the ongoing marking to market of the ABS portfolio.

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

The amount of losses offset under the guarantee to date (primarily realised losses from defaults or sales of ABSs) totalled EUR 850 million on 31 December 2012 (FY 2011: EUR 650 million), and thus is within the first loss to be borne by BayernLB. The losses projected by both BayernLB and the external portfolio advisers appointed under the guarantee agreement are within guarantee limits under all scenarios currently used over the full remaining term of the portfolio.

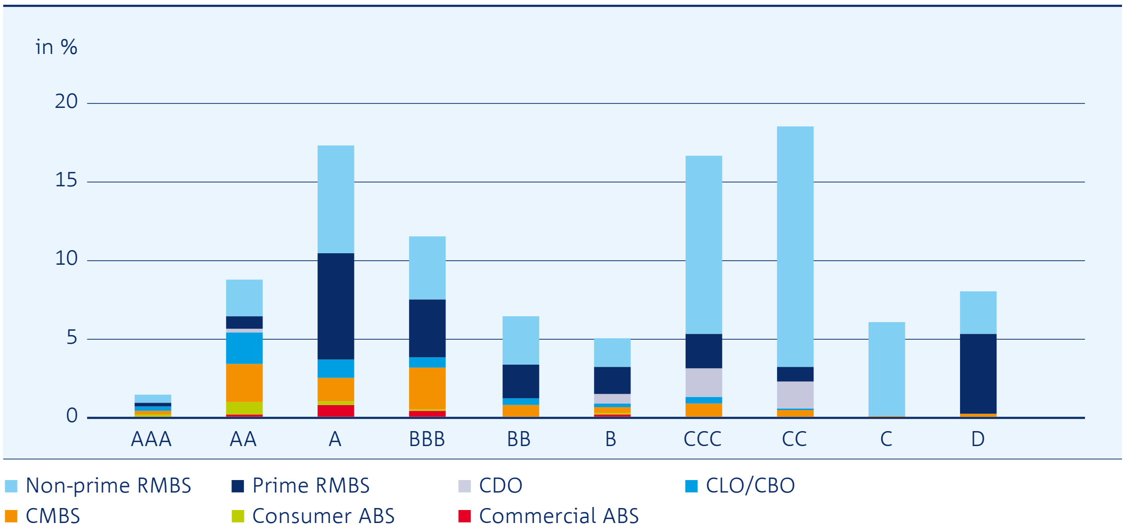
Measurement of the ABS portfolio

In its ongoing assessment of the credit quality of an ABS holding, BayernLB focuses largely on the value and expected change in value of the underlying pool of securitised receivables and the suitability of the structural collateral elements (credit enhancements) available. In addition, the impact of structural factors and influence of the parties involved at individual transaction level are factored in. Using methods appropriate for each asset class and country, impairment tests are carried out and loss estimates compiled. The assumptions used are continually checked for suitability and the plausibility is verified in different ways including against the valuation results of the appointed portfolio advisors.

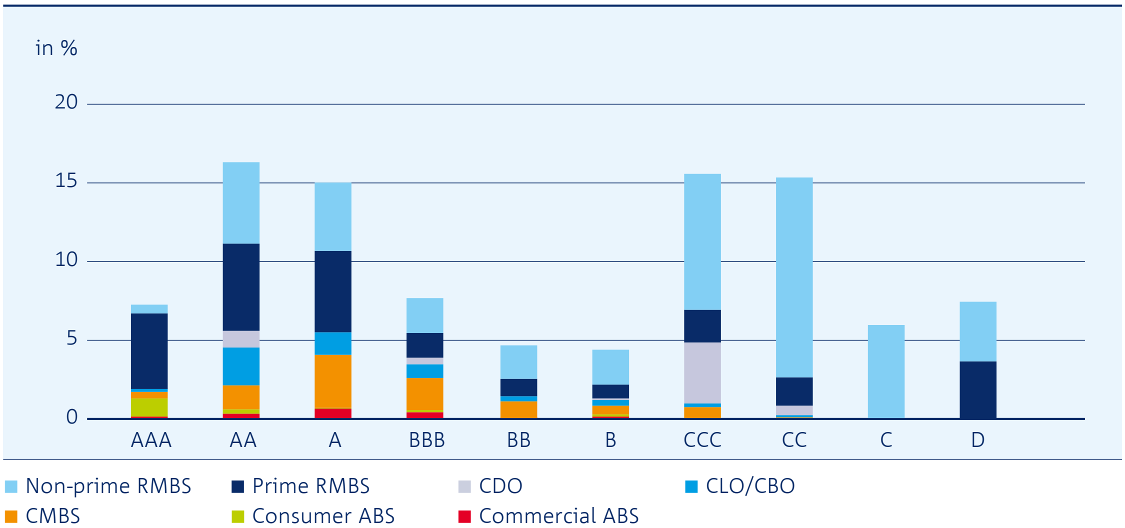
In the current market environment, BayernLB has relied primarily on indicative prices to value asset-backed securities. These are obtained from market data providers, counterparties, brokers and the portfolio advisors. Prices from different sources are adjusted for statistical outliers and the average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

The following information on the composition of the portfolio relates to BayernLB's EUR 9.5 billion portfolio of asset-backed securities covered by the guarantee agreement with the Free State of Bavaria.

ABS portfolio by asset and rating class as at 31 December 2012



ABS portfolio by asset and rating class as at 31 December 2011



The charts are based on nominal values in euro and the lowest ratings of each asset-backed security by Standard & Poor's and Moody's. As at 31 December 2012, 38.7 percent (FY 2011: 46.3 percent) of the BayernLB portfolio was investment grade (rating categories AAA to BBB) and 60.1 percent (FY 2011: 53.7 percent) sub-investment grade (BB or lower).

The shift versus the previous year was mainly due to repayments in the investment-grade segment and rating downgrades. The rating migration into the sub-investment-grade segment took place principally in prime and non-prime RMBS assets in the US. Most of these securities were rated AAA on issue. Since the start of the financial crisis in 2007, the original credit enhancements that were provided have not been large enough to absorb in full the realised and anticipated losses from the underlying securitised portfolios, particularly in these segments.

The losses accrued to date have been the result of the turmoil on the US mortgage and real estate markets (in respect of RMBSs) and the high number of credit events related largely to banks in the US and Europe (in respect of CDOs). Based on current perspectives, the credit enhancement for ABS securities in other asset classes should, however, be large enough in most cases to cover rising losses in the underlying portfolios.

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), or from the suspension of dividends, partial writedowns, losses on disposals, or reductions in hidden reserves
- Liability risks (e.g. letters of comfort) and 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 and management

BayernLB acquires participations to achieve its corporate goals. Participations are divided into a core and a non-core portfolio.

The core portfolio comprises participations which expand customer and market potential, support the business model or operating processes, and also miscellaneous participations.

As part of the resizing of BayernLB, however, the disposal of some non-core participations is being examined and, in some instances, a sale has already been agreed.

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

Participation risks are handled in accordance with the risk strategy, which is derived from the business strategy, and also the participation policy. These govern the participation process, the capital base of the investee companies and controlling and reporting. All participations are approved by the Board of Management. Decisions by the BoM to acquire a participation must be approved by the Board of Administration. Issues to be decided and mandatory consent for participations are governed by the Rules of Procedure of the Board of Management of BayernLB. The strategic conditions set by the European Commission must be complied with.

The Group's major participations are integrated into BayernLB's annual strategy and planning process.

Based on the risk inventory and the requirements of BayernLB's risk strategy, compatible risk management processes, strategies and procedures are implemented in the Bank's subsidiaries. These participations are closely integrated into the management and monitoring process of the BayernLB Group through the individual risk types.

Risk measurement, monitoring and limitation

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

Risk capital requirements for participation risk in ICAAP are calculated using the regulatory PD/LGD method according to SolvV.

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

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

Market risk

Definition

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

Risk strategy

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

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

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

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

Risk measurement

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

Market risk measurement methods are regularly assessed for the quality of their forecasting. In the backtesting process, the risk forecast is compared with actual outcomes (profit or loss). As of 31 December 2012, based on the Basel traffic light approach the forecasting quality of the procedure for measuring market risk was good. The same methods are used for both assets and liabilities in the trading book and the investment book.

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

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

Risk monitoring

In BayernLB, several tools are used to monitor and limit market risks, including value-at-risk (VaR) and corresponding VaR limits, risk sensitivity, stress tests and ratios for calculating risk-bearing capacity.

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

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

Alongside the regulatory interest rate shock scenario of +/–200 basis points calculated for the interest rate risk in the investment book, additional interest rate shock scenarios are also calculated and limited. As at the reporting date, the change in the present value relative to BayernLB's liable capital in the interest rate shock scenario of +/–200 basis 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 Chief Risk Officer is informed monthly and the Board of Management and the Risk Committee of the Board of Administration at least quarterly about the market risk situation.

Current situation

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

VaR contribution broken down by risk types (confidence level of 99 percent)

			1 Jan 2012 to 31 Dec 2012		
EUR million	**31 Dec 2012**	**31 Dec 2011**	**Average**	**Maximum**	**Minimum**
General interest rate VaR	33.9	46.0	43.1	53.4	33.9
Specific interest rate VaR (credit spreads)*	17.5	45.1	33.0	50.5	17.0
Currency VaR	2.9	6.3	6.1	14.8	2.4
Commodities VaR	1.3	4.2	2.8	4.6	1.3
Equities VaR	1.1	0.6	0.6	1.2	0.4
Volatility VaR	0.9	2.1	1.3	2.7	0.5
Total VaR	**31.7**	**58.4**	**53.5**	**67.2**	**31.7**

* *In addition to calculating specific interest rate risk daily, premiums for credit rating risk from money market transactions and OTC derivatives are also taken into account when calculating the risk capital requirement.*

The fall in general interest rate risk was mainly the result of the divestiture of LBS Bayern and the cutback in positions. There was a notable fall in specific interest rate risk from the previous year, principally caused by the lower credit spread level, the cutback in positions and the fall in market volatility.

Liquidity risk

Definition

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

Risk measurement

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

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

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

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

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

Potential concentrations in the liquidity position and refinancing structure are constantly analysed and monitored. In the reporting year, there were no significant concentrations.

A specific net cash flow figure for the next 180 days is calculated daily for the public Pfandbrief register and the mortgage register. In accordance with Section 27 of the Pfandbrief Act (Pfandbriefgesetz), the results and other indicators with respect to the register of cover are reported quarterly to the Board of Management. The balance of cumulative cash flows and available liquidity indicated there was surplus liquidity throughout 2012.

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 cover funds 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 maturity, 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 quality of assets in the register of cover for Pfandbriefs is set by law. This, combined with matching currencies and maturities, ensures that issued Pfandbriefs meet high standards. BayernLB's Collateral Management makes sure that standards are maintained at all times. 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)). A special forecasting and management system ensures internal and supervisory minimum limits are complied with at all times. In the reporting year, BayernLB had a liquidity ratio of between 1.82 and 2.41 (FY 2011: between 1.56 and 2.02). 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 on the basis of ratios derived from the daily scenario-based liquidity overviews and limits these.

The readily realisable liquidity reserves held by BayernLB (liquidity cover potential) limit the maximum one-off and structural liquidity gaps tolerated by individual currency and across all currencies combined. BayernLB has put consistent escalation thresholds in place in the Bank that are monitored daily to support the liquidity risk limits.

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

In 2012 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 change and regulatory requirements alter so as to optimise the management of liquidity. To this end, BayernLB has set up an early warning system for risks and regularly conducts back testing and validation processes.

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

Current situation

Liquidity overviews are compiled for the purpose of managing and monitoring liquidity risks economically. This involves calculating the liquidity surplus by subtracting in each maturity band the cumulative liquidity gaps from the realisable liquidity counterbalancing capacity. Economically expected cash flows from non-deterministic products are based partly on modelling assumptions. Methodological improvements were made in 2012 to the way the data is calculated. For reasons of consistency the figures from the prior year have been recalculated under the new methodology.

The BayernLB management scenario showed the following results as at 31 December 2012 compared to 31 December 2011:

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

31 Dec 2011 Cumulative figures in EUR million	**up to one month**	**up to three months**	**up to one year**	**up to five years**
Liquidity surplus	**14,501**	**21,136**	**24,008**	**21,934**
arising from				
• Liquidity counterbalancing capacity	21,942	25,611	28,925	10,254
less				
• Liquidity gap (ex.commitments and guarantees)	2,708	–825	–1,331	–14,359
• Liquidity gap (only commitments and guarantees)	4,734	5,300	6,248	2,678

The changes in liquidity overviews between 31 December 2011 and 31 December 2012 continued to be heavily influenced by the focus on the core business areas coupled with the resizing of BayernLB.

LBS Bayern was deconsolidated as at 31 December 2012 and is no longer included in these figures. This resulted in a decline in excess liquidity, especially in maturities out to five years.

Interbank trading recovered slightly in 2012. Short-term liquidity in particular (up to one month) was once again available in sufficient quantity in the market at all times. Sufficient reserves are therefore available, supported by appropriate structural refinancing on the capital market (EUR 2.4 billion covered and EUR 5.02 billion uncovered). The good liquidity situation is also confirmed by the high liquidity surpluses across all maturity bands as at 31 December 2012, as shown in the table.

In the coming years liquidity management and monitoring in BayernLB will continue to revolve around the refinancing options available and focus on ensuring liquidity reserves are always adequate, even in stress situations. The management of liquidity reserves already incorporates the new MaRisk, Basel III, CRD IV and CRR requirements insofar as these have been defined so far. 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.

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.

BayernLB will suitably implement the liquidity risk requirements in the 4th revision to MaRisk, focusing on the need for a cross-charging system for liquidity risks. This will be based on the long-standing BayernLB liquidity transfer price system, which is in any event constantly updated in line with the latest requirements.

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

Operational risk

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

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

Risk strategy

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

Risk measurement

For operational risks BayernLB uses the standard approach (STA) set out in SolvV to calculate the capital requirements under SolvV/Basel II (Pillar I) and the risk capital requirement under the risk-bearing capacity assessment (ICAAP)/Basel II (Pillar II). The capital required for operational risks was EUR 281 million as at 31 December 2012.

Risk management and monitoring

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

Business continuity management

Business continuity management is anchored in the risk strategy and includes important measures to ensure essential resources are available and maintain/restore time-critical business processes.

Emergencies can grow into crises that place the operations of the entire Bank in jeopardy. Crises are brought under control by crisis management using the crisis manual.

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. Trends in operational risk losses and the risk-bearing capacity and stress analyses (ICAAP) form a major part of the regular reporting. This ensures that operational risks are consistently integrated into the risk capacity monitoring and stress analysis across all types of risk and the overall management of risk and the risk strategy.

Current situation

2012 saw a sharp fall in losses from operational risks to EUR 1.3 million (of which EUR 1.24 million at BayernLB and EUR 0.08 million at BayernLabo) from EUR 37.9 million in 2011 (of which EUR 37.76 million at BayernLB, EUR 0.03 million at BayernLabo and EUR 0.06 million at LBS Bayern).

The large figure in 2011 was mainly because of one product sold by BayernLB prior to 2004. The associated loss was recognised in full in the 2011 financial statements.

The suits from employees concerning the switch from a civil servant-style pension plan had no impact on the amount of losses. These are measured as realised legal risks and hence operational risks (OpRisk losses) in line with the regulatory definition; however, BayernLB suffered no loss as a result of these risk events, as the resultant total costs are no higher than they would have been under the original civil servant-style pension plan.

Summary

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

BayernLB had adequate risk-bearing capacity as at 31 December 2012. 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 risk management and controlling system at BayernLB has appropriate processes to ensure compliance with regulatory requirements.

Financial statements

Financial statements

Balance sheet and income statement

Balance sheet – Bayerische Landesbank
as at 31 December 2012

				2012	2011
Assets	*EUR ’000*	EUR ’000	EUR ’000	EUR ’000	EUR ’000
Cash reserves					
a) Cash			17,400		12,663
b) Deposits with central banks			357,404		951,436
of which:					
at Deutsche Bundesbank	*72,572*				*395,205*
				374,804	**964,099**
Due from banks					
a) Payable on demand			8,708,093		9,509,698
b) Other receivables			39,952,543		46,951,390
of which:					
• mortgage loans	*11,712*				*119,025*
• municipal loans	*7,276,387*				*8,532,773*
of which Bausparkasse home loan savings loans:					
• home loan savings loans	—				*1,149*
• preliminary and interim financing loans	—				—
• other home loan savings loans	—				—
				48,660,636	**56,461,088**
Due from customers				**84,097,906**	**91,677,474**
of which:					
• mortgage loans	*16,920,498*				*21,569,967*
• municipal loans	*34,496,838*				*34,416,872*
of which Bausparkasse home loan savings loans:					
• from allotments (home loan savings loans)	—				*1,900,975*
• for preliminary and interim financing	—				*3,086,956*
• other home loan savings loans	—				*283*
of which:					
secured by charge on property	—				*3,905,587*
Bonds and other fixed-income securities					
a) Money market instruments					
aa) issued by public-sector borrowers		—			759,698
of which:					
eligible as collateral at Deutsche Bundesbank	—				*759,698*
ab) issued by other borrowers		121,091			458,746
of which:					
eligible as collateral at Deutsche Bundesbank	—				—
			121,091		1,218,444
b) Bonds and notes					
ba) issued by public-sector borrowers		7,475,943			6,755,411
of which:					
eligible as collateral at Deutsche Bundesbank	*4,958,866*				*4,290,689*
bb) issued by other borrowers		27,356,577			31,241,118
of which:					
eligible as collateral at Deutsche Bundesbank	*15,996,805*				*16,969,359*
			34,832,520		37,996,529
c) Own debt securities			8,210,829		7,872,080
Nominal value	*8,205,425*				*7,895,362*
				43,164,440	**47,087,053**
Equities and other non-fixed income securities				**169,533**	**635,372**
Trading portfolio				**43,079,477**	**48,701,980**
Carried forward				219,546,796	245,527,066

				2012	2011
Liabilities	*EUR '000*	EUR '000	EUR '000	EUR '000	EUR '000
Due to banks					
a) Payable on demand			5,139,220		4,712,072
b) With agreed maturity or period of notice			52,444,393		55,010,281
of which:					
• *registered mortgage Pfandbriefs*	*569,977*				*618,562*
• *registered public Pfandbriefs*	*1,955,091*				*2,392,656*
• *issued to the lender to secure loans raised:*					
• *registered mortgage Pfandbriefs*	—				—
• *registered public Pfandbriefs*	—				—
c) Home loan savings deposits			—		92,158
of which:					
• *on terminated contracts*	—				—
• *on allotted contracts*	—				*2,882*
				57,583,613	**59,814,511**
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		—			—
ac) home loan savings deposits		—			9,649,422
of which:					
• *on terminated contracts*	—				*111,140*
• *on allotted contracts*	—				*249,452*
ad) New contract deposits		—			—
			—		9,649,422
b) Other liabilities					
ba) payable on demand		5,122,559			4,365,809
bb) with agreed maturity or period of notice		37,966,776			37,010,096
of which:					
• *registered mortgage Pfandbriefs*	*1,820,961*				*1,862,568*
• *registered public Pfandbriefs*	*6,967,129*				*7,563,394*
• *issued to the lender to secure loans raised:*					
• *registered mortgage Pfandbriefs*	—				—
• *registered public Pfandbriefs*	—				*10,737*
			43,089,335		41,375,905
				43,089,335	**51,025,327**
Securitised liabilities					
a) Bonds issued					
aa) mortgage Pfandbriefs		5,613,782			5,556,938
ab) public Pfandbriefs		15,748,661			19,572,211
ac) other bonds		42,452,885			51,464,168
			63,815,328		76,593,317
b) Other securitised liabilities			555,408		2,425,478
of which:					
• *money market instruments*	*535,881*				*2,367,308*
• *own acceptances and promissory notes outstanding*	—				—
				64,370,736	**79,018,795**
Trading portfolio				**37,207,729**	**36,691,050**
Liabilities held in trust				**5,721,848**	**6,065,591**
of which: *loans on a trust basis*	*5,721,544*				*6,065,097*
Other liabilities				**1,216,269**	**1,063,771**
Carried forward				209,189,530	233,679,045

Balance sheet – Bayerische Landesbank
as at 31 December 2012 (continued)

				2012	2011
Assets	*EUR '000*	EUR '000	EUR '000	EUR '000	EUR '000
Carried forward				219,546,796	245,527,066
Participations				**254,364**	**353,845**
of which:					
• *in banks*	*110,792*				*110,792*
• *in financial service providers*	*11*				*11*
Shares in affiliated companies				**3,390,048**	**3,313,903**
of which:					
• *in banks*	*2,506,353*				*2,436,180*
• *in financial service providers*	*—*				*—*
Assets held in trust				**5,721,848**	**6,065,591**
of which:					
loans on a trust basis	*5,721,544*				*6,065,097*
Intangible assets					
a) Internally generated industrial property rights and similar rights and assets			76,908		42,004
b) Purchased licences, industrial property rights and similar rights and assets as well as licences to such rights and assets			33,932		24,432
c) Goodwill			—		—
d) Down payments effected			—		—
				110,840	**66,436**
Tangible assets				**393,252**	**457,178**
Other assets				**2,285,386**	**659,814**
Pre-paid expenses					
a) From the new issues and loans business			151,165		205,378
b) Others			64,252		78,469
				215,417	**283,847**
Total assets				**231,917,951**	**256,727,680**

Liabilities	EUR ’000	EUR ’000	EUR ’000	2012 EUR ’000	2011 EUR ’000
Carried forward				209,189,530	233,679,045
Deferred income					
a) From the new issues and loans business			106,761		106,307
b) Others			97,665		136,611
				204,426	**242,918**
Provisions					
a) For pensions and similar obligations			1,754,460		1,780,279
b) For taxes			282,822		355,031
c) Other provisions			760,175		1,428,346
				2,797,457	**3,563,656**
Reserve fund for home loan and savings banks				**—**	**61,203**
Subordinated liabilities				**5,137,105**	**5,253,991**
Profit-participation certificates				**449,550**	**476,347**
of which:					
due in less than two years	*—*				*34,196*
Fund for general bank risks				**1,152,351**	**473,000**
of which:					
special items pursuant to Section 340e (4) HGB	*16,877*				*—*
Equity					
a) Subscribed capital					
aa) statutory nominal capital	2,300,000				2,300,000
uncalled nominal capital	—				—
called nominal capital		2,300,000			2,300,000
ab) silent partner contributions		4,772,367			4,324,593
			7,072,367		6,624,593
b) Specific-purpose capital			612,016		612,016
c) Capital reserve			4,035,641		4,473,403
d) Retained earnings					
da) statutory reserves		1,267,508			1,267,508
db) other retained earnings		—			—
			1,267,508		1,267,508
e) Net retained profits			—		—
				12,987,532	**12,977,520**
Total liabilities				**231,917,951**	**256,727,680**
Contingent liabilities					
a) Contingent liabilities from the endorsement of bills rediscounted			—		—
b) Liabilities from guarantees and indemnity agreements (see also the notes)			12,652,673		13,993,779
c) Liabilities from collateral furnished for third-party obligations			—		—
				12,652,673	**13,993,779**
Other liabilities					
a) Repurchase obligations from non-genuine sale and repurchase agreements			—		—
b) Placement and underwriting commitments			—		—
c) Irrevocable loan commitments			18,765,328		23,021,885
				18,765,328	**23,021,885**

Income statement – Bayerische Landesbank
for the period from 1 January to 31 December 2012

				2012	2011
	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
Interest income from					
a) Credit and money market transactions		3,934,370			4,471,293
of which Bausparkasse interest income:					
• *from home loan savings loans*	*71,390*				*79,405*
• *from preliminary and interim financing loans*	*124,587*				*122,377*
• *from other building loans*	*10*				*16*
b) Fixed-income securities and debt-register claims		711,141			918,229
			4,645,511		**5,389,522**
Interest expenses			**–3,326,145**		**–3,984,295**
of which Bausparkasse interest expenses:					
for home loan savings deposits	*–204,693*				*–205,956*
				1,319,366	**1,405,227**
Current income from					
a) Equities and other non-fixed income securities			20,256		18,154
b) Participations			6,705		16,829
c) Shares in affiliated companies			68,109		43,617
				95,070	**78,600**
Income from profit-pooling agreements, profit transfer agreements and partial profit transfer agreements				**258,016**	**127,473**
Commission income			**364,590**		**378,340**
of which Bausparkasse commission income:					
• *from concluding and procuring contracts*	*63,534*				*61,053*
• *from loan administration after allotment*	*3,016*				*3,539*
• *from providing and processing preliminary and interim financing loans*	—				—
Commission expenses			**–189,832**		**–219,829**
of which Bausparkasse commission expenses: for concluding and procuring contracts on behalf of Bausparkasse	*–101,149*				*–101,195*
				174,758	**158,511**
Net income or net expenses of the trading portfolio				**151,892**	**–50,068**
of which: allocation to/releases from the fund for general bank risks pursuant to Section 340e (4) HGB	*–16,877*				*17,472*
Other operating income				**458,131**	**75,677**
General administrative expenses					
a) Personnel expenses					
aa) salaries and wages		–346,087			–307,731
ab) social security contributions, pensions and other employee benefits		–175,398			–52,718
			–521,485		–360,449
of which: for pensions	*–125,329*				*–15,062*
b) Other administrative expenses			–364,434		–347,900
				–885,919	**–708,349**
Amortisation, depreciation and writedowns on intangible assets and tangible assets				**–39,854**	**–26,534**
Other operating expenses				**–215,277**	**–259,634**
Carried forward				1,316,183	800,903

				2012	2011
	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
Carried forward				1,316,183	800,903
Amortisation, depreciation and writedowns on receivables and certain securities and additions to provisions in the credit business			**−8,998**		**−162,189**
of which:					
• *withdrawal from the fund for general bank risks*	*—*				—
• *allocation to the fund for general bank risks*	*−662,474*				—
Income from reversals of writedowns on receivables and certain securities as well as from the release of provisions in the credit business			**—**		**—**
				−8,998	**−162,189**
Amortisation, depreciation and writedowns on participations, shares in affiliated companies and securities classified as fixed assets			**−1,227,379**		**−726,109**
Income from reversals of writedowns on participations, shares in affiliated companies and securities classified as fixed assets			**—**		**—**
				−1,227,379	**−726,109**
Expenses from loss transfers				**−3,438**	**−3,545**
Gains or losses on ordinary activities				**76,368**	**−90,940**
Extraordinary income			**—**		**—**
Extraordinary expenses			**−7,677**		**−5,065**
Net extraordinary loss/income				**−7,677**	**−5,065**
Taxes on income and earnings			**−27,381**		**−225,417**
of which: deferred taxes	*—*				—
Other taxes, unless disclosed under "Other operating expenses"			**−13,797**		**−6,121**
				−41,178	**−231,538**
Net income/loss for the financial year				**27,513**	**−327,543**
Withdrawals from capital reserve				**437,762**	**214,631**
Withdrawals from profit participation certificates				**–**	**11,203**
Withdrawals from silent partner contributions				**–**	**101,709**
Replenishment of profit participation certificates				**−10,330**	**—**
Replenishment of silent partner contributions				**−454,945**	**—**
Net retained profits				—	—

Notes

The annual financial statements of Bayerische Landesbank, an institution established under public law, Munich, Germany (Bayern LB) 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 the items required for Pfandbrief banks and home loan and savings banks (Bausparkassen).

Figures are given in millions of euros. Tables may contain rounding differences.

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 2012 were the same as those used for the annual financial statements as at 31 December 2011. Any changes on the previous year are noted below.

The assets and liabilities disposed of in the spin-off of Bayerische Landesbausparkasse (LBS Bayern) on 31 December 2012 are not reported in the figures as at 31 December 2012. The income statement includes LBS Bayern's full income and expenses up to the date of its spin-off.

BayernLB switched the discounting of secured EUR interest rate derivatives to the overnight interest rate swap curve, so as to react to current market trends. As a result, the measurement of the trading portfolio and loss-free measurement of the banking book give rise to a changeover effect totalling EUR –24 million.

The parameters for calculating counterparty risk from OTC derivatives were refined and the group of counterparties expanded to include all rating categories. This produced a total impact on earnings of EUR –6 million, significantly affecting the trading portfolio.

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.

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 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. Securities allocated to the investment portfolio are regularly tested for indications of permanent impairment.

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

Trading portfolio

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

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

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

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

Fair value

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

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

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

Other measurement models

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

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

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

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

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

Summary of key measurement models by derivative product group:

Product group	Principal valuation model
Interest-rate swaps	Present value method
Forward rate agreements	Present value method
Interest-rate options	Black 76
Forward exchange transactions	Present value method
Currency swaps/cross-currency swaps	Present value method
Foreign exchange options	Black 76, Barone-Adesi-Whaley
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 (excluding 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 freestanding 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 freestanding derivatives in the non-trading portfolio (excluding credit derivatives) are recognised under the items “other operating income” and “other operating expenses” in the income statement. Gains or losses on realisation of interest-rate derivatives are recognised under interest income.

Structured products

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

Valuation units

BayernLB utilises valuation units (underlying transactions and their related hedges) in accordance with Section 254 HGB. Only micro fair-value valuation units are 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.

In accordance with the risk strategy, 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.

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 the Bank's business in the banking book, individual financial instruments cannot be pooled together. The banking book is managed as a whole. For all interest-bearing on and off-balance sheet financial instruments in the banking book, the principle of prudence is observed by making a provision for any surplus of liabilities in accordance with Section 249 HGB (expected losses). BayernLB calculates potential surpluses of liabilities using the net present value method. Besides the net present values and carrying amounts of interest-bearing financial instruments in the non-trading portfolio, the calculation to determine whether a provision for expected losses must be made takes account of administrative and standard risk costs. Administrative costs are calculated based on internal cost controlling. This calculation considers the process costs for current transactions on the reporting day and a surcharge for overheads and inflation. Standard risk costs are calculated using the same method as for risk costs. It is based on the expected losses over several years. BayernLB had no surplus liabilities on the reporting day. 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 and tangible assets

Intangible 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 deduction 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 recognised 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 32.01 percent, except for deferred taxes on participations in partnerships, which are computed at the corporation tax rate (including the solidarity surcharge) of 15.83 percent. Deferred taxes on municipal trade tax loss carryforwards are computed at an average municipal trade tax rate of 16.18 percent. For BayernLB's foreign branches, deferred taxes are measured on the basis of the statutory tax rates applicable in the country concerned; the range is between 23.00 percent and 45.27 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 the 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 the 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 using the entry age normal method in accordance with Section 6a EStG is exceeded. As the size of the provision would be lower if the pension provisions were measured in accordance with the German Modernisation of Accounting Rules Act (Bilanzrechtsmodernisierungsgesetz) instead of under the previous method, BayernLB has retained the higher provision value in accordance with Art. 67 para. 1 sentence 2 EGHGB, taking account of the benefits paid. This requirement was no longer met on the reporting date and therefore no surplus cover was reported (FY 2011: EUR 48 million).

Pension provisions are calculated using the following actuarial assumptions:

in percent	2012	2011
Actuarial interest rate	5.06	5.13
Changes in salary	3.20	3.20
Adjustments to pensions	2.00[1]	2.43
Medical costs[2]	3.00	3.00

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

2 Medical costs are reported separately from 2012 after previously being reported with pension increases. The previous year's figures were adjusted.

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 2012, there was a shortfall of EUR 229 million (FY 2011: EUR 289 million). Reinsurance concluded by BayernLB to fund these retirement benefit obligations offset this amount by EUR 201 million (FY 2011: EUR 227 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 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 of EUR 11,322 million and liabilities of EUR 10,786 million were disposed of in the spin-off of LBS Bayern on 31 December 2012 and are therefore not reported in the figures as at 31 December 2012. The disposed-of assets were mainly amounts due from banks, amounts due from customers, bonds and other fixed-income securities, and equities and other non-fixed income securities. The disposed-of liabilities were mainly amounts due to customers.

Assets

Due from banks

EUR million	2012	2011
Due from banks	**48,661**	**56,461**
This item includes:		
Other receivables with a residual maturity of		
• up to three months (including accrued interest)	7,392	6,630
• over three months up to one year	9,605	10,923
• over one year up to five years	14,601	19,375
• over five years	8,354	10,023
Due from affiliated companies	**5,503**	**7,961**
Due from companies in which participations are held	**1,830**	**2,478**
Due from affiliated savings banks	**15,638**	**16,332**
Subordinated receivables	**760**	**755**
Committed but not yet disbursed building loans of the home loan and savings banks		
• from allotment	–	137

Due from customers

EUR million	2012	2011
Due from customers	**84,098**	**91,677**
This item includes:		
Receivables with a residual maturity of		
• up to three months (including accrued interest)	12,490	14,336
• over three months up to one year	11,464	11,178
• over one year up to five years	27,069	29,708
• over five years	31,739	35,497
Receivables without a fixed date of maturity	**1,337**	**959**
Due from affiliated companies	**294**	**459**
Due from companies in which participations are held	**328**	**743**
Subordinated receivables[1]	**473**	**446**
Overdue interest and redemption payments from building loans of the home loan and savings banks	**–**	**3**
Committed but not yet disbursed building loans of the home loan and savings banks		
• from allotment	–	541
• for preliminary and interim financing	–	241

1 *Subordinated receivables in the amount of EUR 218 million (FY 2011: EUR 534 million) that were not recognised in the previous year's figure were recognised under this item in the reporting year.*

Bonds and other fixed-income securities

EUR million	2012	2011
Bonds and other fixed-income securities	**43,164**	**47,087**
This item includes:		
Amounts falling due in the following year (including accrued interest)	**2,463**	**4,316**
Securitised receivables from affiliated companies	**833**	**1,076**
Securitised receivables from companies in which participations are held	**1,826**	**2,372**
Subordinated securities	**1,615**	**1,947**
Marketable securities, of which		
• listed	39,454	40,572
• unlisted	3,691	6,487

Securities with a carrying value of EUR 513 million were reallocated from the liquidity reserve to the investment portfolio in 2012. BayernLB has the intention and ability to hold these securities for the long term. These portfolios are measured using the less strict principle of lower of cost or market value.

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 32,146 million (FY 2011: EUR 34,496 million) and had a fair value of EUR 31,207 million (FY 2011: EUR 32,590 million). No writedown is made if the Bank does not consider the current fluctuations in value to be long term and assumes that the securities will be repaid in full when they mature.

Part of the investment portfolio comprises asset-backed securities with a carrying value of EUR 7,205 million (FY 2011: EUR 9,198 million) and a fair value of EUR 6,504 million (FY 2011: EUR 7,762 million). In return for a premium paid by the Bank, the Free State of Bavaria concluded a guarantee agreement in 2008 which guaranteed losses from the ABS portfolio of up to EUR 4.8 billion. The guarantee covers losses above a first loss of EUR 1.2 billion which is borne by BayernLB. Since the guarantee agreement was concluded, EUR 1.9 billion in writedowns above the first loss have thus been avoided.

Equities and other non-fixed income securities

EUR million	2012	2011
Equities and other non-fixed income securities	**170**	**635**
This item includes:		
Marketable securities, of which		
• listed	119	2
• unlisted	26	31

As at the reporting date, equities and other non-fixed income securities were carried at EUR 25 million (FY 2011: EUR 602 million) on the basis of the less strict principle of lower of cost or market value and had a fair value of EUR 24 million (FY 2011: EUR 596 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 recover their value in full.

Trading portfolio

EUR million	2012	2011
Trading portfolio	**43,079**	**48,702**
This item includes:		
Positive fair values of derivative financial instruments	**36,736**	**36,917**
Receivables	**1,149**	**1,518**
Bonds and other fixed-income securities	**4,845**	**10,108**
Equities and other non-fixed income securities	**219**	**140**
Other assets	**148**	**78**
Risk discount for the whole trading portfolio	**–17**	**–59**
Subordinated securities	**3**	**2**

Participations

EUR million	2012	2011
Participations	**254**	**354**
This item includes:		
Marketable securities, of which		
• listed	–	117
• unlisted	–	–

As at the reporting date, participations of EUR 7 million (FY 2011: EUR 130 million) were carried at the less strict lower of cost or market value; these had a fair value of EUR 5 million (FY 2011: EUR 95 million). No writedown is made if the Bank does not consider the current fluctuations in value to be long term and assumes that the participations will recover their value in full.

Shares in affiliated companies

EUR million	2012	2011
Shares in affiliated companies	**3,390**	**3,314**
This item includes:		
Marketable securities, of which		
• listed	–	–
• unlisted	3,205	3,135

Assets held in trust

EUR million	2012	2011
Assets held in trust	**5,722**	**6,066**
This item mainly includes housing loans granted by Bayerische Landesbodenkreditanstalt and breaks down as follows:		
Due from banks	86	103
Due from customers	5,635	5,962

Intangible assets

Research and development costs of EUR 65 million arose in the reporting year (FY 2011: EUR 59 million). This included EUR 35 million in development costs (FY 2011: EUR 29 million) resulting from internally developed intangible assets categorised as fixed assets, namely internally developed software.

Tangible assets

EUR million	2012	2011
Tangible assets	**393**	**457**
This item includes:		
Land and buildings used for own operations	316	369
Furniture and office equipment	24	25

Other assets

EUR million	2012	2011
Other assets	**2,285**	**660**
This item includes: Premium claims from credit derivatives (protection buyer positions)	964	59
Offsetting item for foreign currency translation	457	–
Accrued income from participations	278	135
Claims from reinsurance	202	227
Emissions certificates	136	64
Claims on the German Tax Authorities	67	60

Pre-paid expenses

EUR million	2012	2011
Pre-paid expenses	**215**	**284**
This item includes:		
Discount on liabilities	129	171
Premium on receivables	22	34
Upfront payments from swaps	21	23

Changes in fixed assets

EUR million	Purchase/ manufacturing costs	Additions	Disposals	Transfers	Writeups	Depreciation/write-downs (cumulative)	Net carrying value 31 Dec 2012	Net carrying value 31 Dec 2011	Depreciation/write-downs for the financial year
			Changes +/–[1]						
Participations			−99				254	354	
Shares in affiliated companies			76				3,390	3,314	
Securities classified as fixed assets			−2,927				32,171	35,098	
Intangible assets[2]	184	57	2	–	–	129	111	66	12
of which: produced in house	*42*	*36*	–	–	–	*1*	*77*	*42*	*1*
Tangible assets	685	26	68	–	–	249	393	457	28
Other fixed assets	16	–	–	–	–	3	13	13	–

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

Genuine sale and repurchase agreements

EUR million	2012	2011
Carrying values of assets transferred under sale and repurchase agreements	2,680	3,781

Assets in foreign currencies

EUR million	2012	2011
Total amount of assets denominated in foreign currency	49,952	59,018

Assets held as cover

EUR million	2012	2011
Mortgage Pfandbriefs and Landesbodenbriefs	**7,923**	**8,385**
Cover assets contained in:		
• Due from banks	43	61
• Due from customers	11,255	11,257
• Bonds and other fixed-income securities	1,421	550
• Additional cover	–	–
Excess cover	**4,796**	**3,484**
Public Pfandbriefs	**24,364**	**29,670**
Cover assets contained in:		
• Due from banks	7,413	9,619
• Due from customers	25,370	25,405
• Bonds and other fixed-income securities	1,508	3,104
• Additional cover	1,225	2,041
Excess cover	**11,152**	**10,499**

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 Short Term ABS-Fonds	17	17	–	1	Yes
BayernInvest Renten Europa-Fonds	10	8	1	–	Yes
Balanced funds					
Assenagon Trading Risk Conversion	24	25	–1[1]	–	No[2]

1 No permanent impairment as a full recovery in value is assumed.
2 Redemption available on the first bank working day of the month.

Liabilities

Due to banks

EUR million	2012	2011
Due to banks	**57,584**	**59,815**
This item includes:		
Term liabilities with a residual maturity of		
• up to three months (including accrued interest)	5,804	8,695
• over three months up to one year	7,557	9,756
• over one year up to five years	22,996	20,791
• over five years	16,087	15,768
Due to affiliated companies	**5,427**	**3,673**
Due to companies in which participations are held	**902**	**1,164**
Due to affiliated savings banks	**6,065**	**8,547**

Due to customers

EUR million	2012	2011
Due to customers	**43,089**	**51,025**
This item includes:		
Other term liabilities with a residual maturity of		
• up to three months (including accrued interest)	15,064	14,931
• over three months up to one year	4,677	2,364
• over one year up to five years	6,715	7,761
• over five years	11,511	11,954
Due to affiliated companies	**113**	**122**
Due to companies in which participations are held	**29**	**34**

Securitised liabilities

EUR million	2012	2011
Securitised liabilities	**64,371**	**79,019**
This item includes:		
Bonds and notes issued		
• amounts falling due in the following year	13,867	18,366
Other securitised liabilities with a residual maturity of		
• up to three months (including accrued interest)	343	1,015
• over three months up to one year	212	1,391
• over one year up to five years	1	20
• over five years	–	–
Due to affiliated companies	**265**	**265**
Due to companies in which participations are held	**10**	**592**

Trading portfolio

EUR million	2012	2011
Trading portfolio	**37,208**	**36,691**
This item includes:		
Negative fair values of derivative financial instruments[1]	**37,040**	**36,542**
Liabilities	**167**	**149**

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

Liabilities held in trust

EUR million	2012	2011
Liabilities held in trust	**5,722**	**6,066**
This item breaks down as follows:		
Due to banks	6	8
Due to customers	5,716	6,057

Other liabilities

EUR million	2012	2011
Other liabilities	**1,216**	**1,064**
This item includes:		
Premium liabilities from credit derivatives (protection seller positions)	987	160
Buy-in obligation resulting from the sale of securities borrowed	54	54
Offsetting item for foreign currency translation	–	663

Deferred income

EUR million	2012	2011
Deferred income	**204**	**243**
This item includes:		
Premium on liabilities	63	55
Upfront payments from swaps	45	21
Discount on receivables	44	52

Subordinated liabilities

EUR million	2012	2011
Subordinated liabilities	**5,137**	**5,254**
This item includes:		
Subordinated liabilities to affiliated companies	**668**	**681**

In the reporting year, interest expenses on subordinated liabilities were EUR 261 million (FY 2011: EUR 260 million).

If BayernLB goes insolvent or is liquidated, the subordinated liabilities cannot contractually be repaid until the claims of all senior creditors have been settled. Creditors have no right to seek early repayment. They meet the requirements for inclusion as liable capital in accordance with Section 10 paras 5a and 7 KWG.

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

	Volume in EUR million	Interest rate	Maturity
EUR bond	1,000	5.75%	23/10/2017
EUR bond	505	4.50%	07/02/2019

The terms and conditions for subordinated bonds apply. There are no provisions for a conversion into equity or another debt instrument.

Liabilities in foreign currency

EUR million	2012	2011
Total amount of liabilities denominated in foreign currency	41,080	40,899

Contingent liabilities and other liabilities

EUR million	2012	2011
Contingent liabilities	**12,653**	**13,994**
This item includes:		
Liabilities from guarantees and indemnity agreements		
• Letters of credit	363	526
• Guarantees	3,789	4,786
• Other guarantees and indemnities	8,501	8,682

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

EUR million	2012	2011
Other liabilities	**18,765**	**23,022**
This item includes:		
Irrevocable loan commitments to		
• Banks	2,942	3,247
• Customers	15,823	19,775

Most of the irrevocable loan commitments recognised under other liabilities are 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 771 million (FY 2011: EUR 619 million). There were unutilised lines of credit granted to three special purpose vehicles in connection with ABS customer transactions of EUR 250 million (FY 2011: EUR 321 million). The loan commitments will ensure that each of the special purpose vehicles can gain access to funding if they are unable to place securitised instruments on the market as planned.

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

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

Assignment of collateral for the Bank’s own liabilities

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

EUR million	2012	2011
Due to banks	14,989	16,835
Due to customers	755	618
Contingent liabilities	12	13

Collateral for own liabilities primarily relates to assigned receivables from pass-through loans to banks (EUR 13,586 million) and cash pledged as collateral for repurchase agreements (EUR 440 million).

Cash pledged as collateral of EUR 4,661 million and securities with a nominal value of EUR 2,716 million have also been deposited as collateral for derivatives transactions, non-cash lending transactions and transactions on futures and options exchanges and other stock exchange and clearing systems.

Valuation units

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

	Hedged amount	
EUR million	2012	2011
Underlying transaction:		
Assets	5,631	4,714
Liabilities	13,454	15,125
Derivative financial instruments	717	667
Total	**19,802**	**20,506**

Notes to the income statement

The income statement includes LBS Bayern's full income and expenses up to the date of its spin-off on 31 December 2012.

Interest income and expenses

An expense of EUR 47 million (FY 2011: EUR 0 million) was recognised in the reporting year resulting from the payment of amounts in arrears and current amounts due on profit participation certificates.

Interest income includes EUR 8 million (FY 2011: EUR 3 million) of interest on tax receivables and interest expenses includes EUR 27 million (FY 2011: EUR 19 million) of interest on tax liabilities.

Commission income and expenses

Commission expenses includes EUR 2 million for the utilisation of guarantees by the Financial Market Stabilisation Fund (FY 2011: EUR 32 million).

Net income or net expenses of the trading portfolio

The change in counterparty-specific credit-rating effects with respect to OTC derivatives and the risk discount for the whole trading portfolio produced total income of EUR 78 million (FY 2011: expenses of EUR 91 million).

Other operating income and expenses

In the reporting year, the Bank produced other operating income of EUR 458 million (FY 2011: EUR 76 million) and other operating expenses of EUR 215 million (FY 2011: EUR 260 million) resulting in net operating income for the year of EUR 243 million (FY 2011: net expense of EUR 184 million).

Other operating income includes a gain of EUR 282 million from the sale of LBS Bayern.

Other operating expenses includes a charge of EUR 3 million (FY 2011: EUR 61 million) for the German bank levy.

In the reporting year, the Bank disclosed EUR 20 million of gains on emissions certificates under other operating income and EUR 66 million of losses under other operating expenses. In the previous year EUR 31 million was recognised as a net expense under the item “net income or net expenses of the trading portfolio”.

Releases of other provisions gave rise to other operating income of EUR 33 million (FY 2011: EUR 29 million).

There was also a charge of EUR 67 million (FY 2011: EUR 2 million) for interest on provisions.

General administrative expenses

Personnel expenses includes additions to pension provisions of EUR 133 million following a ruling by the Federal Employment Court (FEC) on 15 May 2012 relating to BayernLB’s pension system in Germany.

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 67 million (FY 2011: EUR 24 million).

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

This item includes a writedown of EUR 503 million (FY 2011: EUR 576 million) on the carrying value of the holding in MKB Bank Zrt., Budapest.

Expenses of EUR 645 million (FY 2011: EUR 193 million) in connection with the guarantee agreement with the Free State of Bavaria covering actual losses in the ABS portfolio were also recognised. This includes clawback payments totalling EUR 571 million (FY 2011: EUR 120 million). This arose from the implementation of the European Commission's ruling of 25 July 2012 from the hearing into the rescue package provided by the Free State of Bavaria in 2008/2009, which stipulates that EUR 5 billion of the aid received must be repaid to the latter by 2019. The European Commission estimates the value of the risk shield comprising the Free State of Bavaria's guarantee to partially hedge the ABS portfolio to be around EUR 2 billion more than the "real economic value" calculated by the European Commission. The repayment of this amount ("clawback") by 2019 relates to the guarantee received in December 2008.

Extraordinary income and expenses

Extraordinary expenses includes a charge for restructuring expenses of EUR 8 million (FY 2011: EUR 5 million).

Taxes on income and earnings

Corporation tax, municipal trade tax, solidarity surcharge and income taxes in other countries were reported as income tax expenses. Most income taxes were on gains or losses on ordinary activities.

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

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 recognise the deferred tax assets remaining after offsetting.

Distributions on silent partner contributions and profit participation certificates/replenishment of silent partner contributions and profit participation certificates

In financial years 2009 and 2011, holders of BayernLB's silent partner contributions and profit participation certificates were required to share proportionally in the Bank's losses. In accordance with the terms of the agreements, holders of silent partnership contributions were due EUR 455 million to replenish principle and holders of profit participation certificates were due EUR 10 million as at the reporting date of 31 December 2012.

All outstanding amounts due on profit participation certificates were paid from the net income for financial year 2012 in accordance with the terms of the contract. In addition to replenishing in full the amount of EUR 10 million on the profit participation certificates, deferred distributions of EUR 23 million for 2011 and current distributions of EUR 23 million were paid out in full.

In addition, the silent partner contributions were fully replenished by the amount of EUR 455 million as part of the implementation of the conditions of the European Commission's ruling on the recapitalisation measures in 2008/2009. No distributions on silent partner contributions were made as there was no contractual obligation to do so. The remaining deferred claims for interest payable on silent partner contributions for 2008 to 2012 total EUR 37 million. During the lifetime of these instruments deferred payments may only be made if their payment does not produce or increase a net accumulated loss. EUR 438 million was released from the capital reserves to replenish the silent partnership contributions. BayernLB recognised net retained profits for the year of zero.

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 52 million. This amount comprises:

EUR million	2012	2011
Amount from the recognition of		
• internally generated intangible assets within fixed assets	52	29
• deferred taxes	–	–
• assets at fair value	–	–
Total	**52**	**29**

Free reserves are available to cover the full amount that may not be distributed under Section 268 para. 8 HGB.

Services rendered to third parties

The main services rendered to third parties were custody account management, asset management, administration of trust loans, and insurance and real estate brokerage.

Geographical markets

The total earnings recognised in the income statement items as

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

by geographical market were as follows:

EUR million	2012	2011
Germany	4,966	5,059
Europe (ex Germany)	419	475
America	330	338

Derivatives transactions

The tables below show interest rate, foreign currency-related and other external forward transactions and credit derivatives not yet settled as at the reporting date. The transactions are primarily for hedging changes in interest rates, exchange rates or market prices and conducting trades for customers. They also include derivatives that form part of a hedge.

Derivatives transactions – volumes

	Nominal value		Positive market values[1]	Negative market values[1]
EUR million	2012	2011	2012	2012
Interest-rate risks				
• Interest-rate swaps	712,632	940,691	36,928	32,428
• FRAs	240,515	247,612	48	40
• Interest-rate options	23,465	25,062	879	1,353
– *call options*	*10,149*	*11,612*	*859*	*21*
– *put options*	*13,316*	*13,450*	*20*	*1,332*
• Caps, floors	41,035	41,676	394	185
• Exchange-traded contracts	22,052	26,085	–	1
• Other interest-based forward transactions	858	458	11	18
Total interest-rate risks	**1,040,557**	**1,281,583**	**38,261**	**34,025**
Currency risks				
• Forward exchange transactions	65,123	62,901	1,010	965
• Currency/cross-currency swaps	45,967	55,579	1,563	1,334
• Foreign exchange options	6,225	4,437	45	59
– *call options*	*3,078*	*2,184*	*45*	–
– *put options*	*3,147*	*2,253*	–	*59*
• Other currency-based forward transactions	389	333	21	6
Total currency risks	**117,704**	**123,250**	**2,640**	**2,364**
Equity and other price risks				
• Equity forward transactions	135	88	–	23
• Equity/index options	3,444	431	19	14
– *call options*	*2,626*	*363*	*19*	–
– *put options*	*818*	*68*	–	*14*
• Exchange-traded contracts	1,206	936	4	85
• Other forward transactions[2]	1,219	1,494	246	140
Total equity and other price risks	**6,004**	**2,948**	**269**	**261**
Credit derivative risks				
• Protection buyer	7,161	9,787	544	20
• Protection seller	1,472	2,057	–	350
Total credit derivative risks	**8,633**	**11,844**	**544**	**369**
Total	**1,172,899**	**1,419,625**	**41,715**	**37,020**

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

Derivatives transactions – maturities

	Nominal value							
	Interest-rate risks		Currency risks		Equity and other price risks		Credit derivative risks	
EUR million	2012	2011	2012	2011	2012	2011	2012	2011
Residual maturities								
• up to three months	73,931	129,398	35,938	31,007	939	1,047	197	2,404
• up to one year	353,480	431,701	28,444	34,197	3,491	1,186	113	744
• up to five years	375,057	448,153	40,675	44,723	1,180	361	2,671	2,423
• more than five years	238,089	272,331	12,647	13,323	394	354	5,652	6,273
Total	**1,040,557**	**1,281,583**	**117,704**	**123,250**	**6,004**	**2,948**	**8,633**	**11,844**

Derivatives transactions – counterparties

	Nominal value		Positive market values[1]	Negative market values[1]
EUR million	2012	2011	2012	2012
OECD banks	824,312	1,290,733	33,869	33,395
Non-OECD banks	1,790	2,241	22	137
Public-sector entities within the OECD	23,339	20,564	1,415	474
Other counterparties[2]	323,458	106,087	6,408	3,014
Total	**1,172,899**	**1,419,625**	**41,715**	**37,020**

Derivatives transactions – trading portfolios

	Nominal value		Positive market values[1]	Negative market values[1]
EUR million	2012	2011	2012	2012
Interest-rate derivatives	989,748	1,257,214	34,343	31,699
Currency derivatives	110,091	119,126	2,407	2,196
Equity derivatives	5,191	2,187	165	231
Credit derivatives	1,393	3,877	24	15
Total	**1,106,423**	**1,382,403**	**36,939**	**34,142**

Derivatives transactions – non-trading portfolios

	Nominal value		Positive market values[1]	Negative market values[1]
EUR million	2012	2011	2012	2012
Interest-rate derivatives	50,809	24,369	3,918	2,326
Currency derivatives	7,613	4,124	233	167
Equity derivatives	813	762	105	30
Credit derivatives	7,240	7,967	520	354
Total	**66,476**	**37,222**	**4,775**	**2,878**

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

Notes pursuant to Section 35 para. 1 no. 8 RechKredV

As a consequence of the spin-off of LBS Bayern on 31 December 2012, BayernLB did not report as at the reporting date the portfolio of home loan savings contracts and contract amounts or allotment fund volumes, as these have been disposed of in full. The information in the following tables showing changes in the portfolio of home loan savings contracts and contract amounts and allotment fund volumes of LBS Bayern relates to the period up to the disposal of LBS Bayern.

Changes in the portfolio of home loan savings contracts and contract amounts of LBS Bayern

	Not allotted		Allotted		Total	
	No. of contracts	Contract amounts EUR million	No. of contracts	Contract amounts EUR million	No. of contracts	Contract amounts EUR million
A. Portfolio as at 31 December 2011	**1,804,849**	**50,096**	**236,705**	**7,116**	**2,041,554**	**57,212**
B. Additions in the financial year through						
• New contracts (effective)	260,445	7,970	–	–	260,445	7,970
• Transfers	11,772	288	1,240	33	13,012	320
• Waivers and revocations of allotment	9,254	194	–	–	9,254	194
• Splits	1,703	–	–	–	1,703	–
• Allotments	–	–	80,396	2,504	80,396	2,504
• Miscellaneous	31,592	1,580	518	33	32,110	1,613
Total	**314,766**	**10,032**	**82,154**	**2,569**	**396,920**	**12,602**
C. Reductions in the financial year through						
• Allotments	80,396	2,504	–	–	80,396	2,504
• Reductions	–	1,016	–	13	–	1,029
• Terminations	117,885	2,340	39,782	954	157,667	3,294
• Transfers	11,772	288	1,240	33	13,012	320
• Consolidations	–	–	1,727	–	1,727	–
• Contract expiries	18,263	195	56,697	1,919	74,960	2,114
• Waivers and revocations of allotment	–	–	9,254	194	9,254	194
• Miscellaneous	22,964	1,278	1,309	51	24,273	1,329
Total	**251,280**	**7,621**	**110,009**	**3,163**	**361,289**	**10,784**
D. Net additions/reductions	**63,486**	**2,412**	**–27,855**	**–594**	**35,631**	**1,818**
E. Portfolio as at 31 December 2012 before spin-off	**1,868,335**	**52,508**	**208,850**	**6,522**	**2,077,185**	**59,030**
of which: home loan savers outside the Federal Republic of Germany	6,153	197,916	511	19,543	6,664	217,459

Information on changes within the individual tariff categories can be found in LBS Bayern's annual report.

LBS Bayern allotment fund volumes

EUR million	2012
A. Additions	
Brought forward from previous year (surplus): amounts not yet disbursed	**7,883**
Additions in financial year	
• Savings amounts (incl. residential property subsidies)	2,129
• Redemption amounts[1] (incl. residential property subsidies)	902
• Interest on home loan savings deposits	205
• Reserve fund for home loan and savings banks	–
Total additions	**11,119**
B. Reductions	
Reductions in the financial year	
• Allotted amounts, if disbursed	
a) Home loan savings deposits	1,162
b) Home loan savings loans	573
• Repayment of home loan savings deposits on home loan savings contracts not yet allotted	761
Additions surplus (amounts not yet disbursed) before spin-off[2]	**8,623**
Total reductions	**11,119**

1 Redemption amounts correspond to the principal portion of the total repayment.
2 The additions surplus includes:
a) Home loan savings deposits not yet disbursed under allotted home loan savings contracts: EUR 303 million.
b) Home loan savings loans not yet disbursed from allotments: EUR 784 million.

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

	Nominal value		Present value		Risk-related present value	
EUR million	2012	2011	2012	2011	2012	2011
Mortgage Pfandbriefs	**7,921**	**8,383**	**8,456**	**8,854**	**8,147**	**8,504**
Cover pools[1]	12,715	11,866	13,828	12,735	13,385	12,155
of which: derivatives	–	–	–	–	–	–
Excess cover	**4,793**	**3,483**	**5,372**	**3,881**	**5,238**	**3,651**
Public Pfandbriefs	**24,364**	**29,670**	**26,782**	**32,011**	**25,945**	**31,431**
Cover pools[1,2]	36,401	41,135	39,486	43,247	37,502	41,684
of which: derivatives	–	–	–	6	–	–6
Excess cover	**12,037**	**11,466**	**12,704**	**11,236**	**11,557**	**10,253**

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

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

EUR million	Mortgage Pfandbriefs 2012	Mortgage Pfandbriefs 2011	Cover pools [1] 2012	Cover pools [1] 2011	Public Pfandbriefs 2012	Public Pfandbriefs 2011	Cover pools [1,2] 2012	Cover pools [1,2] 2011
Residual maturities and interest-rate lock-in periods								
• up to one year	1,961	2,304	2,617	2,196	5,468	6,449	8,194	8,739
• over one year up to two years	1,409	1,900	2,351	1,482	4,921	4,806	4,294	5,555
• over two years up to three years	805	963	2,616	1,729	4,815	4,850	5,361	4,644
• over three years up to four years	654	732	1,230	2,047	2,361	4,819	2,593	6,301
• over four years up to five years	925	563	1,676	931	1,762	2,361	2,535	2,385
• over five years up to ten years	2,162	1,856	2,058	3,186	3,193	4,008	8,335	8,675
• over ten years	5	65	166	296	1,844	2,377	5,090	4,837
Total	**7,921**	**8,383**	**12,715**	**11,866**	**24,364**	**29,670**	**36,401**	**41,135**

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	2012	2011
Cover assets in accordance with		
• Section 19 para. 1 No. 3 of the Pfandbrief Act (PfandBG)	1,421	550
• Section 20 para. 2 No. 2 of the Pfandbrief Act (PfandBG)	1,225	2,041
Total	**2,646**	**2,591**

Receivables used to cover mortgage Pfandbriefs by size

EUR million	Mortgages serving as cover 2012	Mortgages serving as cover 2011
up to EUR 300,000	1,083	1,297
over EUR 300,000 up to EUR 5 million	1,057	1,191
more than EUR 5 million	9,154	8,827
additional cover	1,421	550
Total	**12,715**	**11,866**

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	2012	2011	2012	2011
Germany	**5,603**	**5,013**	**2,584**	**2,839**
• flats	–	–	596	740
• single-family homes	–	–	451	547
• multi-family homes	–	–	1,500	1,486
• office buildings	1,777	1,901	–	–
• retail buildings	1,543	1,714	–	–
• industrial buildings	33	57	–	–
• other commercial buildings	746	718	–	–
• unfinished new buildings not yet generating income	253	48	11	28
• plots of land	30	24	26	38
• additional cover	1,221	550	–	–
Austria	**47**	**27**	**–**	**–**
• office buildings	43	15	–	–
• retail buildings	3	11	–	–
• plots of land	1	1	–	–
Belgium	**38**	**38**	**–**	**–**
• office buildings	28	28	–	–
• plots of land	9	9	–	–
Czech Republic	**67**	**106**	**–**	**–**
• office buildings	48	82	–	–
• retail buildings	19	19	–	–
• plots of land	–	5	–	–
France	**838**	**660**	**–**	**–**
• office buildings	745	597	–	–
• retail buildings	92	57	–	–
• industrial buildings	–	7	–	–
Hungary	**60**	**60**	**–**	**–**
• retail buildings	60	60	–	–
Italy	**431**	**487**	**–**	**–**
• office buildings	254	269	–	–
• retail buildings	177	218	–	–
Luxembourg	**200**	**–**	**–**	**–**
• additional cover	200	–	–	–
Netherlands	**400**	**394**	**–**	**–**
• office buildings	331	337	–	–
• retail buildings	46	46	–	–
• other commercial buildings	23	11	–	–
Poland	**81**	**36**	**–**	**–**
• office buildings	51	32	–	–
• retail buildings	30	4	–	–
Spain	**107**	**112**	**–**	**–**
• office buildings	93	93	–	–
• retail buildings	15	19	–	–

EUR million	Mortgages serving as cover			
	commercial		residential	
	2012	2011	2012	2011
Sweden	**33**	**15**	**–**	**–**
• retail buildings	33	15	–	–
Switzerland	**48**	**114**	**–**	**–**
• office buildings	27	50	–	–
• retail buildings	21	64	–	–
United Kingdom	**1,647**	**1,573**	**–**	**–**
• office buildings	761	873	–	–
• retail buildings	783	625	–	–
• other commercial buildings	93	75	–	–
• industrial buildings	10	–	–	–
USA	**531**	**391**	**–**	**–**
• office buildings	477	345	–	–
• retail buildings	43	35	–	–
• other commercial buildings	11	11	–	–
Total	**10,131**	**9,026**	**2,584**	**2,839**

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

EUR million	2012	2011
Germany	1	–
Total	**1**	**–**

Additional information on mortgage receivables pursuant to Section 28 para. 2 No. 3 PfandBG

As at the reporting date, 1 (FY 2011: 0) commercial and 39 (FY 2011: 52) residential properties were the subject of foreclosure sale proceedings. No (FY 2011: 0) commercial and 23 (FY 2011: 37) residential properties were under administrative receivership.

No (FY 2011: 0) commercial property and 23 (FY 2011: 33) residential properties were foreclosed on in the reporting year.

No properties were repossessed in 2012 or 2011 to avoid losses on mortgages.

No interest was overdue on mortgage loans in 2012 or 2011.

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

	Cover assets	
EUR million	2012	2011
Germany	**33,887**	**37,487**
• national government	1,468	1,411
• regional authorities	12,797	12,709
• local authorities	9,780	9,542
• other debtors	8,617	12,391
• additional cover	1,225	1,434
Austria	**45**	**39**
• national government	45	39
Canada	**152**	**151**
• regional authorities	76	76
• local authorities	76	76
Cyprus	**–**	**1**
• national government	–	1
Czech Republic	**2**	**3**
• national government	2	3
European Union	**100**	**101**
• other debtors	100	101
France incl. Monaco	**5**	**–**
• national government	5	–
Luxembourg	**41**	**709**
• national government	41	9
• other debtors	–	200
• additional cover	–	500
Poland	**–**	**20**
• national government	–	20
Spain	**286**	**340**
• regional authorities	286	340
Switzerland	**688**	**1,333**
• regional authorities	312	847
• other debtors	375	379
• additional cover	–	107
United Kingdom	**1,194**	**949**
• national government	498	269
• regional authorities	696	680
USA	**1**	**2**
• national government	1	2
Total	**36,401**	**41,135**

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

EUR million	2012	2011
Germany		
• regional authorities	1	1
Total	**1**	**1**

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

Supplementary information

Shareholdings

Name and location of the investee	Type of share-holding	Percentage held	Equity in EUR '000	Earnings in EUR '000
Subsidiaries included in the IFRS consolidated financial statements				
Banque LBLux S.A., L - Luxembourg	Direct	100.0	431,359	15,801
BayernInvest Kapitalanlagegesellschaft mbH, Munich[1]	Direct	100.0	10,014	–
BayernLB Capital LLC I, USA - Wilmington	Direct	100.0	116	48,343
BayernLB Capital Trust I, USA - Wilmington	Direct	100.0	1	–
Deutsche Kreditbank Aktiengesellschaft, Berlin[1]	Direct	100.0	2,335,912	–
Subsidiaries included in the Deutsche Kreditbank Aktiengesellschaft sub-group:				
• DKB Finance GmbH, Berlin	Indirect	100.0	8,376	605
• DKB Grundbesitzvermittlung GmbH, Berlin	Indirect	100.0	101	1
• DKB PROGES GmbH, Berlin	Indirect	100.0	19	–90
• FMP Forderungsmanagement Potsdam GmbH, Potsdam	Indirect	100.0	1,044	–
• MVC Unternehmensbeteiligungsgesellschaft mbH, Berlin	Indirect	100.0	4,304	734
• SKG BANK AG, Saarbrücken	Indirect	100.0	81,519	–
• Stadtwerke Cottbus GmbH, Cottbus	Indirect	74.9	39,900	7,161
GBW AG, Munich	Direct and indirect	93.5	401,888	16,836
Subsidiaries included in the GBW AG sub-group:				
• GBW Asset GmbH, Munich	Indirect	100.0	1,022	–
• GBW Franken GmbH, Würzburg	Indirect	100.0	37,501	6,750
• GBW Gebäudemanagement GmbH, Munich	Indirect	100.0	1,034	–
• GBW Management GmbH, Munich	Indirect	100.0	153	–
• GBW Niederbayern und Oberpfalz GmbH, Munich	Indirect	100.0	13,411	–
• GBW Oberbayern und Schwaben GmbH, Munich	Indirect	89.0	26,940	8,710
• GBW Regerhof GmbH, Munich	Indirect	100.0	8,221	–
• GBW Wohnungs GmbH, Munich	Indirect	100.0	10,387	665
MKB Bank Zrt., H - Budapest	Direct	98.1	407,113	–306,074
Subsidiaries included in the MKB Bank Zrt. sub-group:				
• Euro-Immat Üzemeltetési Kft., H - Budapest	Indirect	100.0	47,380	–11,633

Name and location of the investee	Type of share-holding	Percentage held	Equity in EUR ’000	Earnings in EUR ’000
• Exter-Bérlet Kft., H - Budapest	Indirect	100.0	−356	−672
• Extercom Vagyonkezelő Kft., H - Budapest	Indirect	100.0	−2,714	−2,809
• Exter-Immo Zrt., H - Budapest	Indirect	100.0	−4,019	−6,158
• MKB Befektetési Alapkezelő Zrt., H - Budapest	Indirect	100.0	927	585
• MKB - Euroleasing Autóhitel Zrt., H - Budapest	Indirect	47.9	19,603	–
• MKB - Euroleasing Autólízing Szolgáltató Zrt., H - Budapest	Indirect	100.0	3,380	256
• MKB Romexterra Leasing IFN S.A., RO - Bucharest	Indirect	95.9	879	−3,453
• MKB - Unionbank AD, BG - Sofia	Indirect	97.0	104,456	2,327
• MKB Üzemeltetési Kft., H - Budapest	Indirect	100.0	177,600	1,269
• NEXTEBANK S.A., RO - Targu Mures	Indirect	95.0	28,503	−23,579
• Resideal Zrt., H - Budapest	Indirect	100.0	−6,567	−8,385
• S.C. Corporate Recovery Management S.R.L., RO - Bucharest	Indirect	100.0	−17,010	−31,761
Real I.S. AG Gesellschaft für Immobilien Assetmanagement, Munich[1]	Direct	100.0	45,455	8,046
Special purpose entities included in the IFRS consolidated financial statements				
Giro Lion Funding Limited, GB - Jersey			−3	17
Joint ventures measured at equity in the IFRS consolidated financial statements				
Joint ventures included in the MKB Bank Zrt. sub-group:				
• Ercorner Kft., H - Budapest	Indirect	50.0	5,588	−3,083
• MKB Autopark OOD, BG - Sofia	Indirect	50.0	53	−67
• MKB - Euroleasing Autópark Zrt., H - Budapest	Indirect	50.0	2,246	409
• MKB - Euroleasing Zrt., H - Budapest	Indirect	50.0	28,186	−2,169
Affiliated companies measured at equity in the IFRS consolidated financial statements				
KGAL GmbH & Co. KG, Grünwald	Direct	27.0	68,688	−44,828
Landesbank Saar, Saarbrücken	Direct	49.9	709,740	–
Affiliated companies included in the MKB Bank Zrt. sub-group:				
• Giro Elszámolásforgalmi Zrt., H - Budapest	Indirect	22.2	19,460	34
• MKB Altalanos Biztosító Zrt., H - Budapest	Indirect	37.5	3,710	−3,087
• MKB Életbiztosító Zrt., H - Budapest	Indirect	37.5	3,645	−1,350
• Pannonhalmi Apátsági Pincészet Kft., H - Pannonhalma	Indirect	45.5	2,888	−218
Subsidiaries not included in the IFRS consolidated financial statements				
ADEM Allgemeine Dienstleistungen für Engineering und Management GmbH, Karlsruhe	Indirect	100.0	47	–
AMC Imoti EOOD, BG - Sofia	Indirect	100.0	−598	−764
Asset Lease Beteiligungsgesellschaft mbH, Munich	Direct	100.0	22	−1
Bauland 3. Immobilien Verwaltungsgesellschaft mbH, Munich	Indirect	100.0	37	−2
Bauland GmbH, Baulandbeschaffungs-, Erschließungs- und Wohnbaugesellschaft, Munich	Indirect	94.5	−10,106	–
Bavaria Equity Solutions GmbH, Munich[1]	Direct	100.0	2,226	–
Bavaria Immobilien-Beteiligungs-Gesellschaft mbH & Co. Objekt Fürth KG, Munich	Indirect	100.0	–	−11,339
Bavaria Immobilien-Beteiligungs-Gesellschaft mbH, Munich	Indirect	100.0	25	−1

Name and location of the investee	Type of share-holding	Percentage held	Equity in EUR '000	Earnings in EUR '000
Bayerische Landesbank Europa-Immobilien-Beteiligungs-GmbH, Munich	Indirect	100.0	89	–
Bayerische Landesbank Immobilien-Beteiligungs-Gesellschaft mbH & Co. KG, Munich	Direct	100.0	8,959	4,236
Bayerische Landesbank Immobilien-Beteiligungs-Verwaltungsgesellschaft mbH, Munich	Direct	100.0	42	1
Bayern Bankett Gastronomie GmbH, Munich[1]	Direct	100.0	1,164	–
Bayern Card-Services GmbH - S-Finanzgruppe, Munich	Direct	50.1	16,129	3,544
Bayern Corporate Services GmbH, Munich	Indirect	100.0	139	–65
Bayern Facility Management GmbH, Munich	Direct	100.0	3,481	921
BayernFinanz Gesellschaft für Finanzmanagement und Beteiligungen mbH, Munich[1]	Direct	100.0	25	–
Bayernfonds Australien 4 GmbH, Munich	Indirect	100.0	25	–
Bayernfonds Immobilien Concept GmbH, Munich	Indirect	100.0	72	–10
Bayernfonds Immobiliengesellschaft mbH, Munich	Direct and indirect	100.0	4,349	–5,961
Bayernfonds Kambera GmbH, Munich	Indirect	100.0	25	–
Bayernfonds Opalus GmbH, Munich	Indirect	100.0	25	–
BayernInvest Luxembourg S.A., L - Luxembourg	Direct	100.0	1,377	54
BayernLB Capital Partner GmbH, Munich	Direct	100.0	3,352	–376
BayernLB Capital Partner Verwaltungs-GmbH, Munich	Direct	100.0	25	4
BayernLB Mittelstandsfonds GmbH & Co. Unternehmensbeteiligungs KG, Munich	Direct and indirect	100.0	26,500	1,268
BayernLB Private Equity GmbH, Munich	Direct	100.0	37,281	–141
BayTech Technology GmbH & Co. KG, Munich	Direct and indirect	100.0	2,379	–116
BayTech Venture Capital GmbH & Co. KG, Munich	Direct	49.9	7,947	–2,443
BayTech Venture Capital II GmbH & Co. KG, Munich	Direct and indirect	47.6	14,558	–1,596
BayTech Venture Capital Initiatoren GmbH & Co. KG, Munich	Indirect	46.8	408	–148
Berchtesgaden International Resort Betriebs GmbH, Munich[1]	Direct	100.0	9,368	–
Berthier Participations SARL, F - Paris	Direct	100.0	1,703	–38
BestLife 3 International GmbH & Co. KG, Munich[2]	Indirect	50.4		
BF Services GmbH, Munich	Indirect	100.0	199	–1
BGFM Bayerische Gebaude- und Facilitymanagement AG & Co. KG, Munich	Indirect	100.0	138	67
BGV IV Verwaltungs GmbH, Munich	Indirect	100.0	28	4
BGV V Verwaltungs GmbH, Munich	Indirect	100.0	25	–
BLB-Beteiligungsgesellschaft Sigma mbH, Munich[1]	Direct	100.0	971	–
BLB-VG22-Beteiligungsgesellschaft mbH, Munich	Direct	100.0	4,425	–1,234
Cottbuser Energieverwaltungsgesellschaft mbH, Cottbus	Indirect	100.0	23	–
CountryDesk Beteiligungs GmbH, Munich	Direct	100.0	23	–
Degg`s Immobilienprojektentwicklung GmbH & Co. Einkaufspassage KG, Essen	Indirect	99.1	2,789	–602
DKB Immobilien Beteiligungs GmbH, Potsdam	Indirect	100.0	1,858	148
DKB IT-Services GmbH, Potsdam	Indirect	100.0	51	–
DKB PROGES ZWEI GmbH, Berlin	Indirect	100.0	1,252	293
DKB Service GmbH, Potsdam	Indirect	100.0	102	26
DKB Wohnen GmbH, Berlin	Indirect	94.5	25	–
DKB Wohnungsbau- und Stadtentwicklung GmbH, Berlin	Indirect	100.0	2,500	–

Name and location of the investee	Type of share-holding	Percentage held	Equity in EUR ’000	Earnings in EUR ’000
Elektroenergieversorgung Cottbus GmbH, Cottbus	Indirect	100.0	12,106	–
Euro Ingatlan Center Kft., H - Budapest	Indirect	100.0	7	–158
Euro Ingatlan Kft., H - Budapest	Indirect	100.0	–1,354	–1,766
Euro Park Házak Kft., H - Budapest	Indirect	100.0	–1,638	–1,404
Exter-Reál Ingatlanforgalmazási Korlátolt Felelősségü Társaság, H - Budapest	Indirect	100.0	46	–54
Fischer & Funke Gesellschaft für Personaldienst-leistungen mbH, Coburg	Indirect	87.1	76	–
FMP Erste Objektgesellschaft mbH, Potsdam	Indirect	100.0	66	71
Füred Service Üzemeltetési Kft., H - Balatonfüred	Indirect	100.0	71	14
Gas-Versorgungsbetriebe Cottbus GmbH, Cottbus	Indirect	63.0	5,620	–
GbR Olympisches Dorf, Potsdam	Indirect	100.0	–	–
GDF Gesellschaft für dentale Forschung und Innovationen GmbH, Rosbach	Indirect	100.0	1,485	–
German Centre for Industry and Trade Shanghai Co. Ltd., PRC - Shanghai/PRC	Indirect	100.0	30,303	2,016
German Centre Limited, BVI - Tortola	Direct	100.0	24,567	–422
gewerbegrund AIRPORT GmbH Beteiligungsgesellschaft, Munich	Indirect	100.0	55	4
gewerbegrund Airport GmbH & Co. Hallbergmoos KG, Munich	Indirect	100.0	485	–1,455
gewerbegrund Airport GmbH & Co. Schwaig KG, Munich	Indirect	100.0	4,564	1,049
gewerbegrund Bauträger GmbH & Co. Objekt IGG KG, Munich	Indirect	100.0	86	100
gewerbegrund Projektentwicklungsgesellschaft (gpe) mbH, Munich[1]	Direct	100.0	11,595	–
Global Format GmbH & Co. KG, Munich	Direct	52.4	1,104	175
Global Format Verwaltungsgesellschaft mbH, Munich	Indirect	100.0	25	1
Hausbau Dresden GmbH, Munich	Indirect	100.0	40	–1
HKW Heizkraftwerksgesellschaft Cottbus mbH, Cottbus	Indirect	100.0	28	–
Hörmannshofer Fassaden GmbH & Co. Halle KG, Halle/Saale	Indirect	80.0	156	561
Hörmannshofer Fassaden GmbH & Co. Niederdorf KG, Niederdorf by Chemnitz	Indirect	80.0	156	50
Hörmannshofer Fassaden Süd GmbH & Co. KG, Marktoberdorf	Indirect	100.0	177	3,429
Hörmannshofer Unternehmensgruppe GmbH, Marktoberdorf	Indirect	52.6	6,630	727
Hörmannshofer Verwaltungs GmbH, Pöttmes/Augsburg	Indirect	100.0	83	15
Isarauenpark Freising Süd Grundbesitzgesellschaft mbH & Co. Entwicklungsgesellschaft KG, Munich	Indirect	100.0	1,507	–216
ISU Group GmbH, Karlsruhe	Indirect	54.4	13,103	4,113
ISU Personaldienstleistungen GmbH, Karlsruhe	Indirect	100.0	51	–
KGE Kommunalgrund Grundstücksbeschaffungs- und Erschließungsgesellschaft mit beschränkter Haftung, Munich	Indirect	75.0	525	26
Koch - Betontechnik GmbH & Co. KG, Pöttmes/Augsburg	Indirect	100.0	32	13
Kun Street Kft., H - Budapest	Indirect	100.0	522	–8
LBG Liebenberger Betriebsgesellschaft mbH, Löwenberger Land OT Liebenberg	Indirect	100.0	25	–
LB Immobilienbewertungsgesellschaft mbH, Munich	Direct	100.0	1,287	664
LBLux SICAV-FIS TR Global, L - Luxembourg	Indirect	100.0	10	–848
LB-RE S.A., L - Luxembourg	Indirect	100.0	5,082	–

Name and location of the investee	Type of share-holding	Percentage held	Equity in EUR ’000	Earnings in EUR ’000
Medister Egészségügyi Beruházó és Üzemeltető Kft., H - Budapest	Indirect	100.0	−682	−339
MKB Nyugdíjpénztárt és Egészségpénztárt Kiszolgáló Kft., H - Budapest	Indirect	100.0	530	17
MKB Pénzügyi Zrt., H - Budapest	Indirect	100.0	389	18
MKB Romexterra Broker de Asigurare SRL, RO - Bucharest	Indirect	100.0	570	151
MRG Maßnahmeträger München-Riem GmbH, Munich	Direct	100.0	1,010	323
North American Realty LLC, USA - New York	Direct	100.0	4,859	65
Oberhachinger Bauland GmbH, Wohnbau- und Erschließungsgesellschaft, Munich	Indirect	91.0	−2,418	–
Potsdamer Immobiliengesellschaft mbH, Potsdam	Indirect	100.0	54	11
PROGES DREI GmbH, Berlin	Indirect	100.0	168	95
PROGES Oranienburger Strasse Gesellschaft mbH, Berlin	Indirect	100.0	40	5
PROGES Sparingberg GmbH, Berlin	Indirect	100.0	289	116
Rathenau-Passage Verwaltungs-Gesellschaft mbH, Bad Homburg	Indirect	50.0	22	–
Rathenau Passage Verwaltungs-GmbH & Co. Grundstücks KG, Bad Homburg	Indirect	50.0	–	11,675
Real I.S. Australia Pty. Ltd., AUS - Buderim QLD	Indirect	100.0	–	–
Real I.S. Beteiligungs GmbH, Munich	Indirect	100.0	28	3
Real I.S. France SAS, F - Paris Cedex 16[2]	Indirect	100.0		
Real I.S. Fund Management GmbH, Munich	Indirect	100.0	13	2
Real I.S. Gesellschaft für Immobilienentwicklung mbH, Munich	Indirect	100.0	1,095	29
Real I.S. Gesellschaft für Immobilien Entwicklung und Projektrealisierung mbH & Co. KG, Munich	Indirect	100.0	1,798	1,308
Real I.S. Investment GmbH, Munich	Indirect	100.0	1,773	−268
Real I.S. Management Hamburg GmbH, Munich[2]	Indirect	100.0		
Real I.S. Management SA, L - Luxembourg	Indirect	100.0	158	715
Real I.S. Objekt Bruchsal Verwaltungsgesellschaft mbH, Oberhaching	Indirect	100.0	15	−10
Schütz Dental GmbH, Rosbach	Indirect	100.0	2,461	–
Schütz Group GmbH & Co. KG, Rosbach	Indirect	54.4	−855	−80
Schütz Group Verwaltungsgesellschaft mbH, Rosbach	Indirect	100.0	36	−3
SEPA Objekt Bruchsal GmbH & Co. KG, Oberhaching	Indirect	100.0	131	−8
SEPA/Real I.S. Objekt Bruchsal Rathausgalerie GmbH & Co. KG, Oberhaching	Indirect	100.0	332	308
STOP AND BUY HOLDING Kft., H - Budapest	Indirect	100.0	–	–
Süd-Fassaden GmbH, Königsbrunn	Indirect	100.0	81	38
WKP Beteiligungsgesellschaft mbH & Co. O-Tel KG, Berlin	Indirect	94.9	96	34
Other joint ventures				
ABG Allgemeine Bauträger- und Gewerbeimmobilien-gesellschaft & Co. Holding KG, Munich	Indirect	50.0	158	−108
ABG Allgemeine Bauträger- und Gewerbeimmobilien-gesellschaft mbH, Munich	Indirect	50.0	40	13
CommuniGate Kommunikations-Service GmbH, Passau	Indirect	50.0	3,822	1,153
EDE Duna Kft., H - Budapest	Indirect	50.0	−915	−1,185
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	6,423	10,005
Fay & Real I.S. IE Regensburg Verwaltungs GmbH, Oberhaching	Indirect	50.0	25	–

Name and location of the investee	Type of share-holding	Percentage held	Equity in EUR '000	Earnings in EUR '000
German Centre for Industry and Trade India Holding-GmbH, Munich	Direct	50.0	2,310	−155
Harburg Arcaden Projektbeteiligung mbH, Essen	Indirect	50.0	54	−7
Mogyoróskert Kft., H - Budapest	Indirect	50.0	–	–
MOM-Bajor Beruházó és Szolgáltató Korlátolt Felelősségü Társaság, H - Budapest	Indirect	50.0	29	−4
MOM-Park Lakásépitö Ingatlanforgalmazó és Beruházó Betéti Társaság, H - Budapest	Indirect	49.9	−287	−20
Objektgesellschaft Bad Rappenau Verwaltungs-GmbH, Stuttgart	Indirect	49.0	26	3
PWG - Bau Pfersee Wohn- und Gewerbebauträger GmbH & Co. KG, Munich	Indirect	50.0	−92	18,121
PWG - Bau Pfersee Wohn- und Gewerbebauträger Verwaltungs - GmbH, Munich	Indirect	50.0	9	–
SEPA/Real I.S. Objekt Bruchsal Rathausgalerie Verwaltungs-GmbH, Oberhaching	Indirect	50.0	21	3
SEPA/Real I.S. Objekt Solingen Verwaltungs-GmbH, Munich	Indirect	50.0	34	9
SKAF Ingatlanforgalmazó és Befektetési Kft., H - Budapest	Indirect	50.0	−6,346	−6,549
S-Karten-Service-Management GmbH - Saarbrücken - München, Munich	Indirect	50.0	102	–
Ten Towers GbR, Munich	Indirect	50.0	123	−3
Other affiliated companies				
ae group AG, Gerstungen	Indirect	49.9	5,598	8,318
AVA Acht Vermögensverwaltung GmbH, Munich[2]	Indirect	40.0		
BAYERN CONSULT Unternehmensberatung GmbH, Munich	Direct	35.0	782	134
Bayernfonds BestEnergy 1 GmbH & Co. KG, Oberhaching	Indirect	31.3	49,763	−303
Bayerngrund Grundstücksbeschaffungs- und -erschließungs-Gesellschaft mit beschränkter Haftung, Munich	Direct	50.0	9,173	3
Bayern Mezzaninekapital GmbH & Co. KG - Unternehmens-beteiligungsgesellschaft, Munich	Direct	25.5	40,495	707
Bayern Mezzaninekapital Verwaltungs GmbH, Munich	Direct	49.0	40	2
BioM Venture Capital GmbH & Co. Fonds KG, Martinsried	Indirect	23.5	2,148	−10
Erste Tinten Holding GmbH, Hohenbrunn	Indirect	21.0	−926	−1,026
Garchinger Technologie- und Gründerzentrum GmbH, Garching	Direct	20.0	77	14
G.I.E. Max Hymans, F - Paris	Indirect	33.3	−32,081	2,044
KGAL Verwaltungs-GmbH, Grünwald	Direct	30.0	8,688	325
Neumarkt-Galerie Immobilienverwaltungsgesellschaft mbH, Cologne	Indirect	49.0	83	6
RSU Rating Service Unit GmbH & Co. KG, Munich	Direct	20.0	14,616	1,047
SEPA/Real I.S. Objekt Solingen GmbH & Co. KG, Munich	Indirect	49.9	155	110
SIAG Schaaf Industrie Aktiengesellschaft, Dernbach	Indirect	23.4	20,228	−9,711
TEGES Grundstücks-Vermietungsgesellschaft mbH, Berlin	Indirect	50.0	19	–
TEGES Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt Berlin KG, Berlin	Indirect	47.0	−7,369	55
THIPA Dreiundzwanzigste Vermögensverwaltungs-gesellschaft mbH, Hamburg	Indirect	21.4	−9,623	−9,781
Other significant shareholdings of 20% or more				
560 Lexco L.P., USA - New York	Indirect	25.0	−2,731	5,566
Abacus Eight Limited, GBC - George Town/Grand Cayman	Direct	48.5	7,550	5,062
Abacus Nine Limited, GBC - George Town/Grand Cayman	Direct	48.5	7,598	5,110

Name and location of the investee	Type of share-holding	Percentage held	Equity in EUR ’000	Earnings in EUR ’000
Abacus Seven Limited, GBC - George Town/Grand Cayman	Direct	48.5	3,627	1,140
Abacus Ten Limited, GBC - George Town/Grand Cayman	Direct	43.9	3,773	1,263
ADS-click S.A., CH - Geneva	Indirect	49.5	2,593	−1,097
Aero Flight GmbH & Co. Luftverkehrs-KG, Oberursel	Indirect	45.5	21,661	−339
Aero Lloyd Erste Beteiligungsgesellschaft GmbH, Kelsterbach	Indirect	100.0	24	−1
Aero Lloyd Flugreisen GmbH & Co. Luftverkehrs-KG, Oberursel	Indirect	66.3	16,359	−9,717
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	–	−1,475
Corporate Computer Lease Limited, CCL.Limited, GB - Camberley, Surrey	Indirect	33.3	3,951	86
DELTA Asigurari S.A. i.L., RO - Bucharest	Indirect	35.1	11,268	–
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	111,092	5,309
GbR VÖB-ImmobilienAnalyse, Bonn[2]	Indirect	20.0		
GBW Asset Beta GmbH, Munich	Indirect	100.0	23	–
GBW Asset Gamma GmbH, Munich	Indirect	100.0	24	–
Gemeinnützige Landkreiswohnungsbau Unterallgäu GmbH, Memmingen	Indirect	40.0	8,025	1,321
GESO Gesellschaft für Sensorik, Geotechnischen Umweltschutz und mathematische Modellierung mbH, Jena	Indirect	43.1	−361	2
GZ-Verwaltungsgesellschaft für Transportmittel mbH i.L., Munich	Indirect	50.0	26	−1
HEYM AG, Gleichamberg	Indirect	38.0	377	894
Indexa Proinvest Immobiliaria, S.A., E - Las Rozas/Madrid	Indirect	25.0	−1,798	−685
JATRA Grundstücksgesellschaft mbh, Grünwald	Indirect	94.9	6,809	−24
KADIMA Grundstücksgesellschaft mbH & Co. KG i.L., Grünwald	Indirect	50.0	2	−7
KSP Unternehmensverwaltungsgesellschaft mbH i.L., Munich	Direct	43.0	102	−7
Mandala Internet, EDV Services GmbH, Braunschweig	Indirect	20.0	484	−34
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	–	−1,763
Neue Novel Ferm Verwaltungs GmbH, Dettmannsdorf	Indirect	49.0	22	−5
Novel Ferm Brennerei Dettmannsdorf GmbH & Co. KG, Dettmannsdorf	Indirect	49.0	800	−667
REAL I.S. Project GmbH i.L., Munich	Indirect	50.5	509	−73
RealMatch Ltd., IL - Kfar Sava	Indirect	23.2	932	−5,078
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 Systémes Ebavurage et Tronconnage S.A.R.L., F - Sarreguemines Cedex	Indirect	100.0	26	−54
SAI Globinvest SA, RO - Cluj Napoca	Indirect	20.0	2,539	362
SIACON GmbH i.L., Frankfurt/Main	Direct	50.0	22	−2

Name and location of the investee	Type of share-holding	Percentage held	Equity in EUR '000	Earnings in EUR '000
Smaltit Anlagen Vermietungs GmbH & Co. Mobiliengesellschafts KG, Oberursel	Indirect	100.0	−106	−2
Smaltit Anlagen-Vermietungs GmbH, Oberursel	Indirect	100.0	13	−1
Sophia Euro Lab S.A.S., F - Sophia Antipolis Cedex	Indirect	32.3	8,693	4,902
SSC Sky Shop Catering GmbH & Co. KG, Kelsterbach	Indirect	100.0	1,279	825
Tauberpark GmbH i.L., Munich	Indirect	100.0	4	−2
Tauberpark Verwaltungs-GmbH i.L., Munich	Indirect	100.0	9	−2
TRMF Gewerbeimmobilien GmbH, Essen	Indirect	50.0	−2,759	−35
Versorgungskasse I BayernLB Gesellschaft mit beschränkter Haftung, Munich	Direct	100.0	30,090	−3,183
Versorgungskasse II BayernLB Gesellschaft mit beschränkter Haftung, Munich	Direct	100.0	7,670	3,392

The information is based on the most recent available annual accounts of the investees.
Foreign currency amounts were converted to euros at the respective spot exchange rate at the end of the year.
1 A profit and loss transfer agreement has been concluded with the company.
2 Approved annual accounts are not available yet.

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
GBW AG, Munich
ISU Group GmbH, Karlsruhe
Landesbank Saar, Saarbrücken
MKB Bank Zrt., H - Budapest
MKB - Euroleasing Autóhitel Zrt., H - Budapest
MKB - Euroleasing Autopark Zrt., H - Budapest
MKB - Unionbank AD, BG - Sofia
MKB Üzemeltetési Kft., H - Budapest
NEXTEBANK S.A., RO - Targu Mures
Real I.S. AG Gesellschaft für Immobilien Assetmanagement, Munich
SKG BANK AG, Saarbrücken

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

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

Letters of comfort

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

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

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

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

Other financial obligations

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

As at the reporting date, there were call commitments for capital not fully paid up of EUR 87 million and liabilities from limited partnership interests of EUR 31 million. There were additional funding obligations of EUR 36 million and a directly enforceable guarantee for the funding obligation of shareholders of the Frankfurt-based Liquiditäts-Konsortialbank GmbH, who are members of the German Savings Bank Association. Amounts due to affiliated companies totalled EUR 91 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 325 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.

In a letter of comfort dated 4 December 2012, BayernLB gave the Hungarian financial supervisory authority an undertaking to ensure that MKB Bank Zrt., Budapest (MKB) had sufficient equity up to 30 April 2013 to meet current supervisory requirements. BayernLB ensured this undertaking was met by a capital increase for MKB on 21 February 2013.

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 Bayern LB's liabilities that were created up until the date of spin-off and assigned to LBS AöR-new in the spin-off agreement. BayernLB is liable for the liabilities within the meaning of the preceding sentence only if they mature within five years of the date of spin-off and the resulting claim is legally asserted against BayernLB. Due to the stable financial position and financial performance of LBS AöR-new there is currently no risk of a claim being brought.

Transactions with related parties under Section 285 No. 21 HGB

BayernLB maintains commercial relationships with related parties. Besides the Free State of Bavaria, which holds an indirect interest in BayernLB of 94 percent, these include subsidiaries, joint ventures and affiliated companies, members of the Board of Management and Board of Administration of BayernLB and close family members, and companies controlled or significantly influenced by these persons or in which these persons hold a substantial voting right.

BayernLB has a guarantee agreement with the Free State of Bavaria in the form of a credit derivative covering actual losses in the ABS portfolio above a first loss of EUR 1.2 billion. The guarantee is limited to EUR 4.8 billion. As protection seller, the Free State of Bavaria hedges BayernLB's ABS portfolio for a premium. Expenses of EUR 645 million (FY 2011: EUR 193 million) in connection with the guarantee agreement were also recognised in the income statement.

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

Administrative bodies

Board of Administration

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

Alexander Mettenheimer
First Deputy Chairman
Former financier
Munich

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

Professor Dr Georg Crezelius
until 31 July 2012
Professor
University of Bamberg
Bamberg

Dr Dr Axel Diekmann
Shareholder of
Verlagsgruppe Passau GmbH
Passau

Ralf Haase
Chairman of the General Staff Council
BayernLB
Munich

Joachim Herrmann
State Minister
Bavarian State Ministry of the Interior
Munich

Dr Jakob Kreidl
since 1 August 2012
President of the Bavarian Districts Council
Chief District Administrator
Miesbach

Wolfgang Lazik
Deputy Secretary
Bavarian State Ministry of Finance
Munich

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

Professor Dr Christian Rödl
since 1 August 2012
Managing Partner
Rödl & Partner GbR
Nuremberg

Hans Schaidinger
until 31 July 2012
Lord Mayor
Regensburg

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

Board of Management (including allocation of responsibilities from 1 February 2013)

Gerd Haeusler
Chief Executive Officer
Corporate Center Central Area
(excluding Group Compliance)
Markets Business Area

Dr Edgar Zoller
Deputy Chief Executive Officer
Real Estate & Savings Banks/
Association Business Area
Bayerische Landesbodenkreditanstalt[1]

Marcus Kramer
Risk Office Central Area
Restructuring Unit Central Area
Group Compliance

Stephan Winkelmeier
Financial Office Central Area

Nils Niermann
Operating Office Central Area

Michael Bücker
since 1 February 2013
Corporates & Mittelstand Business Area

Jan-Christian Dreesen
until 31 January 2013

1 Dependent institution of the Bank.

Chairmanships of supervisory boards of subsidiary banks

Gerd Haeusler
Deutsche Kreditbank Aktiengesellschaft, Berlin

Stephan Winkelmeier
MKB Bank Zrt., H - Budapest

Nils Niermann
Banque LBLux S.A., L - Luxembourg

Remuneration of the administrative bodies

EUR ’000	2012	2012	2011	2011
Total remuneration for the financial year:				
Members of the Board of Management		**3,047**		**3,294**
• CEO	500		500	
– Base salary	500		500	
– Variable compensation (incl. expenses for previous years)	–		–	
• Deputy CEO	500		500	
– Base salary	500		500	
– Variable compensation	–		–	
• Full members of the Board of Management	2,000		2,167	
– Base salary	2,000		2,167	
– Variable compensation	–		–	
• Ancillary remuneration (non-cash compensation)	47		127	
Members of the Board of Administration		**376**		**377**
Former members of the Board of Management and their surviving dependants		**4,442**		**5,899**
Pension provisions established for former members of the Board of Management and their surviving dependants		**55,514**		**57,570**

With effect from 1 May 2009, the annual base salaries of the members of the Board of Management were reduced to EUR 500,000 in accordance with the Financial Market Stabilisation Act and Financial Market Stabilisation Fund Ordinance.

Loans to the administrative bodies

EUR ’000	2012	2011
Total amount of advances, loans and guarantees granted to members of the Board of Management and the Board of Administration:		
Members of the Board of Management	–	–
Members of the Board of Administration	1,110	1,241

Mandates held by legal representatives or other employees[1]

Name	Mandates held in supervisory bodies constituted under German law for large limited companies (including all credit institutions)
Board of Management	
Gerd Haeusler	Deutsche Kreditbank Aktiengesellschaft, Berlin Liquiditäts-Konsortialbank GmbH, Frankfurt am Main MKB Bank Zrt., H - Budapest RHJ International SA, B - Brussels
Dr Edgar Zoller	Deutsche Kreditbank Aktiengesellschaft, Berlin GBW AG, Munich Real I.S. AG Gesellschaft für Immobilien Assetmanagement, Munich
Jan-Christian Dreesen	Banque LBLux S.A., L - Luxembourg Deutsche Factoring Bank Deutsche Factoring GmbH & Co., Bremen Deutsche Kreditbank Aktiengesellschaft, Berlin Landesbank Saar, Saarbrücken
Marcus Kramer	Banque LBLux S.A., L - Luxembourg Deutsche Kreditbank Aktiengesellschaft, Berlin Landesbank Saar, Saarbrücken MKB Bank Zrt., H - Budapest
Stephan Winkelmeier	Deutsche Kreditbank Aktiengesellschaft, Berlin GBW AG, Munich MKB Bank Zrt., H - Budapest
Nils Niermann	Banque LBLux S.A., L - Luxembourg Deutsche Kreditbank Aktiengesellschaft, Berlin MKB Bank Zrt., H - Budapest
Employees	
Dr Michael Braun	Banque LBLux S.A., L - Luxembourg
Dr Winfried Freygang	Landesbank Saar, Saarbrücken
Dr Detlev Gröne	Banque LBLux S.A., L - Luxembourg
Georg Jewgrafow	GBW AG, Munich Real I.S. AG Gesellschaft für Immobilien Assetmanagement, Munich
Andreas Leonhard	MKB Bank Zrt., H - Budapest
Roland Michaud	MKB - Unionbank AD, BG - Sofia

1 This information is valid as at 31 December 2012.

External auditors' fees

EUR million	2012	2011
Total fees recorded as expenses in the financial year for		
• the financial statements audits	4	5
• other certification services	–	1
• tax consultancy services	–	1
• other services	1	2
Total	**5**	**9**

Number of employees (annual average)

	2012	2011
Female	1,973	1,955
Male	2,075	2,053
Total	**4,048**	**4,008**

The total figure includes 881 (FY 2011: 849) part-time employees, which corresponds to 565 (FY 2011: 544) full-time employees. The 81 (FY 2011: 71) trainees and students on a vocationally integrated course at a vocational academy are not included.

Responsibility statement by the Board of Management

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

Munich, 18 March 2013

Bayerische Landesbank
The Board of Management

Gerd Haeusler	Dr Edgar Zoller	Marcus Kramer
Stephan Winkelmeier	Nils Niermann	Michael Bücker

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 2012. The maintenance of the books and records and the preparation of the annual financial statements and the 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 the 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 Bayerische Landesbank Act and the Statutes of Bayerische Landesbank and give a true and fair view of the net assets, financial position and results of operations of BayernLB in accordance with German principles of proper accounting. The management report is consistent with the annual financial statements and as a whole provides a suitable view of the Company’s position and suitably presents the opportunities and risks of future development.

Munich, 18 March 2013

Deloitte & Touche GmbH
Wirtschaftsprüfungsgesellschaft

(Löffler)	(Apweiler)
German public auditor	German public auditor
Wirtschaftsprüfer	Wirtschaftsprüfer

Committees and advisory boards

Committees and advisory boards

General Meeting

Free State of Bavaria

Harald Hübner
Principal
Under Secretary
Bavarian State Ministry of Finance
Munich

Frieder Jooß
First Deputy Principal
Senior Assistant Secretary
Bavarian State Ministry of Finance
Munich

Association of Bavarian Savings Banks

Theo Zellner
Principal
President
Association of Bavarian Savings Banks
Munich

Dr Ivo Holzinger
First Deputy Principal
Lord Mayor
Memmingen

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

The General Meeting is chaired by the Chairman of the Board of Administration.

Board of Administration

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

Alexander Mettenheimer
First Deputy Chairman
Former financier
Munich

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

Professor Dr Georg Crezelius
until 31 July 2012
Professor
University of Bamberg
Bamberg

Dr Dr Axel Diekmann
Shareholder
Verlagsgruppe Passau GmbH
Passau

Ralf Haase
Chairman of the General Staff Council
BayernLB
Munich

Joachim Herrmann
State Minister
Bavarian State Ministry of the Interior
Munich

Dr Jakob Kreidl
since 1 August 2012
President of the Bavarian Districts Council
Chief District Administrator
Miesbach

Wolfgang Lazik
Deputy Secretary
Bavarian State Ministry of Finance
Munich

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

Professor Dr Christian Rödl
since 1 August 2012
Managing Partner
Rödl & Partner GbR
Nuremberg

Hans Schaidinger
until 31 July 2012
Lord Mayor
Regensburg

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

Audit Committee

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

Professor Dr Georg Crezelius
Deputy Chairman
until 31 July 2012
Professor
University of Bamberg
Bamberg

Professor Dr Christian Rödl
Deputy Chairman
since 17 September 2012
Managing Partner
Rödl & Partner GbR
Nuremberg

Ralf Haase
Chairman of the General Staff Council
BayernLB
Munich

Joachim Herrmann
State Minister
Bavarian State Ministry of the Interior
Munich

Dr Jakob Kreidl
since 17 September 2012
President of the Bavarian Districts Council
Chief District Administrator
Miesbach

Walter Strohmaier
until 16 September 2012
Chairman of the Board of Directors
Sparkasse Niederbayern-Mitte
Straubing

Risk Committee

Alexander Mettenheimer
Chairman
Former financier
Munich

Dr Dr Axel Diekmann
Deputy Chairman
Shareholder
Verlagsgruppe Passau GmbH
Passau

Wolfgang Lazik
Deputy Secretary
Bavarian State Ministry of Finance
Munich

Hans Schaidinger
until 31 July 2012
Lord Mayor
Regensburg

Walter Strohmaier
since 17 September 2012
Chairman of the Board of Directors
Sparkasse Niederbayern-Mitte
Straubing

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

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

Professor Rudolf Faltermeier
Vice President
Association of Bavarian Savings Banks
Munich

Roland Friedrich
since 1 July 2012
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
since 1 July 2012
Savings Bank Director
Chairman of the Board of Directors
Sparkasse Dachau
Dachau

Winfried Nusser
since 1 May 2012
Savings Bank Director
Chairman of the Board of Directors
Kreis- und Stadtsparkassse Kaufbeuren
Kaufbeuren

Thomas Orbig
since 1 August 2012
Savings Bank Director
Member of the Board of Directors
Vereinigte Sparkassen im Landkreis Weilheim i. OB
Weilheim

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

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

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

Economic Advisory Council

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

Dr Manfred Bode
Managing Partner
Wegmann & Co
Unternehmens-Holding KG
Munich

Dr Dr Axel Diekmann
Shareholder
Verlagsgruppe Passau GmbH
Passau

Klaus Dittrich
Chairman of the Management
Messe München GmbH
Munich

Werner Frischholz
Member of the Board of Directors
KRONES AG
Neutraubling

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

Andreas Helber
since 1 June 2012
Member of the Board of Management
BayWA AG
Munich

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

Erwin Horak
President
Staatliche Lotterieverwaltung
Munich

Hanswilli Jenke
Managing Director
Haslberger Finanzdienstleistungs- und
Beteiligungs GmbH
Freising

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

Dr Michael Kerkloh
Chief Executive Officer
Flughafen München GmbH
Munich

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

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

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

Frank H. Lutz
Member of the Board of Directors
MAN SE
Munich

Klaus Lutz
until 31 May 2012
Chairman of the Board of Directors
BayWa AG
Munich

Professor Dr Klaus-Dieter Maubach
Chairman of the Board of Directors
E.ON AG
Düsseldorf

Alexander Mettenheimer
Former financier
Munich

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

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

Rainer Otto
Managing Director
Wirtgen Beteiligungs GmbH
Windhagen

Lothar Panzer
Chairman of the Board of Management
Bayerische Versorgungskammer
Munich

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

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

Dr Matthias J. Rapp
since 1 August 2012
Member of the Management Board
Webasto SE
Stockdorf

Professor Dr Klaus Rauscher
Potsdam

Markus Reif
since 1 March 2012
Archepiscopal Financial Director
Archdiocese Munich and Freising
Archepiscopal Diocesan Authorities
Financial Department
Munich

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

Andreas Renschler
Member of the Board of Directors
Daimler AG
Stuttgart

Hans Peter Ring
Chief Financial Officer
EADS N.V.
Ottobrunn

Randolf Rodenstock
President
Bavarian Industry Association
Munich

Professor Dr Christian Rödl
Managing Partner
Rödl & Partner GbR
Nuremberg

Professor Dr Bernd Rudolph
Munich

Maria-Elisabeth Schaeffler
Shareholder
Schaeffler Technologies AG & Co. KG
Herzogenaurach

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

Siegmund Schiminski
Chairman of the Board of Directors
Sparkasse Bayreuth
Bayreuth

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

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

Friedrich Schubring-Giese
until 30 April 2012
Chairman of the Board of Management
Versicherungskammer Bayern
Munich

Axel Strotbek
Member of the Board of Directors
AUDI AG
Ingolstadt

Christoph Thomas
Managing Partner
HAMA GmbH & Co. KG
Monheim

Dr Frank Walthes
since 1 May 2012
Chairman of the Board of Management
Versicherungskammer Bayern
Munich

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

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

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

Locations and addresses

Locations and addresses

Locations and addresses

Germany

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

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

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

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

** EUR 0.09/min.from German fixed-line phones,*
max. EUR 0.42/min. from German mobile phones.

LBS Bayerische Landesbausparkasse
Arnulfstrasse 50
80335 Munich
Tel +49 1803 114477*
Fax +49 89 2171-47000
info@lbs-bayern.de
www.lbs-bayern.de

12 sales offices of LBS Bayern
and 113 advisory centres in Bavaria

Foreign entities and branches

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

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

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

New York
BayernLB
560 Lexington Avenue, 22nd Floor
New York, N.Y. 10022
USA
Tel +1 212 3 10 -9800
Fax +1 212 3 10 -9822
SWIFT BIC: BYLA US 33

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

Representative office

Moscow
BayernLB
CJSC Legion Development
Bolshaya Ordynka 40, Building 4
Moscow 119017
Russia
Tel +7 495 544 54 33
Fax +7 495 544 54 34
julia.blb@legion-post.ru

Participations

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

Deutsche Kreditbank
Aktiengesellschaft
Taubenstrasse 7– 9
10117 Berlin
Tel +49 1803 120 300*
Fax +49 30 120 300 01
SWIFT BIC: BYLADEM 1001
info@dkb.de
www.dkb.de

MKB Bank Zrt.
Váci utca 38
1056 Budapest
Hungary
Tel +36 1 373-3333
Fax +36 1 268-7799
SWIFT BIC: MKKB HU HB
telebankar@mkb.hu
www.mkb.hu

** EUR 0.09/min.from German fixed-line phones,*
max. EUR 0.42/min. from German mobile phones.

BayernLB 2012 Annual Report and Accounts

Publisher
Bayerische Landesbank
Brienner Strasse 18
80333 Munich
Germany
Phone +49 89 2171-01
Fax +49 89 2171-28809
Reuters Dealing BLAM, BLAS, BLAX
BIC/SWIFT Code: BYLA DE MM
info@bayernlb.de
www.bayernlb.de

Text/editorial staff/production
BayernLB
Corporates & Mittelstand Business Area
Marketing Department

Concept and layout
dassel & schumacher werbeagentur gmbh, Munich

Printed by
Lipp GmbH, Graphische Betriebe, Munich

Closing date for submissions: 15 April 2013

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 2012 have been offset by the purchase and invalidation of emission certificates from a certified climate protection project.

The Annual Report can be downloaded from
www.ar12.bayernlb.com
as a PDF file.
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 of the Bayerische Landesbank as well as the auditors report is for convenience only; the German versions prevail.

Sparkassen-Finanzgruppe in Bavaria

Sparkassen-Finanzgruppe
Market leader in Bavaria

- **Aggregate total assets** (bank business): EUR 480 billion
- **Aggregate regulatory capital** (excl. BayernLB): EUR 17.2 billion
- **Aggregate premium volume** (insurance business): EUR 6.8 billion
- **Staff:** Approx. 64,000

BayernLB

Consolidated total assets:
EUR 300.9 billion

Staff:
Bank: 3,352
Group: 9,932

Bayerische Landesbausparkasse

Portfolio of 2.1 million home loan savings contracts with a volume of EUR 59.1 billion

Bayerische Landesbodenkreditanstalt

Lending volume (proprietary and fiduciary business): EUR 21.7 billion

State subsidised business (number of apartments and residences): 7,318

BayernLB Group companies include

- Deutsche Kreditbank AG, Berlin
- Banque LBLux S. A., Luxembourg
- MKB Bank Zrt, Budapest

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

72 savings banks

Total assets: EUR 179 billion

Staff: 45,119
- Branches: 2,409
- Self-service branches: 368
- Advisory centres: 456

Customer loans: EUR 110 billion
Customer deposits: EUR 139 billion

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

Sparkassen-Immobilien
Volume of business brokered:
EUR 2.05 billion

DekaBank
Share of Bavarian savings banks organisation: 14.7 %

Consolidated total assets:
EUR 138 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 7.2 billion

Versicherungskammer Bayern

Premium volume: EUR 6.8 billion
Staff: 6,789*
Investment portfolio: EUR 40.6 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

Sparkassenverband Bayern

Association members: 72 Bavarian savings banks and their owners

** Not incl. external sales force.*
*** 30 September 2012.*

Bayerische Landesbank
Brienner Strasse 18
80333 Munich
Germany

www.bayernlb.de