

Group Financial Report

*First quarter of 2014
Facts. Figures.*



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Note:

This Group financial report as at 31 March 2014 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.

BayernLB Group – the first quarter of 2014 at a glance

Income statement (IFRS)

EUR million	1 Jan – 31 Mar 2014	1 Jan – 31 Mar 2013	Change in %
Net interest income	423	461	-8.2
Risk provisions in the credit business	29	-58	-
Net commission income	72	71	0.9
Gains or losses on fair value measurement	67	94	-29.4
Gains or losses on financial investments	-24	-25	-3.2
Administrative expenses	-321	-337	-4.7
Expenses for bank levies	-47	-52	-10.4
Gains or losses on restructuring	-3	-5	-33.5
Profit before taxes	200	156	28.5

Balance sheet (IFRS)

EUR million	31 Mar 2014	31 Dec 2013	Change in %
Total assets	257,743	255,601	0.8
Credit volume	191,600	193,573	-1.0
Equity and subordinated capital	19,939	19,863	0.4

Banking supervisory capital and ratios under CRR/CRD IV (31 Dec 2013 under the German Banking Act (KWG)/CET 1 in accordance with the EBA)

EUR billion	31 Mar 2014 ¹	31 Dec 2013
Hard core capital (CET 1 capital)	13.1	13.3
Core capital	13.2	13.8
Own funds	15.6	17.0
Risk positions	95.3	87.6
Hard core capital ratio (CET 1 ratio)	13.7 %	15.2 %
Own funds ratio	16.4 %	19.4 %

Employees

	31 Mar 2014	31 Dec 2013	Change in %
Number of employees	8,446	8,568	-1.4

Current ratings

	Long-term	Short-term	Pfandbriefs ²
Fitch Ratings	A+	F1+	AAA
Moody's Investors Service	A3	Prime-2	Aaa

¹ Preliminary

² Applies to public-sector Pfandbriefs and mortgage Pfandbriefs

Business performance in the first quarter of 2014

Financial performance

EUR million	1 Jan – 31 Mar 2014	1 Jan – 31 Mar 2013	Change in %
Net interest income	423	461	-8.2
Risk provisions in the credit business	29	-58	-
Net interest income after risk provisions	452	402	12.3
Net commission income	72	71	0.9
Gains or losses on fair value measurement	67	94	-29.4
Gains or losses on hedge accounting	-2	-13	-82.5
Gains or losses on financial investments	-24	-25	-3.2
Income from interests in companies measured at equity	-1	0	-
Administrative expenses	-321	-337	-4.7
Expenses for bank levies	-47	-52	-10.4
Other income and expenses	8	20	-60.7
Gains or losses on restructuring	-3	-5	-33.5
Profit before taxes	200	156	28.5

Rounding differences may occur in the tables.

Earnings at the BayernLB Group moved back to normal levels as the Group posted solid results in Q1 2014.

Profit before taxes of EUR 200 million was 28.5 percent higher than in the year-before period. Nearly all of this amount (EUR 199 million) came from the Group's core business. The Non-Core Unit (NCU) was in the black with a profit before taxes of EUR 1 million thanks to a net gain from risk provisions in the credit business.

The 8.2 percent decrease in net interest income to EUR 423 million was due primarily to the planned winddown of non-core business. MKB Bank Zrt., Budapest (MKB) accounted for most of the decrease.

The positive contribution from risk provisions in the credit business amounting to EUR 29 million (Q1 2013: EUR -58 million) reflects the overall good quality of the portfolios and resulted in part from recoveries on written-off receivables and the writeback of loan loss provisions.

Despite the smaller business volume, net commission income rose slightly by EUR 1 million to EUR 72 million.

Gains or losses on fair value measurement amounted to EUR 67 million (Q1 2013: EUR 94 million). Mark-to-market valuations of cross-currency swaps and the own credit spread as at the reporting date, which have been highly volatile in past periods, shrank further to EUR 5 million (Q1 2013: EUR -19 million). Fair value adjustments weighed on results by EUR 10 million in contrast to a positive contribution of EUR 53 million in the year-before period. Writeups on the ABS portfolio, which was impaired during the financial crisis, contributed EUR 21 million to earnings (Q1 2013: EUR 23 million). This was offset by an expense of the same amount in the gains or losses on financial investments item, resulting from the valuation of the "Umbrella" guarantee agreement

concluded with the Free State of Bavaria. The aim of the Umbrella is to offset losses and swings in the value of the ABS portfolio, where, for technical measurement reasons, earnings are reported in different periods. Customer margins amounted to EUR 29 million (Q1 2013: EUR 38 million).

Gains or losses on financial investments were nearly unchanged at EUR –24 million (Q1 2013: EUR –25 million). The valuation of the Umbrella guarantee agreement was one of the main factors in this item's results.

Administrative expenses fell 4.7 percent from the year-before period to EUR 321 million.

Expenses for bank levies in FY 2014 are expected to amount to EUR 47 million (FY 2013: EUR 52 million). The full amount for the year was posted in the first quarter. Other income and expenses came to EUR 8 million (Q1 2013: EUR 20 million).

Return on equity (RoE) rose to 5.3 percent from 4.2 percent in the year-before period. The Cost-Income Ratio (CIR) was 59.3 percent (Q1 2013: 55.5 percent).

Core and non-core business of the BayernLB Group

As a result of the capital injection and guarantees provided by the Free State of Bavaria and subsequent state aid proceedings by the European Commission, BayernLB implemented a new strategy in 2009. The aim of the new strategy is to focus on the Bank's future-oriented core business while simultaneously winding down non-core business with minimum losses. The European Commission's ruling in the state aid proceedings on 25 July 2012 (replaced by the German version of the ruling with the same content dated 5 February 2013) placed even tighter requirements for a "German connection" on core business and classified additional portfolios as non-core business.

BayernLB's activities focus on business on behalf of customers in its core business segments of Corporates, Mittelstand & Financial Institutions; Real Estate & Savings Banks/Association; Deutsche Kreditbank (DKB); and Markets. All non-core activities have been pooled in the new Non-Core Unit segment since its creation on 1 January 2013. These activities are being systematically and completely wound down in order to free up the capital and liquidity tied up there. The segment includes the Restructuring Unit containing portfolios with non-core characteristics, the subsidiaries MKB and Banque LBLux S.A., Luxembourg (LBLux) and other non-core activities.

Of the Group's consolidated profit before taxes of EUR 200 million, EUR 199 million (Q1 2013: EUR 200 million) was derived from core business. Both the core and non-core businesses were boosted by positive results from net risk provisioning. Weighing particularly heavily on the earnings of the non-core business was an expense of EUR –44 million for MKB's bank levy which was booked as of the first of the year.

1 Jan–31 Mar 2014	Core business (EUR million)	Share (in percent)	Non-core business (EUR million)
Total income before consolidation	495		106
Consolidation	–46		–13
Total income after consolidation	449	82.9 %	93
Risk provisions ¹	1	1.7 %	29
Administrative expenses ¹	–247	77.0 %	–74
Expenses for bank levies ¹	–2	5.0 %	–44
Gains or losses on restructuring ¹	–1	41.9 %	–2
Profit before taxes after consolidation	199	99.4 %	1
Risk positions ¹	67,841	71.2 %	27,417

¹ Positions without consolidation

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 of 31 March 2014 were Corporates, Mittelstand & Financial Institutions; Real Estate & Savings Banks/Association; Deutsche Kreditbank (DKB); and Markets. These segments incorporate BayernLB's operating business areas, the legally dependent institution Bayerische Landesbodenkreditanstalt (Bayern-Labo) and the subsidiaries assigned to them. In addition, two other segments, Central Areas & Others and the Non-Core Unit, are reported. Since 2013, the operating segments and the Central Areas & Others segment only include core business activities; all of these segments' non-core activities are reported in the Non-Core Unit's results.

The contributions of the individual segments to profit before taxes of EUR 200 million (Q1 2013: EUR 156 million) are shown below:

EUR million	1 Jan–31 Mar 2014	1 Jan–31 Mar 2013
Corporates, Mittelstand & Financial Institutions	52	83
Real Estate & Savings Banks/Association	98	40
DKB	43	42
Markets	–14	20
Central Areas & Others	66	69
Non-Core Unit	14	–40
Consolidation	–59	–59

The Corporates, Mittelstand & Financial Institutions segment reported a profit before taxes of EUR 52 million (Q1 2013: EUR 83 million). Although customers continued to hold back on capital spending and market conditions remained highly competitive, net interest income and net commission income basically held steady compared to the year-before period. Demand for currency and interest rate hedging instruments remained subdued due to market conditions. Moreover, the year-before period was boosted by one-off income. Administrative expenses decreased slightly year on year. Risk provisions weighed on the segment's earnings. Although they were in line with expectations, they were higher than the year-before period.

Profit before taxes in the Real Estate & Savings Banks/Association segment amounted to EUR 98 million, far above the figure for the year-before period (Q1 2013: EUR 40 million). The strong increase in earnings resulted from higher income and was boosted by a EUR 44 million net writeback from risk provisions.

The Real Estate Division accounted for a large share of the segment's earnings, contributing EUR 80 million (Q1 2013: 20 million). The jump in earnings was driven by the above-mentioned EUR 44 million net writeback on risk provisions and higher income from a larger number of customer transactions.

Although interest rates remained low throughout the period, the Savings Banks & Association Division posted stable earnings again from financial market transactions for customers, the subsidised loan business and precious metals and foreign notes and coins trading, thanks to continuing close cooperation with the savings banks and public sector. Profit before taxes amounted to EUR 4 million (Q1 2013: EUR 5 million).

Low interest rates continued to weigh on BayernLabo's earnings along with higher administrative costs related to the introduction of new IT software. Profit before taxes was EUR 14 million (Q1 2013: EUR 17 million).

Earnings at the consolidated subsidiary Real I.S. AG rose slightly from the year-before period.

Business performance in the Deutsche Kreditbank (DKB) segment was good overall in the first quarter of 2014. Profit before taxes edged higher to EUR 43 million from EUR 42 million in the year-before period. Total revenues were up slightly while administrative expenses and risk provisions were on par with the year-before period. Customer business grew in all segments. For example, lending volume increased during the quarter by EUR 0.6 billion to EUR 58 billion. Customer deposits, an integral component of funding, grew 3.2 percent to EUR 45.4 billion. With over 2.8 million retail customers, DKB has successfully positioned itself as "Your bank on the web".

Profit before taxes in the Markets segment swung to a negative EUR –14 million in the first quarter from a gain of EUR 20 million in the year-before period. A significant decrease in net interest income weighed heavily on earnings. Weak conditions on interest rate markets were the main reason why earnings in the first quarter could not keep pace with the gain in the year-before period. The gains or losses on fair value item was slightly less than in Q1 2013. The year-before period was lifted in particular by higher gains on cross-currency swaps and the release of the valuation reserves due to the first-time application of IFRS 13. Administrative expenses were on par with the year-before period. Earnings produced by Markets on behalf of other customer-serving business areas are reported under those business areas.

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 not allocated to the individual operating segments. Profit before taxes in the first quarter of 2014 was stable at EUR 66 million (Q1 2013: EUR 69 million).

All of the BayernLB Group's non-core activities are pooled in the Non-Core Unit. The segment includes the Restructuring Unit, the Other NCU sub-segment and the two Group subsidiaries MKB and LBLux. Segment profit before taxes amounted to EUR 14 million, well above the results in the year-before period (Q1 2013: EUR –40 million). Earnings were boosted primarily by positive net risk provisions in the Restructuring Unit.

In the Restructuring Unit, the loan and investment portfolios shrank by another EUR 1.5 billion to EUR 20.9 billion as a result of scheduled and early repayments and sales. Profit before taxes rose to EUR 23 million from EUR 8 million in the year-before period despite the decline in assets and associated decrease in net interest and net commission income. Positive net risk provisions accounted largely for the higher earnings. Additions to risk provisions were more than offset by writebacks and recoveries on written-off receivables.

MKB posted negative earnings again due to the ongoing difficult political and economic conditions in Hungary. The loss, however, shrank to EUR –9 million from EUR –61 million in the year-before period. In addition to net risk provisions, which were slightly positive, this was largely due to a further decrease in administrative expenses as a result of the ongoing restructuring of MKB and the sale of subsidiaries in the second half of 2013. Net interest income remained under pressure owing to the sale of the subsidiaries, the lower volume of interest-bearing business and repeated cuts in the key interest rate by the Hungarian National Bank. Lower earnings were more than offset by the proceeds from the sale of securities and mark-to-market gains on the valuation of financial derivatives.

The ongoing sales process for LBLux had a negative impact on the subsidiary's business activities. Against this background, profit before taxes declined to EUR 7 million (Q1 2013: EUR 11 million).

The Other NCU sub-segment comprises the non-core activities of DKB, additional non-core investments not assigned to the divisions referred to above and business transactions in non-core business executed in the overall interests of the Bank or Group. Profit before taxes for the first three months was EUR –7 million (Q1 2013: EUR 2 million).

Financial position

Assets

EUR million	31 Mar 2014	31 Dec 2013	Change in %
Cash reserves	2,853	3,160	-9.7
Loans and advances to banks	41,306	43,470	-5.0
Loans and advances to customers	138,250	137,965	0.2
Risk provisions	-2,520	-2,668	-5.5
Portfolio hedge adjustment assets	1,691	1,687	0.2
Assets held for trading	26,288	25,462	3.2
Positive fair values from derivative financial instruments (hedge accounting)	3,083	2,889	6.7
Financial investments including interests in companies measured at equity	41,115	39,746	3.4
Investment property	97	99	-2.3
Property, plant and equipment	607	619	-1.9
Intangible assets	147	154	-4.6
Tax assets	297	284	4.4
Non-current assets or disposal groups classified as held for sale	2,297	2,065	11.2
Other assets	2,233	668	> 100.0
Total assets	257,743	255,601	0.8

Liabilities

EUR million	31 Mar 2014	31 Dec 2013	Change in %
Liabilities to banks	69,689	71,191	-2.1
Liabilities to customers	89,375	86,183	3.7
Securitised liabilities	50,465	52,964	-4.7
Liabilities held for trading	17,438	16,797	3.8
Negative fair values from derivative financial instruments (hedge accounting)	2,836	2,846	-0.4
Provisions	3,496	3,503	-0.2
Tax liabilities	320	294	9.1
Liabilities of disposal groups	1,516	1,438	5.4
Other liabilities	2,669	522	> 100.0
Subordinated capital	4,883	4,984	-2.0
Equity	15,056	14,879	1.2
Total liabilities	257,743	255,601	0.8

The BayernLB Group's total assets rose slightly, by 0.8 percent, to EUR 257.7 billion as at 31 March 2014.

Banking supervisory capital and ratios

As from 1 January 2014, banking supervisory capital and ratios are to be calculated in accordance with the Capital Requirements Regulation (CRR) / Capital Requirements Directive IV (CRD IV). One consequence for the BayernLB Group has been a shift from the aggregation-based German GAAP rules (HGB) to calculating capital based on the IFRS consolidated financial statements. On the whole, the application of CRR/CRD IV leads to lower capital ratios as a result of a decrease in eligible capital combined with an increase in risk positions. Direct comparisons between the figures as at 31 December 2013 and 31 March 2014 are not possible.

Due to the extensive changes required by the introduction of CRR/CRD IV, the banking supervisory authorities have delayed the requirement for reporting information as of 31 March 2014 to 30 June 2014. The following figures are therefore preliminary. Hard core capital (Common Equity Tier 1 – CET 1) amounted to EUR 13.1 billion as of 31 March 2014. Given risk positions of EUR 95.3 billion, the CET 1 ratio was a solid 13.7 percent. Total capital as at 31 March 2014 amounted to EUR 15.6 billion and the own funds ratio was 16.4 percent.

Outlook

For the full year, the BayernLB Group expects profit before taxes in its core business areas to be positive. Overall, the statements in the outlook section of the 2013 Annual Report remain valid.

Segment reporting as at 31 March 2014

EUR million	Corporates, Mittelstand & Financial Institutions	Real Estate & Savings Banks/Association	DKB	Markets	Central Areas & Others	Non-Core Unit	Consolidation	Group
Net interest income	89	68	147	14	64	78	-38	423
Risk provisions in the credit business	-12	44	-28	0	-3	29	0	29
Net commission income	34	21	-6	-1	-1	25	-1	72
Gains or losses on fair value measurement	12	10	4	27	-5	26	-7	67
Gains or losses on hedge accounting	0	0	1	-5	0	1	0	-2
Gains or losses on financial investments	0	0	2	-1	7	-18	-14	-24
Income from interests in companies measured at equity	0	0	0	0	0	-1	0	-1
Administrative expenses	-71	-53	-78	-42	-3	-74	0	-321
Expenses for bank levies	0	0	-2	0	0	-44	0	-47
Other income and expenses	0	7	2	-5	9	-6	0	8
Gains or losses on restructuring	0	0	0	0	-1	-2	0	-3
Profit before taxes	52	98	43	-14	66	14	-59	200
Return on equity (RoE) (%)	9.0	50.2	5.7	-6.5	-	2.2	-	5.3
Cost-income ratio (CIR) (%)	52.4	49.6	51.4	> 100.0	-	69.9	-	59.3

Segment reporting as at 31 March 2013

EUR million	Corporates, Mittelstand & Financial Institutions	Real Estate & Savings Banks/Association	DKB	Markets	Central Areas & Others	Non-Core Unit	Consolidation	Group
Net interest income	91	59	152	45	84	96	-66	461
Risk provisions in the credit business	8	-4	-29	-1	-2	-30	0	-58
Net commission income	33	19	-3	-1	-2	25	0	71
Gains or losses on fair value measurement	19	14	1	34	-2	31	-3	94
Gains or losses on hedge accounting	0	0	-16	1	1	1	0	-13
Gains or losses on financial investments	5	0	12	3	0	-45	0	-25
Income from interests in companies measured at equity	0	0	0	0	0	0	1	0
Administrative expenses	-73	-52	-75	-42	-5	-91	1	-337
Expenses for bank levies	0	0	-3	0	-3	-46	0	-52
Other income and expenses	0	5	2	-19	-2	26	9	20
Gains or losses on restructuring	0	0	0	0	0	-5	0	-5
Profit before taxes	83	40	42	20	69	-40	-59	156
Return on equity (RoE) (%)	15.7	19.4	5.6	6.1	-	-5.6	-	4.2
Cost-income ratio (CIR) (%)	49.4	53.6	50.5	66.8	-	69.0	-	55.5

BayernLB's Supervisory Board and Board of Management

Supervisory Board

Michael Schneider

Chairman
Former Chairman of the
Management Board of LfA
Germering

Walter Strohmaier

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

Dr Hubert Faltermeier

since 9 May 2014
Chief District Administrator
Kehlheim

Ralf Haase

Chairman of the General Staff Council
BayernLB
Munich

Dr Ulrich Klein

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

Jakob Kreidl

until 3 March 2014
Former Chief District Administrator
Miesbach

Wolfgang Lazik

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

Dr Klaus von Lindeiner-Wildau

Member of the Executive Board (retired)
Wacker Chemie GmbH
Independent Consultant
Munich

Professor Dr Christian Rödl

Managing Partner
Rödl & Partner GbR
Nuremberg

Professor Dr Bernd Rudolph

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

Dr Hans Schleicher

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

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

Dr Johannes-Jörg Riegler

CEO
since 1 March 2014
Member of the Board of Management
Corporate Center
Markets
Deutsche Kreditbank AG

Dr Edgar Zoller

Deputy CEO
Real Estate & Savings Banks/Association
Human Resources
Bayerische Landesbodenkreditanstalt¹

Marcus Kramer

CRO
Risk Office
Restructuring Unit
Group Compliance
MKB Bank Zrt.
Banque LBLux S.A.

Michael Bücker

Corporates, Mittelstand &
Financial Institutions

Dr Markus Wiegelmann

CFO/COO
Financial Office
Operating Office

Gerd Haeusler

CEO
until 31 March 2014

Stephan Winkelmeier

Member of the Board of Management
until 31 March 2014

¹ Dependent institution of the Bank

Segment definitions

Corporates, Mittelstand & Financial Institutions

The Corporates, Mittelstand & Financial Institutions segment serves large German companies and international companies with a connection to Germany and also German Mittelstand customers primarily in the states of Bavaria and North Rhine-Westphalia. These include in particular DAX and MDAX-listed companies, and family-owned businesses which conduct international business from their German home market. In addition, the Corporates, Mittelstand & Financial Institutions segment conducts the syndicated business on behalf of the Bavarian savings banks and their customers. The segment also includes BayernLB's business relationships with banks, insurance companies and other institutional customers. Not included however is business with non-profit foundations and similar activities.

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. The legally dependent institution Bayerische Landesbodenkreditanstalt (BayernLabo) and the subsidiary Real I.S. AG Gesellschaft für Immobilien Assetmanagement, Munich are also assigned to this segment.

Deutsche Kreditbank (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 internet bank, it also operates in the promising infrastructure and corporate customers areas. Within these markets it specialises in sectors with sustainable growth potential. Other target markets it focuses on include residential construction and agriculture.

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 segment's earnings. The Markets business area combines all trading and issuing activities as well as asset and liability management. The Markets segment also provides a range of capital market and treasury products that are cross-sold to BayernLB's Corporates, Mittelstand, Savings Banks and Real Estate customers. Market and default risks are hedged and solvency assured at all times through risk and liquidity management.

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 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 sub-segment and the subsidiaries MKB and LBLux.

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