

Regional Office in Bavaria

Organisation and tasks

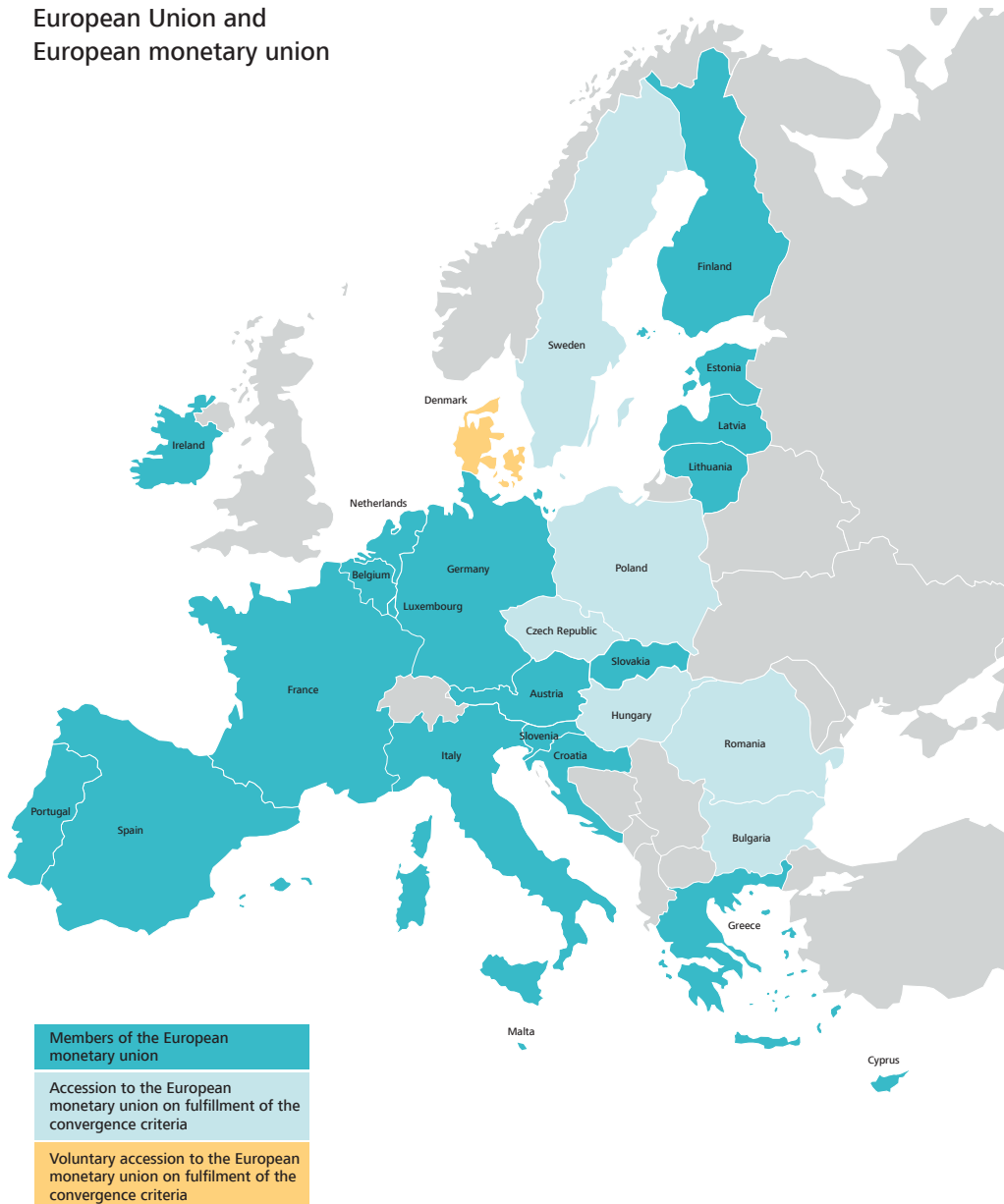


The Deutsche Bundesbank in the Eurosystem

The **Deutsche Bundesbank** is the central bank of the Federal Republic of Germany. As part of the Eurosystem, it has been responsible for safe-guarding price stability, together with the other euro area central banks and the European Central Bank, since the establishment of the European monetary union in 1999. The Bundesbank is involved in the Eurosystem's monetary policy decision-making process and is responsible for implementing these decisions in Germany. In addition to the primary objective of conducting a stability-oriented monetary policy, the Bundesbank makes important contributions in four other core business areas: it helps to maintain a stable financial and monetary system, safeguards the functional viability of German credit and financial services institutions through its involvement in banking supervision, ensures the smooth execution of cashless payments, and guarantees a supply of cash to the economy. At present, the Bank is working at full speed on the digital euro (D€) project at both the executive and operational levels.

At the beginning of the new millennium, the Bundesbank responded to its changed role within the euro area and the modified business environment by radically reforming its organisational structure and streamlining its branch network. Since 2002, the Bundesbank has been governed by a six-member Executive Board based at its Central Office in Frankfurt. In order to be able to provide central bank services nationwide, the Bundesbank has nine regional offices and currently 31 branches in Germany.

European Union and European monetary union



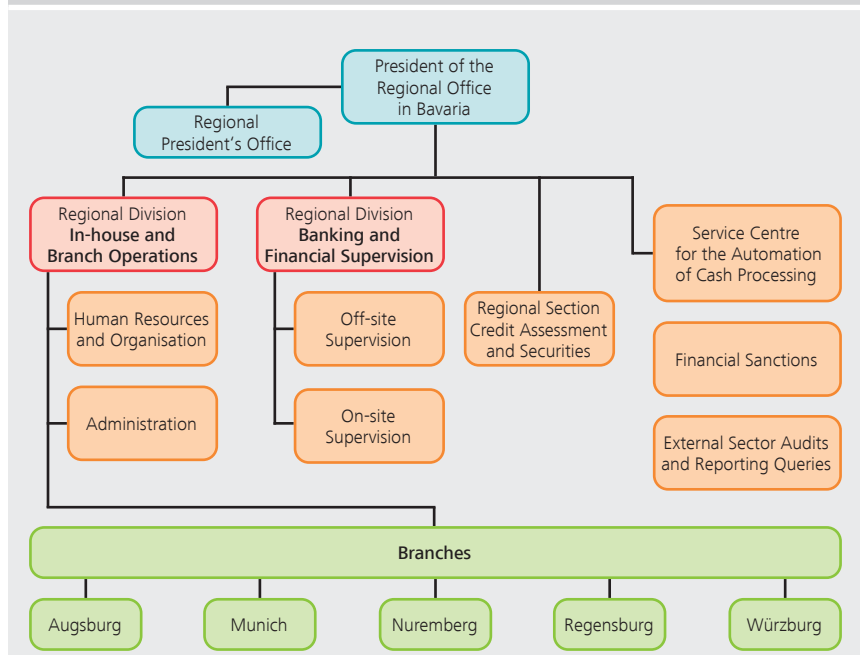
Regional Office in Bavaria: regional mainstay of the Deutsche Bundesbank in the Free State of Bavaria

The Deutsche Bundesbank's Regional Office in Bavaria, which is located in Munich, has a total of five branches in Augsburg, Munich, Nuremberg, Regensburg and Würzburg. Both the Regional Office and the branches maintain diverse relationships with business partners – credit institutions, public administrations and companies – in the Free State of Bavaria. The Regional Office is headed by a President, who acts as a contact partner for the above-mentioned institutions and is also responsible for the Bundesbank's press and public relations work in Bavaria. The President receives support from their Office's staff members. The Regional Office regularly organises public lectures, some of which are aimed at experts and others at the general public under the motto "Forum Bundesbank". The Regional President's Office is also responsible for economic education in Bavaria. In addition to seminars for teachers, there are also lectures for school parties and events for university students – particularly on aspects of monetary policy.

Banking supervision constitutes one of the most important tasks for the Regional Office. The financial and sovereign debt crisis highlighted the enormous fallout that excessive risk in the banking and financial sector can have for entire economies. At the end of 2012, the governments of the euro area countries therefore decided to transfer extensive supervisory powers to the European Central Bank (ECB). Since November 2014, the ECB has directly supervised the most significant banks in the euro area under the Single Supervisory Mechanism. This currently amounts to 114 banks or banking groups, of which 27 are domiciled in Germany. Four of these are based in Bavaria. In order to fulfil this task, the ECB also works together with staff from the national supervisory authorities. Experts from the national authorities work together with ECB staff in Joint Supervisory Teams.

The remaining – less significant – credit institutions and investment, financial services and payment services institutions are still supervised by the national competent authorities. Within the framework of the Cooperation Agreement between the German Federal Financial Supervisory Authority (BaFin) and the Deutsche Bundesbank, the regional offices are responsible for the ongoing monitoring of these institutions. The presence of the Regional Office generally enables effective local supervision, but the increasing complexity of business models also requires supervisors to adapt to the resulting supervisory challenges they face. For this reason, April 2024 saw business model-specific competence centres being set up within the Bundesbank's regional offices. As a departure from the regional principle, the supervision of specific institutions will be carried out within one of these centres. As of April 2024, the Regional Office in Bavaria

Organisational chart of the Bundesbank's Regional Office in Bavaria



will therefore be responsible not only for the supervision of Bavarian private and association banks, but also (to name two examples) for all car financing institutions and housing enterprises with savings facilities throughout Germany. It will also share the supervision of investment institutions with other competence centres.

Staff members working in the **Regional Division Banking and Financial Supervision** analyse a wide range of information, such as audit reports compiled by external auditors, various other reports and notices, some of which are requested on an ad hoc basis, and results of stress tests. During supervisory meetings, they discuss the business situation, profitability, the risk situation and current problems, such as the current challenges faced by banks in the commercial real estate market and the impact of the current economic situation. In addition, on-site inspections are conducted at the institutions to assess the adequacy of both the business organisation and capital, while – taking account of proportionality – placing particular emphasis on the risk control procedures used and appropriate and effective risk management methods. Based on the findings of these inspections, the banking supervisors draw up a risk analysis for each institution, which serves as a basis for ongoing supervision by the Bundesbank and BaFin, particularly for the setting of additional requirements and recommendations with respect to own funds under the Supervisory Review and Evaluation Process (SREP).

Given the high density of financial institutions – Bavaria is home to almost one in four enterprises in the German financial sector that are subject to supervisory oversight – the Regional Office in Bavaria makes an particularly substantial contribution towards safeguarding financial stability in Germany. The banking supervisors of the Regional Office in Munich monitor 566 of the around 2,400 institutions under supervision in Germany, 264 of which are credit institutions, 255 investment institutions and 47 housing enterprises with savings facilities.

The **Regional Section Credit Assessment and Securities** of the Regional Office in Bavaria is integrated into the Eurosystem's monetary policy operations within Bavaria. When commercial banks borrow money from the Bundesbank within the framework of refinancing operations, they may inter alia submit credit claims on enterprises as collateral, provided these enterprises have been classified as „eligible“. The Regional Section verifies whether the firms in question fulfil the Bundesbank's high credit standards. In 2024, analysts at the Regional Office assessed around 3,500 Bavarian companies using Bundesbank procedures. Outside of this kind of credit assessment related to refinancing, the Bundesbank can also provide a detailed balance sheet analysis free of charge for individual enterprises interested in this service. As Germany's "fiscal agent", the Bundesbank participates in the price and market management of Federal securities. In this context, the Regional Section Credit Assessment and Securities of the Regional Office in Bavaria conducts the market interventions required for this purpose at the Munich Stock Exchange. Acting on behalf of the Bavarian State Ministry of Finance, the Regional Section is also responsible for investing and managing Bavaria's civil servants' pension fund, into which the Bavarian government channels funds to finance the pension scheme for federal state civil servants.

The **Human Resources and Organisation** and **Administration** regional sections, which belong to the Regional Division **In-house and Branch Operations**, support the Regional Office's operative units and branches by providing various services. They ensure, in particular, that all business units are provided with qualified staff, that state-of-the-art operating resources and infrastructural building services are available, and that all workflows are continually optimised. This enables the Bundesbank to consistently offer its business partners an appropriate and attractive range of services. The Regional Division also manages its five subordinated Bavarian branches, which supply the economy with cash and, via the Munich Branch, with cashless payment services.

Business units perform tasks for the Bank as a whole

In addition to the units mentioned above, three business units have been established at the location of the Regional Office in Bavaria, which perform operational activities for the entire Bundesbank.

The **Service Centre for the Automation of Cash Processing** is responsible for the technical and organisational development of the automated processing of banknotes and coins within the Bundesbank. It advises and supports the branches in the event of problems or queries regarding cash processing systems and conducts regular training courses for operators of cash processing systems.

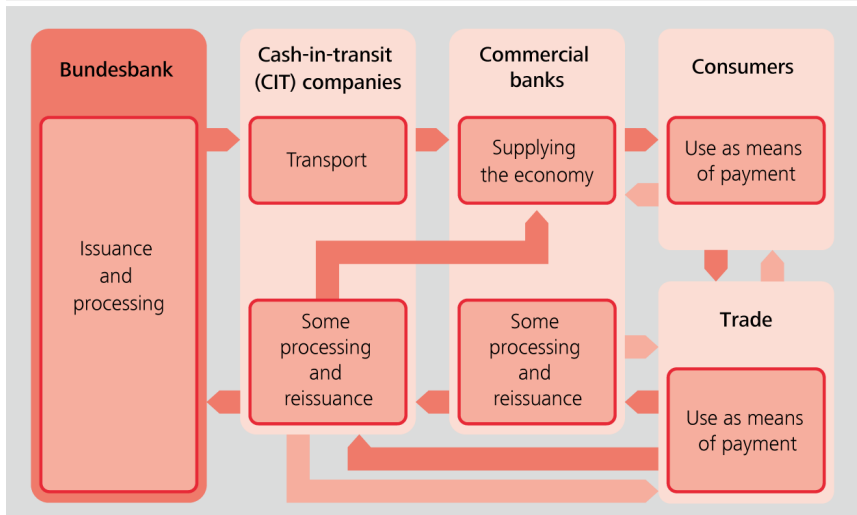
Group R 120 “Operational implementation of financial sanctions”, which is part of Directorate General Legal Services, is responsible for the nationwide enforcement of restrictions on the movement of capital and payments, which are generally based on UN Security Council resolutions or EU sanctions. Colleagues inform the banking industry about new sanctions legislation and clarify any questions of its interpretation, and are responsible for releasing funds “frozen” under sanctions law.

Section DS 52 “External Sector Audits”, which is part of Directorate General Data and Statistics, is responsible for auditing compliance with external reporting requirements by credit institutions, financial service providers, insurance companies and enterprises in the Federal States of Bavaria, Baden-Württemberg, Saxony and Thuringia. The Foreign Trade and Payments Act (Außenwirtschaftsgesetz) and the Foreign Trade and Payments Regulation (Außenwirtschaftsverordnung) establish the legal basis for these activities. They require that, in particular, cross-border payments in excess of a certain threshold be reported. The audits carried out by the colleagues in the Section are intended to ensure the accuracy of the balance of payments, especially that of the services and capital accounts, which serve as a key pillar of monetary policy decision-making. The Section is the central point of contact for all residents of the above-mentioned federal states for general external reporting enquiries.

Branches are first port of call for cash supply

The key task of the **Bundesbank branches** is to safeguard the supply of cash to the economy. This is classed as systemically important for the Federal Republic of Germany. The five **branches** subordinated to the Regional Office in Bavaria ensure that the commercial banks in the Free State of Bavaria are supplied with a sufficient amount of cash at all times and in any desired denomination. In turn, the credit institutions pass on this cash to the retail sector, enterprises and households. The cash cycle continues when consumers and especially retailers pay the cash in again at the banks. The credit institutions retain some of this cash for their cash balances and return any surplus amounts to the Bundesbank via its branches, thus completing the cash cycle. Cash used in trade can also be paid in at the Bundesbank directly.

The cash cycle in Germany



Any soiled or damaged cash is filtered out by the branches, then destroyed and replaced with new banknotes and coins. In a similar fashion, counterfeits are retained and withdrawn from circulation. The Bundesbank's Bavarian branches process an annual volume of more than 1.5 billion banknotes and handle over more than 9,000 tonnes of coins.

As representatives of the Bundesbank, the branch managers maintain close contact with the banks, business community and public authorities in their respective region. As part of the Bundesbank's public relations work, the branches are also involved in holding training courses on counterfeit recognition – for vocational schools, in particular, but also for staff working for credit institutions and in the retail trade – and providing economic education in schools.

Since the beginning of 2016, the Regional Office in Bavaria has conducted **the monitoring of external cash transactions** – on the basis of EU regulations and ECB decisions. This includes checks on banknote and coin processing machines operated by credit institutions, cash-in-transit companies and other professional cash handlers. If a system does not pass this test, the recycling of cash using these systems is cut back until successful repeat test results are obtained. Staff involved in the monitoring process thus make an essential contribution to keeping the cash cycle free of counterfeit money and damaged banknotes and coins.

Munich Branch takes care of customer service in the area of cashless payments

In Bavaria, the **Munich Branch** handles **customer service in the area of cashless payments** in a centralised manner. This includes, for example, responsibility for managing the accounts held by public authorities and commercial banks in the Free State of Bavaria. Responsibility for public authorities and commercial banks has also been transferred to the Munich Branch.

The Branch currently holds around 170 accounts for public administrations; the Bundesbank assumes the function of fiscal agent here, processing cashless payments for them. Via the Munich Branch, the Bavarian credit institutions have access to the payment systems of the Bundesbank and the Eurosystem. For this purpose, around 300 Bavarian banks and savings banks hold business accounts that can be used for the large-value payment system TARGET2. This connection also provides them with access to the Eurosystem's monetary policy refinancing operations and thus to central bank liquidity, which, in turn, is a precondition for their business activities.

Retail payments are processed via SEPA. In 2024, the Bundesbank settled an average daily volume of around 4.26 million transactions with a value of € 3.7 billion in Bavaria.





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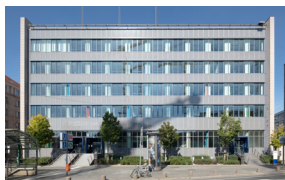
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