

We invest in winners. That means we invest in strong companies that create value for their shareholders with sustainable business models, solid balance sheets and high margins. We keep the risks low and invest when our position is fuelled by a positive event. We refer to that as the combination of value and event.

BayernLB Capital Trust I

The Bayerische Landesbank (BayernLB) is an institution under public law. The Free State of Bavaria and the Sparkassenverband Bayern hold 94% and 6% respectively of the bank's shares through BayernLB Holding AG. As the house bank to the Free State and the central bank for the credit unions, the institute has the task of strengthening competition and securing commensurate and sufficient supplies of funds and banking services for medium-sized businesses and the public sector. In addition, BayernLB enters into all types of banking transactions, with the exception of maintaining savings deposits. Its international ambitions regarding these transactions ended with a debacle in 2008. The bank lost EUR 4 billion with securitized US loans. The shady interlude with Hypo Group Alpe Adria cost another EUR 4 billion in 2007-2009. This period was followed by a realignment process. Prerequisites in this regard consisted of recapitalization (EUR 10 billion), the shielding of the ABS portfolio (EUR 6 billion) and a state guarantee (EUR 15 billion).

Today, the bank is free of the most significant risks and boasts solid capitalization. The EU assistance procedure was concluded on 25 July 2012. BayernLB will further reduce its balance sheet sum by 2017, sell holdings, repatriate dormant contributions (EUR 3 billion) and follow a "ban on the use of hybrid capital". This was misunderstood by various

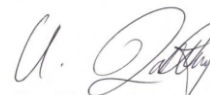
research and rating agencies until a notification from BayernLB on 6 August 2012: This ban is voluntary and does not exclude the obligation to service the capital. We took advantage of the turbulences and purchased 4% of a USD 850 million hybrid bonds from the year 2007 at a rate of 32% within a short time frame. Interest payments are contingent on the balance sheet result under the German Commercial Code, are not cumulative and are currently suspended. The coupon until the first call (2017) is 6.2% p.a. and then 1.98% p.a. until final maturity (2037) (plus 3M Libor). A reduction in the nominal value in the case of loss is excluded.

Due to BayernLB's earning power in its core business, we assume that the nominal values of the remaining subordinate capital will be filled in 2012 and that the 2013 profits in terms of the German Commercial Code will lead to the start of interest payments. These would be automatically triggered with dividends to the Free State. The exchange of the credit unions' dormant contribution into BayernLB hard tier 1 capital further strengthens our position. We are also expecting that the bond will be bought back earlier through a "tender" and redeemed at its nominal value in the amount of 100% on 31 May 2017: Due to its interest structure, it loses its eligibility to be credited against tier 1 capital (Basel III) after the first call. The current share price of 38% does not reflect the bond potential. With the start of coupon payments, on-going interest is at 16% p.a. (31% p.a. with a First Call).

Sincerely yours



J. Henrik Muhle



Dr. Uwe Rathausky