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BAYERNLB

GROUP FINANCIAL REPORT

30 SEPTEMBER 2013

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Note:

This Group financial report as at 30 September 2013 has been prepared with great care. The information is presented voluntarily for our customers and the public. The report does not contain all the information and data required under IAS 34 (Interim Financial Reporting), nor does it fully comply with the disclosure and valuation standards of IFRS. The results have not been audited or reviewed for accuracy. The figures for the year-before period have been adjusted in line with IAS 8.

Foreword

Ladies and Gentlemen,
Dear Customers and Business Partners,

As in the first two quarters of the year, BayernLB posted positive figures in the third quarter of 2013 with a profit before taxes of EUR 54 million at Group level. Earnings were hurt by a charge of roughly EUR 64 million taken on the disposal of Unionbank in Bulgaria – a holding of BayernLB's Hungarian subsidiary MKB which itself is up for sale. Apart from that, the performance in the quarter was satisfactory overall thanks to BayernLB's solid core business. As previously reported, first-half earnings were driven higher by one-time gains which accordingly also lifted profit before taxes in the first nine months significantly to EUR 773 million. The one-time items included in particular a gain of EUR 351 million from the sale of BayernLB's stake in housing company GBW AG which was described in detail in the interim report.

BayernLB's core business with corporates, the real estate sector, savings banks, the public sector and retail customers continued to perform well. The core segments made a positive contribution to earnings in each of the three quarters of 2013, totalling EUR 602 million and thus accounted for nearly 80 percent of pre-tax total income. Earnings from core activities rose slightly year on year, while risk provisions fell below the moderate level of the year-before period. This shows once again that our focus on the Bavarian and German economies and also on maintaining a balanced risk profile is continuing to pay dividends. Administrative expenses, however, did not drop as sharply as desired. As a result, the Bank is forging ahead with its recently launched cost-cutting programme. The goal is to cut administrative expenses at BayernLB, not including its subsidiaries, by 15 percent from their 2012 level by 2017.

BayernLB's non-core business pooled in the Non-Core Unit reported a profit before taxes of EUR 171 million for the first nine months of the year. The positive figure resulted predominantly from the deconsolidation gain of EUR 351 million on the sale of BayernLB's stake in GBW AG which is posted in the NCU's results. In contrast, MKB once again reported a higher pre-tax loss in the amount of EUR 181 million for the third quarter. The main factors behind this were the charge booked on the disposal of Unionbank in Bulgaria, the disproportionately high banking levy in Hungary and the financial transaction tax recently introduced there. Continued economic weakness resulting from Hungary's economic policies once again led to an increase in risk provisions. MKB remains BayernLB's problem child, for which a solution will have to be found.

BayernLB's transformation is proceeding successfully and at a fast pace. We are continuing to rapidly wind down those activities which will not be part of the Bank long term and thus free up capital. For example, in the first nine months of the year BayernLB sold off its stake in Lufthansa, the German flag carrier, and initiated the sale of its its Luxembourg subsidiary, Banque LBLux S.A. Moreover, our Restructuring Unit (RU) further reduced the loan and securities portfolios marked for winding down that it manages by another EUR 8.0 billion to EUR 24.1 billion through repayments and sales. The Group's total assets also fell in the first nine months by around EUR 25 billion to EUR 261.3 billion as at 30 September 2013 bringing them back down to the level of the late 1990s.

Notable progress was made in scaling back the portfolio of ABS investments which is also managed in the RU. The volume of these securities in the Group shrank by around EUR 2 billion to EUR 7.5 billion in the first nine months. At the end of 2008 this figure was over EUR 20 billion. The losses suffered from the ABS exposure in the past few years are still within the first loss amount of EUR 1.2 billion borne by BayernLB under the guarantee agreement with the Free State of Bavaria. Charges against the first loss amount have been taken in the Bank's previous financial statements. Helping to minimise losses was the vigorous assertion of the Bank's rights both in and out of court, particularly in regard to US mortgage-backed securities.

Our capital ratios rose sharply once again thanks to the further reduction in non-core activities. The core tier 1 ratio as defined by the European Banking Authority (EBA) rose to 14.8 percent as at 30 September 2013 from 11.6 percent at the end of 2012. After full implementation of Basel III ("fully loaded") and under IFRS, the core tier 1 ratio on 1 January 2014 is expected to be 11.5 percent. This means that we are not only well equipped compared to competitors but also in good shape for the upcoming asset quality review and the following stress test by the European Central Bank (ECB). On the whole, BayernLB remains committed to strictly conserving the scarce resource of equity. Nonetheless, as one of the fundamental principles of our business policy, we refrain from credit substitution transactions such as investing in government bonds with zero capital charges. Rather, we continue to make our balance sheet available to our corporate customers, the real estate sector and the savings banks, and to retail customers through our DKB subsidiary.

It should also be noted that a solid capital base is a prerequisite for making further repayments to the Free State of Bavaria as required by the European Commission's ruling in our state aid proceeding. In the past twelve months BayernLB has repaid EUR 1.2 billion in several tranches, the last one of EUR 50 million on 7 November. In fact, since November 2012, we have transferred a total amount of approximately EUR 1.6 billion to the Bank's owners. To date, BayernLB is right on track in paying back capital to the Free State of Bavaria under the schedule set out by the European Commission. This was confirmed in the second regular report by the trustee appointed by the EU Commission to monitor BayernLB's compliance with the conditions of the state aid ruling. Moreover, BayernLB has also fulfilled all other requirements so far, such as disposing of shareholdings on time, with no qualifying remarks from the trustee.

In the fourth quarter of 2013, BayernLB will stay on the course it has set. In its core business, the Bank continues to focus on its customer-based business while simultaneously working hard to implement measures to reduce the cost base. BayernLB's infrastructure is designed for a much bigger bank and must be slimmed down in line with the reduction in total assets that has taken place over the past few years. In addition, the increase in fixed costs resulting from regulatory requirements is forcing the Bank to improve efficiency.

For full-year 2013, BayernLB continues to forecast that consolidated profit before taxes will be in the black. While earnings contributions from the core business should be satisfactory, further significant charges from the Non-Core Unit are expected to weigh on earnings. This applies especially to MKB, which operates in an economic and political environment that remains difficult. As an example, the Hungarian government is planning more politically motivated interventions with regard to outstanding foreign currency loans. At the same time additional restructuring at MKB will result in further charges. BayernLB is required to fully dispose of its stake in MKB by 2015.

BayernLB is making good progress on its way to becoming a normal commercial bank. With its robust structure, the Bank is able to dispose of non-core activities and legacy assets while simultaneously carrying out the new BayernLB's stable operating business. We appreciate both the trust our customers place in BayernLB and the great dedication with which our employees work for their customers and the Bank. For that, we would like to express our profound thanks.

Sincerely,
The Board of Management

Gerd Haeusler,
CEO

Dr Edgar Zoller,
Deputy CEO

Marcus Kramer,
Member of the Board
of Management

Stephan Winkelmeier,
Member of the Board
of Management

Michael Bücker,
Member of the Board
of Management

BayernLB Group at a glance as at 30 September 2013

Income statement (IFRS)

EUR million	1 Jan – 30 Sep 2013	1 Jan – 30 Sep 2012	Change in %
Net interest income	1,427	1,350	5.7
Risk provisions in the credit business	–245	–294	–16.7
Net commission income	212	197	7.9
Gains or losses on fair value measurement	251	280	–10.3
Gains or losses on financial investments	172	–59	–
Administrative expenses	–1,034	–1,212	–14.7
Expenses for bank levies	–51	–53	–3.2
Gains or losses on restructuring	–9	–29	–70.7
Profit before taxes	**773**	**234**	>100.0

Balance sheet (IFRS)

EUR million	30 Sep 2013	31 Dec 2012	Change in %
Total assets	261,291	286,882	–8.9
Credit volume	200,037	207,771	–3.7
Equity and subordinated capital	20,336	21,323	–4.6

Banking supervisory ratios under the German Banking Act (KWG)

	30 Sep 2013	31 Dec 2012	Change in %/pp
Core capital (EUR billion)	13.8	13.0	6.2
Own funds (EUR billion)	17.5	17.3	1.2
Risk positions under the Solvency Ordinance (EUR billion)	89.7	100.4	–10.7
Core capital ratio	15.4%	12.9%	2.5 pp[1]
Overall ratio	19.5%	17.3%	2.2 pp[1]
Core tier 1 ratio (according to EBA)	14.8%	11.6%	3.2 pp[1]

Employees

	30 Sep 2013	31 Dec 2012	Change in %
Number of employees	9,481	9,932	–4.5

Current ratings

	Long-term	Short-term	Pfandbriefs[2]
Fitch Ratings	A+	F1+	AAA
Moody's Investors Service	Baa1	Prime-2	Aaa

1 Percentage points
2 Applies to public-sector Pfandbriefs and mortgage Pfandbriefs

Quarterly comparison

The table below compares performance in the third quarter to that in the first and second quarters of 2013.

EUR million	Q3 2013	Q2 2013	Q1 2013
Net interest income	472	495	461
Risk provisions in the credit business	–111	–76	–58
Net interest income after risk provisions	**361**	**419**	**402**
Net commission income	70	71	71
Gains or losses on fair value measurement	72	85	94
Gains or losses on hedge accounting	7	–25	–13
Gains or losses on financial investments	–107	303	–25
Income from interests in companies measured at equity	–5	3	0
Administrative expenses	–348	–349	–337
Expenses for bank levies	0	0	–52
Other income and expenses	6	57	20
Gains or losses on restructuring	–2	–2	–5
Profit before taxes	**54**	**563**	**156**

Rounding differences may occur in the tables.

Business performance as at 30 September 2013

Financial performance

EUR million	1 Jan – 30 Sep 2013	1 Jan – 30 Sep 2012	Change in %
Net interest income	1,427	1,350	5.7
Risk provisions in the credit business	–245	–294	–16.7
Net interest income after risk provisions	**1,183**	**1,057**	**12.0**
Net commission income	212	197	7.9
Gains or losses on fair value measurement	251	280	–10.3
Gains or losses on hedge accounting	–31	37	–
Gains or losses on financial investments	172	–59	–
Income from interests in companies measured at equity	–2	–26	–91.6
Administrative expenses	–1,034	–1,212	–14.7
Expenses for bank levies	–51	–53	–3.2
Other income and expenses	82	43	92.6
Gains or losses on restructuring	–9	–29	–70.7
Profit before taxes	**773**	**234**	**>100.0**

Rounding differences may occur in the tables.

The eurozone economies bottomed out in winter 2012/2013. The economic stabilisation which began in the spring continued in the second half of the year. However, the recovery only gained limited traction given the persistent belt-tightening by many eurozone governments. Although this acted as a brake on German exports, the upswing in domestic demand since the beginning of the year has remained intact. Private consumer spending is benefiting from the continuing rise in employment and higher wages and remains the mainstay of the economy. Capital spending on the part of companies is also showing the first signs of recovery thanks to the considerable easing of concerns about the stability of the monetary union that has taken place since mid-2012. Interest rates in Germany remain very low, thereby underpinning domestic demand. Nevertheless, financing costs began to creep up after the US Federal Reserve Bank hinted it might begin to taper its highly expansive monetary policy.

In its core business, the BayernLB Group earned a profit before taxes of around EUR 200 million in each of the three quarters of 2013 so far (EUR 602 million altogether; 9m 2012: EUR 237 million). Charges from non-core business weighed on the stable and satisfactory earnings from customer-based business. However these were more than offset by the deconsolidation gains from the sale of GBW AG, Munich (GBW) in the second quarter of 2013. Group profit before taxes rose to EUR 773 million as at 30 September 2013, far exceeding the year-before period (9m 2012: EUR 234 million).

The figures for the same period in 2012 include the earnings from LBS Bayerische Landesbausparkasse (LBS Bayern), which was sold on 31 December 2012. In the first nine months of 2012, LBS Bayern contributed EUR 30 million to profit before taxes. The previous year's figures were not adjusted.

The 5.7 percent rise in net interest income to EUR 1,427 million primarily reflects a change in hedge accounting at Deutsche Kreditbank AG, Berlin (DKB). The increase was counterbalanced by a corresponding decrease in the gains or losses on fair value measurement item. Adjusted for this and the loss of LBS Bayern's interest income, net interest income was on par with the previous-year period.

Risk provisions in the credit business were down on the year-before period at EUR 245 million (9m 2012: EUR 294 million) and applied to the banking subsidiaries MKB Bank Zrt., Budapest (MKB), DKB and Banque LBLux S.A., Luxembourg (LBLux). At BayernLB, in contrast, the positive economic environment and good portfolio quality prompted another net release of provisions.

Net commission income rose by 7.9 percent to EUR 212 million. After adjusting for LBS Bayern's commission expenses, it declined slightly in accordance with the planned reduction in business.

Results from the gains or losses on fair value measurement item (including gains or losses on hedge accounting) slumped sharply year on year to EUR 220 million (9m 2012: EUR 317 million). The decrease was caused by the above-mentioned change in hedge accounting at DKB. The impact of volatile components on this item was considerably less in the first nine months of 2013. Mark-to-market valuation of cross-currency swaps amounted to EUR –20 million as opposed to EUR –163 million in 9m 2012, while the measurement of own credit spreads weighed on earnings by only EUR –24 million in contrast to EUR –76 million in 9m 2012. Making a positive contribution to earnings in this item on the other hand were customer margins of EUR 121 million (9m 2012: EUR 131 million) and fair value adjustments of EUR 53 million (9m 2012: EUR 91 million). Impairment reversals in the ABS portfolio amounted to EUR 82 million (9m 2012: EUR 111 million).

Gains or losses on financial investments (including income from interests in companies measured at equity) of EUR 170 million (9m 2012: EUR –85 million) included a EUR –167 million decrease in the valuation of the "Umbrella" hedging agreement concluded with the Free State of Bavaria (9m 2012: EUR –125 million). The aim of the Umbrella is to offset losses and measurement changes in the ABS portfolio, whereby for measurement reasons, earnings are reported in different periods and interdependencies with the gains or losses on fair value measurement arise. While the sale of BayernLB's stake in GBW resulted in a gain of EUR 351 million, the disposal of Bulgaria-based Unionbank EAD, Sofia (Unionbank) resulted in a charge of EUR –64 million in the third quarter.

Administrative expenses amounted to EUR 1,034 million, down 14.7 percent from EUR 1,212 million in the first nine months of 2012. Adjusted for a one-off charge of EUR 133 million in 2012 due to a ruling by the German Federal Employment Court (FEC) on the pension scheme for selected BayernLB employees and for the sale of LBS Bayern, administrative expenses remained at the year-before level.

Expenses for bank levies were EUR 51 million (9m 2012: EUR 53 million); of this, EUR 46 million was levied on MKB, EUR 3 million on DKB and EUR 3 million on BayernLB. These figures account in full for the amounts due in financial year 2013.

Return on equity (RoE)[1] was 7.3 percent (9m 2012: 3.5 percent); the cost/income ratio (CIR)[2] amounted to 53.3 percent (9m 2012: 63.6 percent).

Net assets and financial position

Assets

EUR million	30 Sep 2013	31 Dec 2012	Change in %
Cash reserves	2,084	2,583	–19.3
Loans and advances to banks	46,392	44,446	4.4
Loans and advances to customers	141,386	150,612	–6.1
Risk provisions	–2,654	–2,830	–6.2
Portfolio hedge adjustment assets	1,790	2,334	–23.3
Assets held for trading	27,133	42,094	–35.5
Positive fair values from derivative financial instruments (hedge accounting)	2,966	4,162	–28.7
Financial investments including interests in companies measured at equity	38,869	38,717	0.4
Investment property	69	69	–0.1
Property, plant and equipment	614	629	–2.4
Intangible assets	190	186	2.4
Income tax assets	448	543	–17.6
Non-current assets or disposal groups held for sale	936	2,460	–62.0
Other assets	1,069	877	22.0
Total assets	**261,291**	**286,882**	**–8.9**

Rounding differences may occur in the tables.

1 *RoE = Profit before taxes excluding non-controlling interests, expenses for bank levies and gains or losses on restructuring/subscribed capital + hybrid capital instruments + capital surplus and retained earnings. Up to and including 2012, excludes the share of earnings and equity from BayernLabo which is a non-competitive business.*

2 *CIR = Administrative expenses/net interest income + net commission income + gains or losses on fair value measurement + gains or losses on hedge accounting + other income and expenses.*

Liabilities

EUR million	30 Sep 2013	31 Dec 2012	Change in %
Liabilities to banks	68,184	70,521	−3.3
Liabilities to customers	88,957	90,819	−2.0
Securitised liabilities	55,325	60,319	−8.3
Liabilities held for trading	19,865	34,747	−42.8
Negative fair values from derivative financial instruments (hedge accounting)	2,985	3,864	−22.8
Provisions	3,103	3,122	−0.6
Tax liabilities	389	364	6.8
Liabilities of disposal groups	726	1,259	−42.3
Other liabilities	1,422	545	>100.0
Subordinated capital	5,130	6,346	−19.2
Equity	15,206	14,977	1.5
Total liabilities	**261,291**	**286,882**	**−8.9**

Rounding differences may occur in the tables.

Total assets as at 30 September 2013 decreased from the end of 2012 by 8.9 percent to EUR 261.3 billion. The steepest declines were in assets and liabilities held for trading, which were each around EUR 15 billion lower.

Loans and advances to customers also fell 6.1 percent to EUR 141.4 billion. The brunt of the reduction here continued to be borne by loans and advances to foreign borrowers, which decreased by 14.3 percent to EUR 31.4 billion. Loans and advances to domestic borrowers slid slightly by 3.5 percent to EUR 110.0 billion.

The BayernLB Group's lower funding needs were reflected particularly in securitised liabilities, which contracted 8.3 percent to EUR 55.3 billion. The most important source of funding was liabilities to customers of EUR 89.0 billion (9m 2012: EUR 90.8 billion).

While subordinated capital decreased by EUR 1.2 billion to EUR 5.1 billion as instruments fell due, equity increased slightly by EUR 0.2 billion to EUR 15.2 billion.

Banking supervisory capital and ratios

Risk positions as calculated under the German Solvency Ordinance diminished 10.7 percent to EUR 89.7 billion as at 30 September 2013. Own funds rose slightly to EUR 17.5 billion as at 30 September 2013 (EUR 17.3 billion as at 31 December 2012). Core capital grew by EUR 0.8 billion to EUR 13.8 billion.

As a result of the sharp drop in risk positions, capital ratios improved once again. The core capital ratio is a solid 15.4 percent (12.9 percent as at 31 December 2012), while the own funds ratio is 19.5 percent (17.3 percent as at 31 December 2012).

The BayernLB Group's stable capital base is also reflected in the EBA ratio. As at 30 September 2013, the core tier 1 ratio (CET1 ratio) as defined by the European Banking Authority (EBA) was 14.8 percent (31 December 2012: 11.6 percent). In addition to the fall in risk positions, the rise resulted from a capital increase by the Bavarian savings banks of around EUR 832 million, as the silent capital contributions the savings banks used for the capital increase did not count towards the calculation of the CET1 ratio.

Core and non-core business of the BayernLB Group

In accordance with the European Commission's state aid ruling of 5 February 2013, the core business is focusing even more closely on business activities with a connection to Germany. As part of BayernLB's strategic realignment in 2009, the Bank decided to exit from non-core activities to free up liquidity and capital while keeping losses to a minimum, and this policy has been systematically implemented since then. Under the new business segment structure which took effect on 1 January 2013, all non-core activities have been pooled in the new Non-Core Unit (NCU) segment. The NCU includes the existing Restructuring Unit, additional selected portfolios defined as non-core transferred at the beginning of the year, the subsidiaries MKB and LBLux and other non-core activities. The Group's core business was well in the black in the first nine months of 2013. In the Non-Core Unit, the negative impact on profit before taxes from MKB and the Restructuring Unit was offset by the proceeds from the sale of GBW.

1 Jan – 30 Sep 2013	Core business (incl. consolidation) (EUR million)	Share (in %)	Non-core business (incl. consolidation) (EUR million)
Total income	1,453	69.1	650
Risk provisions	–107	43.8	–137
Administrative expenses	–738	71.4	–296
Expenses for bank levies	–5	10.7	–46
Profit before taxes	**602**	**77.9**	**171**
Risk positions	68,929	76.9	20,734

Segment reporting

The segment report is based on the monthly internal management report to the Board of Management and reflects the BayernLB Group's six segments. The operating segments as from 1 January 2013 are Corporates & Mittelstand, Real Estate & Savings Banks/Association, Deutsche Kreditbank Sub-Group and Markets. These segments incorporate BayernLB's business areas, the legally dependent institution Bayerische Landesbodenkreditanstalt (BayernLabo) and the assigned subsidiaries. In addition, two other segments, Central Areas & Others and the Non-Core Unit, are also reported. Starting from 2013, the operating segments and the Central Areas & Others segment only include core business activities; all non-core activities of these segments are reported in the results for the Non-Core Unit.

The individual segments contributed to the profit before taxes of EUR 773 million (9m 2012: EUR 234 million) as follows:

EUR million	1 Jan – 30 Sep 2013	1 Jan – 30 Sep 2012
Corporates & Mittelstand	196	185
Real Estate & Savings Banks/Association	144	127
Deutsche Kreditbank Sub-Group	122	232
Markets	67	–278
Central Areas & Others	217	253
Non-Core Unit	190	1
Consolidation	–163	–287

The **Corporates & Mittelstand segment** posted a slight year-on-year rise in profit before taxes to EUR 196 million (9m 2012: EUR 185 million). Despite a continuing environment of low interest rates, high liquidity on the part of customers and competitors, and the reduction in business with foreign customers having no connection to Germany as stipulated by the EU ruling, net interest income from customer business was up on the year-before period. The fall in administrative expenses is due to the one-time addition to pension provisions in the previous year. This offset the somewhat weaker commission income. Good asset quality and solid risk management are reflected in the considerably lower risk provisions of EUR –9 million (9m 2012: EUR –24 million). Despite difficult market conditions, business performance remained good and consolidated the Bank's position as a corporate lender for large and medium-sized German companies and international companies with a connection to Germany.

Profit before taxes in the **Real Estate & Savings Banks/Association segment** was up 13 percent year on year in the first nine months of 2013, despite the sale of LBS Bayern at the end of 2012. A decrease in administrative expenses in all divisions due to higher pension provisions in the year-before period as well as lower risk provisions boosted the segment's earnings.

The Real Estate division put in another good performance, with profit before taxes of EUR 71 million (9m 2012: EUR 45 million). Even after the stop on foreign business with no connection to Germany, income from customer-related business grew slightly by 5 percent, owing mainly to higher margins. In addition to stable earnings, the marked rise in profit before taxes stems predominantly from lower administrative expenses and a considerable decline in risk provisions in the credit business, caused by the release of provisions resulting from the consistently good portfolio quality.

In the Savings Banks & Association division, profit before taxes declined to EUR 11 million in the reporting period (9m 2012: EUR 13 million). Total income fell despite the productive and close collaboration with the savings banks and public sector. This was primarily due to fewer sales of BayernLB's own issues thanks to the Bank's good liquidity at the moment. Lower administrative expenses had a positive impact on profit before taxes.

BayernLabo's profit before taxes in the first nine months rose to EUR 58 million from EUR 33 million in the year-before period. Low interest rates and a decrease in volume continued to weigh on net interest income. However, this decrease was significantly outweighed by gains on fair value measurement resulting from interest rate hedging and a decline in administrative expenses.

Profit before taxes in the **Deutsche Kreditbank Sub-Group segment** was EUR 122 million in the reporting period, considerably below the year-before period (9m 2012: EUR 232 million). In addition to one-off items in 2012 from the sale of DKB Immobilien AG and from gains on fair value measurement, the decrease was mainly due to low interest rates and higher risk provisions. When comparing net interest income with the previous year, it should be noted that a change was made in the disclosure of interest rate hedges. Given current economic conditions, DKB's business continues to perform well. The lending business grew by EUR 0.6 billion to EUR 55.8 billion despite early and high loan repayments due to low interest rates and the intense competition for customers with good credit ratings. Customer deposits, which are an important source of funding, grew by 8.5 percent to EUR 43 billion. In addition to DKB's success in positioning itself as "Your bank on the web", reflected in its 2.7 million retail customers, there were also higher inflows of customers' funds into the infrastructure and corporate customers segments.

The **Markets segment** swung well into positive territory with a profit before taxes of EUR 67 million for the first nine months of 2013 after reporting a deep loss in the previous-year period (9m 2012: EUR –278 million). The swing was mainly due to higher results in the gains or losses on fair value measurement item, as the negative figure in the year-before period resulted primarily from mark-to-market markdowns on the value of cross-currency swaps, own credit spreads and securities held in the strategic liquidity reserve used to manage risks at BayernLB - Bank level. Also making a major contribution to the increase in earnings was the optimisation of net interest income by asset liability management and the release of previous valuation reserves for bid-ask spreads. The fall in administrative expenses is due to the one-time addition to the pension provisions in the previous year. The unexpected repayment of some loans to banks resulted in releases of risk provisions. Customer-related business on behalf of the Corporates & Mittelstand and Real Estate divisions performed well and partially offset the weaker business with the savings banks and financial institutions.

The **Central Areas & Others segment** comprises the central areas and those business transactions executed in the overall interests of the Bank or Group which are therefore not allocated to the individual operating segments. Profit before taxes in the first nine months of 2013 was well in the black at EUR 217 million (9m 2012: EUR 253 million).

Since the beginning of the year, all non-core activities have been pooled in the **Non-Core Unit segment**. The jump in profit before taxes to EUR 190 million in the first nine months (9m 2012: EUR 1 million) stemmed predominantly from the sale of GBW, which more than offset the negative earnings from the Restructuring Unit and MKB and the decline in earnings at LBLux.

In the Restructuring Unit division, the volume of all portfolios, including the non-core securities portfolio, was systematically reduced by EUR 8.0 billion to EUR 24.1 billion in the reporting period by means of scheduled and early repayments, sales and restructuring. The resulting EUR 5.3 billion reduction in risk assets freed up a corresponding amount of capital. Since the start of the year the Restructuring Unit also contains all domestic and foreign portfolios to be wound down as a result of the EU state aid proceedings from the Real Estate, Corporates, and Structured Finance divisions as well as business with municipal governments outside Bavaria. The slump in profit before taxes to EUR –17 million (9m 2012: EUR 91 million) was due to a decrease in the valuation of the ABS portfolio hedging agreement (the Umbrella agreement) and a drop in net interest and commission income resulting from the winding down of assets. Lower risk provisions in the credit business driven by releases and one-off gains from the sale of shareholdings had a positive impact on earnings.

MKB's earnings for the first nine months of 2013 continued to suffer from the persistently tough economic and political conditions in Hungary. In addition to a EUR 46 million expense for Hungary's bank levy, the introduction of a financial transaction tax in 2013 reduced earnings further by a gross amount of EUR 34 million. Also weighing on earnings was the downsizing of the MKB Group. The sale of Bulgarian subsidiary Unionbank resulted in a charge of EUR –64 million on deconsolidation. The sluggish economic recovery in Hungary and a cautious climate for consumer and capital spending dampened operating income, as did a sharp drop in the base interest rate and a weaker local currency. Net interest and commission income were higher year on year due to one-off income from payment transactions. However, gains on fair value measurement contracted considerably as a consequence of negative measurement effects. Risk provision requirements remained high as the Hungarian real estate market continued to face hard times. Administrative expenses decreased slightly year on year. Profit before taxes was deeply in the red at EUR –181 million (9m 2012: EUR –131 million).

Profit before taxes at LBLux fell to EUR 16 million (9m 2012: EUR 26 million), primarily as a result of higher risk provisions and low interest rates. Customer business in corporate and private banking remained subdued but made a contribution to earnings on par with the previous year.

Since the start of 2013, the non-core activities of DKB, additional non-core investments not assigned to the divisions above and non-core business transactions executed in the overall interests of the Bank or Group are disclosed in the non-organisational Other NCU division. The division reported a high profit before taxes of EUR 353 million (9m 2012: EUR 11 million), primarily due to the proceeds from the sale of GBW.

Outlook

The economy in the eurozone is expected to enjoy a moderate recovery in 2014. The strain from government budget cutbacks in crisis-hit countries is easing and competitiveness in terms of prices has noticeably improved. The resulting revival in exports is increasingly offsetting continued weak domestic demand. In Germany, the economy continues to be driven by low interest rates. Economic output is forecast to expand at an annual rate of 0.9 percent in the eurozone and 1.5 percent in Germany. Inflation in the eurozone, however, is likely to remain very moderate (2014: 1.6 percent) as a result of continued capacity under-utilisation, thus giving the ECB leeway to further pursue its highly expansive monetary policy. The ECB looks set to maintain key interest rates at their currently very low levels until well into 2015. The greatest risk to the outlook is posed by economic policy considerations in the eurozone and the US. In particular, doubts about the willingness of crisis-hit countries to continue pursuing budget cutting or legal restrictions on the ECB's OMT programme could spark renewed turmoil on financial markets. The resulting uncertainty could deal a serious blow to the economy.

For the fourth quarter of 2013, the BayernLB Group expects earnings from its core business to be satisfactory while the Non-Core Unit will produce further significant charges. This applies especially to MKB, which operates in an economic and political environment that remains difficult. For one, the Hungarian government is planning more political interventions with regard to outstanding foreign currency loans while for another, additional restructuring at MKB will result in further charges. To comply with the EU Commission requirements, the stake in MKB must be sold in full. To achieve this, more work on MKB's shareholding and loan portfolios will be necessary.

As it currently stands, BayernLB still expects consolidated profit before taxes for full-year 2013 to be in the black.

Segment reporting as at 30 September 2013

EUR million	Corporates & Mittelstand	Real Estate & Savings Banks/ Association	DKB	Markets	Central Areas & Others	Non-Core Unit	Consolidation	Group
Net interest income	258	185	449	155	206	314	–139	**1,427**
Risk provisions in the credit business	–9	–7	–96	4	0	–137	0	**–245**
Net commission income	88	45	–17	19	–4	82	0	**212**
Gains or losses on fair value measurement	38	51	12	70	–11	106	–15	**251**
Gains or losses on hedge accounting	0	4	–25	8	1	1	–20	**–31**
Gains or losses on financial investments	3	0	31	10	0	128	0	**172**
Income from interests in companies measured at equity	0	0	0	0	0	–1	–1	**–2**
Administrative expenses	–182	–147	–230	–170	–10	–291	–5	**–1,034**
Expenses for bank levies	0	0	–3	0	–2	–46	0	**–51**
Other income and expenses	–1	14	2	–28	37	42	16	**82**
Gains or losses on restructuring	0	0	0	0	0	–9	0	**–9**
Profit before taxes	**196**	**144**	**122**	**67**	**217**	**190**	**–163**	773
Return on equity (RoE) (%)	10.9	18.3	5.3	6.6	–	10.8	–	**7.3**[1]
Cost/income ratio (CIR) (%)	47.4	49.3	54.7	76.3	–	53.3	–	**53.3**

1 As from financial year 2013, the share of earnings and equity from BayernLabo is included in the calculation of RoE (in percent) at Group level.

Segment reporting as at 30 September 2012[1]

EUR million	Corporates & Mittelstand	Real Estate & Savings Banks/Association	DKB	Markets	Central Areas & Others	Non-Core Unit	Consolidation	Group
Net interest income	264	338	327	42	297	312	−229	**1,350**
Risk provisions in the credit business	−24	−18	−81	−14	−2	−155	0	**−294**
Net commission income	106	20	−6	19	−10	69	0	**197**
Gains or losses on fair value measurement	44	22	186	−115	4	179	−41	**280**
Gains or losses on hedge accounting	0	−1	−8	55	0	2	−10	**37**
Gains or losses on financial investments	−1	4	43	3	3	−111	0	**−59**
Income from interests in companies measured at equity	0	0	0	0	0	−1	−25	**−26**
Administrative expenses	−205	−258	−221	−199	−34	−297	2	**−1,212**
Expenses for bank levies	0	0	−4	0	−3	−47	0	**−53**
Other income and expenses	1	21	−5	−69	−2	81	16	**43**
Gains or losses on restructuring	0	0	0	0	0	−29	0	**−29**
Profit before taxes	**185**	**127**	**232**	**−278**	**253**	**1**	**−287**	**234**
Return on equity (RoE) (%)	9.8	13.6	10.3	−18.6	–	2.9	–	**3.5[2]**
Cost/income ratio (CIR) (%)	49.5	64.5	44.7	−288.2	–	46.3	–	**63.6**

1 The new segment structure is reflected in all segments and in all line items (except for income from interests in companies measured at equity).
2 BayernLabo's earnings and share in Group equity are not included in the return on equity (expressed in percent) at Group level.

Administrative bodies of BayernLB

Supervisory Board

Michael Schneider
Chairman
Former chairman of the
Board of Directors of LfA
Germering

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

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

Ralf Haase
Chairman of the General Staff Council
BayernLB
Munich

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

Jakob Kreidl
President of the Bavarian Districts Council
Chief District Administrator
Miesbach

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

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

Professor Dr Christian Rödl
Managing Partner
Rödl & Partner GbR
Nuremberg

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

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

Board of Management (including allocation of responsibilities from 22 October 2013)

Gerd Haeusler
CEO
Markets
Corporate Center
Deutsche Kreditbank Aktiengesellschaft

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

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

Stephan Winkelmeier
CFO/COO
Financial Office
Operating Office
MKB Bank Zrt.

Michael Bücker
Corporates, Mittelstand & Financial Institutions

Nils Niermann
until 17 October 2013

1 Dependent institution of the Bank.

Segment definitions

Corporates & Mittelstand

The Corporates & Mittelstand segment serves large German companies, international companies with a connection to Germany and German Mittelstand customers focusing on Bavaria. These include in particular DAX and MDAX-listed companies and family-owned businesses which conduct international business from their German home market.

Deutsche Kreditbank Sub-Group (DKB)

The core business of subsidiary DKB is pooled in this segment. DKB is well positioned in retail banking as “Your bank on the web”. In addition to being an online bank, it also operates in the areas of infrastructure and corporate customers, where it specialises in selected sectors such as residential housing, agriculture and renewable energy.

Real Estate & Savings Banks/Association

The Real Estate & Savings Banks/Association segment incorporates business with commercial and residential real estate customers, the savings banks and the public sector. Furthermore, the legally dependent institution BayernLabo and the subsidiary Real I.S. AG Gesellschaft für Immobilien Assetmanagement, Munich are also assigned to this segment.

Markets

The Markets segment comprises the business area bearing the same name and BayernInvest Kapitalanlagegesellschaft mbH, Munich, a consolidated asset manager which contributes to the earnings of the segment. The Markets business area is assigned all trading and issuing activities, asset/liability management and business relationships with banks, insurance companies and other institutional customers.

Central Areas & Others

The Central Areas & Others segment incorporates the earnings contributions from the central areas Corporate Center, Financial Office, Operating Office, and Risk Office. The segment also includes cross-divisional transactions whose earnings contributions are generated from core business but cannot be allocated to either a business area or a central area.

Non-Core Unit

All non-core activities have been transferred to the Non-Core Unit segment. This contains the Restructuring Unit, the Other NCU division and the subsidiaries MKB and LBLux.

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Bayern LB