BayernLB
2014
Annual Report and Accounts

Consolidated financial statements
Facts. Figures.

Corporate profile

BayernLB is one of **Germany's leading commercial banks**, located in one of Europe's strongest economic regions. Our clients include large corporates and financial institutions, Mittelstand companies and almost every savings bank in Germany. As a principal bank to our customers and the central bank to the Bavarian savings banks, we recognise our responsibility to the economy and to society at large.

We know our customers in the **large corporates and Mittelstand** market segment better than other banks thanks to our deep roots and business relationships which have been built up over decades. We are a lender they can rely on and turn to for expert advice in Bavaria, Germany and around the world.

We are bound to the **savings banks** by particularly close ties. For us, they are not only customers but also partners. Together we create tailor-made financial solutions for retail, corporate and municipal customers by perfectly complementing their range of products and services.

One of BayernLB's traditional core competences is **real estate**. Our services range from financing project developers and long-term investors right through to services such as advising customers on buying or selling real estate. We help draw up investment strategies and manage property on behalf of our customers.

At **BayernLabo** we work with the Free State of Bavaria to help mostly young families realise their dream of owing their own home. We help residential construction companies to build, renovate or modernise rental homes in Bavaria. For the public sector we provide a wide range of customised financing and investment solutions to state governments, local authorities and public institutions.

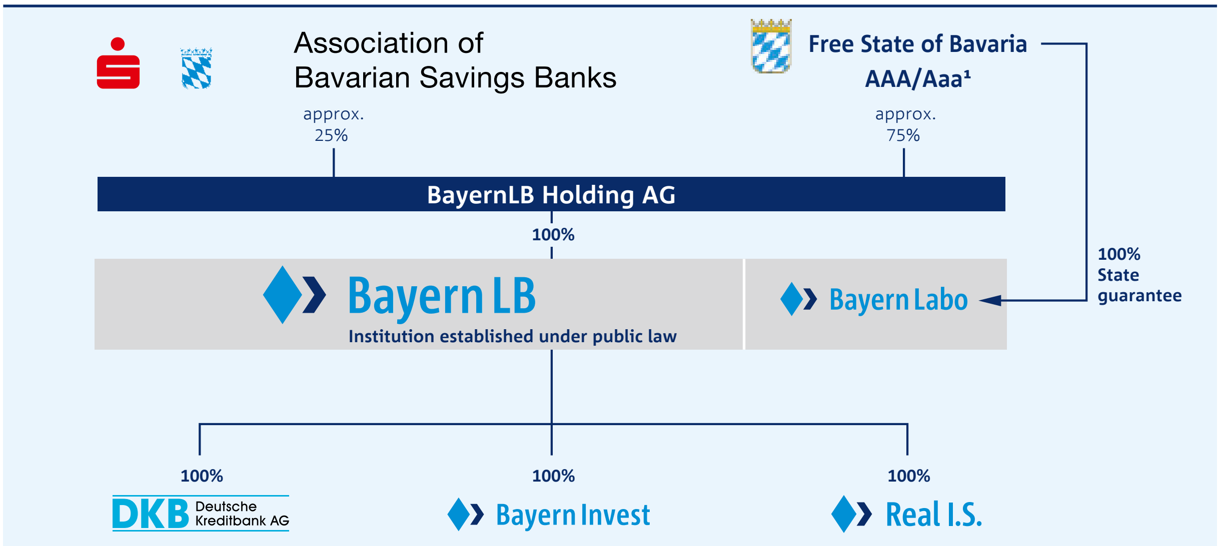
Our **financial market experts** advise our customers on how to cushion themselves against moves in commodity prices, interest rates and exchange rates on the markets. As a result, we help optimise their earnings and cash flow structures. As an issuer with a proven track record we arrange and place bonds and Schuldschein note loans for our customers and supply them with investment advice and products. We offer high quality asset management through our subsidiaries **BayernInvest** and **Real I.S**.

Our 100%-owned subsidiary **DKB**, which serves over three million customers, is one of the most successful online banks in Germany. Through DKB, we offer our retail and business customers ultra-modern, intuitive online banking, including savings products and investment products for long-term asset growth, real-estate financing and consumer loans. DKB is also very successful in business loans in the areas of renewable energy, housing, healthcare and agriculture.

BAYERNLB IN FIGURES _ ▸ **6,800** staff ▸ The history of our Bank dates back to **1884** ▸ Our average business relationship with large corporate customers has lasted **17 years** ▸ **28** of the **30** DAX-listed companies are our customers ▸ Through BayernLabo we have provided subsidised loans to finance **875,000** flats and other types of accommodation since 1980 ▸ DKB has more than **3 million** retail customers ▸ Over **400** savings banks are both customers and sales partners of BayernLB

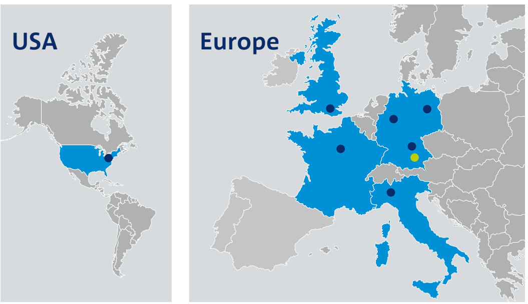
(as at 31/12/2014)

Owners



¹ *Standard & Poor's, Moody's*

Locations



- **Germany**
  Munich head office, Nuremberg, Düsseldorf, DKB Berlin
- **Europe**
  London, Milan and Paris branches, representative office in Moscow
- **America**
  New York branch

Business areas

Core business

Corporates & Mittelstand
- Corporates
- Mittelstand
- Structured & trade finance

Real Estate & Savings Banks/Association
- Commercial real estate customers
- Savings Banks & Association
- Public sector
- BayernLabo
  Development bank

DKB
- Retail customers
- Corporates
- Infrastructure

Financial Markets
- Capital market products
- Treasury products
- Group Treasury
- Financial institutions & institutional customers
- Real I.S & BayernInvest
  Asset management

Non-core business (Non-Core Unit)

Restructuring Unit
- Portfolios that no longer belong to the core business

Other
- Non-core activities

BayernLB Group at a glance

Income statement (IFRS)

EUR million	1 Jan-31 Dec 2014	1 Jan-31 Dec 2013	Change in %
Net interest income	1,671	1,679	−0.5
Risk provisions in the credit business	−1,498	−320	>100
Net interest income after risk provisions	**173**	**1,359**	**−87.3**
Net commission income	249	211	17.8
Gains or losses on fair value measurement	−25	227	–
Gains or losses on hedge accounting	−70	−27	>100
Gains or losses on financial investments	419	125	>100
Income from interests in companies measured at equity	0	41	−100
Administrative expenses	−1,171	−1,323	−11.5
Expenses for bank levies	−4	−5	−21.4
Other income and expenses	114	196	−42.0
Gains or losses on restructuring	−33	−164	−80.2
Profit/loss before taxes	**−348**	**639**	**–**
Cost/income ratio (CIR)	49.7%	54.0%	−4.3 pp[1]
Return on equity (RoE)	−2.6%	4.3%	−6.9 pp[1]

Balance sheet (IFRS)

EUR million	31 Dec 2014	31 Dec 2013	Change in %
Total assets	232,124	255,483	−9.1
Business volume	272,834	298,407	−8.6
Credit volume	182,584	193,580	−5.7
Total deposits	145,773	157,374	−7.4
Securitised liabilities	44,285	52,964	−16.4
Subordinated capital	4,722	4,984	−5.3
Equity	11,789	14,886	−20.8

Banking supervisory capital and ratios under CRR/CRD IV (after close of year)[2]

EUR billion	31 Dec 2014	31 Dec 2013
Total RWA	76.6	87.6
Own funds	11.7	17.2
Tier 1 capital	9.9	13.9
Common Equity Tier 1 capital (CET 1 capital)	9.8	–
Total capital ratio	15.3%	19.6%
Tier 1 capital ratio	12.9%	15.9%
Common Equity Tier 1 capital ratio (CET 1 ratio)	12.8%	–

Employees

	31 Dec 2014	31 Dec 2013	Change in %
Number of employees	6,842	8,568	−20.1%

Current ratings

	Long-term	Short-term	Pfandbriefs[3]
Fitch Ratings	A+	F1+	AAA
Moody's Investors Service	A3	Prime-2	Aaa

1 Percentage points
2 2014: based on CRR/CRD IV and IFRS; 2013: based on the German Banking Act (KWG)/German Solvency Ordinance (SolvV) and HGB. Due to the different legal bases and accounting policies used in the two years, a change column is not shown.
3 Applies to public Pfandbriefs and mortgage Pfandbriefs.

Contents

Foreword

Ladies and gentlemen,
dear customers and business partners,

FY 2014 will go down in BayernLB's history as the year we put the legacy problems from the financial market crisis behind us. We disposed of our Hungarian subsidiary MKB and sold the remainder of the ABS portfolio. Moreover, in light of the Republic of Austria's "Hypo special law", which is unconstitutional in our view, we took a large writedown on our receivables from Heta Asset Resolution, formerly Hypo Alpe Adria, as a precautionary step. These large-scale changes in our balance sheet led to charges amounting to approximately EUR 1.8 billion.

On the other hand, we posted a very solid operating profit of EUR 669 million in our core business last year, which represents an increase of EUR 195 million on the previous year. As for the bottom line, the BayernLB Group reported a net loss of EUR 1,320 million after taxes in 2014.

BayernLB has the financial strength to bear this strain. Our core business – covering large corporates and the Mittelstand, real estate customers, savings banks and our subsidiary DKB's 3 million-plus retail customers – put in a very solid performance in spite of tough competition in the German market and persistently low interest rates. Net interest income remained stable at EUR 1,671 million (FY 2013: EUR 1,679 million), while net commission income rose 18 percent to EUR 249 million (FY 2013: EUR 211 million).

Not only did the operating business with customers perform well, we also made significant progress in cutting the cost base. Administrative expenses fell by 11.5 percent year-on-year to EUR 1,171 million. Although expenses for legal advice and complying with regulatory requirements rose in the lead up to the transfer of banking supervision to the ECB, our cost-cutting programme started at the end of 2013 began to make an impact. Under the programme, we were able to largely implement or contractually agree a reduction in headcount by mutual consent of about 440 full-time equivalent positions in 2014.

BayernLB's already good risk profile was significantly boosted by the sale of MKB and the remainder of the ABS portfolio in the past year. The state guarantee covering the ABS portfolio ("Umbrella"), originally issued at the end of 2008, was ended. And, in connection with this, we transferred the full "clawback" payment of about EUR 1.1 billion (including guarantee premium) to the Free State of Bavaria ahead of schedule and made an additional payment of more than EUR 700 million in December 2014. As a result, in 2014 alone, BayernLB repaid about EUR 1.8 billion of the total amount of around EUR 3.1 billion it has paid back to the Free State of Bavaria. Approximately EUR 2.7 billion of this counts against the state aid repayment requirement under the European Commission's ruling.

Risk provisions rose from EUR 320 million in 2013 to EUR 1,498 million in 2014, largely due to the writedown of our receivables from Heta Asset Resolution. This had an impact on our non-performing loan ratio. BayernLB achieved a good figure here of 2.5 percent, which, excluding Heta, would have been even lower, at 1.6 percent. The risk provisions are, however, reasonable and appropriate given the decision by the Austrian Financial Market Authority (FMA) on 1 March 2015 to resolve Heta and impose a debt moratorium. We will continue to seek full repayment of the loans due in the amount of approximately EUR 2.4 billion using all legal means.

Despite the extraordinary charges and the large repayments to the Free State of Bavaria, the BayernLB Group had a solid Common Equity Tier 1 capital (CET 1) ratio of 12.8 percent. Total assets on 31 December 2014 amounted to approximately EUR 232 billion, around EUR 23 billion lower than the end of the previous year.

With our last legacy problems now resolved, we can once again devote our full attention and resources to what we are here for and best at: being a reliable lender, trustworthy advisor and expert product provider to our customers. And by doing so, make our own contribution to prosperity and growth in Bavaria and the rest of Germany. If we are to succeed in this, we must continually improve our performance and efficiency and adapt our structures to our new customer-business focused business model. That will be our main task for 2015.

We will also open new sales offices in Hamburg, Berlin, Frankfurt and Stuttgart to be closer to our German Mittelstand and real estate customers. We aim to achieve fresh impetus for growth by expanding the customer-driven capital market business and working in partnership with the savings banks. And, in January of this year, we signed a partnership agreement with Berenberg bank.

Last year we made clear progress along our path to becoming a sustainable, profitable, strong “Bavarian bank for the German economy”. We will again work hard in 2015 to successfully tackle the tasks and challenges ahead of us. On behalf of my Board of Management colleagues and all the staff at BayernLB, I would like to thank you, our customers and business partners, for the trust you have placed in us. We look forward to working with you in the future.

Sincerely,

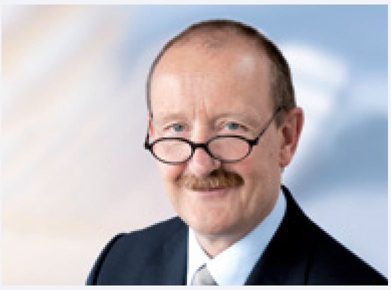
Dr Johannes-Jörg Riegler
BayernLB CEO

The Board of Management

Allocation of tasks as at 16 April 2015

Dr Johannes-Jörg Riegler
Member of the Board of Management
since 1 March 2014
CEO
since 1 April 2014

Corporate Center
Deutsche Kreditbank AG



Dr Edgar Zoller
Deputy CEO

Real Estate & Savings Banks/Association
Bayerische Landesbodenkreditanstalt

Marcus Kramer
Member of the Board of Management
CRO

Risk Office
Restructuring Unit
Group Compliance
Banque LBLux S.A.

Michael Bücker
Member of the Board of Management

Corporates & Mittelstand

Dr Markus Wiegelmann
Member of the Board of Management
CFO/COO

Financial Office
Operating Office

Ralf Woitschig
Member of the Board of Management
since 1 October 2014

Financial Markets
BayernInvest Kapitalverwaltungsgesellschaft mbH
Real I.S. AG Gesellschaft für Immobilien Assetmanagement

Gerd Haeusler
CEO
until 31 March 2014

Stephan Winkelmeier
Member of the Board of Management
until 31 March 2014

Report by the Supervisory Board

Ladies and gentlemen,

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

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

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

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

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

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

Supervisory Board meetings – key points in the discussions

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

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

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

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

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

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

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

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

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

Supervisory Board committees – an overview

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

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

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

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

Dr Klaus von Lindeiner-Wildau was chairman of the Audit Committee up to and including 30 September 2014 (two meetings). Prof. Dr Christian Rödl took over from him on 2 October 2014 (one meeting). The Audit Committee mainly dealt with the monitoring of the accounting process and the effectiveness of the internal control system, the internal auditing system and the system used for risk management. It also discussed in detail the monitoring of the audit of the annual financial statements and of the consolidated financial statements and the review and monitoring of the independence of the auditors, particularly the additional services performed by the auditors for the Bank. In 2014 Internal Audit and Group Compliance reported to the Audit Committee on their work and audit findings. The Committee deliberated on the money laundering and financial crime threat analysis and conferred with the auditors Deloitte on what the audit of the 2014 annual financial statements should focus on.

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

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

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

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

Training in banking issues

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

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

Corporate governance

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

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

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

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

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

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

Audit and approval of the 2014 annual accounts

Deloitte & Touche GmbH Wirtschaftsprüfungsgesellschaft conducted the audit of the annual financial statements and consolidated financial statements of the Bank, the management report and the Group management report and the annual financial statements and management report of BayernLabo, a legally dependent institution of the Bank. Deloitte issued an unqualified opinion. The Supervisory Board and BayernLB's BayernLabo Committee each verified the independence of the auditors of the financial statements in advance.

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

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

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

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

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

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

The Supervisory Board would like to thank all of BayernLB's customers and business partners for their loyalty over this past financial year. It also thanks the members of the Board of Management and all of BayernLB's staff for their huge personal contribution this year past and for their commitment under conditions that remain tough. Over the course of the year all of us working together succeeded in laying to rest the Bank's legacy problems and putting the Bank back on a healthy footing. As proof of this, the Bank continued to reliably implement the conditions of the EU state aid ruling in 2014, including high payments out of core tier 1 capital, just as it has done in previous years.

Munich, 16 April 2015

On behalf of the Supervisory Board

Gerd Haeusler
Chairman

Selected business highlights

Selected business highlights

Expertise and enthusiasm

Bavarian and German companies are among the best in the world. They work hard every day to maintain and expand their market leadership and BayernLB is the banking partner that understands their entire value chain. We would like to show you just a few of the deals closed in 2014 – illustrating a partnership driven by expertise and enthusiasm. On both sides.

2014

United Internet AG, Montabaur

Underwriter, Coordinator, Bookrunner, Agent, Mandated Lead Arranger
Syndicated loan
EUR 1,600 million

Kommunale Beteiligungsgesellschaft (KSBG), Essen

Underwriter, Bookrunner, Mandated Lead Arranger
Syndicated loan
EUR 575 million

DIEFFENBACHER GMBH Manufacturing and engineering, Eppingen

Bookrunner, Mandated Lead Arranger, Agent
L/C Syndicated loan
EUR 60 million

S-Plafond investments:

Spk Miltenberg-Obernburg
EUR 3 million
Sector: Automotive supplier

Spk Rosenheim-Bad Aibling
EUR 4.5 million
Sector: Mechanical engineering

Pandion Klostergärten GmbH & Co. KG, Cologne

Housing and commercial development activities, syndicate with Sparkasse KölnBonn
EUR 71.7 million

Deutsche Bahn Finance B.V.

Corporate bond
FRN September 2022
Joint Lead Manager
EUR 300 million

Landeshauptstadt Saarbrücken

Schuldschein note loan
Joint Lead Manager
EUR 100 million

MHM Holding GmbH, Munich

Bookrunner, Mandated Lead Arranger
Syndicated loan
EUR 250 million

Investitionsbank Schleswig-Holstein

Senior unsecured bond
FRN November 2019
Joint Lead Manager
EUR 500 million

S-Kreditbasket XI

Arranger & Administrator of the annual nation-wide loans basket transaction for savings banks
EUR 395.4 million

Christ Juweliere und Uhrmacher seit 1863 GmbH

Mandated Lead Arranger
Leveraged buyout financing for 3i Group plc

LEG Immobilien AG

Purchase price financing of a residential portfolio in NRW
EUR 69.18 million

GLL Real Estate Partners

200 East 66th Street
Manhattan House
Sole Lender
USD 56 million

Compagnie de Financement Foncier

Covered bond
0.625% November 2021
Joint Lead Manager
EUR 1.5 billion

WBG KOMMUNAL GmbH Nuremberg

Syndicated financing with Sparkasse Nürnberg, PPP project "Integrated full-day education at the Nürnberg-St. Leonhard full-day primary school"
EUR 26 million

OTEC GmbH & Co. KG

Finance structuring and sole underwriting by BayernLB. Subsequent investment by UniCredit Bank AG and Stadtsparkasse München
Werksviertel München (Werk 3)
EUR 81.3 million

Sofidy

Acquisition financing for an office building in Hamburg with a 10-year term for the French retail fund "Immorente SCPI" managed by Sofidy
EUR 28 million

B. Braun Melsungen AG

Schuldschein note loan
Joint Lead Manager
EUR 400 million

DVB Bank

Senior Unsecured Bond
0.875% November 2019
Joint Lead Manager
EUR 500 million

Eti Bakir A.S. – Outotec GmbH

ECA-backed master agreement for an export finance facility for a copper smelter & fertiliser factory
Agent & Lender
(Turkey)
EUR 200 million

Taking responsibility

Taking responsibility

I. Human resources

Safeguarding the future

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

Changes in headcount

As at 31 December 2014, a total of 6,842 staff were employed by the Group. Headcount had therefore fallen by 1,726 within the BayernLB Group, and by 135 to 3,283 at BayernLB itself.

Restructuring as part of the cost-cutting programme

The Bank-wide cost-cutting programme aims to significantly reduce administrative costs by 2017. Achieving the targets set is an integral part of overall planning and contributes significantly to meeting the repayment plan to the Free State of Bavaria. The programme includes a reduction in headcount of around 440 full-time equivalents (FTE) by the end of 2016.

Cuts of approximately 300 FTE had been contractually agreed by the end of 2014. This has led to a decrease of roughly 150 full-time equivalent positions so far in 2014. Most of the roughly 150 remaining contractually agreed FTE reductions will become effective in 2015. The cuts were achieved by the brisk use of part-time employment schemes (involving around 230 employees and accounting for approximately 41 full-time equivalents), a freeze on filling vacant positions and termination of staff by mutual agreement. These measures are resulting in a noticeable decrease in staff costs.

As a part of the cost-cutting programme, the credit process was also reorganised and a number of procedural steps streamlined. Subsequently, BayernLB's organisation structure was extensively downsized starting in the second half of 2014. In the wake of the workforce reductions and BayernLB's new strategy, personnel changes occurred in around 60 of approximately 300 management positions in 2014.

Further education and skills-upgrading programmes

As a result of BayernLB's KSP cost-cutting programme, the budget for training and further education also had to be trimmed back. This called for training and further education programmes to be even more tightly prioritised and focused on the key areas BayernLB has identified for development and skills-upgrading. The changing labour market, the permanent decrease in the shelf-life of knowledge and technological and organisational changes mean that employees are required to undergo a life-long learning process. Accordingly, BayernLB remains strongly committed to investing in providing its employees with targeted training and further education. A total of EUR 2.2 million was invested in employees in 2014 in the form of targeted further education and skills-upgrading programmes. The head office in Munich registered 4,494 bookings for employees to attend 849 internal and external events in 2014, amounting to 5,084 seminar days. The programmes focused on upgrading the skills of specialist, sales and management staff. Special attention was paid to training employees in the new credit process, increasing sales training and supporting managers with the change processes.

“My trainee period is tailored in line with my individual preferences. This ensures I gain an extensive and productive insight into various divisions of the Bank.”

Stephanie Wießner,
trainee

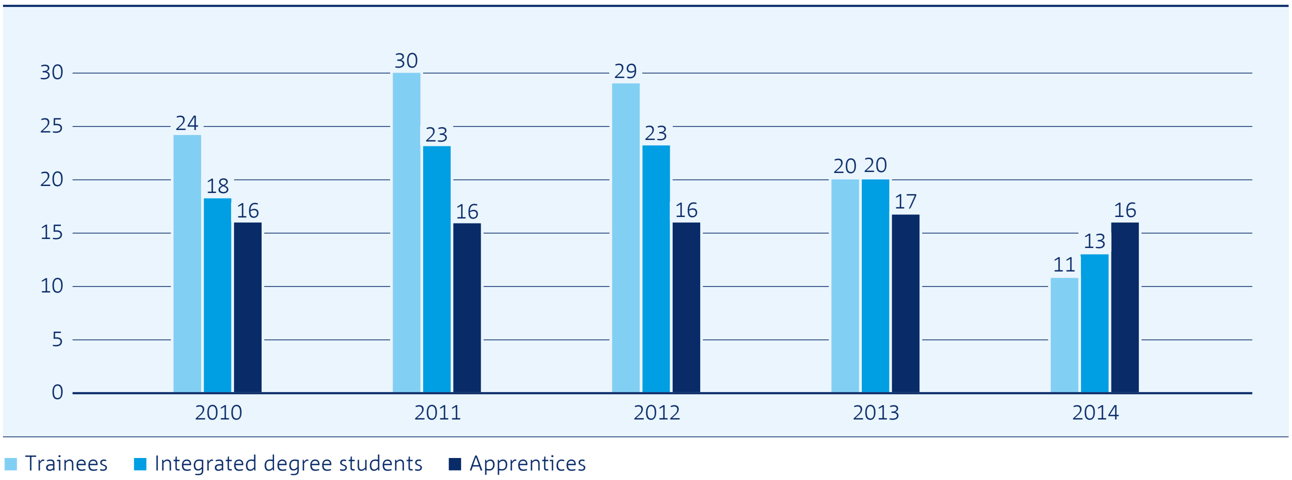
Junior staff development –
The personal touch makes a difference

In light of the high demand for qualified staff and demographic change, it is becoming increasingly difficult for German businesses to find suitable applicants to fill the open positions on their training programmes. BayernLB is also feeling the effect of this trend. Accordingly, BayernLB has focused its efforts to attract junior staff on targeted personal contact, such as via schools and universities and via internships and mentoring. Flexibility in structuring the training and the quality of support play a key role here.

In this way, around 100 school leavers and university graduates had the opportunity to become better acquainted with BayernLB in 2014 by means of an internship. While an internship provides interested candidates with an impression of the job and its requirements under realistic conditions, it also gives BayernLB the opportunity to present the benefits it offers as an employer and sell itself to the potential junior staff.

In 2014, a total of 39 junior staff were hired. The reduction on previous years is a compromise between adapting to the lower number of vacant positions and ensuring a balanced age structure. BayernLB remains an attractive employer even once their apprenticeship is over. More than 80 percent of junior staff who completed their qualification programme in 2014 wanted to continue working at BayernLB. All the junior staff who wished to stay were offered a position. A total of 43 junior staff were taken on as employees.

As at 31 December 2014, BayernLB (Germany only) employed 1,418 women and 1,629 men



“This programme enables me to combine a university degree with on-the-job training. The broad insights into BayernLB and the excellent study conditions in Ravensburg open up unique opportunities.”

Mona Huybrecht,
integrated degree student

“A wide variety of tasks and real teamwork, that is what BayernLB means to me. I can actively shape my apprenticeship and experienced training officers are on hand to help.”

Nils Hustede,
apprentice

Change management at BayernLB – “The only thing that is constant is change”

In the face of market changes, new regulatory requirements and extensive restructuring measures, BayernLB is called upon more than ever to adjust its direction. It has to adapt to change, actively shape and successfully overcome it. Based on key success factors for change, BayernLB has developed a highly practical tool, in the form of its proprietary Change Guide, to

- Give managers and other people responsible for change plans a practice-based roadmap
- Create a unified understanding of the major driving forces and risk factors of change among those responsible
- Support BayernLB in implementing change processes even more efficiently, in a more targeted manner and with fewer friction losses, as the basis for current and future activities
- Improve the change skills of the company and the employees

Job rotation encourages employees to think and act as a Group

Job rotation is an integral part of the personnel development strategy. Temporarily switching workplaces and tasks in a scheduled and systematic manner is used throughout the Group as a targeted development measure. Cooperation with DKB AG was consciously intensified in 2014.

With targeted job rotation, BayernLB firstly upgrades the expertise and qualifications of its employees and secondly, it encourages employees to think and act as a Group and develop mutual understanding. It strengthens career and succession planning in the Group and helps reduce division-centric thinking. Implementation at all levels (specialist/management and junior staff) gives employees the opportunity to develop on an ongoing basis and increases flexibility and performance in the Group. In 2014, 14 job rotations were facilitated as part of targeted personal development.

"Holding a management position while working part time to raise a family – I can implement this working model effectively at BayernLB."

Ines Winklharrer,
head of Markets Products & Clients,
share of working hours 70 percent

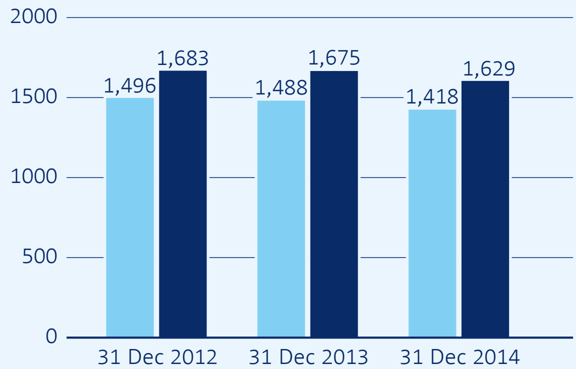
Equal opportunities for men and women is an issue that affects all of us

In the past few years, society has recognised the need to ensure equal opportunities for men and women not just because women's rights organisations and politicians demand it; the realisation is increasingly dawning that these measures also benefit society as a whole and companies in particular.

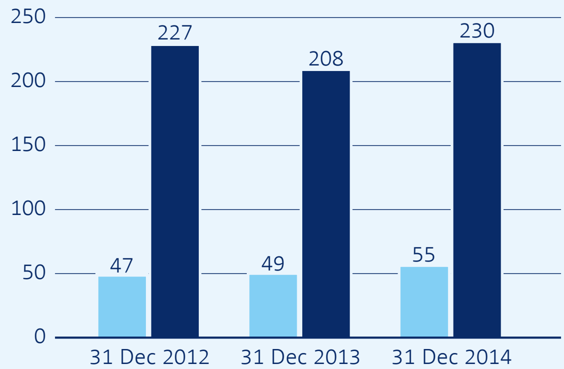
BayernLB has set itself a medium-term goal of increasing the proportion of women in all levels of management. It is not enough to appeal to women to apply for vacant management positions. One potential key to increasing the proportion of women is finding the right mixture of recruitment policy, networking and internal and external qualification and development measures, in addition to activities promoting a healthy balance between career and family. BayernLB supports the latter by providing extensive help to those caring for children or disabled or elderly family members, offering part-time working models and giving the option of mobile workplaces. In addition, BayernLB remains committed to the Munich Cross-Mentoring Programme, which it has been involved in since 2001.

As at 31 December 2014, BayernLB (Germany only) employed 1,418 women and 1,629 men

Employment structure by gender



Number of women in management



■ Female
■ Male

Occupational retirement benefits – out-of-court settlement offer to the so-called consenters

The change in occupational retirement benefits which took effect as at 1 January 2010 resulted in a law suit being filed with the Munich Labour Court by a group of employees seeking to legally overturn their previously granted consent to changing the occupational retirement benefits.

BayernLB is firmly convinced that a legal challenge to the consent granted for the change in the system will not succeed. Nevertheless, the Board of Management decided at the end of 2013 to offer a settlement to all those who had previously given their consent to the change to the new system, in return for waiving or not filing individual lawsuits. The primary goal of the offer was to re-establish harmony within the company on this important issue.

In 2014, a so-called gentlemen's agreement was reached between BayernLB and the General Staff Council regarding an offer to those who had previously consented. In consideration for confirming the validity of the implemented changes and waiving or withdrawing any lawsuits, the contractual offers to the consenters based on this agreement include a direct contractual claim to the following benefits: commitments in the event of layoffs and individual compensation.

A response rate of 75 percent was required for the individual settlement offers to become effective, a figure which was happily reached. This was an important step to allow BayernLB to concentrate on its business and on achieving its economic goals.

Implementation of the new remuneration scheme

In 2014, BayernLB implemented most of the new requirements of the amended German Remuneration Ordinance for Institutions, which took effect as at 1 January 2014. The main changes involved refining the Group-wide remuneration strategy based on the Business and Risk Strategies, identifying BayernLB's risk takers in accordance with a new, uniform, EU-wide standard (which caused the number of risk takers to triple), appointing a remuneration officer as an internal authority for remuneration issues and the regular involvement of the Compensation Control Committee in issues related to the remuneration system. Simultaneously, negotiations were launched with the General Staff Council to refine the remuneration system.

Sternstunden Day 2014 – Sternstunden headquarters at the Munich broadcasting centre

II. Community work

BayernLB places great importance on reliability, which is also reflected in its attitude to corporate responsibility. BayernLB has supported the charitable organisation Sternstunden e.V. since it was founded in 1993. Sternstunden has helped disadvantaged children and young people from that day on. BayernLB has also been a loyal and reliable partner at Sternstunden's side since that time. With its financial commitment and non-cash gifts, BayernLB provides an important foundation for the organisation's work and helps ensure that every euro donated is used in full for projects to aid children – not only in Bavaria and Germany, but also throughout the world. In addition to a donation of EUR 50,000, which is traditionally handed over at the annual Sternstunden gala, BayernLB supports the charity by providing an administrative cost subsidy, making office space and equipment available, printing and sending off donation forms and the Sternstunden annual report and processing payments.

The connection between Sternstunden and BayernLB is brought to life by the dedication of Bank employees. The Bank's employees work hard for Sternstunden all year round. With the slogan of "Laufend Gutes tun", which loosely translates as a "run for the money", the athletes in the BayernLB sports club collected donations for Sternstunden again at the annual B2Run company run. 113 of the Bank's employees manned the donation phone lines during Bayerische Rundfunk's Sternstunden Day. At the Sternstunden stand at the Nuremberg Christmas Market, BayernLB employees helped raise over EUR 117,000 for children in need. Donations were also raised by tombolas and the sale of items from the Bank's advertising and picture collection. And donations for Sternstunden still keep pouring in via the "Sterntaler" donation boxes – initially installed by BayernLB to collect donations of old German Deutschmarks and other foreign currencies. Since it started, the campaign has brought in a staggering EUR 2 million plus for Sternstunden.

Anyone witnessing this enthusiasm for raising money is left in no doubt that BayernLB and its employees will continue to give their time to Sternstunden and therefore children in need.

Embracing responsibility –
Combating youth unemployment together

BayernLB's Corporate Volunteering scheme entered its fourth year in 2014. Many employees took the opportunity to volunteer for a social cause for up to two working days. For example, they acted as mentors in the JOBLINGE AG charity. Launched in 2007 by The Boston Consulting Group (BCG) and the Eberhard von Kuenheim Stiftung of BMW AG, this initiative throws young people a lifeline to the working world. In a programme lasting around six months, they receive important qualifications on-the-job, train their social skills and work towards an apprenticeship or employment. They are supported by social education specialists and their personal mentor, a trained volunteer with a wealth of life and work experience. The goal is to arrange a regular apprenticeship or job for every Jobling.

"I see my role as a listener, adviser, motivator and critic. I give the Jobling direction and support him in finding his career path. It is a very fulfilling and inspiring experience for me."

"The Jobling scheme is a great opportunity for me. It means a lot to me that an experienced and dedicated mentor like Dr Prem is at my side, and I'm sure it will help me find my way into the world of work."

Dr Walter Prem,
head of Corporate Volunteering at BayernLB and Joblinge mentor

Said Mirzad (22),
Jobling

As a corporate partner, BayernLB has financed three scholarships every year since 2012 and in this manner it enables young people the prospect of a successful future. BayernLB employees also provide active assistance; since 2009 they have volunteered to act as mentors for young people in the JOBLINGE scheme.

BayernLabo also supports the social project of the "Schüler helfen Leben e.V" (children helping the lives of others) Association and in 2014 it 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.

Employees at **BayernInvest Kapitalverwaltungsgesellschaft mbH, Munich (BayernInvest)** also have the opportunity to do charitable work as part of the Corporate Volunteering scheme. Furthermore, BayernInvest conducted a cooperation project with the Otto-Steiner school in the Hasenbergl district of Munich in 2014. The Otto-Steiner school is part of the Augustinum Group and is a support centre focusing on mental development. BayernInvest employees carried out handyman tasks in the school and renovated one of the schools corridors. There are firm plans to continue these volunteer days. In December 2014, employees were given time off to help with the Bayerische Rundfunk's Sternstunden Day, where they accepted donations by telephone in Munich's broadcasting centre.

DKB pools major parts of its corporate responsibility activities in the DKB foundation. It was founded in 2004 and celebrated its tenth anniversary in 2014. The DKB foundation independently initiates and supports projects in the areas of training and education, protection of the environment, nature and the landscape, aid for children, young people and the elderly, preservation of historical monuments and art and culture.

Paula Pinn was the first recipient of a scholarship from the DKB foundation. The young woman, now 16 years old, was discovered in 2013 by the recorder player and Echo winner Dorothee Oberlinger. A lot has happened for Paula Pinn since then: the Berlin schoolgirl has given her own concerts and taken part in prestigious events. However, the scholarship also supports the young musician's musical development by enabling her to attend festivals and master classes.

In 2009, the foundation set up its own integration company, which operates regularly on the mainstream labour market and is one of the largest organisations with this focus in the state of Brandenburg. More than 160 people with and without disabilities now work hand in hand at the foundation's sites in Liebenberg and Gnewikow. The foundation also provides young people, some of them socially disadvantaged, with a leg-up into the labour market in the form of apprenticeships, for example as a chef, hotel administrator, painter and decorator and office or event manager.

The foundation also funded the three-week futOUR summer camp for the sixth time. This gave youngsters from comprehensive, special needs and secondary schools in Berlin the opportunity to consider what they might want to do as a future career. This career orientation scheme by the German child and youth foundation (Deutsche Kinder- und Jugendstiftung) helps young people discover where their strengths lie in short internships, creative projects and career-based workshops. Since 2006, 1,000 boys and girls have prepared for their future at the futOUR camps.

DKB supports its employees in their individual endeavours. To this end, the company established a Corporate Volunteering scheme in 2013. This scheme enables employees to support selected projects, for which it releases them from their duties on up to two working days a year. For example, DKB employees visited various German schools as part of the "My Finance Coach" initiative, which aims to sensitise pupils between 11 and 15 years old to issues related to dealing with money. In 2014, 186 employees were involved in just under 60 projects of the Corporate Volunteering scheme.

III. Education and science

BayernLB supports the elite Finance & Information Management (FIM) graduate studies programme, thereby helping the financial managers of the future to get the practical training and experience they need. The programme is offered by the University of Augsburg and the Technical University of Munich.

A dedicated investment-fund career path has been available in Frankfurt since 2003 and in Munich since 2005. Since then, **BayernInvest** has been involved in training junior staff. From the start, BayernInvest attached great importance to employing the apprentices upon completion of their training, offering them career prospects and security and meeting its own demands for specialist staff. Furthermore, BayernInvest provides them with valuable insight into a career in this sector in the course of a one to three-month internship. This allows them to gain more in-depth knowledge of the topics covered on the course by taking on responsibility for tasks and projects.

Support for the "Munich Financial Center Initiative" (fpmi)

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. The "Munich Financial Center Initiative" furthers the interests of all players within Bavaria's financial sector.

In addition to BayernLB, other participants include companies from the banking and insurance sectors, private equity, venture capital and leasing companies, the Bavarian State Ministry of Economic Affairs and Media, Energy and Technology, the Bundesbank, Munich's stock exchange, professional bodies, business and trade associations and research institutions linked to universities.

As a member, BayernLB supports 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, in particular.

IV. Art and culture

The savings banks in the Bavarian towns of Memmingen, Schwerte and Göppingen hosted **BayernLB's** "Gold from the Bavarian Rivers" touring exhibition in 2014. The centrepiece is a collection of valuable historical gold coins. The metal which was turned into ducats in the royal mints was collected from Bavarian rivers by gold panners.

BayernLB once again sponsored the open-air classical music concert in Munich's Odeonsplatz in 2014. The well-established summer event attracts around 16,000 guests every year.

V. Environmental protection at BayernLB

An important part of **BayernLB's** sustainability management is environmental protection within the company. The reasons for these intensive efforts at protecting the environment are obvious. Through its commitment the BayernLB Group is fulfilling its responsibility to conduct an ecologically compatible business strategy. The Group also demonstrates that it is a credible and principled partner when it comes to providing financing solutions for climate protection.

The origins of its green policy can be traced back to the forward-thinking building management system in BayenLB's head office in Munich. Since the mid-1990s, all of the key impacts of the business on the environment have been assessed. Building on this, it has implemented suitable improvements through a structured management system.

It has been accredited under the Eco-Management and Audit Scheme (EMAS) Ordinance since 1999 and certified under environmental management standard ISO 14001 since 2011. Until 2011, this management system was only used at the premises of the Munich head office; after that it was expanded to include BayernLB's Nuremberg office. The core of the management system is a Group-wide sustainability policy. It is supplemented and specified in detail by internal environmental guidelines along the entire value chain and adjusted to the specific requirements of the individual Group units. One focus is on reducing direct and indirect emissions of greenhouse gases and minimising the Bank's carbon footprint.

With that in mind, BayernLB conducts an annual emissions analysis and reports the amount of greenhouse gas emissions related to business operations. The findings of the analysis are used to create a comprehensive climate protection strategy, which has been successfully implemented since 2007: the Bank has been climate-neutral since 2008 at its Munich offices and since 2010 at the Nuremberg site. It has achieved this mainly by improving energy and resource efficiency and covering the energy needs of its buildings through certified hydroelectric power and preventing the emission of greenhouse gases. Unavoidable emissions beyond this are offset by purchasing emission allowances from external verified climate protection projects. The climate protection strategy comprises the three elements of avoiding using up resources, substituting CO_2-intensive energy sources and offsetting unavoidable CO_2 emissions.

The BayernLB Group has therefore taken its corporate responsibilities seriously for many decades and has continually reduced the impact of its internal operations on the environment. This is because an ecologically compatible business strategy is essential for a society to grow sustainably.

DKB has also pledged to protect the environment on its premises and has followed the Eco-Management and Audit Scheme (EMAS) Ordinance since 2010. Over 60 percent of DKB AG's employees work in buildings that fully comply with EMAS III. The rest of the buildings operate under the same environmental management system. DKB AG obtains 100 per cent of its electricity from certified hydro power sources and has reduced its CO_2 emissions by 47.4 per cent from the base year 2010. Contributing to the reduction in 2014 was power generated by solar panels installed on four buildings. The regulation and control of heating and cooling systems was optimised further. Business trips were conducted in an economical and environmentally-friendly manner. For example, BayernLB's vehicle fleet uses a maximum of 99g CO_2/km and includes two electric cars, the German rail system is 100 percent powered from green electricity sources and BayernLB has a carsharing partnership with Drive-Now. Furthermore, video conferences were used instead of travel wherever possible. In terms of IT systems, DKB AG continued to gradually replace traditional PCs with power-saving thin clients. In addition, it launched a pilot project in which heat from servers is used to provide hot water.

VI. 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.

They cover the following aspects:

- They generate funds for companies and projects that operate sustainably or are conducive to a sustainable society, e.g. by making appropriate cash investments.
- They comply with ecological, social and ethical standards for financial transactions to minimise the negative impacts on society.
- They finance companies and projects which contribute to combating global challenges such as resource efficiency and climate protection. Sustainable investments, also commonly referred to as socially responsible investments (SRIs), are types of investments that take into account ecological, social and economic criteria. The BayernLB Group provides its customers with products which fulfil these needs via its asset management subsidiary BayernInvest. For example, the "DKB ecofund" invests mainly in shares of companies in the climate and environmental technology industry which only engage in sustainable business practices. Companies in the "DKB future fund" also have to meet strict sustainability criteria. For example, companies which violate human rights or are part of the defence industry are not included. BayernInvest also declines to invest in companies that manufacture prohibited weapons unless it is the express wish of the customer to do so.

In addition, BayernInvest's proprietary retail funds do not trade agricultural products or derivatives based on these. The above criteria also apply to retail funds launched by third parties which are administered or managed by BayernInvest Luxembourg S.A., Luxembourg.

Not only must ecological and social aspects play a role in investment products but also in financing projects. The BayernLB Group has, for example, undertaken not to finance any businesses with links to human trafficking or child labour or which breach the World Bank's environmental and social standards. For example, the World Bank's standards prescribe how environmental and social management systems are to be structured to prevent or minimise negative outcomes.

Compliance with these standards should ensure that all projects adhere to environmental, social and economic principles and are therefore conducive to sustainable development.

BayernLB helps 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.

To do so it takes a cross-sector approach which includes the following segments:

- Environmentally-friendly energy generation (renewable energy, cogeneration systems)
- Infrastructure measures (electricity and heating networks) and
- Efficiency measures in various sectors (real estate, production, infrastructure)

In other words, while we are increasing the supply of environmentally-friendly energy and striving to improve energy efficiency, a major part of the world's total energy needs will still have to come from fossil fuels like oil, gas and coal. BayernLB will therefore continue to be a reliable partner to the conventional energy industry.

The BayernLB Group is also conscious that implementing projects particularly in the energy field can sometimes give rise to considerable environmental, social and societal risks. It does not try to face the associated challenges by categorically ceasing business activities in these areas; it is much more focused on minimising the potential negative impact on the environment and society by complying with specific, internal guidelines and excluding selected transactions due to unacceptable environmental and social risks. BayernLB therefore does not finance projects to produce oil from oil sands, projects to extract natural gas by means of fracking, or projects to mine coal by the mountain top removal (MTR) method. In addition, no conventional energy projects are financed in areas which are classified as a UNESCO World Cultural Heritage Site or protected by the International Union for Conservation of Nature (IUCN) or the Ramsar Convention. The Bank is also not financing any new projects to build new nuclear power plants or projects to mine or store nuclear fuels.

Our sustainability performance is evaluated at regular intervals by specialised, independent rating agencies. BayernLB's expertise in sustainability issues is reflected in its above-average good sustainability ratings.

	Sustainalytics	oekom research	imug		
As at	July/2013	2014	2014		
Rating	65 out of 100 points	C	13		
			Public Pfandbriefs	Mortgage Pfandbriefs	Unsecured bonds
Ranking/ investment status	18 out of 73	"PRIME"	Positive	Positive	Neutral
Benchmark (sector average)	57	C-	9		

BayernLB Group management report

Overview of the BayernLB Group

Business model and strategy

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

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

The disposal of Hungarian subsidiary MKB Bank Zrt., Budapest (MKB) and the sale of the ABS portfolio with a nominal value of about EUR 6.4 billion were two important milestones in resolving the existing legacy problems and have substantially improved the Bank's risk profile.

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

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

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

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

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

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

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

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

Internal Group management system

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

The profitability of the BayernLB Group is managed using two key financial ratios that act as crucial indicators of performance. The main one is Return on Equity, or RoE. This is calculated by dividing profit or loss before taxes by average capital employed during the year. Depending on the management level, capital employed is derived from either the balance sheet or the risk-weighted assets of the individual underlying transactions in accordance with regulatory standards. Cost efficiency is monitored by means of the cost/income ratio (CIR), the ratio of administrative expenses to gross profit. In addition to measuring return on equity and cost efficiency, BayernLB also uses other ratios. These include various measures of the profitability and expense of risk-weighted assets, and also economic value added (EVA). This expresses the profit of a company after deducting the cost of the capital employed denominated in euro. In order to ensure integrated and consistent management, the key figures RoE and CIR are used at all levels of management. The management cycle is a continuous process of carrying out annual medium-term planning, producing intrayear detailed target vs actual comparisons and making regular projections to the year-end.

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

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

Capital is managed using the CET 1 ratio and the total capital ratio as defined by the CRR. Besides the CET 1 ratio, which takes account of the transitional provisions currently applicable under CRR, capital is also managed using the fully-loaded CET 1 ratio (not applying the transitional provisions). The capital required and the corresponding capital ratios are derived from the Business and Risk Strategies and the latest medium-term planning. Risk positions are allocated, limited and monitored to ensure compliance at all times with the capital ratios planned and required by the regulator as a basic condition for all business activities. As part of overall bank management, the Asset Liability Committee combines target capital amounts, risk-bearing capacity and funding.

Human resources

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

As at 31 December 2014, a total of 6,842 staff were employed by the Group. Headcount within the BayernLB Group fell by 1,726 on the previous year. This decrease was due to the sale of MKB (2,748 employees as at 31 December 2013) and integration of 1,278 employees from the first-time consolidation of DKB Service GmbH, Potsdam (DKB Service) into the Group. Headcount within BayernLB fell by 135 to 3,283.

Corporate responsibility

One of BayernLB's stated corporate goals is to achieve commercial success while meeting its social responsibilities. The BayernLB Group therefore attaches great importance to its work in the community, the fields of education and science and the world of art and culture. Naturally, sustainability management and reporting play no less important roles in BayernLB's business activities. BayernLB's sustainability performance is evaluated regularly by specialised, independent rating agencies.

Key changes in the scope of consolidation and the investment portfolio

With effect from 3 April 2014, BayernLB sold its stake of around 44 percent in Landesbank Saar, Saarbrücken (SaarLB). On 29 September 2014 it completed the sale of MKB to the Hungarian government. DKB Service was consolidated into the DKB sub-group with retroactive effect from 1 January 2014. Further details on changes to the scope of consolidation as well as reclassifications under IFRS 5 due to planned sales can be found in the Notes.

Report on the economic position

Macroeconomic and sector-specific environment

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

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

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

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

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

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

6 ECB press release of 5 June 2014, https://www.ecb.europa.eu/press/pr/date/2014/html/pr140605_2.en.html.

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

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

in Germany to companies and households rose by 0.5 percent in 2014 in spite of low interest rates, after falling by 3.3 percent (loans to non-banks, as at December 2014, year-on-year change) in the previous year.[9] Demand for credit was unexpectedly weak in the first half of the year, while the consolidation of balance sheets in the banking system ahead of the AQR by the ECB (results of the stress tests were released on 26 October 2014) had a dampening effect.

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

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

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

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

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

9 *See Deutsche Bundesbank 2014: "Banking Statistics – December 2014, Statistical Supplement 1 to the Monthly Report", Table I 6a), p. 10, http://www.bundesbank.de/Redaktion/DE/Downloads/Veroeffentlichungen/Statistische_Beihefte_1/2014/2014_12_bankenstatistik.pdf?__blob=publicationFile.*

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

For the financial services industry, 2014 too was a year of uncertainty with a tough market environment. The main challenges were fierce competition, historically low interest rates, and the morass of ever more complex and numerous guidelines and regulations at national and international level.

In addition to the sustained low interest rate environment, the BayernLB Group's business activities in 2014 were primarily affected by notably sluggish capital spending by companies, and increasingly cut-throat competition in the core segments. It faces competitors in all three pillars of the German banking landscape: large German and international commercial banks, Landesbanks, and special institutions which operate in selected segments, such as real estate financing. Moreover, non-banks are also increasingly competing selectively against established banks.

In spite of falling demand for credit and economic uncertainties in European markets, international banks increasingly homed in on large corporate and Mittelstand customers in Germany in 2014. The proliferation of competitors and plentiful supply of liquidity in the market had a direct impact on BayernLB as prices were cut to gain an edge. Mittelstand firms with good to very good credit ratings were assiduously courted.

The online banking market grew slightly once again in 2014. Competition among these direct banks was stiff, fuelled by the arrival of foreign banks. Despite these conditions, DKB increased retail customer deposits once more.

Course of business

The BayernLB Group increased profit before taxes in the core business by 41.0 percent in financial year 2014. This was, however, overshadowed by three events, whose origins date back several years and relate to the non-core business of the "old BayernLB": the sale of the Hungarian bank MKB, the sale of the ABS portfolio and ending of the "Umbrella" hedging transaction, and the impairment of the receivables due from Hypo Alpe-Adria-Bank International AG, Klagenfurt, now operating as HETA ASSET RESOLUTION AG, Klagenfurt (HETA). The sale of MKB and the ABS portfolio ahead of schedule closes two important chapters in the EU state-aid proceedings and removes other risks to the BayernLB Group's future.

The BayernLB Group ended financial year 2014 with a loss before taxes of EUR –348 million (FY 2013: profit before taxes of EUR 639 million). The gains or losses on discontinued operations line item solely contains the loss from the disposal of MKB of EUR –1,070 million. In the previous year MKB made a negative earnings contribution of EUR –381 million. The BayernLB Group posted a consolidated loss of EUR –1,320 million (FY 2013: consolidated profit of EUR 127 million).

The core business performed very well overall, increasing profit before taxes by EUR 195 million to EUR 669 million. The consolidated loss was due solely to non-core business, which posted a loss before taxes of EUR –1,017 million (FY 2013: EUR 165 million), largely as a result of a write-down of receivables due from HETA. There was also a charge from the sale of MKB in the amount of EUR –1,070 million.

The repayment obligations under the EU ruling were also met in 2014 despite the large extraordinary charges. On the sale of the ABS portfolio the "Umbrella" agreement with the Free State of Bavaria was terminated ahead of schedule and the related clawback payments under the EU ruling made to the Free State of Bavaria. In total, as at the end of 2014, the Group had already paid back more than half (EUR 2,660 million) of the approximately EUR 5 billion that it originally had to pay to the Free State of Bavaria by the end of 2019.

As at 31 December 2014, total assets amounted to approximately EUR 232 billion, a EUR 23 billion decrease year-on-year and also about EUR 8 billion less than the target agreed with the European Commission for the end of 2015. Although foreign activities were further scaled back during 2014, the key factor affecting the financial position was still the credit business.

The financial situation was solid throughout the reporting year, and sufficient liquidity was on hand at all times. Overall the BayernLB Group's financial situation was stable despite the large extraordinary charges.

The BayernLB Group continues to enjoy a solid capital base with a CET 1 ratio of 12.5 percent as at 31 December 2014 (basis: reporting as at 31 December 2014).

Results of operations

Negotiations for the sale of the stake in MKB resulted in MKB's classification as a discontinued operation in accordance with IFRS 5 in the first half of 2014. As a result, MKB's profit or loss after taxes and other measurement effects are reported under the "gains or losses on discontinued operations" item. MKB's income and expenses are therefore no longer recognised under the individual items of the consolidated income statement from continuing operations. The previous year's figures were adjusted accordingly.

Due to the loss in financial year 2014, return on equity[11] (RoE) was –2.6 percent (FY 2013: 4.3 percent). The cost income ratio (CIR)[12] was 49.7 percent, a 4.3 percentage point improvement (FY 2013: 54.0 percent). The lower ratio resulted from a combination of higher total earnings and lower administrative expenses.

Further information on each item can be found in the notes.

11 *Profit or loss before taxes/average reported equity.*

12 *CIR = administrative expenses/net interest income + net commission income + gains or losses on fair value measurement + gains or losses on hedge accounting + gains or losses on financial investments + income from interests in companies valued at equity + other income and expenses.*

Income statement

EUR million	1 Jan–31 Dec 2014	1 Jan–31 Dec 2013	Change in %
Net interest income	1,671	1,679	–0.5
Risk provisions in the credit business	–1,498	–320	> 100.0
Net interest income after risk provisions	**173**	**1,359**	**–87.3**
Net commission income	249	211	17.8
Gains or losses on fair value measurement	–25	227	
Gains or losses on hedge accounting	–70	–27	> 100.0
Gains or losses on financial investments	419	125	> 100.0
Income from interests in companies measured at equity	0	41	–100.0
Administrative expenses	–1,171	–1,323	–11.5
Expenses for bank levies	–4	–5	–21.4
Other income and expenses	114	196	–42.0
Gains or losses on restructuring	–33	–164	–80.2
Profit/loss before taxes	**–348**	**639**	
Income taxes	99	–126	
Gains or losses on continuing operations	**–249**	**512**	
Gains or losses on discontinued operations	–1,070	–381	> 100.0
Profit/loss after taxes	–1,320	131	
Profit/loss attributable to non-controlling interests	0	–4	–100.0
Consolidated profit/loss	**–1,320**	**127**	

Rounding differences may occur in the tables.

Net interest income

EUR million	1 Jan–31 Dec 2014	1 Jan–31 Dec 2013	Change in %
Interest income	**7,253**	**7,638**	**–5.0**
of which:			
• credit and money market transactions	4,748	5,086	–6.7
• financial investments	500	544	–8.1
• hedge accounting derivatives and derivatives in economic hedges	2,005	2,008	–0.2
Interest expenses	**–5,582**	**–5,959**	**–6.3**
of which:			
• from liabilities to banks and customers	–2,387	–2,605	–8.4
• for securitised liabilities	–667	–820	–18.7
• for subordinated capital	–206	–232	–11.2
• from hedge accounting derivatives and derivatives in economic hedges	–2,201	–2,194	0.3
• other interest expenses	–121	–107	12.9
Net interest income	**1,671**	**1,679**	**–0.5**

Net interest income, which mainly came from the credit business, was virtually unchanged on the previous year at EUR 1,671 million (FY 2013: EUR 1,679 million) despite historically low interest rates and a contraction in business volumes. Both interest income and interest expenses were lower.

Risk provisions in the credit business

EUR million	1 Jan – 31 Dec 2014	1 Jan – 31 Dec 2013	Change in %
Additions	– 1,848	– 543	> 100.0
Direct writedowns	– 175	– 64	> 100.0
Releases	417	224	86.5
Recoveries on written down receivables	75	32	> 100.0
Other gains or losses on risk provisions	33	31	8.4
Risk provisions in the credit business	**– 1,498**	**– 320**	**>100.0**

Net allocations to risk provisions in the credit business amounted to EUR 1,498 million, a sharp increase on the previous year (FY 2013: EUR 320 million). This was largely as a result of risk provisions on receivables due from HETA. HETA has not repaid several outstanding loans and maturing securities totalling around EUR 2.4 billion (as at 31 December 2014) citing the Austrian Equity Capital Substitution Act. In December 2012 BayernLB therefore filed suit in Munich District Court for repayment of these receivables. In its countersuit HETA has now demanded repayment of about EUR 3.5 billion in interest and principal paid to BayernLB. In the opinion of BayernLB and its advisors, there are no actual grounds for the debt moratorium declared by HETA. The expert appointed by the court came to the same conclusion as the Bank in a key issue in dispute: the criteria under which a crisis can be declared under the Austrian Equity Capital Substitution Act. Based on its assessment announced so far on the background and legal situation, Munich District Court drew similar conclusions in respect of the key points of the findings of this opinion. It confirmed this stance in an oral hearing on 25 November 2014.

The special law for the resolution of HAA took effect on 1 August 2014. In respect of BayernLB's loan receivables, the special law stipulates essentially that BayernLB's claims against HETA in the amount of about EUR 800 million become void when the ordinance issued by the Austrian Financial Market Authority (FMA) in accordance with article 6 section 7 of this law takes effect. Kärntner Landesholding's legal liability to cover this debt is also cancelled. In a case currently pending before Munich District Court, BayernLB has filed suit for payment of the remainder of its receivables in the amount of about EUR 1.5 billion. Under the FMA ordinance, this amount would be compulsorily deferred until 30 June 2019. Based on a legal opinion from Austrian constitutional lawyer Prof. Heinz Mayer and an examination carried out by BayernLB's legal advisors, the special law contravenes German and Austrian constitutional law and European Union law.

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

BayernLB has also filed a complaint with the European Commission against the HAA special law with the aim of having the Commission institute formal breach of contract proceedings against Austria. Two meetings were held with representatives of the European Commission in September and December 2014 at which BayernLB presented the facts and answered questions. The outcome of the investigation procedure is pending.

More information can be found in the following sections: Events after the reporting period and the Report on expected developments and on opportunities and risks.

Net commission income

EUR million	1 Jan–31 Dec 2014	1 Jan–31 Dec 2013	Change in %
Securities business	53	53	–1.3
Lending business	191	142	33.8
Payments	–40	–31	31.4
Cards business	41	42	–2.2
Other net commission income	5	4	19.0
Net commission income	**249**	**211**	**17.8**

Net commission income rose by 18 percent to EUR 249 million (FY 2013: EUR 211 million), due in part to high lending commission and also the first-time consolidation of DKB Service. However, the first-time consolidation of DKB Service did not have a material impact on the BayernLB Group's earnings. Net commission expenses from payments commission rose as a result of DKB's growth-orientated business model.

Gains or losses on fair value measurement

The gains or losses on fair value measurement item posted a loss of EUR –25 million (FY 2013: a gain of EUR 227 million). The negative result was primarily due to fair value adjustments which contributed EUR 57 million to this item in 2013 but weighed on it in 2014 with a negative figure of EUR –193 million. This year's figure includes a charge of EUR –43 million for funding value adjustments which were created for the first time in 2014. The improvement in BayernLB's credit rating led to a higher negative mark to market figure for own credit spreads of EUR –102 million compared to EUR –57 million in the previous year. The mark to market value of cross-currency swaps, on the other hand, made a contribution of EUR 22 million to the gains or losses from fair value measurement item (FY 2013: EUR –24 million).

Reversals of impairments on credit portfolios affected by the financial market crisis produced a gain of EUR 84 million (FY 2013: EUR 106 million). The hedged ABS portfolio was sold in an auction at the end of October 2014 and the "Umbrella" guarantee agreement terminated (see the notes below on "gains or losses on financial investments"). Customer margins contributed EUR 99 million (FY 2013: EUR 136 million) to this item.

Gains or losses on hedge accounting

Gains or losses on hedge accounting includes the mark to market value of underlying transactions and their hedges. The differences in value balance out over the terms of the instruments and are therefore only temporary. This item stood at EUR –70 million in 2014 (FY 2013: EUR –27 million).

Gains or losses on financial investments

Gains or losses on financial investments amounted to EUR 419 million (FY 2013: EUR 125 million), largely due to the sale of the ABS portfolio with a nominal volume of EUR 6.4 billion and the termination of the "Umbrella" guarantee agreement with the Free State of Bavaria. The measurement and sale of the ABS portfolio and final settlement of the "Umbrella" produced a gain under this line item of EUR 423 million. The EUR 789 million in clawback payments made to the Free State of Bavaria upon termination of the "Umbrella" in accordance with the EU ruling was set off against retained earnings as a shareholder transaction with no impact on the income statement.

Administrative expenses

EUR million	1 Jan–31 Dec 2014	1 Jan–31 Dec 2013	Change in %
Staff costs	–596	–669	–10.9
Other administrative expenses	–527	–565	–6.7
Amortisation and depreciation of property, plant and equipment and intangible assets (not including goodwill)	–48	–89	–46.4
Administrative expenses	**–1,171**	**–1,323**	**–11.5**

Administrative expenses were cut by 11.5 percent to EUR 1,171 million despite the first-time consolidation of DKB Service (FY 2013: EUR 1,323 million). This was due in part to the KSP cost-cutting programme launched at the end of 2013, a reduction in IT costs and the absence of extraordinary charges reported in financial year 2013. The significant increase in legal and consulting fees was largely driven by the legal effort to collect the receivables from the HETA exposure and by costs related to the AQR.

Other income and expenses

The other income item of EUR 114 million (FY 2013: EUR 196 million) comprises principally non-banking income and expenses, including the Group's real estate activities.

Gains or losses on restructuring

Gains or losses on restructuring at the BayernLB Group came to EUR –33 million (FY 2013: EUR –164 million). Low interest rates made it necessary to inject additional funds into the provision for restructuring costs set up in connection with the KSP cost-cutting programme.

Income taxes

The BayernLB Group reported an income tax credit of EUR 99 million (FY 2013: income tax expense of EUR –126 million). This credit was largely due to an increase in deferred tax assets.

Core and non-core business of the BayernLB Group

Since 2009, BayernLB has been consistently focusing on its forward-looking core business and winding down all non-core activities. As one outcome of this, the Bank pooled all non-core activities due to be discontinued or sold into the Non-Core Unit at the beginning of 2013, when it implemented the new segment structure.

The core business performed well, earning a profit before taxes of EUR 669 million (FY 2013: EUR 474 million) in spite of tough market conditions and stiff competition.

1 Jan – 31 Dec 2014	Core business (EUR million)	Share (in percent)	Non-core business (EUR million)
Total income before consolidation	1,866		587
Consolidation	–97		2
Total income after consolidation	**1,769**	**75.0**	**589**
Risk provisions	–68	4.5	–1,431
Administrative expenses	–1,003	85.6	–168
Expenses for bank levies	–4	100.0	0
Gains or losses on restructuring	–25	77.8	–7
Profit/loss before taxes	**669**	**> 100.0**	**–1,017**
Risk-weighted assets (RWA)	67,694	88.4	8,922

Segments

The segment report is based on the monthly internal management report to the Board of Management and reflects the BayernLB Group's six segments. As at 31 December 2014, BayernLB's core business was divided into the operating segments Corporates, Mittelstand & Financial Institutions, Real Estate & Savings Banks/Association, including the legally dependent institution Bayerische Landesbodenkreditanstalt (BayernLabo), DKB and Markets plus the subsidiaries assigned to them. In addition, there is also the Central Areas & Others segment. The Non-Core Unit includes the Restructuring Unit, the subsidiary Banque LBLux S.A., Luxembourg (LBLux) and other non-core activities. Due to MKB's reclassification under IFRS 5 as a discontinued operation, its impact on earnings is recognised under "gains or losses on discontinued operations" and therefore is no longer a component of the Non-Core Unit in the segment reporting. The previous year's figures have been adjusted accordingly.

The contributions of the individual segments to the loss before taxes of EUR –348 million (FY 2013: profit before taxes of EUR 639 million) are shown below:

EUR million	1 Jan–31 Dec 2014	1 Jan–31 Dec 2013
Corporates, Mittelstand & Financial Institutions	266	238
Real Estate & Savings Banks/Association	255	188
DKB	189	170
Markets	–91	–60
Central Areas & Others	142	113
Non-Core Unit	–1,019	116
Consolidation	–91	–127

Corporates, Mittelstand & Financial Institutions

- Profit before taxes higher year-on-year
- Customer business continues to perform well
- Jump in net commission income

Profit before taxes in the Corporates, Mittelstand & Financial Institutions segment in FY 2014 amounted to EUR 266 million (FY 2013: EUR 238 million). Although demand for credit was subdued, interest rates low and competition stiff, net interest income was virtually stable and net commission income rose significantly. The fall in gains or losses on fair value measurement is due to an easing in demand for interest rate and currency hedging instruments caused by low interest rates and low market volatility. Earnings overall were on par with the previous year. Risk provisions were slightly higher than the previous year when releases had a major impact. Lower administrative expenses resulting from cost savings in staff and other operating costs made a significant contribution to the year-on-year increase in profit before taxes. Overall the segment strengthened its position as a lender to large and mid-sized German companies and international companies with a connection to Germany. Very good performers included export & trade finance, leasing, securitisations and asset finance.

Real Estate & Savings Banks/Association

- Profit before taxes significantly higher year-on-year
- Increased revenues and much higher profit before taxes in the Real Estate division
- Savings Banks & Association posts stable total earnings
- Low interest rates weigh on BayernLabo's earnings

The Real Estate & Savings Banks/Association segment reported profit before taxes of EUR 255 million (FY 2013: EUR 188 million). The higher earnings were largely due to a decrease in risk provisions and to administrative expenses much lower than the previous year when they included extraordinary charges for IT expenses.

The Real Estate division made a significant contribution to the segment's earnings by posting a profit before taxes of EUR 180 million (FY 2013: EUR 89 million). The year-on-year increase resulted from higher net interest income, better net commission income from new business and risk provisions marked by releases. The year-on-year fall in administrative expenses is due to cost-cutting measures and the absence of the previous year's extraordinary items.

Profit before taxes in the Savings Banks & Association division was EUR 36 million, up on the previous-year period (FY 2013: EUR 30 million). Thanks to a continually constructive and close partnership with the savings banks and public sector, net interest income and net commission income were higher. A significant contribution came from Financial Markets' customer business, including sales of Schuldschein note loans to savings banks. Administrative expenses in this segment too were lower than in the previous year.

BayernLabo's profit before taxes fell to EUR 32 million (FY 2013: EUR 61 million). The decrease was mainly due to low interest rates during the reporting period.

The consolidated subsidiary Real I.S. AG contributed EUR 6 million (FY 2013: EUR 5 million) to the segment's earnings.

DKB

- Profit before taxes up after jump in net interest income
- First-time consolidation of DKB Service had little overall impact on earnings
- Deposits and receivables from customers both higher

DKB reported profit before taxes in the past financial year of EUR 189 million (FY 2013: EUR 170 million). The rise in earnings was mainly due to the increase in net interest income to EUR 655 million (FY 2013: EUR 601 million), partly on account of adjustments in variable refinancing conditions to the low interest rate environment and lower expenses from interest rate derivatives. The first-time consolidation of DKB Service boosted the net commission income and other income and expenses items but also raised administrative expenses by nearly the same amount. Lower earnings from sales of securities and reimbursements of processing fees weighed on earnings. Moreover, administrative expenses were higher due to additional regulatory requirements and continued growth in customer numbers. Risk provisions were down on the previous year thanks to good portfolio quality in the retail customer business. The customer business performed well in all customer segments. For example, customer receivables rose in the reporting period by EUR 2.0 billion to EUR 58.8 billion mainly by winning new business in the infrastructure and corporate customer areas in spite of tough competition for customers with good credit ratings and early and higher repayments. At the same time, customer deposits increased by EUR 3.2 billion to EUR 47.3 billion as deposit rates were cut less quickly than market interest rates. The retail customer business now serves 3 million customers.

Markets

- Customer business decreases due to market conditions
- Creation of credit value adjustments weighs on earnings
- Administrative expenses reduced by cost-cutting measures

The Markets segment posted a loss before taxes of EUR –91 million (FY 2013: EUR –60 million). As every year, earnings on behalf of the customer-serving business areas were reported under those segments. Earnings from the customer business were down year-on-year due to low demand for interest rate and currency hedging instruments. The drop in Markets' earnings was largely due to the creation of credit value adjustments in the amount of EUR –120 million (FY 2013: EUR 35 million), the first-time creation of a funding value adjustment in the amount of EUR –43 million and an increase in the fair value of own issues due to an improvement in the own credit spread with an impact of EUR –76 million (FY 2013: EUR –41 million). The segment's earnings were also dampened by weak overall market demand for financial instruments. Cost savings measures cut administrative expenses. The gain on risk provisions of EUR 58 million was due to the release of a specific loan loss provision.

Central Areas & Others

Profit before taxes in the Central Areas & Others segment rose in FY 2014 to EUR 142 million (FY 2013: EUR 113 million). The increase was largely due to the sale of a building previously used by the Bank.

Non-Core Unit

- Writedowns on receivables due from HETA weigh heavily on profit before taxes
- Profit before taxes in the Restructuring Unit driven mainly by the sale of the ABS portfolio
- Hungarian subsidiary MKB no longer reported under the Non-Core Unit after classification as a discontinued operation under IFRS 5

The writedown of receivables due from HETA led to a loss before taxes of EUR –1,019 million (FY 2013: profit before taxes of EUR 116 million). This was sharply lower than the previous year, which was boosted significantly by a deconsolidation gain on the sale of GBW AG.

The Restructuring Unit division reported a significantly higher profit before taxes of EUR 348 million (FY 2013: loss before taxes of EUR –35 million) in FY 2014. This was principally due to the sale of the ABS portfolio. Interest income fell sharply, largely in connection with the termination of refinancing resulting from the sale of the ABS portfolio. Risk provisions were higher than in the previous year, which benefited from releases.

The volume of assets in all portfolios, including the credit portfolio transferred from LBLux to the Restructuring Unit, fell significantly by EUR –11.3 billion to EUR 13.1 billion as a result of scheduled and early repayments and the sale of the ABS portfolio referred to above. This resulted in a EUR –5.7 billion fall in risk-weighted assets, freeing up a corresponding amount of capital. The portfolio winddown is reflected in the year-on-year drop in administrative expenses.

LBLux's business activities were marked primarily by ongoing exit activities, such as the closing of private banking and transfer of the corporate banking portfolio and the resulting extraordinary items. Profit before taxes amounted to EUR 74 million (FY 2013: loss before taxes of EUR –44 million).

The Other NCU sub-segment's profit before taxes was significantly down on the previous year, largely due to the writedowns of receivables due from HETA.

Financial position

Further information can be found in the notes.

Assets

EUR million	31 Dec 2014	31 Dec 2013	Change in %
Cash reserves	1,041	3,160	–67.1
Loans and advances to banks	37,091	43,470	–14.7
Loans and advances to customers	134,017	137,971	–2.9
Risk provisions	–3,039	–2,668	13.9
Portfolio hedge adjustment assets	1,602	1,687	–3.2
Assets held for trading	24,048	25,337	–5.1
Positive fair values from derivative financial instruments (hedge accounting)	2,968	2,889	2.7
Financial investments	32,650	39,720	–17.8
Interests in companies measured at equity	0	26	–100.0
Investment property	37	99	–62.8
Property, plant and equipment	360	619	–41.8
Intangible assets	114	154	–26.3
Income tax assets	388	284	36.4
Non-current assets or disposal groups classified as held for sale	80	2,065	–96.1
Other assets	767	668	14.7
Total assets	**232,124**	**255,483**	**–9.1**

Rounding differences may occur in the tables.

The BayernLB Group's total assets fell once again, by 9.1 percent or EUR 23.4 billion to EUR 232.1 billion. This was partly on account of the accelerated winding down of non-core activities, particularly the sale of MKB and the ABS portfolio. Credit volume, defined as the sum of loans and advances to banks and customers and contingent liabilities from guarantees and indemnity agreements, fell by 5.7 percent to EUR 182.6 billion.

Loans and advances to banks stood at EUR 37.1 billion, 14.7 percent below the previous year's figure of EUR 43.5 billion. One reason for the decrease was that the former Hypo Alpe-Adria-Bank International AG (HAA) gave back its banking licence on 30 October 2014, so that receivables due from HETA are now reported under loans and advances to customers.

Loans and advances to customers fell by a total of 2.9 percent to EUR 134.0 billion (FY 2013: EUR 138.0 billion). The fall was almost entirely due to the deconsolidation of MKB. Loans and advances to domestic customers were almost unchanged at EUR 110.4 billion (FY 2013: EUR 110.7 billion).

Risk provisions in the credit business amounted to EUR 3.0 billion, a 13.9 percent increase on the previous year (FY 2013: EUR 2.7 billion). The increase resulted from the impairment of receivables due from HETA. This was partly offset by the deconsolidation of MKB.

A cutback in debt assets reduced the fair value of assets held for trading slightly by 5.1 percent to EUR 24.0 billion (FY 2013: EUR 25.5 billion).

Positive fair values from derivative financial instruments (hedge accounting under IAS 39) amounted to EUR 3.0 billion (FY 2013: EUR 2.9 billion).

The significant 17.8 percent reduction in financial investments to EUR 32.7 billion is primarily due to the sale of the ABS portfolio.

Non-current assets or disposal groups classified as held for sale fell 96.1 percent to EUR 0.1 billion. The fall was primarily due to the disposal and intragroup transfer of LBLux's assets.

Liabilities

EUR million	31 Dec 2014	31 Dec 2013	Change in %
Liabilities to banks	64,138	71,191	−9.9
Liabilities to customers	81,635	86,183	−5.3
Securitised liabilities	44,285	52,964	−16.4
Liabilities held for trading	17,567	16,672	5.4
Negative fair values from derivative financial instruments (hedge accounting)	2,780	2,846	−2.3
Provisions	4,360	3,503	24.5
Tax liabilities	203	294	31.0
Liabilities of disposal groups	0	1,438	−100.0
Other liabilities	646	522	23.7
Subordinated capital	4,722	4,984	−5.3
Equity	11,789	14,886	−20.8
Total liabilities	**232,124**	**255,483**	**−9.1**

Rounding differences may occur in the tables.

Liabilities to banks fell by 9.9 percent to EUR 64.1 billion (FY 2013: EUR 71.2 billion).

The EUR 4.5 billion decrease in liabilities to customers to EUR 81.6 billion resulted mainly from the deconsolidation of MKB.

Refinancing needs steadily declined due to the targeted scaling back of business. Securitised liabilities fell again by 16.4 percent to EUR 44.3 billion.

Liabilities held for trading rose by EUR 0.9 billion to EUR 17.6 billion (FY 2013: EUR 16.7 billion). As in previous years, the line item mainly comprised interest rate transactions. Negative fair values from derivative financial instruments resulting from hedge accounting under IAS 39 was unchanged at EUR 2.8 billion.

The EUR 0.9 billion increase in provisions to EUR 4.4 billion was primarily due to the need to increase provisions for pensions and similar obligations because of low interest rates. With a volume of EUR 3.6 billion, this is still the largest line item.

Liabilities of disposal groups in FY 2013 amounted to EUR 1.4 billion. This figure mainly reflected the liabilities of LBLux and NEXTEBANK that had been designated as held for sale and were disposed of in FY 2014 (31 December 2014: EUR 0 billion).

Subordinated capital fell slightly by EUR 0.3 billion to EUR 4.7 billion.

Equity

EUR million	**31 Dec 2014**	**31 Dec 2013**	**Change in %**
Subscribed capital	5,525	6,846	–19.3
Compound instruments (equity component)	143	145	–1.5
Capital surplus	2,356	3,893	–39.5
Retained earnings	3,305	4,102	–19.4
Revaluation surplus	452	–37	
Foreign currency translation reserve	8	–92	
Consolidated profit/loss	–	–	
Profit/loss attributable to non-controlling interests	0	30	–100.0
Equity	**11,789**	**14,886**	**–20.8**

The EUR 3.1 billion fall in equity to EUR 11.8 billion resulted mainly from: the partial repayment of the silent partner contribution of the Free State of Bavaria in the amount of EUR 0.7 billion in compliance with the EU state-aid ruling; the loss absorption by undated silent partner contributions in the amount of about 18.8 percent of nominal value (EUR 0.5 billion); the set off of the loss absorption against the capital reserves and retained earnings (EUR 0.8 billion); the impact from the remeasurement of defined benefit pension plans in the amount of EUR 0.7 billion; and the clawback payments in accordance with the EU state-aid ruling in connection with the sale of the ABS portfolio. EUR 0.8 billion in the form of a shareholder transaction arising from the guarantee agreement with the Free State of Bavaria ("Umbrella") was recognised under retained earnings with no impact on the income statement. This was partially matched by an increase in the revaluation surplus of EUR 0.5 billion.

Banking supervisory ratios under CRR/CRD IV for the BayernLB Group (31 December 2013 as per KWG)

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

The figures according to the supervisory reporting as at 31 December were:

EUR billion	31 Dec 2014	31 Dec 2013
Total RWA	76.6	87.6
Own funds	11.4	17.0
• Tier 1 capital	9.6	13.8
• Common Equity Tier 1 capital (CET 1)	9.6	–
Total capital ratio	14.9%	19.4%
Tier 1 capital ratio	12.5%	15.8%
Common Equity Tier 1 capital (CET 1) ratio	12.5%	–

Based on the adopted annual financial statements as at 31 December 2014, the Group had CET 1 of EUR 9.8 billion and a CET 1 ratio of 12.8 percent (fully loaded CET 1 ratio of 10.2 percent). Based on own funds of EUR 11.7 billion, the total capital ratio was 15.3 percent.

The capital ratio under section 26a para. 1 KWG was –0.57 percent. Details on “country by country reporting”, which is also governed under section 26a para. 1 sentence 4 KWG, can be found after the “Auditor’s Report” in these financial statements.

General overview of financial performance

The BayernLB Group’s financial position and financial performance was stable in financial year 2014 despite an environment that remains challenging.

As is evident from its earnings performance in 2014, the BayernLB Group is well on track overall in its core business areas and its business model has proven effective even in the difficult market environment. Moreover, risks were reduced further and appropriate measures taken in the reporting year for the future. Proper account has been taken of the risks.

The Bank’s liquidity was good throughout the reporting period. The Risk Report contains additional information on the financial position.

Events after the reporting period

The following events of major significance to the BayernLB Group occurred after the close of financial year 2014:

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

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

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

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

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

Report on expected developments and on opportunities and risks

Report on expected developments including opportunities and risks

Economic environment

The forecasts set out in the following report relating to the BayernLB Group's performance in 2015 may differ substantially from the actual outcome should one of the following uncertain factors or other uncertainties occur or should the assumptions underlying our forecasts prove incorrect. The BayernLB Group is under no obligation to update its forecasts in light of new information or future events outside the regular reporting schedule.

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

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

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

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

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

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

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

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

The BayernLB Group's future performance

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

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

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

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

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

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

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

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

As the measures for winding down non-core activities were largely implemented in 2014, the BayernLB Group is not expecting its total assets to significantly change in 2015. Funding needs will be on par with the previous year. Funding management will continue to focus on further improving the quality and composition of liabilities (funding mix).

Thanks to BayernLB's still good liquidity and funding situation, and with the expectation that central banks will continue to support the economy with their policies so that the much improved market conditions remain intact, no problems in obtaining liquidity are expected in 2015 regardless of how interest rates trend on markets.

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

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

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

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

The BayernLB Group sees opportunities if the economic data turns out better than expected. A more rapid increase in interest rates would help the contribution from investing capital, and thus net interest income. On the other hand, further falls in interest rates would weigh on the Bank as, for example, it would need to bolster pension provisions.

In 2015, BayernLB expects to post profit before taxes in the mid triple-digit million range, with RoE in the mid single digits and a CIR of around 55 percent. In the medium term BayernLB anticipates stabilising pre-tax return on equity at around 8 percent, with a CIR of about 50 percent. The BayernLB Group's medium-term goal is for total assets of around EUR 240 billion. Its strategy remains focused on providing long-term, full-service, sales-orientated customer relationship management.

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

Risk report

Principles

This risk report is prepared in accordance with the requirements of IFRS 7.31 et seq. on the reporting of risks arising from financial instruments to which the Group was exposed at the end of the reporting period. Presentation of the risks is mainly based on information supplied as a basis for risk management and monitoring to the Board of Management and the Risk Committee of the Supervisory Board (management approach). Credit risk is also presented on the basis of the IFRS consolidated figures (balance sheet approach). In addition, portfolios with elevated risk profiles (as recommended by the Financial Stability Board) and information on forbearance exposure (as recommended by the ESMA) are shown within the report.

The risk report further contains information required in accordance with German Accounting Standard DRS 20. The report also complies with the requirements in section 315 para. 2 no. 5 of the German Commercial Code (Handelsgesetzbuch (HGB)) in conjunction with section 315a para. 1 HGB, which require limited companies (Kapitalgesellschaften) within the meaning of section 264d HGB to describe the key features of the internal monitoring and risk management system used in the consolidated accounting process.

Key developments in 2014

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

The BayernLB Group’s risk profile improved significantly in financial year 2014.

The major contributors to this were the sale of Hungarian subsidiary MKB and the ABS portfolio in the second half of 2014 and the consistently stable risk profile within the core business of BayernLB and DKB.

In particular, the early sale of MKB and the disposal of the ABS portfolio marked a further acceleration in the reduction of RWA in the non-core portfolios. The volume reduction was helped by the sale of the private banking business of Banque LBLux S.A (LBLux) and further shrinkage of the LBLux portfolio transferred to the BayernLB Restructuring Unit in the second half of 2014. As a result, the rescaling plan was again exceeded overall and key EU commitments met ahead of schedule.

Gross credit volume fell by a total of EUR 19.5 billion or 6.8 percent to EUR 265.6 billion.

Portfolio quality benefited primarily from the BayernLB Group’s decrease in size. This was supported by the stable performance of BayernLB’s and DKB’s core business and the positive business and economic environment in the Group’s core German market.

The investment grade share rose to 80.9 percent (FY 2013: 77.1 percent), the non-performing loan ratio fell to 2.5 percent (FY 2013: 3.1 percent). The non-performing loan ratio also contracted in the non-core business to 11.2 percent (FY 2013: 16.5 percent).

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

Internal control and risk management system

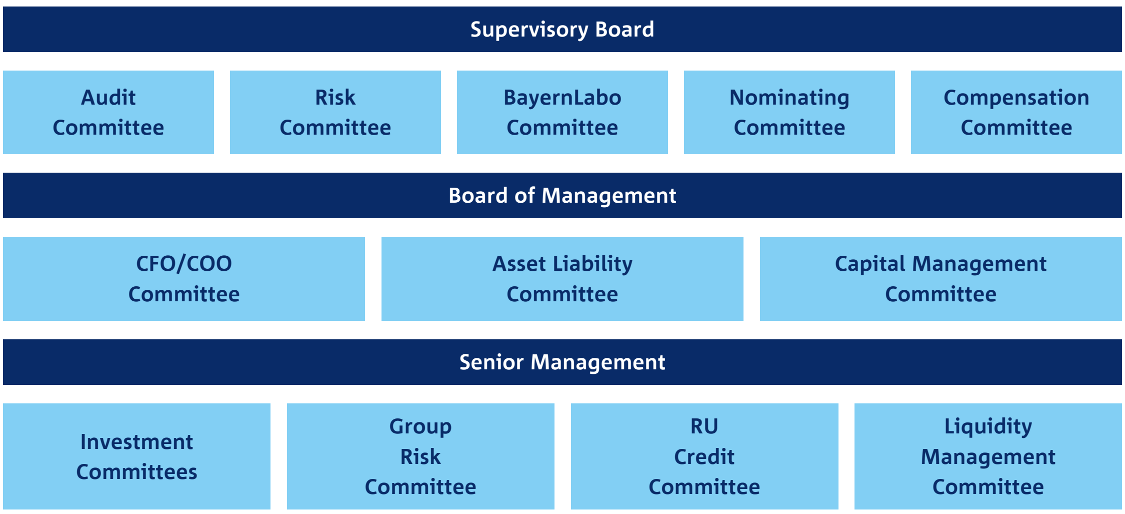
Tasks and objectives

The BayernLB Group 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 the BayernLB Group's financial performance and financial position.

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

Management structure

BayernLB has established an appropriate management structure, which plays a significant role in ensuring risks are monitored.



Management structure

Supervisory Board and committees

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

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

The Risk Committee mainly deals with issues relating to the Risk Strategy approved by the Board of Management and the risk situation on a Group-wide basis and at BayernLB itself. The Risk Committee decides on loans requiring approval by the Supervisory Board under the German Banking Act and BayernLB's competence regulations.

The BayernLabo Committee handles all matters pertaining to Bayerische Landesbodenkreditanstalt (BayernLabo) on behalf of the Supervisory Board and passes resolutions concerning BayernLabo's affairs for which the Supervisory Board is responsible.

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

The Compensation Committee monitors the appropriateness of the compensation schemes for members of the Board of Management and employees, in particular, employees who have a significant impact on BayernLB's total risk profile.

Board of Management and committees

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

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

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

The primary tasks of the Asset Liability Committee (ALCO) are managing and allocating the key resources of capital and liquidity, as well as managing the balance sheet structure. The Asset Liability Committee is supported by the Capital Management Committee (CMC), which mainly comprises the Chief Financial Officer and senior management from the risk control, financial control, treasury and accounting units.

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

Senior Management

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

The Investment Committee decides for Corporates, Mittelstand & Financial Institutions on the German connectivity of customers or transactions, satisfying the conditions for transactions with borrowers imposed by the EU. Moreover, the Investment Committee is a standing body in Corporates, Mittelstand & Financial Institutions and the highest decision-making body with authority to allocate capital and resources below the Board of Management member responsible for the business area. There is also a similar Investment Committee in the Real Estate & Savings Banks/Association business area for the Real Estate division.

The Group Risk Committee focuses on both BayernLB and, in particular, on strengthening Group risk management at BayernLB Group. The Group Risk Committee replaces the former Credit Committee and the Risk Round Tables (the old CRO Board) in the Risk Office at Group level, and votes on both loan decisions which go before the Group Board of Management and also those at DKB above a certain amount and rating structure. The Group Risk Committee remains the highest authority below the Group Board of Management and decides on submissions related to credit risks that do not require the approval of the Board of Management owing to their size. The Group Risk Committee will be looking in greater detail at the Group's total risk profile across all types of risk. Depending on the issue, the Group Risk Committee is chaired by either the head of the Credit Analysis or Group Risk Control divisions within the Risk Office. Furthermore, reflecting Group risk aspects, the senior management of both BayernLB and DKB are represented.

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

In addition to ALCO, the cross-divisional Liquidity Management Committee, under Group Risk Control, provides extra transparency on the liquidity risk and earnings situation, consults with the Group Treasury and Controlling divisions on issues such as liquidity and refinancing strategies and acts as a driving force by preparing courses of action for decisions to be taken by the Asset Liability Committee.

Organisation

Besides separating the functions of the Sales and Risk Office units and the Trading and Settlement units, a business organisation must have adequate internal control procedures and mechanisms to manage and monitor key risks. The Board of Management is chiefly supported in this task by the Risk Office, Restructuring Unit, Financial Office, and Operating Office Central Areas as well as the Corporate Center.

Risk Office

The Risk Office of BayernLB, the Group parent company, comprises the Group Risk Control, Credit Analysis and Research divisions.

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

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

Decisions regarding risk management are made in accordance with the Business Strategy and Risk Strategy, which are harmonised with each other. Credit risk management is a joint responsibility of the Sales units and Risk Office units, with functional segregation being ensured at all times. In this management process, the Credit Analysis division is responsible for analysing, assessing and managing the risk-relevant exposures in the core business (the Risk Office role). It takes the lead in setting the Credit Risk Strategy for individual customers, sectors, countries and special products such as leasing, project finance and acquisition finance, is responsible for ongoing credit and transaction analysis and votes on behalf of the Risk Office in the credit approval process. The same applies to all Group companies.

The Research division is responsible for risk assessment of countries and sectors and issues economic analyses and forecasts and capital market studies and recommendations (including on bonds and notes from individual issuers). The division contributes to risk management at the BayernLB Group and provides analyses and forecasts for BayernLB customers and for the securities and currency business of the Markets business area and the Bavarian savings banks.

Restructuring Unit

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

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

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

Financial Office

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

Its key tasks include preparing the consolidated financial statements and the Group 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 in the Group Accounting Manual, and in the instructions for Group companies for preparing the financial statements.

The consolidated financial statements and Group management report are compiled in accordance with the directives for preparing the annual accounts, produced by directive of the Board of Management, checked by the auditors and submitted to the Supervisory Board for approval. The Supervisory Board has set up an Audit Committee whose duties include discussing the audit reports and preparing the resolution for the Supervisory Board's approval of the consolidated financial statements and Group management report. The Audit Committee also monitors the IFRS accounting process and the efficacy of the internal monitoring, auditing and risk management systems. Upon request, the auditor takes part in the discussions of the Audit Committee and Supervisory Board on the consolidated financial statements and reports on the key findings of its audit.

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

Operating Office

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

Corporate Center

The Group Compliance division monitors and ensures compliance with legal and supervisory requirements and reports directly to the Chief Risk Officer. It also coordinates the compliance activities of the subsidiaries.

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

It carries out the tasks assigned to it independently of the activities, processes and functions to be audited, in accordance with applicable legal and supervisory requirements such as the German Banking Act (KWG) and Minimum Requirements for Risk Management (MaRisk). As Group internal auditor, it also supplements the internal auditing units of subordinate companies.

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

Scope of monitoring and monitoring procedures

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

The rules governing the accounting-related internal monitoring system are set out in the Group directives for preparing the accounts. The main component of these directives is the Group Accounting Manual, which contains key requirements for ensuring accounting policies are uniformly applied throughout the Group based on the regulations that the parent company is subject to. This is supplemented by instructions on preparing the consolidated annual accounts. These are internal guidelines for Group companies included in the consolidated annual financial statements. The instructions on preparing the annual accounts include information on reconciling and eliminating inter-Group transactions, the debt consolidation process, expenses and earnings consolidation, as well as on tasks, contacts and deadlines relating to the preparation of the consolidated annual financial statements. Accounting-related and IT system-related changes, and control procedures for ensuring high quality reporting and data, are also explained.

Based on the Group-wide Group Risk Guidelines, risk management strategies for the Group and individual banks are developed and implemented by means of policies and manuals. These rules govern the risk management and monitoring processes used for the timely identification, full documentation and appropriate disclosure of major risks.

As with the Group Accounting Manual and instructions for preparing the annual accounts, these rules are regularly reviewed, updated and published within the BayernLB Group.

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

When preparing the consolidated annual financial statements, checks are carried out to determine if the underlying data is properly presented, and data in the consolidated financial statements is quality assessed (e.g. applying the dual control principle, conducting plausibility checks). The Group uses server-based consolidation software, for which separate editing and reading rights have been assigned. This software has a number of checks built into the program to ensure entries are properly made and correctly documented.

The consolidated accounting process is checked regularly for inherent risks, so that measures can be taken when necessary to refine the internal control system.

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

Risk-oriented management

Group Risk Strategy

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

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

The Group Risk Strategy sets the following main objectives and guidelines:

Objectives:
- To sustainably preserve capital, both regulatory and economic
- To ensure solvency at all times
- To achieve sustainable earnings using value-based management of RWA

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

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

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

Capital management

Capital management is based on a planning process that incorporates strategic, risk-based and regulatory factors into a long-term operational plan. The starting point of the planning process is to review BayernLB's Business and Risk Strategies at regular intervals and modify them as necessary.

Integrated risk and earnings reporting

The instruments used to manage and monitor the achievement of business and risk strategy goals are constantly refined at Group level. The Asset Liability Committee (ALCO) is the umbrella entity where earnings targets and risk management objectives are brought together. As a committee of the Board of Management, the primary tasks of ALCO are managing and allocating the key resources of capital and liquidity, as well as managing the balance sheet structure. ALCO also manages the risk/reward profile of the Bank's portfolio of its invested own funds. As well as initiating and voting on Group rules, ALCO takes suitable measures within the Group when a liquidity crisis arises.

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

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

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

Regulatory capital adequacy (solvency)

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

Own funds planning is based largely on the internal target Common Equity Tier 1 capital ratio (ratio of Common Equity Tier 1 capital to RWA) and an internally set target total capital ratio (ratio of own funds to RWA) for the BayernLB Group. It establishes upper limits for risk assets, market risk positions and operational risks arising from business activities in the planning period. The impact of market movements – simulated in stress tests – is taken into account by means of capital buffers to ensure solvency ratios are complied with at all times.

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

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

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

Information on the changes in the BayernLB Group's supervisory ratios can be found in the management report of BayernLB's annual accounts under "Banking supervisory ratios under CRR/CRD IV for the BayernLB Group". BayernLB publishes additional information in the disclosure report in accordance with section 26a of the German Banking Act (KWG). The disclosure report can be found on BayernLB's website under "Disclosure Report".

Economic capital adequacy (risk-bearing capacity)

Economic capital adequacy (risk-bearing capacity) is monitored by the Internal Capacity Adequacy Assessment Process (ICAAP) at the level of BayernLB, DKB and BayernLB Group. The aim of ICAAP is to ensure that there is sufficient economic capital at all times for the risks assumed or planned.

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

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

The Risk Strategy allows only a proportion of the available economic capital to be allocated to risk types in the course of business activities. This upper limit at Group level was set at EUR 10 billion for 2014 and was equivalent to 76 percent of total available economic capital as at 31 December 2014. Furthermore the Risk Strategy, in tandem with the Business Strategy, sets the risk appetite and the framework for risk planning by breaking out the allocation basis for the risk types.

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

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

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

Current situation

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

Risk capital requirements

	31 Dec 2014	31 Dec 2013
Risk capital requirements	**3,305**	**4,623**
• credit risk and country risk (counterparty risk)	1,393	2,249
• market risk	1,354	1,697
• operational risk	462	533
• investment risk	96	144

The sharp fall in the risk capital requirement over all types of risk resulted largely from the sale of Hungarian subsidiary MKB in September 2014. In addition to that, BayernLB's portfolio was further reduced in line with strategy by the sale of its ABS portfolio and that of Luxembourg subsidiary LBLux.

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 9.4 billion (FY 2013: EUR 10.2 billion).

The above changes are also mirrored on the capital side of BayernLB Group's risk-bearing capacity. Economic capital fell accordingly to EUR 13.2 billion (FY 2013: EUR 16.5 billion). A severe economic downturn (ICAAP stress scenario) would see 77.8 percent utilisation of available economic capital (FY 2013: 65.1 percent), with the minimum capital ratios also being met in the going concern scenario.

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

Inverse stress testing

Inverse stress tests were conducted at the BayernLB Group level as an integral element of the stress testing programme. Contrary to the logic of conventional stress tests, scenarios that could potentially jeopardise the existence of the BayernLB Group's current business model are identified using a retrograde procedure. Inverse stress tests are conducted for both individual risk types and across all risk types. The integration of different divisions in the scenario parameters makes it possible to analyse varying perspectives of the BayernLB Group'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 the BayernLB Group.

Recovery and resolution planning

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

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

Liquidity management

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

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

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

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

BayernLB started early to increase both the quantity and quality of its substantial liquidity reserves in order to comply with the future requirements under MaRisk and the Capital Requirements Regulation (CRR). This created a stable basis for active management of liquidity reserves in 2014.

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

Credit risk

In accordance with its business model as a corporate and real estate lender and partner to the savings banks with a regional focus on Bavaria and Germany, the largest risk for the BayernLB Group is credit risk. No significant changes have been made in the instruments and methods for measuring, controlling and monitoring credit risks compared to the previous year.

Definition

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

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

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

Credit Risk Strategy and approval process

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

Before transactions are concluded, the Investment Committees check compliance with the Credit and Country Risk Strategy and the guidelines laid down for sectors and transactions, especially compliance with the conditions imposed by the EU that customers/transactions have a connection with Germany.

The credit approval process at BayernLB consists of several stages. The Competence Regulations define the authority of the different competence holders based on the loan volume to be approved, the business area it is allocated to and the rating classification. Credit decisions that ultimately require approval by the Board of Management or Risk Committee of the Supervisory Board must first go through the Group Risk Committee, which itself is a competence holder. Credit decisions on the portfolios to be wound down are taken by the Restructuring Unit Credit Committee. The Supervisory Board's Risk Committee decides on all credits that require the approval of the Supervisory Board under the German Banking Act or the Competence Regulations.

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

The decision-making process at DKB is similarly organised. In addition, members of BayernLB's Board of Management sit on DKB's Supervisory Board and its committees.

Risk measurement and internal rating systems

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

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

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

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

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

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

Limiting risk at the business partner and portfolio levels

In accordance with MaRisk, counterparty risks at borrower and borrower unit level are monitored daily by BayernLB's Group Risk Control division using a limitation system. The limitation process also takes account of the timing structure of default risks by sub-dividing limits into maturity bands. Comparable processes have been implemented in the banking subsidiaries.

To limit large credit risks, the maximum gross credit volume for each economic borrower unit is limited to EUR 500 million Group-wide. Justified exemptions can be approved in accordance with the Competence Regulations.

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

Collateral

Another key way in which risks are limited is by accepting the usual types of bank collateral and valuing them on an ongoing basis. When deciding what collateral is needed, particular account is taken of the type of financing, the borrower's available assets, their value and liquidity and whether the relative costs are reasonable (costs of acceptance and ongoing valuation).

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

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

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

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

Early warning, problem loan handling and forbearance

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

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

By initiating suitable measures as part of an intensive support or problem loan handling process at an early stage, BayernLB aims to minimise or completely prevent defaults from occurring. BayernLB defines forbearance exposures as problem loans in the substandard and doubtful categories.

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

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

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

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

Risk provisions

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

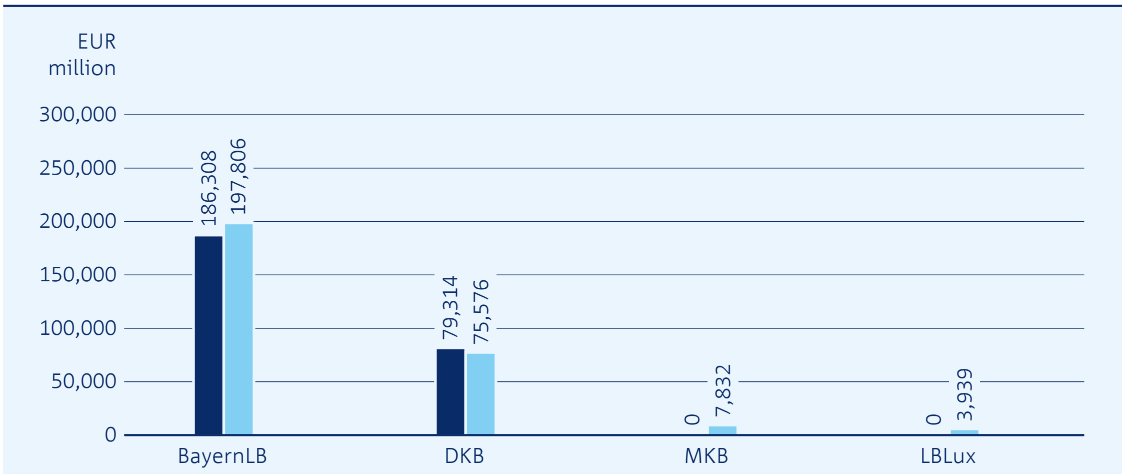
Credit portfolio

The following discussion of the credit portfolio uses both the management approach, which is based on the figures used for internal reporting to the Board of Management and the Risk Committee of the Supervisory Board, and the balance sheet approach, which is based on balance sheet figures and focuses on the value of the financial assets shown in the balance sheet.

For risk management purposes, credit risk is defined differently in some respects than it is for accounting purposes; for example, the former includes only irrevocable credit commitments, while the latter does not. Similarly, the materiality thresholds for including subsidiaries in the MaRisk risk inventory for internal risk management may differ from those used to determine the scope of consolidation. BayernLB and DKB are included in the management approach for 2014, while the figures derived from the balance-sheet approach used for the maximum credit risk pursuant to IFRS 7.36a also take in Real I.S. AG. MKB is no longer included in the full-year figures for 2014, following its disposal. Furthermore, following the sale of LBLux's private banking business, the remainder of its portfolio was transferred to BayernLB.

Credit portfolio in accordance with IFRS 7.34a (Management Approach)

Gross credit volume by unit



■ 31 Dec 2014 Total: EUR 265,622 million
■ 31 Dec 2013 Total: EUR 285,153 million

The main factor affecting the 2014 risk figures was the progress made in complying with the EU conditions: the sales of subsidiary MKB, the ABS portfolio and the private banking business of LBLux. The rest of LBLux's portfolio (some EUR 2.1 billion) was transferred to BayernLB as at 1 July 2014 to be wound down.

Gross credit volume at the BayernLB Group fell year-on-year by a hefty EUR 19.5 billion or 6.8 percent to EUR 265.6 billion. Since implementation of the new business model in 2009, gross credit volume has been cut by a total of EUR 105.0 billion or 28.3 percent.

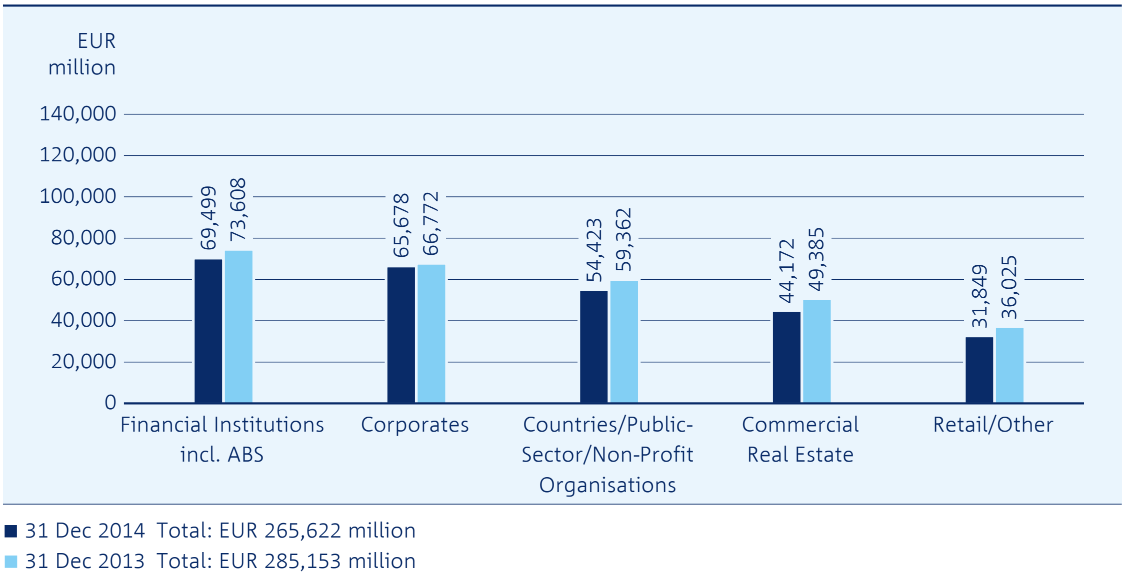
In volume terms, BayernLB dominated with a decrease of EUR 11.5 billion (5.8 percent). Of this amount, maturing business with Landesbanks and savings banks backed by government guarantees accounted for EUR 3.9 billion, while another large part was due to the sale of the ABS portfolio.

In line with the Business Strategy, DKB's credit volume grew by a total of EUR 3.7 billion or 4.9 percent. Most of the growth occurred in the Commercial Real Estate, the Countries/Public-Sector/Non-Profit Organisations and the Corporates sub-portfolios, particularly in the renewable energy segment.

Gross credit volume in the BayernLB Group is broken down below by sub-portfolio, rating category, region and size.

Gross credit volume includes the gross volume of credit transactions (drawdowns plus unutilised commitments and undrawn internal current account facilities, adjusted pursuant to IAS 8.32 – see note 2) and the risk-weighted amounts of trading transactions (market values and the credit equivalent amount from derivatives transactions).

Gross credit volume by sub-portfolio



Gross and net credit volume by sub-portfolio

EUR million	Gross			Net		
	31 Dec 2014	31 Dec 2013	Change (in %)	31 Dec 2014	31 Dec 2013	Change (in %)
Financial Institutions incl. ABS	69,499	73,608	–5.6%	66,821	62,324	7.2%
Corporates	65,678	66,772	–1.6%	50,736	51,476	–1.4%
Countries/Public-Sector/ Non-Profit Organisations	54,423	59,362	–8.3%	52,522	56,775	–7.5%
Commercial Real Estate	44,172	49,385	–10.6%	12,956	13,535	–4.3%
Retail/Other	31,849	36,025	–11.6%	17,216	17,143	0.4%
• of which Retail	31,387	35,202	–10.8%	16,782	16,833	–0.3%
Total	**265,622**	**285,153**	**–6.8%**	**200,252**	**201,253**	**–0.5%**

Net credit volume is calculated as gross exposure less the value of collateral and business that has been placed.

At EUR 200.2 billion, the BayernLB Group's net credit volume in 2014 was largely on par with the previous year's amount.

Financial Institutions sub-portfolio

The Financial Institutions sub-portfolio was one of the main areas to feel the effects of the above portfolio changes, slimming down by EUR 4.1 billion or 5.6 percent. The sale of the ABS portfolio was a major reason for the smaller gross credit volume.

Net volume on the other hand was higher as the ABS portfolio was largely hedged and, in addition, undrawn internal current account facilities (EUR 6 billion) were taken into account for the first time as part of a more conservative approach.

Within the Financial Institutions portfolio, the business with savings banks in the Banks/Savings Banks sub-sector expanded further in line with strategy, rising EUR 1.0 billion to EUR 64.9 billion.

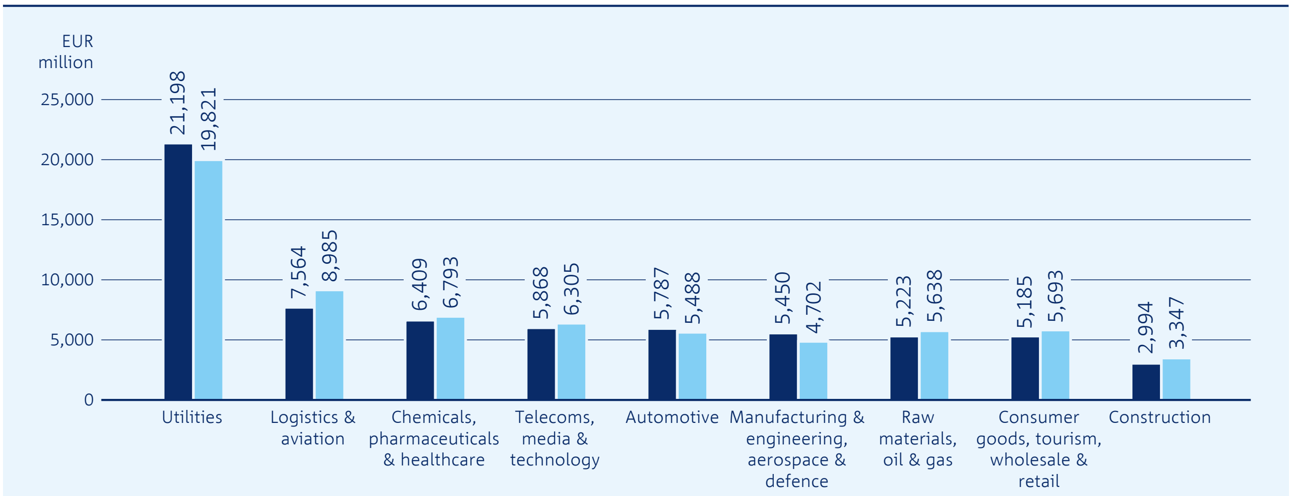
In the insurance sector, credit volume rose slightly by EUR 116 million or 2.6 percent to EUR 4.6 billion despite a EUR 0.5 billion decrease in loans to non-German insurers.

Boosted primarily by the above factors, quality in the Financial Institutions sub-portfolio improved with the share of investment grade assets increasing another 5.0 percent to 93.0 percent.

Corporates sub-portfolio

In order to optimise risk management, the sectors comprising the Corporates sub-portfolio were reviewed. The following chart shows the sectors that now comprise the Corporates sub-portfolio; the prior-year figures have been recalculated on the same basis.

Sector breakdown within the Corporates sub-portfolio



■ 31 Dec 2014 Total: EUR 65,678 million
■ 31 Dec 2013 Total: EUR 66,772 million

On balance, the Corporates sub-portfolio shrank slightly by EUR 1.1 billion or 1.6 percent, with foreign exposures accounting for a disproportionate share of the decrease.

Gross credit volume fell sharply as a result of the sale of MKB and accompanying end of almost all exposures in Hungary and Romania. Foreign exposure was further cut by partial repayments in southern European countries and elsewhere. The inflows were partly offset by new exposures in Canada, Turkey and the UK (EUR 1.2 billion in total).

The gross credit volume of utilities, the largest sector in the Corporates sub-portfolio, rose 6.9 percent to EUR 21.2 billion (FY 2013: EUR 19.8 billion). Renewable energy project financings at BayernLB and DKB together increased by EUR 1.4 billion to EUR 10.5 billion. Lending by the BayernLB Group to this growing sector consists largely of granular transactions for solar power and wind energy business with a connection to Germany. The fact that the portfolio is highly granular can be clearly seen in the share of customers with a gross credit volume of less than EUR 50 million: 95.7 percent. Logistics, by contrast, declined as planned as non-core business continued to be pruned. The bulk of the decrease in exposures occurred in the US, Hungary and Portugal.

In line with strategy, business with German target customers rose another 4.3 percent, bringing the domestic share to 71.4 percent as at year's end. Three large-scale acquisition financing deals amounting altogether to EUR 2.4 billion in the telecoms, media and technology, the automotive and the chemicals, pharmaceuticals and healthcare sectors exemplified how well BayernLB is positioned in the German market.

Customers with a gross credit volume of less than EUR 50 million accounted for 53.6 percent of the Corporates sub-portfolio, underscoring its highly granular structure.

The investment grade share was up slightly over the year before to 68.5 percent (FY 2013: 67.4 percent). The percentage of problem loans in the sub-portfolio dropped sharply as a result of the sale of MKB and disposal of high-risk transactions.

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

The Countries/Public-Sector/Non-Profit Organisations sub-portfolio shrank significantly, dropping by EUR 4.9 billion or 8.3 percent. This resulted primarily from the repayment of transactions with the Federal Republic of Germany, and municipal and state governments in Germany. The foreign portfolio shrank as a result of the sale of MKB in Hungary (EUR 1.4 billion) and Romania (EUR 101 million), while increases came mainly from transactions in the US and France, some of which were for liquidity management purposes.

Commercial Real Estate sub-portfolio

Gross credit volume in the Commercial Real Estate sub-portfolio fell 10.6 percent to EUR 44.2 billion. At Group level the decrease occurred in the non-core portfolio, particularly as a result of the sale of MKB. This was reflected by the repayment of exposures in Hungary and Romania. Consequently, the foreign portfolio fell 30.6 percent to EUR 6.5 billion.

This was partly offset by new business at DKB and in BayernLB's core business. In line with strategy, most of the new business was in Germany, with much of that in the residential asset class. This took the share in Germany to 85.2 percent (FY 2013: 81.0 percent). The Commercial Real Estate sub-portfolio now has the second highest German share after Retail/Other.

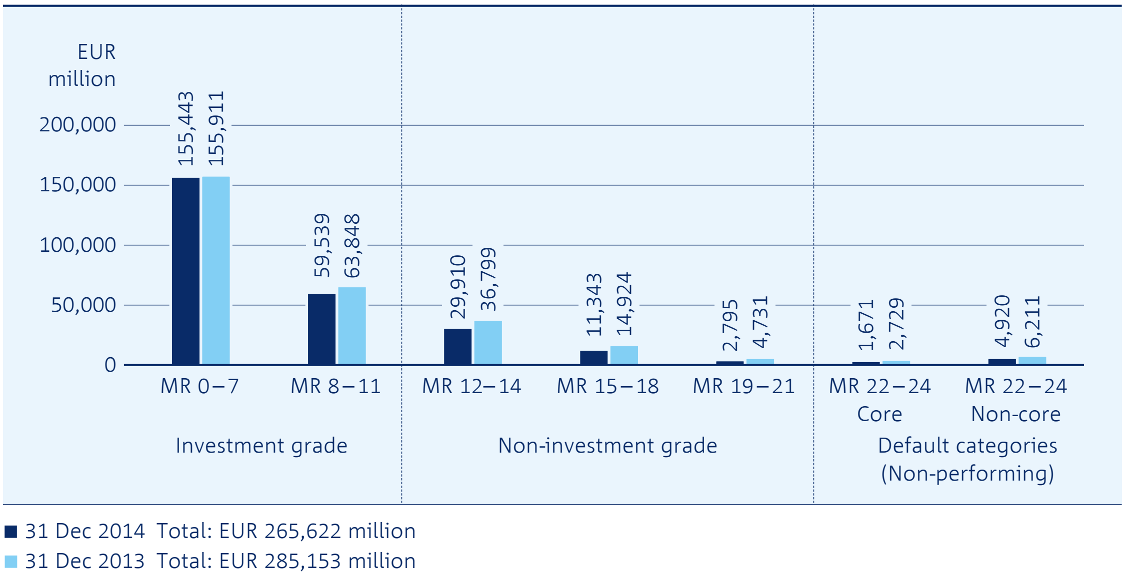
The sub-portfolio is noted for its granularity – with 62.8 percent of gross credit volume lent to customers borrowing less than EUR 50 million, diversification is high. DKB is responsible for a large part of this, accounting for 53.1 percent of the total portfolio.

The investment grade share rose steadily by a further 5.8 percentage points to 74.4 percent. Average group rating improved year on year and is bordering on investment grade. Problem loans fell 48 percent from the previous year, primarily due to repayments and the sale of MKB.

Retail/Other sub-portfolio

In Retail/Other, the smallest sub-portfolio, gross credit volume fell by a total of EUR 4.2 billion or 11.6 percent to EUR 31.8 billion. One of the main reasons for this was the disposal of MKB and LBLux's private banking business. DKB's retail customer business remained stable at the previous year's level.

Gross credit volume by rating category and sub-portfolio



31 Dec 2014 Rating categories (EUR million)	MR 0–7	MR 8–11	MR 12–14	MR 15–18	MR 19–21	MR 22–24	(of which non-core)	Total
Financial Institutions incl. ABS	60,056	4,573	1,048	657	16	3,150	2,980	69,499
Corporates	18,705	26,287	12,957	5,324	985	1,420	711	65,678
Countries/Public-Sector/ Non-Profit Organisations	52,038	782	1,062	487	51	3	–	54,423
Commercial Real Estate	17,843	15,028	6,158	3,055	746	1,342	573	44,172
Retail/Other*	6,801	12,870	8,685	1,820	997	676	656	31,849
Total	**155,443**	**59,539**	**29,910**	**11,343**	**2,795**	**6,591**	**4,920**	**265,622**

31 Dec 2013 Rating categories (EUR million)	MR 0–7	MR 8–11	MR 12–14	MR 15–18	MR 19–21	MR 22–24	(of which non-core)	Total
Financial Institutions incl. ABS	60,058	4,684	3,426	1,480	690	3,270	3,009	73,608
Corporates	16,833	28,193	13,198	6,097	839	1,613	1,020	66,772
Countries/Public-Sector/ Non-Profit Organisations	55,277	1,785	2,072	185	37	5	1	59,362
Commercial Real Estate	17,532	16,343	6,529	4,667	1,722	2,594	1,504	49,385
Retail/Other*	6,211	12,844	11,575	2,494	1,443	1,457	677	36,025
Total	**155,911**	**63,848**	**36,799**	**14,924**	**4,731**	**8,940**	**6,211**	**285,153**

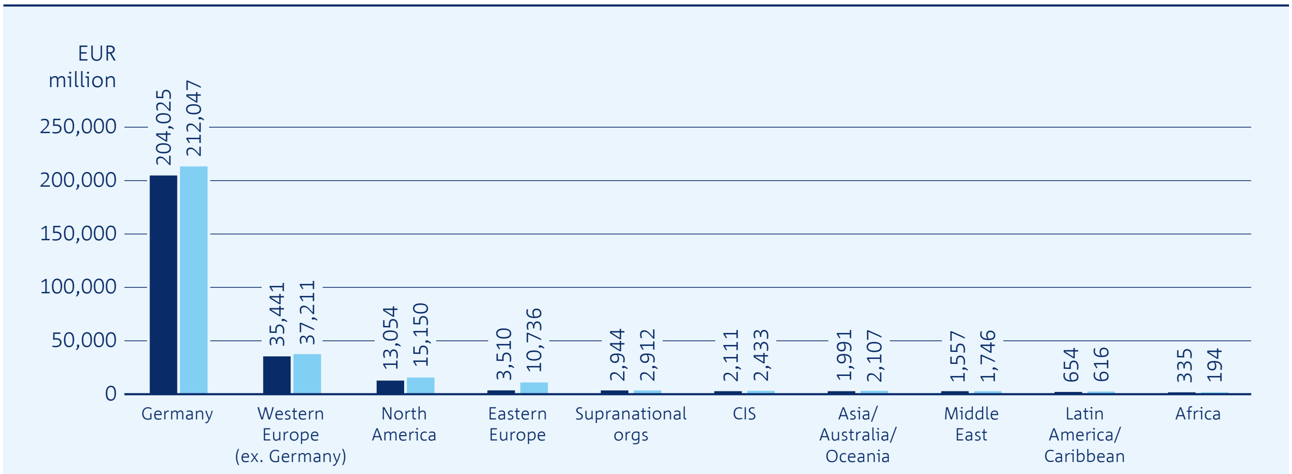
** of which gross credit volumes in Retail of EUR 31.4 billion as at 31 December 2014 and EUR 35.2 billion as at 31 December 2013.*

Credit volume in the best rating categories, MR 0-7, was on par with the year before but fell in all other rating categories.

Consequently, the investment grade share rose by a further 3.8 percentage points to 80.9 percent. This resulted mainly from the sale of MKB and the ABS portfolio and new business with investment grade customers in Germany.

The non-performing loan ratio (NPL ratio) fell from 3.1 percent to 2.5 percent as at 31 December 2014. This equates to an improvement in the NPL ratio in the core business from 1.1 percent to 0.8 percent. The NPL ratio in the non-core business fell to 11.2 percent (FY 2013: 16.5 percent), mainly due to the sale of MKB and the ABS portfolio. Adequate risk provisions were set aside to cover loans added to the default categories.

Gross credit volume by region



■ 31 Dec 2014 Total: EUR 265,622 million
■ 31 Dec 2013 Total: EUR 285,153 million

In line with the Business and the Risk Strategy, Germany accounted for a dominant share of the BayernLB Group's lending with 76.8 percent (FY 2013: 74.4 percent). Gross credit volume amounted to EUR 204.0 billion (FY 2013: EUR 212.0 billion).

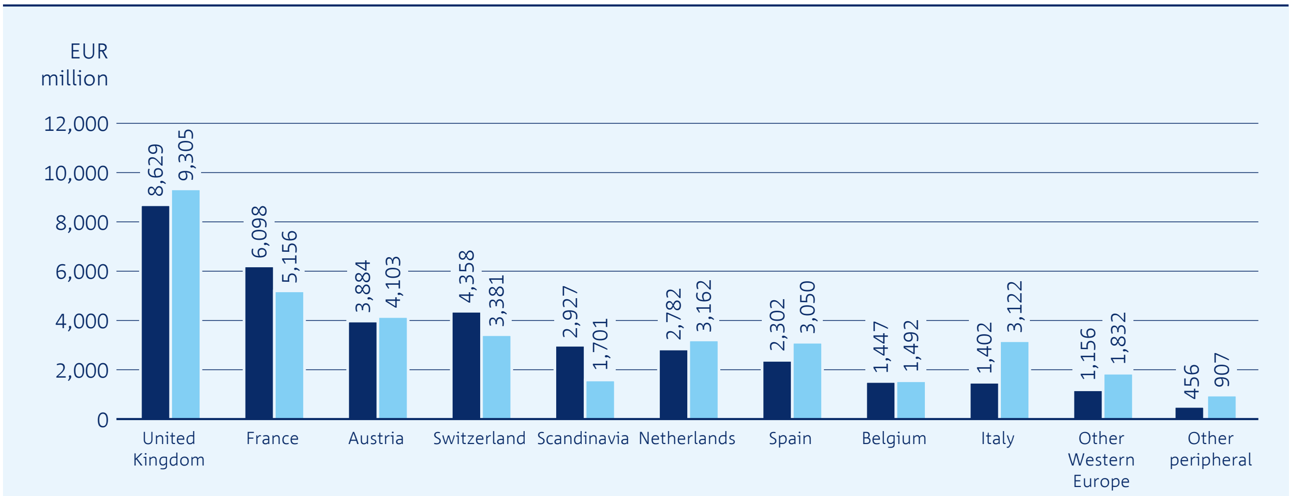
In order to increase transparency in the breakdown of foreign business, the Middle East/Africa region shown in the 2013 annual report has been broken down further into two regions, Middle East and Africa; likewise, Eastern Europe/CIS into Eastern Europe and CIS.

Exposures abroad fell sharply by EUR 11.5 billion or 15.7 percent to EUR 61.6 billion, largely due to steps taken to slim down BayernLB in accordance with the EU plan. The most noteworthy of these were the sale of MKB (FY 2013: EUR 7.8 billion, mainly in Eastern Europe) and the sale of the ABS portfolio (primarily in North America and Western Europe).

Adjusted for this, foreign exposure in the core business was essentially stable. Countries with the largest exposures were the US (EUR 12.0 billion; FY 2013: EUR 14.5 billion), the UK (EUR 8.6 billion; FY 2013: EUR 9.3 billion) and, new to the list, France (EUR 6.1 billion; FY 2013: EUR 5.2 billion).

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

Gross credit volume in Western European countries

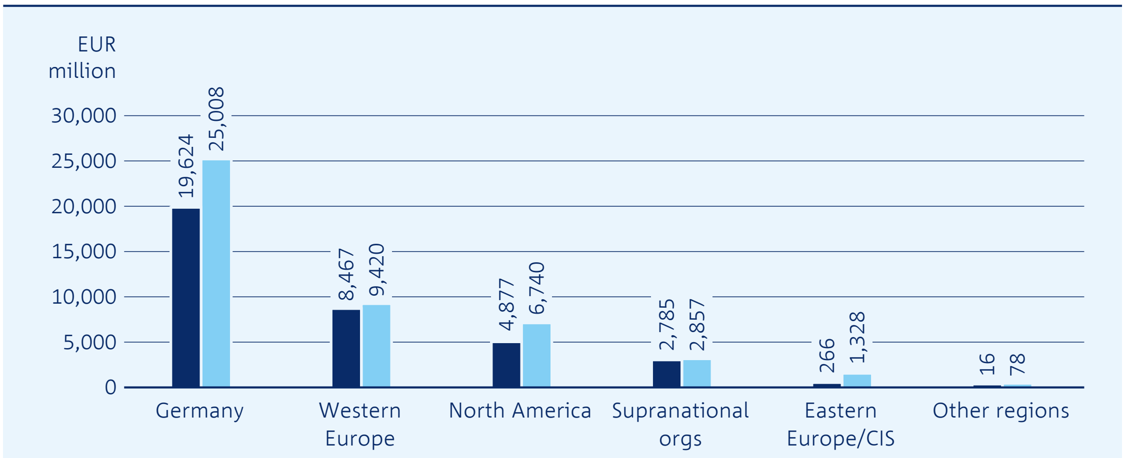


■ 31 Dec 2014 Total: EUR 35,441 million
■ 31 Dec 2013 Total: EUR 37,211 million

Gross credit volume in the peripheral EMU countries affected by the sovereign debt crisis was cut by a further 41.2 percent in 2014 to EUR 4.2 billion, taking its share down further. A detailed breakdown of gross credit volume as in 2013 and the years before that is therefore not provided. The main countries, Italy and Spain, are included in what follows. In Spain, the decrease in gross credit volume occurred mainly in the corporates and ABS sectors. Italy saw a steep decline across all segments, particularly banks and government bonds. Included under Other are Greece, Portugal and Ireland. Greece's credit volume fell to EUR 30 million (FY 2013: EUR 81 million), most of which is already covered by risk provisions.

Trends at the individual country level in 2014 were relatively mixed. Gross exposure in the UK, Spain and Italy declined sharply (not least due to the sale of the ABS portfolio), whereas France, Switzerland and Scandinavia were up. This was partly due to stocking up on highly liquid securities for regulatory purposes.

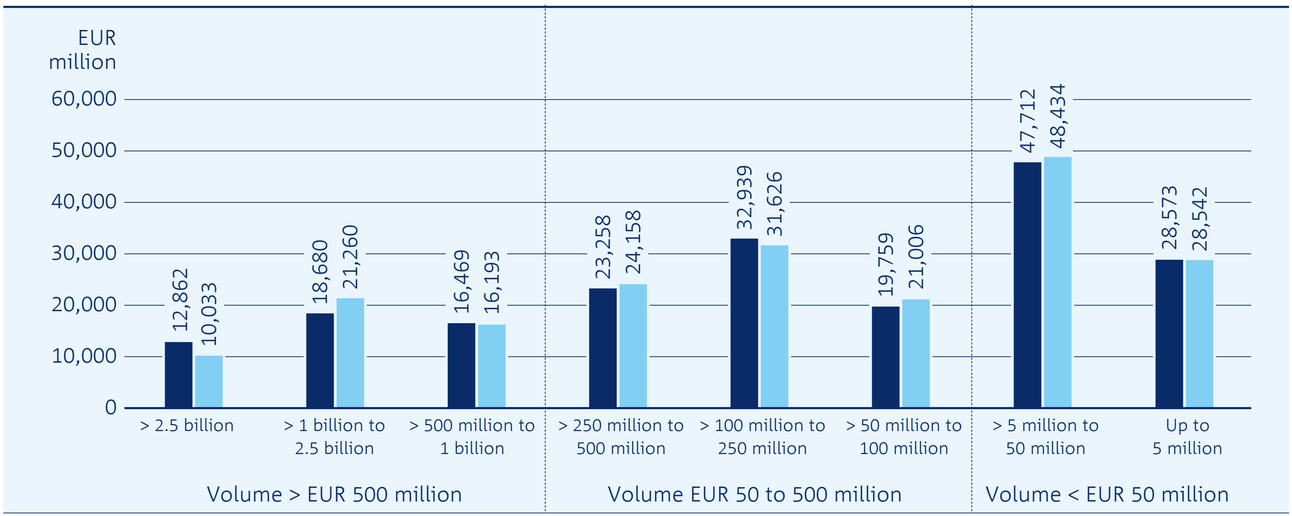
Gross issuer risk by region



■ 31 Dec 2014 Total: EUR 36,035 million
■ 31 Dec 2013 Total: EUR 45,431 million

Gross issuer risk decreased significantly in 2014. The main reason for this was the sale of the ABS portfolio and MKB. Volumes from German issuers also fell sharply, partly the result of low interest rates.

Net credit volume by size



■ 31 Dec 2014 Total: EUR 200,252 million
■ 31 Dec 2013 Total: EUR 201,253 million

Exposure in the two largest size categories (net credit volumes above EUR 1 billion), remained stable year on year at EUR 31.5 billion (FY 2013: EUR 31.3 billion). This mainly consists of loans and advances to Landesbanks, which are almost entirely covered by government guarantees, the Free State of Bavaria and investment grade public-sector borrowers.

Net credit volume in the EUR 100 million to EUR 250 million category rose marginally by EUR 1.3 billion or 4.2 percent to EUR 32.9 billion as a result of a higher number of exposures. The share of investment grade exposures was steady at 93.9 percent.

Net credit volume with customers in the under EUR 5 million category remained stable on the previous year at EUR 28.6 billion and 14.3 percent (FY 2013: 14.2 percent).

Summary

All in all, portfolio quality at the BayernLB Group improved significantly, primarily due to the sales of MKB and the ABS portfolio, but also to the repayment of problem loans. The portfolio remained very granular: exposures with a net credit volume of less than EUR 500 million were in line with the previous year at 76.0 percent (FY 2013: 76.4 percent).

Portfolio overview in accordance with IFRS 7.36a (Balance Sheet Approach)

Maximum credit risk

Based on data from the IFRS consolidated financial statements, the presentation below shows the BayernLB Group's maximum credit risk under IFRS 7.36a taking account of IFRS 7.B9. The gross carrying amounts are reduced by the offsetting amounts calculated in accordance with IAS 32 and impairment losses calculated in accordance with IAS 39. Credit risks included under "non-current assets or disposal groups classified as held for sale" are allocated to the relevant positions in the following (for individual amounts see the details in note 52). Information on forbearance exposures is also included.

Maximum credit risk

EUR million	31 Dec 2014	31 Dec 2013
Cash reserves	**1,041**	**3,190**
• Loans and receivables	1,041	2,719
• Available for sale	–	472
Loans and advances to banks	**36,572**	**42,962**
• Loans and receivables	36,562	42,946
• Fair value option	10	16
Loans and advances to customers	**131,673**	**137,824**
• Loans and receivables	130,925	137,062[1]
• Available for sale	18	25
• Fair value option	729	738
Assets held for trading*	**23,654**	**25,046**
• Held for trading	23,654	25,046[1]
Positive fair values from derivative financial instruments	**2,968**	**2,889**
• Held for trading	2,968	2,889
Financial investments*	**31,799**	**39,246**
• Available for sale	22,398	22,622
• Fair value option	11	1,256
• Loans and receivables	9,390	15,369
Contingent liabilities	**11,489**	**12,153**
Irrevocable credit commitments	**24,065**	**22,255**
Total	**263,260**	**285,565**

** Excluding equity instruments.*

1 Adjusted as per IAS 8.22 (see note 2).

Financial assets that are neither past due nor impaired

31 Dec 2014 in %	Maximum credit risk – Rating categories 0–7	8–11	12–17	18–21	Default categories	Unrated	Total
Cash reserves	**0.4**	**0.0**	**–**	**–**	**–**	**0.0**	**0.4**
• Loans and receivables	0.4	0.0	–	–	–	0.0	0.4
• Available for sale	–	–	–	–	–	–	–
Loans and advances to banks	**10.9**	**2.4**	**0.5**	**0.0**	**0.0**	**0.0**	**13.8**
• Loans and receivables	10.9	2.4	0.5	0.0	0.0	0.0	13.8
• Fair value option	0.0	–	–	–	–	–	0.0
Loans and advances to customers	**22.7**	**13.0**	**9.8**	**1.5**	**0.0**	**1.7**	**48.6**
• Loans and receivables	22.5	13.0	9.8	1.5	0.0	1.7	48.3
• Fair value option	0.2	0.0	0.0	0.0	0.0	0.1	0.3
Assets held for trading	**6.7**	**1.9**	**0.3**	**0.0**	**0.0**	**–**	**9.0**
• Held for trading	6.7	1.9	0.3	0.0	0.0	–	9.0
Positive fair values from derivative financial instruments	**1.1**	**0.1**	**–**	**–**	**–**	**–**	**1.1**
• Held for trading	1.1	0.1	–	–	–	–	1.1
Financial investments	**11.7**	**0.3**	**0.1**	**0.0**	**–**	**0.0**	**12.1**
• Available for sale	8.3	0.2	0.0	–	–	0.0	8.5
• Fair value option	–	0.0	–	–	–	–	0.0
• Loans and receivables	3.3	0.1	0.1	0.0	–	–	3.6
Contingent liabilities	**2.2**	**1.1**	**1.0**	**0.1**	**0.0**	**0.0**	**4.4**
Irrevocable credit commitments	**4.9**	**2.7**	**1.3**	**0.1**	**0.0**	**0.0**	**9.1**
Total	**60.4**	**21.4**	**13.0**	**1.8**	**0.0**	**1.8**	**98.5**

31 Dec 2013 in %	Maximum credit risk Rating categories 0–7	 8–11	 12–17	 18–21	 Default categories	 Unrated	 Total
Cash reserves	**0.9**	**0.0**	**0.2**	**0.0**	**–**	**0.0**	**1.1**
• Loans and receivables	0.9	0.0	0.1	0.0	–	0.0	1.0
• Available for sale	–	–	0.2	–	–	0.0	0.2
Loans and advances to banks	**10.8**	**2.7**	**0.9**	**0.0**	**0.0**	**0.0**	**14.4**
• Loans and receivables	10.8	2.7	0.9[1]	0.0	0.0	0.0	14.4
• Fair value option	0.0	–	–	–	–	–	0.0
Loans and advances to customers	**19.6**	**13.1**	**9.6**	**1.9**	**0.1**	**2.5**	**46.7**
• Loans and receivables	19.3	13.1[2]	9.6	1.9[2]	0.1	2.5	46.5
• Fair value option	0.3	–	–	–	–	–	0.3
Assets held for trading	**7.1**	**1.1**	**0.3**	**0.1**	**0.1**	**0.0**	**8.8**
• Held for trading	7.1[2]	1.1[2]	0.3	0.1	0.1	0.0	8.8
Positive fair values from derivative financial instruments	**1.0**	**0.0**	**–**	**–**	**–**	**–**	**1.0**
• Held for trading	1.0	0.0	–	–	–	–	1.0
Financial investments	**11.9**	**0.4**	**0.5**	**0.1**	**0.1**	**0.0**	**13.0**
• Available for sale	6.9[2]	0.2	0.3[1]	–	0.1	0.0	7.4
• Fair value option	0.4	0.0	–	0.0	–	–	0.4
• Loans and receivables	4.6	0.2	0.2	0.1	–	–	5.1
Contingent liabilities	**2.0**	**1.2**	**1.0**	**0.0**	**0.0**	**0.0**	**4.2**
Irrevocable credit commitments	**3.2**	**3.3**	**1.2**	**0.1**	**0.0**	**0.0**	**7.8**
Total	**56.4**	**21.7**	**13.7**	**2.2**	**0.3**	**2.6**	**97.0**

1 Adjusted as per IAS 8.42 (see note 2).
2 Adjusted as per IAS 8.22 (see note 2).

Financial assets that are past due but not impaired*

31 Dec 2014 EUR million	**Maximum credit risk – Time past due** **≤ 30 days**	**> 30 days to 3 months**	**> 3 months to 1 year**	**> 1 year**	**Total**	**Fair value collateral**
Cash reserves	**–**	**–**	**–**	**–**	**–**	**–**
Loans and advances to banks	**0.0**	**–**	**1.2**	**4.0**	**5.3**	**–**
• Loans and receivables	0.0	–	1.2	4.0	5.3	–
Loans and advances to customers	**272.9**	**197.2**	**10.0**	**21.3**	**501.4**	**75.5**
• Loans and receivables	272.9	197.2	10.0	21.3	501.4	75.5
Assets held for trading	**–**	**–**	**–**	**–**	**–**	**–**
• Held for trading	–	–	–	–	–	–
Positive fair values from derivative financial instruments	**–**	**–**	**–**	**–**	**–**	**–**
Financial investments	**2.9**	**–**	**–**	**–**	**2.9**	**–**
• Available for sale	2.9	–	–	–	2.9	–
Contingent liabilities	**–**	**–**	**–**	**–**	**–**	**–**
Irrevocable credit commitments	**–**	**–**	**–**	**–**	**–**	**–**
Total	**275.8**	**197.2**	**11.3**	**25.3**	**509.6**	**75.5**
Fair value collateral	**51.6**	**9.3**	**3.1**	**11.5**	**75.5**	

31 Dec 2013 EUR million	**Maximum credit risk – Time past due** **≤ 30 days**	**> 30 days to 3 months**	**> 3 months to 1 year**	**> 1 year**	**Total**	**Fair value collateral**
Cash reserves	**–**	**–**	**–**	**–**	**–**	**–**
Loans and advances to banks	**8.0**	**0.0**	**439.4**	**1,095.1**	**1,542.5**	**–**
• Loans and receivables	8.0	0.0	439.4[1]	1,095.1[1]	1,542.5	–
Loans and advances to customers	**534.9**	**197.3**	**183.4**	**167.8**	**1,083.4**	**416.8**
• Loans and receivables	534.9	197.3[1,2]	183.4[1]	167.8[1]	1,083.4	416.8
Assets held for trading	**0.0**	**0.0**	**0.0**	**0.4**	**0.5**	**–**
• Held for trading	0.0	0.0	0.0	0.4	0.5	–
Positive fair values from derivative financial instruments	**–**	**–**	**–**	**–**	**–**	**–**
Financial investments	**–**	**–**	**242.2**	**–**	**242.2**	**–**
• Available for sale	–	–	242.2[1]	–	242.2	–
Contingent liabilities	**5.9**	**0.4**	**1.6**	**1.0**	**8.8**	**5.7**
Irrevocable credit commitments	**14.0**	**4.3**	**1.0**	**0.5**	**19.8**	**14.2**
Total	**562.7**	**201.9**	**867.6**	**1,264.8**	**2,897.1**	**436.7**
Fair value collateral	**205.5**	**53.8**	**74.9**	**102.5**	**436.7**	

The portfolio reflects the creation of portfolio loan loss provisions: “not impaired” in this context means “no specific loan loss provision was made”.
1 Adjusted as per IAS 8.42 (see note 2).
2 Adjusted as per IAS 8.22 (see note 2).

Financial assets that are impaired

EUR million	Maximum credit risk		Fair value collateral	
	31 Dec 2014	31 Dec 2013	31 Dec 2014	31 Dec 2013
Cash reserves	**–**	**–**	**–**	**–**
Loans and advances to banks	**213.8**	**231.5**	**–**	**–**
• Loans and receivables	213.8	231.5	–	–
Loans and advances to customers	**3,239.5**	**3,329.5**	**1,235.9**	**2,249.8**
• Loans and receivables	3,221.5	3,304.9[1,2]	1,218.2	2,225.5[1]
• Available for sale	18.0	24.6	17.7	24.3
Assets held for trading	**–**	**–**	**–**	**–**
Positive fair values from derivative financial instruments	**–**	**–**	**–**	**–**
Financial investments	**1.7**	**2,005.1**	**–**	**–**
• Available for sale	1.6	1,141.9	–	–
• Loans and receivables	0.0	863.2	–	–
Contingent liabilities	**24.6**	**73.6**	**–**	**0.5**
Irrevocable credit commitments	**79.9**	**82.8**	**–**	**0.1**
Total	**3,559.4**	**5,722.5**	**1,235.9**	**2,250.4**

1 Adjusted as per IAS 8.42 (see note 2).
2 Adjusted as per IAS 8.22 (see note 2).

The sharp fall in impaired maximum credit risk is due to the sale of MKB and the ABS portfolio.

Renegotiated credits

Forbearance exposures

31 Dec 2014 EUR million	Forbearance/ deferrals	Impairments	Collateral/financial guarantees received
Loans and advances to banks	0.0	0.0	0.0
Loans and advances to customers	5,228.2	–1,889.9	1,061.8
Credit commitments	145.3	5.0	46.0
Total	**5,373.5**	**–1,884.8**	**1,107.8**

31 Dec 2013 EUR million	Forbearance/ deferrals	Impairments	Collateral/financial guarantees received
Loans and advances to banks	62.3	0.0	0.0
Loans and advances to customers	4,217.3	–823.8	1,963.9
Credit commitments	84.4	3.3	82.5
Total	**4,364.1**	**–820.5**	**2,046.4**

Collateral realisation

In accordance with IFRS 7.38, financial and non-financial assets that were acquired in the reporting period by taking possession of collateral must be disclosed separately. In 2014, realised collateral in the amount of EUR 1.0 million (FY 2013: EUR 83.3 million) was posted to the BayernLB Group's consolidated balance sheet. 100 percent (FY 2013: 97 percent) of the total related to land with buildings. It is envisaged that all the assets acquired will be disposed of and none of them will be administered (FY 2013: 1 percent).

Portfolio overview pursuant to the Financial Stability Board

ABS portfolio

With the sale of its Asset Backed Securities (ABS) portfolio in autumn of 2014, BayernLB now only holds transactions that have been structured for customers (customer transactions).

Customer transactions

The nominal volume of transactions structured for customers fell to a total of EUR 1.7 billion in the reporting period (FY 2013: EUR 2.1 billion).

The main focus of the portfolio, accounting for EUR 1.6 billion (FY 2013: EUR 1.9 million), is on transactions structured for BayernLB's target customers. Trade, leasing receivables and accounts receivables from target customers are financed via the Corelux S.A. ABCP programme, which exists solely for this purpose.

Those transactions not on behalf of target customers are being managed under close observation in the Restructuring Unit with the aim of cutting them back quickly using individual strategies in a way that minimises losses. The volume of transactions not related to target customers shrank significantly to only EUR 45 million (FY 2013: EUR 249 million) after two transactions were wound down.

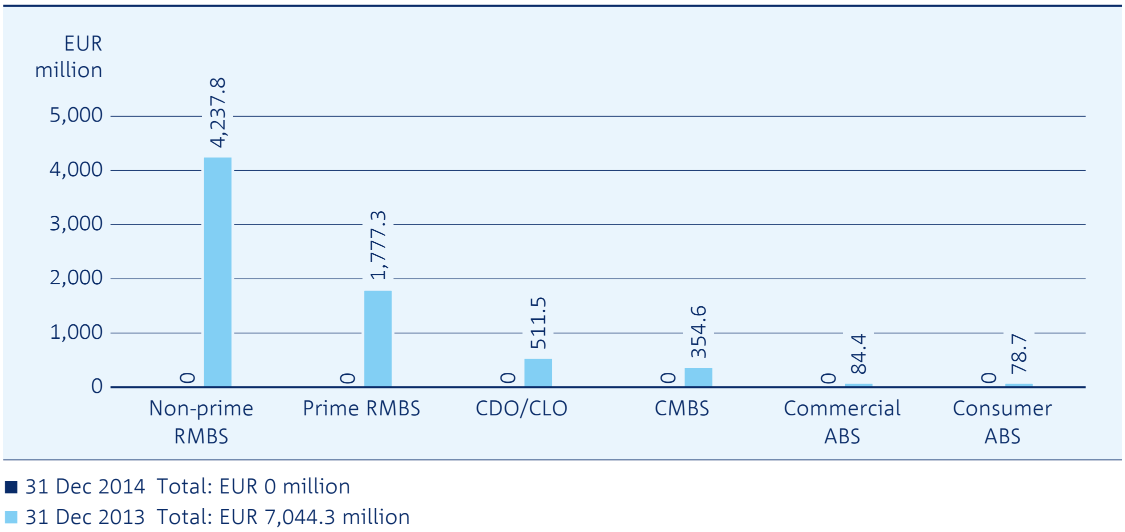
Asset-backed securities

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

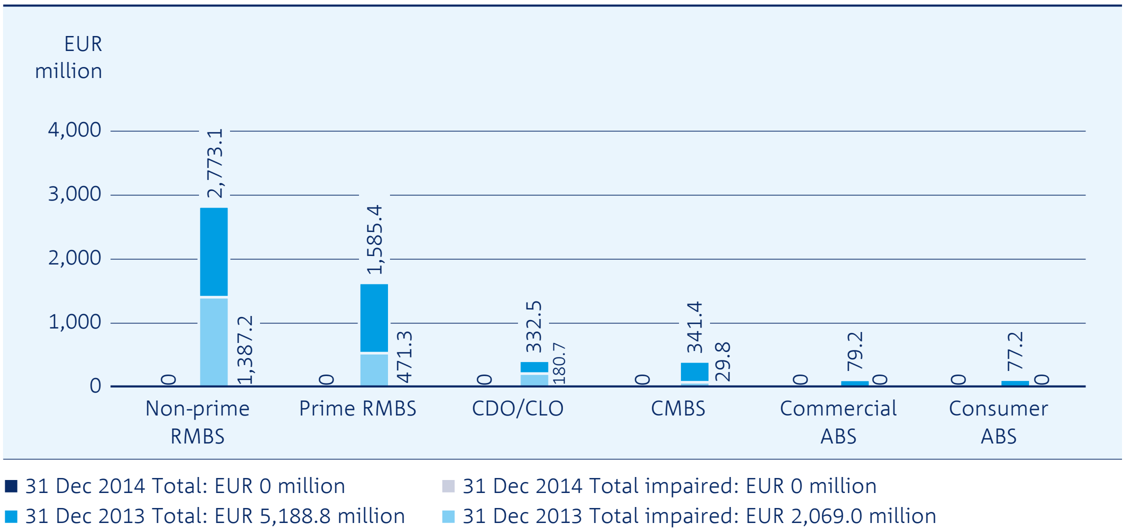
Up to the point of sale, the ABS portfolio was hedged by a guarantee agreement with the Free State of Bavaria. The ABS portfolio hedge by the Free State of Bavaria covered insolvency, non-payment of capital and interest, capital writedowns and losses incurred from any sales before maturity. Besides hedging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

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

ABS portfolio by asset class



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



Monolines

BayernLB's indirect exposure to monolines (insurance companies that specialise in hedging structured securities) fell to a nominal volume of EUR 98 million thanks to the sale of the ABS portfolio in autumn 2014 (FY 2013: EUR 418 million). The rest of BayernLB's indirect credit exposure is scheduled for run off and will shrink as transactions gradually mature.

With regard to its indirect exposure, the monolines are not direct borrowers but serve as guarantors. BayernLB based its credit decisions primarily on the creditworthiness of the actual borrower, issuer or financing structure; the monoline's guarantee was viewed at the time the transaction was concluded only as an additional hedging instrument.

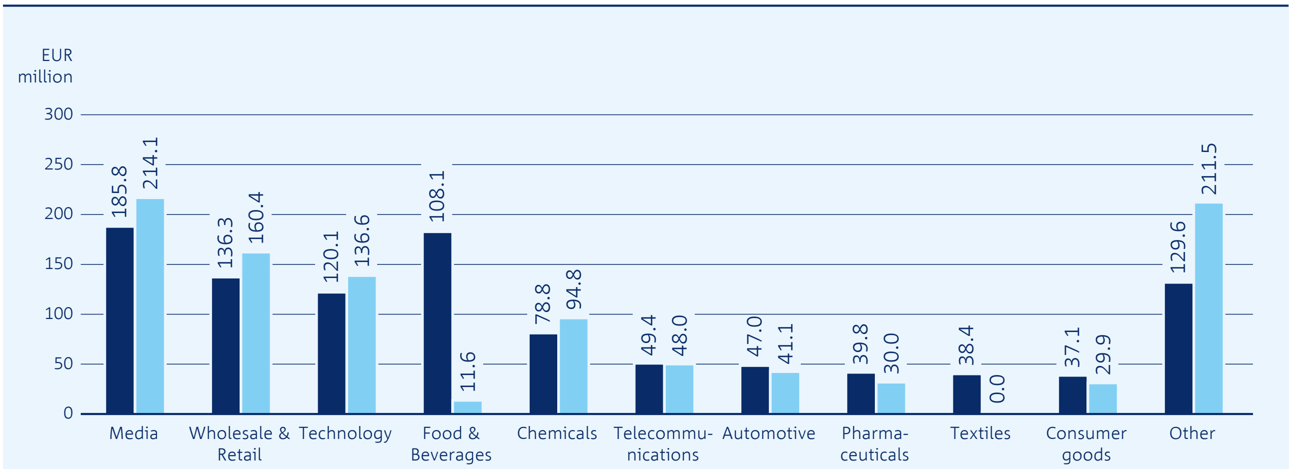
Leveraged finance

This includes leveraged buyouts (corporate acquisitions by financial investors) and corporate to corporate transactions (corporate acquisitions by strategic investors). Leveraged finance transactions generally have comparatively high debt ratios, are serviced from the operating cash flows of the financed entity, and therefore have relatively long terms (normally more than five years).

Credit volume at the BayernLB Group amounted to EUR 971 million, nearly unchanged from the year before (FY 2013: EUR 978 million). The decrease in non-core business was offset by new transactions with target customers. Western Europe's share rose to 16 percent (FY 2013: 7 percent), while Germany's share declined to 84 percent (FY 2013: 93 percent).

Leveraged finance transactions are solely at BayernLB and break down by sector and rating category as follows:

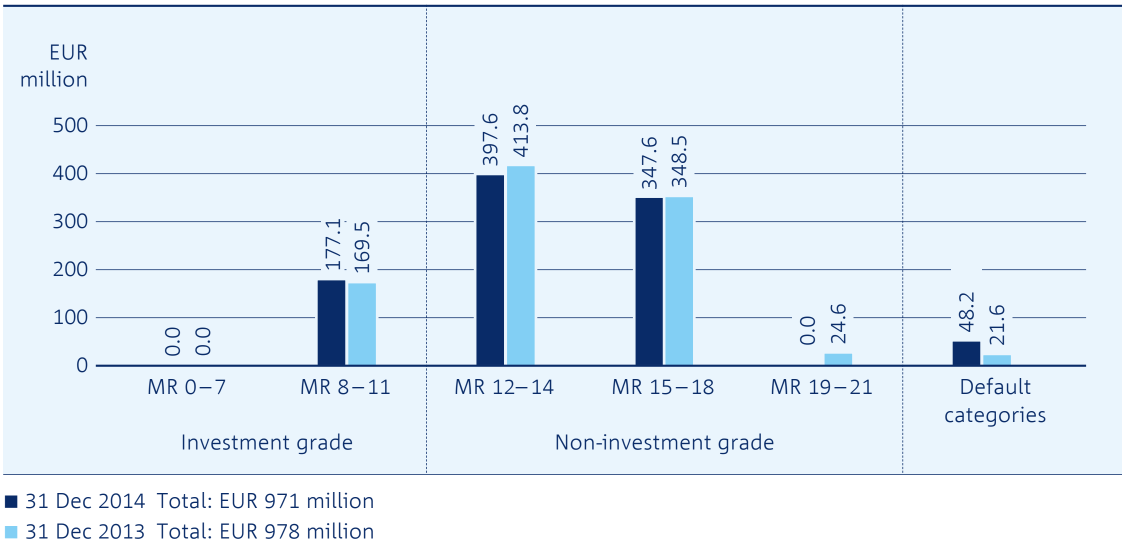
Gross credit volume by sector



■ 31 Dec 2014 Total: EUR 971 million
■ 31 Dec 2013 Total: EUR 978 million

The decrease in non-core business and growth in the volume of new business varied greatly from sector to sector in 2014 leading to changes in their rankings.

Gross credit volume by rating category



Portfolio quality was largely stable over the period under review. The share of the portfolio in master rating categories 0–14 remained nearly unchanged at 59.2 percent (FY 2013: 59.6 percent), risk provision for problem loans rose to 2.3 percent (FY 2013: 0.75 percent).

Summary

Overall, portfolios with elevated risk profiles in the BayernLB Group shrank significantly in 2014.

Investment risk

Definition

Investment risk (shareholding risk) comprises the BayernLB Group's counterparty (default) risk arising from its shareholdings.

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

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

Risk Strategy

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

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

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

Investment risks are handled in accordance with the Group Risk Strategy, which is derived from the Business Strategy. The Bayerische Landesbank Act, the Statutes and the Rules of Procedure of the BayernLB Board of Management set further conditions for the Group Risk Strategy.

Measuring and monitoring risk

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

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

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

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

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

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

Summary

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

Market risk

Definition

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

Risk Strategy

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

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

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

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

Risk measurement

Market risk is normally calculated for operational monitoring and management by using a VaR method based on a one-day holding period and confidence level of 99 percent. In the subsidiaries, besides the historical simulation approach mainly applied by BayernLB, methods such as the scenario matrix method (LBLux) and the variance-covariance approach (MKB, sold at the end of September) are also used. Customer deposits at DKB are modelled using the dynamic replication method.

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

The outcomes of value-at-risk based risk measurement must always be looked at in the context of the assumptions used in the model (mainly the confidence level selected, a one-day holding period, and the use of historical data over a period of around one year to forecast future events). For this reason, stress tests are conducted monthly on the risk positions at each Group institution simulating extraordinary changes in market prices and then the potential risks are analysed. Additional stress tests are used at the individual bank level. Stress tests take into account all relevant types of market risk, are regularly reviewed, and their parameters modified if necessary.

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

Risk monitoring

In the BayernLB Group, several tools are used to monitor and limit market risks, including VaR and related VaR limits, risk sensitivity and stress tests, all of which form part of the mix in the assessment of risk-bearing capacity to various degrees.

Subsidiaries are responsible for monitoring their own market risks internally with their own risk-monitoring units. Their market risks are included in BayernLB's daily risk reports. Market risks are monitored and reported independently of Trading. This is done daily at BayernLB for the trading book and the investment book, and at DKB daily for the A custody account and weekly for the investment book. Besides implementing regulatory requirements, the unit monitoring trading activities ensures risk transparency and regular reporting to those responsible for positions. If a VaR limit is breached, appropriate measures are taken as part of an escalation procedure.

Interest rate risk in the investment book forms part of the regular risk calculation and monitoring processes of the risk-controlling units. Contractual or legal termination rights are modelled as options and incorporated into the risk calculation.

In addition, an interest rate shock scenario of +/–200 basis points is also calculated for the interest rate risk in the investment book at individual entity level and Group-wide. As at 31 December 2014, the calculated change in present value relative to liable capital at both BayernLB and the BayernLB Group was well below the 20 percent limit set in BaFin's criterion for "institutions with elevated interest rate risk".

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

Current situation

At BayernLB Group, the main factor affecting VaR is general interest rate risk. All other types of risk play a much less significant role by comparison.

VaR contribution by risk type (confidence level 99 percent)

			1 Jan 2014 to 31 Dec 2014		
EUR million	31 Dec 2014	31 Dec 2013	Average	Maximum	Minimum
General interest rate VaR	55.1	68.0	56.5	73.4	39.5
Specific interest rate VaR (credit spreads)*	6.2	11.6	9.1	12.2	4.7
Equities VaR	4.5	2.9	3.9	4.8	2.9
Currency VaR	2.0	6.7	4.1	10.2	0.7
Volatility VaR	0.7	0.5	0.7	1.7	0.3
Commodities VaR	0.6	0.9	1.1	2.2	0.6
Total VaR*	**58.2**	**73.9**	**62.3**	**79.0**	**41.4**

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

The decline in general interest rate risk was mainly the result of lower interest rate volatility. General interest rate risk started to rise as from 28 November 2014 as pension liabilities were again included in the calculation, but did not reach the level seen the previous year.

The sale of MKB cut specific interest rate risk and currency risk sharply.

Summary

All in all, market risk fell compared to the end of the previous year due to lower interest rate volatility and the sale of MKB.

Liquidity risk

Definition

The BayernLB Group 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

The BayernLB Group 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 Group to obtain cash at the earliest opportunity at market rates and in accordance with supervisory restrictions. It indicates the ability to cover liquidity gaps and therefore all cash flow-based liquidity risks. The most important components of liquidity counterbalancing capacity are the holdings of highly liquid securities eligible as collateral at the central bank and other collateral eligible for discounting at the central bank.

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

To be adequately prepared for various risk situations, the BayernLB Group also calculates and limits its liquidity on the basis of the management scenario and several stress scenarios (systemic 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 the BayernLB Group.

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

At BayernLB level, a net cash flow figure for the next 180 days is calculated daily for the public Pfandbrief register and the mortgage register. In accordance with section 27 of the Pfandbrief Act (Pfandbriefgesetz), the results and other indicators with respect to the register of cover are reported quarterly to the Board of Management. The balance of cumulative cash flows and available liquidity indicated there was surplus liquidity throughout 2014.

Risk management

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

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

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

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

Operational liquidity management (observation period of up to one year) also ensures compliance with the supervisory requirements of the Liquidity Ordinance (Liquiditätsverordnung (LiqV)). In the year under review, BayernLB had a liquidity ratio of between 1.73 and 2.23 (FY 2013: between 1.70 and 2.07). The supervisory requirement that there is always sufficient available cash to cover callable payment obligations over the same period (ratio always in excess of 1.0) was therefore observed at all times.

The Group's subsidiaries independently ensure that the national and sector-specific liquidity requirements that apply to them are complied with. The key requirements were complied with during the period under review.

Risk monitoring

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

The risk appetite set by the BayernLB Group limits operational and structural liquidity surpluses separately by currency and across all currencies combined. The available liquidity thus calculated is a key parameter for the amount the managing units can use each day. To support the limiting of liquidity risks, BayernLB has established uniform escalation thresholds in the Group which are likewise monitored daily.

In addition to observing the maximum utilisation of available liquidity, ensuring that the time-to-wall figures in the stress scenarios are sufficient is key to complying with the liquidity risk limits. Time-to-wall shows the earliest point at which the forecast liquidity requirement ceases to be met by the liquidity counterbalancing capacity. The time-to-wall to be observed every day and the scenario-dependant minimum liquidity surplus limits to be observed at the BayernLB Group are set in the Group Risk Strategy.

In 2014 the limitation of liquidity risks once again ensured BayernLB was solvent and able to fund itself at all times and made a valuable contribution to optimising the management of short-term and structural liquidity at the BayernLB Group.

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

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

Current situation

The liquidity situation as at 31 December 2014 is shown based on both IFRS 7.39 maturity structures and an economic approach. In accordance with IFRS 7.39, the breakdown of financial liabilities by contractual maturity structure is shown below:

Contractual maturities of financial liabilities*

EUR million	up to 1 month	up to 3 months	up to 1 year	up to 5 years
31 Dec 2014				
• Financial liabilities	47,975	63,935	93,190	136,425
• Liabilities from derivatives	−42	−187	−307	342
Total	**47,933**	**63,747**	**92,883**	**136,767**
31 Dec 2013				
• Financial liabilities	52,909	71,374	95,936	158,658
• Liabilities from derivatives	54	−32	−718	−1,191
Total	**52,963**	**71,342**	**95,217**	**157,467**

** The contractual cash flows reported are not discounted and include interest payments. Thus they may differ from the carrying amounts on the balance sheet.*

The BayernLB Group's open irrevocable commitments rose to EUR 24.1 billion (FY 2013: EUR 22.2 billion). The volume of contingent liabilities from guarantees and indemnity agreements fell to EUR 11.5 billion (FY 2013: EUR 12.1 billion). However, in contrast to the economic approach used below, call probabilities have not been factored into these volumes.

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

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

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

31 Dec 2014 **Cumulative figures** in EUR million	**up to 1 month**	**up to 3 months**	**up to 1 year**	**up to 5 years**
Liquidity surplus (incl. funding capacity and minimum deposits)	**19,393**	**20,367**	**21,296**	**44,596**
• Funding capacity and minimum deposits	0	3,473	14,975	40,474
Liquidity surplus	**19,393**	**16,895**	**6,321**	**4,121**
• arising from				
– liquidity counterbalancing capacity	38,409	36,278	27,594	9,968
• less				
– liquidity gap*	19,016	19,383	21,273	5,847

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

31 Dec 2013* **Cumulative figures** in EUR million	**up to 1 month**	**up to 3 months**	**up to 1 year**	**up to 5 years**
Liquidity surplus (incl. funding capacity and minimum deposits)	**22,867**	**27,678**	**31,317**	**45,176**
Liquidity surplus				
• arising from				
– liquidity counterbalancing capacity	42,374	45,542	48,702	18,259
• less				
– liquidity gap (ex. commitments and guarantees)	15,069	12,480	10,560	–30,257
– liquidity gap from commitments and guarantees	4,438	5,384	6,825	3,341

** Adjusted as per IAS 8.14 (see note 2).*

The liquidity gaps in the first five years decrease by up to EUR 34 billion due to the removal of unsecured funding components (bonds and minimum customer deposit levels). In addition, the removal of secured funding capacity reduces liquidity counterbalancing capacity in the same period by up to EUR 13 billion. The impact of these adjustments to methodology is therefore responsible for the changes in the over three months maturity band in the figures for the liquidity situation. For the purposes of transparency, funding capacity as at 31 December 2014 is presented separately.

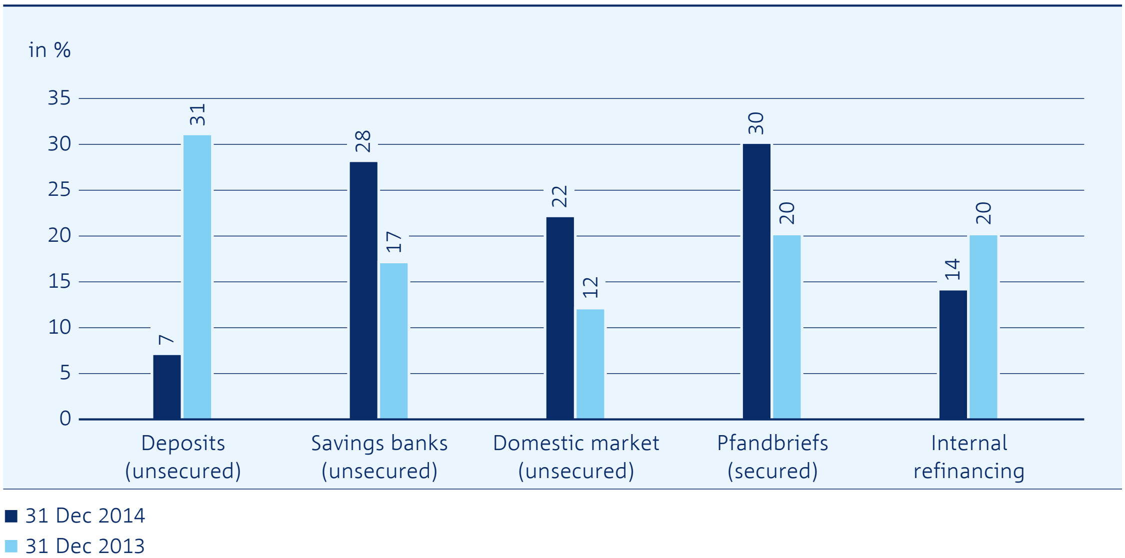
The changes in financial liabilities and liquidity overviews between 31 December 2013 and 31 December 2014 continued to be heavily influenced by the focus on the core business areas coupled with the resizing of the BayernLB Group. The decrease in liabilities up to five years compared to the previous year is due to issues with guarantee obligation that mature by the end of 2015. The impact of these on the liquidity surplus can be clearly seen in the figures for maturities of up to one year. In subsidiaries, the sale of MKB and disposal of much of LBLux's portfolio cut the liquidity surplus by as much as EUR 3 billion compared to 31 December 2013.

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

The recovery of the interbank market was confirmed in 2014. A few longer maturity transactions were executed again. Sufficient reserves are therefore available, supported by appropriate structural refinancing on the capital market (EUR 4.2 billion secured and EUR 7.0 billion unsecured).

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

Refinancing structure



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

Notwithstanding the sale of LBLux's private banking business (EUR –1.7 billion) and the decline in deposits at BayernLB (EUR –0.7 billion), the strong growth at DKB (EUR 3.4 billion) meant a slight rise in deposits overall. However, relative to the other refinancing sources, the growth of just EUR 1 billion was less than in the two previous years (FY 2012: EUR 8.6 billion, FY 2013: EUR 6.0 billion). Deposits as a percentage of the refinancing mix at BayernLB were much lower than in the two previous years (FY 2014: 7 percent; FY 2013: 31 percent; FY 2012: 41 percent).

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

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

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

Summary

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

Operational risk

Definition

In line with the regulatory definition in CRR, the BayernLB Group 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 the BayernLB Group more difficult.

Risk Strategy

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

Risk measurement

For operational risk BayernLB Group uses the standardised approach (STA) set out in CRR/CRD IV to calculate the own funds requirements under CRR/CRD IV (Pillar I) and the risk capital requirement under the risk-bearing capacity assessment (ICAAP)/Basel III (Pillar II). The own funds required for operational risks in the BayernLB Group was EUR 462 million as at 31 December 2014.

Risk management and monitoring

Operational risk is managed and monitored both centrally in the Group Risk Control division and locally in the individual business areas and central areas. The Group Risk Control division has the authority to establish guidelines for all methods, processes and systems. Responsibility for OpRisk management resides with the business areas and central areas. Banking subsidiaries manage their operational risk through their own risk-controlling units; relevant investments are included in the loss reporting procedure for the BayernLB Group. When it comes to monitoring operational risks both the BayernLB Group loss data and external loss data are taken into consideration, via the OpRisk data consortium DakOR and the ÖffSchOR loss database for publicly known OpRisk losses. Other risk management instruments such as scenario analysis are used (replacing the risk inventory), which go beyond pure quantification of own funds backing and stress scenarios. The stress scenarios are an integral part of the cross-risk stress scenarios in ICAAP.

Reporting

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

Business continuity management

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

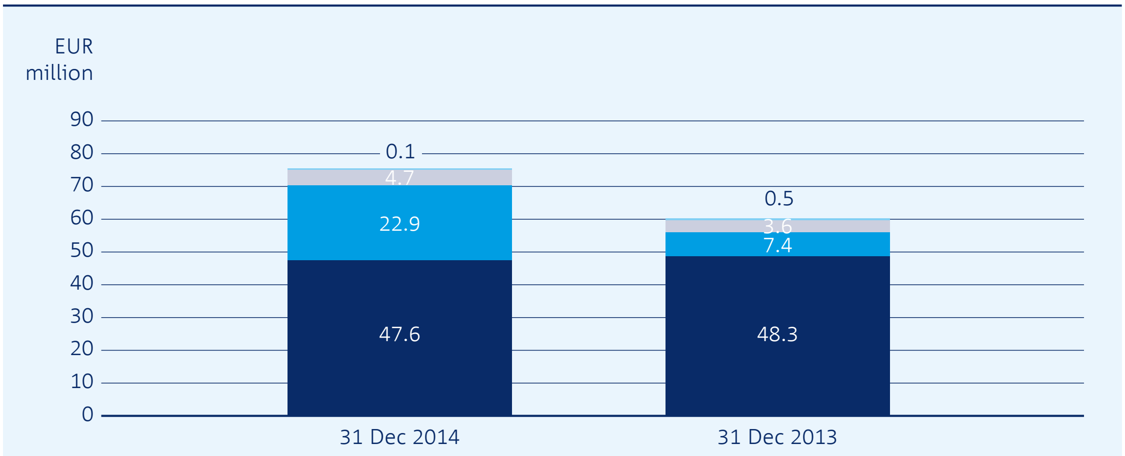
The Group Risk Strategy contains the requirements for BCM, which the Group companies flesh out in their BCM strategies, making allowance for the requirements of supervisory law. The requirements include identifying time-critical activities and processes and specifying business continuity and restart procedures to protect these. They also cover regular testing of the efficiency and suitability of the measures defined. Care is taken to ensure that a clear distinction is made between the management of disruptions, emergencies and crises and that clear escalation and de-escalation processes are in place.

As a key component of BCM, emergency planning features in the Data Security Principles.

Current situation

The graph below shows the changes in operational risk losses recorded at the BayernLB Group in 2014 compared to 2013.

Losses by Group unit



31 Dec 2014 Total: EUR 75.2 million
31 Dec 2013 Total: EUR 59.9 million

■ BayernLB ■ DKB ■ MKB ■ LBLux

The way losses are shown has been changed. They are now shown by date of posting, rather than date of reporting as previously. The change in presentation also improves the transparency of overall loss events at the BayernLB Group.

For example, the losses on proprietary software reported in the Group Interim Report for the first half of 2014 were allocated to 2013. This is the main reason why losses shown are higher than in the annual report for the previous year.

The losses at BayernLB in 2014 include EUR 29.6 million from litigation. The increase in operational losses in 2014 at DKB was largely due to the ruling handed down by the Federal Court of Justice on 28 October 2014, to the effect that processing fee clauses in consumer credit agreements have no legal force. No processing fees have been agreed in the consumer lending business at DKB since 2011.

Summary

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

Summary and outlook

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

The BayernLB Group had adequate risk-bearing capacity as at 31 December 2014. The stress scenarios conducted also confirm that adequate capital is held. In addition, BayernLB has a good supply of liquidity on hand. Risk provisions take appropriate account of known risks. Regulatory solvency requirements were met. Own funds available to cover risks amounted to EUR 11.4 billion. For more details please see the section "Banking supervisory ratios under CRR/CRD IV for the BayernLB Group" in the management report.

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

BayernLB Group's consolidated financial statements

Statement of comprehensive income

Income statement

EUR million	Notes		1 Jan – 31 Dec 2014	1 Jan – 31 Dec 2013[1]
• Interest income		7,253		7,638
• Interest expenses		–5,582		–5,959
Net interest income	(29)		1,671	1,679
Risk provisions in the credit business	(30)		–1,498	–320
Net interest income after risk provisions			173	1,359
• Commission income		630		589[2]
• Commission expenses		–381		–378
Net commission income	(31)		249	211
Gains or losses on fair value measurement	(32)		–25	227
Gains or losses on hedge accounting	(33)		–70	–27
Gains or losses on financial investments	(34)		419	125
Income from interests in companies measured at equity			–	41
Administrative expenses	(35)		–1,171	–1,323
Expenses for bank levies	(36)		–4	–5
Other income and expenses	(37)		114	196
Gains or losses on restructuring	(38)		–33	–164
Profit/loss before taxes			**–348**	**639**
Income taxes	(39)		99	–126
Gains or losses on continuing operations			**–249**	**512**
Gains or losses on discontinued operations	(40)		–1,070	–381
Profit/loss after taxes			**–1,320**	**131**
Profit/loss attributable to non-controlling interests			–	–4
Consolidated profit/loss			**–1,320**	**127**

Rounding differences may occur in the tables.
1 Anpassungen gemäß IFRS 5,
2 Anpassung gemäß IAS 8,22 (siehe Note (2)),

Statement of comprehensive income

EUR million	Notes	1 Jan – 31 Dec 2014	1 Jan – 31 Dec 2013
Profit/loss after taxes as per the income statement		**–1,320**	**131[1]**
Components of other comprehensive income temporarily not recognised in profit or loss			
• Changes in the revaluation surplus	(65)	489	–3
– change in measurement		*618*	*–158*
– reclassification adjustment due to realised gains and losses		*34*	*195*
Change not including deferred taxes		652	37
Change in deferred taxes		–163	–40
• Currency-related changes	(65)	102	–31
– change in measurement		*–9*	*–31*
– reclassification adjustment due to realised gains and losses		*112*	*–*
Change not including deferred taxes		102	–31
Change in deferred taxes		–	–
Components of other comprehensive income permanently not recognised in profit or loss			
• Changes due to remeasurement of defined benefit plans	(65)	–732	–80
– change in measurement		*–860*	*–80*
Change not including deferred taxes		–860	–80
Change in deferred taxes		128	–
Other comprehensive income after taxes		**–141**	**–114**
Total comprehensive income recognised and not recognised in profit or loss		**–1,461**	**18**
• attributable:			
– to BayernLB shareholders		–1,464	14
– to non-controlling interests		3	4
• Total comprehensive income attributable to BayernLB shareholders:			
– from continuing operations		–393	412
– from discontinued operations		–1,070	–398

Rounding differences may occur in the tables.
1 Adjusted as per IAS 8.22 (see note 2).

Balance sheet

Assets

EUR million	Notes	31 Dec 2014	31 Dec 2013
Cash reserves	(7, 41)	1,041	3,160
Loans and advances to banks	(8, 42)	37,091	43,470
Loans and advances to customers	(8, 43)	134,017	137,972[1]
Risk provisions	(9, 44)	–3,039	–2,668
Portfolio hedge adjustment assets	(10)	1,602	1,687
Assets held for trading	(11, 45)	24,048	25,337[1]
Positive fair values from derivative financial instruments (hedge accounting)	(12, 46)	2,968	2,889
Financial investments	(13, 47)	32,650	39,720
Interests in companies measured at equity	(14, 48)	–	26
Investment property	(15, 49)	37	99
Property, plant and equipment	(15, 50)	360	619
Intangible assets	(16, 51)	114	154
Current tax assets	(27, 52)	74	76
Deferred tax assets	(27, 52)	314	209
Non-current assets or disposal groups classified as held for sale[2]	(17, 53)	80	2,065
Other assets	(18, 54)	767	668
Total assets		**232,124**	**255,483**

Rounding differences may occur in the tables.
1 Adjusted as per IAS 8.22 (see note 2).
2 Including discontinued operations.

Liabilities

EUR million	Notes	31 Dec 2014	31 Dec 2013
Liabilities to banks	(19, 55)	64,138	71,191
Liabilities to customers	(19, 56)	81,635	86,183
Securitised liabilities	(19, 57)	44,285	52,964
Liabilities held for trading	(20, 58)	17,567	16,672[1]
Negative fair values from derivative financial instruments (hedge accounting)	(21, 59)	2,780	2,846
Provisions	(22, 60)	4,360	3,503
Current tax liabilities	(27, 61)	175	265
Deferred tax liabilities	(27, 61)	28	29
Liabilities of disposal groups[2]	(23, 62)	–	1,438
Other liabilities	(24, 63)	646	522
Subordinated capital	(25, 64)	4,722	4,984
Equity	(65)	11,789	14,886
• Equity excluding non-controlling interests		11,789	14,857
– subscribed capital		5,525	6,846
– compound instruments (equity component)	(25)	143	145
– capital surplus		2,356	3,893
– retained earnings		3,305	4,102[1]
– revaluation surplus		452	−37
– foreign currency translation reserve		8	−92
– net retained profits/net accumulated losses		–	–
• Non-controlling interests		–	30
Total liabilities		**232,124**	**255,483**

Rounding differences may occur in the tables.

1 Adjusted as per IAS 8.22 (see note 2).

2 Including discontinued operations.

Statement of changes in equity

EUR million	Parent									Non-controlling interests	
	Subscribed capital	Specific-purpose capital	Compound instruments (equity component)	Capital surplus	Retained earnings	Revaluation surplus	Currency translation reserve	Consolidated profit/loss	**Equity before non-controlling interests**		**Consolidated equity**
As at 1 Jan 2013	**6,556**	**612**	**182**	**4,036**	**3,511**	**–34**	**–61**	**–**	**14,801**	**102**	**14,903**
Changes in the revaluation surplus						–3			–3		–3
Currency-related changes							–31		–31	–1	–31
Changes due to remeasurement of defined benefit plans					–80				–80		–80
Other comprehensive income					*–80*	*–3*	*–31*		*–113*	*–1*	*–114*
Consolidated profit/loss[1]								127	127	4	131
Total comprehensive income					*–80*	*–3*	*–31*	*127*	*14*	*4*	*18*
Transactions with owners									–		–
Capital increase/ capital decrease	–26		–3	35					6		6
Changes in the scope of consolidation and other	315	–612	–33	297	43				10	–77	–67
Allocations to/withdrawals from reserves				–475	628			–127	26		26
Withdrawals from compound instruments (equity component)									–		–
Distributions on silent partner contributions, profit participation rights and specific-purpose capital									–		–
As at 31 Dec 2013	**6,846**	**–**	**145**	**3,893**	**4,102**	**–37**	**–92**	**–**	**14,857**	**30**	**14,886**

Rounding differences may occur in the tables.

	Parent									Non-controlling interests	
EUR million	Subscribed capital	Specific-purpose capital	Compound instruments (equity component)	Capital surplus	Retained earnings	Revaluation surplus	Currency translation reserve	Consolidated profit/loss	**Equity before non-controlling interests**		**Consolidated equity**
As at 1 Jan 2014	**6,846**	**–**	**145**	**3,893**	**4,102**	**–37**	**–92**	**–**	**14,857**	**30**	**14,886**
Changes in the revaluation surplus						489			489		489
Currency-related changes							99		99	3	102
Changes due to remeasurement of defined benefit plans					–732				–732		–732
Other comprehensive income					*–732*	*489*	*99*		*–144*	*3*	*–141*
Consolidated profit/loss								–1,320	–1,320		–1,320
Total comprehensive income					*–732*	*489*	*99*	*–1,320*	*–1,464*	*3*	*–1,461*
Transactions with owners					–789				–789		–789
Capital increase/capital decrease	–832		–1						–833		–833
Changes in the scope of consolidation and other	–489		–1		18				–472	–32	–505
Allocations to/withdrawals from reserves				–1,536	706			1,320	489		489
Withdrawals from compound instruments (equity component)									–		–
Distributions on silent partner contributions, profit participation rights and specific-purpose capital									–		–
As at 31 Dec 2014	**5,525**	**–**	**143**	**2,356**	**3,305**	**452**	**8**	**–**	**11,789**	**–**	**11,789**

Rounding differences may occur in the tables.
Details on equity can be found in note 65.
1 Adjusted as per IAS 8.22 (see note 2).

Cash flow statement

EUR million	1 Jan – 31 Dec 2014	1 Jan – 31 Dec 2013[1]
Profit/loss after taxes	**–1,320**	**131**
Items in consolidated profit/loss not affecting the cash flow and carryforwards to cash flow from operating activities		
• Depreciation, impairment losses and reversals of impairment losses on receivables and fixed assets	1,808	655
• Changes to provisions	1,251	799
• Changes to other items not affecting cash flow	–2,713	–361
• Gains or losses on the sale of assets	–62	–19
• Other adjustments (net)	–405	–869
Sub-total	**–1,440**	**336**
Changes to assets and liabilities from operating activities		
• Loans and advances		
– to banks	5,450	901
– to customers	356	10,098
• Securities (unless financial investments) and derivatives	10,556	–3,082
• Other assets from operating activities	–110	193
• Liabilities		
– to banks	–6,592	1,463
– to customers	–1,934	–2,802
• Securitised liabilities	–8,119	–7,305
• Other liabilities from operating activities	5	–154
• Cash flows from hedging derivatives	286	704
Interest and dividends received	18,389	16,552
Interest paid	–16,932	–15,363
Income tax payments	–74	14
Discontinued operations	–206	–330
Cash flow from operating activities	**–366**	**1,227**

EUR million	1 Jan–31 Dec 2014	1 Jan–31 Dec 2013[1]
Proceeds from the sale of		
• financial investments	214	855
• interests in companies measured at equity	–	–
• investment property	–	11
• property, plant and equipment	63	3
• intangible assets	1	–
Payments for the acquisition of		
• financial investments	–24	–141
• interests in companies measured at equity	–17	–
• investment property	–1	–74
• property, plant and equipment	–50	–33
• intangible assets	–46	–51
Effects from changes in the scope of consolidation		
• Proceeds from the sale of subsidiaries and other business units	–	9
• Payments for the acquisition of subsidiaries and other business units	–	–
• Discontinued operations	–9	–51
Cash flow from investment activities	**130**	**526**
Cash inflows from allocations to equity	–	35
Disbursements to company owners and minority shareholders	–834	–31
Changes in cash from subordinated capital (net)	–295	–1,374
Cash outflow/inflow from an increase in non-controlling interests	–	–
Cash flow from financing activities	**–1,129**	**–1,371**
Cash and cash equivalents at end of previous period	3,160	2,583
+/– cash flow from operating activities	–366	1,227
+/– cash flow from investment activities	130	526
+/– cash flow from financing activities	–1,129	–1,371
+/– exchange-rate, scope of consolidation and measurement-related changes in cash and cash equivalents	–754	196
Cash and cash equivalents at end of period	**1,041**	**3,160**

Rounding differences may occur in the tables.
Details on the cash flow statement can be found in note 75.
1 Adjusted as per IAS 8.42 (see note 2).

of which cash flow from discontinued operations

EUR million	1 Jan – 31 Dec 2014	1 Jan – 31 Dec 2013
Profit/loss after taxes	**–219**	**–411**
Items in consolidated profit not affecting the cash flow and carryforwards to cash flow from operating activities		
• Depreciation, impairment losses and reversals of impairment losses on receivables and fixed assets	74	164
• Changes to provisions	149	32
• Changes to other items not affecting cash flow	287	594
• Gains or losses on the sale of assets	26	52
• Other adjustments (net)	–133	–279
Sub-total	**184**	**150**
Changes to assets and liabilities from operating activities		
• Loans and advances		
– to banks	–611	–78
– to customers	–10	490
• Securities (unless financial investments) and derivatives	–237	52
• Other assets from operating activities	5	–7
• Liabilities		
– to banks	–273	–1,185
– to customers	188	–249
• Securitised liabilities	–7	91
• Other liabilities from operating activities	–31	14
• Cash flows from hedging derivatives	–	–
Interest and dividends received	234	479
Interest paid	–100	–252
Income tax payments	–1	–1
Discontinued operations	–	–
Cash flow from operating activities	**–659**	**–496**

EUR million	1 Jan – 31 Dec 2014	1 Jan – 31 Dec 2013
Proceeds from the sale of		
• financial investments	–26	–54
• interests in companies measured at equity	6	–
• investment property	–	–
• property, plant and equipment	1	4
• intangible assets	–	–
Payments for the acquisition of		
• financial investments	–2	–
• interests in companies measured at equity	–	–
• investment property	–1	–41
• property, plant and equipment	–5	–11
• intangible assets	–8	–7
Effects from changes in the scope of consolidation		
• Proceeds from the sale of subsidiaries and other business units	–	–
• Payments for the acquisition of subsidiaries and other business units	–	–
• Discontinued operations	–	–
Cash flow from investment activities	**–35**	**–110**
Cash inflows from allocations to equity	267	124
Disbursements to company owners and minority shareholders	–	–
Changes in cash from subordinated capital (net)	–163	–172
Cash outflow/inflow from an increase in non-controlling interests	–	–
Cash flow from financing activities	**104**	**–48**
Cash and cash equivalents at end of previous period	672	1,416
+/– cash flow from operating activities	–659	–496
+/– cash flow from investment activities	–35	–110
+/– cash flow from financing activities	104	–48
+/– exchange-rate, scope of consolidation and measurement-related changes in cash and cash equivalents	92	–90
Cash and cash equivalents at end of period	**174**	**672**

Rounding differences may occur in the tables.
Details on the cash flow statement can be found in note 75.

Notes

Notes to the consolidated financial statements

The consolidated financial statements for Bayerische Landesbank, an institution established under public law, Munich, Germany (BayernLB), for financial year 2014 were prepared in accordance with International Financial Reporting Standards (IFRS) pursuant to Commission Regulation 1606/2002 of the European Parliament and Council of 19 July 2002 (including all addenda), as well as supplementary provisions applicable under section 315a para. 1 of the German Commercial Code (HGB). In addition to the IFRS standards, IFRS also comprise the International Accounting Standards (IAS) and the interpretations of the IFRS Interpretations Committee (IFRIC) and the Standing Interpretations Committee (SIC). All standards and interpretations that are mandatory within the EU for financial year 2014 have been applied.

The consolidated financial statements contain the statement of comprehensive income including the income statement, the balance sheet, the statement of changes in equity, the cash flow statement, and the notes including the segment report. The presentation currency is the euro.

Unless otherwise stated, all amounts are given in EUR million and rounded up or down to the nearest whole figure. Tables may contain rounding differences. Plus or minus symbols are not inserted in front of figures except where they are needed for clarity.

The Group Management Report, which also contains the information required under IFRS 7.31 to IFRS 7.42, has been published in a separate section of the Annual Report.

Accounting policies

(1) Principles

Pursuant to IFRS 10.19, the BayernLB Group's accounts are prepared in accordance with Group-wide accounting and valuation policies. Items are recognised and measured on a going concern basis.

Income and expenses are treated on an accruals basis and recognised in the period to which they are economically attributable.

Estimates and assessments required for recognition and measurement pursuant to IFRS are made in accordance with the respective standards. They are regularly checked and are based on past experience and other factors such as expectations of future events. No assurance as to the reliability of estimates can be given, particularly when calculating the value of risk provisions, provisions, deferred taxes, and the fair value of financial instruments.

An asset is recognised when it is probable that the economic benefits will flow to the BayernLB Group in the future and its cost can be measured reliably.

A liability is recognised when it is probable that an outflow of resources embodying economic benefits will result from its settlement and the settlement amount can be measured reliably.

Impact of amended and new International Financial Reporting Standards

In the reporting year the following amended or newly issued standards were to be applied for the first time:

- ***IFRS 10, IFRS 11, IFRS 12, IAS 27 and IAS 28***
  The new standards IFRS 10 "Consolidated Financial Statements", IFRS 11 "Joint Arrangements" and IFRS 12 "Disclosure of Interests in Other Entities" deal with the preparation and presentation of consolidated financial statements, the definition and treatment of joint arrangements, and the disclosure of the nature, the risks and the financial impact of interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. As a result of the publication of these standards, the standards IAS 27 "Separate Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures" were amended accordingly. Standard IAS 31 "Interests in Joint Ventures" and interpretations SIC-12 "Consolidation – Special Purpose Entities" and SIC-13 "Jointly Controlled Entities – Non-Monetary Contributions by Venturers" were replaced by the new standards. The amendments to IFRS 10, 11 and 12 contain clarifications on certain transitional guidance and provide relief in the initial application of these standards. BayernLB's consolidated financial statements as at 31 December 2014 were not impacted by the implementation of the new and amended standards, with the exception of the disclosure obligations under IFRS 12, which are shown in notes 4, 84 and 85.

- ***IAS 32***
  The amendment to IAS 32 "Financial Instruments: Presentation" relating to the offsetting of financial assets and financial liabilities further clarified the requirements on offsetting by providing additional guidance. For BayernLB, the amendments, which must be applied retrospectively, had no material impact on the consolidated financial statements as at 31 December 2014.

- ***IAS 36***
  The amendments to IAS 36 "Impairment of Assets" contain minor amendments to the information required in the notes if the recoverable amount of an impaired non-financial asset is determined on the basis of fair value less costs of disposal. There is no impact on BayernLB's consolidated financial statements as at 31 December 2014.

- ***IAS 39***
  The amendments to IAS 39 "Financial Instruments: Recognition and Measurement" permit derivatives to remain designated as hedging instruments in a continuing hedging relationship despite novation if the contract is transferred to a central counterparty because of legal or regulatory requirements and the contractual provisions are modified only to the extent required by the novation. The changes had no impact on the consolidated financial statements of BayernLB as at 31 December 2014.

Voluntary, early application of the following amended or newly issued standards and interpretations incorporated into European law by the European Commission in 2014, whose application becomes mandatory for the BayernLB Group in financial year 2015, was waived as permitted. No early application of the other amended standards incorporated into European law is envisaged.

- ***IAS 19***
  In November 2013 the International Accounting Standards Board (IASB) published amendments to IAS 19 “Employee Benefits”, which specify that contributions from employees to defined benefit plans in the period in which the related service was rendered may be deducted from the current service cost provided that the contributions are not linked to the number of service years. The amendments were incorporated into European law in January 2015 and take effect for EU companies in financial years beginning on or after 1 February 2015. BayernLB does not expect any material impact on its consolidated financial statements as a result.

- ***IFRIC 21***
  In May 2013 the IASB published new interpretation IFRIC 21 “Levies”, which deals with the recognition of liabilities for paying levies imposed by a government that do not meet the definition of income taxes under IAS 12. The interpretation was incorporated into European law in June 2014 and takes effect for EU companies in financial years beginning on or after 17 June 2014. BayernLB does not expect any impact on its consolidated financial statements as a result.

- ***Improvements to IFRS – 2010–2012 cycle and 2011–2013 cycle***
  In December 2013, in its Annual Improvement Cycle the IASB published minor amendments to standards IFRS 2 “Share-based Payment”, IFRS 3 “Business Combinations”, IFRS 8 “Operating Segments”, IFRS 13 “Fair Value Measurement”, IAS 16 “Property, Plant and Equipment”, IAS 24 “Related Party Disclosures”, IAS 38 “Intangible Assets” and IAS 40 “Investment Property”, which were incorporated into European law in December 2014 (2011–2013 cycle) and January 2015 (2010–2012 cycle). The amendments take effect for EU companies in financial years beginning on or after 1 January 2015 or 1 February 2015. No material impact on BayernLB’s consolidated financial statements is expected from these amendments.

The IASB has also issued the following amended and new standards which have not yet been incorporated into European law:

- ***IFRS 9***
  In July 2014, the IASB finished its project to replace the current standard IAS 39 “Financial Instruments: Recognition and Measurement” by publishing the final version of IFRS 9. IFRS 9 contains new requirements on the classification and measurement of financial instruments, new rules on the recognition of impairments of assets and the treatment of hedge accounting. The standard takes effect in financial years beginning on or after 1 January 2018. BayernLB is currently analysing the impact of this new standard on its consolidated financial statements.

- ***IFRS 10, IFRS 12 and IAS 28***
  In September 2014, the IASB issued changes to IFRS 10 “Consolidated Financial Statements” and IAS 28 “Investments in Associates and Joint Ventures” providing clarification in respect of the recognition of gains and losses from the sale or contribution of an investor’s assets to an associate or joint venture. If a transaction involves a business as defined in IFRS 3, the gains or losses must be recognised in full in the investor’s financial statements. If, however, the transaction involves assets that do not constitute a business, a partial gain or loss must be recognised. In December 2014, other amendments to IFRS 10, IAS 28 and IFRS 12 “Disclosure of Interests in Other Entities” were agreed providing clarifications on the application of the exemption of

investment entities from consolidation requirements. Although the amendments published in December 2014 take effect in financial years beginning on or after 1 January 2016, the date of the first-time application of the amendments issued in September 2014 has been postponed until a conflict in the existing requirements in IAS 28 identified by the endorsement process is resolved. No material impact on BayernLB's consolidated financial statements is expected as a result.

- ***IFRS 11***
  In May 2014 the IASB published changes to IFRS 11 "Joint Arrangements" containing the requirements on recognising the acquisition of interests in a joint operation constituting a business as defined by IFRS 3. The amendments take effect in financial years beginning on or after 1 January 2016. BayernLB does not expect any material impact on its consolidated financial statements as a result.

- ***IFRS 14***
  In January 2014, the IASB issued new interim standard IFRS 14, which permits first-time adopters of IFRS under certain circumstances to continue to recognise amounts related to rate regulation in accordance with their previous GAAP requirements. The standard takes effect in financial years beginning on or after 1 January 2016. It will have no impact on BayernLB's consolidated financial statements.

- ***IFRS 15***
  In May 2014, the IASB published the new standard IFRS 15, which deals with the recognition of revenue from contracts with customers. IFRS 15 replaces standards IAS 11 "Construction Contracts" and IAS 18 "Revenue", the interpretations IFRIC 13 "Customer Loyalty Programmes", IFRIC 15 "Agreements for the Construction of Real Estate", IFRIC 18 "Transfers of Assets from Customers" and SIC-31 "Revenue-Barter Transactions Involving Advertising Services" and contains a five-step model for determining when to recognise revenue. IFRS 15 also expands disclosure requirements in this area. Collection of income from financial instruments does not fall within the scope of IFRS 15, but is governed in IAS 39/IFRS 9. The standard takes effect in financial years beginning on or after 1 January 2017. BayernLB is currently assessing the impact of this new standard on its consolidated financial statements.

- ***IAS 1***
  In December 2014 the IASB issued amendments to IAS 1 "Presentation of Financial Statements". They provide clarifications in respect of the materiality and aggregation of items in financial statements, rules on the presentation of subtotals in the balance sheet and statement of comprehensive income, the structure of the notes and the information on the significant accounting policies applied. In addition, interests in entities accounted for using the equity method must be recognised as a separate item. The amendments take effect in financial years beginning on or after 1 January 2016. The impact on BayernLB's consolidated financial statements is being assessed.

- ***IAS 16 and IAS 38***
  In May 2014, the IASB published amendments to IAS 16 "Property, Plant and Equipment" and IAS 38 "Intangible Assets", which clarified in particular that the use of revenue-based methods for calculating depreciation was inappropriate in the case of property, plant and equipment and appropriate only in certain circumstances in the case of intangible assets. The amendments take effect in financial years beginning on or after 1 January 2016. No impact on BayernLB's consolidated financial statements is expected from these amendments.

- ***IAS 16 and IAS 41***
  In June 2014, the IASB issued amendments to IAS 16 "Property, Plant and Equipment" and IAS 41 "Agriculture" on the financial reporting for bearer plants. The amendments take effect in financial years beginning on or after 1 January 2016. They will have no impact on BayernLB's consolidated financial statements.

- ***IAS 27***
  In August 2014 the IASB published amendments to IAS 27 "Separate Financial Statements" on the application of the equity method in separate financial statements. The amendments take effect in financial years beginning on or after 1 January 2016. No impact on BayernLB's consolidated financial statements is expected from these amendments.

- ***Improvements to IFRS – 2012–2014 cycle***
  In September 2014, in its Annual Improvement Cycle, the IASB published narrow-scope amendments to the standards IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations", IFRS 7 "Financial Instruments: Disclosures", IAS 19 "Employee Benefits" and IAS 34 "Interim Financial Reporting". The amendments take effect in financial years beginning on or after 1 January 2016. No material impact on BayernLB's consolidated financial statements is expected from these amendments.

(2) Changes on the previous year

Changes in accordance with IAS 8.14 et seq.

From financial year 2014, the BayernLB Group has allocated directly to individual transactions both counterparty risk and its own default risk in respect of OTC derivatives in order to ensure consistent reporting. This change in accounting policy reduced assets held for trading and liabilities held for trading by EUR 125 million as at 31 December 2013. In the second half of 2014, a change was made to the criteria of when counterparty risk and own default risk in respect of OTC derivatives are material overall in the measurement of fair value and result in the whole financial instrument being classified as Level 3. As a result, in the reporting year, derivative financial instruments with positive fair values of EUR 273 million and derivative financial instruments with negative fair values of EUR 34 million were reallocated to Level 3 from Level 2 (see note 69). No adjustments were made to the previous year as the system is not able to calculate the impact of the retroactive adjustment.

As the service provider for the Free State of Bavaria, Bayerische Landesbodenkreditanstalt collects one-time administrative charges for the Bavarian discounted interest rate scheme (Bayerisches Zinsverbilligungsprogramm), which helps promote the construction of residential housing. To improve the presentation of information in the financial statements, these charges have been recognised from financial year 2014 under net commission income; the related discounts from administrative charges, which were previously recognised under loans and advances to customers, were removed in full from this item. As a result of the change in methodology, net commission income rose by EUR 7 million in financial year 2013; the resulting adjustment in consolidated profit was offset against retained earnings. Accordingly, as at 31 December 2013, loans and advances to customers rose by EUR 7 million. Previously these administrative charges were recognised under interest income at a constant effective interest rate over several periods. Adjustments as at 1 January 2013 were not made as it is not possible to retroactively differentiate all relevant accruals according to the origin of the discount.

Following a revision to the methodology used in the BayernLB Group's management scenario in the first half of 2014, changes were made to how the liquidity situation is presented in the Management Report (Risk Report) in accordance with IFRS 7.39 in order to increase transparency and improve liquidity risk management. Funding capacity and minimum deposits were removed from the liquidity surplus and are now reported in the new limiting of liquidity risks. No adjustments were made to the previous year as the system is not able to calculate the impact of the retroactive adjustment.

Changes under IAS 8.32 et seq.

In the reporting year the BayernLB Group made changes to estimates of measurement parameters for calculating liabilities under IAS 19 and refined measurement methods. The changes in measurement produced a charge of EUR 865 million, reducing retained earnings by EUR 845 million. Of this amount, the decrease in the discount rate for pension obligations accounted for EUR –829 million, the increase in estimated future medical costs for pension obligations for EUR –15 million and the refinement of measurement methods for EUR –1 million. The decrease in the discount rates for restructuring liabilities and liabilities from jubilee benefits, the increase in estimated future medical costs for restructuring liabilities and the adjustment in the turnover rate for liabilities from jubilee benefits had an impact of EUR –22 million on gains or losses on restructuring and decreased administrative expenses by EUR 2 million. As a result of the adjustments, pension obligations rose by EUR 845 million and restructuring liabilities by EUR 22 million, while liabilities from jubilee benefits fell by EUR 2 million. The changes in estimates and refinement of measurement methodology will also have an impact on future periods which currently cannot be reliably estimated.

From financial year 2014, a funding valuation adjustment was introduced to take account of bank-specific financing conditions when calculating the fair value of uncollateralised OTC derivative transactions. This resulted in an impact of about EUR –44 million in the reporting year. In addition, all financial instruments recognised at fair value in the balance sheet are now measured uniformly at ask and bid prices. This reduced earnings by EUR 65 million in the reporting year. The changes in accounting estimates will also impact future periods; the size of the impact will also depend on portfolio performance and market conditions.

In the second half of 2014, the method for calculating gross credit volume, which is presented in the Management Report (Risk Report) in accordance with IFRS 7.34, was refined. For the first time, undrawn internal current account facilities were included in gross credit volumes and transactions for the account of third parties and third-party risk removed. As a result, gross credit volumes rose by EUR 644 million in the reporting year. The refinements to the methods of calculating will also have an impact on future periods which currently cannot be reliably estimated.

Changes under IAS 8.41 et seq.

Changes in accordance with IAS 8.41 et seq. were made in relation to the following issues:

In the FY 2013 cash flow statement, some of the amounts in the cash flow from operating activities and the cash flow from investing activities items were misallocated. Consequently, cash flow from operating activities was understated by EUR 898 million and cash flow from investing activities correspondingly overstated by the same amount. The cash flow statement has been adjusted accordingly.

A shareholding assigned to the fair value option measurement category was reported in the available-for-sale category in the notes as at 31 December 2013 in the amount of EUR 119 million. In conjunction with this, in the cash flow statement for financial year 2013, an amount of EUR 56 million was reported in cash flow from operating activities under “Depreciation, impairment losses, and reversals of impairment losses on receivables and fixed assets” instead of under “Changes to other items not affected by cash flow”. The previous year’s figures in the cash flow statement and the notes (see notes 47 and 67) were adjusted accordingly.

In the note “Fair value hierarchy of financial instruments”, under financial instruments measured at amortised cost as at 31 December 2013, liabilities to banks in the amount of EUR 7,077 million, liabilities to customers in the amount of EUR 14,409 million, securitised liabilities in the amount of EUR 38,104 million and subordinated capital in the amount of EUR 3,492 million were allocated to Level 3 instead of Level 2, and securitised liabilities in the amount of EUR 1,925 million and subordinated capital in the amount of EUR 199 million were recognised under Level 3 instead of Level 1. The previous year’s figures were restated accordingly.

In the note “Related party disclosures”, under “Relationships with investees”, the sub-item “contingent liabilities” was understated by EUR 10 million as at 31 December 2013. Furthermore, the short-term benefits for members of the BayernLB Board of Management and the remuneration for former members of the BayernLB Board of Management and their surviving dependants were understated in financial year 2013 by EUR 60,000 and EUR 148,000 respectively. The previous year’s figures were restated accordingly.

In the notes on default risk in accordance with IFRS 7.36 et seq., in the Management Report (Risk Report), as at 31 December 2013, some of the amounts allocated to financial assets that are neither past due nor impaired, the amounts allocated to financial assets that are past due but not impaired and the amounts allocated to impaired financial assets were incorrectly stated. As a result, financial assets that are neither past due nor impaired were overstated by EUR 1,765 million (0.6 percentage points) and, correspondingly, financial assets past due but not impaired were understated by EUR 1,765 million, while the amount of EUR 2 million was allocated to impaired financial assets instead of to past due but not impaired financial assets. The previous year's figures were restated accordingly.

In addition, in the note "Subordinated assets", as at 31 December 2013, financial investments were understated. No adjustments were made to the previous year's figures as the system is not able to calculate the impact of the retroactive adjustment.

(3) Scope of consolidation

Besides the parent company, the group of companies consolidated within BayernLB comprises 14 (FY 2013: 26) subsidiaries that are fully consolidated in accordance with IFRS 10. The first-time application of the new standards IFRS 10 and IFRS 11 did not result in any initial consolidations or deconsolidations.

As at 31 December 2014, the scope of consolidation does not include any companies measured at equity (FY 2013: 3 joint ventures and 4 associates).

Changes at BayernLB

The sale of BayernLB's Hungarian subsidiary bank MKB Bank Zrt., Budapest (MKB) to the Hungarian government closed on 29 September 2014. MKB met the criteria for classification as a discontinued operation as defined by IFRS 5.32 (see note 53) as at 30 June 2014. Between 31 December 2013 and BayernLB's loss of control, the following subsidiaries and associates ceased to belong to the MKB sub-group after being sold off or deconsolidated on the basis of materiality criteria:

Subsidiaries
- Exter-Immo Zrt., Budapest
- NEXTEBANK S.A., Targu Mures
- S.C. Corporate Recovery Management S.R.L., Bucharest

Associates
- Giro Elszámolásforgalmi Zrt., Budapest
- Pannonhalmi Apátsági Pincészet Kft., Pannonhalma

Due to the deconsolidation of the remainder of the MKB sub-group, the following other companies ceased to be consolidated within BayernLB:

Subsidiaries
- MKB Bank Zrt., Budapest
- Euro-Immat Üzemeltetési Kft., Budapest
- Exter-Bérlet Kft., Budapest
- Extercom Vagyonkezelõ Kft., Budapest
- MKB Befektetési Alapkezelõ Zrt., Budapest
- MKB - Euroleasing Autóhitel Zrt., Budapest
- MKB - Euroleasing Autólízing Szolgáltató Zrt., Budapest
- MKB Nyugdíjpénztárt és Egészségpénztárt Kiszolgáló Kft., Budapest
- MKB Üzemeltetési Kft., Budapest
- Resideal Zrt., Budapest

Joint ventures
- MKB Autopark OOD, Sofia
- MKB - Euroleasing Autópark Zrt., Budapest
- MKB - Euroleasing Zrt., Budapest

Associates
- MKB Általános Biztosító Zrt., Budapest
- MKB Életbiztosító Zrt., Budapest

The sale price was EUR 55 million. Assets of EUR 6,128 million and liabilities of EUR 5,510 million were derecognised as a result of the deconsolidation. The deconsolidation loss from the sale of MKB as shown in the income statement of the BayernLB Group was EUR 1,070 million. This includes the losses from the MKB sub-group for January to September 2014 in the amount of EUR 215 million, the measurement loss arising from classification as held for sale in the amount of EUR 251 million and a deconsolidation loss of EUR 604 million. All gains or losses are reported under gains or losses on discontinued operations.

Changes in the consolidated Banque LBLux S.A. sub-group

Immo 3 Rue Jean Monnet S.à r.l., Luxembourg, which was founded on 30 July 2014, was consolidated for the first time and met the criteria for classification as held for sale as at 31 December 2014. It holds Banque LBLux S.A., Luxembourg's land and office buildings.

Changes in the consolidated Deutsche Kreditbank Aktiengesellschaft sub-group

DKB Service GmbH, Potsdam was included within the scope of consolidation for the first time on 1 January 2014 after exceeding a key materiality criterion.

The DKB sub-group sold its 74.9 percent stake in Stadtwerke Cottbus GmbH, Cottbus in a structured tender. The sale is split into three tranches (A, B and C) under the terms of a share sale and transfer agreement dated 27 March 2014.

Control of Stadtwerke Cottbus GmbH ended with the sale of tranche A on 28 April 2014 (25.05 percent of the shares). The remaining shares were recognised at the purchase price agreed for tranches B and C and reported in accordance with IFRS 5 as at 31 December 2014. A fair value writedown was not necessary. As from financial year 2014, the purchaser will have the sole right to all earnings.

Stadtwerke Cottbus GmbH was deconsolidated with effect from 30 April 2014. Assets of EUR 151 million and liabilities of EUR 110 million were derecognised as a result of the deconsolidation. A net loss on deconsolidation in the amount of EUR 13 million was recognised, comprised of approximately EUR –17 million reported under gains or losses on financial investments and about EUR 3 million reported under income taxes. The BayernLB Group's income statement includes a loss of EUR 0.2 million from Stadtwerke Cottbus GmbH for the period January to April 2014.

Determining the scope of consolidation

BayernLB's scope of consolidation is determined by materiality criteria. 136 (FY 2013: 138) companies were not consolidated or measured at equity due to their negligible importance individually or collectively to the financial position and financial performance of the Group. The impact on the balance sheet of the contractual relationships between Group entities and these non-consolidated entities is recognised in the consolidated financial statements.

The list of shareholdings shows all the subsidiaries, joint ventures and associates included in the consolidated financial statements (see note 84).

(4) Consolidation principles

BayernLB, the parent company, and the subsidiaries within the scope of consolidation are presented in the consolidated financial statements as an economic unit. The subsidiaries comprise all entities controlled by the BayernLB Group regardless of their legal structure. These also include structured entities where voting or similar rights are not the dominant factor in deciding who controls the entity. This also includes entities whose relevant activities are predetermined by a narrowly defined purpose in the articles of association or in other contractual arrangements or where control of decisions by the governing body is permanently limited. Structured entities are included in the scope of consolidation if they are subsidiaries and material in the financial position and financial performance of the BayernLB Group.

A subsidiary is controlled if the BayernLB Group is exposed to variable returns as a result of its involvement with this entity or has rights to them and the ability to influence these returns through its power over decisions affecting the entity. The BayernLB Group has control over an entity if it has rights that give it the current ability to direct the relevant activities of the entity. Relevant activities are those that, depending on the nature and the purpose of the entity, significantly affect its returns. Variable returns are all returns that have the potential to vary as a result of the entity's performance. Returns from involvement with an entity may therefore be positive or negative. Variable returns include dividends, fixed and variable interest, remuneration and fees, changes in the value of the investment and other economic benefits.

When assessing whether control exists, all facts and circumstances must be considered. These include voting rights and other contractual rights to direct relevant activities if no economic or other obstacles to the exercise of existing rights exist. Control is exercised on the basis of voting rights if the BayernLB Group holds more than 50 percent of the voting rights based on equity instruments or contractual arrangements and its share of these voting rights gives it substantive power over the relevant activities. Other contractual rights that may give it controlling influence are primarily rights of appointment to or removal from corporate bodies, and rights of liquidation and other decision-making rights. Contractual arrangements designed to protect only the interests of the BayernLB Group as creditor or minority shareholder (protective rights) do not constitute control.

The BayernLB Group therefore also controls a subsidiary if control is exercised by a third party in the interest of and for the benefit of the BayernLB Group (agency relationship). In such a case, if another party with decision-making rights acts as an agent for the BayernLB Group, it does not control the subsidiary as it is only exercising decision-making rights delegated by the BayernLB Group (the principal). To determine whether such delegated decision-making powers exist, an assessment is carried out based on the scope of its decision-making authority, the rights of other parties, the remuneration and the agent's exposure to risk.

In some cases, due to ongoing insolvency proceedings, the BayernLB Group holds more than 50 percent of the voting rights, but without the corresponding controlling influence. Conversely, in certain other cases, the BayernLB Group has contractual rights giving it controlling influence, but holds less than 50 percent of the voting rights.

Subsidiaries are included in the consolidated financial statements of the BayernLB Group through full consolidation. A subsidiary is consolidated from the date on which the BayernLB Group gains control over it.

When accounting for an acquisition, the cost of acquiring the subsidiary is eliminated against the Group's share of the completely remeasured equity on the date of acquisition. This equity is the balance of the assets and liabilities of the acquired company measured at their fair value at the time of initial consolidation adjusted for deferred taxes. If any differences between the higher cost of acquisition and the Group's share of the remeasured equity remain on the assets side, they are recognised in the consolidated balance sheet as goodwill under intangible assets.

Interests in subsidiaries not owned by the parent company are presented within equity as non-controlling interests.

If additional shares are acquired in a company that is already fully consolidated, the transaction is not classified as a business combination as defined in IFRS 3 as control already existed. The acquisition of an interest is reported instead as a transaction with the minority shareholders. The positive or negative differences remaining after eliminating against equity the additional interests acquired are therefore offset against retained earnings and not recognised through profit or loss.

Joint arrangements are based on contractual arrangements on the basis of which two or more partners have joint control. Joint control exists if the partners must cooperate together to direct the relevant activities of the joint arrangement and decisions require the unanimous consent of the partners sharing control. A joint venture is a joint arrangement whereby the partners that have joint control have rights to the net assets of the arrangement. If, however, the partners have rights to the assets, and obligations for the liabilities relating to the joint arrangement, then the arrangement is a joint operation. A joint venture in principle exists if a joint arrangement is embodied in the form of a legally independent person or a corporation with its own assets, so that the BayernLB Group, based on its share of interests in the entity, only has a proportional claim to the net assets of the entity. If a joint arrangement is conducted in a separate vehicle whose legal form does not confer separation of the vehicle's assets and liabilities from the partners, an assessment must be carried out to determine whether it is a joint venture or a joint operation based on the contractual arrangements and the purpose of the joint arrangement. If neither the legal form nor the contractual provisions or other facts and circumstances give any indication as to whether the BayernLB Group has direct rights to the assets or obligations for the liabilities of the joint arrangement, it is deemed to be a joint venture.

Associates are entities over which the BayernLB Group exercises significant but not controlling influence either directly or indirectly through subsidiaries. Significant influence is the power to participate in the financial and operating policy decisions of another entity without exercising control. Significant influence exists if the BayernLB Group holds, as an investor, 20 percent or more of the voting rights either directly or indirectly through subsidiaries. An entity can also be an associate if the BayernLB Group holds less than 20 percent of the voting rights, but, on the basis of other factors, it has the power to participate in the financial and operating policy decisions of the entity. This particularly applies to cases where the BayernLB Group is represented on the entity's governing body and has contractual rights to manage or realise assets, including making investment decisions.

In certain cases, the BayernLB Group holds at least 20 percent of the voting rights in the entity, but cannot exercise significant influence due to contractual or legal restrictions.

Joint ventures and associates that are material for the Group's financial position and financial performance are measured using the equity method and recognised under interests in companies measured at equity. The costs of acquiring these ownership interests and the goodwill are measured on initial consolidation in accordance with the same principles used for subsidiaries. The subsequent reporting of the equity values carried is based on the comprehensive IFRS financial statements of the joint ventures and associates.

Subsidiaries cease to be consolidated on the date the BayernLB Group loses control over the subsidiary. Associates cease to be measured at equity on the date significant influence on the associate lapses. Joint ventures cease to be measured at equity on the date joint control is given up.

The financial statements of the entities included in the consolidated financial statements are prepared as at the parent company's reporting date.

When consolidating debt and earnings and eliminating intragroup earnings from subsidiaries, all receivables and liabilities, income and expenses and intragroup earnings from transactions within the Group are eliminated provided their importance is not negligible.

Interests in subsidiaries, joint ventures and associates not consolidated or measured at equity due to their negligible importance and other ownership interests are reported in the balance sheet under financial investments and measured at fair value.

(5) Currency translation

On initial recognition, assets and liabilities denominated in a foreign currency are translated into the functional currency at the spot rate applicable on the date of the business transaction. In subsequent periods, when translating currency, a distinction is made between monetary and non-monetary items. Monetary assets and liabilities denominated in a foreign currency are translated at the exchange rate at the end of the reporting period. Non-monetary items measured at historical cost are translated using the exchange date of the transaction. Non-monetary items measured at fair value are translated at the exchange rate on the date the fair value was calculated. Income and expenses in a foreign currency are translated into the functional currency at an average exchange rate. Gains or losses on currency translation are recognised in gains or losses on fair value measurement. Currency translation differences from equity instruments in the available-for-sale category are reported in the revaluation surplus and not recognised through profit or loss.

The balance sheet items of the subsidiaries and foreign branches included in the consolidated financial statements are, if their functional currency is not the euro, translated into euros at the exchange rate of the respective currency on the reporting date and the expenses and income translated into euros at an average exchange rate. Currency exchange rate differences arising from this translation are reported in the currency translation reserve within equity.

(6) Financial instruments

Recognition and measurement

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Financial instruments are recognised in the balance sheet from the date on which the entity drawing up the balance sheet becomes a contractual party and entitled to receive the agreed services or obliged to render the agreed services. Purchases or sales of financial assets (regular-way contracts) are normally recognised on the date of the trade. Derivatives (as defined in IAS 39) are always recognised on the date of the trade.

All financial instruments, including derivative financial instruments as defined under IAS 39, must be recognised in the balance sheet and assigned to measurement categories. Financial instruments are initially recognised at fair value, which is the cost of acquisition as a rule.

Financial instruments are subsequently measured in accordance with the measurement category to which they have been assigned. These categories are defined as follows:

Financial assets and financial liabilities at fair value through profit or loss

These include financial instruments and derivatives which are held for trading and reported on the balance sheet in accordance with IAS 39 (held for trading), and financial instruments which are not held for trading for which the fair value option was elected (financial instruments designated at fair value through profit or loss). Derivative financial instruments which are used as hedges and meet hedge accounting criteria under IAS 39 do not come under this category.

- Held-for-trading financial instruments and derivatives:
  These instruments are measured at fair value. Measurement results are reported under gains or losses on fair value measurement. Realised and current income are also normally reported under this item. Current income from derivatives in economic hedges is recognised in net interest income. Derivatives in economic hedges include derivatives for hedging fair value option transactions and derivatives in other economic hedges. These derivatives do not meet hedge accounting criteria under IAS 39. They are used for risk management and have not been concluded for trading purposes. Held-for-trading financial instruments are reported under the assets held for trading and liabilities held for trading items.
- Financial instruments designated at fair value through profit or loss (fair value option):
  The fair value option is applied to reduce or eliminate accounting mismatches and to avoid bifurcating embedded derivatives which must be separated. These instruments are measured at fair value. Measurement results are recognised under gains or losses on fair value measurement. Current income is reported under net interest income. Financial instruments (particularly structured issues and liabilities with embedded derivatives) designated at fair value through profit or loss (fair value option) are mainly reported under loans and advances to banks/customers, financial investments, liabilities to banks/customers, securitised liabilities and subordinated capital.

Held-to-maturity financial investments

These are non-derivative financial assets with fixed or determinable payments and fixed maturities traded on an active market which the BayernLB Group intends to, and is able to, hold until they mature. These instruments are measured at amortised cost. Regular assessments for permanent impairment are carried out. All realised and unrealised gains or losses are reported under gains or losses on financial investments. Current income is recognised under interest income.

At the end of the reporting period, the BayernLB Group held no financial investments designated as held to maturity.

Loans and receivables

These include non-derivative financial assets with fixed or determinable payments which are not quoted on an active market and not held for trading, not designated at fair value through profit or loss (fair value option), and not designated as available for sale. They are measured at amortised cost.

This category includes loans that are mainly reported under loans and advances to banks/customers. The treatment of impairment is described in note 9 on risk provisions. Current income is reported under interest income.

This category also includes securities that were not traded on an active market on the date of recognition or reclassification, and where there is no intention to sell them in the short term. Any necessary impairments are deducted from the carrying amount of the asset. Regular assessments for permanent impairment are carried out. Impairments include specific loan loss provisions and portfolio provisions. Impairments of securities are determined in exactly the same way as for risk provisions (see note 9). Losses arising from impairments and realised gains or losses are recognised under gains or losses on financial investments. Current income and unwinding are reported under interest income. Securities in the loans and receivables category are recognised under financial investments.

Available-for-sale financial assets

These include non-derivative financial assets (mainly securities and interests) which are classified as available for sale or are not assigned to any of the categories described. They are measured at fair value.

Any difference between fair value and amortised cost is shown as a separate item in equity (in the revaluation surplus) and not recognised through profit or loss until the asset is either disposed of or permanently impaired. Gains or losses on their sale or permanent impairment are reported under the gains or losses on financial investments item, and current income in interest income. Available-for-sale financial assets are regularly assessed for objective evidence of impairment (e.g. significant financial difficulties of the issuer or obligor, a breach of contract such as a default or delinquency in interest or principal repayments, high probability of bankruptcy or other financial reorganisation) that has an impact on future expected cash flows. If the asset is an equity instrument, a prolonged or significant decline in the fair value below its cost is also objective evidence of impairment. If the asset is a debt instrument, an additional indicator of impairment, besides the qualitative criteria of IAS 39.59, is a significant decline in the fair value below amortised cost. Where there is no further reason for impairment, writedowns on debt instruments are reversed directly in the income statement up to the value of the amortised cost had there been no impairment and the difference to fair value is recognised in the revaluation surplus in equity. Reversals of equity instrument impairments are recognised directly in the revaluation surplus in equity. Most available-for-sale financial instruments are reported under financial investments.

Financial liabilities measured at amortised cost

Financial liabilities measured at amortised cost include financial instruments not used for trading purposes and for which the fair value option has not been elected. They are measured at amortised cost. Current expenses are reported in interest expenses. Most financial instruments in this category are reported on the balance sheet in the items liabilities to banks/customers, securitised liabilities and subordinated capital.

Renegotiated financial assets (forbearance)

BayernLB defines exposures in problem loan treatment which have been restructured in order to minimise the risk of default as forbearance exposures. An exposure has been restructured if concessions have been granted to a counterparty in financial difficulties. Concessions are defined as the modification of the terms and conditions of the original loan agreement (e.g. a deferral, waiver or standstill agreement) or its financing.

Where a restructuring is credit-rating related, objective evidence of impairment exists. If future incoming payments are likely to be affected, a specific loan loss provision is made in the case of a loan. For a security, the required impairment is deducted from the asset's carrying value and the difference between fair value and amortised costs is recognised through profit or loss.

Restructuring measures that modify the terms of the contract so extensively that they essentially create a new asset must be recognised on the balance sheet by the disposal of the original asset and addition of the new asset. If the carrying amount of the asset to be disposed of differs from the fair value of the asset to be added, the difference between the two must be recognised directly in the income statement.

Offsetting

Financial assets and financial liabilities are offset against each other in accordance with IAS 32.42 if a legally enforceable right to set off the recognised amounts currently exists and an intention exists to settle on a net basis or to realise the asset and settle the liability simultaneously.

Derecognition

Financial assets are derecognised if the contractual rights to cash flows from the assets have lapsed or the BayernLB Group has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognised if the contractual liabilities are discharged, cancelled or expire.

Fair value

The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Market participants are knowledgeable, willing partners that are independent of each other and able to enter into a transaction for the asset or liability. The relevant market for measuring fair value is the most active market that the BayernLB Group has access to (principal market). If no principal market exists, the most advantageous market is used.

Fair value is calculated where possible by reference to a quoted (unadjusted) price on an active market for an identical financial instrument. A market is considered active for a financial instrument if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If no active market exists, fair value is calculated using a range of measurement methods including measurement models based on discounted cash flow methods and indicative valuation prices. The objective is to estimate the price at which an orderly transaction to sell the asset or transfer the liability would take place between market participants at the measurement date under current market conditions. The valuation techniques used maximise the use of observable inputs and minimise the use of non-observable inputs.

Valuation models

The methods used to calculate fair values include recognised valuation models based mainly on observable market data. The discounted cash flow method and option pricing models are among the valuation models used.

If a quoted price is not available for an identical financial instrument, the discounted cash flow method is used for interest-bearing financial instruments. Measurement is based on cash flow structures and takes account of nominal values, residual maturities and the agreed day-count convention. To calculate the cash flow structure, the agreed cash flows are used in the case of financial instruments with contractually agreed fixed cash flows. In the case of variable rate instruments, cash flows are determined using forward curves. Cash flows are discounted using matching currency and maturity and secured and unsecured yield curves, and a risk-adjusted spread. Market data is used where spreads are publicly available. For OTC derivatives, account is taken of counterparty risk and own default risk by considering any netting agreements (credit valuation adjustment/debit valuation adjustment). Any allocations to individual transactions are made on the basis of the relative credit adjustment approach. In the case of uncollateralised OTC derivatives, account is taken of bank-specific financing conditions using a funding valuation adjustment.

Options and other derivative financial instruments with option characteristics are measured largely using the Black-Scholes option pricing model. The following inputs are used in the measurement process: 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.

For options with several possible exercise dates, a binomial model is used. Publicly accessible market data is also used here in the measurement.

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

Summary of the key valuation models by derivative product group

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

Structured products are concluded within structured issues. These structures are each hedged with mirror swaps. Besides using the above methods, these structures are measured largely using short-rate and BGM models (Libor market model) and Monte Carlo simulations.

In the case of equity instruments not traded on an active market, fair value is calculated using recognised valuation methods, particularly the German income method (Ertragswertverfahren). Expected cash flows are based on the forecasts of the entities in question.

To calculate the fair values of lending transactions measured at amortised cost, cash flows are discounted using the risk-free yield curve adjusted by a transaction-specific spread. The spread comprises a margin held constant over the term to cover the costs, the expected gains and a credit component reflecting changes in the creditworthiness of the business partner. On conclusion of a transaction the initial full spread is determined by interpolation. The transaction is measured at its carrying amount (or at par if the transaction is prior to the first-time application of IFRS). At the end of the following month, the current expected loss is determined and used to break down the spread into its margin and credit-rating related portions (on conclusion of the transaction). At the end of each reporting period, the fair value is calculated using the constant margin spread and the credit spread determined on the expected loss applicable at the time.

In the case of deposit-taking business, cash flows are discounted using the risk-free yield curve, and a credit rating and liquidity spread. This spread reflects BayernLB's current credit rating and varies according to the currency and the transaction's collateral status (secured, unsecured, unsecured with guarantee obligation, or subordinated). The added spreads are based on the internal pricing curves of Asset Liability Management and tested for plausibility independently of Trading using the external market interest rate.

The valuation models presented above are used to calculate the fair values of financial instruments in the categories held for trading, fair value option, loans and receivables, available for sale, and financial liabilities measured at amortised cost. The balance sheet items most affected are loans and advances to banks/customers, assets held for trading, positive fair values from derivative financial instruments (hedge accounting), financial investments, liabilities to banks/customers, securitised liabilities, liabilities held for trading, negative fair values from derivative financial instruments (hedge accounting) and subordinated capital.

Embedded derivatives

Embedded derivative financial instruments are recognised as independent derivatives and measured at fair value if they have to be separated from the host contract. If this is the case, the host contract is recognised and measured according to its measurement category. In the case of structured products, no separation is made if the fair value option has been applied.

Hedge accounting

To manage interest rate, currency, equity and other price risks, and credit risks, derivative financial instruments are used to hedge assets or liabilities on the balance sheet. At present, only fair value hedges meet hedge accounting criteria for hedging relationships as defined under IAS 39. Assets or liabilities (or a portion of them) on the balance sheet, or a portfolio of financial instruments, are hedged against changes in fair value resulting from interest rate or currency risk which could affect the earnings for the period. A high degree of effectiveness is needed to ensure changes in the fair value of the hedged underlying transaction in terms of the hedged risk and the hedging derivative lie within a range of 80–125 percent. In the BayernLB Group, fair value hedge accounting is applied in the form of micro fair value hedges, portfolio hedges in the narrow sense and portfolio hedges in the broader sense. Portfolio hedges in the narrow sense are reported in the same way as the underlying and hedging transactions of micro fair value hedges.

The main hedging instruments used are interest rate and currency swaps. Derivatives used to hedge the fair value of assets and liabilities on the balance sheet are measured at fair value and changes in their value are recognised through profit or loss. The carrying amounts of the underlying transactions in micro hedges and in portfolio hedges in the narrow sense are adjusted in line with the measurement results attributable to the hedged risk and recognised through profit or loss. In the BayernLB Group, where the hedging of the fair value on a portfolio basis is carried out in the broader sense, the cumulative measurement results attributable to the hedged risk for financial assets are recognised in the balance sheet under portfolio hedge adjustment assets and the carrying amounts of the underlying transactions left at amortised cost.

Derivative financial instruments in economic hedges that do not meet hedge accounting criteria are recognised and measured in accordance with their categorisation as held for trading. Unlike current income and expenses of held-for-trading derivative financial instruments, the current income and expenses arising from these derivatives are reported under net interest income.

(7) Cash reserves

Cash reserves comprise cash, balances at central banks, debt certificates of public entities, and bills of exchange eligible for refinancing at central banks and not reported as assets held for trading. Except for debt certificates of public entities and bills of exchange, which are recognised at fair value, cash reserves are recognised at nominal value.

(8) Loans and advances

Loans and advances to banks and customers are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market or held for trading purposes. They are measured at amortised cost if they are not categorised as available for sale, fair value option receivables or underlying transactions in an effective fair value hedge. Premiums and discounts are spread over their term and reported in interest income.

Impairments of receivables in the loans and receivables category are reported separately in the balance sheet under risk provisions and shown on the assets side.

(9) Risk provisions

Risk provisions for credit products in the loans and receivables category are reported as a separate item on the assets side. They comprise specific loan loss provisions and portfolio provisions for transactions on the balance sheet. BayernLB exercised its option of making flat-rate specific loan loss provisions for non-material receivables.

To calculate risk provisions, customer relationships in the BayernLB Group are analysed at quarterly intervals as a rule. If objective indications of impairment exist, an examination is carried out to determine if a risk provision needs to be made. These objective indications include interest and principal arrears of more than 30 days or a rating of 19 or worse on a 25-tier scale. If future incoming payments are likely to be affected, a specific loan loss provision is made.

The size of the specific loan loss provision is the difference between the carrying amount of the receivable and the present value of future expected incoming cash flows calculated on the basis of the original effective interest rate using the discounted cash flow method. Additions to or releases of risk provisions are made if expectations of cash flows change. Unwinding – a change in the present value of future expected incoming cash flows over the period – is reported as interest income; the actual interest payments received are subsequently recognised as repayments, and not as interest income. For portfolios composed of similar, immaterial receivables, flat-rate specific loan loss provisions are made on the basis of collective risk assessment. These are also reported under the specific loan loss provisions.

For material and immaterial receivables for which no indications of impairment have been detected on individual examination and no flat-rate specific loan loss provisions have been made, portfolio provisions based on creditworthiness factors are calculated on the basis of historical probabilities of default and loss rates. This uses a procedure based on parameters derived from the Basel II system that are regularly assessed.

Country risks (transfer risk and general political risk) are reflected by making a portfolio provision on the basis of country risk-specific probabilities of default and loss rates if these risks have not already been taken into account through specific loan loss provisions.

Non-recoverable receivables are derecognised; this is carried out by utilising specific loan loss provisions that have already been made. Bad debt losses for which no or insufficient loan loss provisions have been made are charged to existing portfolio provisions (utilisation). An addition of the same size is made to the portfolio provision, which is reported as a direct writedown in risk provisions in the credit business.

Expenses for additions to risk provisions, income from the release of risk provisions and recoveries on written-down receivables are reported in the income statement under risk provisions in the credit business.

(10) Portfolio hedge adjustment assets

This item on the balance sheet shows the changes in value of the underlying transactions for which fair value hedge accounting in the form of portfolio hedges in the broader sense was used.

(11) Assets held for trading

Assets held for trading comprise all held-for-trading financial assets and derivative financial instruments with positive market values reported on the balance sheet in accordance with IAS 39 and not designated as hedging instruments in accordance with hedge accounting criteria under IAS 39. Measurement results and realised and current income from assets held for trading are normally recognised in gains or losses on fair value measurement except for current income from derivatives in economic hedges, which is recognised in net interest income.

If the requirements for offsetting financial assets against financial liabilities are met, the market values from derivative financial instruments are offset against the variation margins received or paid and reported net.

(12) Positive fair values from derivative financial instruments (hedge accounting)

This item on the balance sheet includes derivative financial instruments with positive market values, which are used as hedges and meet hedge accounting criteria as defined in IAS 39. The derivative instruments are measured at fair value. Changes in the fair value of hedging instruments and changes in the fair value of hedged underlying transactions arising from the hedged risk are reported under gains or losses on hedge accounting. Interest income and expenses from hedging derivatives are recognised in net interest income.

If the requirements for offsetting financial assets against financial liabilities are met, the market values from derivative financial instruments are offset against the variation margins received or paid and reported net.

(13) Financial investments

Financial investments comprise financial assets in the fair value option, loans and receivables and available-for-sale categories. Interests in unconsolidated subsidiaries, joint ventures and associates not measured at equity and other interests are classified as available for sale and reported under financial investments unless they are classified as held for sale. Financial investments are measured according to their respective measurement category.

(14) Interests in companies measured at equity

Interests in joint ventures and associates reported in this balance sheet item are measured in accordance with the equity method.

(15) Investment property and property, plant and equipment

Land or buildings leased to third parties or primarily held for capital appreciation is reported on the balance sheet under investment property. Property, plant and equipment comprise owner-occupied property, furniture and office equipment. Mixed-use property that can be disposed of separately is allocated proportionately to the investment property and the property, plant and equipment items. If the property cannot theoretically be divided, the entire property is recognised as investment property only if an insignificant portion of the property (less than 10 percent) is held for internal operations.

Investment property is measured at amortised cost, i.e. assets subject to wear and tear are depreciated on a straight-line basis in accordance with their useful life. In the case of buildings, the components are depreciated over their specific useful life (component approach). Any impairments are also deducted. BayernLB applies the cost model option in IAS 40 to measure investment property.

The criteria for useful life were as follows:

• Buildings	28–90 years
• Furniture and office equipment	3–25 years

When an asset is impaired, an impairment loss is reported. If the reasons for impairment cease to apply, an impairment reversal is made up to the value of the amortised cost.

Subsequent costs are capitalised if they add to the economic benefit of these assets.

Maintenance costs are reported as expenses in the financial year they are incurred.

Depreciation of investment property is reported under other income and expenses, and depreciation of property, plant and equipment under administrative expenses. Impairment reversals are reported in other income and expenses.

(16) Intangible assets

Intangible assets comprise goodwill from consolidated subsidiaries, intangible assets produced in-house (proprietary software) and other intangible assets.

Goodwill

Goodwill is allocated to cash-generating units and tested for impairment at least once a year or whenever there is objective evidence of impairment. The carrying amount of the cash-generating unit including allocated goodwill is compared against its recoverable amount. The recoverable amount is the greater of value in use or the fair value less cost to sell. If the original expected benefits are no longer expected, impairment is charged initially against the unit's goodwill. Any remaining impairment charge that exceeds the unit's goodwill is charged proportionately against the other assets of the cash-generating unit.

Impairment of goodwill is recognised in other income and expenses; impairment reversals are not recognised.

Intangible assets produced in-house and other intangible assets

The costs for software development are capitalised where its production is likely to result in an inflow of economic benefits and costs can be determined reliably. If the criteria for capitalisation are not met, the development costs are immediately expensed in the income statement.

Intangible assets produced in-house and other intangible assets are measured at amortised cost. They are amortised on a straight-line basis over an expected useful life of usually four or five years or up to ten years in certain cases.

If impairment is indicated, this is reported as an impairment loss. If the reasons for impairment cease to apply, an impairment reversal is made up to the value of the amortised cost.

Amortisation of intangible assets produced in-house and other intangible assets are recognised under administrative expenses; impairment reversals are reported in other income and expenses.

(17) Non-current assets or disposal groups classified as held for sale

This item comprises both non-current assets in the held-for-sale category and the assets of disposal groups in the held-for-sale category.

They are designated as held for sale if their carrying amount is to be recovered principally through a sale transaction rather than through continuing use and the non-current asset or disposal group can be sold immediately in its present condition and the sale is highly probable.

Non-current assets or disposal groups classified as held for sale are recognised at the end of the reporting period at the lower of carrying amount or fair value less costs of sale if there are no measurement exceptions in accordance with IFRS 5.

The earnings or losses of disposal groups which meet the criteria for classification as discontinued operations are not reported in the income statement under gains or losses on continuing operations, but separately under the line item gains or losses on discontinued operations.

(18) Other assets

Other assets comprise assets not allocated to one of the other items on the assets side. It includes pre-paid expenses, precious metals and claims from reinsurance.

(19) Liabilities

Liabilities to banks and customers and securitised liabilities are measured at amortised cost if they are not allocated to the fair value option category or if they are not underlying transactions in an effective fair value hedge. Premiums and discounts are spread over the term of the transaction and recognised in interest expenses.

(20) Liabilities held for trading

Liabilities held for trading comprise all held-for-trading financial liabilities and derivative financial instruments with negative market values reported on the balance sheet in accordance with IAS 39 and not designated as hedging instruments in accordance with hedge accounting criteria under IAS 39. Measurement results and realised and current income or expenses from liabilities held for trading are normally recognised in gains or losses on fair value measurement except for current income from derivatives in economic hedges, which is recognised in net interest income.

If the requirements for offsetting financial assets against financial liabilities are met, the market values from derivative financial instruments are offset against the variation margins received or paid and reported net.

(21) Negative fair values from derivative financial instruments (hedge accounting)

This balance sheet item comprises derivative financial instruments with negative market values, which are used as hedges and meet hedge accounting criteria in accordance with IAS 39. The derivative instruments are measured at fair value. Changes in the fair value of hedging instruments and changes in the fair value of hedged underlying transactions arising from the hedged risk are reported under gains or losses on hedge accounting. Interest income and expenses from hedging derivatives are recognised in net interest income.

If the requirements for offsetting financial assets against financial liabilities are met, the market values from derivative financial instruments are offset against the variation margins received or paid and reported net.

(22) Provisions

Provisions for pensions and similar obligations and other provisions are recognised under this item.

Provisions for pensions and similar obligations

Occupational retirement benefits within the BayernLB Group are based on a range of pension schemes. Employees acquire rights to benefit entitlements based on a direct pension commitment, where the size of the benefit is defined and dependent on factors such as salary, age and length of service (defined benefit plans). Alternatively employees acquire rights to benefit entitlements based on an indirect pension commitment, which is funded through defined contributions to a pension institution (external benefit provider) (defined contribution plans). There is no legal or de facto obligation to provide benefits beyond these terms for these plans, which predominantly relate to foreign branches. Most pension commitments in the BayernLB Group are in the form of cash-based defined benefit plans for employees in Germany.

In the BayernLB Group, the core element of the promised defined benefit obligations provided directly by the employer is the full benefits package (Gesamtversorgungszusage) modelled on the pension system for civil servants ("pension eligibility"). The size of the pension commitments for defined benefit plans is based largely on each employee's salary, length of service and other criteria. Civil-servant style pension benefits were agreed in individual employment contracts. Only employees with at least 20 years of eligible service who also meet other criteria such as positive performance evaluations and no negative health issues were eligible for these pension benefits. The full benefits package also includes entitlements to allowances in the event of illness.

In essence, no more employees are being added to the number of employees eligible for civil-servant style pension benefits, as BayernLB cut off new entrants at the end of the first quarter of 2009. In a suit brought by employees who were originally entitled to qualify for the civil-servant style benefits under the terms of their employment agreements, the German Federal Employment Court in Erfurt, Germany ruled on 15 May 2012 in favour of the plaintiffs to restore their eligibility to these pension benefits, provided they meet certain criteria.

BayernLB also has two legally independent pension funds (Versorgungskasse) for its indirect benefit obligations in Germany: Versorgungskasse I BayernLB Gesellschaft mit beschränkter Haftung, Munich (Versorgungskasse I) and Versorgungskasse II BayernLB Gesellschaft mit beschränkter Haftung, Munich (Versorgungskasse II). Versorgungskasse I primarily manages obligations to former employees entitled to or in receipt of vested benefits, while Versorgungskasse II manages the portion of the benefits package that had already been earned when the arrangements were changed in respect of some occupational retirement benefits in financial year 2010. Regular contributions are made to the pension funds in accordance with thresholds defined by fiscal law.

Defined benefit pension obligations are partly funded by assets and qualifying insurance policies. To qualify as plan assets, they must be separated from the employer's other assets (e.g. by placing them in a separate fund held by a legally independent benefit provider) and only used to provide employees' benefits. The plan assets invested in Germany by Versorgungskasse I and in the United Kingdom are administered by externally managed funds and insurance companies. BayernLB sets the general investment guidelines for these funds, but does not take specific investment decisions. The assets in the pension plan in the United Kingdom are also subject to a legal minimum funding requirement. This obliges the trustees and the Bank as the sponsoring undertaking to ensure sufficient plan assets are available to cover pension liabilities. Under the trust deed, the trustee is required to regularly check the value of the plan assets and to arrange for additional funding if the value of the plan assets falls below that of the pension liabilities by more than 10 percent.

To fund the pension obligations of Versorgungskasse II, BayernLB purchased reinsurance in the amount of the existing rights to entitlements, which is managed by an external trustee. In addition, the rights to entitlements are protected from insolvency. The assets managed in trust by the trustee do not qualify as plan assets. As the beneficial owner, BayernLB reports the claims from reinsurance as an asset on the balance sheet under the "other assets" item. These assets from the claims from reinsurance (reimbursement claims) are equivalent to the benefit entitlements in terms of size and maturity, so that the assets and indirect pension obligations via Versorgungskasse II are recognised in the same amount.

Under the 2005 and 2010 pension schemes, BayernLB employees in Germany acquire rights to benefit entitlements based on indirect pension commitments. To fund these pension commitments, BayernLB and current employees pay defined contributions to two external benefit providers not part of the Group (ÖBAV Unterstützungskasse e. V., Munich and BVV Versorgungskasse des Bankgewerbes e. V, Berlin). These providers conclude reinsurance to fund occupational retirement benefits. The contributions to the pension institutions comprise in terms of the basic provision employer-funded allowances based on a defined percentage of annual remuneration. In addition to the basic provision, employees can also pay contributions through deferred compensation via the employer to the pension institution. The benefits promised by BayernLB are essentially the same as the ones the external benefit providers have agreed to provide. However, the external benefit providers are not under an explicit obligation to provide annual pension raises. As an annual pension raise is not explicitly ruled out in the contract, BayernLB still has a de facto obligation to provide the benefits. Consequently these indirect pension obligations are treated formally like defined benefit plans in accordance with IAS 19, but accounted for as defined contribution plans due to their economic substance. This means that the contribution payments made to the external benefit providers are recognised as pension costs and therefore in administrative expenses, while the benefit obligations and the plan assets used to cover them are of the same size so that no pension provisions for these pension schemes are reported on the BayernLB Group's balance sheet. Based on the current outlook, it is unlikely that the annual pension raise guarantee will be utilised.

All direct obligations from pensions and allowances in the event of illness and other indirect pension obligations within the BayernLB Group are calculated each year in actuarial reports produced by independent actuaries.

The size of the defined benefit plan obligations is calculated using the projected unit credit method, which measures the obligations on the basis of the proportion of the defined benefit entitlements acquired at the end of the reporting period. Assumptions about future trends of certain parameters such as salaries and pensions, and the discount rate are made when conducting the measurement. The discount rate is based on yields on high-quality corporate bonds on the respective markets. The values of the parameters used to measure plan assets, especially the discount rate, have a major impact on the amount of the benefits in the pension plans.

The following actuarial assumptions are used:

in %	**2014**	**2013**
Discount rate	2.0	3.5
Salaries	2.8	2.8
Benefits[1]	2.3	2.3
Medical costs	4.3	4.0

1 In addition to this, BayernLB's benefits in Germany were estimated to grow at a rate of 1 percent.

They are measured in Germany on the basis of Professor Dr Klaus Heubeck's biometric probabilities (in the "Richttafeln 2005G" actuarial tables) and in other countries on the basis of country-specific mortality tables.

The qualifying plan assets used to cover pension obligations are measured at fair value on the reporting date. If pension assets exceed pension obligations, the surplus asset is accounted for under the asset ceiling rules. The asset is recognised when future economic benefits are available in the form of a future reduction in contributions due to existing minimum funding requirements being met.

To calculate the amount of the pension provision, the difference between the present value of the benefit obligations and the fair value of the plan assets available to cover the pension obligations (surplus/deficit obligations) is calculated. The potential impact from the pension asset ceiling is then incorporated.

The impact from the remeasurement of defined benefit plans, such as actuarial gains and losses arising from the difference between expected and actual values or changed assumptions, is now recognised directly in the period it arises in retained earnings within equity and not through the income statement, and in parallel in pension provisions. The rules therefore specify these amounts cannot be reclassified to the income statement in future periods.

Regular contributions to fund pension obligations and pension schemes will have a negative impact on the BayernLB Group's liquidity in future periods. The Group's pension obligations are not fully funded by plan assets, i.e. pension obligations exceed plan assets at Group level, resulting in a shortfall in funding. Even marginal changes in the actuarial assumptions used to measure pension plans, notably the discount rate and future growth of salaries and pensions, would produce a change in the funding situation and by extension the pension provisions. The value of externally invested plan assets is also subject to capital market volatility, which is outside of BayernLB's control. Plan assets are invested in a range of asset classes to prevent risk concentrations. The investment strategy matches the maturity structure of the assets with the expected pension payout dates. This is especially the case for plan assets of a foreign branch, whose funds for covering pension obligations are invested in several asset classes such as equities and fixed-interest securities. Unfavourable capital market performance could lead to material shortfalls in the coverage of its pension obligations and increase the BayernLB Group's pension obligations. Such an increase could have a negative impact on BayernLB's financial situation as additional funds would have to be injected to fund the pension obligations. BayernLB must also pay contributions to the healthcare costs of current and former employees, which could also rise in the future.

The risks arising from the BayernLB Group's pension plans are addressed in the Group-wide asset liability management strategy. To reduce the risks from defined benefit plans, new plans have been introduced in recent years at BayernLB in Germany, and at a foreign branch, some pension obligations and their related pension assets were transferred to external pension funds.

Other provisions

Provisions in the credit business are made for both single transactions and portfolios to meet contingent liabilities and other commitments where there is a risk of default.

Other provisions are made in accordance with IAS 37 for present legal or de facto obligations if it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation.

(23) Liabilities of disposal groups

This item on the balance sheet comprises the liabilities of disposal groups classified as held for sale.

(24) Other liabilities

Other liabilities comprise liabilities not allocated to one of the other items on the liabilities side. It includes deferred income and accruals.

(25) Hybrid capital instruments

Debt and equity instruments are classified in accordance with IAS 32, taking account of IDW statement HFA 45 on the presentation of financial instruments under IAS 32. A financial instrument is therefore recognised in equity if for example

- it evidences a residual interest in the assets of an entity after all liabilities are deducted (IAS 32.11) and
- it contains no contractual obligation to deliver cash or other financial assets to the contractual partner (IAS 32.16)

The contractual conditions of the hybrid capital instruments used by BayernLB give rise to the accounting policies in the consolidated financial statements shown below.

Perpetual silent partner contributions not callable by the lender meet the criteria for disclosure under equity.

As they are compound financial instruments, dated silent partner contributions, including those that are callable by the lender, and profit participation certificates, must be divided into their equity and debt components (split accounting). The fair value of the debt component was initially measured by discounting the nominal value of the compound instrument as a whole by its effective interest rate. The value is recognised in the balance sheet in the subordinated capital item. In subsequent years, interest on the debt component accrues and the resulting expense is reported in net interest income. The equity component – which as a residual interest as defined in IAS 32.11 corresponds to the present value of expected future distributions – is recognised in equity in the compound instruments (equity component) sub-item. Distributions on compound instruments are made only if their payment does not produce or increase a net accumulated loss in the separate accounts prepared under the German Commercial Code (HGB).

If a compound financial instrument shares in the losses, this affects the repayment of the nominal value of the compound instrument and therefore to the debt component whose present value must be adjusted as necessary to take account of the changed cash flow expectations in accordance with IAS 39 AG8. The income resulting from the change in the present value (or expenses resulting from replenishing the instrument in subsequent years) is recognised in other income and expenses.

Subordinated innovative financial products (e.g. preferred shares), which are classified as Tier 1 capital under banking supervisory law, are reported as hybrid capital under the subordinated capital item on the balance sheet.

(26) Leasing

In accordance with IAS 17, leases are divided into finance leases and operating leases. Agreements are classified on the basis of the distribution of economic risks and rewards from the leased property. A lease is classified as a finance lease if all risks and rewards incident to ownership are substantially transferred to the lessee.

The BayernLB Group as lessor

In finance leases, the assets arising from the leasing agreement are recognised as receivables due from the lessee at their net investment value. Lease payments received from the lessee are apportioned into an interest component and principal component. The interest component is reported as interest income. The principal component reduces the receivable with no impact on the income statement.

In operating leases, leased property is measured at amortised cost and recognised as investment property or as property, plant and equipment. Lease payments received and impairments and depreciation are reported in other income and expenses.

The BayernLB Group as lessee

In finance leases, leased items are recognised either as investment property or as property, plant and equipment, and the obligations to the lessor as a liability. Lease payments to be made are apportioned into an interest component and a principal component. The interest portion is recognised as interest expenses. The principal component reduces the liability with no impact on the income statement.

Lease payments payable by the BayernLB Group in operating leases are recognised under administrative expenses.

(27) Tax

Current tax assets and liabilities are measured by applying the currently applicable tax rates. Income tax receivables and liabilities are recognised in the amount of the expected refund or payment.

Deferred tax assets and liabilities result from the difference between the carrying amount of an asset or a liability and the tax base. This creates tax liabilities or assets expected in the future which are classed as temporary differences. Deferred taxes are recognised where permitted. They are measured for each of the companies consolidated within the Group, at the specific applicable income tax rate expected to be applicable for the period of the reversal of the temporary differences based on tax laws that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets from unused tax losses carried forward and deductible temporary differences are only reported if it is probable that taxable profit in future periods will be sufficient for the tax benefit to be utilised. For Group companies, if the sum of the loss carryforwards and deductible temporary differences exceed the taxable temporary differences, the amount of deferred tax assets recognised is calculated on the basis of the tax planning for the company in question or consolidated tax group in question. When recognising deferred tax assets from interest carryforwards, the same accounting policies as used for deferred tax assets from tax loss carryforwards are applied.

Deferred taxes are not discounted. Deferred tax assets and liabilities are created and carried through profit or loss if the underlying item is recognised in the income statement, or are created and carried in equity if the underlying item is recognised in equity.

Income tax expenses and income to be charged against profit before taxes are reported in the consolidated income statement as income taxes. Other taxes not based on income are reported under other income and expenses.

Segment reporting

(28) Notes to the segment report

The segment report reflects the business structure of the BayernLB Group. A total of six segments are shown comprising the four operating business segments, the Central Areas & Others segment and the Non-Core Unit. The earnings of the consolidated subsidiaries and units are also allocated to the segment to which they have been assigned.

The structure in effect at the end of 2013 was revised in accordance with the BayernLB Group's business model. First, the private equity business was taken out of BayernLB's core business. As a result of this decision, four subsidiaries (principally BayernLB Capital Partner GmbH, Munich and companies belonging to this association) were transferred from the Corporates, Mittelstand & Financial Institutions segment to the Non-Core Unit segment. Second, some tasks of the Corporates, Mittelstand & Financial Institutions segment were transferred to the Central Areas & Others segment. The quantitative segment data for the previous year was adjusted accordingly.

Segment reporting is based on IFRS 8 and therefore on the monthly management reports submitted to the Board of Management, which serves as the chief operating decision maker as defined in IFRS 8.7. The management reports – and therefore the segmentation – are based on the accounting policies used in the consolidated financial statements under IFRS. Segment reporting does not therefore need to be reconciled with the IFRS accounting policies used in the consolidated financial statements. The earnings contributions reported under the segments are generated largely from financial services. Net interest income is shown as a net figure comprising interest income and interest expenses. The additional information about products and services required under IFRS 8.32 is not available and the costs of providing the information would be excessive.

As a result of the classification of MKB Bank Zrt., Budapest (MKB) (sub-group) as a discontinued operation on 30 June 2014, no details on this discontinued operation, which was sold and deconsolidated in September 2014, are given in the Non-Core Unit segment information for the financial year. Information on the gains or losses on MKB are given in note 40. The quantitative segment data for the previous year was adjusted accordingly. The additional disclosures "risk-weighted assets" (RWA) and "average equity capital" were not restated as the costs of providing the information would be excessive.

Segment reporting as at 31 December 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	377	280	655	244	259	12	−155	**1,671**
Risk provisions in the credit business	−61	49	−110	58	−3	−1,431	–	**−1,498**
Net commission income	166	76	−6	−9	−7	29	–	**249**
Gains or losses on fair value measurement	48	18	18	−155	−31	111	−33	**−25**
Gains or losses on hedge accounting	–	6	−32	−50	1	–	4	**−70**
Gains or losses on financial investments	–	−1	15	−5	−81	375	116	**419**
Income from interests in companies measured at equity	–	–	–	–	–	–	–	**–**
Administrative expenses	−268	−201	−357	−163	−17	−168	4	**−1,171**
Expenses for bank levies	–	–	−2	–	−2	–	–	**−4**
Other income and expenses	5	29	8	−11	49	59	−26	**114**
Gains or losses on restructuring	–	–	–	–	−25	−7	–	**−33**
Profit/loss before taxes	266	255	189	−91	142	−1,019	−91	**−348**
Risk-weighted assets (RWA)	23,086	8,584	25,199	8,111	2,714	8,922	–	**76,616**
Average economic/ reported equity	2,303	848	2,962	943	509	1,839	3,767	**13,172**
Return on equity (RoE) (%)	11.6	30.1	6.4	−9.7	–	−55.4	–	**−2.6**
Cost/income ratio (CIR) (%)	45.0	49.2	54.2	1,161.1	–	28.6	–	**49.7**
Average number of employees (FTE)	519	629	2,781	427	1,705	284	–	**6,345**

Segment reporting as at 31 December 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	383[1]	269	601	146	268	163[1]	–151	**1,679**
Risk provisions in the credit business	–58	–34	–116	–	–1	–112	–	**–320**
Net commission income	138	79[2]	–21	–8	–7	31	–	**211**
Gains or losses on fair value measurement	73	64	14	17	–13	99	–27	**227**
Gains or losses on hedge accounting	–	3	–30	9	2	1	–12	**–27**
Gains or losses on financial investments	4[1]	–30	33	13	–	105[1]	–	**125**
Income from interests in companies measured at equity	–	–	–	–	–	41[3]	–	**41**
Administrative expenses	–304[1]	–238	–308	–196	–62[1]	–214	–	**–1,323[4]**
Expenses for bank levies	–	–	–3	–	–2	–	–	**–5**
Other income and expenses	2	75	–	–40	63	32	64	**196**
Gains or losses on restructuring	–	–	–	–	–135	–29	–	**–164**
Profit/loss before taxes	238	188	170	–60	113	116	–127	**639**
Risk-weighted assets (RWA)	22,135[1]	7,670	26,604	7,533	2,238	21,369[1]	–	**87,550**
Average economic/ reported equity	2,324[1]	811	3,019	843	443[2]	2,473[1]	5,093	**15,007**
Return on equity (RoE) (%)	10.2	23.2	5.6	–7.1	–	4.7	–	**4.3**
Cost/income ratio (CIR) (%)	50.7	51.8	51.6	143.5	–	45.4	–	**54.0**
Average number of employees (FTE)	526	649	1,709	432	1,719	459	–	**5,494**

1 *Adjusted as per IFRS 8.29.*
2 *Adjusted as per IAS 8.22 (see note 2).*
3 *Includes a writeup on Landesbank Saar, Saarbrücken in the amount of EUR 34 million.*
4 *Includes impairment of intangible assets produced in-house of EUR 47 million recognised in the Corporates, Mittelstand & Financial Institutions (EUR 13 million), Real Estate & Savings Banks/Association (EUR 22 million), Markets (EUR 8 million) and Non-Core Unit (EUR 4 million) segments (see note 51).*

For the purposes of internal management, economic capital is allocated to the segments on the basis of the risk-weighted assets taken on in accordance with the applicable supervisory regulations. Since 1 January 2014, these have been the Capital Requirements Regulation (CRR)/Capital Requirements Directive IV (CRD IV). The figures as at 31 December 2013 are disclosed in accordance with the German Solvency Ordinance (SolvV) law which was applicable at the time. In the Consolidation column, economic capital is reconciled with equity on the balance sheet.

The risk-weighted assets include the figures on the reporting date for credit risk, market risk positions and operational risk. The reported return on equity (RoE) has been calculated at segment level by dividing profit before taxes by economic capital actually allocated; the cost/income ratio (CIR) is the ratio of administrative expenses to the sum of net interest income, net commission income, gains or losses on fair value measurement, gains or losses on hedge accounting, gains or losses on financial investments, income from interests in companies measured at equity, and other income and expenses.

Notes on delimitation of segments

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 or operated businesses which conduct international business from their German home market. BayernLB's business relationships with banks, insurers and other institutional customers are also assigned to this segment. In addition, the Corporates, Mittelstand & Financial Institutions segment conducts the syndication business on behalf of the Bavarian savings banks and their customers. The following core activities are conducted in this segment: traditional loan financing (including working capital, capex and trade financing), leasing finance and global project and export financing for customers worldwide with a focus on the infrastructure, energy and renewable energy sectors. It also acts as lead manager for its customers in syndicated loans and plays a leading role in placing corporate bonds and Schuldschein note loans on the market in cooperation with the Markets business area.

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 subsidiary Real I.S. AG Gesellschaft für Immobilien Assetmanagement, Munich (Real I.S.) are also assigned to the segment.

The Real Estate division focuses on long-term commercial real estate financing in Bavaria and Germany and business with residential construction companies and residential property developers. BayernLB offers commercial real estate customers a comprehensive range of services related to real estate financing.

The Savings Banks & Association division now forms the central hub for collaboration with savings banks and public sector customers in Germany. Its activities include BayernLB's business with savings banks in Germany, particularly Bavaria, and the state-subsidised loan business. The savings banks are a fundamental part of BayernLB's business model as both customers and as sales partners. The division also serves state and municipal customers and public agencies in Germany which BayernLB, as a partner, provides with a wide range of products and tailor-made solutions.

BayernLabo is responsible for the non-competitive residential construction and urban development business under public mandate on behalf of BayernLB. It also provides financing for local authorities in Bavaria.

As a member of the Savings Banks Finance Group, Real I.S. is BayernLB's real estate asset manager and fund service provider.

The DKB segment consists of the core business activities of the Deutsche Kreditbank Aktiengesellschaft, Berlin (DKB) sub-group. DKB is well positioned in retail banking as "Your bank on the web". Besides internet banking, DKB's business activities include the promising infrastructure and corporate customers markets. It specialises here largely on sectors with long-term growth potential such as residential property, healthcare, and education and research. DKB also focuses on the renewable energy and agriculture target markets.

The Markets segment comprises the business area bearing the same name and BayernInvest Kapitalanlagegesellschaft mbH, Munich, a consolidated asset manager. 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.

The Central Areas & Others segment incorporates the earnings contributions from the central areas Corporate Center, Financial Office, Operating Office and Risk Office. These come primarily from interests held in the companies assigned to the segment and expenditure for refinancing and managing these stakes. Refinancing costs for the Group's subsidiaries are also allocated to this segment. Transactions whose earnings contributions are generated from core business but cannot be allocated to either a business area or a central area are reported under this segment too. The consolidated subsidiary BayernLB Capital LLC I, Wilmington is also allocated to this segment.

All non-core activities have been transferred to the Non-Core Unit segment. It contains the Restructuring Unit, the Banque LBLux S.A., Luxembourg (LBLux) sub-group and the non-organisational Other NCU division. MKB was part of the Non-Core Unit segment until it was classified as a discontinued operation on 30 June 2014.

In the Restructuring Unit, selected portfolios are segregated from the operating activities of the business segments. This was where the asset-backed securities (including the hedging instruments concluded for them) affected by the 2008 financial market crisis were held until their sale in October 2014.

In the EU state aid proceedings, BayernLB agreed to sell and wind down its interests in LBLux. LBLux is mainly focused on the credit business with corporate customers, mainly in Benelux, private banking and wealth management with international high net worth customers and its services as a custodian bank. The sales and winding down process is now nearly complete. The private banking and wealth management arms were sold to Banque de Luxembourg on 31 May 2014. At the end of 2014, the custodian bank business was transferred to other custodian banks in Luxembourg. The corporate customer credit portfolio was assigned to the Restructuring Unit at BayernLB on 1 July 2014.

Since 1 January 2013, the Other NCU non-organisational division has comprised 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. This includes the private equity business transferred to the Non-Core Unit segment on 31 December 2014. The loans (including refinancing) to HETA Asset Resolution AG, Klagenfurt are also shown here.

The Consolidation column shows consolidation entries not allocated to any segment.

Earnings from typical banking operations after risk provisions (net interest income, net commission income, gains or losses on fair value measurement, gains or losses on hedge accounting, gains or losses on financial investments, and income from interests in companies measured at equity) were EUR 746 million (FY 2013: EUR 1,936 million[1]), including EUR –43 million (FY 2013: EUR 37 million) in Europe excluding Germany, and EUR 774 million (FY 2013: EUR 598 million) in America. Of the risk-weighted assets in the amount of EUR 76,616 million (FY 2013: EUR 87,550 million) recognised instead of non-current assets, EUR 4,279 million (FY 2013: EUR 13,689 million) relate to Europe excluding Germany and EUR 2,585 million (FY 2013: EUR 2,466 million) relate to America.

1 Adjusted as per IAS 8.22 (see note 2).

Notes to the statement of comprehensive income

(29) Net interest income

EUR million	2014	2013
Interest income	**7,253**	**7,638**
• From lending and money market transactions	4,748	5,086
of which:		
– from unwinding	36	37
• From bonds, notes and other fixed-income securities	469	510
• Current income from equities and other non-fixed income securities	3	3
• Current income from interests in non-consolidated subsidiaries, joint ventures, associates and other interests	14	9
• Current income from profit-pooling and profit transfer agreements	2	9
• Current income from other financial investments	12	11
• From hedge accounting derivatives	997	1,076
• From derivatives in economic hedges	1,008	932
Interest expenses	**5,582**	**5,959**
• For liabilities to banks and customers	2,368	2,597
• For securitised liabilities	667	820
• For subordinated capital	206	232
• For hedge accounting derivatives	1,343	1,475
• For derivatives in economic hedges	857	719
• Other interest expenses	140	115
Total	**1,671**	**1,679**

Interest income from financial assets and financial liabilities not carried at fair value in the income statement totalled EUR 5,213 million (FY 2013: EUR 5,583 million). Interest expenses totalled EUR 3,066 million (FY 2013: EUR 3,429 million).

(30) Risk provisions in the credit business

EUR million	2014	2013
Additions	1,848	543
Direct writedowns	175	64
Releases	417	224
Recoveries on written down receivables	75	32
Other gains or losses on risk provisions	33	31
Total	**1,498**	**320**

The amounts include on-balance sheet and off-balance sheet credit transactions.

(31) Net commission income

EUR million	2014	2013
Securities business	53	53
Broker fees	–18	–19
Lending business	191	142
Payments	–40	–31
Foreign commercial operations	3	2
Trust transactions	19	25[1]
Miscellaneous	42	38
Total	**249**	**211**

1 Adjusted as per IAS 8.22 (see note 2).

Net commission income includes EUR 110 million (FY 2013: EUR 69 million) from financial instruments. This commission primarily relates to financial assets and financial liabilities not carried at fair value in the income statement.

(32) Gains or losses on fair value measurement

EUR million	2014	2013
Net trading income	**35**	**291**
• Interest-related transactions	–52	111[1]
• Equity-related and index-related transactions and transactions with other risks	3	1
• Currency-related transactions	17	37
• Credit derivatives	74	101
• Other financial transactions	35	30
• Refinancing of trading portfolios	–19	–8
• Trading-related commission	–23	–19
• Fair value adjustments	–	39[1]
Fair value gains or losses from the fair value option	**–59**	**–65**
Total	**–25**	**227**

1 Adjusted as per IAS 8.22 (see note 2).

Net trading income includes realised and unrealised gains or losses attributable to these trading activities, the interest and dividend income related to these transactions, and gains or losses on foreign currency translation.

Current income and expenses from financial instruments in the fair value option category and from derivatives in economic hedges are reported under net interest income.

(33) Gains or losses on hedge accounting

EUR million	2014	2013
Gains or losses on micro fair value hedges	**–38**	**2**
• Measurement of underlying transactions	–502	13
• Measurement of hedging instruments	464	–10
Gains or losses on portfolio fair value hedges	**–32**	**–30**
• Measurement of underlying transactions	413	–170
• Amortisation of the portfolio hedge adjustment	–502	–477
• Measurement of hedging instruments	56	618
Total	**–70**	**–27**

(34) Gains or losses on financial investments

EUR million	2014	2013
Gains or losses on financial investments in the loans and receivables category	**182**	**210**
• Gains or losses on sales	60	43
• Income from impairment reversals	132	194
– Specific loan loss provisions	53	108
– Portfolio provisions	79	86
• Expenses from impairments	11	27
– Specific loan loss provisions	1	1
– Portfolio provisions	9	26
Gains or losses on financial investments in the available-for-sale category	**254**	**–436**
• Gains or losses on sales	–510	–152
• Income from impairment reversals	861	417
• Expenses from impairments	97	701
Gains or losses on deconsolidation	**–17**	**351**
Total	**419**	**125**

(35) Administrative expenses

EUR million	2014	2013
Staff costs	**596**	**669**
• Salaries and wages	477	560
• Social security contributions	60	52
of which:		
– employer contributions to statutory pension scheme	31	39
• Expenses for pensions and other employee benefits	60	57
of which:		
– expenses for defined contribution plans	9	4
Other administrative expenses	**527**	**565**
• Owner-occupied property	57	65
• Data processing costs	158	173
• Office costs	3	3
• Advertising	41	40
• Communication and other selling costs	52	46
• Membership, legal and consulting fees	186	148
• Miscellaneous administrative costs	30	89
Amortisation and depreciation of property, plant and equipment and intangible assets (not including goodwill)	**48**	**89**
Total	**1,171**	**1,323**

(36) Expenses for bank levies

EUR million	2014	2013
Expenses for bank levies	4	5
Total	**4**	**5**

Expenses for bank levies includes the German bank levy.

(37) Other income and expenses

EUR million	2014	2013
Other income	**379**	**574**
• Rental income	5	71
of which:		
– rental income from investment property	4	68
• Gains on the sale of investment property, property, plant and equipment, intangible assets, and property held as inventory	43	5
• Gains on the sale of receivables	4	7
• Gains on the sale of underlying transactions from hedge accounting	63	35
• Gains on repurchases of own issues	7	32
• Income from the release of provisions	27	30
• Interest income on tax refunds due	20	29
• Sundry other income	208	365
Other expenses	**265**	**378**
• Current expenses from investment property	–	2
– leased property	–	2
• Losses on the sale of investment property, property, plant and equipment, intangible assets, and property held as inventory	1	3
• Depreciation of investment property and property held as inventory	2	2
• Losses on sales of receivables	1	–
• Losses on the sale of underlying transactions from hedge accounting	6	15
• Losses on repurchases of own issues	77	52
• Expenses from establishing provisions	5	6
• Expenses from loss transfers	5	13
• Expenses from other taxes	7	12
• Interest expenses from tax arrears	19	32
• Sundry other expenses	144	241
Total	**114**	**196**

The remainder of other income and the remainder of other expenses includes principally income and expenses that are not typical for banks. This is primarily income from fund transactions and income and expenses from energy sales and trading.

(38) Gains or losses on restructuring

EUR million	2014	2013
Income from restructuring measures	–	9
Expenses for restructuring measures	33	173
Total	**–33**	**–164**

(39) Income taxes

EUR million	2014	2013
Current income taxes	**–7**	**–6**
• Domestic and foreign corporation tax including solidarity surcharge	–11	9
• Municipal trade tax/foreign local taxes	4	–15
Deferred income taxes	**–91**	**133**
• Domestic and foreign corporation tax including solidarity surcharge	–39	98
• Municipal trade tax/foreign local taxes	–52	35
Total	**–99**	**126**

Tax income totalled EUR 99 million in the reporting year (FY 2013: EUR 126 million of tax expenses). Deferred tax income of EUR 91 million (FY 2013: deferred tax expenses of EUR 133 million) arose from changes in the value of deferred tax assets on loss carryforwards, tax credits and temporary differences.

The impact (tax income) from the change to the income tax rates levied for certain companies liable to taxes was EUR 23 million (FY 2013: EUR 2 million of tax expenses). This was primarily due to changes in the tax rate applicable to the New York and London foreign branches.

The effective tax income recognised in the reporting year was EUR 12 million lower (FY 2013: EUR 78 million lower tax expense) than the estimated tax income. The factors responsible for this difference are shown in the table below:

EUR million	2014	2013
Profit/loss before taxes	–348	639
Group tax rate (in %)	32.0	32.0
Estimated tax expense (+)/income (-)	**–111**	**204**
Effects from differing local tax rates	133	79
Effects from taxes from previous years recognised in the reporting year	–297	–3
Effects from changes in tax rates	–23	2
Effects from non-deductible losses on sales or writedowns of interests and shareholder loans and from deconsolidation	430	16
Effects from additions to/deductions of municipal trade tax	78	4
Effects from other non-deductible operating expenses	110	12
Effects from tax-free income	–91	–104
Effects from permanent accounting differences	–611	–245
Effects from writedowns/corrections	282	166
Increase/decrease in deferred tax liabilities from outside basis differences	–	–5
Other	1	–
Effective tax expense (+)/income (-)	**–99**	**126**
Effective tax rate (in %)	**28.4**	**19.9**

Estimated income tax expenses/income were calculated using the tax rate for companies liable to taxes in Germany. The Group tax rate was 32.0 percent on the reporting date (FY 2013: 32.0 percent) based on a corporation tax rate of 15.0 percent (FY 2013: 15.0 percent), solidarity surcharge of 5.5 percent (FY 2013: 5.5 percent) and average municipal trade tax of 16.2 percent (FY 2013: 16.1 percent).

Disposals of subsidiaries and retroactively exercised tax options had a major impact on the calculated effective tax rate for financial year 2014.

The sales of subsidiaries MKB Bank Zrt., Budapest, Landesbank Saar, Saarbrücken and KGAL GmbH. & Co. KG, Grünwald (KGAL) and writedowns related to HETA Asset Resolution AG, Klagenfurt resulted in tax expenses of EUR 430 million as the losses on the sales are not tax deductible.

The sale resulted in other tax effects amounting to EUR 174 million due to writedowns/corrections in respect of the sale of the ABS portfolio. Selling the ABS portfolio led to the termination of the guarantee agreement with the Free State of Bavaria ("Umbrella"), which had been treated as a credit derivative, and the closing out of deductible temporary differences related to it at BayernLB. At the New York foreign branch, the sale of the ABS portfolio resulted in the elimination of permanent accounting differences, which is the main reason for the tax income of EUR 611 million.

Retroactively exercised tax options at the New York foreign branch resulted in the recognition of expected tax refunds from previous years being recognised in the reporting year (EUR 258 million) and tax-increasing effects from writedowns/corrections on the recognised tax loss carryforwards (EUR 576 million).

The impact of increases/decreases in municipal trade tax mainly for corrections to New York State and New York City taxes was EUR 78 million.

(40) Gains or losses on discontinued operations

EUR million	2014	2013
Net interest income	135	240
Risk provisions in the credit business	66	333
Net commission income	56	85
Gains or losses on fair value measurement	19	44
Gains or losses on financial investments	–7	–51
Income from interests in companies measured at equity	–2	–
Administrative expenses	114	210
Expenses for bank levies	44	46
Other income and expenses	–190	–107
Profit/loss before taxes	**–214**	**–379**
Income taxes	1	2
Gains or losses on measurement (at fair value less costs of disposal) or from disposal	–855	–
Total	**–1,070**	**–381**

This item includes EUR 10 million (FY 2013: EUR 26 million) of interest income from unwinding.

Interest income from financial assets and financial liabilities not carried at fair value in the income statement totalled EUR 184 million (FY 2013: EUR 415 million). Interest expenses totalled EUR 59 million (FY 2013: EUR 174 million).

Risk provisions in the credit business includes expenses of EUR 131 million (FY 2013: EUR 435 million) and gains of EUR 65 million (FY 2013: EUR 102 million).

Net commission income includes EUR 36 million (FY 2013: EUR 57 million) from financial instruments. This commission primarily relates to financial assets and financial liabilities not carried at fair value in the income statement.

Notes to the balance sheet

(41) Cash reserves

EUR million	2014	2013
Cash	**27**	**82**
Deposits with central banks	**1,014**	**2,607**
Debt instruments issued by public entities and bills of exchange eligible for refinancing with central banks	**–**	**472**
• Treasury bills and non-interest bearing Federal Treasury notes and similar debt issued by public-sector entities	–	472
Total	**1,041**	**3,160**

(42) Loans and advances to banks

EUR million	2014	2013
Loans and advances to domestic banks	24,257	26,374
Loans and advances to foreign banks	12,834	17,095
Total	**37,091**	**43,470**

Loans and advances to banks by maturity

EUR million	2014	2013
Payable on demand	**1,678**	**7,160**
With residual maturity of	**35,413**	**36,310**
• up to 3 months	14,320	13,000
• between 3 months and 1 year	6,362	6,377
• between 1 year and 5 years	7,271	9,535
• more than 5 years	7,461	7,398
Total	**37,091**	**43,470**

(43) Loans and advances to customers

EUR million	2014	2013
Loans and advances to domestic customers	**110,359**	**110,707**
• Government entities/companies under public law	27,713	26,787
• Private companies/private individuals	82,646	83,920[1]
Loans and advances to foreign customers	**23,658**	**27,265**
• Government entities/companies under public law	2,169	1,851
• Private companies/private individuals	21,489	25,414
Total	**134,017**	**137,972**

1 Adjusted as per IAS 8.22 (see note 2).

Loans and advances to customers by maturity

EUR million	2014	2013
With residual maturity of	**131,118**	**134,272**
• up to 3 months	15,020	13,485
• between 3 months and 1 year	10,852	11,290[1]
• between 1 year and 5 years	37,525	38,911
• more than 5 years	67,720	70,586
Perpetual maturities	**2,899**	**3,700**
Total	**134,017**	**137,972**

1 Adjusted as per IAS 8.22 (see note 2).

(44) Risk provisions

EUR million	2014	2013
Specific loan loss provisions	2,864	2,451
Portfolio provisions	175	218
Total	**3,039**	**2,668**

Changes in specific loan loss provisions

	Loans and advances to banks		Loans and advances to customers		Total	
EUR million	2014	2013	2014	2013	2014	2013
As at 1 Jan	**522**	**535**	**1,929**	**2,048**	**2,451**	**2,583**
Changes recognised in income statement	**–2**	**15**	**1,515**	**465**	**1,513**	**480**
• Additions	–	16	1,841	714	**1,841**	**730**
• Releases	2	1	281	185	**283**	**186**
• Unwinding	–	–	45	64	**45**	**64**
Changes not recognised in income statement	**–**	**–28**	**–1,099**	**–585**	**–1,100**	**–613**
• Currency-related changes	2	–2	–4	–17	**–1**	**–18**
• Changes in the scope of consolidation	–	–	–7	–17	**–7**	**–17**
• Utilisation	3	26	348	521	**351**	**548**
• Transfers/other changes	–	–	–741	–30	**–741**	**–30**
As at 31 Dec	**520**	**522**	**2,344**	**1,929**	**2,864**	**2,451**

Specific loan loss provisions by sector

EUR million	2014	2013
Banks/financial services providers	1,696	592
Real estate	345	642
Retail customers	242	507
Logistics	185	101
Renewable energy	136	49
Utilities	53	80
Construction	45	100
Non-ferrous metals/coal and steel	37	16
Media	19	21
Telecommunications	19	1
Wholesale & retail	17	24
Automotive	15	29
Healthcare	11	11
Aviation	9	4
Steel	8	17
Technology	8	17
Food & beverages	6	58
Consumer durables	2	4
Gas	2	–
Manufacturing & engineering	1	14
Defence	1	–
ABS portfolios	–	80
Chemicals	–	17
Pulp & paper	–	14
Oil	–	14
Hotels	–	10
Textiles & apparel	–	10
Countries/public sector	–	2
Pharmaceuticals	–	2
Other sectors	8	16
Total	**2,864**	**2,451**

Changes in portfolio provisions

	Loans and advances to banks		Loans and advances to customers		Total	
EUR million	2014	2013	2014	2013	2014	2013
As at 1 Jan	**22**	**32**	**196**	**215**	**218**	**247**
Changes recognised in income statement	**–13**	**–10**	**87**	**121**	**74**	**111**
• Additions	4	–	246	173	**250**	**173**
• Releases	16	10	159	52	**176**	**62**
Changes not recognised in income statement	**–**	**–**	**–117**	**–140**	**–117**	**–140**
• Currency-related changes	–	–	–	–1	**–**	**–1**
• Utilisation	–	–	172	136	**172**	**136**
• Transfers/other changes	–	–	56	–3	**56**	**–3**
As at 31 Dec	**9**	**22**	**166**	**196**	**175**	**218**

Risk provisions for contingent liabilities and other commitments are shown as provisions for risks in the credit business (see note 60).

(45) Assets held for trading

EUR million	2014	2013
Bonds, notes and other fixed-income securities	**3,017**	**4,807**
• Money market instruments	149	203
• Bonds and notes	2,868	4,604
Equities and other non-fixed income securities	**395**	**291**
• Equities	395	291
Receivables held for trading	**1,151**	**1,118**
• Schuldschein note loans	1,151	1,118
Positive fair values from derivative financial instruments (not hedge accounting)	**19,486**	**19,121**[1]
Total	**24,048**	**25,337**

1 Adjusted as per IAS 8.22 (see note 2).

In the previous year assets held for trading included the fair value of the guarantee agreement with the Free State of Bavaria ("Umbrella") in the amount of EUR 634 million.

Assets held for trading by maturity

EUR million	2014	2013
With residual maturity of	**23,654**	**25,046**
• up to 3 months	1,167	1,052
• between 3 months and 1 year	2,050	1,862
• between 1 year and 5 years	8,265	9,466
• more than 5 years	12,171	12,666[1]
Perpetual maturities	**395**	**291**
Total	**24,048**	**25,337**

1 Adjusted as per IAS 8.22 (see note 2).

(46) Positive fair values from derivative financial instruments (hedge accounting)

EUR million	2014	2013
Positive fair values from micro fair value hedges	2,968	2,889
Total	**2,968**	**2,889**

Positive fair values from derivative financial instruments (hedge accounting) by maturity

EUR million	2014	2013
With residual maturity of		
• up to 3 months	2	46
• between 3 months and 1 year	422	89
• between 1 year and 5 years	803	1,261
• more than 5 years	1,742	1,493
Total	**2,968**	**2,889**

(47) Financial investments

EUR million	2014	2013
Financial investments in the fair value option category	**169**	**1,389**
• Bonds, notes and other fixed-income securities	11	1,256
• Equities and other non-fixed income securities	71	14
• Interests in non-consolidated subsidiaries, joint ventures, associates and other interests	88	119[1]
Financial investments in the loans and receivables category	**9,390**	**15,332**
• Bonds, notes and other fixed-income securities	9,390	15,332
Financial investments in the available-for-sale category	**23,091**	**22,999**
• Bonds, notes and other fixed-income securities	22,374	22,332
• Equities and other non-fixed income securities	218	180
• Interests in non-consolidated subsidiaries, joint ventures, associates and other interests	353	352[1]
• Other financial investments	146	135
Total	**32,650**	**39,720**

1 Adjusted as per IAS 8.42 (see note 2).

Financial investments in the loans and receivables category arose from the reclassification of securities in the available-for-sale and held-for-trading categories (see note 68).

The sub-items "bonds, notes and other fixed-income securities" and "equities and other non-fixed income securities" comprise:

EUR million	2014	2013
Bonds, notes and other fixed-income securities	**31,775**	**38,919**
• Money market instruments	449	504
• Bonds and notes	31,325	38,416
Equities and other non-fixed income securities	**288**	**194**
• Equities	28	39
• Investment units	260	156

Financial investments by maturity

EUR million	2014	2013
With residual maturity of	**31,993**	**39,204**
• up to 3 months	2,292	1,867
• between 3 months and 1 year	8,860	2,697
• between 1 year and 5 years	13,445	22,627
• more than 5 years	7,397	12,014
Perpetual maturities	**657**	**516**
Total	**32,650**	**39,720**

(48) Interests in companies measured at equity

EUR million	2014	2013
Joint ventures	–	15
Associates	–	11
Total	**–**	**26**

As at 31 December 2014, the BayernLB Group did not hold interests in any companies measured at equity (see note 3). A summary of financial information on joint ventures and associates measured at equity as at 31 December 2013 is given below.

Summary of financial information on joint ventures measured at equity

EUR million	2013
Current assets	27
Non-current assets	100
Current liabilities	31
Non-current liabilities	66
Income	51
Expenses	51

Summary of financial information on associates measured at equity

EUR million	2013
Total assets	94
Equity	36
Revenues	44

(49) Investment property

EUR million	2014	2013
Land and buildings for rental	37	99
Total	**37**	**99**

Changes in investment property

EUR million	2014	2013
Cost		
• As at 1 Jan	130	102
• Currency-related changes	–2	–
• Additions	1	41
• Transfers	–70	–13
• As at 31 Dec	58	130
Depreciation and impairment reversals		
• As at 1 Jan	30	33
• Depreciation	3	2
• Impairments	–	5
• Transfers	–12	–10
• As at 31 Dec	21	30
Carrying amount		
• As at 1 Jan	99	69
• As at 31 Dec	37	99

Additions to investment property include EUR 1 million (FY 2013: EUR 41 million) from one acquisition.

In the reporting year no investment property was reclassified under property, plant and equipment (FY 2013: EUR 3 million). Reclassifications were made to non-current assets or disposal groups classified as held for sale in the amount of EUR 58 million (FY 2013: EUR 0 million).

On the reporting date, the fair value of investment property was EUR 60 million (FY 2013: EUR 119 million). The fair value was calculated by independent experts and based on the German income method (Ertragswertverfahren) using market and geodata. The significant inputs are unobservable (Level 3 in the fair value hierarchy).

(50) Property, plant and equipment

EUR million	2014	2013
Owner-occupied property	330	543
Furniture and office equipment	30	75
Total	**360**	**619**

Changes in property, plant and equipment

	Owner-occupied property		Furniture and office equipment		Total	
EUR million	2014	2013	2014	2013	2014	2013
Cost						
• As at 1 Jan	726	700	270	305	**996**	**1,005**
• Currency-related changes	–7	–3	–1	–3	**–8**	**–5**
• Changes in the scope of consolidation	–149	–1	–37	–	**–186**	**–1**
• Additions	38	19	12	14	**50**	**33**
• Transfers	–201	14	–94	–10	**–295**	**5**
• Disposals	1	3	7	38	**8**	**41**
• As at 31 Dec	407	726	143	270	**549**	**996**
Depreciation and impairment reversals						
• As at 1 Jan	183	154	194	222	**377**	**376**
• Currency-related changes	–1	–1	–	–2	**–1**	**–3**
• Changes in the scope of consolidation	–84	–1	–25	–	**–109**	**–1**
• Depreciation	13	20	17	18	**30**	**38**
• Impairments	–	1	2	3	**2**	**4**
• Transfers	–53	10	–69	–10	**–122**	**1**
• Disposals	–19	1	6	37	**–13**	**38**
• As at 31 Dec	76	183	113	194	**189**	**377**
Carrying amount						
• As at 1 Jan	543	546	75	83	**619**	**629**
• As at 31 Dec	330	543	30	75	**360**	**619**

In the reporting year owner-occupied property with a carrying amount of EUR 148 million (FY 2013: EUR 0 million) and furniture and office equipment with a carrying amount of EUR 26 million (FY 2013: EUR 0 million) were classified as non-current assets or disposal groups held for sale.

(51) Intangible assets

EUR million	2014	2013
Goodwill	–	–
Intangible assets produced in house	78	57
Other intangible assets	36	97
Total	**114**	**154**

Other intangible assets comprise purchased software.

Changes in intangible assets

	Goodwill		Intangible assets produced in house		Other intangible assets		Total	
EUR million	2014	2013	2014	2013	2014	2013	2014	2013
Cost								
• As at 1 Jan	6	186	116	87	329	342	**452**	**616**
• Currency-related changes	–	−3	–	–	−7	−3	**−7**	**−6**
• Changes in the scope of consolidation	−6	−2	–	–	17	–	**11**	**−2**
• Additions	–	–	27	29	19	21	**46**	**49**
• Transfers	–	−176	–	–	−163	−3	**−163**	**−178**
• Disposals	–	–	1	–	5	29	**6**	**29**
• As at 31 Dec	–	6	142	116	191	329	**333**	**452**
Depreciation and impairment reversals								
• As at 1 Jan	6	186	59	10	232	234	**297**	**430**
• Currency-related changes	–	−3	–	–	−4	−2	**−4**	**−5**
• Changes in the scope of consolidation	−6	−2	–	–	11	–	**5**	**−2**
• Depreciation	–	–	5	2	24	23	**29**	**25**
• Impairments	–	–	–	47	3	8	**3**	**54**
• Transfers	–	−176	–	–	−105	−3	**−105**	**−178**
• Disposals	–	–	1	–	4	28	**5**	**28**
• As at 31 Dec	–	6	64	59	155	232	**219**	**297**
Carrying amount								
• As at 1 Jan	–	–	57	77	97	109	**154**	**186**
• As at 31 Dec	–	–	78	57	36	97	**114**	**154**

In the reporting year other intangible assets with a carrying amount of EUR 57 million (FY 2013: EUR 0 million) were reclassified as non-current assets or disposal groups held for sale.

The intangible assets produced in house item in the year before included an impairment charge resulting from the introduction of new credit software. These assets were allocated to the Central Areas & Others segment.

(52) Current and deferred tax assets

EUR million	2014	2013
Current tax assets	**74**	**76**
• Germany	51	46
• Abroad	23	29
Deferred tax assets	**314**	**209**
• Germany	312	204
• Abroad	2	5
Total	**388**	**284**

The current tax assets arose principally from the deductible income taxes of the previous years.

The following deferred taxes under assets and liabilities relate to recognition and measurement differences in individual items on the balance sheet and to tax loss carryforwards and tax credits (including non-current assets or disposal groups classified as held for sale):

EUR million	Deferred tax assets 2014	Deferred tax liabilities 2014	Deferred tax assets 2013	Deferred tax liabilities 2013
Loans and advances to banks and customers including risk provisions in Germany	92	39	69	70
Assets held for trading	1,648	42	1,464	36
Positive fair values from derivative financial instruments (hedge accounting)	15	1,427	16	983
Financial investments	26	385	124	194
Property, plant and equipment	3	46	5	52
Non-current assets or disposal groups classified as held for sale	–	4	–	–
Other assets	109	78	24	32
Liabilities to banks and customers	711	–	626	4
Securitised liabilities	323	2	242	3
Liabilities held for trading	77	1,978	46	1,948
Negative fair values from derivative financial instruments (hedge accounting)	657	–	657	–
Provisions	381	15	56	51
Other liabilities	86	176	108	55
Subordinated capital	75	–	49	–
Loss carryforwards and other	274	–	122	–
Sub-total	**4,477**	**4,192**	**3,608**	**3,428**
Less netting	4,163	4,163	3,399	3,399
Total deferred taxes less provisions and netting	**314**	**28**	**209**	**29**

The deferred tax assets and liabilities of each reporting unit subject to taxation and of the consolidated tax group of the Bank's domestic units were fully netted, as the applicable tax laws permit actual tax liabilities to be offset against actual tax assets.

The EUR 106 million change (FY 2013: EUR –164 million) in the net of deferred tax assets and liabilities does not correspond to deferred tax income of EUR 91 million (FY 2013: EUR 133 million tax expenses). This was primarily due to the changes in deferred taxes not recognised in the income statement largely as a result of:

- the increase in deferred tax liabilities recognised in the revaluation surplus of EUR –48 million (FY 2013: EUR –42 million decrease in deferred tax assets) and
- the disposal of deferred tax assets of EUR 5 million (FY 2013: EUR 6 million) from deconsolidation;
- this was matched against a correction of the loss carryforwards not carried through profit and loss in the previous years in the amount of EUR 68 million (FY 2013: EUR 14 million).

Tax loss carryforwards, tax credits and instalments for which a deferred tax asset has been recognised, not recognised or for which a writedown has been made, are listed separately in the table below for all types of loss and tax credits relevant to the BayernLB Group. The period of time in which unrecognised loss carryforwards may still be used according to the tax law applicable in each case is also shown. Tax loss carryforwards of companies liable to taxes in Germany may be used indefinitely.

EUR million	2014	2013
Corporation tax		
• Loss carryforwards	3,898	2,587
– loss carryforwards for which a deferred tax asset has been recognised	687	98
– loss carryforwards for which a provision has been established	179	183
– loss carryforwards for which no deferred tax asset has been recognised	3,032	2,306
expire within 5 years	–	222
expire after 10 years	1,720	–
may be used indefinitely	1,312	2,084
Municipal trade tax		
• Loss carryforwards	2,230	1,414
– loss carryforwards for which a deferred tax asset has been recognised	829	318
– loss carryforwards for which a provision has been established	2	2
– loss carryforwards for which no deferred tax asset has been recognised	1,399	1,094
expire within 5 years	–	37
expire after 10 years	259	–
may be used indefinitely	1,140	1,057
Tax credits		
• Tax credits	9	6
– tax credits for which no deferred tax asset has been recognised	9	6
may be used indefinitely	9	6

No deferred tax assets were recognised for deductible temporary differences of EUR 1,199 million (FY 2013: EUR 1,680 million).

In the case of Group companies generating a tax loss in the current or a previous financial year, deferred tax assets of EUR 308 million (FY 2013: EUR 227 million) were recognised. Their utilisation depends on future taxable earnings being higher than the impact on earnings from the reversal of existing taxable temporary differences. The amount is recognised on the basis of the tax planning for the relevant company or consolidated tax group.

No deferred tax liabilities were recognised for the EUR 7 million (FY 2013: EUR 11 million) in taxable temporary differences from interests in subsidiaries and joint ventures as it is unlikely that the temporary differences will be reversed in the foreseeable future.

(53) Non-current assets or disposal groups classified as held for sale

EUR million	2014	2013
Cash reserves	–	30
Loans and advances to banks	–	14
Loans and advances to customers	–	1,825
Risk provisions	–	144
Financial investments	40	327
Investment property	14	–
Property, plant and equipment	26	–
Other assets	–	12
Total	**80**	**2,065**

The sale of KGAL GmbH & Co. KG, Grünwald was one of the conditions of the EU Commission's ruling in BayernLB's state aid proceedings. The interests held for sale in the near term were classified as held for sale on 30 June 2013. The sale to two private investors was completed on 16 September 2014 after approval was given by the supervisory authorities.

The stake in Landesbank Saar, Saarbrücken that had been classified as held for sale in the previous year was disposed of in April 2014.

As part of the sales process for BayernLB's stake in Banque LBLux S.A., Luxembourg (LBLux), the part of the private banking business classified as held for sale since December 2013 was transferred to the Luxembourg-based private bank Banque de Luxembourg in the first half of 2014. To avoid incurring any economic disadvantage, the corporate banking portfolio, which was also classified as held for sale in December 2013, was not sold but transferred to BayernLB for winding down on 1 July 2014. The reclassification of the portfolio in the first half of 2014 did not result in impairment. Furthermore, Banque LBLux's subsidiary LB-RE S.A., Luxembourg was classified as held for sale on 30 June 2014, as a sale within the next year is expected. Classification as held for sale did not result in an impairment. Cumulative income of EUR 8 million is recognised in the revaluation surplus. Immo 3 Rue Jean Monnet S.à r.l., Luxembourg, which was founded on

30 July 2014 and to which the LBLux sub-group's land and buildings were transferred, was consolidated for the first time. The sale of a majority stake in the company is planned for 2015 and the necessary steps have been initiated. The criteria for classification under IFRS 5 were met as at 31 December 2014. Classification as held for sale did not result in an impairment.

In February 2014 it was decided to sell liquidity facilities and swaps which together form a disposal group. The sale took place on 1 October 2014. Classification as held for sale did not result in an impairment.

Another condition of the European Commission's ruling in BayernLB's state aid proceedings was the sale of the Hungarian subsidiary MKB Bank Zrt., Budapest (MKB). To this end, a sales process was initiated which was expected to achieve a sale within a year, so that the criteria for classifying the MKB sub-group as a disposal group classified as held for sale were met as at 30 June 2014. As this Group component represents a major geographical area of operations, the criteria for classification as a discontinued operation were also met. Classification as held for sale resulted in an impairment charge of EUR 251 million. The MKB sub-group was deconsolidated (see note 3) upon the closing of the sale to the Hungarian government on 29 September 2014.

Earnings and losses from discontinued operations are reported separately under the gains or losses on discontinued operations item (see note 40). The quantitative information in the statement of comprehensive income was adjusted accordingly for the comparison period. No adjustment was made in the presentation of the changes in the balance sheet item.

NEXTEBANK S.A. (formerly MKB Romexterra Bank S.A.), Targo Mures – a fully consolidated subsidiary of the MKB sub-group (MKB) which had already been classified as a disposal group – was sold in April 2014.

The sale of real estate in Berlin was agreed on 2 September 2014. The sales negotiations could not be concluded by the end of the year, so a sale in the first half of 2015 is considered highly likely. The criteria for classification as a discontinued operation as defined by IFRS 5 have been met since September 2014. Classification as held for sale did not result in an impairment.

Control over Stadtwerke Cottbus GmbH in accordance with IFRS 10 was given up upon the sale of tranche A (25.05 percent) of the interests in Stadtwerke Cottbus GmbH, Cottbus to the city of Cottbus. Tranche B (24.925 percent) and C (24.925 percent) will be sold through a put and call option which can be exercised up to 31 March 2015. The criteria for classification in accordance with IFRS 5 have been met for the remaining 49.85 percent interest in Stadtwerke Cottbus GmbH. Classification as held for sale did not result in an impairment.

(54) Other assets

EUR million	2014	2013
Claims from reinsurance	213	208
Emissions certificates	208	132
Precious metals	165	58
Pre-paid expenses	12	14
Property as inventory	–	10
Other assets	168	246
Total	**767**	**668**

EUR 181 million (FY 2013: EUR 73 million) of other assets are due after more than 12 months.

(55) Liabilities to banks

EUR million	2014	2013
Liabilities to domestic banks	54,511	59,978
Liabilities to foreign banks	9,628	11,213
Total	**64,138**	**71,191**

Liabilities to banks by maturity

EUR million	2014	2013
Payable on demand	**5,050**	**6,307**
With residual maturity of	**59,088**	**64,884**
• up to 3 months	9,784	13,896
• between 3 months and 1 year	8,518	6,748
• between 1 year and 5 years	18,024	21,687
• more than 5 years	22,762	22,553
Total	**64,138**	**71,191**

(56) Liabilities to customers

EUR million	2014	2013
Liabilities to domestic customers	**76,612**	**76,528**
• Government entities/companies under public law	16,838	17,399
• Private companies/private individuals	59,775	59,129
Liabilities to foreign customers	**5,023**	**9,655**
• Government entities/companies under public law	1,689	1,666
• Private companies/private individuals	3,334	7,989
Total	**81,635**	**86,183**

Liabilities to customers by maturity

EUR million	2014	2013
With residual maturity of		
• up to 3 months	51,679	55,911
• between 3 months and 1 year	5,587	4,390
• between 1 year and 5 years	8,426	9,935
• more than 5 years	15,943	15,947
Total	**81,635**	**86,183**

(57) Securitised liabilities

EUR million	2014	2013
Bonds and notes issued	**44,118**	**52,424**
• Mortgage-backed Pfandbriefs	4,629	5,070
• Public Pfandbriefs	11,811	14,605
• Other bonds	27,678	32,749
Other securitised liabilities	**167**	**540**
• Money market instruments	167	523
• Miscellaneous securitised liabilities	–	17
Total	**44,285**	**52,964**

Securitised liabilities by maturity

EUR million	2014	2013
With residual maturity of		
• up to 3 months	3,712	5,028
• between 3 months and 1 year	13,217	12,480
• between 1 year and 5 years	15,016	27,379
• more than 5 years	12,340	8,077
Total	**44,285**	**52,964**

(58) Liabilities held for trading

EUR million	2014	2013
Trading portfolio liabilities	**518**	**258**
• Liabilities from short sales	199	258
• Other liabilities	319	–
Negative fair values from derivative financial instruments (not hedge accounting)	**17,048**	**16,414**[1]
Fair value adjustments	**–**	**–**[1]
Total	**17,567**	**16,672**

1 Adjusted as per IAS 8.22 (see note 2).

Liabilities held for trading by maturity

EUR million	2014	2013
With residual maturity of		
• up to 3 months	963	896
• between 3 months and 1 year	2,039	1,121
• between 1 year and 5 years	5,910	6,746
• more than 5 years	8,655	7,908[1]
Total	**17,567**	**16,672**

1 Adjusted as per IAS 8.22 (see note 2).

(59) Negative fair values from derivative financial instruments (hedge accounting)

EUR million	2014	2013
Negative fair values from micro fair value hedges	1,313	1,004
Negative fair values from portfolio fair value hedges	1,466	1,843
Total	**2,780**	**2,846**

Negative fair values from derivative financial instruments (hedge accounting) by maturity

EUR million	2014	2013
With residual maturity of		
• up to 3 months	19	13
• between 3 months and 1 year	115	93
• between 1 year and 5 years	1,215	1,707
• more than 5 years	1,431	1,033
Total	**2,780**	**2,846**

(60) Provisions

EUR million	2014	2013
Provisions for pensions and similar obligations	**3,649**	**2,741**
Other provisions	**711**	**762**
• Provisions in the credit business	76	98
• Restructuring provisions	342	354
• Miscellaneous provisions	292	310
Total	**4,360**	**3,503**

EUR 476 million (FY 2013: EUR 417 million) of other provision are due after more than 12 months.

Provisions for pensions and similar obligations

The provisions for pensions recognised in the balance sheet are broken down as follows:

EUR million	2014	2013
Present value of defined benefit obligations	3,792	2,861
Fair value of plan assets	–144	–124
Effects of the asset ceiling	–	4
Recognised pension provisions	**3,649**	**2,741**

Reimbursement rights of EUR 210 million (FY 2013: EUR 206 million) are recognised as assets in the BayernLB Group and reported under other assets. These are rights from insurance contracts (reinsurance) which correspond in terms of their size and maturity to the benefits from the related pension obligations to be paid.

Changes in provisions for pensions

EUR million	2014	2013
As at 1 Jan	**2,741**	**2,617**
Changes in the scope of consolidation	2	–
Current service cost	43	41
Past service cost	–	–2
Net interest expenses	94	89
Changes arising from remeasurement	861	102
Employer contributions	–8	–7
Benefits paid	–83	–78
Transfers/other changes	–	–20
As at 31 Dec	**3,649**	**2,741**

The changes arising from remeasurement comprise actuarial gains and losses from the change in the present value of the defined benefit obligations of EUR 869 million (FY 2013: EUR 103 million), income from plan assets of EUR 4 million (FY 2013: EUR 5 million) and changes arising from the asset ceiling of EUR –4 million (FY 2013: EUR 4 million). These are shown in retained earnings within equity (see note 65).

Change in the present value of defined benefit obligations

EUR million	2014	2013
As at 1 Jan	**2,861**	**2,727**
Currency-related changes	5	– 1
Changes in the scope of consolidation	2	–
Current service cost	43	41
Past service cost	–	– 2
Net interest expenses	99	93
Changes arising from remeasurement	869	103
Benefits paid	– 87	– 81
Transfers/other changes	–	– 19
As at 31 Dec	**3,792**	**2,861**

The changes arising from the remeasurement of the present value of defined benefit obligations are due to changes in actuarial assumptions. Of this, EUR 845 million (FY 2013: EUR 102 million) relates to changes in financial assumptions and EUR 24 million (FY 2013: EUR 1 million) to experienced-based changes. The change in financial assumptions takes account of losses arising from falling market rates.

On the reporting date, the present value of the BayernLB Group’s defined benefit obligations was EUR 3,792 million (FY 2013: EUR 2,861 million). Of this, EUR 2,718 million (FY 2013: EUR 2,168 million) relates to salary-related entitlements, EUR 454 million (FY 2013: EUR 307 million) to allowances in the event of illness, and EUR 620 million (FY 2013: EUR 386 million) to other defined benefit plans, which are determined largely on the basis of contributions to legally independent benefit providers.

The assumptions concerning the measurement parameters have an impact on the size of the present value of the defined benefit obligations and therefore the pension expense. To calculate the impact of changes in assumptions on the present value of the defined benefit obligations, a sensitivity analysis is conducted for each major measurement parameter in the same way as for the original measurement of the present value of the defined benefit obligations using the projected unit credit method.

A change in the assumptions used to calculate the present value of pension obligations in reporting year 2014 (see note 22) of 0.5 percentage points in each case would, as at 31 December 2014, impact the present value of the pension obligations as follows:

	0.5 percentage point increase		0.5 percentage point decrease	
EUR million	2014	2013	2014	2013
Discount rate	– 321	– 212	369	241
Salaries and benefits[1]	322	212	– 285	– 188
Medical costs	51	36	– 45	– 33

1 In the sensitivity calculations, changes in estimated future salaries and benefits are observed together. These incorporate the offsetting impact from a change in the social insurance pension trend by +/- 0.25 percentage points.

An increase in life expectancy (biometrics) by one year has an impact of EUR 187 million (FY 2013: EUR 115 million).

Change in the fair value of plan assets

EUR million	2014	2013
As at 1 Jan	**124**	**110**
Currency-related changes	5	–1
Interest income	5	4
Changes arising from remeasurement	4	5
Employer contributions	8	7
Benefits paid	–3	–3
Transfers/other changes	–	2
As at 31 Dec	**144**	**124**

The BayernLB Group's plan assets comprise:

	Prices quoted on active markets		Prices not quoted on active markets	
EUR million	2014	2013	2014	2013
Cash and cash equivalents	**–**	**–**	**34**	**25**
Equity Instruments	**–**	**–**	**62**	**56**
• Fund units	–	–	62	56
Debt instruments	**–**	**–**	**48**	**43**
• Corporate bonds	–	–	8	8
• Government bonds	–	–	20	15
• Reinsurance	–	–	13	11
• Other debt instruments	–	–	7	9
Total	**–**	**–**	**144**	**124**

Change in the fair value of the reimbursement rights reported as an asset

EUR million	2014	2013
As at 1 Jan	**206**	**202**
Interest income	7	6
Employer contributions	–	1
Benefits paid	–2	–1
Transfers/other changes	–	–3
As at 31 Dec	**210**	**206**

In the BayernLB Group, rights from insurance contracts were capitalised as reimbursement claims. These were acquired by BayernLB in its role as employer to provide funding that matches employee's entitlements in Germany in Versorgungskasse II BayernLB Gesellschaft mit beschränkter Haftung, Munich.

Changes in the impact of asset ceiling

EUR million	2014	2013
As at 1 Jan	**4**	**–**
Changes arising from remeasurement	–4	4
As at 31 Dec	**–**	**4**

As at 31 December 2014, the pension plan of a foreign branch reported pension obligations in excess of pension assets.

The pension expenses recognised in the income statement comprise:

EUR million	2014	2013
Current service cost	–43	–41
Past service cost	–	2
Interest income/expenses	–87	–83
Total	**–130**	**–122**

The total pension expenses in the reporting year of EUR –130 million (FY 2013: EUR –122 million) were recognised under the net interest income item in the amount of EUR –87 million (FY 2013: EUR –83 million) and under administrative expenses in the amount of EUR –43 million (FY 2013: EUR –39 million).

The current pension obligations have an average term (capital tie-up period) of 18 years. Contributions to the BayernLB Group's pension plans in financial year 2015 are estimated to be EUR 100 million.

Other provisions

	Provisions in the credit business							
	Individual transaction level		Portfolio level		Restructuring provisions		Miscellaneous provisions	
EUR million	2014	2013	2014	2013	2014	2013	2014	2013
As at 1 Jan	**68**	**94**	**30**	**45**	**354**	**221**	**310**	**200**
Currency-related changes	–	–	–	–	2	–	–3	–
Utilisation	–	1	–	–	45	37	98	51
Releases	13	31	7	23	–	9	46	35
Additions	26	46	7	8	5	161	278	200
Interest	1	1	–	–	6	–	4	–
Changes in discount rate	–	–	–	–	21	–	9	–
Transfers/other changes	–29	–41	–5	–	–	19	–161	–5
As at 31 Dec	**52**	**68**	**24**	**30**	**342**	**354**	**292**	**310**

The restructuring provision was created due to BayernLB's cost-cutting programme and includes, in particular, future expenses from planned reductions in headcount.

The other provisions item includes personnel-related provisions which are mainly short-term in nature. This line item also includes provisions in connection with equity interests, litigation costs and for loss events.

The size of each provision corresponds to the best, i.e. uncertain, estimate of the amount of the liability which is likely to be utilised. In the case of legal disputes, neither the length of the proceedings nor the amount can be reliably predicted when the provision is created.

(61) Current and deferred tax liabilities

EUR million	2014	2013
Current tax liabilities	**175**	**265**
• Germany	167	256
• Abroad	8	9
Deferred tax liabilities	**28**	**29**
• Germany	14	22
• Abroad	14	7
Total	**203**	**294**

Deferred tax liabilities and assets are listed in note 52.

(62) Liabilities of disposal groups

EUR million	2014	2013
Liabilities to banks	–	14
Liabilities to customers	–	1,421
Provisions	–	2
Other liabilities	–	1
Total	**–**	**1,438**

(63) Other liabilities

EUR million	2014	2013
Accruals	256	301
Deferred income	26	36
Other liabilities	365	185
Total	**646**	**522**

Other liabilities include positions from Payments Clearing.

EUR 5 million (FY 2013: EUR 5 million) of other liabilities are due after more than 12 months.

In the previous year other liabilities included government grants as defined by IAS 20 in the amount of EUR 22 million.

(64) Subordinated capital

EUR million	2014	2013
Subordinated liabilities	4,275	4,465
Profit participation certificates (debt component)	353	334
Dated silent partner contributions (debt component)	23	121
Hybrid capital	70	64
Total	**4,722**	**4,984**

Subordinated capital by maturity

EUR million	2014	2013
With residual maturity of	**4,700**	**4,965**
• up to 3 months	82	170
• between 3 months and 1 year	1,323	182
• between 1 year and 5 years	2,697	3,270
• more than 5 years	598	1,343
Perpetual maturities	**22**	**18**
Total	**4,722**	**4,984**

In the reporting year, profit participation certificates and dated silent partner contributions shared in BayernLB's losses. As the sharing in the losses by the profit participation certificates and dated silent partner contributions decreases the nominal value of these hybrid capital instruments it affects the debt component of them. As this changed the forecast for the contractually agreed replenishment of the dated silent partner contributions by final maturity, the present value of these instruments was adjusted in accordance with IAS 39.AG8. The resulting income of EUR 1 million was recognised under other income and expenses.

(65) Equity

EUR million	2014	2013
Equity excluding non-controlling interests	**11,789**	**14,857**
• Subscribed capital	5,525	6,846
– statutory nominal capital	2,800	2,800
– capital contribution	612	612
– perpetual silent partner contributions	2,113	3,434
• Compound instruments	143	145
– profit participation certificates (equity component)	132	133
– dated silent partner contributions (equity component)	11	12
• Capital surplus	2,356	3,893
• Retained earnings	3,305	4,102
– statutory reserve	1,268	1,268
– other retained earnings	2,038	2,834[1]
• Revaluation surplus	452	−37
• Foreign currency translation reserve	8	−92
• Net retained profits/net accumulated losses	–	–
Non-controlling interests	**–**	**30**
Total	**11,789**	**14,886**

1 Adjusted as per IAS 8.22 (see note 2).

Subscribed capital

BayernLB Holding AG, Munich holds 100 percent of BayernLB's nominal capital. As at 31 December 2014, the Free State of Bavaria's equity interest in BayernLB Holding AG was 75 percent and the equity interest of the Association of Bavarian Savings Banks, Munich (SVB) was 25 percent.

The capital contribution, reported as specific-purpose capital up to 31 December 2012, was created by a contribution in kind by the Free State of Bavaria in the form of subsidised loans in 1994/1995. Its basis was the law on the formation of special-purpose assets through the transfer of receivables held in trust belonging to the Free State of Bavaria to the liable equity capital of Bayerische Landesbank Girozentrale of 23 July 1994, as most recently amended by the law of 9 May 2006, and the contribution agreements of 15 December 1994 and of 28 December 1995, each as most recently amended by agreement on 23 December 2005. The special-purpose assets transferred are used to construct social housing. To ensure various equity components are recognised as Common Equity Tier 1 capital under the CRR/CRD IV requirements applicable from 1 January 2014, specific-purpose capital was modified and transferred to the capital contribution reported in subscribed capital with effect from 1 January 2013.

As part of the repayment requirements under the EU state-aid proceedings, perpetual silent partner contributions totalling EUR 700 million were repaid to the Free State of Bavaria. In the reporting year, perpetual silent partner contributions also shared in BayernLB's loss. The share of losses was EUR 489 million or around 18.8 percent of the carrying amount of the perpetual silent partner contributions and is a component of the appropriation of income.

Hybrid capital instruments

As a residual interest as defined in IAS 32.11, the equity components of profit participation certificates and dated silent partner contributions reported in this sub-item correspond to the present value of expected future distributions. Deferred capital distributions are also reported here if there is an obligation to pay them at a future date. No distributions were made on profit participation certificates or silent partner contributions in the reporting year.

Capital surplus

The capital surplus is derived from additional contributions to the parent company's equity.

As reported in the HGB separate financial statements, EUR 1,536 million was taken out of the capital surplus in the reporting year.

Retained earnings

Undistributed earnings from previous years and the reporting year are reported in the retained earnings item.

In addition, the retained earnings item includes the impact from the remeasurement of defined benefit pension plans and the "shareholder transaction" (guarantee agreement with the Free State of Bavaria ("Umbrella")). The guarantee agreement with the Free State of Bavaria ended upon the sale of the ABS portfolio and the resulting clawback payments of EUR 789 million were made from the retained earnings to the Free State of Bavaria.

Revaluation surplus

Gains or losses on the measurement of available-for-sale financial instruments are reported in this sub-item in equity.

EUR million	2014	2013
As at 1 Jan	**–37**	**–34**
Currency-related changes	–10	3
Changes in the scope of consolidation	–8	15
Changes in value not recognised in the income statement	679	–65
Changes in deferred taxes not recognised in the income statement	–175	–43
Changes in value recognised in the income statement/realisations	6	136
Non-controlling interests/other changes	–2	–48
As at 31 Dec	**452**	**–37**

Foreign currency translation reserve

The foreign currency translation reserve includes principally the exchange rate differences arising from the translation of the separate financial statements of the subsidiaries and foreign branches incorporated in the consolidated financial statements whose functional currency is not the euro.

Net retained profits/net accumulated losses

The net retained profits/net accumulated losses of the BayernLB Group corresponds to the consolidated profit after changes in reserves.

Notes to financial instruments

(66) Fair value of financial instruments

EUR million	Fair value 2014	Carrying amount 2014	Fair value 2013	Carrying amount 2013
Assets				
• Cash reserves	1,041	1,041	3,160	3,160
• Loans and advances to banks[1]	36,733	37,091	43,544	43,470
• Loans and advances to customers[1]	140,185	134,017	140,674[2]	137,972[2]
• Assets held for trading	24,048	24,048	25,337[2]	25,337[2]
• Positive fair values from derivative financial instruments (hedge accounting)	2,968	2,968	2,889	2,889
• Financial investments	32,679	32,650	39,829	39,720
• Non-current assets or disposal groups classified as held for sale	40	40	2,035	2,053
Liabilities				
• Liabilities to banks	65,952	64,138	72,055	71,191
• Liabilities to customers	84,300	81,635	87,540	86,183
• Securitised liabilities	45,134	44,285	53,402	52,964
• Liabilities held for trading	17,567	17,567	16,672[2]	16,672[2]
• Negative fair values from derivative financial instruments (hedge accounting)	2,780	2,780	2,846	2,846
• Liabilities of disposal groups	–	–	1,435	1,435
• Subordinated capital	4,858	4,722	4,846	4,984

1 Carrying amounts not including deduction of risk provisions for loans and advances to banks in the amount of EUR 528 million (FY 2013: EUR 543 million) and loans and advances to customers in the amount of EUR 2,510 million (FY 2013: EUR 2,125 million).
2 Adjusted as per IAS 8.22 (see note 2).

Information on the fair value measurement of financial instruments recognised at amortised cost is given in note 6.

(67) Financial instrument measurement categories

EUR million	2014	2013
Assets		
• Financial assets at fair value through profit or loss	24,956	27,480
– held-for-trading financial assets	24,048	25,337
assets held for trading	24,048	25,337[2]
– fair value option	908	2,143
loans and advances to banks	10	16
loans and advances to customers	729	705
financial investments	169	1,389[3]
non-current assets or disposal groups classified as held for sale	–	33
• Loans and receivables	180,782	200,446
– cash reserves	1,041	2,689
– loans and advances to banks[1]	37,082	43,454
– loans and advances to customers[1]	133,269	137,242[2]
– financial investments	9,390	15,332
– non-current assets or disposal groups classified as held for sale	–	1,730
• Available-for-sale financial assets	23,149	23,785
– cash reserves	–	472
– loans and advances to customers	18	25
– financial investments	23,091	22,999[3]
– non-current assets or disposal groups classified as held for sale	40	290
• Positive fair values from derivative financial instruments (hedge accounting)	2,968	2,889
Liabilities		
• Financial liabilities at fair value through profit or loss	26,577	25,781
– held-for-trading financial liabilities	17,567	16,672
liabilities held for trading	17,567	16,672[2]
– fair value option	9,011	9,109
liabilities to banks	271	600
liabilities to customers	4,029	3,695
securitised liabilities	4,662	4,782
subordinated capital	49	31
• Financial liabilities measured at amortised cost	185,770	207,648
– liabilities to banks	63,867	70,591
– liabilities to customers	77,606	82,488
– securitised liabilities	39,623	48,182
– liabilities of disposal groups	–	1,435
– subordinated capital	4,673	4,952
• Negative fair values from derivative financial instruments (hedge accounting)	2,780	2,846

1 Not including deductions of risk provisions.
2 Adjusted as per IAS 8.22 (see note 2).
3 Adjusted as per IAS 8.42 (see note 2).

(68) Reclassification of financial assets

Pursuant to the amendments by the International Accounting Standards Board to IAS 39 and IFRS 7 – Reclassification of Financial Assets – and to EU Commission Regulation 1004/2008, certain available-for-sale and held-for-trading securities were reclassified by BayernLB as loans and receivables as at 1 July 2008.

No active market exists for the securities reclassified from the available-for-sale category to the loans and receivables category. There is also no short-term intention to sell or trade them. BayernLB has the intention and the ability to hold them for the foreseeable future. In the case of securities reclassified from the held-for-trading category to the loans and receivables category, the market situation fell within the definition of rare circumstances under IAS 39.50B.

No other reallocations were made during the reporting year.

The fair values and the carrying amounts of the reclassified securities by category at the end of the reporting period in accordance with IAS 39 in conjunction with IFRS 7.12A (b) were:

EUR million	Fair value 2014	Carrying amount 2014	Fair value 2013	Carrying amount 2013
Available-for-sale securities reclassified as loans and receivables	9,419	9,390	15,431	15,321
Held-for-trading securities reclassified as loans and receivables	–	–	45	47
Total	**9,419**	**9,390**	**15,476**	**15,369**

As at the reporting date the nominal volume of the reclassified securities was EUR 9,320 million (FY 2013: EUR 16,271 million).

In the following table, in accordance with IAS 39 in conjunction with IFRS 7.12A, the changes in value, whether recognised or not in profit or loss, as well as current income, are shown "without reclassification" as compared with the corresponding "with reclassification" values. All earnings effects including current earnings components have been recognised.

EUR million	Without reclassi-fication[1] 2014	With reclassi-fication[2] 2014	Without reclassi-fication[1] 2013	With reclassi-fication[2] 2013
Reclassification from the available-for-sale category				
• Net interest income	135	137	178	180
– interest income from bonds, notes and other fixed-income securities	135	137	178	180
• Gains or losses on hedge accounting	–31	–31	–59	–59
– measurement of underlying transactions	–31	–31	–59	–59
• Gains or losses on financial investments	4	182	161	196
– gains or losses on sales	–420	60	8	43
– income from writeups	424	132	154	180
– expenses from writedowns	–	11	1	27
• Change in the revaluation surplus	330	346	419	99
Total	**438**	**633**	**701**	**416**
Reclassification from the held-for-trading category				
• Net interest income	–	–	–	1
– interest income from bonds, notes and other fixed-income securities	–	–	–	1
• Gains or losses on fair value measurement	–	–	3	–
– net trading income for interest-related transactions	–	–	3	–
Total	**–**	**–**	**3**	**1**

1 Taking account of categories before reclassification.
2 Taking account of categories after reclassification.

(69) Fair value hierarchy of financial instruments

The fair value hierarchy divides the inputs used to measure the fair value of financial instruments into three levels:

- Unadjusted quoted prices for identical financial instruments in active markets that the BayernLB Group can access at the measurement date (Level 1),
- Inputs other than quoted prices included within Level 1 that are observable either directly or indirectly, i.e. quoted prices for similar financial instruments in active markets, quoted prices in markets that are not active, other observable inputs that are not quoted prices, and market-corroborated inputs (Level 2) and
- Unobservable inputs (Level 3).

Financial instruments measured at fair value

In the overviews below, financial instruments recognised at fair value in the balance sheet are classified according to whether they are measured with prices quoted on active markets (Level 1), their fair value is calculated using measurement methods whose key inputs can be directly or indirectly observed (Level 2) or are not based on observable market data (Level 3).

	Level 1		Level 2		Level 3		Total	
EUR million	2014	2013	2014	2013	2014	2013	2014	2013
Assets								
• Cash reserves	–	472	–	–	–	–	**–**	**472**
• Loans and advances to banks	–	–	10	16	–	–	**10**	**16**
• Loans and advances to customers	–	–	729	730	18	–	**747**	**730**
• Assets held for trading	872	1,688	22,410	22,499[1]	766	1,150	**24,048**	**25,337**
• Positive fair values from derivative financial instruments (hedge accounting)	–	–	2,967	2,889	1	–	**2,968**	**2,889**
• Financial investments[1]	5,746	6,081	17,001	15,114	514	3,193	**23,260**	**24,388**
• Non-current assets or disposal groups classified as held for sale[1]	–	110	–	78	40	135	**40**	**323**
Total	**6,618**	**8,350**	**43,117**	**41,326**	**1,339**	**4,478**	**51,074**	**54,154**
Passiva								
• Liabilities to banks	–	–	271	600	–	–	**271**	**600**
• Liabilities to customers	–	–	4,029	3,695	–	–	**4,029**	**13,695**
• Securitised liabilities	18	29	4,644	4,753	–	–	**4,662**	**4,782**
• Liabilities held for trading	147	231	17,386	16,204[1]	34	236	**17,567**	**16,672**
• Negative fair values from derivative financial instruments (hedge accounting)	–	–	2,780	2,846	–	–	**2,780**	**2,846**
• Subordinated capital	–	–	49	31	–	–	**49**	**31**
Total	**165**	**260**	**29,158**	**28,131**	**34**	**236**	**29,357**	**28,628**

1 Adjusted as per IAS 8.22 (see note 2).

Fair values calculated on the basis of unobservable market data (Level 3) by risk type

	Interest rate risks		Currency risks		Equity and other price risks		Credit risks		Total	
EUR million	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
Assets										
• Loans and advances to customers	18	–	–	–	–	–	–	–	**18**	**–**
• Assets held for trading	720	514	46	–	–	–	–	636	**766**	**1,150**
• Positive fair values from derivative financial instruments (hedge accounting)	1	–	–	–	–	–	–	–	**1**	**–**
• Financial investments	–	2,706	–	–	514	488	–	–	**514**	**3,193**
• Non-current assets or disposal groups classified as held for sale	–	–	–	–	40	135	–	–	**40**	**135**
Total	**739**	**3,220**	**46**	**–**	**554**	**622**	**–**	**636**	**1,339**	**4,478**
Liabilities										
• Liabilities held for trading	–	–	34	–	–	–	–	236	**34**	**236**
Total	**–**	**–**	**34**	**–**	**–**	**–**	**–**	**236**	**34**	**236**

Reclassifications between Levels 1 and 2

	Reclassifications			
	to Level 1 from Level 2		to Level 2 from Level 1	
EUR million	2014	2013	2014	2013
Assets				
• Assets held for trading	16	–	34	795
• Financial investments	239	–	1,320	7,780
• Non-current assets or disposal groups classified as held for sale	–	–	–	39
Total	**254**	**–**	**1,354**	**8,615**
Liabilities				
• Securitised liabilities	–	–	22	818
• Liabilities held for trading	–	–	4	1
Total	**–**	**–**	**26**	**819**

In the reporting year, financial instruments were reclassified between Level 1 and Level 2, as they will be measured again/will no longer be measured using prices quoted on active markets. The liquidity estimate for one subsidiary was also updated. The amounts reclassified were calculated on the basis of the fair value at the end of the reporting year.

Changes in fair values calculated on the basis of unobservable market data (Level 3) – assets

EUR million	Loans and advances to customers		Assets held for trading		Positive fair values from derivative financial instruments (hedge accounting)		Financial investments		Non-current assets or disposal groups classified as held for sale		Total	
	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
As at 1 Jan	**–**	**–**	**1,150**	**1,037**	**–**	**–**	**3,193**	**3,757**	**135**	**11**	**4,478**	**4,805**
Currency-related changes	–	–	104	–69	–	–	408	–137	–	–	**511**	**–206**
Changes in the scope of consolidation	–	–	–	–	–	–	–13	–	–4	–7	**–17**	**–7**
Income and expenses recognised in the income statement	–	–	43	189	–	–	743	423	48	–	**835**	**611**
Changes in the revaluation surplus	–	–	–	–	–	–	71	14	–46	–	**24**	**14**
Purchases	–	–	–	–	–	–	22	16	–	–	**22**	**16**
Sales	–	–	18	–	–	–	119	23	134	4	**272**	**27**
Settlements	–	–	785	9	–	–	3,762	858	–	–	**4,547**	**867**
Reclassifications to Level 3 from Levels 1 and 2	18	–	272	–	1	–	–	–	–	–	**291**	**–**
Transfers/other changes	–	–	–	2	–	–	–29	1	42	135	**13**	**138**
As at 31 Dec	**18**	**–**	**766**	**1,150**	**1**	**–**	**514**	**3,193**	**40**	**135**	**1,339**	**4,478**
Income and expenses recognised in the income statement during the financial year for financial instruments held at 31 Dec	–	–	9	189	–	–	95	329	–	–	**104**	**518**

Changes in fair values calculated on the basis of unobservable market data (Level 3) – liabilities

	Liabilities held for trading		Total	
EUR million	2014	2013	2014	2013
As at 1 Jan	**236**	**359**	**236**	**359**
Currency-related changes	18	–11	**18**	**–11**
Income and expenses recognised in the income statement	–133	–55	**–133**	**–55**
Sales	121	49	**121**	**49**
Settlements	–	8	**–**	**8**
Reclassifications to Level 3 from Levels 1 and 2	34	–	**34**	**–**
As at 31 Dec	**34**	**236**	**34**	**236**
Income and expenses recognised in the income statement during the financial year for financial instruments held at 31 Dec	–35	–45	**–35**	**–45**

The income and expenses recognised in the income statement are shown under the gains or losses on fair value measurement item if they are not measurement gains or losses from hedge accounting (recognised in gains or losses on hedge accounting) or impairments of financial investments in the available-for-sale category (recognised in gains or losses on financial investments). Changes in the revaluation surplus are a component of other comprehensive income.

The models used to calculate fair value must conform with financial valuation methods and take account of all factors market participants would consider reasonable when setting a price. Within the BayernLB Group, the models used, including any major changes, are reported to the Board of Management for approval mainly by Group Risk Control and Group Strategy in the form of a separate resolution or as part of their regular reporting. All calculated fair values are subject to internal controls and are independently checked or validated by risk-control units and the units with responsibility for equity interests in accordance with the dual control principle. The procedures used for this are contained in the guidelines approved by the Board of Management for the BayernLB Group. Fair values are reported on a regular basis to the management of the divisions concerned and to the Board of Management.

Financial instruments with embedded derivative structures are allocated to Level 3 of the fair value hierarchy. These financial instruments are in economic hedges with the associated hedging derivatives. As at 31 December 2014, the sensitivity of these hedge packages to changes in key factors was
- for a ten-basis-point upward (downward) shift in the euro yield curve: EUR –0.1 million (EUR +0.1 million) (31 December 2013: EUR –0.1 million (EUR +0.1 million))
- for a ten-basis-point upward (downward) movement in the measurement spread: EUR –2.2 million (EUR +2.2 million) (31 December 2013: EUR –3.0 million (EUR +3.0 million)).

Other derivative financial instruments whose significant inputs for measuring fair value are not observable on the market are also allocated to Level 3 of the fair value hierarchy. As at 31 December 2014, the sensitivity of these financial instruments to changes in key factors was

- for a 10-percentage-point upward (downward) movement in expected loss given default: EUR –4.9 million (EUR +5.1 million)
- for a one notch improvement (deterioration) in the ratings: EUR +3.5 million (EUR –4.3 million).

In the reporting year, financial instruments were reallocated to Level 3 from Level 2 as the allocation criteria for the levels were amended in the second half of 2014 (see note 2). The amounts reclassified were calculated on the basis of the fair value at the end of the reporting year.

Also in the reporting year, receivables secured by real estate that were purchased on the non-performing loan market were reclassified to Level 3 from Level 2 as there was no current market activity in these or similar loans and advances. The amounts reclassified were calculated on the basis of the fair value at the end of the reporting year.

As at 31 December 2014, the sensitivity of equity interests whose fair value is calculated using the German income method (Ertragswertverfahren) to changes in key factors was

- for a 25-basis point upward (downward) movement in the base interest rate: EUR –8.28 million (EUR +8.69 million) (31 December 2013: EUR –9.9 million (EUR +6.1 million))
- for a 25-basis point upward (downward) movement in the market risk premium: EUR –6.19 million (EUR +6.33 million) (31 December 2013: EUR –7.7 million (EUR +3.7 million)).

The underlying base interest rate moved within a range of 1.5–2.0 percent (average: 1.75 percent); the underlying market risk premium moved within a range of 5.75–6.25 percent (average: 6.0 percent).

Up until the guarantee agreement with the Free State of Bavaria to hedge the ABS portfolio (“Umbrella”) was terminated in October 2014, the fair value of the guarantee agreement, which was treated as a credit derivative, was calculated using a measurement model based mainly on the measurement of the individual underlying asset-backed securities according to their category on the balance sheet. A sensitivity analysis of key inputs in the measurement model was conducted as at 31 December 2013 to show the impact of economic changes, taking account of both the guarantee agreement and the underlying asset-backed securities. The sensitivity to changes in key factors as at 31 December 2013 is shown below:

- for a ten-basis-point upward (downward) shift in the euro yield curve: EUR +2.4 million (EUR –2.4 million)
- for a one-year extension (reduction) in the expected term of the guarantee agreement: EUR –33.2 million (EUR +38.0 million).

Financial instruments measured at amortised cost

In the overview below, the fair values of the financial instruments recognised at amortised cost in the balance sheet are classified according to whether they are measured with prices quoted on active markets (Level 1), their fair value is calculated using measurement methods whose key inputs can be directly or indirectly observed (Level 2) or are not based on observable market data (Level 3).

	Level 1		Level 2		Level 3		Total	
EUR million	2014	2013	2014	2013	2014	2013	2014	2013
Assets								
• Cash reserves	–	–	–	–	1,041	2,689	**1,041**	**2,689**
• Loans and advances to banks	–	–	–	–	36,723	43,529	**36,723**	**43,529**
• Loans and advances to customers	–	–	–	34	139,438	139,911[1]	**139,438**	**139,945**
• Financial investments	205	425	8,994	10,839	220	4,178	**9,419**	**15,441**
• Non-current assets or disposal groups classified as held for sale	–	–	–	10	–	1,702	**–**	**1,712**
Total	**205**	**425**	**8,994**	**10,882**	**177,422**	**192,008**	**186,621**	**203,315**
Liabilities								
• Liabilities to banks	–	–	5,616	7,077[2]	60,065	64,377[2]	**65,681**	**71,454**
• Liabilities to customers	–	–	14,019	14,409[2]	66,252	69,436[2]	**80,271**	**83,845**
• Securitised liabilities	3,883	4,866[2]	31,955	38,115[2]	4,633	5,638[2]	**40,472**	**48,619**
• Liabilities of disposal groups	–	–	–	–	–	1,435	**–**	**1,435**
• Subordinated capital	203	199[2]	3,588	3,539[2]	1,019	1,076[2]	**4,810**	**4,815**
Total	**4,086**	**5,066**	**55,179**	**63,140**	**130,950**	**141,962**	**191,233**	**210,168**

1 Adjusted as per IAS 8.22 (see note 2).
2 Adjusted as per IAS 8.42 (see note 2).

(70) Financial instruments designated at fair value through profit or loss

The maximum default risk for loans and receivables in the fair value option category was EUR 739 million on the reporting date (FY 2013: EUR 754 million). The rating-related change in the fair value of these financial assets was EUR 0 million in the reporting year (FY 2013: EUR 2 million), and, since designation, EUR 9 million (FY 2013: EUR 8 million).

The rating-related change in the fair value of financial liabilities in the fair value option category was EUR –102 million in the reporting year (FY 2013: EUR –53 million) and, since designation, EUR –115 million (FY 2013: EUR –31 million). The difference between the carrying amount of the financial liabilities and the redemption amount at maturity was EUR 963 million on the reporting date (FY 2013: EUR 485 million).

The change in fair value caused by changes in ratings was calculated by taking the difference between the fair value based on the credit spreads at the end of the reporting year and the fair value based on the credit spreads at the beginning of the reporting year.

(71) Net profit or loss from financial instruments

The net profit or loss from financial instruments in each category incorporates the gains or losses from measurement and realisation.

EUR million	2014	2013
Financial assets and financial liabilities at fair value through profit or loss	**–4**	**270**
• Held-for-trading financial instruments[1]	53	332
– gains or losses on fair value measurement	35	291[2]
– gains or losses on discontinued operations	18	41
• Financial instruments designated at fair value through profit or loss (fair value option)	–57	–62
– gains or losses on fair value measurement	–59	–65
– gains or losses on discontinued operations	2	3
Loans and receivables	**–1,400**	**–467**
• Risk provisions in the credit business	–1,518	–344
• Gains or losses on financial investments	182	210
• Other income and expenses	3	7
• Gains or losses on discontinued operations	–67	–340
Available-for-sale financial assets	**1,051**	**–433**
• Gains or losses on financial investments	254	–436
• Gains or losses on discontinued operations	797	3
Financial liabilities measured at amortised cost	**–70**	**–20**
• Other income and expenses	–70	–20

1 Includes current income (except for derivatives in economic hedges) and gains or losses from currency translation.
2 Adjusted as per IAS 8.22 (see note 2).

Gains or losses from the fair value measurement of available-for-sale financial assets in the amount of EUR 773 million (FY 2013: EUR –65 million) were reported in the revaluation surplus in equity (see note 65).

(72) Offsetting of financial instruments

When conducting derivatives transactions and securities repurchase transactions, the BayernLB Group regularly concludes bilateral netting agreements in the form of master agreements with business partners. Among the standard master agreements used are the ISDA Master Agreement for Financial Derivatives, the German Master Agreement for Financial Derivatives Transactions and the Global Master Repurchase Agreement for securities repurchase transactions. Agreements granting rights of set-off include the clearing conditions of Eurex Clearing AG, LCH.Clearnet Limited, European Commodity Clearing AG, and the client clearing agreements for indirect clearing. The netting agreements provide for conditional rights of set-off in the form of close-out netting for receivables and liabilities covered by these agreements, i.e. only if previously defined conditions, e.g. cancellation of the master agreement, default or insolvency, occur can the legal right of set-off be enforced.

Besides the master agreements for financial derivatives, collateral agreements are concluded with business partners to safeguard the net claim or liability left after offsetting. The main ones used are the Credit Support Annex to the ISDA Master Agreement and the collateral addendum to the German Master Agreement for Financial Derivatives Transactions. The master agreements for securities repurchase transactions and the derivatives clearing agreements contain similar collateral rules. Collateral agreements usually grant the protection buyer an unrestricted right of disposal over the collateral, which is normally cash or securities collateral. Collateral agreements with no or a limited right of disposal are rare. Bilateral master agreements mainly provide for the realisation of collateral through offsetting.

The tables below give information on recognised financial instruments offset in accordance with IAS 32.42 and recognised financial instruments with a legally enforceable right of set-off or which are subject to a similar agreement. The "Set-off amount" column shows the amounts offset in accordance with IAS 32.42. These relate to transactions with central counterparties. The "Effect of netting arrangements" column shows the amounts relating to financial instruments subject to a netting agreement, but not offset on the balance sheet as the criteria under IAS 32.42 were not met. The "Collateral" column shows the fair value of received or pledged financial collateral.

Offsetting of financial assets and financial liabilities as at 31 December 2014 – assets

EUR million	Gross carrying amount	Set-off amount	On-balance net carrying amount	Effect of netting agreements	Collateral	Net amount
Derivative transactions	**30,957**	**–8,503**	**22,454**	**–14,296**	**–1,315**	**6,843**
• Assets held for trading/ Positive fair values from derivative financial instruments (hedge accounting)	30,957	–8,503	22,454	–14,296	–1,315	6,843
Securities repurchase transactions	**8,391**	**–**	**8,391**	**–1,700**	**–6,640**	**51**
• Loans and advances to banks	8,320	–	8,320	–1,687	–6,582	50
• Loans and advances to customers	72	–	72	–13	–58	1
Total	**39,348**	**–8,503**	**30,845**	**–15,996**	**–7,956**	**6,894**

Offsetting of financial assets and financial liabilities as at 31 December 2014 – liabilities

EUR million	Gross carrying amount	Set-off amount	On-balance net carrying amount	Effect of netting agreements	Collateral	Net amount
Derivative transactions	**30,485**	**–10,658**	**19,827**	**–14,296**	**–2,436**	**3,095**
• Liabilities held for trading/ Negative fair values from derivative financial instruments (hedge accounting)	30,485	–10,658	19,827	–14,296	–2,436	3,095
Securities repurchase transactions	**5,501**	**–**	**5,501**	**–1,700**	**–1,111**	**2,691**
• Liabilities to banks	5,453	–	5,453	–1,687	–1,076	2,690
• Liabilities to customers	49	–	49	–13	–35	1
Total	**35,986**	**–10,658**	**25,328**	**–15,996**	**–3,547**	**5,785**

Offsetting of financial assets and financial liabilities as at 31 December 2013 – assets

EUR million	Gross carrying amount	Set-off amount	On-balance net carrying amount	Effect of netting agreements	Collateral	Net amount
Derivative transactions	**23,044**	**–1,737**	**21,307**	**–14,065**	**–1,304**	**5,938**
• Assets held for trading/ Positive fair values from derivative financial instruments (hedge accounting)	23,044[1]	–1,737	21,307	–14,065	–1,304	5,938
Securities repurchase transactions	**10,862**	**–**	**10,862**	**–1,458**	**–9,332**	**72**
• Loans and advances to banks	10,349	–	10,349	–1,413	–8,879	57
• Loans and advances to customers	513	–	513	–45	–453	15
Total	**33,906**	**–1,737**	**32,169**	**–15,524**	**–10,635**	**6,010**

1 Adjusted as per IAS 8.22 (see note 2).

Offsetting of financial assets and financial liabilities as at 31 December 2013 – liabilities

EUR million	Gross carrying amount	Set-off amount	On-balance net carrying amount	Effect of netting agreements	Collateral	Net amount
Derivative transactions	**21,441**	**–2,377**	**19,064**	**–14,065**	**–2,209**	**2,790**
• Liabilities held for trading/ Negative fair values from derivative financial instruments (hedge accounting)	21,441[1]	–2,377	19,064	–14,065	–2,209	2,790
Securities repurchase transactions	**10,380**	**–**	**10,380**	**–1,458**	**–4,641**	**4,280**
• Liabilities to banks	9,333	–	9,333	–1,413	–3,651	4,269
• Liabilities to customers	1,047	–	1,047	–45	–991	11
Total	**31,821**	**–2,377**	**29,445**	**–15,524**	**–6,851**	**7,070**

1 Adjusted as per IAS 8.22 (see note 2).

(73) Derivative transactions

The tables below show interest rate and foreign currency-related derivatives still open at the end of the reporting period and other forward transactions and credit derivatives. Most were concluded to hedge fluctuations in interest rates, exchange rates or market prices or were trades for the account of customers.

	Nominal value		Positive fair value		Negative fair value	
EUR million	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**
Interest rate risks	**856,248**	**812,601**	**27,775**	**20,575**	**26,786**	**19,402**
• Interest rate swaps	525,794	578,204	26,314	19,645[1]	25,044	18,428[1]
• FRAs	218,927	146,739	25	18	22	17
• Interest rate options	21,108	23,939	1,080	564	1,558	827
– call options	8,504	11,646	1,039	546	38	22
– put options	12,605	12,292	41	18	1,520	805
• Caps, floors	24,019	29,685	343	342	90	120
• Exchange-traded contracts	62,734	32,775	4	1	3	1
• Other interest-based forward transactions	3,665	1,259	9	6	70	10
Currency risks	**105,865**	**102,342**	**2,669**	**2,247**	**3,145**	**1,748**
• Forward exchange deals	60,825	55,551	1,498	997	1,436	954
• Currency swaps/cross-currency swaps	39,882	41,618	1,080	1,189	1,625	723
• Foreign exchange options	4,957	4,967	89	54	81	69
– call options	2,575	2,664	75	40	12	10
– put options	2,382	2,303	14	14	70	59
• Exchange-traded contracts	–	114	–	1	–	1
• Other currency-based forward transactions	201	93	3	7	2	–
Equity and other price risks	**5,989**	**7,710**	**503**	**277**	**499**	**220**
• Equity forward transactions	351	230	–	–	25	57
• Equity/index options	411	1,436	6	43	1	33
– call options	372	522	6	43	–	–
– put options	38	914	–	–	1	33
• Exchange-traded contracts	771	942	1	8	13	40
• Other forward transactions	4,457	5,103	496	225	460	90
Credit derivative risks	**1,427**	**7,906**	**2**	**644**	**2**	**245**
• Protection buyer	447	6,421	2	642	–	65
• Protection seller	980	1,485	–	2	2	179
Total	**969,530**	**930,559**	**30,950**	**23,743**	**30,432**	**21,615**

1 Adjusted as per IAS 8.22 (see note 2).

Derivative transactions by maturity

	Nominal value							
	Interest rate risks		Currency risks		Equity and other price risks		Credit derivative risks	
EUR million	2014	2013	2014	2013	2014	2013	2014	2013
Residual maturities								
• up to 3 months	67,040	65,209	29,245	31,771	1,176	1,220	–	28
• between 3 months and 1 year	309,321	241,882	37,628	22,630	1,946	3,090	600	1,192
• between 1 year and 5 years	290,218	293,348	28,793	37,350	2,431	2,981	781	1,086
• more than 5 years	189,670	212,162	10,200	10,591	436	419	46	5,600
Total	**856,248**	**812,601**	**105,865**	**102,342**	**5,989**	**7,710**	**1,427**	**7,906**

Derivative transactions by counterparty

	Nominal value		Positive fair value		Negative fair value	
EUR million	2014	2013	2014	2013	2014	2013
OECD banks	372,566	469,228	16,537	16,382[2]	17,100	16,695[2]
Non-OECD banks	1,634	1,759	12	11	139	87
Public-sector entities within the OECD	17,398	25,484	972	1,349	673	582
Other counterparties[1]	577,932	434,088	13,429	6,002	12,521	4,250
Total	**969,530**	**930,559**	**30,950**	**23,743**	**30,432**	**21,615**

1 Including exchange-traded contracts.
2 Adjusted as per IAS 8.22 (see note 2).

Derivatives for trading purposes

	Nominal value		Positive fair value		Negative fair value	
EUR million	2014	2013	2014	2013	2014	2013
Interest rate derivatives	752,241	725,836	23,211	17,737[1]	22,745	16,779[1]
Currency derivatives	93,565	91,044	2,486	1,855	2,711	1,581
Equity derivatives	5,326	6,812	465	151	475	175
Credit derivatives	1,302	1,346	2	10	2	7
Total	**852,434**	**825,038**	**26,164**	**19,754**	**25,933**	**18,542**

1 Adjusted as per IAS 8.22 (see note 2).

(74) Transfer of financial assets

The following transactions were executed at standard market terms and conditions.

Transferred financial assets that are not derecognised in their entirety

On the reporting date the volume of financial assets transferred as collateral that are not derecognised was EUR 50,446 million (FY 2013: EUR 50,946 million).

These include genuine securities repurchase agreements, where the BayernLB Group sold securities with a repurchase obligation. As the risks (interest rate, currency, equity and other price risks and credit risks) and rewards (particularly capital growth and current income) are largely retained by the BayernLB Group, the financial assets are not derecognised. The obligation of the lender to return the received payment for which the transferred security is used as collateral is recognised as a financial liability. The lender has an unrestricted right of disposal over the securities once they are delivered.

The BayernLB Group also passes on funds received from development institutions for specific purposes on their own terms through savings banks or directly to end-borrowers. The loans and advances to savings banks and end-borrowers are recognised as assets and the liabilities to development institutions as liabilities. The loans and advances to savings banks and to end-borrowers and any pledged collateral are assigned as collateral to the development institutions and may be realised by them in the event of loss. The BayernLB Group retains default risk in respect of the loans and advances to the savings banks and end-borrowers.

The BayernLB Group has also pledged collateral for funding, largely for tender operations with the European Central Bank. Collateral has also been pledged to the European Investment Bank and for transactions on the European Exchange (EUREX), as well as other exchanges and clearing systems. The financial assets transferred as collateral for the corresponding (contingent) liabilities are not derecognised as the risks and rewards are largely retained by the BayernLB Group. The company accepting the collateral normally has an unrestricted right of disposal over the collateral once it is transferred.

The carrying amount of transferred collateral relates to the following items:

EUR million	**2014**	**2013**
Loans and advances to banks	15,731	15,002
of which:		
• collateral received which may be sold or pledged on	11	12
Loans and advances to customers	19,797	18,620
Assets held for trading	1,036	1,874
of which:		
• collateral received which may be sold or pledged on	767	1,573
Financial investments	13,882	15,450
of which:		
• collateral received which may be sold or pledged on	2,461	2,484
Total	**50,446**	**50,946**

The transferred financial assets are matched against liabilities of EUR 19,615 million (FY 2013: EUR 19,861 million) and contingent liabilities of EUR 11 million (FY 2013: EUR 26 million).

The assets in the cover pool are managed in accordance with the German Pfandbrief Act (Pfandbriefgesetz). On the reporting date the volume of the cover funds was EUR 54,979 million (FY 2013: EUR 58,263 million) for an outstanding volume of mortgage-backed Pfandbriefs and public Pfandbriefs of EUR 32,473 million (FY 2013: EUR 36,400 million).

Transferred financial assets that are derecognised in their entirety

On the reporting date there was no material continuing involvement in transferred financial assets that are derecognised in their entirety.

Notes to the cash flow statement

(75) Notes on items in the cash flow statement

The cash flow statement shows the cash flows of the financial year classified into operating activities, investing activities and financing activities.

The reported financial resources balance corresponds to the cash reserves item in the balance sheet and comprises the cash balance, deposits with central banks, debt instruments issued by public-sector entities and bills of exchange eligible as collateral with central banks. The financial resources balance is not subject to any drawing restrictions (FY 2013: EUR 77 million).

Payments from loans and advances to banks and customers, from securities (unless financial investments), derivatives, and other assets are reported as cash flows from operating activities. Payments from liabilities to banks/customers, securitised liabilities, and other liabilities are also assigned to operating activities. Interest and dividend payments from operating activities are also reported under cash flows from operating activities.

Payments for financial investments, interests in companies measured at equity, investment property, property, plant and equipment, and intangible assets are reported under cash flows from investment activities. The impact from changes to the scope of consolidation is also reported under this item.

Cash flow from financing activities includes distributions to company owners and minority shareholders, and changes in subordinated capital and non-controlling interests.

In the reporting year two subsidiaries were included in the consolidated financial statements for the first time. This did not result in a cash outflow. The total consideration received for the sale of the equity interests in subsidiaries was EUR 40 million, without resulting in a cash inflow.

The impact of this on assets and liabilities was:

EUR million	Increase	Reduction
Assets	–	174
• Cash reserves	–	872
• Loans and advances to banks	–	4,699
• Loans and advances to customers	–	730
• Risk provisions	–	99
• Assets held for trading	–	947
• Financial investments	–	17
• Interests in companies measured at equity	–	45
• Investment property	47	238
• Property, plant and equipment	6	58
• Intangible assets	–	5
• Deferred tax assets		
• Non-current assets or disposal groups classified as held for sale	–	7
• Other assets	7	111
Liabilities		
• Liabilities to banks	–	617
• Liabilities to customers	2	3,966
• Securitised liabilities	–	614
• Liabilities held for trading	–	78
• Provisions	10	174
• Current tax liabilities	–	1
• Deferred tax liabilities	–	1
• Other liabilities	25	132

Supplementary information

(76) Subordinated assets

Subordinated assets are recognised in the following items on the balance sheet:

EUR million	2014	2013
Loans and advances to banks	160	191
Loans and advances to customers	576	370
Financial investments	180	964
Total	**915**	**1,525**

(77) Assets and liabilities in foreign currency

EUR million	2014	2013
Foreign currency assets	**25,939**	**34,029**
• CAD	749	660
• CHF	3,848	5,917
• GBP	5,985	6,841
• HKD	2	23
• JPY	300	362
• USD	14,121	16,506
• Other currencies	934	3,719
Foreign currency liabilities	**18,033**	**27,374**
• CAD	1,700	2,641
• CHF	1,408	3,261
• GBP	3,621	3,775
• HKD	18	18
• JPY	1,140	1,328
• USD	9,761	12,400
• Other currencies	386	3,951

(78) Collateral received

Certain assets that have been pledged as collateral through securities repurchase transactions may be sold on or repledged even if the collateral provider has not defaulted. As at the reporting date their fair value was EUR 12,625 million (FY 2013: EUR 16,042 million).

EUR 5,841 million (FY 2013: EUR 6,315 million) of this collateral was either sold on or repledged. An obligation to return this collateral exists.

These transactions were executed at standard market terms and conditions.

(79) Leasing

Finance leases

The BayernLB Group as lessor

As at 31 December 2014, the BayernLB Group was no longer a lessor in finance leases. The leases reported as at 31 December 2013 were primarily for leased vehicles. The present value of the outstanding minimum lease payments as at 31 December 2013 is calculated as follows:

EUR million	2014	2013
Minimum lease payments	–	99
Unguaranteed residual value	–	4
Gross investment value	**–**	**103**
Unrealised financial income	–	– 18
Net investment value	**–**	**85**
Present value of the unguaranteed residual value	–	–
Present value of minimum lease payments	**–**	**85**

Gross investment and present value of minimum lease payments by maturity

	Gross investment value		Present value of minimum lease payments	
EUR million	2014	2013	2014	2013
Residual maturities				
• up to 1 year	–	43	–	34
• between 1 year and 5 years	–	59	–	48
• more than 5 years	–	2	–	2
Total	**–**	**103**	**–**	**85**

In the reporting year no contingent lease payments were recognised as income (FY 2013: EUR 2 million).

The BayernLB Group as lessee

As a lessee in finance leases, the BayernLB Group recognised leases with a net carrying amount of EUR 0 million (FY 2013: EUR 24 million). This includes components of IT equipment recognised under property, plant and equipment. As at 31 December 2013, this largely comprised real estate which was recognised under property, plant and equipment. The present value of the future minimum lease payments as at the reporting date is calculated as follows:

EUR million	2014	2013
Minimum lease payments	2	89
Unrealised financial liability	–	– 65
Present value of minimum lease payments	2	24

Minimum lease payments and their present value by maturity

EUR million	Minimum lease payments		Present value of minimum lease payments	
	2014	2013	2014	2013
Residual maturities				
• up to 1 year	1	6	1	2
• between 1 year and 5 years	1	23	1	7
• more than 5 years	-	60	-	15
Total	**2**	**89**	**2**	**24**

Operating leases

The BayernLB Group as lessor

The BayernLB Group is a lessor in operating leases. The leases are for real estate. The future minimum lease payments from non-cancellable operating leases are broken down as follows:

EUR million	2014	2013
Residual maturities		
• up to 1 year	3	9
• between 1 year and 5 years	6	17
• more than 5 years	3	5
Total	**12**	**31**

The BayernLB Group as lessee

The BayernLB Group's current commitments from operating leases are primarily for leases for office space with options to extend the lease or clauses to adjust prices. The future minimum lease payments based on non-cancellable operating leases are broken down as follows:

EUR million	2014	2013
Residual maturities		
• up to 1 year	27	15
• between 1 year and 5 years	73	35
• more than 5 years	40	26
Total	**140**	**76**

In the reporting year minimum lease payments of EUR 31 million (FY 2013: EUR 15 million) and contingent liabilities of EUR 0 million (FY 2013: EUR 1 million) were recognised as an expense.

(80) Trust transactions

EUR million	2014	2013
Assets held in trust	**5,151**	**8,513**
• Loans and advances to banks	56	71
• Loans and advances to customers	5,095	5,260
• Other assets	1	3,182
Liabilities held in trust	**5,151**	**8,513**
• Liabilities to banks	13	14
• Liabilities to customers	5,138	5,317
• Other liabilities	1	3,182

(81) Contingent assets, contingent liabilities and other commitments

EUR million	2014	2013
Contingent liabilities	**11,737**	**12,139**
• Liabilities from guarantees and indemnity agreements	11,477	12,139
• Other contingent liabilities	261	–
Other commitments	**24,082**	**22,272**
• Placement and underwriting commitments	29	34
• Irrevocable credit commitments	24,053	22,239
Total	**35,819**	**34,411**

Contingent liabilities and other commitments are possible liabilities arising from the occurrence of an uncertain future event whose settlement amount and date cannot be reliably estimated. The other contingent liabilities includes possible liabilities arising from legal disputes.

EUR 7,886 million (FY 2013: EUR 8,178 million) of contingent liabilities and EUR 13,899 million (FY 2013: EUR 12,772 million) of other liabilities are due after more than 12 months.

As at the reporting date there were also contingent assets from legal disputes where the Bank considers an inflow of economic benefits that cannot be reliably estimated at present to be probable.

(82) Other financial obligations

Other financial obligations arise principally from agency, rental, usage, service and maintenance, and consulting and marketing agreements.

On the reporting date there were call commitments for capital not fully paid up of EUR 28 million (FY 2013: EUR 32 million) and uncalled liabilities from German limited partnership (Kommanditgesellschaft) interests of EUR 29 million (FY 2013: EUR 29 million). There were also additional funding obligations of EUR 0 million (FY 2013: EUR 36 million). Liabilities to subsidiaries not incorporated in the consolidated financial statements totalled EUR 42 million (FY 2013: EUR 42 million).

On the reporting date BayernLB's liability as a member of the guarantee fund of the landesbanks and central giro institutions was EUR 152 million (FY 2013: EUR 207 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 a private credit institution in which it has a majority stake.

Under the terms of the contract to spin off Bayerische Landesbausparkasse (LBS AöR-alt) to LBS Bayerische Landesbausparkasse (LBS AöR-neu) on 10 December 2012, BayernLB and LBS AöR-neu are joint and severally liable for the liabilities that were created up until the date of spin-off and assigned to LBS AöR-neu 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 has been legally enforced against BayernLB. Due to the stable financial position and financial performance of LBS AöR-neu there is currently no risk of a claim being brought.

(83) Letters of comfort

BayernLB provides its subsidiaries with significant benefits in the form of improved business terms and better financing conditions by issuing them and their creditors letters of comfort. BayernLB also benefits as the value of its subsidiaries is enhanced. At the same time, however, it is also potentially liable for losses.

Except in cases of political risk, BayernLB ensures in proportion to the size of its equity interest that the companies listed below are able to fulfil their contractual obligations:

- Banque LBLux S.A., Luxembourg (details on the expiry of this letter of comfort on 1 May 2015 can be found in the Management Report in the section Events after the reporting period)
- Deutsche Kreditbank Aktiengesellschaft, Berlin

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

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 its 25.2 percent interest in the share capital of SaarLB to the Saarland. SaarLB therefore no longer qualifies as an associate of BayernLB under section 271, paragraph 2 HGB (German Commercial Code). 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 have been revoked.

(84) Shareholdings

Name and location of the investee	Type of share-holding	Percentage held	Equity/ fund assets in EUR '000	Earnings in EUR '000
Subsidiaries included in the consolidated financial statements				
Banque LBLux S.A., L - Luxembourg	Direct	100.0	454,003	52,306
Subsidiary of the Banque LB Lux S.A. sub-group:				
• Immo 3 Rue Jean Monnet S.à.r.l., L - Luxembourg[1]	Indirect	100.0		
BayernInvest Kapitalverwaltungsgesellschaft mbH, Munich[2]	Direct	100.0	13,154	–
BayernLB Capital LLC I, USA - Wilmington[3]	Direct	100.0	89	9
BayernLB Capital Trust I, USA - Wilmington[3]	Direct	100.0	1	–
Deutsche Kreditbank Aktiengesellschaft, Berlin[2]	Direct	100.0	2,335,912	–
Subsidiaries included in the Deutsche Kreditbank Aktiengesellschaft sub-group:				
• DKB Finance GmbH, Berlin	Indirect	100.0	11,645	1,948
• DKB Grundbesitzvermittlung GmbH, Berlin	Indirect	100.0	101	−6
• DKB PROGES GmbH, Berlin	Indirect	100.0	480	2,050
• DKB Service GmbH, Potsdam	Indirect	100.0	133	23
• FMP Forderungsmanagement Potsdam GmbH, Potsdam	Indirect	100.0	2,891	1,293
• MVC Unternehmensbeteiligungsgesellschaft mbH, Berlin	Indirect	100.0	2,363	−32
• SKG BANK AG, Saarbrücken	Indirect	100.0	81,519	–
Real I.S. AG Gesellschaft für Immobilien Assetmanagement, Munich[2]	Direct	100.0	45,455	–
Subsidiaries not included in the consolidated financial statements				
ADEM Allgemeine Dienstleistungen für Engineering und Management GmbH, Karlsruhe	Indirect	100.0	49	2
Bauland GmbH, Baulandbeschaffungs-, Erschließungs- und Wohnbaugesellschaft, Munich	Indirect	94.5	−10,106	–
Bavaria Immobilien-Beteiligungs-Gesellschaft mbH & Co. Objekt Fürth KG, Munich	Indirect	100.0	–	–
Bavaria Immobilien-Beteiligungs-Gesellschaft mbH, Munich	Indirect	100.0	20	−4
Bayerische Landesbank Europa-Immobilien-Beteiligungs-GmbH, Munich	Indirect	100.0	89	–
Bayerische Landesbank Immobilien-Beteiligungs-Gesellschaft mbH & Co. KG, Munich	Direct	100.0	29,659	3,665
Bayerische Landesbank Immobilien-Beteiligungs-Verwaltungsgesellschaft mbH, Munich	Direct	100.0	46	2
Bayern Bankett Gastronomie GmbH, Munich[2]	Direct	100.0	1,164	–
Bayern Card-Services GmbH - S-Finanzgruppe, Munich	Direct	50.1	17,333	3,005
Bayern Corporate Services GmbH, Munich	Indirect	100.0	179	40
Bayern Facility Management GmbH, Munich[2]	Direct	100.0	2,560	–
BayernFinanz Gesellschaft für Finanzmanagement und Beteiligungen mbH, Munich[2]	Direct	100.0	725	–
Bayernfonds Australien 4 GmbH, Munich	Indirect	100.0	25	–
Bayernfonds BestEnergy 1 GmbH & Co. KG, Oberhaching	Indirect	100.0	40,684	−1,508
Bayernfonds Immobilien Concept GmbH, Munich	Indirect	100.0	68	−2
Bayernfonds Immobiliengesellschaft mbH, Munich	Direct and indirect	100.0	4,748	166
Bayernfonds Kambera GmbH, Munich	Indirect	100.0	25	–
Bayernfonds Opalus GmbH, Munich	Indirect	100.0	25	–
BayernInvest Luxembourg S.A., Luxembourg	Indirect	100.0	1,327	4
BayernLB Capital Partner GmbH, Munich	Direct	100.0	1,303	71
BayernLB Capital Partner Verwaltungs-GmbH, Munich	Direct	100.0	37	6
BayernLB Mittelstandsfonds GmbH & Co. Unternehmensbeteiligungs KG, Munich	Direct and indirect	100.0	16,505	3,288

Name and location of the investee	Type of share-holding	Percentage held	Equity/ fund assets in EUR '000	Earnings in EUR '000
BayernLB Private Equity GmbH, Munich	Direct	100.0	51,446	−8,601
BayTech Venture Capital II GmbH & Co. KG, Munich	Direct and indirect	47.6	5,154	3,290
BayTech Venture Capital Initiatoren GmbH & Co. KG, Munich	Indirect	46.8	36	24
Berchtesgaden International Resort Betriebs GmbH, Munich[2]	Direct	100.0	9,368	–
Berthier Participations SARL, F - Paris	Direct	100.0	583	−294
BestLife 3 International GmbH & Co. KG, Munich	Indirect	50.4	18,679	−83
BGFM Bayerische Gebäude- und Facilitymanagement AG & Co. KG, Munich	Indirect	100.0	114	−18
BGV IV Verwaltungs GmbH, Munich	Indirect	100.0	33	3
BGV V Verwaltungs GmbH, Munich	Indirect	100.0	25	2
BLB-Beteiligungsgesellschaft Sigma mbH, Munich[2]	Direct	100.0	971	–
BLB-VG22-Beteiligungsgesellschaft mbH, Munich	Direct	100.0	4,539	−198
DKB Immobilien Beteiligungs GmbH, Potsdam	Indirect	100.0	2,155	146
DKB IT-Services GmbH, Potsdam	Indirect	100.0	51	–
DKB Wohnen GmbH, Berlin	Indirect	94.5	25	–
DKB Wohnungsbau- und Stadtentwicklung GmbH, Berlin	Indirect	100.0	2,500	–
Fischer & Funke Gesellschaft für Personaldienst-leistungen mbH, Coburg	Indirect	87.1	76	–
FMP Erste Objektgesellschaft mbH, Potsdam	Indirect	100.0	133	29
GbR Olympisches Dorf, Potsdam	Indirect	100.0	–	–
GDF Gesellschaft für dentale Forschung und Innovationen GmbH, Rosbach	Indirect	100.0	1,485	–
German Centre for Industry and Trade Shanghai Co. Ltd., PRC - Shanghai	Indirect	100.0	32,221	1,658
German Centre Limited, BVI - Tortola	Direct	100.0	23,998	1,292
gewerbegrund AIRPORT GmbH Beteiligungsgesellschaft, Munich	Indirect	100.0	61	2
gewerbegrund Airport GmbH & Co. Hallbergmoos KG, Munich	Indirect	100.0	7,613	3,874
gewerbegrund Bauträger GmbH & Co. Objekt IGG KG, Munich	Indirect	100.0	57	−38
gewerbegrund Projektentwicklungsgesellschaft (gpe) mbH, Munich[2]	Direct	100.0	2,813	–
Global Format GmbH & Co. KG, Munich	Direct	52.4	1,510	213
Global Format Verwaltungsgesellschaft mbH, Munich	Indirect	100.0	27	1
Hausbau Dresden GmbH, Munich	Indirect	100.0	48	7
Hörmannshofer Fassaden GmbH & Co. Halle KG, Halle/Saale	Indirect	80.0	156	184
Hörmannshofer Fassaden GmbH & Co. Niederdorf KG, Niederdorf by Chemnitz	Indirect	80.0	156	20
Hörmannshofer Fassaden Süd GmbH & Co. KG, Marktoberdorf	Indirect	100.0	208	1,534
Hörmannshofer Unternehmensgruppe GmbH, Marktoberdorf	Indirect	52.6	14,962	−1,636
Hörmannshofer Verwaltungs GmbH, Pöttmes/Augsburg	Indirect	100.0	114	15
HPI Eisenach Hotelbesitz GmbH, Eisenach[4]	Indirect	0.0	–	804
ISU Group GmbH, Karlsruhe	Indirect	54.4	16,148	1,939
ISU Personaldienstleistungen GmbH, Karlsruhe	Indirect	100.0	51	–
Koch - Betontechnik GmbH & Co. KG, Pöttmes/Augsburg	Indirect	100.0	32	4
LBG Liebenberger Betriebsgesellschaft mbH, Löwenberger Land OT Liebenberg	Indirect	100.0	775	–
LB Immobilienbewertungsgesellschaft mbH, Munich[2]	Direct	100.0	827	–

Name and location of the investee	Type of share-holding	Percentage held	Equity/ fund assets in EUR '000	Earnings in EUR '000
LB-RE S.A., L - Luxembourg	Indirect	100.0	5,082	–
MRG Maßnahmeträger München-Riem GmbH, Munich	Direct	100.0	499	139
North American Realty LLC, USA - New York	Direct	100.0	5,305	70
Oberhachinger Bauland GmbH, Wohnbau- und Erschließungsgesellschaft, Munich	Indirect	91.0	−2,416	1
Potsdamer Immobiliengesellschaft mbH, Potsdam	Indirect	100.0	37	12
PROGES DREI GmbH, Berlin	Indirect	100.0	416	127
PROGES ENERGY GmbH, Berlin	Indirect	100.0	72	−7
PROGES Sparingberg GmbH, Berlin	Indirect	100.0	605	65
PROGES VIER GmbH, Berlin	Indirect	100.0	156	48
PROGES ZWEI GmbH, Berlin	Indirect	100.0	1,499	59
Real I.S. Australia Pty. Ltd., AUS - Buderim QLD	Indirect	100.0	394	393
Real I.S. Beteiligungs GmbH, Munich	Indirect	100.0	65	11
Real I.S. Finanz GmbH, Munich[2]	Direct	100.0	23	−1
Real I.S. Fonds Service GmbH, Munich[2]	Direct	100.0	21	−1
Real I.S. France SAS, F - Paris	Indirect	100.0	481	28
Real I.S. Fund Management GmbH, Munich	Indirect	100.0	36	10
Real I.S. Gesellschaft für Immobilienentwicklung mbH, Munich	Indirect	100.0	1,123	19
Real I.S. Gesellschaft für Immobilien Entwicklung und Projektrealisierung mbH & Co. KG, Munich	Indirect	100.0	4,503	−47
Real I.S. Grundvermögen GmbH & Co. geschlosssene Investment-KG, Munich[1]	Indirect	100.0		
Real I.S. Investment GmbH, Munich	Indirect	100.0	2,645	574
Real I.S. Management Hamburg GmbH, Munich	Indirect	100.0	27	1
Real I.S. Management SA, L - Luxembourg	Indirect	100.0	240	31
Real I.S. Objekt Bruchsal Verwaltungsgesellschaft mbH, Oberhaching	Indirect	100.0	21	8
Schütz Dental GmbH, Rosbach	Indirect	100.0	2,461	–
Schütz Group GmbH & Co. KG, Rosbach	Indirect	54.4	9,101	1,230
Schütz Group Verwaltungsgesellschaft mbH, Rosbach	Indirect	100.0	42	2
SEPA Objekt Bruchsal GmbH & Co. KG, Oberhaching	Indirect	100.0	124	–
SEPA/Real I.S. Objekt Bruchsal Rathausgalerie GmbH & Co. KG, Oberhaching	Indirect	100.0	6,007	357
SEPA/Real I.S. Objekt Bruchsal Rathausgalerie Verwaltungs-GmbH, Oberhaching	Indirect	94.0	25	3
Süd-Fassaden GmbH, Königsbrunn	Indirect	100.0	81	–
Theodor Fontane Besitz- und Betriebsgesellschaft mbH, Potsdam[4]	Indirect	0.0	–	−1,413
Wallenborn Windpark Heilenbach GmbH & Co. KG, Berlin[4]	Indirect	0.0	58	−534
WPA Fonds Partners Sàrl, L - Luxembourg[1]	Indirect	100.0		
WPI Fonds Partners Sàrl, L - Luxembourg[1]	Indirect	100.0		
Other joint ventures				
ABG Allgemeine Bauträger- und Gewerbeimmobilien-gesellschaft & Co. Holding KG, Munich	Indirect	50.0	158	−54
ABG Allgemeine Bauträger- und Gewerbeimmobilien-gesellschaft mbH, Munich	Indirect	50.0	53	2
CommuniGate Kommunikations-Service GmbH, Passau	Indirect	50.0	3,906	1,199
Einkaufs-Center Györ Verwaltungs G.m.b.H., Hamburg	Indirect	50.0	37	2
Fay & Real I.S. IE Regensburg GmbH & Co. KG, Oberhaching	Indirect	50.0	542	−370
Fay & Real I.S. IE Regensburg Verwaltungs GmbH, Oberhaching	Indirect	50.0	29	3
German Centre for Industry and Trade India Holding-GmbH, Munich	Direct	50.0	904	−597
Harburg Arcaden Projektbeteiligung mbH, Essen	Indirect	50.0	52	–

Name and location of the investee	Type of share-holding	Percentage held	Equity/ fund assets in EUR '000	Earnings in EUR '000
SEPA/Real I.S. Objekt Solingen Verwaltungs-GmbH, Munich	Indirect	50.0	42	5
S-Karten-Service-Management GmbH - Saarbrücken - München, Munich	Indirect	50.0	102	–
TEGES Grundstücks-Vermietungsgesellschaft mbH, Berlin	Indirect	50.0	20	1
TEGES Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt Berlin KG, Berlin	Indirect	47.0	−7,397	−31
Ten Towers GbR, Munich	Indirect	50.0	115	−4
Other associates				
Bayerngrund Grundstücksbeschaffungs- und -erschließungs-Gesellschaft mit beschränkter Haftung, Munich	Direct	50.0	8,921	−25
Bayern Mezzaninekapital GmbH & Co. KG - Unternehmensbeteiligungsgesellschaft, Munich	Direct	25.5	36,904	742
Bayern Mezzaninekapital Verwaltungs GmbH, Munich	Direct	49.0	42	1
Erste Tinten Holding GmbH, Hohenbrunn	Indirect	21.0	2,718	−2,903
GHM Holding GmbH, Munich	Indirect	40.0	17,293	−139
G.I.E. Estelle Bail, F - Paris[5]	Indirect	0.0	−59,548	1,511
G.I.E. Max Hymans, F - Paris	Indirect	33.3	−33,698	2,256
Neumarkt-Galerie Immobilienverwaltungs-gesellschaft mbH, Cologne	Indirect	49.0	88	
RSU Rating Service Unit GmbH & Co. KG, Munich	Direct	20.0	16,050	1,818
SEPA/Real I.S. Objekt Solingen GmbH & Co. KG, Munich	Indirect	49.9	48	8
WESTFALIA-Automotive Holding GmbH, Hamburg	Indirect	21.4	−33,485	−16,941
Other significant shareholdings of 20% or more				
560 Lexco L.P., USA - New York	Indirect	25.0	−1,730	3,980
Abacus Eight Limited, GBC - George Town/Grand Cayman[6]	Direct	48.5	6,865	4,530
Abacus Nine Limited, GBC - George Town/Grand Cayman[6]	Direct	48.5	6,929	4,595
Abacus Seven Limited, GBC - George Town/Grand Cayman[6]	Direct	48.5	4,376	2,042
Abacus Ten Limited, GBC - George Town/Grand Cayman[6]	Direct	43.9	2,727	373
ADS-click S.A., CH - Geneva	Indirect	49.5	2,593	−1,097
Aero Lloyd Erste Beteiligungsgesellschaft GmbH, Kelsterbach	Indirect	100.0	24	1
Aero Lloyd Flugreisen GmbH & Co. Luftverkehrs-KG, Oberursel	Indirect	66.3	20,405	−5,671
Aero Lloyd Flugreisen GmbH, Oberursel	Indirect	94.0	77	7
Aero Lloyd ReiseCenter GmbH, Oberursel	Indirect	100.0	65	−17
Bau-Partner GmbH, Halle/Saale	Indirect	49.6	−239	−553
Corporate Computer Lease Limited, CCL.Limited, GB - Camberley, Surrey[7]	Indirect	33.3	3,951	86
Film und Video Untertitelung Gerhard Lehmann AG i.L., Potsdam	Indirect	33.3	−1,997	−495
Fondations Capital I S.C.A., L - Senningerberg	Direct	23.1	255,932	14,959
GbR VÖB-ImmobilienAnalyse, Bonn[1]	Indirect	20.0		
GESO Gesellschaft für Sensorik, Geotechnischen Umweltschutz und mathematische Modellierung mbH, Jena	Indirect	43.1	−353	–
MB Holding GmbH, Lüdenscheid	Indirect	54.6	3,025	1,488
Mediport Venture Fonds Zwei GmbH, Berlin	Indirect	53.8	267	−1,687
mfi Grundstück GmbH & Co. Harburg Arcaden KG, Essen	Indirect	42.1	–	−1,688
Neue Novel Ferm Verwaltungs GmbH, Dettmannsdorf	Indirect	49.0	27	4
Novel Ferm Brennerei Dettmannsdorf GmbH & Co. KG, Dettmannsdorf	Indirect	49.0	–	26
PWG - Bau Pfersee Wohn- und Gewerbebauträger Verwaltungs - GmbH i.L., Munich	Indirect	50.0	9	–

Name and location of the investee	Type of share-holding	Percentage held	Equity/ fund assets in EUR '000	Earnings in EUR '000
REAL I.S. Project GmbH i.L., Munich	Indirect	50.5	709	214
RSA Capak alma ve kesme Sistemlerim San. Ve. Tic. Ltd. Sti., TR - Izmit KOCAELI	Indirect	100.0	−64	−6
RSA Entgrat- u. Trenn-Systeme GmbH & Co. KG, Lüdenscheid	Indirect	100.0	1,026	2,179
RSA Entgrat- u. Trenn-Systeme Verwaltungs-GmbH, Lüdenscheid	Indirect	100.0	62	4
RSA Systémes Ebavurage et Tronconnage S.A.R.L., F - Sarreguemines Cedex	Indirect	100.0	26	−54
Sophia Euro Lab S.A.S., F - Sophia Antipolis Cedex	Indirect	32.3	1,536	−130
SSC Sky Shop Catering GmbH & Co. KG, Kelsterbach	Indirect	100.0	1,279	825
Stadtwerke Cottbus GmbH, Cottbus	Indirect	49.9	49,051	6,898
TRMF Gewerbeimmobilien GmbH, Essen	Indirect	50.0	−2,153	606
Versorgungskasse I BayernLB Gesellschaft mit beschränkter Haftung, Munich	Direct	100.0	22,898	−3,718
Versorgungskasse II BayernLB Gesellschaft mit beschränkter Haftung, Munich	Direct	100.0	13,230	3,299
Structured entities not included in the consolidated financial statements under IFRS 10 due to their negligible importance				
Baserepo No. 1 S.A., L-Luxembourg[8]			31	–
Bayern Invest Renten Europa-Fonds, Munich	Direct	58.4	23,499	2,282
Bayernfonds Immobilienverwaltung Objekt Düsseldorf KG, Munich[8]			−10,405	−15,625
DKB Asien Fonds TNL, L-Luxembourg	Indirect	80.3	18,535	26
DKB Europa Fonds TNL, L-Luxembourg	Indirect	73.8	20,884	171
DKB Neue Bundesländer Fonds ANL, L-Luxembourg	Indirect	96.6	19,527	−11
DKB Nordamerika Fonds TNL, L-Luxembourg	Indirect	87.7	16,998	110
DKB Ökofonds TNL, L-Luxembourg	Indirect	94.6	11,500	−105
DKB Pharma Fonds TNL, L-Luxembourg	Indirect	78.4	25,329	−221
DKB Stiftung für gesellschaftliches Engagement, Löwenberger Land/OT Liebenberg[8]			14,240	−5
DKB Teletech Fonds AL, L-Luxembourg	Indirect	94.6	6,603	−32
DKB Tele Tech Fonds TNL, L-Luxembourg	Indirect	97.7	13,649	−151
DKB Zukunftfonds TNL, L-Luxembourg	Indirect	89.5	16,315	−93
EK-Fonds der BayernInvest, Munich	Indirect	100.0	16,270	244
Giro Lion Funding Limited (Emissionsgesellschaft), United Kingdom[8]			1	5
MS Serpens Verwaltungsgesellschaft mbH, Hamburg[8]			−8,104	−99
MS Scorpius Verwaltungsgesellschaft mbH, Hamburg[8]			7,665	−290

The information is based on the most recent annual financial statements of the investees.

Foreign currency amounts were converted into euros at the respective spot exchange rate at the end of the year.

1 Approved annual financial statements are not available yet.

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

3 The company is both a subsidiary and a structured entity consolidated within the Group.

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

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

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

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

8 Structured entities under IFRS 10 with no equity interests held by the BayernLB Group.

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

Name and location of the investee
AKA Ausfuhrkredit GmbH, Frankfurt/Main
Banque LBLux S.A., L - Luxembourg
BayBG Bayerische Beteiligungsgesellschaft mbH, Munich
Bayerische Garantiegesellschaft mbH für mittelständische Beteiligungen, Munich
Bayern Card-Services GmbH - S-Finanzgruppe, Munich
B+S Card Service GmbH, Frankfurt/Main
Deutsche Factoring Bank Deutsche Factoring GmbH & Co., Bremen
Deutsche Kreditbank Aktiengesellschaft, Berlin
DKB Service GmbH, Potsdam
SKG BANK AG, Saarbrücken

(85) Unconsolidated structured entities

The BayernLB Group maintains business relationships with structured entities. These are contractual and non-contractual business relationships with entities which are structured so that they are not controlled by voting or comparable rights and the voting rights relate to administrative tasks only. The structured entity's own relevant activities are directed by means of contractual arrangements.

Some of the main features common to structured entities are:
- restricted activities
- a narrow and precisely defined purpose
- insufficient equity to fund their own activities
- funding in the form of multiple instruments contractually linked to investors that pool together credit or other risks (tranches)

The BayernLB Group's interests in unconsolidated structured entities include debt or equity instruments, liquidity facilities, guarantees and various derivative instruments for absorbing the Group's risks from unconsolidated structured entities.

Securitisation vehicles

The BayernLB Group's business activities with securitisation vehicles is mainly in the form of securitisations structured for customers (customer transactions) with the existing ABCP programme Corelux S.A., Luxembourg that was set up exclusively for this purpose. The securitisation vehicle Corelux S.A., Luxembourg purchases trade and leasing receivables from the BayernLB Group's core customers and funds them by issuing asset-backed securities and through credit facilities from BayernLB. This financing has a weighted average term of 4 years. The size of the unconsolidated securitisation vehicles with which the BayernLB Group has business relationships is based on the sum of their assets and was EUR 9,301 million.

Investment funds

The BayernLB Group invests in funds launched by its investment companies Real I.S. AG Gesellschaft für Immobilien Assetmanagement, Munich and BayernInvest Kapitalverwaltungsgesellschaft mbH, Munich. As a member of the Sparkassen-Finanzgruppe, Real I.S. AG Gesellschaft für Immobilien Assetmanagement, Munich is the BayernLB Group's asset manager and fund service provider for the real estate segment. It invests to a limited extent in equity instruments, for example, in its capacity as a managing limited partner. In certain cases it makes loans to the investment company's special funds. BayernInvest Kapitalverwaltungsgesellschaft mbH, Munich is a centre of expertise for institutional asset management within the BayernLB Group and a master investment company. A small amount is invested in equity instruments of certain special funds. There are also holdings in the debt and equity instruments of investment funds of providers outside the Group. These investments are usually secured by the fund's underlying pool of assets. Under loan restructuring programmes, BayernLB waived the sum of EUR 5 million in the reporting year. In the reporting year, the payment of costs and provision of collateral added EUR 7 million to the value of investments in which the BayernLB Group has no holdings. The funding of investment funds has a weighted average term of 7 years. The size of the investment funds with which the BayernLB Group has business relationships is based on their fund assets and was EUR 92,207 million.

Other financing

The BayernLB Group makes loans available to structured entities which may hold a wide variety of assets. In all cases these loans are secured by these assets. This includes commercial real estate, asset-based, project and leasing financing, as well as fund-based financing of commercial real estate. Subordinated loans are made in a limited number of cases. This financing has a weighted average term of 7 years. The size of the structured entities in the form of other financing is based on the sum of their assets and was EUR 15,437 million.

Assets and liabilities from interests in unconsolidated structured entities recognised on the balance sheet

	Securitisation vehicles	Investment funds	Other financing	Total
EUR million	2014	2014	2014	2014
Assets				
• Loans and advances to customers	577	1,706	2,457	**4,740**
• Assets held for trading	615	69	119	**804**
• Financial investments	475	174	88	**737**
• Other assets	–	5	–	**5**
Liabilities				
• Liabilities to customers	3	19	251	**274**
• Liabilities held for trading	–	8	–	**8**

Contingent liabilities from interests in unconsolidated structured entities

	Securitisation vehicles	Investment funds	Other financing	Total
EUR million	2014	2014	2014	2014
Contingent liabilities	–	13	48	**61**
Other commitments	1,126	24	16	**1,166**

The maximum default risk the BayernLB Group is exposed to from its business activities with structured entities depends on the carrying amount of receivables from the credit business, assets held for trading and financial investments recognised on their balance sheets. These carrying amounts do not reflect the BayernLB Group's economic risk as they do not take account of collateral or hedges.

The maximum default risk of off-balance sheet transactions is reflected by their nominal value. The nominal values do not reflect economic risk as they do not take account of the impact of collateralisation or securitisation, or the probability of losses that could arise.

Gains or losses on interests in unconsolidated structured entities

	Securitisation vehicles	Investment funds	Other financing	Total
EUR million	2014	2014	2014	2014
Interest income	144	5	45	**194**
Risk provisions in the credit business	–	–77	–18	**–95**
Commission income	3	35	2	**40**
Gains or losses on financial investments	310	–	–	**310**

(86) Capital management

The aim of capital management is to preserve capital over the long term.

Capital management is based on a Group-wide planning process that incorporates strategic, risk-based and regulatory factors into a long-term operational plan. Regulatory capital is allocated in the Group planning process to the individual planning units. The planning units (Group units) are BayernLB's defined business segments, Bayerische Landesbodenkreditanstalt, Munich (BayernLabo) and Deutsche Kreditbank, Berlin (DKB). Regulatory capital is allocated to the Group units on a top-down basis approved by the Board of Management, through limits on risk-weighted assets combined with an internally set Tier 1 capital ratio of 10 percent.

Management structure

BayernLB's Board of Management is supported in this area by the Asset Liability Committee and Capital Management Committee. The primary tasks of the Asset Liability Committee are managing and allocating the key resources of capital and liquidity, as well as managing the balance sheet structure. The Asset Liability Committee is supported by the Capital Management Committee, which mainly comprises the Chief Financial Officer and senior management from the risk control, financial controlling, treasury and accounting units. The Capital Management Committee's task is to prepare decisions for the Asset Liability Committee on capital management taking account of framework conditions such as rules set by the owners and regulatory or EU requirements. Capital management deals with, among other things, changes in target regulatory capital ratios, the type and amount of the capital base and the allocation of RWA (risk-weighted assets) and entails ongoing monitoring of changes. Hence the Capital Management Committee is an important source of input for the Asset Liability Committee and BayernLB's Board of Management and prepares suitable recommendations for action on matters related to capital.

Banking supervisory capital and ratios

Since 1 January 2014 the BayernLB Group's supervisory capital has been calculated on the basis of CRR/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. Further information can be found in the Group Management Report (Risk-oriented management).

Own funds are defined as Common Equity Tier 1 capital (CET 1), additional Tier 1 capital and supplementary capital. Common Equity Tier 1 capital comprises subscribed capital plus reserves and the state support mechanism of the Free State of Bavaria, less various supervisory deductions. The additional Tier 1 capital comprises primarily silent partner contributions. Supplementary capital comprises profit participation certificates and long-term subordinated liabilities.

Banking supervisory capital of the BayernLB Group

EUR billion	2014	2013
Total RWA	**77**	**88**
Own funds	**11**	**17**
of which:		
• Tier 1 capital	10	14
• Common Equity Tier 1 capital (CET 1)	10	–

On the whole, the first-time application of CRR/CRD IV has led to lower capital ratios as a result of a decrease in eligible capital combined with an increase in RWA. Direct comparisons between the figures calculated under KWG as at 31 December 2013 and the figures calculated under CRR/CRD IV as at 31 December 2014 are not possible.

Banking supervisory ratios as reported

in %	2014	2013
Total capital ratio	14.9	19.4
Tier 1 capital ratio	12.5	15.8
Common Equity Tier 1 capital (CET 1) ratio	12.5	–

The BayernLB Group complied with external capital requirements at all times in reporting year 2014.

(87) Administrative bodies of BayernLB

Supervisory Board

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

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

Dr Hubert Faltermeier
since 9 May 2014
Chief District Administrator
Kelheim

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

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

Ralf Haase
Chairman of the General Staff Council
BayernLB
Munich

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

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

Professor Dr Christian Rödl
Managing Partner
Rödl & Partner GbR
Nuremberg

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

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

Jakob Kreidl
until 3 March 2014
Former Chief District Administrator
Fischbachau

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

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

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

Board of Management (including allocation of responsibilities from 1 January 2015)

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

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

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

Michael Bücker
Corporates & Mittelstand

Dr Markus Wiegelmann
CFO/COO
Financial Office
Operating Office

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

Gerd Haeusler
until 31 March 2014
CEO until 31 March 2014

Stephan Winkelmeier
until 31 March 2014

1 Dependent institution of the Bank.

(88) Related party disclosures

The BayernLB Group maintains business relationships with related parties. These include the Free State of Bavaria and, as from 25 June 2013, the Association of Bavarian Savings Banks, Munich (SVB), whose indirect stakes in BayernLB are 75 percent and 25 percent respectively, non-consolidated subsidiaries, joint ventures and associates. The members of BayernLB's Board of Management and Supervisory Board[1] and their close family members, and companies controlled by these parties or jointly controlled if these parties are members of their management bodies are also deemed related parties.

The list of shareholdings gives an overview of BayernLB's investees (see note 84).

Relationships with the Free State of Bavaria

EUR million	2014	2013
Loans and advances	5,513	5,073
Assets held for trading	196	690
Financial investments	150	169
Liabilities	86	133
Liabilities held for trading	12	12
Liabilities held in trust	4,738	4,883
Contingent liabilities	3	3
Other commitments	965	965

The following were material relationships with companies controlled by the Free State of Bavaria, or which it jointly controls or over which it has significant influence:

EUR million	2014	2013
Loans and advances to banks	36	37
Loans and advances to customers	279	418
Risk provisions	–	1
Assets held for trading	93	96
Liabilities to banks	3,003	3,100
Liabilities to customers	48	71
Securitised liabilities	128	222
Liabilities held for trading	8	12
Assets held in trust	400	404

1 Members of the Board of Administration up to 30 June 2013.

Relationships with the Association of Bavarian Savings Banks

EUR million	2014	2013
Loans and advances	–	14
Assets held for trading	–	2
Liabilities	67	25
Liabilities held for trading	–	3

The following were material relationships with companies controlled by the Association of Bavarian Savings Banks (SVB), or over which it exercises joint control:

EUR million	2014	2013
Loans and advances to banks	160	300
Liabilities to banks	2,159	2,462
Securitised liabilities	166	176

Relationships with investees

EUR million	2014	2013
Loans and advances to banks	**–**	**723**
• Associates	–	723
Loans and advances to customers	**512**	**572**
• Non-consolidated subsidiaries	383	207
• Joint ventures	8	115
• Associates	121	249
Risk provisions	**72**	**20**
• Non-consolidated subsidiaries	72	5
• Joint ventures	–	13
• Associates	–	2
Assets held for trading	**1**	**81**
• Associates	1	81
Financial investments	**–**	**1,741**
• Non-consolidated subsidiaries	–	119
• Associates	–	1,622
Other assets	**7**	**8**
• Non-consolidated subsidiaries	7	6
• Associates	–	1
Liabilities to banks	**–**	**515**
• Associates	–	515
Liabilities to customers	**166**	**237**
• Non-consolidated subsidiaries	145	205
• Joint ventures	2	7
• Associates	19	26
Securitised liabilities	**2**	**–**
• Associates	2	–
Liabilities held for trading	**–**	**13**
• Associates	–	13

EUR million	2014	2013
Negative fair values from derivative financial instruments (hedge accounting)	**–**	**33**
• Associates	–	33
Provisions	**1**	**4**
• Non-consolidated subsidiaries	1	4
Liabilities of disposal groups	**–**	**33**
• Non-consolidated subsidiaries	–	33
Other liabilities	**–**	**7**
• Non-consolidated subsidiaries	–	7
Subordinated capital	**–**	**12**
• Associates	–	12
Contingent liabilities	**15**	**24**
• Non-consolidated subsidiaries	15	16[1]
• Joint ventures	–	8
Other commitments	**85**	**50**
• Non-consolidated subsidiaries	80	20
• Joint ventures	1	8
• Associates	3	22

1 Adjusted as per IAS 8.42 (see note 2).

An expense of EUR 46 million (FY 2013: EUR 10 million) was recognised for non-recoverable or doubtful receivables in the reporting year.

In the reporting year, capital contributions were made to unconsolidated subsidiaries, joint ventures and associates in the amount of EUR 20 million (FY 2013: EUR 5 million). These investees repaid capital in the amount of EUR 3 million (FY 2013: 24 million).

Relationships with members of BayernLB's Board of Management and Supervisory Board

EUR million	2014	2013
Members of the BayernLB Board of Management		
• Deposits	2	1
Members of the Supervisory Board of BayernLB		
• Deposits	1	–

Remuneration of members of BayernLB's Board of Management and Supervisory Board

EUR '000	2014	2013
Members of the BayernLB Board of Management	**4,315**	**4,340**
• Short-term benefits	2,921	3,098[1]
• Post-employment benefits	1,395	1,242
– defined benefit plan costs	1,395	1,242
Members of the Supervisory Board of BayernLB	**663**	**526**
• Short-term benefits	663	526
Former members of the BayernLB Board of Management and their surviving dependants	**4,590**	**5,580**[1]
Former members of the BayernLB Supervisory Board and their surviving dependants	**11**	**–**
Pension provisions established for members of the BayernLB Board of Management	**5,634**	**5,337**
Pension provisions established for former members of the BayernLB Board of Management and their surviving dependants	**107,694**	**84,927**

1 Adjusted as per IAS 8.42 (see note 2).

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. In accordance with the EU state aid ruling, remuneration for the Board of Management was raised to EUR 511,000 per year from 1 July 2014.

(89) External auditor's fees

The total fees for the external auditors for the financial year comprise:

EUR million	2014	2013
Financial statements audit	4	3
Other certification and valuation services	1	1
Other services	2	1
Total	**7**	**5**

(90) Human resources

Average headcounts for the reporting year were:

	2014	2013
Full-time employees (not including trainees)	**6,778**	**7,832**
• Female	3,264	4,028
• Male	3,514	3,804
Part-time employees (not including trainees)[1]	**1,793**	**1,469**
• Female	1,471	1,224
• Male	322	245
Trainees[2]	**115**	**85**
• Female	48	44
• Male	67	41
Total	**8,686**	**9,386**

1 Part-time headcount equated to 1,125 full-time employees (FY 2013: 876).
2 Including students on a work/study programme.

Responsibility statement by the Board of Management

To the best of our knowledge and in accordance with the applicable reporting principles for financial reporting and generally accepted accounting standards, the consolidated financial statements give a true and fair view of the financial performance and financial position of the Group, and the management report of the Group includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group.

Munich, 16 March 2015

Bayerische Landesbank
The Board of Management

Dr Johannes-Jörg Riegler   Dr Edgar Zoller   Marcus Kramer

Michael Bücker   Dr Markus Wiegelmann   Ralf Woitschig

Auditor's Report

We have audited the consolidated financial statements prepared by Bayerische Landesbank, Munich – comprising the statement of comprehensive income (including the income statement), the balance sheet, the statement of changes in equity, the cash flow statement and the notes – and the Group management report for the financial year from 1 January to 31 December 2014. The preparation of the consolidated financial statements and the Group management report in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) and the additional requirements of German commercial law pursuant to section 315a para. 1 HGB (German Commercial Code) and supplementary provisions of the Bayerische Landesbank Act (Gesetz über die Bayerische Landesbank) and the Statutes (Satzung) are the responsibility of the legal representatives of the Company. Our responsibility is to express an opinion on the consolidated financial statements and on the Group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with section 317 HGB 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 financial position and financial performance of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the Group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group 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 consolidated financial statements and the Group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of the entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by the legal representatives, as well as evaluating the overall presentation of the consolidated financial statements and the Group 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 consolidated financial statements of Bayerische Landesbank, Munich, comply with IFRS as adopted by the EU and the additional requirements of German commercial law pursuant to section 315a para. 1 HGB and the supplementary regulations of the Bayerische Landesbank Act and the Statutes of Bayerische Landesbank and give a true and fair view of the financial position and financial performance of the Group in accordance with these requirements. The Group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Munich, 16 March 2015

Deloitte & Touche GmbH
Wirtschaftsprüfungsgesellschaft

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

Country by country reporting pursuant to section 26a, para. 1 sentence 2 of the German Banking Act (KWG) as at 31 Dec 2014

This report shows revenues, number of employees, profit or loss before taxes, taxes on profit and loss and state aid received for the reporting year by country on an unconsolidated basis. It covers all companies fully included in the IFRS consolidated financial statements.

The revenue shown is profit/loss before taxes, less risk provisions and administrative expenses, as reported in the consolidated financial statements. Taxes on profit and loss include current income taxes reported in the consolidated financial statements. The number of employees is shown in full-time equivalent positions.

Country	Revenue (EUR million)	Number of employees	Profit or loss before taxes (EUR million)	Taxes on profit or loss (EUR million)	State aid received (EUR million)
Germany	1,645	5,919	–1,163	7	0[1]
United Kingdom	17	96	–133	10	0
Italy	10	11	0	–2	0
USA	731	105	753	0	0
France	6	19	4	–6	0
Luxembourg	38	110	72	–2	0
Hungary	–36	0[2]	–216	–1	0
Romania	–1	0[2]	–3	0	0

Name of foreign subsidiary/investee	Type of business	Location	Country
Foreign branches of Bayerische Landesbank			
BayernLB London	Financial institution	London	United Kingdom
BayernLB Luxembourg	Financial institution	Luxembourg	Luxembourg
BayernLB Milan	Financial institution	Milan	Italy
BayernLB New York	Financial institution	New York	USA
BayernLB Paris	Financial institution	Paris	France
Banque LBLux S.A.	Financial institution	Luxembourg	Luxembourg
Subsidiaries included in the Banque LBLux S.A. sub-group:			
Immo 3 Rue Jean Monnet S.à r.l.	Ancillary services provider	Luxembourg	Luxembourg
BayernLB Capital LLC I	Other financial company	Wilmington	USA
BayernLB Capital Trust I	Other company	Wilmington	USA
MKB Bank Zrt.	Financial institution	Budapest	Hungary
Subsidiaries included in the MKB Bank Zrt. sub-group:[2]			
Euro-Immat Üzemeltetési Kft.	Ancillary services provider	Budapest	Hungary
Exter-Bérlet Kft.	Ancillary services provider	Budapest	Hungary
Extercom Vagyonkezelõ Kft.	Other company	Budapest	Hungary
Exter-Immo Zrt.	Other financial company	Budapest	Hungary
MKB Befektetési Alapkezelõ Zrt.	Financial services institution	Budapest	Hungary
MKB - Euroleasing Autóhitel Zrt.	Financial services institution	Budapest	Hungary
MKB - Euroleasing Autólízing Szolgáltató Zrt.	Other financial company	Budapest	Hungary
MKB Nyugdíjpénztárt és Egészségpénztárt Kiszolgáló Kft.	Other company	Budapest	Hungary
MKB Üzemeltetési Kft.	Ancillary services provider	Budapest	Hungary
NEXTEBANK S.A.	Financial institution	Targu Mures	Romania
Resideal Zrt.	Ancillary services provider	Budapest	Hungary
S.C. Corporate Recovery Management S.R.L.	Ancillary services provider	Bucharest	Romania

1 On 5 February 2013 the European Commission ruled that the following measures constitute state aid as defined in article 107, para 1 of the Treaty on the Functioning of the European Union:
a) the EUR 10 billion recapitalisation of Bayerische Landesbank by the Free State of Bavaria,
b) the EUR 4.8 billion second loss guarantee provided to Bayerische Landesbank by the Free State of Bavaria,
c) the EUR 15 billion in state guarantees provided to Bayerische Landesbank by Germany,
d) the EUR 2.638 billion funding guarantee provided to Bayerische Landesbank by Austria,
e) the transfer to Bayerische Landesbank of capital amounting to EUR 1 billion held by the Free State of Bavaria in Bayerische Landesbodenkreditanstalt.
2 The MKB Bank Zrt. sub-group was fully divested during FY 2014 and is thus not included in BayernLB's scope of consolidation as at 31 December 2014.

Committees and advisory boards Locations and addresses

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

Supervisory Board

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

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

Dr Hubert Faltermeier
since 9 May 2014
Chief District Administrator
Kelheim

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

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

Ralf Haase
Chairman of the General Staff Council
BayernLB
Munich

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

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

Professor Dr Christian Rödl
Managing Partner
Rödl & Partner GbR
Nuremberg

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

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

Jakob Kreidl
until 3 March 2014
Former Chief District Administrator
Fischbachau

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

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

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

General Meeting

Free State of Bavaria

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

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

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

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

Association of Bavarian Savings Banks

Theo Zellner
until 1 June 2014
Principal for the
Association of Bavarian Savings Banks
Munich

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

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

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

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

Audit Committee

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

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

Dr Hubert Faltermeier
since 22 May 2014
Chief District Administrator
Kelheim

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

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

Jakob Kreidl
until 3 March 2014
Former Chief District Administrator
Fischbachau

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

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

Risk Committee

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

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

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

Ralf Haase
Chairman of the General Staff Council
BayernLB
Munich

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

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

BayernLabo Committee

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

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

Dr Hubert Faltermeier
since 22 May 2014
Chief District Administrator
Kelheim

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

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

Jakob Kreidl
until 3 March 2014
Former Chief District Administrator
Fischbachau

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

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

Nominating Committee

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

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

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

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

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

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

Compensation Committee

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

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

Ralf Haase
Chairman of the General Staff Council
BayernLB
Munich

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

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

Trustees

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

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

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

Savings Bank Advisory Council

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

Roland Schmautz
Vice President
Association of Bavarian Savings Banks
Munich

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

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

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

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

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

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

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

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

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

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

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

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

Dr Manfred Bode
Chairman of the Shareholders Council
Wegmann Group
Munich

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

Simone Büber-Monath
CFO
M-net Telekommunikations GmbH
Munich

Dr Dr Axel Diekmann
Shareholder
Verlagsgruppe Passau
Passau

Klaus Dittrich
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Messe München GmbH
Munich

Rachel Empey
CFO
Telefónica Deutschland Holding AG
Munich

Dr Hubert Faltermeier
Chief District Administrator
Kelheim

Dr Roland Fleck
Managing Director
NürnbergMesse GmbH
Nuremberg

Alfred Gaffal
President
Vereinigung der Bayerischen Wirtschaft e.V.
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Senior Director – Client Portfolio Management
Invesco Real Estate GmbH
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Chairman of the General Staff Council
BayernLB
Munich

Karl Häusgen
CEO
HAWE Hydraulik SE
Munich

Gerd Haeusler
Chairman of the Supervisory Board
BayernLB
Munich

Josef Hasler
CEO
N-Ergie AG
Nuremberg

Andreas Helber
Member of the Board of Management
BayWa AG
Munich

Ingrid Hofmann
Managing Partner
I. K. Hofmann GmbH
Nuremberg

Erwin Horak
President
Staatliche Lotterieverwaltung
Munich

Georg Huber
CEO
Huber SE
Berching

Daniel Just
Chairman of the Board of Management
Bayerische Versorgungskammer
Munich

Dr Michael Kerkloh
Chairman of the Management
Flughafen München GmbH
Munich

Otto Kirchner
Managing Partner
Fränkische Rohrwerke
Gebr. Kirchner GmbH & Co. KG
Königsberg

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

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Hoerbiger Holding AG
Zug

Volker Kronseder
Executive Board Chairman
Krones AG
Neutraubling

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

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Chairman of the Executive Board
Schörghuber Stiftung & Co. Holding KG
Munich

Dr Ulrich Netzer
President
Association of Bavarian Savings Banks
Munich

Professor Dr Merith Niehuss
President
Universität der Bundeswehr
Neubiberg

Michael Oschmann
Managing Director
Müller Medien
Nuremberg

Professor Dr Matthias Ottmann
Shareholder
Ottmann GmbH & Co. Südhausbau KG
Munich

Rainer Otto
CFO + MoB
Wirtgen Beteiligungs GmbH
Windhagen

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

Elisabeth Prigge
Member of the Executive Board
Schaltbau Holding AG
Munich

Dr Matthias J. Rapp
Member of the Management Board
TÜV Süd AG
Munich

Markus Reif
Archepiscopal Financial Director
Archepiscopal Diocesan Authorities
Financial Department
Munich

Jürgen Reimer
Member of the Management Board
Webasto SE
Stockdorf

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

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Chairman of the Management
Riedel Holding GmbH & Co. KG
Nuremberg

Professor Dr Christian Rödl
Managing Partner
Rödl & Partner
Nuremberg

Dr Helmut Röschinger
Managing Partner
Argenta Unternehmensgruppe
Munich

Professor Dr Bernd Rudolph
LMU Munich and Steinbeis University Berlin

Dr Eberhard Sasse
President
IHK für München und Oberbayern
Munich

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

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

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

Dipl.-Kfm. Dieter Schön
Managing Director
Chairman of the Board of Administration
Schön Klinik SE
Prien

Dieter Seehofer
Chairman of the Board of Directors
Sparkasse Ingolstadt
Ingolstadt

Alexander Sixt
Member of the Managing Board
Sixt SE
Pullach

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

Axel Strotbek
Member of the Board of Management
Audi AG
Ingolstadt

Dirk von Vopelius
President
IHK Nürnberg für Mittelfranken
Nuremberg

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Chairman of the Board of Management
Versicherungskammer Bayern
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Spokesman of the Board of Directors
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We thank our customers for their kind support.

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

Savings Banks Finance Group in Bavaria

Savings Banks Finance Group
Market leader in Bavaria

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

BayernLB

Consolidated total assets:
EUR 232.1 billion

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

Bayerische Landesbodenkreditanstalt

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

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

BayernLB Group companies include

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

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

71 savings banks

Total assets: EUR 186 billion

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

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

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

DekaBank
Share of Bavarian savings banks organisation: 14.7%
Consolidated total assets:
EUR 120.8 billion**

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

Deutsche Leasing
Share of Bavarian savings banks: 12.54 %
New business volume of Deutsche Leasing Group: EUR 7.9 billion

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

Staff: 730

Sparkassen-Immobilien
Volume of business brokered:
EUR 1.99 billion

Versicherungskammer Bayern (total insurance business)

Premium volume: EUR 7.3 billion

Staff: 6,808*
Investment portfolio: EUR 44.7 billion

Germany's largest public-sector insurance provider

Market leader in Bavaria and the Palatinate

Entities within the Versicherungskammer Bayern Group (VKB)

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

Association of Bavarian Savings Banks

Association members: 71 Bavarian savings banks and their owners

* *Not incl. external sales force*
** *As at: 30 June 2014*

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Bayern LB