BayernLB
2019
Annual Report and Accounts

Consolidated financial statements

BayernLB Group at a glance

Income statement (IFRS)

EUR million	1 Jan-31 Dec 2019	1 Jan-31 Dec 2018	Change in %
Net interest income	1,733	1,742	(0.5)
Risk provisions	251	135	86.4
Net interest income after risk provisions	**1,984**	**1,877**	**5.7**
Net commission income	287	270	6.3
Gains or losses on fair value measurement	(2)	151	–
Gains or losses on hedge accounting	(19)	(50)	(61.2)
Gains or losses on derecognised financial assets[1]	4	(9)	–
Gains or losses on financial investments	40	10	>100
Administrative expenses	(1,446)	(1,356)	6.6
Expenses for the bank levy and deposit guarantee scheme	(134)	(103)	30.8
Other income and expenses	156	76	>100
Gains or losses on restructuring	(217)	2	–
Profit/loss before taxes	**653**	**869**	**(24.9)**
Income taxes	(187)	(41)	>100
Profit/loss after taxes	**466**	**828**	**(43.7)**
Cost/income ratio (CIR)	65.8%	61.9%	3.9 pp[2]
Return on equity (RoE)	6.7%	9.4%	(2.7) pp[2]

Balance sheet (IFRS)

EUR million	31 Dec 2019	31 Dec 2018	Change in %
Total assets	225,965	220,227	2.6
Business volume	269,368	262,696	2.5
Credit volume	188,538	186,685	1.0
Total deposits	150,588	147,539	2.1
Securitised liabilities	44,570	45,469	(2.0)
Subordinated capital	2,107	1,925	9.5
Equity	11,530	11,255	2.4

Banking supervisory capital and ratios under CRR/CRD IV (as per consolidated financial statements)

EUR million	31 Dec 2019	31 Dec 2018	Change in %
Common Equity Tier 1 capital (CET1 capital)	10,264	9,973	2.9
Own funds	11,821	11,465	3.1
Total RWAs	64,604	65,594	(1.5)
Common Equity Tier 1 (CET1) capital ratio	15.9%	15.2%	0.7 pp[2]
Total capital ratio	18.3%	17.5%	0.8 pp[2]

Employees

	31 Dec 2019	31 Dec 2018	Change in %
Number of employees	8,316	7,703	8.0

Current ratings

	Issuer rating	Short term, unsecured	Pfandbriefs[3]
Fitch Ratings	A-	F1	AAA
Moody's Investors Service	Aa3	P-1	Aaa

1 *For financial assets measured at amortised cost.*

2 *Percentage points.*

3 *Applies to public Pfandbriefs (Fitch and Moody's) and mortgage Pfandbriefs (Moody's).*

Contents

Foreword by the Board of Management

Dear customers and business partners,
ladies and gentlemen,

Despite some challenging conditions, BayernLB produced a satisfactory profit before taxes of EUR 653 million for the past financial year.

Financial year 2019 was very much a year of one-off gains, even though they were much lower than in the previous year. Given the tough market environment, we were nevertheless pleased that we were able to keep our net interest income and net commission income steady, at around EUR 2 billion. Because our core markets enjoyed stable economic growth, our risk profile improved again compared with the previous year, so that the NPL ratio, which reflects the share of non-performing loans in relation to the overall lending volume, fell to 0.7 percent. Rigorous management of our risk positions coupled with a stable ratings in our credit portfolio were among the factors that ensured our Group had a solid capital base as at 31 December 2019. Even though we had to significantly increase our pension provisions because of historically low returns on the capital market, the (fully loaded) CET1 ratio at the end of the year was 15.6.x percent before appropriation of profit.

Our operational profitability coupled with our very solid capital base and liquidity means we are ready and able to support our customers flexibly and cooperatively in this very tense situation caused by the corona pandemic. Nobody can make a serious prediction of how severe the economic fallout of the corona pandemic will be and how hard it will hit our Bank. But we will do everything in our power to make sure BayernLB remains a reliable, stable partner to its customers, even in difficult times.

Our major strategic realignment will also play a role here, which we decided on, regardless of the Bank's still satisfactory performance in 2019, with a view to the persistent adverse conditions on the market and the huge challenges for the banking sector. We are now systematically implementing this plan. Our goal over the next few years is to evolve from our current status as a universal bank to be a focused specialised and innovative digital bank. We began this transformation process early on and on our own terms. There are three key components to our Fokus2024 transformation programme:

- Double our customer base in DKB's retail customer business and build on our already strong position in real estate financing, while focusing on the business with corporate customers and capital market business.
- Significantly cut our cost base, especially in the core Bank. We will do this by investing a high three-digit million sum in infrastructure and IT within the BayernLB core Bank and DKB. This investment will create the conditions needed to considerably improve the efficiency of the platform in Munich and to support the further growth of our subsidiary, DKB.
- Remain the principal bank to the Free State of Bavaria and the central bank to the Bavarian savings banks.

Our intention in the next five years is to double DKB's customer base from some 4 million today to around 8 million, making it BayernLB Group's main growth engine. DKB is therefore set to consolidate its position as a tech bank and digital companion to its customers.

BayernLB will also significantly expand its commercial real estate finance business and its business with Real I.S. over the next few years. This growth is expected to take place in Germany and in selected foreign markets, especially in western Europe, the UK and the US. We are relying here on our expertise built up over many years and our dense network of customers and investors to achieve this.

As a specialised bank for the challenges of tomorrow and an innovation partner to the Bavarian and German economy, we will use our structuring expertise in finance and selected capital market products to provide advice and support, especially to companies from five innovative sectors of the future – energy, mobility, technology, mechanical and plant engineering, construction and basic materials.

BayernLB will also continue to be the principal bank for the Free State of Bavaria and the central bank to the Bavarian savings banks and to act as a partner supporting our association institutions with a competitive and, compared with today, more focused range of products. In the future, as a key customer group all financial institutions will be served from the Savings Banks Business Area.

As we transform we will be focusing on the areas where our strengths lie and where we can offer our customers the greatest added value. We will continue to build on these strengths. Just as we have done for DKB and the commercial real estate business, making them key earnings pillars for the BayernLB Group for years.

In focusing on five innovative sectors of the future, we will be able to systematically tap our "home advantage" in one of the most economically strong regions and build on the services we offer by consistently focusing on sustainable themes. In doing so we will be building on successful foundations: our subsidiary, DKB, and BayernInvest are pioneers in developing sustainable products and integral components and therefore drivers of the respective business model. And BayernLB itself was once again one of the TOP 10-rated banks in the world in ISS's sustainability rating at the start of 2020. We have a strong portfolio in renewable energy, are pioneers, and are leading arrangers of green Schuldschein note loans. Back in 2016 we placed the first green Schuldschein in the world and have helped arrange nearly half of all sustainable Schuldscheins since then. During the past year we co-arranged a green Schuldschein for Porsche AG. With a volume of EUR 1 billion, it was the largest green Schuldschein ever placed in the market.

The BayernLB bank of the future is building on firm foundations. We do not need to completely reinvent ourselves to do this. But we are making a lot of changes to ensure BayernLB remains financially healthy for the long term and because we want it to continue to be one of Germany's independent banks with a long-term successful future.

This transformation process, which we are pushing ahead with in an exceptionally challenging and extremely tense climate for everyone in the Bank and for all our customers due to corona, is only possible with motivated and dedicated employees. We would like to thank them most sincerely for their hard and successful work in the past year and we continue to rely on their commitment going forward to steer the BayernLB bank of the future safely through these stormy waters.

We would also like to thank you, our customers and business partners, for the trust you have placed in BayernLB and very much look forward to continue working with you in the future.

Sincerely,

Stephan Winkelmeier	Dr Edgar Zoller

Dr Markus Wiegelmann	Marcus Kramer	Michael Bücker

Report by the Supervisory Board

Ladies and gentlemen,

Over the past financial year, we advised the Board of Management on the administration of the company and continually monitored its management activities.

In 2019, BayernLB's Board of Management kept the Supervisory Board and its committees informed of key developments at the Bank and within the Group at regular intervals, both promptly and comprehensively, in writing and orally. This included its supervisory duty to disclose deficiencies detected by the internal Audit Division.

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 the Group's earnings, expenses, risks, liquidity and capital status, profitability, legal and business relations, material events and business transactions.

Between meetings, as Chairman of the Supervisory Board, I remained in regular and close contact with BayernLB's Board of Management, particularly its Chairman. The Supervisory Board was also notified in writing of important matters and, where necessary, resolutions were passed.

The Supervisory Board was involved in key decisions affecting BayernLB and gave its approval where necessary.

As in previous years, meetings were once again held in financial year 2019 between the Joint Supervisory Team from the ECB and national supervisory authorities on the one hand, in addition to the Supervisory Board and committee chairs on the other to discuss the main issues pertaining to the respective body. These focused on strategic and regulatory matters, committee affairs, governance and BayernLB's risk situation.

For the banking sector as a whole, the past financial year was once again dominated by persistently low interest rates, ever tighter regulatory requirements, the march of digitalisation and stiff competition. To stay successful in this environment in the years ahead, BayernLB decided on a strategic realignment in 2019 with the aim of focusing on the areas that will enjoy high growth in the future, while reducing the cost base.

Supervisory Board meetings

In the reporting year the Supervisory Board held a total of 11 meetings which were also attended by representatives of legal supervisory authorities and, in some cases, of banking supervisory authorities.

Besides the detailed reports of the committee chairpersons on the activities of the various boards and committees, the scheduled Supervisory Board meetings dealt with the regular reports of the Board of Management on the status of BayernLB's financial position and performance, including DKB AG, and on regulatory and supervisory issues, including the requirements for Group management and the outcome of on-site audits by the banking supervisory authorities. In connection with this, we continued to look at the progress in updating and developing Group IT. The Board of Management also regularly informed us about current business strategy issues and – also at three special meetings – about the current situation in connection with the negotiations to support NordLB. We subjected the Board of Management's reports to the Supervisory Board to critical scrutiny and requested additional information in some cases, which was always immediately provided in full.

Over several meetings, after prior consultation in the relevant committees, we dealt with Board of Management and Supervisory Board matters. In March, the Supervisory Board appointed Stephan Winkelmeier as the new CEO (Chairman of the Board of Management). Until he took office on 1 July 2019, BayernLB was managed on an interim basis by Dr Edgar Zoller, who subsequently moved back to his role as Deputy CEO (Deputy Chairman of the Board of Management).

The Board of Management and Supervisory Board issues that the Supervisory Board dealt with included the assessment of both these bodies in accordance with legal and regulatory requirements and matters relating to HR, remuneration and business strategy, including various issues relating to pension obligations. We also set the targets for the Board of Management for 2019 and agreed the feedback on target achievement to the members of the Board of Management for the past financial year.

One of the main items of work over the past year was to assist the Board of Management in the strategy project that it had initiated. Given the immense challenges facing the banking sector in Germany, we devoted a lot of our time to overarching strategic scenarios and potential goals at several meetings, including a strategy meeting. In December, we approved the strategic objectives fleshed out in the strategy project.

In our March meeting, we discussed in detail the business performance in 2018. We and the Board of Management also discussed current developments in the business areas and business strategy issues relating to the refinancing situation in the Group. The Supervisory Board and Board of Management also examined how the Bank's project portfolio is progressing and Group IT-related issues.

In April 2019, the focus was on the Board of Management's Report for financial year 2018, the adoption of the annual financial statements and the approval of the consolidated financial statements. The resolution was based on the recommendations of the Audit Committee and a subsequent detailed discussion with the auditors Deloitte GmbH Wirtschaftsprüfungsgesellschaft. Furthermore, we also dealt at great length with BayernLB's combined non-financial report for financial year 2018. We also followed the Audit Committee's recommendation on the appropriation of the distributable profit and duly submitted a proposal to the General Meeting. We also proposed to the General Meeting that the Board of Management for financial year 2018 be discharged. In addition, we dealt with remuneration policy matters and also took note of the HR report, the report of the Group Information Security Officer and the outsourcing portfolio report.

One of the main items on the agenda of our meeting in July 2019 was the updating of key planning parameters and their impact on the medium-term planning for 2019-2023. We also attended to the current status of key (large) projects, some of which were set up to deal with regulatory requirements. We took note of the investment report and the remuneration monitoring report of the remuneration officers.

The purpose of a special meeting, also held in July, was a personnel change at second management level, which needed to be referred to the Supervisory Board for regulatory reasons.

Besides a number of governance issues, mainly due to the implementation of guidelines issued by the European Banking Authority (EBA), the discussions in our September meeting centred on an additional update of planning parameters and, in consultation with the Board of Management, their impact on medium-term planning.

In addition to the financial position and performance, an additional meeting in November focused on discussing an interim status of the future strategic objectives.

A key aspect of the December meeting was to look at the future strategic objectives, which we approved after some detailed consideration. The ensuing discussion and approval of the Group's medium-term planning for 2020-2024 also took place in this light. We also discussed with the Board of Management the ECB's decision to create supervisory requirements (SREP decision) and were briefed on the update of the recovery plan pursuant to the German Recovery and Resolution Act (Sanierungs- und Abwicklungsgesetz (SAG)). We consented to extending the appointments of the remuneration officers and their deputies.

Supervisory Board committees – an overview

In a total of five meetings, the **Risk Committee** dealt with 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. In addition, the Risk Committee checked whether the terms and conditions in the customer business were in line with the Bank's business model and risk structure.

Together with the Board of Management, the Risk Committee regularly delved into geopolitical and macroeconomic issues and associated risks. In this context, the Committee was also informed of the current state of preparations for Brexit at several meetings.

The **Compensation Committee** carried out its legally mandated duties in a total of six meetings. It discussed in particular the Board of Management's reports on the structure of the remuneration systems for employees / (focusing partly on their relationship to the Business and Risk Strategy), monitored their suitability and received regular updates on specific issues. It evaluated the impact of the remuneration systems on the Bank's and BayernLB Group's risk, capital and liquidity situation and discussed the size and distribution of a total bonus pool. The Compensation Committee monitored the process for identifying risk takers and Group risk takers and considered the remuneration officers' report on the suitability of the remuneration systems for employees. Under its area of responsibility, the Compensation Committee also provided advice on matters related to Board of Management remuneration and prepared decisions by the Supervisory Board.

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

The Executive and Nominating Committee met eleven times in the reporting period. The discussions particularly centred on preparations for Supervisory Board meetings, particularly in connection with the strategy project and business and corporate policy considerations. The committee also prepared decisions on Board of Management matters for the plenary session in accordance with its legally mandated duties. Another focus of the committee's work in 2019 was on evaluating the Board of Management and the Supervisory Board in accordance with the German Banking Act and the ESMA's/EBA's guidelines on assessing the suitability of members of the management body and holders of key positions.

In a total of five sessions, the Audit Committee dealt with the monitoring of the accounting process and the effectiveness of the risk management system, particularly the internal control system and the internal Audit Division. The Committee also oversaw the implementation of the audit of the annual financial statements and of the consolidated financial statements, particularly with regard to the independence of the auditors and the services they provided, including any necessary approvals of non-audit services. Another issue the Committee looked at in detail was the Board of Management's reports on BayernLB's current financial position and performance and on Group IT-related topics. In 2019, the internal Audit Division and Group Compliance reported to the Audit Committee on their work and audit findings and other matters. The Committee deliberated on the reporting and conferred with the newly appointed auditor for the 2019 financial year, PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft (PwC) on what the audit of the 2019 annual financial statements should focus on. In 2019, the Audit Committee also concentrated on issues of relevance to Group management.

In its four meetings, in accordance with its legal duties, the BayernLabo Committee dealt with all matters in respect of BayernLabo on behalf of the Supervisory Board and passed resolutions concerning BayernLabo's affairs for which the Supervisory Board is responsible. It also discussed the Business and Risk Strategy, reviews of audits and HR planning with both the Board of Management's segment head and BayernLabo's senior management. The Board of Management's segment head and senior management also reported to the committee on BayernLabo's business performance, the implementation status of Baukindergeld Plus and Home Ownership Subsidy, the project status of the service portal and the low interest rate environment in the municipal loan business.

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

Additional specialist training

Specialists from the Bank and representatives from auditing companies held seminars for the Supervisory Board at a training event. This covered current regulatory developments and major challenges for banks and their supervisory bodies with a focus on BayernLB.

The members of the Supervisory Board also completed the courses and advanced training required for their tasks and took advantage in particular of the external training offered by auditing companies on current topics in the banking sector.

Corporate governance

The BayernLB Corporate Governance Principles set out the provisions on corporate management and corporate supervision that apply to BayernLB on the basis of binding and in-house regulations. The Supervisory Board discussed compliance with these Corporate Governance Principles in 2019 in its meeting on 1 April 2020. The Board of Management, Supervisory Board and General Meeting agreed that they were aware of no evidence to indicate these principles had not been observed in financial year 2019.

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

Mr Stephan Winkelmeier left the Supervisory Board on 31 May 2019; his mandate was taken over by Dr Jörg Schneider on 1 June 2019.

Mr Winkelmeier was appointed a member of the Board of Management and CEO (Chairman) with effect from 1 July 2019. Mr Ralf Woitschig stepped down from BayernLB's Board of Management on 16 August 2019. The Supervisory Board would like to thank them for their constructive contribution and services in what have been challenging times.

Audit and approval of the 2019 annual accounts

PricewaterhouseCoopers 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. PwC issued an unqualified audit opinion in each case. 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 audit reports were duly presented to all Supervisory Board members. The BayernLabo Committee and the Audit Committee examined each of the documents forming part of the annual and consolidated financial statements in conjunction with the auditors' audit report and discussed them in detail with the auditors. Each committee chair reported to the Supervisory Board on this matter.

In its meeting of 19 March 2020, the BayernLabo Committee adopted BayernLabo's submitted annual financial statements and approved the management report to BayernLabo's accounts.

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

Furthermore, the Supervisory Board proposed to the General Meeting that the Board of Management be discharged and that the decision on distributing the distributable profits of EUR 150 million should be made at a later date. This was prompted by the European Central Bank's recommendation to postpone dividend payments for financial year 2019 until 1 October 2020 at the earliest due to the COVID-19 pandemic. The General Meeting gave its approval to both 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 wishes to thank the members of the Board of Management and all of BayernLB's staff for all their hard work over the past year, and for their huge personal contribution.

Munich, 2 April 2020

On behalf of the Supervisory Board

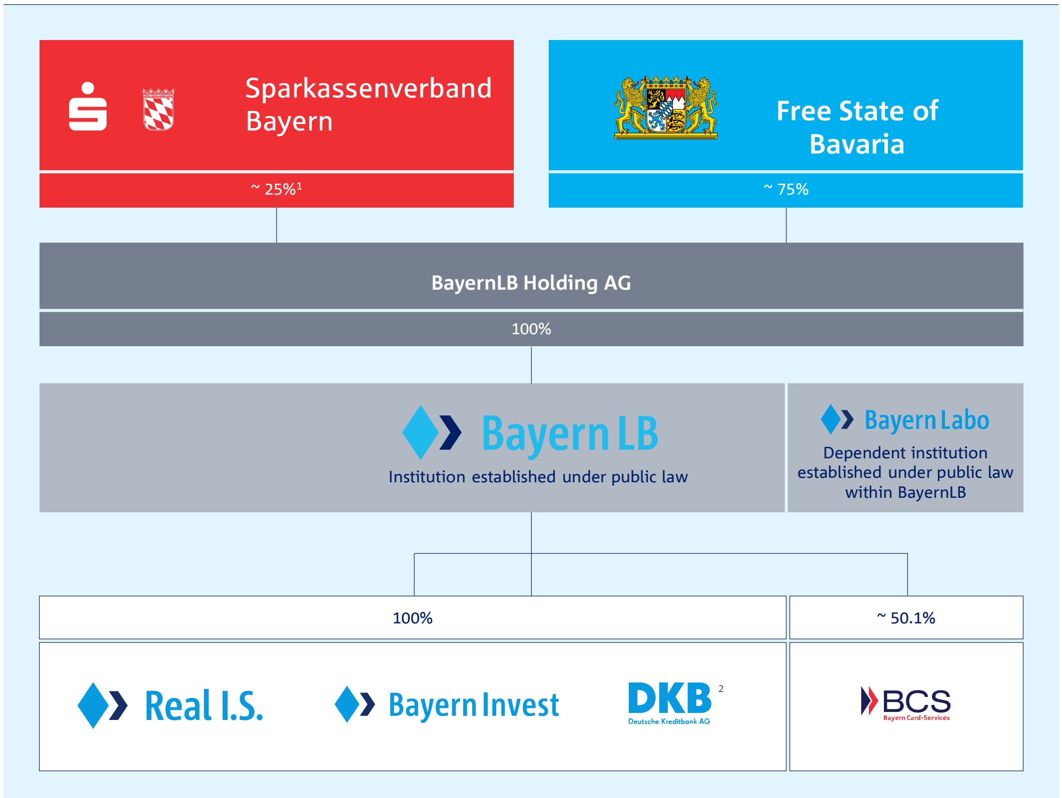
Dr Wolf Schumacher

Chairman

BayernLB Group management report

Overview of the BayernLB Group

Ownership and Group structure



1 24.99999994%
2 DKB sub-group

The BayernLB Group is largely defined by the parent company Bayerische Landesbank, Munich (BayernLB or the Bank). BayernLB is an institution with legal capacity established under public law with its registered office in Munich and nominal capital of EUR 2,800,000,000. The nominal capital is due to BayernLB Holding AG, Munich as the entity that has direct ownership. The Free State of Bavaria and the Association of Bavarian Savings Banks are indirect owners through their respective stakes in BayernLB Holding AG.

The rating agencies Moody's Investors Service (Moody's) and Fitch Ratings (Fitch) have assigned the following ratings to BayernLB:

	Moody's	Fitch
Issuer rating	Aa3	A-
Long term, preferred senior unsecured	Aa3	A–
Long term, non-preferred senior unsecured	A2	A–
Short term, unsecured	P-1	F1
Public Pfandbriefs	Aaa	AAA
Mortgage Pfandbriefs	Aaa	–

Business model and strategy

As a commercial bank, Landesbank and central bank to the savings banks, BayernLB is a strong corporate and real estate lender focused geographically on Bavaria and Germany as well as a reliable partner to the Bavarian savings banks.

BayernLB's strategic business model is based on the following operating business segments (operating segments):

- Corporates & Markets including the subsidiary BayernInvest Kapitalverwaltungsgesellschaft mbH, Munich (BayernInvest)
- Real Estate & Savings Banks/Association including the legally dependent institution Bayerische Landesbodenkreditanstalt, Munich (BayernLabo) and the subsidiary Real I.S. AG Gesellschaft für Immobilien Assetmanagement, Munich (Real I.S.)
- DKB with the core business activities of the Deutsche Kreditbank Aktiengesellschaft, Berlin (DKB) sub-group and Bayern Card-Services GmbH – S-Finanzgruppe, Munich (BCS)

Corporates & Markets

On 16 August 2019, the BayernLB Group merged the organisations of its "Financial Markets" and "Corporates & Mittelstand" units to form a new "Corporates & Markets" operating business segment. The changes to the segment report are effective as at 1 January 2020.

Corporates & Mittelstand looks after both Mittelstand corporate customers in the regions of Germany, Austria and Switzerland and large German and selected international companies. BayernLB's core competencies include traditional and structured credit financing, comprising working capital, capex and trade financing, project and export financing, lease financing and transportation finance (including rolling stock and asset-based aircraft financing). In addition, BayernLB helps its customers tap capital markets for their financing needs, especially through traditional bonds or German Schuldschein note loans.

Financial Markets mainly offers a range of money market, forex, capital market, funding and treasury services, and structured investment products. Main customers include the savings banks, banks, German and international corporate and Mittelstand customers, real estate customers and institutional customers, which are served in the respective business areas. Securities asset management for BayernLB is handled by the subsidiary BayernInvest. This investment company focuses mainly on advisory services and managing securities investment funds for institutional and private investors.

Real Estate & Savings Banks/Association

BayernLB's real estate business concentrates on commercial real estate financing and services, with a regional focus on Germany and established and stable international markets. In commercial real estate, products include financing for existing real estate assets, project development, housing developers and real estate portfolios. In terms of asset classes, the focus is on offices, residential property, retail, and managed real estate in the areas of logistics, hotels and social care. To serve customers more comprehensively under one roof, the Bank makes extensive use of its working relationship with subsidiaries and affiliates, such as Real I.S., Bayerische Landesbank Immobilien-Beteiligungs-Gesellschaft mbH & Co. KG, Munich (BayernImmo), LB Immobilienbewertungsgesellschaft mbH, Munich (LB ImmoWert), Bayerngrund Grundstückbeschaffungs- und erschließungs GmbH (BayernGrund) and Bayern Facility Management GmbH, Munich (BayernFM).

BayernLB performs the central tasks for its most important group of customers and sales partners: the savings banks (especially those from Bavaria), and, as part of its Association business, provides them with specialised products and services. The focus of the relationship is on supplying the savings banks with a range of complementary products and services for both their own business and their end customers, including payment services, capital market business, international business, syndicated business, subsidised loan business, and foreign notes and coins/precious metal activities. Funding from the savings banks is an important source of funding for BayernLB, while also strengthening the common liquidity pool. BayernLB also acts as a lender and service provider to the public sector, and to public-law and non-profit institutions. BayernLabo fulfils the public mandate by carrying out the state-subsidised loan business for BayernLB.

DKB

DKB, an integral part of the BayernLB Group, complements the business model. Its business activities are focused geographically on the Federal Republic of Germany. In retail banking, DKB operates as an online bank with a steadily growing customer base and mainly offers account packages, construction financing, private loans and investment products. It is also a corporate banking specialist in the fields of corporate customers and infrastructure, which mainly includes business with customers in local authorities, social infrastructure, energy and utilities, residential property and administration. Its expertise includes in particular financing and investment products in selected and, for the most part, sustainable sectors in Germany: renewable energy, health, social care, education, agriculture and residential property.

Implementation of the business model

The defining features of 2019 were the Bank's decision to maintain its current business model as a Bavarian bank for the German economy with selected activities on foreign markets (especially western Europe and the US) and its comprehensive review of the business strategy carried out within the scope of the strategy project initiated in the first half of 2019. The business activities in financial year 2019 are shown below, while the report on expected developments and opportunities looks at the Group's future strategic direction.

The focus of the BayernLB Group's strategic goals in 2019 was on prudent and targeted internationalisation within the existing risk guidelines to relativise the regional cluster risk, increase profitability and build a regional presence in growth markets. Another priority was to selectively digitalise sales channels, the range of services and the operating model, achieve high-margin volume growth within the existing risk guidelines to increase the ability to cover fixed costs, and strengthen capital-preserving sources of income independently of interest rates to improve the profitability of the business model.

The BayernLB Group's operating business was impacted by the still challenging market environment in 2019. Accordingly, the main obstacles it faced in securing its earnings base were the persistently low interest rates and stiff competition from established market participants and increasingly from new market entrants. Meanwhile, rising regulatory requirements affecting, for example, capital requirements (in terms of quantity and quality), liquidity requirements, risk management, and IT infrastructure are increasingly putting pressure on the fixed cost base. Based on current estimates these trends are short to medium term in nature. The entire banking sector in Germany and Europe is also facing huge challenges on a number of fronts including the continuous advancements in digitalisation and uncertainty from geopolitical risks. In light of these developments the BayernLB Group took the decision at the end of 2019 to strategically realign its business model.

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 the resources employed while simultaneously ensuring the Group's capital and liquidity base is adequate.

The BayernLB Group's profitability is managed using two key financial ratios that act as crucial indicators of performance: return on equity (RoE) and the cost-income ratio (CIR). RoE is calculated by dividing profit before taxes by shareholders' equity as calculated according to regulatory requirements. The average Common Equity Tier 1/CET1 capital available over the financial year is used at Group level. For all management levels below this, the average economic capital employed in the financial year is derived from the risk-weightings of the underlying individual transactions (RWAs) specified by regulatory authorities. The cost-income ratio (CIR) is monitored using the ratio of administrative expenses to gross income[1]. In addition to measuring return on equity and the cost-income ratio, BayernLB also uses other ratios. These include measures of profitability and expenses of the risk-weighted assets (RWAs) used. 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 intra-year 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 process is used in the BayernLB Group, BayernLB and DKB. The aim of ICAAP is to ensure that there is sufficient economic capital at all times to fully cover 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

1 *Gross earnings = net interest income + net commission income + gains or losses on fair value measurement + gains or losses on hedge accounting + gains or losses on derecognised financial assets + gains or losses on financial investments + other income and expenses*

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 liquidity gap analyses and limiting ratios. Additional information can be found in the risk report.

Capital is managed using the CET1 ratio and the total capital ratio in accordance with the Capital Requirements Regulation and Directive as amended and the guidelines from the ECB's Supervisory Review and Evaluation Process (SREP). The capital required and the corresponding capital ratios are derived mainly from the Business and Risk Strategies and the latest medium-term planning. Compliance at all times with the capital ratios planned and required by the regulator, which is a basic condition for all business activities, is monitored and ensured by allocation of RWAs. As part of overall bank management, target capital amounts, risk-bearing capacity and funding are linked.

Human resources

2019 was a year of strategic realignment at BayernLB. Human Resources was focused on supporting the comprehensive strategy project and preparing for the forthcoming restructuring. One priority was on developing and structuring the personnel tools.

As at 31 December 2019, a total of 8,316 staff were employed by the Group. The increase in headcount of 613 in the BayernLB Group was partly due to the fact that, alongside reductions in the workforce at BayernLB, new employees with the relevant qualifications were recruited to overcome the complex regulatory requirements and drive forward digitalisation. There was also a big expansion in the workforce at all of the Group's subsidiaries, especially DKB, which is pursuing a major growth strategy.

Key changes in the scope of consolidation and the investment portfolio

There were no significant changes in the scope of consolidation and investment portfolio in financial year 2019.

Report on the economic position

Macroeconomic and sector-specific environment

Germany's economic climate cooled significantly in 2019 as the global economy continued to lose momentum. The annual growth rate (adjusted for working days) was lower than 2018 at 0.6 percent, disappointing the Bank's expectations.[2] Support came once again from domestic demand, driven by an expansion in public and private consumption. With the exception of construction, which continued to rise, capex was, however, weak. Companies' reluctance to turn on the spending taps was due to multiple areas of political uncertainty, in particular the trade dispute between the US and China and the Brexit process. Demand from abroad was also dampened by these factors. Global growth rates were down on 2018, which resulted in exports from Germany growing only slightly compared with previous years. Due to surging imports, the export trade weighed on the economy as a whole for the second year in a row. There are still difficulties filling vacancies in some parts of the labour market, but the weakening economy is making itself felt in the slow uptick in unemployment. The first warning signs of a weakening labour market also became evident when short-time working also rose towards the end of the year. On the last day of 2019, the seasonally adjusted unemployment rate stood at 5.0 percent, exactly where it was one year previously.[3] This is, however, a slight rise compared with the middle of 2019.

The economy in Bavaria grew more strongly in 2019 even though it is somewhat more orientated to the foreign markets of the UK and US than Germany's. Despite the difficulties in 2019 faced by the automotive industry, which accounts for large share of value creation, GDP growth was 0.9 percent higher year on year in the first half of the year than for Germany as a whole.[4] At 2.7 percent at year-end, the unemployment rate was much lower than Germany's average, and meant that the Free State of Bavaria had full employment.[5]

Price pressure was slightly lower compared with 2018 after companies reported a small fall in capacity utilisation. With the oil price averaging around USD 64/barrel, inflation stood at 1.4 percent, which meant Germany too failed to reach the ECB's target.[6]

As a result, in 2019 the ECB decided to abandon its plan to normalise its ultra-expansive monetary policy. As the Bank expected, a new series of quarterly, targeted longer-term refinancing operations (TLTRO III) were agreed in an initial step in March, with a start date of September 2019, in order to ensure banks in the currency union are still able to obtain funding on favourable conditions. In September the ECB opted to up the ante and approved an extensive package of measures to loosen monetary policy. Besides cutting the deposit rate to –0.5 percent, the central bank relaunched net purchases of bonds in the QE programme (which had been suspended at the end

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2 See German Federal Statistical Office 2020, press release no. 018; https://www.destatis.de/EN/Press/2020/01/PE20_018_811.html;

3 Federal Employment Agency, monthly report December 2019; https://statistik.arbeitsagentur.de/Statistikdaten/Detail/201912/arbeitsmarktberichte/monatsbericht-monatsbericht/monatsbericht-d-0-201912-pdf.pdf (German only).

4 See Volkswirtschaftliche Gesamtrechnung der Länder; www.vgrdl.de (German only)

5 See Federal Employment Agency, Arbeitslosigkeit nach Rechtskreisen im Vergleich – Länder (Monatszahlen) – November 2019; https://statistik.arbeitsagentur.de/Statistikdaten/Detail/201911/analyse/analyse-arbeitslose-rechtskreisevergleich/analyse-arbeitslose-rechtskreisevergleich-09-0-201911-pdf.pdf (German only)

6 See German Federal Statistical Office 2020, press release no. 019; https://www.destatis.de/EN/Press/2020/01/PE20_019_611.html of 2018). Since the start of November it has bought up EUR 20 billion's worth per month.[7] Unlike in the previous programme, the purchases are for an indefinite period. To cushion the negative side-effects of the low deposit rate on banks, the rate-setters permitted some exceptions, exempting banks from the negative deposit rate at seven times their minimum reserve. In September the conditions for the TLTROs were improved again and the maturity increased from two to three years. In the US the Fed called a premature halt to the divesting of its total assets[8], cut policy rates three times[9] and closed 2019 by launching a T-bill purchase programme to support the money market.[10]

The euro lost value against the dollar during 2019 up to the end of September, as the US economy enjoyed robust growth compared with the cooldown in the eurozone. Moreover, the ECB loosened monetary policy more than expected, while the Fed's rate cuts were largely in line with what markets had been expecting. It was not until he ISM index for manufacturing (an important US leading indicator) dropped below the growth threshold of 50 points and stubbornly remained at that level until the end of the year that the euro was able to recover somewhat against the greenback in the fourth quarter.[11] However, this recovery was limited by the US labour market, which was still buoyant, with the result that the euro had depreciated by a total of just over two percent against the dollar to USD 1.121 by the end of 2019.[12] The pound sterling lost a lot of ground in the third quarter (the euro moved above GBP 0.90 in the second half of the year), a trend that was almost exactly in line with BayernLB's forecast. However, the Bank failed to anticipate the pound's strong rally in the fourth quarter.[13] Given a whole host of political uncertainties, the Swiss franc was surprisingly in demand and appreciated significantly again in 2019, contrary to the Bank's forecasts.[14]

On bond markets, sovereign debt yields on both sides of the Atlantic unexpectedly tumbled once again in 2019. 10-year Treasury yields sank heavily to around 1.43 percent.[15] In the eurozone 10-year Bunds plunged to –0.74 percent ahead of the re-launch of the ECB's purchase programme with the concomitant fall in the deposit rate.[16] The collapse in yields on highly rated government bonds to well into negative territory fired up the hunt for yield again. The 10-year BTP/Bund spread tightened by half over the course of the year, dropping below 130 bp in October.[17] However, a strong countermovement developed on the bond market in the final quarter. By the end of the year 10-year Bunds were once again yielding –0.185 percent once an (interim)

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7 See European Central Bank 2019, press release, 12 September 2019; https://www.ecb.europa.eu/press/pr/date/2019/html/ecb.mp190912~08de50b4d2.en.html
8 See Federal Reserve, press release, 20 March 2019; https://www.federalreserve.gov/newsevents/pressreleases/monetary20190320c.htm
9 https://www.federalreserve.gov/monetarypolicy/openmarket.htm
10 See Federal Reserve, press release, 11 October 2019; https://www.federalreserve.gov/monetarypolicy/files/monetary20191011a1.pdf
11 See Institute for Supply Management (ISM): Manufacturing PMI, taken from Refinitiv Datastream am 10 January 2020
12 See EUR-USD Exchange Rate, taken from Refinitiv Datastream on 10 January 2020.
13 See EUR-GBP Exchange Rate, taken from Refinitiv Datastream on 10 January 2020.
14 See EUR-CHF Exchange Rate, taken from Refinitiv Datastream on 10 January 2020.
15 See 10-year Treasury yield, taken from Bloomberg on 10 January 2020.
16 Bloomberg, 10-year Bund yield, taken from Bloomberg on 10 January 2020.
17 See spread between 10-year Italian bond (BTP) and 10-year Bund, taken from Bloomberg on 10 January 2020.

solution to the trade dispute between the US and China and the Brexit saga had emerged and US economic data remained positive, contrary to expectations.

In the Pfandbrief and covered bond market, risk premiums tightened in all country segments in 2019, and by 10 bp on average in the case of all euro benchmark bonds.[18] This convergence was mainly due to market participants pricing in an extension to the ECB liquidity glut (TLTRO III, CBPP3-re-launch from November) over the course of the year. The main winners were covered bonds from the EU periphery. In 2019 the volume of new euro benchmark issues (> EUR 500 million) stood at EUR 135 billion, which is around what the Bank had been anticipating at the start of the year and was virtually on par with the previous year.[19]

The risk premiums of investment grade bonds, as measured by iBoxx Euro Corporates, tightened by 46 bp on European credit markets in 2019.[20] As was the case elsewhere, the main reason for the strong trend in this segment was the re-launch of the QE programme by the ECB during the course of the year. The low negative yields on sovereigns also pulled a lot of investors into the market. The positive environment was also reflected in the primary market which, with EUR 424 billion in new issues, not only easily beat the previous year's figure (EUR 313 billion) but also stormed through the previous record of EUR 365 billion in 2017.[21]

Stock markets rallied strongly in 2019 after slumping the year before. This was due in large part to the central banks, who switched back to easing their monetary policy. This allayed investors' heightened concerns about a recession at the start of 2019 and created a favourable environment for liquidity. In addition, a whole host of negative factors from the political situation were already factored into share prices at the start of the year. With an increase of 25.5 percent (including dividends) to 13,249 in 2019, the German stock exchange (DAX) posted its best annual performance since 2013.[22] The biggest growth in prices here occurred in the first and second quarters. After a volatile sidewards movement in the third quarter, prices gained upside momentum in the fourth quarter. In 2019 the EURO STOXX 50 (price index) jumped by 24.8 percent to 3.745.[23] Including dividends, it rose by 29.3 percent.[24]

The German real estate market continued to grow in 2019 despite the economic situation becoming gloomier. Prices of residential and commercial real estate and rents climbed further, especially in German cities. The situation for retail properties was not so rosy. For example, many shopping centres are facing huge challenges due to the continued strong growth in online shopping.

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18 See Index iBoxx Euro Covered, taken from Markit on 10 January 2020
19 See primary issues of covered bonds, taken from Bloomberg on 10 January 2020.
20 See Index iBoxx Euro Corporates, taken from Refinitiv Datastream on 10 January 2020
21 See primary issues of corporate bonds, taken from Bloomberg on 10 January 2020.
22 See Deutsche Börse: DAX 30 performance, taken from Refinitiv Datastream 10 January 2020.
23 See STOXX: EURO STOXX 50, taken from Refinitiv Datastream 10 January 2020.
24 See STOXX: EURO STOXX 50, taken from Refinitiv Datastream 10 January 2020.

Course of business

The Group reported profit before taxes of EUR 653 million (FY 2018: EUR 869 million), mainly driven by the stable earnings contribution from the operating business, the high net positive risk provisions and the loss on restructuring. Due to the one-off net positive effects, profit before taxes and return on equity (RoE)[25] were above target overall. Consolidated profit stood at EUR 463 million (FY 2018: EUR 822 million).

The principal reason for the positive net provisions was the high volume of recoveries on written down receivables and a gain from an impairment reversal on a loan exposure.

At EUR 226.0 billion, total assets rose slightly year on year once again (FY 2018: EUR 220.2 billion). The lending business once again had a major impact on the Group's assets.

The financial situation was solid throughout the reporting period and solvency was assured at all times. The BayernLB Group's economic situation stayed stable.

The BayernLB Group's capital base (CET1 ratio) remained solid, further improving to 15.6 percent (FY 2018: 14.7 percent). Both figures are based on reporting.

Results of operations

EUR million	1 Jan-31 Dec 2019	1 Jan-31 Dec 2018	Change in %
Net interest income	1,733	1,742	(0.5)
Risk provisions	251	135	86.4
Net interest income after risk provisions	**1,984**	**1,877**	**5.7**
Net commission income	287	270	6.3
Gains or losses on fair value measurement	(2)	151	–
Gains or losses on hedge accounting	(19)	(50)	(61.2)
Gains or losses on derecognised financial assets	4	(9)	–
Gains or losses on financial investments	40	10	>100
Administrative expenses	(1,446)	(1,356)	6.6
Expenses for the bank levy and deposit guarantee scheme	(134)	(103)	30.8
Other income and expenses	156	76	>100
Gains or losses on restructuring	(217)	2	–
Profit/loss before taxes	**653**	**869**	**(24.9)**
Income taxes	(187)	(41)	>100
Gains or losses on continuing operations	**466**	**828**	**(43.7)**
Profit/loss after taxes	466	828	(43.7)
Profit/loss attributable to non-controlling interests	(3)	(6)	(42.9)
Consolidated profit/loss	**463**	**822**	**(43.7)**

Rounding differences may occur in the tables.
More detailed information can be found in the notes.

25 *RoE = profit before taxes/average CET1 capital*

Net interest income

EUR million	1 Jan-31 Dec 2019	1 Jan-31 Dec 2018	Change in %
Interest income	**5,935**	**6,105**	**(2.8)**
of which:			
Credit and money market transactions	3,472	3,503	(0.9)
Financial investments	259	259	0.1
Hedge accounting derivatives and derivatives in economic hedges	1,726	1,869	(7.7)
Negative interest	475	472	0.7
Other interest income	3	2	66.5
Interest expenses	**(4,203)**	**(4,363)**	**(3.7)**
of which:			
From liabilities to banks and customers	(1,277)	(1,367)	(6.6)
For securitised liabilities	(486)	(483)	0.6
For subordinated capital	(94)	(92)	2.6
From hedge accounting derivatives and derivatives in economic hedges	(1,746)	(1,803)	(3.1)
From negative interest	(478)	(450)	6.1
Other interest expenses	(121)	(168)	(27.9)
Net interest income	**1,733**	**1,742**	**(0.5)**

Net interest income held steady at EUR 1,733 million (FY 2018: EUR 1,742 million), despite the persistently unfavourable interest rate environment. Most of this income in 2019 again came from the credit business.

Risk provisions in the credit business

EUR million	1 Jan-31 Dec 2019	1 Jan-31 Dec 2018
Additions	(1,066)	(961)
Direct writedowns	(15)	(24)
Releases	899	874
Recoveries on written down receivables	327	246
From the write-up of purchased or originated credit-impaired financial assets	106	1
Modification losses on non-significant modifications	0	(1)
Other gains or losses on risk provisions	–	–
Risk provisions	**251**	**135**

Since financial year 2018, risk provisions in the credit business have been calculated on the basis of the rules pursuant to IFRS 9. In particular, the significance of additions and releases is severely limited due to the IFRS 9 accounting system. For example, account overdrafts and settlements automatically result in new risk provisions and releases. This can also happen several times a year for the same account. Additions and releases are aggregated each time. This may give rise to significantly higher values. Recoveries on written down receivables once again included a significant gain resulting from a settlement to end all legal disputes with HETA Asset Resolution AG, Vienna.

On a net basis, the net positive risk provisions of EUR 251 million also reflect the high portfolio quality overall.

Net commission income

EUR million	1 Jan-31 Dec 2019	1 Jan-31 Dec 2018	Change in %
Securities and fund business	139	115	20.8
Credit business	108	120	(10.4)
Payments	(31)	(34)	(6.8)
Card business	55	56	(1.9)
Other net commission income	17	13	32.6
Net commission income	**287**	**270**	**6.3**

Net commission income rose to EUR 287 million (FY 2018: EUR 270 million). The decline in commission in the credit business was more than offset, in particular by an increase in the securities business. This was due to in part to the increased earnings from the fund business of both subsidiaries Real I.S. and BayernInvest.

Gains or losses on fair value measurement

The decline in the gains or losses on fair value measurement item to EUR –2 million (FY 2018: EUR 151 million) was mainly due to interest rates falling further and the negative impact of cross-currency swaps. The fair value adjustments item stood at EUR –34 million (FY 2018: EUR 13 million).

Gains or losses on hedge accounting

Losses on hedge accounting shrank to EUR 19 million (FY 2018: loss of EUR 50 million). This includes the mark-to-market value of underlying transactions and their hedges, the differences in value of which balance out over the terms of the instruments.

Gains or losses on financial investments

As in the previous year, gains or losses on financial investments (EUR 40 million) were mainly impacted by proceeds from the sale of bonds, notes and fixed-income securities (FY 2018: EUR 10 million).

Administrative expenses

EUR million	1 Jan-31 Dec 2019	1 Jan-31 Dec 2018	Change in %
Staff costs	(771)	(725)	6.3
Other administrative expenses	(612)	(578)	5.9
Amortisation and depreciation of property, plant and equipment and intangible assets (not including goodwill)	(63)	(53)	18.1
Administrative expenses	**(1,446)**	**(1,356)**	**6.6**

Administrative expenses rose by 6.6 percent to EUR 1,446 million. The main reason for the 6.3 percent increase in staff costs to EUR 771 million was an increase in headcount, partly to work on the agreed strategic growth areas and partly to meet steadily growing regulatory requirements. DKB accounted for just over two-thirds of this rise. The increase in general expenses (other administrative expenses plus depreciation of property, plant and equipment and amortisation of intangible assets) was slightly higher at 7.0 percent and mainly comprised increased IT expenses and consulting fees.

Expenses for the bank levy and deposit guarantee scheme

Expenses for the bank levy and deposit guarantee scheme comprised a total charge of EUR 134 million (FY 2018: EUR 103 million). The charge included EUR 56 million for the bank levy (FY 2018: EUR 52 million) and EUR 79 million for the contribution to the Savings Bank Finance Group deposit guarantee scheme (FY 2018: EUR 51 million). The higher contribution to the deposit guarantee scheme partly reflects the costs of support measures in 2018 and 2019.

Other income and expenses

In 2019 other income and expenses in the amount of EUR 156 million (FY 2018: EUR 76 million) mainly included high income from interest on tax receivables. Other important components of this line item are income and expenses from the non-banking activities of the subsidiaries and gains from releases of provisions.

Gains or losses on restructuring

Gains or losses on restructuring stood at EUR –217 million (FY 2018: EUR 2 million). The significant rise was related to the strategic realignment of BayernLB's business model agreed in financial year 2019 and the creation of a provision of EUR 210 million for restructuring the capital markets business. The bulk of the provision was for expenses relating to the agreed measures to reduce the workforce.

Income taxes

The BayernLB Group reported an income tax expense of EUR 187 million in the financial year (FY 2018: expense of EUR 41 million). The item comprises expenses of EUR 80 million (FY 2018: expenses of EUR 121 million) from the netting of current tax income and expenses, and losses of EUR 107 million (FY 2018: gain of EUR 79 million) from the netting of deferred tax income and expenses. The main reason for the tax expense was the use of tax loss carryforwards and the change in the value of the loss carryforwards and temporary differences.

In accordance with the BayernLB Group's management policy, return on equity[26] (RoE) is based on regulatory capital. RoE in 2019 fell to 6.7 percent (FY 2018: 9.4 percent) and the cost-income ratio[27] (CIR) was 65.8 percent and therefore in the planned range (FY 2018: 61.9 percent).

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26 RoE = profit before taxes/average CET 1 capital.

Segments

The segment report is based on the monthly internal management report to the Board of Management and reflects the BayernLB Group's segments. As at 31 December 2019 the four operating segments were:

- Corporates & Mittelstand
- Real Estate & Savings Banks/Association, including the legally dependent institution Bayerische Landesbodenkreditanstalt, Munich (BayernLabo) and the consolidated subsidiary Real I.S. AG Gesellschaft für Immobilien Assetmanagement, Munich (Real I.S.)
- DKB, with the business activities of the Deutsche Kreditbank Aktiengesellschaft, Berlin (DKB) sub-group and the Group subsidiary Bayern Card-Services GmbH – S-Finanzgruppe, Munich (BCS)
- Financial Markets, including the subsidiary BayernInvest Kapitalverwaltungsgesellschaft mbH, Munich (BayernInvest)

The Group also includes the Central Areas & Other segment, which includes consolidation entries not allocated to any other segment.

The contributions of the individual segments to the profit before taxes of EUR 653 million (FY 2018: EUR 869 million) are shown below:

EUR million	1 Jan-31 Dec 2019	1 Jan-31 Dec 2018
Corporates & Mittelstand	13	161
Real Estate & Savings Banks/Association	298	284
Financial Markets	(21)	12
DKB	301	317
Central Areas & Others (including Consolidation)	63	96

Corporates & Mittelstand segment

- Net interest income and net commission income unchanged year on year
- Earnings from capital market products higher than the year before
- High net positive risk provisions in the prior year due to releases and recoveries on written down receivables

In the Corporates & Mittelstand segment, profit before taxes was EUR 13 million (FY 2018: EUR 161 million). The main reason for the fall was the high net positive risk provisions in the previous year of EUR 55 million from releases and recoveries on written down receivables (net risk provisions in FY 2019: EUR –81 million). Despite the constant huge pressure on margins and a difficult competitive environment, the segment managed to keep net interest and net commission income at a largely stable level of EUR 369 million (FY 2018: EUR 373 million) by increasing average credit volumes. Earnings from Financial Markets' capital market products were up year on year. Administrative expenses rose to EUR 318 million (FY 2018: EUR 297 million) due to Bank-

27 *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 + other income and expenses + gains or losses on derecognised financial assets).*

wide investments, e.g. in IT architecture, the need to meet regulatory requirements and as a result of various initiatives in the sales units.

Real Estate & Savings Banks/Association segment

- Real Estate Division once again reports rising operating earnings and an uptick in new business
- Slight improvement in operating earnings year on year in the Savings Banks & Association Division
- Operating earnings at BayernLabo were higher compared with FY 2018

The Real Estate & Savings Banks/Association segment posted a profit before taxes of EUR 298 million, surpassing the previous year's figure of EUR 284 million.

The Real Estate Division once again made a significant contribution to the segment's earnings with a profit before taxes of EUR 246 million (FY 2018: EUR 243 million). The profit before taxes, which was stable compared with the previous year, was largely impacted by net positive risk provisions of EUR 116 million (FY 2018: EUR 17 million). In FY 2018, profit before taxes included gains from the sale of a restructuring exposure of a comparable size. Customer demand remained high and the volume of acquired new business grew once again compared with the year before. This boosted net interest and net commission income by EUR 17 million to EUR 208 million.

The Savings Banks & Association Division's loss before taxes of EUR 15 million was an improvement on the previous year (FY 2018: loss before taxes of EUR 18 million). As before, the main reason for the negative result was the damage wrought by low interest rates. Earnings of EUR 56 million from net interest and commission income remained on a par with the previous year (EUR 56 million). Earnings from foreign notes and coins and precious metals trading and Financial Market's capital market products were up on the previous year and more than offset the increase in administrative expenses to EUR 111 million (FY 2018: EUR 106 million).

BayernLabo posted profit before taxes of EUR 51 million (FY 2018: EUR 45 million). The increase was due mainly to the rise in net interest income of EUR 5 million to EUR 66 million. Administrative expenses stood at EUR 47 million (FY 2018: EUR 44 million) and were slightly up on the previous year as a result of additional expenses in connection with Baukindergeld and home ownership subsidies, which were reimbursed by the Free State of Bavaria on the earnings side.

Profit before taxes at Real I.S. improved to EUR 16 million (FY 2018: EUR 13 million). This rise in profit was mainly due to the positive impact of net commission income which more than offset the increase in administrative expenses.

Financial Markets segment

- Profits from trading and transactions with financial institutions higher year on year despite a still difficult market environment
- Group Treasury profits decline due to measurement losses. Previous year's profits boosted by measurement gains
- BayernInvest's operating performance up year on year

The Financial Markets segment posted a loss before taxes of EUR 21 million (FY 2018: gain of EUR 12 million). The fall was due to lower earnings from the Group Treasury Division of EUR 49 million (FY 2018: EUR 97 million). A big impact in 2019 came from measurement losses on issues and derivatives, which had posted gains in the previous year. Earnings from the customer business rose to EUR 178 million (FY 2018: EUR 163 million) despite the difficult market environment. The earnings generated from Financial Markets products on behalf of the other customer-serving business segments continued to be reported under those segments. Earnings from transactions with financial institutions improved to EUR 78 million (FY 2018: EUR 72 million). BayernInvest posted profit before taxes of EUR 8 million (FY 2018: EUR 7 million). The higher profits were due to an increase in operating earnings, more than offsetting the rise in administrative expenses of EUR 4 million, due in part to the higher costs of meeting regulatory requirements.

The administrative expenses of the whole Financial Markets segment came in at EUR 230 million (FY 2018: EUR 224 million), which was slightly higher than in the previous year.

DKB segment

- DKB segment's profits fall back slightly due primarily to strategic investments in digitalisation and customer service and to the rising costs of the bank levy and deposit guarantee scheme
- Number of retail customers surpasses 4.3 million
- BCS's operating performance satisfactory

The DKB segment's profit before taxes amounted to EUR 301 million, just falling short of the previous year's very good performance (FY 2018: EUR 317 million).

The majority of the profit before taxes was accounted for by the DKB sub-group with EUR 296 million (FY 2018: EUR 302 million). Net interest income contracted to EUR 961 million (FY 2018: EUR 977 million) owing to an expected market-induced tightening of interest margins. However, the fall in this line item was more than compensated by measurement gains. At EUR 58 million, expenses for risk provisions were considerably down on the previous year (FY 2018: EUR 105 million) due in part to the still good level of economic growth and an improvement in portfolio quality. DKB's status as Germany's second-largest online bank was further cemented by an increase in customer numbers to more than 4.3 million (FY 2018: 4.0 million). Administrative expenses rose to EUR 546 million (FY 2018: EUR 478 million) due to strategic investments in digitalisation and customer service and to the implementation of regulatory requirements. There was also an increase in expenses for the bank levy and the deposit guarantee scheme, with the total amount reaching EUR 47 million (FY 2018: EUR 37 million).

With operating earnings stable, BCS posted profit before taxes of EUR 10 million (FY 2018: EUR 14 million). The fall is due to the sale of an equity interest in the previous year and the low non-operating earnings in the financial year from the release of provisions. In addition, administrative expenses rose due to the increase in costs to meet regulatory requirements. The number of cards served rose by 5.5 percent on the previous year to 10.9 million.

Central Areas & Others segment

- Segment earnings strongly dented by charges for the bank levy and deposit guarantee scheme and additions to restructuring provisions
- This was offset by a higher earnings contribution from recoveries on written down receivables and one-off tax-related gains

The Central Areas & Others segment produced a profit before taxes of EUR 63 million (FY 2018: EUR 96 million). This was once again mainly due to a charge totalling EUR 87 million (FY 2018: EUR 65 million) for the bank levy and deposit guarantee scheme, not including DKB's share. Profits also took a pounding from the addition to the restructuring provisions of EUR 217 million triggered by BayernLB's strategic focusing. There were significant contributions to earnings from recoveries on written down receivables in the risk provisions due to the settlement to end all legal disputes with HETA Asset Resolution AG, Vienna. The segment also benefited from one-off tax-related gains. Administrative expenses of EUR 27 million (FY 2018: EUR 56 million) was down year on year due to one-off writedowns and other one-off expenses in FY 2018.

The amounts reported in the "Consolidation" column mainly included differences in the way intra-Group transactions are measured and the application of hedge accounting to cross-segment derivative transactions. Consolidation entries were a positive EUR 5 million largely due to measurement differences relating to own issues.

Financial position

Further information can be found in the notes.

Assets

EUR million	31 Dec 2019	31 Dec 2018	Change in %
Cash reserves	8,512	3,335	–
Loans and advances to banks	31,106	36,610	(15.0)
Loans and advances to customers	144,997	138,872	4.4
Risk provisions	(973)	(1,043)	(6.6)
Portfolio hedge adjustment assets	765	407	88.0
Assets held for trading	13,925	12,335	12.9
Positive fair values from derivative financial instruments (hedge accounting)	706	512	37.9
Financial investments	23,561	25,465	(7.5)
Investment property	28	29	(3.9)
Property, plant and equipment	544	342	59.4
Intangible assets	102	85	20.6
Tax assets	786	711	10.5
Non-current assets or disposal groups classified as held for sale	–	–	–
Other assets	1,905	2,565	(25.7)
Total assets	**225,965**	**220,227**	**2.6**

The BayernLB Group's total assets rose slightly by 2.6 percent to EUR 226.0 billion (FY 2018: EUR 220.2 billion). Credit volume, defined as the sum of loans and advances to banks and customers and contingent liabilities from guarantees and indemnity agreements, rose by 1.0 percent to EUR 188.5 billion (FY 2018: EUR 186.7 billion), mainly as a result of increased loans and advances to customers.

The fall in loans and advances to banks by EUR 5.5 billion to EUR 31.1 billion was offset by a rise in loans and advances to customers of EUR 6.1 billion to EUR 145.0 billion.

Risk provisions in the credit business fell a further 6.6 percent to EUR 1.0 billion. The low figure is an indicator of the long-standing good quality of the portfolio.

Assets held for trading increased to EUR 13.9 billion (FY 2018: EUR 12.3 billion).

Due to a decrease in the volume of bonds and notes on the books, financial investments fell by 7.5 percent to EUR 23.6 billion.

Liabilities

EUR million	31 Dec 2019	31 Dec 2018	Change in %
Liabilities to banks	50,152	54,060	(7.2)
Liabilities to customers	100,436	93,479	7.4
Securitised liabilities	44,570	45,469	(2.0)
Liabilities held for trading	10,312	8,225	25.4
Negative fair values from derivative financial instruments (hedge accounting)	1,224	766	59.7
Provisions	4,809	4,251	13.1
Tax liabilities	241	275	(12.4)
Other liabilities	583	522	11.7
Subordinated capital	2,107	1,925	9.5
Equity	11,530	11,255	2.4
Total liabilities	**225,965**	**220,227**	**2.6**

Although liabilities to banks fell by 7.2 percent to EUR 50.2 billion, liabilities to customers posted a fresh rise of 7.4 percent to EUR 100.4 billion, primarily as a result of further growth at DKB. With a share of around 44 percent, they are the BayernLB Group's most important source of funding and indicate the Group has a broad funding base.

Securitised liabilities fell slightly overall, by 2.0 percent to EUR 44.6 billion.

Liabilities held for trading increased by EUR 2.1 billion to EUR 10.3 billion. Provisions stood at EUR 4.8 billion, 13.1 percent above the previous year's figure of EUR 4.3 billion. At EUR 4.1 billion, provisions for pensions and similar obligations, which were produced by another fall in the discount rate, accounted for most of this amount and rise.

Subordinated capital climbed slightly, by EUR 0.2 billion to EUR 2.1 billion.

Equity

EUR million	31 Dec 2019	31 Dec 2018	Change in %
Subscribed capital	3,412	3,412	0.0
Compound instruments	0	21	(99.3)
Capital surplus	2,182	2,182	0.0
Retained earnings	5,659	5,442	4.0
Revaluation surplus	109	4	–
Foreign currency translation reserve	2	2	(11.3)
Consolidated profit/loss	150	175	(14.3)
Non-controlling interests	16	18	(6.7)
Equity	**11,530**	**11,255**	**2.4**

Equity increased by 2.4 percent overall to EUR 11.5 billion. Retained earnings rose by 4.0 percent to EUR 5.7 billion as a result of the appropriation of profit. The consolidated profit of EUR 150 million is to be distributed to BayernLB's shareholders.

For information on the banking supervisory ratios of the BayernLB Group under CRR/CRD IV, please refer to the consolidated financial statements (see note 82).

The return on capital pursuant to section 26a para. 1 KWG was 0.20 percent (FY 2018: 0.37 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” as an appendix to these annual financial statements.

BayernLB’s non-financial declaration and the BayernLB Group’s non-financial declaration are combined in accordance with section 315b para. 3 HGB in conjunction with section 289b para. 3 sentence 2 HGB and are published in the 2019 annual report of the BayernLB Group. The combined non-financial report for 2019 will be submitted to the operator of the Federal Gazette along with the consolidated financial statements and the Group management report of the BayernLB Group for financial year 2019, and published in the Federal Gazette. The combined non-financial report for 2019 is attached to these consolidated financial statements as an appendix after the “Auditor’s Report”. BayernLB’s annual financial statements and its annual report can also be viewed online at www.bayernlb.de.

General overview of financial performance

The BayernLB Group’s financial position and financial performance was stable in financial year 2019, despite an environment that remains challenging.

Overall the profitability for 2019 was satisfactory. The Bank’s liquidity was good throughout the reporting period. Proper account has been taken of the risks. The risk report contains additional information on the financial position.

For information on events of major significance after the close of the financial year, please refer to the notes to the consolidated financial statements (see note 87).

Report on expected developments and on opportunities and risks

Report on expected developments including opportunities and risks

BayernLB expects the global slowdown in economic growth to continue for the third year in a row in 2020. Economic momentum will also probably flag noticeably in the US and China, and most countries in the eurozone will slip into recession in the first half of the year. The principal reason for this will be the consequences of the coronavirus (SARS-CoV-2) pandemic on the economy. After the economy bottoms out in the second quarter, the synchronised downturn should, however, come to an end, provided that the pandemic is short-term in nature. Germany's economy is also likely to contract significantly in the first half of 2020. Averaged out for the year (adjusted for working days), real gross domestic product will be markedly lower than in the previous year. Growth will therefore fall considerably short of its potential, and the economy's capacity utilisation will contract.

Even before the coronavirus crisis erupted, industrial companies had been reporting a slump in their order books due to weaker global demand, so the probability of negative second-round effects in the (corporate-related) services sector in 2020 is high. This will probably act as a drag on the labour market, with a major rise in unemployment being thwarted by extending short-time working arrangements. Capital spending (on equipment) is also likely to significantly shrink due to a drop in utilisation of production capacity and the high level of uncertainty on how the corona pandemic will develop. Given the additional growth in real estate prices, investment in construction could, however, also increase again compared with the previous year after being boosted by the very low interest rates. The export trade is expected to put the brakes on growth in 2020 too. Demand for export goods is likely to remain soft as capital goods, German industry's key export generators, are needed less given global economic weakness. The negative impact of coronavirus is casting a shadow over the progress being made in the trade dispute between the US and China, although the Bank believes there will be no further escalation in the latter. In Europe, however, there is continuing uncertainty over the future post-Brexit trading relationship between the EU and UK and the danger of an escalation in the trade dispute between the US and Europe.

After the pandemic is over, expansionary fiscal stimuli to support the domestic economy combined with a boost to disposable incomes from the plunge in oil and energy prices in Germany and the eurozone should bring about positive quarterly growth again from the summer onwards. The positive catch-up effect is, however, likely to be constrained by the fact that the losses caused by the cancellation of many events and lack of spending in the hotel and catering industries will not be made up once the pandemic subsides.

Because of its closer trading ties to the United Kingdom and the US, Bavaria is somewhat more heavily dependent on global and geopolitical developments than the German economy as a whole. The contribution made by industry is also higher in Bavaria than in other states in Germany, and it was industry that proved to be a brake on the economy at the turn of 2019/2020. In the automotive industry especially, there is much uncertainty regarding the damage to supply chains from abroad, especially those from China. This is likely to mean that the economic starting point in 2020 for the Bavarian economy will be slightly weaker than in Germany as a whole. That said, the recovery over the course of the second half of 2020 should accordingly be a little stronger. In overall terms, economic output in Bavaria should increase in 2020 at roughly the same rate as in the rest of the Federal Republic.

Germany's inflation rate is likely to be much lower than it was in 2019 due to the economy's low capacity utilisation and a tanking oil price. With average price rises of 0.6 percent compared with the previous year, the ECB's inflation target will probably still be undershot by quite some degree in Germany and the eurozone. On the inflation front, there is therefore nothing to prevent the ECB from continuing on its ultra-expansive monetary policy course including keeping interest rates negative. As already announced, the ECB will also maintain its QE net purchases throughout the year. Since the supply of Bunds is increasingly drying up, the central bank will in all likelihood discuss raising the ISIN limit for government bonds around the middle of the year and make a start on expanding the QE program to equities. In the US too, monetary policy will initially be eased again because of the weaker economy, so no tightening is expected in 2020.

The greatest economic risks faced by Germany in 2020, apart from coronavirus spreading more strongly and paralysing the economy, are an escalation in the trade dispute between the US and Europe and inadequate progress in negotiating a successor Brexit agreement. Fresh risk aversion in financial markets and rising risk aversion in the real estate market could also trip up the economy. The positive risks in the Bank's economic forecast are a more expansive fiscal policy in the currency union, rapid containment of the coronavirus pandemic and an unexpectedly fast and sustainable solution in the trade dispute. A boom in green investment is another potential upside risk to the economy in 2020.

On the exchange-rate front, BayernLB is expecting the dollar to depreciate markedly against the euro to USD 1.19 per euro by the end of 2020. This is partly due to the Fed's stronger monetary policy response to coronavirus but also the economic slowdown in the US, which the Bank expects will be more severe than the consensus predicts.[28] If that is not enough to weaken the dollar significantly, it is also likely that US President Trump will declare the strong dollar a burden on the US economy in the 2020 election campaign and cause it to lose value through verbal or other forms of intervention. From the Bank's perspective, the pound sterling did not adequately reflect the ongoing (economic) risks to the UK associated with Brexit at the turn of 2019/2020. The UK economy will still have to navigate through choppy waters, which should prompt the Bank of England to cut interest rates again during the year. The negotiations for a long-term trading relationship between the EU and the UK are likely to yield only a rudimentary trade deal overall. The Bank is not expecting the Swiss franc to lose any more ground in 2020 due to targeted countermeasures by the SNB on the foreign exchange market. However, it does not expect EUR/CHF to go much above 1.10.

The 10-year Bund yield is likely to initially remain very low and then rise slightly over the course of the year, as the Bank is forecasting that the economy will stabilise from the middle of the year. At the short end, the ECB and Fed will probably keep interest rates very low. At the same time, the risk of yields rising at the long end of the Bund curve is low given the Bank's sceptical view of the state of the economy. The shortage of Bunds caused by the ECB purchase programme will also have an impact on negative Bund yields. The prospects of a significant extension of the period in which bonds will be purchased with the raising of the ISIN limit should keep the 10-year Bund

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28 See Consensus Economics, Consensus Forecasts December 2019, United States GDP yield structurally low. At the end of this year demand for Bunds is likely to subside somewhat as equities are set to be added to the purchase programme at the turn of 2020/2021. In addition, the Bank believes the likely increase in yields on US Treasuries will push 10-year Bund yields slightly higher, towards –0.5 percent.

Looking to the covered bond market, the Bank believes the spread widening sparked by the corona crisis will fade as the year progresses. For one thing, the deterioration in the economy will not cause lasting damage to covered bonds. For another, a drop in supply and more ECB support will provide additional support for covered bonds, which are also likely to receive a fillip from safe-haven inflows in the negative environment.

Credit markets are likely to remain under huge pressure for now due to the risks to companies from the coronavirus crisis. Technical factors will, however, rein in rising risk premiums, which should only widen moderately in the case of companies with good credit ratings. The Bank believes spreads will tighten again from the middle of the year. Besides the ECB purchase programme (CSPP for non-financials), the relative attractiveness of non-financials remains high in the low-interest rate environment.

Given the risks posed by the corona pandemic, BayernLB is anticipating very volatile share prices on equity markets until around the middle of 2020, with temporary plunges probable. However, share prices should significantly recover from the year's lows by the end of the year helped by monetary and fiscal stimulus measures, high liquidity, the potential launch of a share purchase programme by the ECB and the expected revival of the global economy in the second half of the year. Overall, European blue-chip share indices will close 2020 slightly lower according to BayernLB's forecast. The Bank predicts that the German DAX stock market index will close 2020 on 11,000.

Demand by institutional and private investors on international real estate markets should remain high during 2020 too due to the lack of alternative high-yielding investments. The biggest risks are to property and project developers due to the jump in prices of building land and buildings and the increased amount of regulations affecting residential property companies in Berlin and other urban areas, which are almost impossible to predict.

The BayernLB Group's future performance

Strategic realignment of the BayernLB Group

BayernLB has regularly posted solid earnings in recent years in a tough market environment. Due to the ongoing major challenges which the entire banking sector is currently confronted with, BayernLB agreed a strategic realignment of its business model at the end of 2019, which should be concluded by 2024. The new strategic goal was prepared and fleshed out based on a comprehensive status review, by carrying out an in-depth examination of the market and competitive situation and of the Bank's own strengths and weaknesses and by bringing in external expertise over the course of 2019. The main element is to focus on high-growth future-oriented areas, while cutting the cost base.

As a streamlined specialised bank, BayernLB will mainly concentrate its lending business on five promising sectors of the Bavarian and German economies. Another priority will be commercial real estate finance in Germany and selected foreign markets. DKB will continue to position itself as a modern tech bank and aim to double its customer base to 8 million by the end of 2023. The aim of the BayernLB Group's strategic realignment is to achieve constant profitable growth by building on its own strengths. At the same time, the Bank will focus on customers that can create added value for it. One major priority will also be to significantly reduce its range of products in the capital markets business.

The financial guidelines, within which the transformation is to be realised, include keeping RWA volumes within the BayernLB Group largely constant, with the aim of achieving a figure of around EUR 68.0 billion in 2024. BayernLB is also planning to achieve RoE before taxes of around 8 percent and a CIR below 55 percent through significant cost reductions (and higher earnings, particularly at DKB). On top of this, it is aiming for a Common Equity Tier 1 ratio (on a consolidated basis) in 2024 of at least 14.0 percent, taking investment and restructuring costs into account. The new business model is consistent with BayernLB's legal mandate and ensures it will fulfil the central functions for the Bavarian savings banks. Focusing more strongly on sustainable topics will also open up new business potential.

The strategic vision of the future business areas is as follows:

Corporates & Markets

As a special bank for forward-looking themes in the Bavarian and German economy with its expertise in structured asset finance and selected corporate finance, treasury and capital market products, the Bank will be advising and assisting companies for the most part in the five innovative sectors of the future: energy, mobility, technology, mechanical engineering, and construction and basic materials. In the capital markets segment, the focus will be on debt capital market (DCM) products including Schuldschein note loan, money market, repo and commercial paper transactions. Unprofitable areas of the capital markets business will gradually be discontinued. BayernLB anticipates that earnings will fall by around one fifth across the entire segment by 2024, while at the same time large amounts of capital will be released, with significant savings on costs and a reduction in complexity.

Real Estate, Savings Banks and Financial Institutions

BayernLB wants to significantly expand its commercial real estate financing business in the coming years and considerably enlarge its portfolio. This growth is expected to take place in Germany and in selected foreign markets, especially in western Europe, the UK and the US. Key to this will be the Bank's expertise, which has been built up over many years, its dense network of customers and investors, and its branches in London, Milan, Paris and New York. As the relevant real estate fund manager, Real I.S. AG will remain part of the business area.

The Bank will remain a central bank and reliable partner to the Bavarian savings banks. It will continue to provide these banks with a competitive and focused range of products, e.g. in their proprietary investment business, payments, on-lending and syndicated loan business, foreign notes and coins/precious metals business and the custody business. Business with the public sector, especially as the principal bank for the Free State of Bavaria, will also be kept unchanged. Furthermore, all financial institutions will be supported in this business area in future. Overall, the plan is to grow earnings slightly in the business with savings banks and financial institutions through strategic adjustments, while at the same time aiming to cut costs.

DKB

As in the past few years, DKB will remain an important driver of growth in the BayernLB Group. It is set to consolidate its position as a technology-orientated bank and digital companion to its customers. At the same time it will continue to function as a regionally anchored partner to municipalities and companies in selected growth sectors, as a provider of sector-specific solutions for payments, investment products, and investment and corporate-orientated financing, with a particular focus on sustainability issues. Additional future and growth investment of around EUR 400 million is planned up to 2024, to be channelled into modernising and expanding IT and in significantly building up the retail and corporate customer base. DKB is also planning to introduce disciplined cost management and to achieve strong growth in earnings through its target to double customer numbers to 8 million.

Higher profits and lower costs

The BayernLB Group's transformation will be implemented in a multi-year process. However, the first measures, such as the DKB growth initiative and the expansion of the real estate business, are already in motion. DKB is to make the biggest contribution to improving the Group's profitability by significantly increasing its customer numbers. Having slashed costs and achieved moderate growth in earnings, BayernLB itself (excluding DKB and BayernLabo) will be significantly more profitable by 2024. The key levers to achieving this will be reducing the complexity of the product range, especially by significantly downsizing the less profitable capital markets business, and as a vital next step, optimising the IT infrastructure and internal processes. Consequently in addition to streamlining the business areas, significant savings will made in all central areas. To markedly improve the efficiency of the platform in Munich, the Group is planning to make additional investments of around EUR 300 million at BayernLB on top of the aforementioned future investment at DKB.

Opportunities and risks

The Bank assumes that interest rates will remain low. Institutional investors will therefore continue to turn to longer-dated instruments and credit risk (senior unsecured and subordinated capital) to generate returns. Thanks to the expected presence of central banks as both bond buyers and central suppliers of liquidity (e.g. ECB – TLTRO), the Bank is anticipating a plentiful supply of market liquidity in 2020. BayernLB will, however, continue to work on its funding portfolio so it can call on a comfortable funding base even when central bank activity starts to ebb. Another fall in interest rates would not just have a negative impact on BayernLB's earnings but would also weigh on the Bank through the need for further additions to pension provisions.

Increasingly relevant from a risk perspective in terms of retaining the quality of BayernLB's capital market rating is managing loss absorption capacity. Under supervisory rules this is based on the minimum requirements (MREL) and, as an additional factor, has a significant impact on this capital market rating. At the end of 2019, the ECB and BaFin reviewed the structure and functioning of the S-Finanzgruppe's bank guarantee system, which BayernLB is a party to. A final audit report is not available yet.

Completing the Bank's strategic transformation over several years also poses various risks. These include the agreed measures being implemented only in part or delayed requiring additional investment or not generating the scheduled cost savings, and a the market reacting negatively to the planned streamlining of business activities. The new strategy itself results in a new risk structure as a result of a stronger focus on specific types of assets, a higher foreign share (especially in the case of real estate), longer maturities in the credit portfolio in some cases and strong growth in the retail customer segment at DKB. The Bank has, however, worked out specific measures to mitigate these risk factors, including building up additional expertise in the relevant asset classes, focusing on the foreign markets the Bank is already familiar with, increasing regional diversification in the real estate business, and strengthening the Bank's placement ability.

The BayernLB Group sees opportunities, especially if the economic data turns out better than expected. A rapid increase in interest rates in particular would help net interest income. The planned expansion of its business activities in the real estate area and at DKB as part of its strategic realignment provide the Bank with particular opportunities to tap additional earnings potential. In addition, the targeted efficiency improvement and digitalisation measures have the potential to generate earnings and cut down on costs, although it will be some time before this bears fruit with a better bottom line.

BayernLB is working hard to prepare for Brexit and its consequences. Some parts of the Bank will be affected, including business at its London branch. All Business and Risk Strategies are regularly reviewed with respect to Brexit and its impact and adapted to the current political and regulatory circumstances. BayernLB has also submitted an application to establish a third-country branch.

The BayernLB Group faces a period of exceptionally high uncertainty during 2020, especially on account of the coronavirus pandemic. At present it is too early to make any specific statements about its expected impact. Nevertheless it is already evident that the negative impact on global economic output in the first half of the year will be colossal, and this will become even more pronounced the longer the pandemic lasts.

It is not the Bank itself that will be primarily affected, but its customers. Among the consequences of a deteriorating crisis and the economic situation becoming ever more gloomy in affected regions are an increased utilisation of corporate credit lines and an uptick in payment arrears. The Bank's portfolio quality could deteriorate as a result and its overall liquidity requirements may increase. A decline in customers' credit ratings may also lead to an increase in RWAs, which would weigh on BayernLB's capital.

The earnings situation will be directly affected by the major central banks' monetary policy responses to the crisis: if interest rates sink significantly lower than previously forecast and for a sustained period, this will heap further pressure on earnings and trigger further additions to pension provisions. BayernLB is closely monitoring developments in connection with the impact of the coronavirus pandemic and is adequately prepared for any deterioration in the current situation.

Under these circumstances profit before taxes is forecast to be considerably lower in 2020 than in 2019. Based on our present estimates, we currently consider a range of EUR 200-400 million realistic, subject to the impact of the coronavirus spreading, which cannot be estimated at present. RoE will stay in the lower mid-single-digit range, while CIR should be only slightly higher than it was in 2019 due to the need to invest in restructuring the Bank. At the same time, the CET1 ratio should be kept above 14 percent, with RWA volumes of up to EUR 68 billion.

It cannot be ruled out that any change in the assumptions underlying our forecasts may affect the BayernLB Group and its financial position and 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).

In addition, information on forbearance exposure is shown within the risk report. For information on the inclusion of forborne exposures in risk-orientated management, please refer to the intensive support, problem loan handling and forbearance section of the risk report. Quantitative data on forborne exposures are shown as "renegotiated credits" in the portfolio overview section under "Portfolio overview in accordance with IFRS 7.34a (management approach)" section.

Unlike the previous year, information on customer transactions and leveraged finance transactions corresponding to the 2008 recommendations of the Financial Stability Board are no longer shown separately due to the small proportion of the total gross credit volume accounted for by these two sub-portfolios. The transactions themselves appear in the Corporates sub-portfolio as before.

The risk report further contains information required in accordance with German Accounting Standard GAS 20. The report also complies with the requirements in section 315 para. 4 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 2019

- Stable risk profile
- Further growth of new business
- Risk-bearing capacity maintained at all times
- Liquidity position remained healthy

The risk profile of the BayernLB Group remained stable in financial year 2019. Gross credit volume rose by EUR 3.7 billion or 1.3 percent to around EUR 280 billion. The portfolio quality remained high and stable, despite the weaker economy in Germany. The high investment grade share rose further to 87.1 percent (FY 2018: 86.5 percent), while the non-performing loan ratio fell to 0.7 percent (FY 2018: 0.8 percent).

Risk-bearing capacity was maintained throughout financial year 2019 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

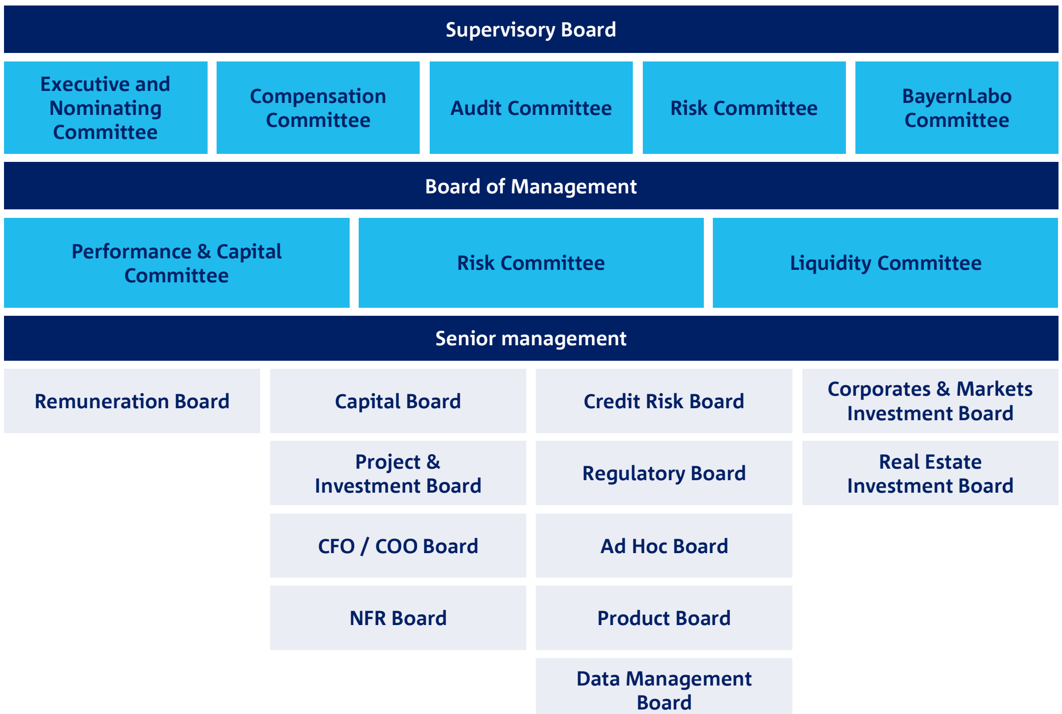
The BayernLB Group has established an internal control system (ICS) to ensure that its accounts are properly prepared and reliable. This includes principles, procedures and measures for ensuring the accounts are produced in a true and fair manner. Consequently, the internal control system (ICS) helps 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 ICS 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

The aim of the organisation of the committees and boards below the Board of Management is to make corporate management more consistent and transparent within the BayernLB Group.

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 processes, the effectiveness of the risk management system, particularly the internal control system and internal audit activities, as well as the correction of open audit findings.

The Risk Committee mainly deals with issues relating to the Risk Strategies approved by the Board of Management and the risk situation at BayernLB Group and BayernLB level, and decides on loans requiring approval by the Supervisory Board under the German Banking Act and BayernLB's Competence Regulations.

In addition to the above-mentioned committees, the Supervisory Board is supported by the Executive and Nominating Committee, the Compensation Committee and the BayernLabo Committee.

Board of Management, committees and boards

In managing the business and the company the Board of Management is supported by committees and boards.

Each committee is headed by a member of the Board of Management. The Board of Management has transferred responsibilities and, to an extent, decision-making powers to the committees. The committees have a largely advisory function. The individual Board of Management member's responsibility for his/her segment and the overall responsibility of the Board of Management pursuant to the Rules of Procedure and the allocation of tasks of the Board of Management continue to apply.

The Performance & Capital Committee, chaired by the CFO, monitors the performance/earnings situation and (regulatory) capital base. It also prepares decisions on BayernLB's and the BayernLB Group's performance and capital management for the Board of Management.

The Risk Committee, chaired by the CRO, supports and advises the Board of Management when discussing changes in the Group risk profile and assesses potential recovery situations. It also discusses the main quantitative procedures and methods for managing and monitoring all types of risk (apart from liquidity risk), reviews new regulatory requirements and initiates implementation in terms of the new Pillar 2 rules.

The Liquidity Committee, chaired by the CEO, is essentially concerned with ensuring the ongoing liquidity of BayernLB and advises and takes decisions within the parameters of the guidelines set out by the Board of Management.

Senior management

At senior management level the boards generally act across the segments, without any direct involvement by the Board of Management.

The Capital Board, chaired by the head of the Controlling Division, monitors and manages changes in risk-weighted assets (RWAs) at BayernLB.

The Credit Risk Board, chaired by the head of the Risk Office Credit Analysis Division, is the highest competence holder on credit matters below the Board of Management and deals with sector portfolio, country and product reports and policy issues regarding credit risk management.

The Product Board, chaired by the Group Risk Control Division, is responsible for complying with MaRisk requirements for the launch of business activities in new products. It is mainly responsible for the approval of new products and regularly approving the valuation models used and changes to these models.

The Corporates & Mittelstand Investment Board and the Real Estate Investment Board are the highest decision-making bodies below the Board of Management with authority to allocate capital and resources for their business area and are responsible for the business area-specific management carried out on the basis of centrally issued rules and ratios and the strategic targets of these areas.

Other boards set up by the Board of Management include the Remuneration Board, the Project and Investment Board, the CFO/COO Board, the Regulatory Board, the Ad Hoc Board and, in 2019, the NFR (Non-Financial Risk) Board and the Data Management Board.

Organisation

Besides segregating the functions of the Sales and Risk Office units and the Trading and Back Office 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, Financial Office, and Operating Office Central Areas as well as the Corporate Center.

Risk Office

The Risk Office of BayernLB comprises the Group Risk Control, Credit Analysis RO, Mid Office, Credit Consulting and Research Divisions.

Group Risk Control independently identifies, evaluates, analyses, communicates, documents and monitors all risk types at an aggregated level. For the purposes of operational management of risk types and risk-bearing capacity, Group Risk Control provides the Board of Management and committees with independent and risk-appropriate reports.

In addition to periodic and ad hoc reporting on the BayernLB Group's risk situation to internal decision-makers, communication also includes external risk reports filed in accordance with legal and supervisory requirements. This includes reports on the performance of the indicators selected in accordance with the Minimum Requirements for the Design of Recovery Plans (MaSan) and the German Recovery and Resolution Act (Sanierungs- und Abwicklungsgesetz (SAG)).

Decisions regarding risk management are made in accordance with the Business Strategy and Group Risk Strategy, which are harmonised with each other. Credit risk management is a joint responsibility of the Sales units and Risk Office units, with segregation of duties being ensured at all times. In this management process, the Credit Analysis RO Division is responsible for analysing, evaluating 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 DKB.

The Mid Office Division pools the credit-related tasks, frees up the Sales and Credit Analysis units to concentrate on their primary tasks, and with its standardised, lean processes, makes a key contribution to boosting customer business and achieving the planned business growth.

The Credit Consulting Division looks after the restructuring and liquidation exposures. The Division performs the roles of both the Sales units and the Risk Office for the exposures assigned to it.

The Research Division is responsible for assessing country and sector risk, and issues economic analyses and investment recommendations on bonds and Schuldschein note loans of 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 foreign exchange business of the Financial Markets Business Area and the Bavarian savings banks.

The Group Regulatory Office Department reports directly to the Chief Risk Officer and acts as the central point of contact at the working level for the BayernLB Group with banking supervisory authorities such as the ECB, BaFin and the Deutsche Bundesbank.

Financial Office

Operational implementation of Group-wide accounting standards is the responsibility of the Financial Office Central Area, in particular the Finance Division, 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 Central Area also implements the relevant accounting standards and legal requirements on accounting, which are detailed in the directives for preparing the accounts.

The consolidated financial statements and Group management report are compiled in accordance with the directives for preparing the accounts, produced by directive of the Board of Management, checked by the auditors and approved by the Supervisory Board. The Supervisory Board has set up an Audit Committee whose duties include discussing the audit reports and preparing the resolutions for the Supervisory Board's approval of the consolidated financial statements and Group management report. 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.

The Controlling Division is also assigned to Financial Office. 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 standards for methods and procedures.

Operating Office

The Operating Office Central Area is responsible for BayernLB's operating processes and supporting these in the Organisation, Operations & Services and Group IT Divisions.

The Organisation Division defines requirements for non-financial risks, process management/ICS, outsourcing risk, information security, business continuity management and data protection. The Division is also responsible for bank governance and central purchasing.

Operations & Services deals with processing payments, trading transactions, foreign currency notes, coins and physical precious metals, and also facilities management.

Group IT is responsible for providing IT governance functions, IT services, strategic management of the IT units in all foreign branches and strategic investments.

Corporate Center

The Group Compliance Division monitors and ensures compliance with legal and supervisory requirements, in addition to managing reputational and fraud risks. It also coordinates the compliance activities of the subsidiaries.

The Audit Division audits BayernLB's business operations and reports directly to the CEO. Taking a risk-oriented auditing approach, its auditing activities extend to all activities and processes within BayernLB. In particular, its activities also include material processes and activities outsourced to third parties. As Group internal auditor, the Audit Division also supplements the internal auditing units of the subordinate companies.

The CEO is directly in charge of the Legal Services & BoM Support, Group Development & Transformation and Human Resources Divisions.

Control environment and control procedures

The internal control and risk management system is governed by the internal written organisational rules (schriftlich fixierte Ordnung (SFO)). The potential impact on control procedures and intensity in the event of material changes to structures and procedures or IT systems is analysed in accordance with a defined process.

The rules governing the accounting-related internal control system are set out in the Group accounting guidelines. The main component of these directives is the Group Accounting Manual, which contains key requirements for ensuring accounting policies and measurement methods 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 intra-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. In addition, changes in accounting standards, IT systems and control procedures for ensuring high quality reporting and data are also explained.

Group and institution-level instructions on risk management are prepared on the basis of the Group Risk Guidelines. These rules govern the risk management and monitoring processes used for the timely identification, full documentation, risk measurement and appropriate disclosure of significant risks.

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

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 duties, 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 control system 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 financial statements, checks are carried out to determine if the underlying data is properly presented, and the quality of the data in the accounts is assessed (e.g. by applying the dual-control principle or conducting plausibility checks). The Group uses server-based consolidation software, for which specific 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.

Risk-oriented management

Group Risk Strategy

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

The Group Risk Strategy, which is based on the Business Strategy and reviewed regularly, is set by the Board of Management and discussed with the Risk Committee of the Supervisory Board. 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 encompasses the following main objectives and guidelines for 2019:

- Ensure on a sustainable basis that the amount and quality of risk-bearing capacity is appropriate from both a regulatory and economic perspective (capital adequacy)
- Ensure BayernLB is solvent at all times
- Ensure BayernLB only takes on risks it is able to assess and manage
- Ensure quality takes priority over quantity when it comes to portfolio growth
- Maintain a risk culture that promotes the identification of and a conscious approach to risks and ensures that decision-making processes produce results which are also balanced from a risk perspective
- Sales and Risk units are jointly responsible for earnings after risk provisions
- Achieve sound and sustainable profitability
- BayernLB applies high ethical principles in its business activities
- The employee incentive schemes (remuneration system) are consistent with the Business and Risk Strategy

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. The Risk Strategy specified the maximum risk appetite, both overall and by risk type.

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 the subsidiaries, investments and special purpose entities in the BayernLB Group, regardless of whether they are consolidated under German commercial law or supervisory requirements. The BayernLB Group's risk profile is then shown in the risk map within the risk inventory and presented to the Board of Management for information purposes. The major risks at the BayernLB Group are credit risk, market risk, including risk from pension obligations, operational risk, investment risk, liquidity cost risk, and business and strategic risk, including reputational risk. The individual types of risk are discussed below.

Capital management

Capital management is based on a planning process that incorporates strategic, risk-based and regulatory factors into a multi-year operational plan. The Business Strategy is an essential element for preparing the capital planning and the Group Risk Strategy.

Integrated risk and earnings reporting

Trends in the four key areas of performance, capital, liquidity and risk are integrated into a monthly Group management report presented to the Board of Management. As a component of the integrated reporting, the Group management report provides an initial impression of the current situation with key figures and ratios. Additional detailed information focused on the four key areas is then presented and commented on.

The instruments used to manage and monitor the achievement of Business and Risk Strategy goals are constantly refined at Group level.

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

Regulatory capital adequacy (solvency)

To ensure BayernLB has the adequate amount of regulatory capital, the following objectives, methods and processes have been defined: the starting point for the allocation of regulatory capital is BayernLB's own funds planning. Own funds are defined as Common Equity Tier 1 capital (CET1), Additional Tier 1 capital and Tier 2 capital. Common Equity Tier 1 capital comprises subscribed capital plus reserves, the capital contribution of BayernLabo and various supervisory adjustments and deductions. Additional Tier 1 capital is made up of dated silent partner contributions. Tier 2 capital comprises the profit participation certificates and long-term subordinated liabilities.

Own funds planning is based largely on the internal target Common Equity Tier 1 ratio (ratio of Common Equity Tier 1 capital to RWAs) and the total capital ratio (ratio of own funds to RWAs) for the BayernLB Group. It establishes upper limits for credit risks, market risks, credit valuation adjustments (CVA) and operational risks arising from the business activities in the planning period.

Regulatory capital is distributed in the planning process to each planning unit through RWAs. The planning units (Group units) are the defined business areas and divisions of BayernLB, as well as BayernLabo and DKB.

RWAs are allocated to the Group units through a top-down distribution approved by the Board of Management, combined with an internally assumed capital ratio of 14 percent (including management buffer). Compliance with the RWA limits available to each Group unit is constantly monitored by the Performance & Capital Committee. The Board of Management receives monthly reports on current RWA utilisations.

Information on the changes in the BayernLB Group's supervisory ratios can be found in the management report of BayernLB's annual report and 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 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 using the Internal Capital Adequacy Assessment Process (ICAAP) at BayernLB, DKB and at BayernLB Group level, including the consolidated risk units of the above institutions. The aim of ICAAP is to ensure that there is sufficient economic capital at all times to fully cover the risks assumed or planned.

In keeping with the ECB's guidelines on the design of internal bank processes to ensure that banks maintain an adequate capital base and sufficient liquidity, the coordination of the normative and economic aspects was further enhanced in 2019. The capital and the capital components are the starting point for the normative and economic perspectives. The available economic capital is derived from the regulatory capital, plus or minus certain capital components. The economic capital is of suitable quality to absorb any losses and is calculated in accordance with the liquidation approach by deducting those items that are not available in the event of the liquidation of BayernLB (e.g. deferred taxes) from the sum of equity and subordinated capital.

The risk assessment is based on the risks that could have a significant economic impact on the capital position, which ensures that both the normative and economic perspectives of risks are uniformly and consistently taken into account.

For risk management, the BayernLB Group follows a liquidation-based approach in ICAAP that is designed to protect senior creditors. This is computed using internal targets for the accuracy of risk measurement, which corresponds to an adjusted confidence level of 99.90 percent (FY 2018: 99.95 percent).

The Group Risk Strategy, in tandem with the Business Strategy, sets the risk appetite and the framework for risk planning. The Risk Strategy allows only a proportion of the economic capital to be allocated to risks in the course of business activities.

On 31 December 2019 the available economic capital amounted to EUR 10.4 billion (restated FY 2018: EUR 9.7 billion). Of this, EUR 7.1 billion (FY 2018: EUR 7.6 billion) or 67.8 percent (restated FY 2018: 78.3 percent) was allocated to the limitation of risk types at Group level (maximum risk appetite). At 31 December 2019 the available economic capital was offset by a risk capital requirement of EUR 4.7 billion.

The planning of economic risks for the risk-bearing capacity calculation and the planning of the economic capital are integral parts of the Group planning process described under the "Regulatory capital adequacy" section.

Stress testing

To produce an in-depth, forward-looking analysis of regulatory and economic capital adequacy, risk-bearing capacity is calculated based on the Business Strategy and 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 risk types is also analysed using hypothetical scenarios. The latter in particular have a major role in the analysis of situational scenarios. They also take into account potential threat scenarios for the BayernLB Group that are triggered by external crisis situations (e.g. a euro crisis).

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

As part of the BayernLB Group's stress testing programme, the possibility of a severe economic downturn arising (ICAAP stress scenario) is routinely calculated. The ICAAP stress scenario is based on the adverse forward planning scenario in the medium-term planning for 2019–2023. The update to the medium-term planning has resulted in an adjustment to the macro-economic basis used to derive the changes in the risk factors for the material risks examined under the ICAAP stress scenario. Linking the ICAAP stress scenario to the latest downside case ensures that the stress parameters will always be up to date, forward looking, economically sound and therefore plausible, and that the stress scenario is consistent within the Bank and across the Group.

Inverse stress tests were conducted at 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 continued 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 definition 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 of the BayernLB Group.

From a liquidation perspective, risk-bearing capacity is quantified on a routine and ad hoc basis, and reported monthly to the Board of Management and 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 risk capital requirements at the BayernLB Group.

Risk capital requirements

EUR million	31 Dec 2019	31 Dec 2018
Credit risk	1,405	1,487
Market risk	2,000	1,784
of which actual market risk	998	814
of which pension risk	1,002	970
Operational risk	450	484
Investment risk	114	122
Business and strategic risk (includes reputational risk)	544	544
Liquidity cost risk	224	282
Total	**4,737**	**4,703**

The BayernLB Group had adequate risk-bearing capacity, as the provision of risk capital was solid. The figures as at 31 December 2018 were adjusted in accordance with the changed confidence level.

Under the severe recession scenario, the risk capital requirement for the individual risk types rises to a total of EUR 6.5 billion (FY 2018: EUR 6.6 billion). A severe economic downturn (the ICAAP stress scenario) would see 67.5 percent utilisation of economic capital (FY 2018: 69.6 percent).

Recovery plan

The BayernLB Group has a recovery plan in place, in accordance with the German Recovery and Resolution Act (Sanierungs- und Abwicklungsgesetz (SAG)), Minimum Requirements for the Design of Recovery Plans (Mindestanforderungen an die Ausgestaltung von Sanierungsplänen (MaSan)), and as solicited by the supervisory authority. This sets out the options open to the BayernLB Group to ensure it has sufficient capital and liquidity even in situations of financial stress. Thresholds for one and two-stage indicators are continuously monitored so that early action can be taken to ensure solvency. The status of these indicators is reported to the Risk Committee and the Board of Management monthly and to the Risk Committee of the Supervisory Board quarterly in the internal risk reporting.

The recovery plan was amended in 2019 to take account of changes in the system of indicators, the tightening of the stress scenarios and the expansion of the possible courses of action. The thresholds for the one and two-stage indicators in the recovery plan, which are set mainly at Group level and are based on SAG and MaSan, were complied with by comfortable margins. Against this background, no recommendations for action needed to be sent to the Board of Management.

Resolution plan

In the EU regulation on a uniform Single Resolution Mechanism (SRM Regulation) and the German Recovery and Resolution Act (Sanierungs- und Abwicklungsgesetz (SAG)), lawmakers directed resolution authorities at the European and national level to maintain resolution plans for banks that can be activated in an emergency to avert threats to the financial system, where possible without the need for public money.

BayernLB complied with its legal obligations by assisting the responsible resolution authorities (the Single Resolution Board (SRB) and the German Federal Financial Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin)) in developing such a resolution plan for the BayernLB Group.

Credit risk

In accordance with its business model, the largest risk for the BayernLB Group is credit risk. Customers include large corporates and Mittelstand companies, real estate customers, financial institutions, the public sector and the savings banks in Germany. DKB is a further significant segment of the business model of the BayernLB Group, with its retail customers and target customers in the infrastructure and corporate customers sectors.

Definition

Credit risk is the risk of losses (in value) from all transactions giving rise to an actual, possible or contingent claim by the Bank against a borrower, counterparty, obligor or issuer, whenever these losses (in value) result from a default or change in the borrower's credit rating (migration risks) and/or from a change in the value of collateral provided. Risks from changes in the credit rating of securities are handled primarily by managing 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 credit risks and market risks.

Credit risk also includes in particular country risk which results from country-specific circumstances (e.g. political or economic crises or currency restrictions). A distinction is made between transfer risk and country risk in the sense of a credit event caused by the country itself. Transfer risk is the risk of a loss occurring if a borrower is unable to meet its obligations in a foreign currency or the institution is unable to access an amount paid due to government transfer restrictions. Country risk as a credit event risk is the risk of a loss resulting from macroeconomic and (socio)political events in a country, in particular as the result of a crisis, arising from parallel changes in credit ratings (including default) of those borrowers that are attributable to that country from a risk perspective.

Organisation

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 which, pursuant to the KWG or the Competence Regulations, require the approval of the Board of Management or Risk Committee of the Supervisory Board are discussed and voted on in advance by the Credit Risk Board, which itself is a competence holder.

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.

The Group Risk Control division is responsible for measuring and monitoring credit risks.

Risk Strategy

The credit risk strategy – which is part of the comprehensive Risk Strategy – is determined by the Board of Management for BayernLB and the BayernLB Group, taking account of risk-bearing capacity considerations.

Risk measurement

The various metrics required to determine the credit risk are described in more detail below.

Risk classification procedure

In accordance with the Internal Ratings Based Approach (IRBA), BayernLB uses rating procedures that are approved by the supervisory authorities. 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 subjected to a regular validation process to ensure they are able to correctly determine the default probabilities in each customer and financing segment. Validation includes both quantitative and qualitative analyses of the rating factors and the overall model. The accuracy and calibration of the procedures, and the data quality and the design of the models are examined using statistical and qualitative analyses and user feedback from daily application. The procedures are regularly modified where necessary.

Exposure at default

Exposure at default is the expected claim amount taking account of a potential (partial) drawdown of unutilised lines and contingent liabilities that would negatively impact risk-bearing capacity in the event of a default. For trading transactions, the current market value is taken as the basis. Any replacement risks are taken account of by means of an add-on.

Collateral valuation and loss ratios

The market value is taken as the starting point for collateral valuation. It is reviewed on both a scheduled and ad-hoc basis and adjusted whenever there is a change in valuation-relevant parameters. Based on these individual collateral valuations, the Bank estimates the size of the loss upon default, which is principally calculated using differentiated models for realisation ratios (average expected proceeds from the realisation of collateral) and for recovery rates (share of proceeds from the unsecured portion of a claim). The unsecured loss given default (LGD) is determined using the recovery rate. This shows the expected loss from the unsecured exposure of a loan. The different resolution scenarios (resolution, restructuring and recovery) are considered. These models are likewise updated and refined in partnership with RSU Rating Service Unit GmbH & Co. KG using pooled data and internal loss data. All models are regularly validated and checked for their representativeness.

Expected loss

Expected loss per transaction/per borrower is a (risk) ratio which not only takes account of the expected claim amount at the time of default but also the customer's credit rating/assigned probability of default and the estimate of losses upon default. When reviewing a portfolio this ratio can be used as an indicator of its expected risk level.

Expected losses are also relevant for the calculation of standard risk costs, which are used to calculate the risk-adjusted credit terms in the preliminary calculation of the individual transaction (credit pricing). Expected losses are also incorporated into the calculation of portfolio risk provisions.

Unexpected loss

BayernLB calculates unexpected loss at portfolio level using a simulated credit portfolio model which quantifies default and migration risks on a one-year horizon as well as the uncertainty in determining loss ratios with a confidence level of 99.90 percent. Dependencies among borrowers in the portfolio are quantified using a country and sector-specific model. Settlement risks and defaulted positions are additionally taken into account. The impact of an individual business partner on the unexpected loss of the whole portfolio is also calculated for risk analysis purposes.

Risk monitoring

The following instruments are used for monitoring and limiting credit risks in the BayernLB Group:

Early warning

The aim of the early warning system is to identify negative changes in the risk profile of a business partner at an early stage, so as to be able to undertake suitable measures in good time to reduce the risk. To achieve this objective, a list of various risk signals has been created to give a reliable early warning of a deterioration in risk. The risk signals fall into quantitative, automatic signals (e.g. based on market price information about business partners or exposure data from feeder systems) and qualitative signals that are entered manually in the early warning system based on the expert opinion of relationship managers and analysts.

Under the defined, system-driven early warning process the analysts, who are given the information by the signal, react promptly and appropriately, i.e. the business partner is assigned a support type appropriate to the risk situation and, if necessary, steps are taken to improve the situation.

Credit risk limits for borrowers and borrower units

In keeping with MaRisk, credit risks at borrower and borrower unit level are monitored daily using a limit system. BayernLB and DKB each conduct their own monitoring. The monitoring takes account of various transaction features using different credit limit types (e.g. issuer risk limit). Where the limits within the BayernLB Group add up to at least EUR 400 million per economic borrower unit, a Group-wide limit (Group limit) is required. BayernLB's Group Risk Control Division monitors the Group limit centrally. To limit risk concentrations, the maximum gross credit volume for each economic borrower unit is limited to EUR 500 million Group-wide. The Board of Management or the Risk Committee of BayernLB's Supervisory Board may approve exceptions to this limit in well-founded individual cases (e.g. good credit rating, profitability and strategy). These customers are individually listed in the quarterly internal Risk Report with their Group limit and gross credit volume.

Sector and country limits

To manage risk concentrations, limits are set for sectors and countries. Sector and country limits apply Group-wide. Limits are set on gross credit volumes and, in some cases, also on the net credit volume for specific countries. Limits are set by BayernLB's Board of Management or can be delegated by it, based in part on an analysis of the sector, country and portfolio structure and a vote taken under the lead of the Credit Analysis RO Division. In addition to sector and country limits, additional specific portfolio guidelines and individual transaction conditions can be set and approved by the Board of Management or in accordance with the delegation regulations to safeguard portfolio quality. Sector and country limits and portfolio guidelines are monitored centrally by BayernLB's Group Risk Control Division. Compliance with the individual transaction conditions is reviewed in the course of the approval process. Sector and country strategies are reviewed annually. Irrespective of this, strategies can be changed as events arise.

Risk capital requirements

BayernLB manages unexpected losses/risk capital requirements using appropriate limits at Bank and business-area levels. In addition, the sensitivity of key risk input parameters (mainly probabilities of default, loss ratios and correlations) is calculated regularly and supplemented by various stress tests, which in different forms (hypothetical, based on historical observations) are used to assess risk-bearing capacity.

Collateral

Another key way in which risks are limited is by accepting the customary 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 supervisory authority 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, cash deposits and credit derivatives.

The BayernLB Group employs derivative instruments to reduce credit and market risks. In derivatives trading, the usual practice is to conclude master agreements for the purposes of close-out netting. In many cases there are collateral agreements restricting the default risk to an agreed maximum and authorising a call for additional collateral should this limit be exceeded. Limits are imposed as part of the generally applicable limitation process for credit risk.

Intensive support, problem loan handling and forbearance

Problem exposures are all exposures that require special attention due to their generally elevated risk situation, i.e. categorised as requiring intensive support or problem loan handling.

By initiating suitable measures at an early stage as part of an intensive support or problem loan-handling process, BayernLB aims to minimise or completely prevent potential losses from occurring.

At BayernLB, the Credit Consulting Division is responsible for handling problem loans and therefore acts as an independent Workout Unit as defined in the regulatory requirements. At DKB this function is performed by the Credit Consulting Division.

Forbearance measures are approved as part of problem loan handling. All exposures where forbearance measures have been agreed are designated as forborne exposures. Such measures aim to enable the borrower to regain the ability to repay its loan or to minimise potential losses. Forbearance measures exist in all cases where concessions have been granted to a counterparty in financial difficulties in the form of refinancing/restructuring and/or the original terms and conditions of the loan agreement have been modified (e.g. a deferral, waiver or standstill agreement).

Exposures cease to be reported as forborne if all of the following criteria are met:

- The exposure has no longer been rated as non-performing for more than two years (probationary period) or at least two years have passed since the last approved forbearance measure (good conduct period).
- Principal and interest payments 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.

Quantitative data on forborne exposures is shown as “renegotiated credits” in the portfolio overview section under “Portfolio overview in accordance with IFRS 7.34a (management approach)” section.

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

Risk provisions

Where necessary, due account has been taken of the risks in the credit business through risk provisions. Details are set out in the notes.

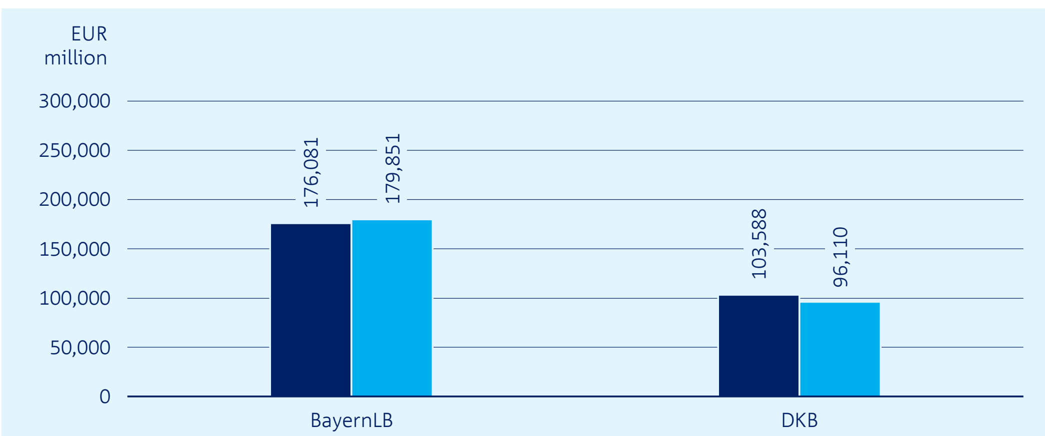
Current situation

The following presentation of credit risk is based on the figures used for internal reporting to the Board of Management and the Risk Committee of the Supervisory Board (management approach). These figures are derived from the financial situation (e.g. taking account of undrawn uncommitted current account facilities). The quantitative data on forborne exposure is shown as "renegotiated credits" on the basis of the IFRS consolidated figures. The Disclosures pertaining to IFRS 7.35 A- 7.38 can be found in notes 2, 9, 42, 45, 56, 60, 74 and 75.

Portfolio overview in accordance with IFRS 7.34 a (management approach)

The figures for the management approach include BayernLB and DKB.

Gross credit volume by Group unit



■ 31 Dec 2019 Total: EUR 279,669 million
■ 31 Dec 2018 Total: EUR 275,961 million

The gross credit volume for credit transactions includes gross business volume – drawdowns plus open commitments – and undrawn internal current account limits. For trading transactions it is calculated from market value, for derivatives transactions from credit equivalent amounts.

Compared with 31 December 2018, the BayernLB Group's gross credit volume rose by around EUR 3.7 billion or 1.3 percent to EUR 279.7 billion. The increase was across the board. The Commercial Real Estate sub-portfolio posted the largest increase (EUR 5.0 billion), followed by the Corporates (EUR 1.0 billion) and Retail/Other (EUR 0.3 billion) sub-portfolios. The Countries/Public-Sector/Non-Profit Organisations and Financial Institutions sub-portfolios fell slightly by EUR 2.0 billion and EUR 0.6 billion respectively.

In terms of the sub-groups, the initiation of the strategic realignment of the BayernLB Group began to bear fruit in 2019. For example, this is reflected at BayernLB in the expansion of the Commercial Real Estate sub-portfolio, where the gross credit volume rose by EUR 2.8 billion. In contrast, BayernLB's business volume contracted in the Countries/Public-Sector/Non-Profit Organisations (EUR 5.6 billion), Financial Institutions (EUR 0.8 billion) and Retail/Other (EUR 0.4 billion) sub-portfolios. The Corporates sub-portfolio saw a small rise (EUR 0.2 billion). Gross credit volume at BayernLB fell from EUR 179.9 billion to EUR 176.1 billion in the reporting period.

Gross credit volume at DKB increased significantly by EUR 7.5 billion or 7.8 percent to EUR 103.6 billion. Here too, the business volume in the Commercial Real Estate sub-portfolio was expanded considerably (EUR 2.2 billion). Furthermore, the gross credit volume rose in the Countries/Public-Sector/Non-Profit Institutions (EUR 3.5 billion), Corporates (EUR 0.8 billion), Retail/Other (EUR 0.8 billion) and Financial Institutions (EUR 0.2 billion) sub-portfolios.

Gross and net credit volume by sub-portfolio

	Gross			**Net**		
EUR million	**31 Dec 2019**	**31 Dec 2018**	**Change (in %)**	**31 Dec 2019**	**31 Dec 2018**	**Change (in %)**
Corporate customers	74,142	73,158	1.3%	60,541	55,613	8.9%
Countries/Public-Sector/ Non-Profit Institutions	65,150	67,191	(3.0)%	62,690	64,647	(3.0)%
Commercial Real Estate	55,105	50,086	10.0%	15,885	14,430	10.1%
Financial institutions	52,001	52,562	(1.1)%	50,849	51,310	(0.9)%
Retail/Other	33,271	32,963	0.9%	22,280	21,967	1.4%
of which Retail	33,140	32,552	1.8%	22,181	21,602	2.7%
Total	**279,669**	**275,961**	**1.3%**	**212,245**	**207,967**	**2.1%**

Net credit volume is calculated as gross exposure less the value of collateral. This rose by EUR 4.3 billion at the BayernLB Group, up somewhat more than gross credit volume. The collateral ratio at the BayernLB Group fell accordingly from 24.6 percent to 24.1 percent.

Gross credit volume at the BayernLB Group is broken down below by rating category, region, issuer risks, replacement risks, net credit volume by size and sub-portfolio.

Breakdown by rating

The following tables show gross credit volume by rating category and sub-portfolio.

Gross credit volume by rating category

31 Dec 2019 **Rating categories** (EUR million)	**MR 0-7**	**MR 8-11**	**MR 12-14**	**MR 15-18**	**MR 19-21**	**MR 22-24**	**Total**
Corporate customers	23,607	33,317	10,661	4,242	711	1,605	74,142
Countries/Public-Sector/ Non-Profit Institutions	62,411	1,429	1,111	167	30	2	65,150
Financial institutions	48,471	2,990	418	110	0	12	52,001
Commercial Real Estate	29,508	17,323	6,626	1,301	131	216	55,105
Retail/Other[1]	14,337	10,096	6,972	1,222	453	191	33,271
Total	**178,334**	**65,155**	**25,787**	**7,042**	**1,325**	**2,027**	**279,669**

31 Dec 2018 **Rating categories** (EUR million)	**MR 0-7**	**MR 8-11**	**MR 12-14**	**MR 15-18**	**MR 19-21**	**MR 22-24**	**Total**
Corporate customers	22,073	32,869	11,818	4,024	1,117	1,257	73,158
Countries/Public-Sector/ Non-Profit Institutions	64,559	1,302	1,075	230	23	1	67,191
Financial institutions	49,027	2,903	556	43	17	17	52,562
Commercial Real Estate	26,614	15,609	5,865	1,225	207	566	50,086
Retail/Other[1]	11,432	12,410	6,777	1,575	523	244	32,963
Total	**173,706**	**65,092**	**26,092**	**7,098**	**1,887**	**2,085**	**275,961**

1 Of which gross credit volume in Retail of EUR 33.1 billion as at 31 December 2019 (FY 2018: EUR 32.6 billion).

Gross credit volume in the BayernLB Group in the master rating (MR) categories 0-7 rose by EUR 4.6 billion in the reporting period, with the majority of the growth coming from very highly rated customers. The increase in exposures was primarily in the Retail/Other, Commercial Real Estate and Corporates sub-portfolios. With an increase of EUR 0.1 billion, the credit volume in the rating categories MR 8-11 remained largely unchanged. In total, the investment grade business volume (MR 0-11) rose by EUR 4.7 billion. Accordingly, the investment grade share of the portfolio also improved from 86.5 percent to 87.1 percent.

Gross credit volume in rating categories MR 12-14 declined slightly by EUR 0.3 billion. The percentage in these rating categories fell accordingly, from 9.5 percent to 9.2 percent.

Business volumes in the rating categories MR 15-18 remained largely unchanged, with a decline of only EUR 0.1 billion. There was also little change to the percentage of business volume in these rating categories, which went down slightly from 2.6 percent to 2.5 percent.

There was a slightly sharper decline in volume in the rating categories MR 19-21 (EUR 0.6 billion). The reduced gross credit volume in these rating categories was largely accounted for by the Corporates sub-portfolio, with the percentage of gross credit volume in these rating categories therefore falling slightly from 0.7 percent to 0.5 percent.

The non-performing loan ratio improved during the reporting period to 0.7 percent (FY 2018: 0.8 percent). Adequate risk provisions were set aside to cover loans moved into the default categories. A detailed breakdown of risk provisioning can be found in the notes.

Renegotiated credits

Forbearance exposures

31 Dec 2019 EUR million	**Forbearance/ deferrals**	**Impairments**	**Collateral/financial guarantees received**
Loans and advances to banks	5.1	(5.1)	0.0
Loans and advances to customers	1,254.7	(335.2)	372.5
Financial investments	0.0	0.0	0.0
Credit commitments	155.9	(25.2)	5.8
Total	**1,415.8**	**(365.5)**	**378.3**

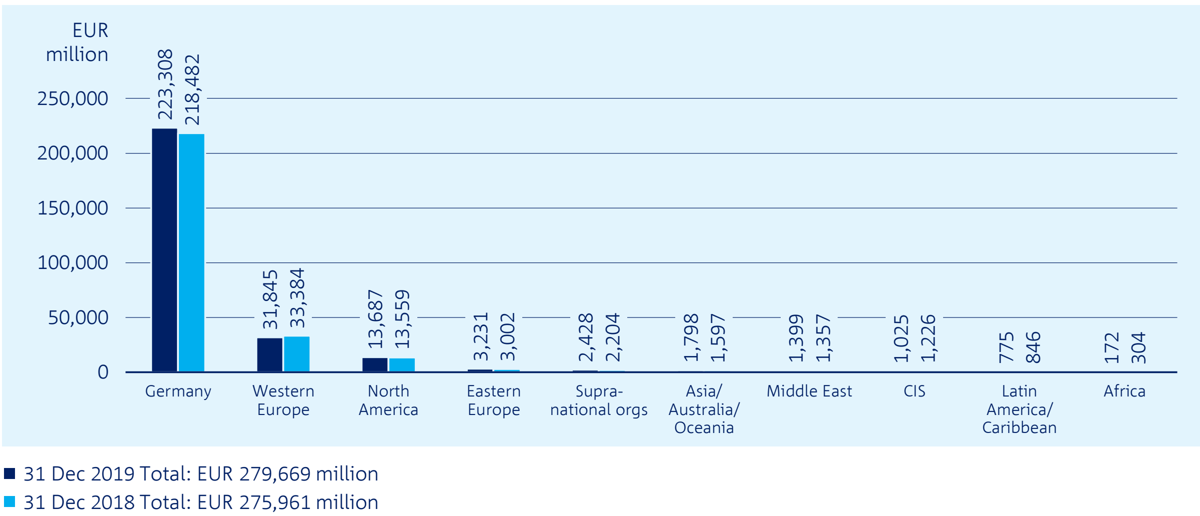
31 Dec 2018 EUR million	**Forbearance/ deferrals**	**Impairments**	**Collateral/financial guarantees received**
Loans and advances to banks	5.8	(1.7)	0.0
Loans and advances to customers	1,886.7	(444.7)	535.0
Financial investments	0.0	0.0	0.0
Credit commitments	227.5	(31.0)	2.0
Total	**2,120.0**	**(477.4)**	**537.1**

From a risk perspective, the process to identify forborne exposure was improved in 2019 and is now based on the exposure level. The previous year's figures were not restated in this table.

Breakdown by region

The following table shows gross credit volume by region.

Gross credit volume by region



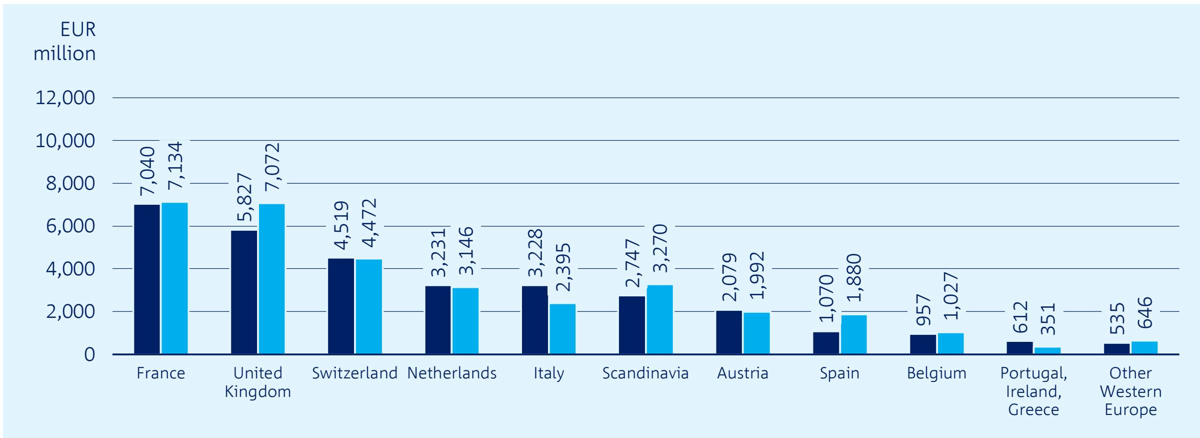
In line with the Business and the Risk Strategy, Germany accounted for a dominant share of the BayernLB Group's lending at 79.8 percent (FY 2018: 79.2 percent). Gross credit volume in Germany increased significantly to EUR 223.3 billion (FY 2018: EUR 218.5 billion). The rise was largely attributable to the Commercial Real Estate (EUR 3.7 billion) and Financial Institutions (EUR 1.4 billion) sub-portfolios. The Corporates (EUR 0.7 billion) and Retail/Other (EUR 0.3 billion) sub-portfolios also saw moderate rises. Business volume declined in the Countries/Public-Sector/Non-Profit Organisations sub-portfolio (EUR 1.3 billion).

Regionally, the most significant change in gross credit volume was in Western Europe (excluding Germany), where business volume declined by EUR 1.5 billion. Slight rises in volume were observed primarily in Eastern Europe (EUR 0.2 billion), in supranational organisations (EUR 0.2 billion) and in Asia/Australia/Oceania (EUR 0.2 billion).

Generally speaking, country risks and risk/return ratios in lending abroad continued to be very closely managed and monitored, given global developments and, in particular, persistent political tensions (e.g. Argentina, Eastern Europe/CIS, the Middle East).

The following table shows gross credit volume in western European countries (excluding Germany).

Gross credit volume in western European countries (excluding Germany)



■ 31 Dec 2019 Total: EUR 31,845 million
■ 31 Dec 2018 Total: EUR 33,384 million

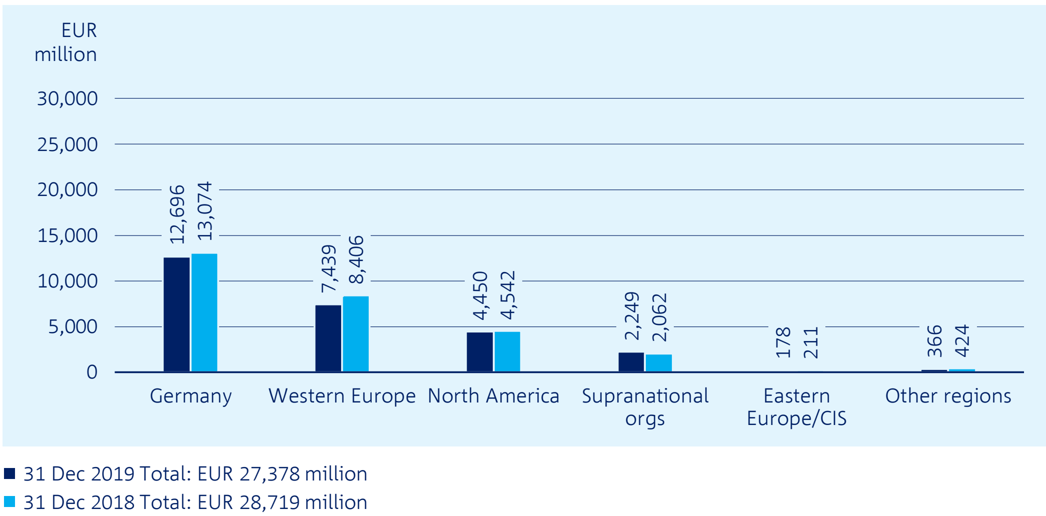
Gross credit volume in Western Europe (excluding Germany) decreased by around EUR 1.5 billion to EUR 31.8 billion (FY 2018: EUR 33.4 billion). The UK accounted for the majority of the decline in business volume. In view of the uncertainties arising from the UK potentially (as was the case at the time) leaving the EU (Brexit), business volume in the country was reduced and new business was only written on a selective basis. The declines in the UK were attributable to the Corporates and Financial Institutions sub-portfolios.

There were also significant changes in the gross credit volume in Italy and Spain. In Italy, business was expanded by EUR 0.8 billion. This was primarily attributable to the Commercial Real Estate (EUR 0.3 billion) and Corporates (EUR 0.3 billion) sub-portfolios. In Spain, the decline in business volume amounted to EUR 0.8 billion, the majority of which was accounted for by the Commercial Real Estate, Corporates and Countries/Public-Sector/Non-Profit Institutions sub-portfolios.

Issuer risk

The following table shows gross issuer risk by region.

Gross issuer risk by region

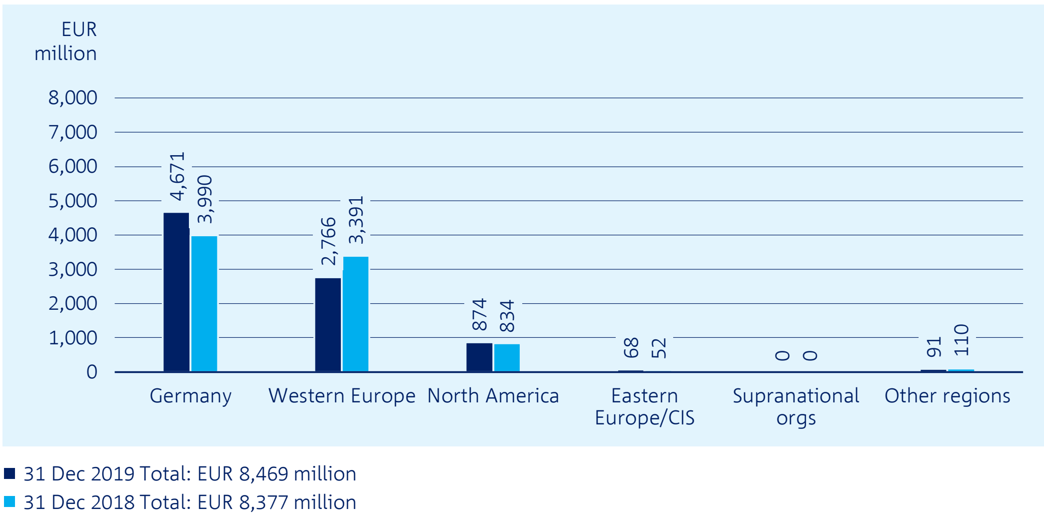


Gross issuer risk volume fell in the reporting period by EUR 1.3 billion to EUR 27.4 billion (FY 2018: EUR 28.7 billion). The decline came mainly from Germany (EUR 0.4 billion) and the rest of Western Europe (EUR 1.0 billion). The fall in business volume in Western Europe was mainly in Spain (EUR 0.3 billion), Finland (EUR 0.2 billion), the UK (EUR 0.2 billion), the Netherlands (EUR 0.1 billion) and France (EUR 0.1 billion).

Replacement risk

The following table shows gross replacement risk by region.

Gross replacement risk by region

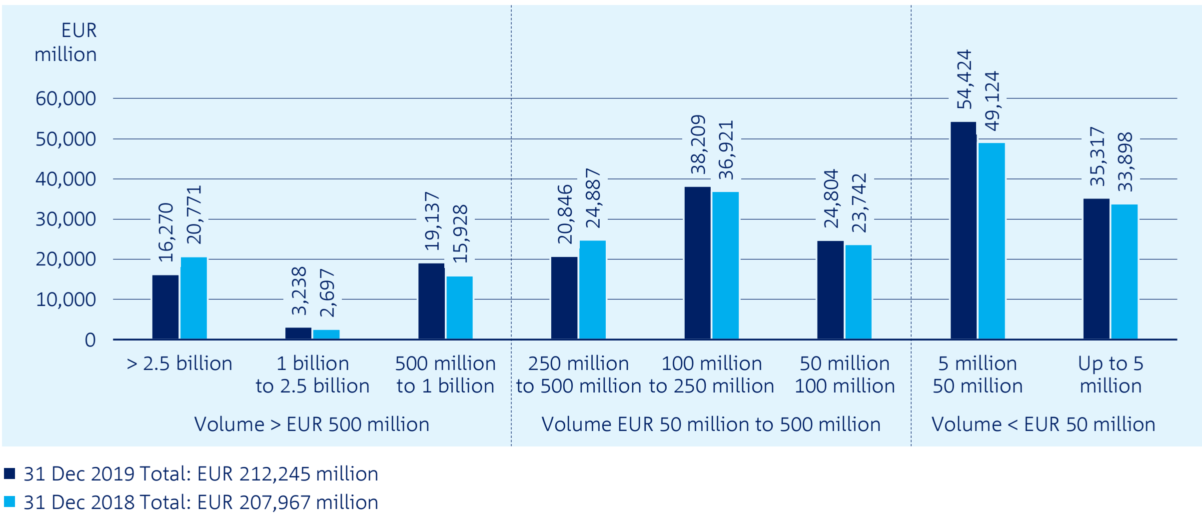


Gross replacement risk rose slightly by around EUR 0.1 billion to EUR 8.5 billion (FY 2018: EUR 8.4 billion) during the reporting period. While Germany saw business growth of EUR 0.7 billion, the gross replacement risk in the rest of Western Europe fell by EUR 0.6 billion. The falls in volume in Western Europe related mainly to the UK (EUR 0.3 billion) and France (EUR 0.3 billion).

Breakdown by size category

The following table shows net credit volume by size.

Net credit volume by size



Net credit volume with customers in the more than EUR 2.5 billion category fell considerably by EUR 4.5 billion to EUR 16.3 billion (FY 2018: EUR 20.8 billion). The principal reason for the fall was the reduction in deposits held with the Deutsche Bundesbank. This size category only contains loans and advances to top-rated German and American government entities with a first-class credit score.

Net credit volume in the EUR 500 million to EUR 2.5 billion category rose by around EUR 3.8 billion to EUR 22.4 billion (FY 2018: EUR 18.6 billion). The increase in these categories was largely the result of business growth in the Financial Institutions sub-portfolio. These categories predominantly include savings banks, German and international banks, large DAX companies and government entities. The range of individual ratings is predominantly in the very good investment grade category (master ratings 0 to 7).

The size category of net credit volumes from EUR 250 million to EUR 500 million posted a fall of EUR 4.0 billion to EUR 20.9 billion. This reduction was largely due to the Financial Institutions sub-portfolio, where individual exposures with investment grade customers were further expanded (moving them into the next category up).

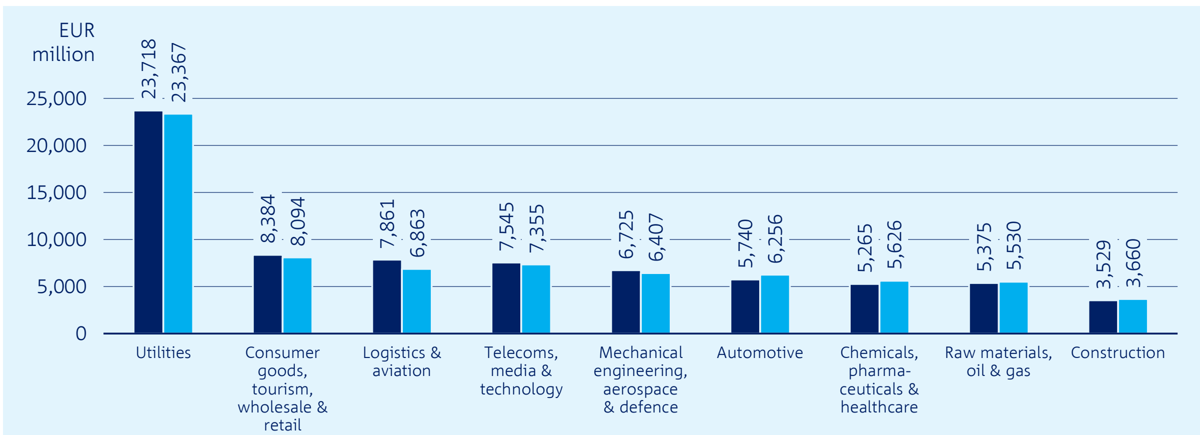
The granularity of the portfolio increased across the board, which was particularly reflected in the significant volume growth in the up to EUR 250 million categories. These categories saw an increase in net credit volume of EUR 9.1 billion to EUR 152.8 billion (FY 2018: EUR 143.7 billion). Especially noteworthy is the Corporates sub-portfolio, with an increase of EUR 5.4 billion.

The following tables show gross credit volume by sub-portfolio.

Corporates sub-portfolio

The Corporates sub-portfolio further reinforced its position as the largest sub-portfolio in the BayernLB Group, despite a market environment that remains very challenging. The growth covered both existing and new customers. Overall, exposure in the sub-portfolio rose by a total of EUR 1.0 billion to EUR 74.1 billion, an increase of 1.3 percent. The following sectors examined in more detail below accounted for the majority of the changes in the business volume.

Sector breakdown within the Corporates sub-portfolio



■ 31 Dec 2019 Total: EUR 74,142 million
■ 31 Dec 2018 Total: EUR 73,158 million

Exposure in the logistics & aviation sector was up by EUR 1.0 billion to EUR 7.9 billion, with growth largely as a result of public transport financing. The increase was mainly driven by the financing of rolling stock associated with transportation contracts agreed with regional transport operators. In addition, aircraft financing also contributed to the expansion of the credit volume in the logistics & aviation sector.

Gross credit volume in utilities, the largest sector by far, rose by EUR 0.4 billion or 1.5 percent to EUR 23.7 billion. In line with strategy, renewable energies, such as solar and wind farms, continue to form the main focus of the portfolio, accounting for a proportion of 59.8 percent. As loans for renewables are largely granted by DKB, it continues to have an above-average share of the sector at 62.1 percent. The majority of these transactions are structured as project financings that benefit to a large degree from long-term, legally guaranteed feed-in tariffs under German law. In addition to project financing, another focus in the sector is traditional corporate loans. The portfolio is evenly distributed across customers from all stages of the sector's value chain, from the generation, transmission and distribution of electricity to integrated energy utilities and municipal utilities. At 87.3 percent, the majority of financing volume in the utilities sector is in Western Europe, of which Germany alone accounts for 76.1 percent.

Manufacturing & engineering, aerospace & defence managed to increase gross credit volume by EUR 0.3 billion to EUR 6.7 billion. This rise was mainly achieved by means of increased financing of working capital for investment grade customers in the aeronautics, aerospace and shipbuilding sectors.

The volume in the automotive industry fell by EUR 0.5 billion to EUR 5.7 billion.

The German home market, which is key for the BayernLB Group, continues to drive the Corporates sub-portfolio, with a high share of 70.0 percent (FY 2018: 70.1 percent).

The already high investment grade share in the sub-portfolio improved to 76.8 percent (FY 2018: 75.2 percent).

The sub-portfolio's granularity also remained high. The proportion of customers with a gross credit volume of less than EUR 50 million amounted to 48.9 percent (FY 2018: 49.5 percent).

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

Gross credit volume in the Countries/Public-Sector/Non-Profit Organisations sub-portfolio fell by around EUR 2.0 billion or 3.0 percent to EUR 65.1 billion (FY 2018: EUR 67.2 billion). Volumes at BayernLB were down by around EUR 5.6 billion to EUR 39.9 billion, whereas DKB saw a rise of EUR 3.5 billion to EUR 25.3 billion.

BayernLB's position at the Deutsche Bundesbank was reduced by EUR 4.2 billion, as was gross credit volume at the US Federal Reserve, which fell by EUR 0.6 billion. Transactions with the German state governments also declined by EUR 1.1 billion, while business with German local authorities was expanded by EUR 0.3 billion.

The rise in gross credit volume at DKB was largely the result of the increase in the position at the Deutsche Bundesbank (EUR 2.6 billion). In addition, DKB managed to increase its business volume by EUR 0.9 billion, which came mainly from the German public sector and public-sector banks within Germany.

The central bank positions held by BayernLB and DKB are primarily for the purpose of fine-tuning liquidity.

The very high investment grade share in the Countries/Public-Sector/Non-Profit Institutions sub-portfolio remained stable at 98.0 percent (FY 2018: 98.0 percent).

Commercial Real Estate sub-portfolio

In line with strategy, gross credit volume in the Commercial Real Estate sub-portfolio rose significantly over the reporting period by EUR 5.0 billion or 10.0 percent. As a result business volume as at the year-end was EUR 55.1 billion (FY 2018: EUR 50.1 billion). Of this amount, EUR 26.9 billion stemmed from BayernLB and EUR 28.2 billion from DKB. Both institutions contributed to the increase in gross credit volume. BayernLB posted business growth of around EUR 2.8 billion, while DKB saw a growth in volume of EUR 2.2 billion.

The increase in business volume at BayernLB was principally in investor-side real estate rental and leasing (EUR 1.1 billion), property developers with a focus on residential real estate

(EUR 0.8 billion), real estate investment fund companies (EUR 0.6 billion) and property developers with a focus on commercial real estate (EUR 0.4 billion).

The rise in gross credit volume at DKB was largely the result of business in the residential property sector, especially with investors and housing companies.

The German domestic market accounted for the majority of the BayernLB Group's growth, with business volumes up by around EUR 3.7 billion, of which an increase of EUR 2.1 billion was accounted for by DKB. In addition, there were noteworthy increases in France (EUR 0.6 billion), the US (EUR 0.5 billion) and Italy (EUR 0.3 billion). In view of the uncertainties arising from the UK potentially (at the time) leaving the EU (Brexit), business volume in the country was slightly decreased due to the adoption of a very selective approach to new business being adopted.

The already high quality in the Commercial Real Estate sub-portfolio continued to improve. The investment grade share rose to 85.0 percent (FY 2018: 84.3 percent). This means that the investment grade share has risen by over 10 percentage points in ten years. The proportion accounted for by Germany remained high at 88.5 percent (FY 2018: 90.0 percent). The high quality of the portfolio was also retained with regard to granularity and collateralisation: As at the reporting date, customers with a gross credit volume of less than EUR 50 million accounted for 54.0 percent (FY 2018: 56.6 percent) of the portfolio. The collateral ratio remained unchanged at 71.2 percent (FY 2018: 71.2 percent) and is thus still close to the three-year average of around 70 percent.

Financial Institutions sub-portfolio

Gross credit volume in the Financial Institutions sub-portfolio fell by around EUR 0.6 billion to EUR 52.0 billion (FY 2018: EUR 52.6 billion), a decrease of 1.1 percent.

Within the BayernLB Group, the sub-portfolio's gross credit volume was divided between EUR 50.3 billion with BayernLB and EUR 1.7 billion with DKB.

Gross credit volume in the savings banks sector, the largest sector by volume, increased by EUR 1.0 billion to EUR 24.6 billion. Business volume in the insurance sector also rose by EUR 1.0 billion, with gross credit volume in this sector at EUR 5.2 billion as at the year-end. The expansion in business with insurers primarily related to reinsurance.

The banks sector posted a significant fall in business, with gross credit volume down by EUR 2.6 billion to EUR 22.1 billion.

The quality of the sub-portfolio, which was already at a very high level, improved further. The investment grade share rose slightly to 99.0 percent (FY 2018: 98.8 percent). The share in Germany rose significantly to 67.0 percent (FY 2018: 63.5 percent).

Retail/Other sub-portfolio

In the Retail/Other sub-portfolio, gross credit volume increased by around EUR 0.3 billion or 0.9 percent to EUR 33.3 billion.

Business volume at BayernLB fell by around EUR 0.4 billion to EUR 3.7 billion. The decline is mainly a result of the planned reduction in retail customer business, which has not been a core activity of BayernLB for some years and is being gradually run down. Within the BayernLB Group, the retail business is successfully operated by Group subsidiary DKB.

Gross credit volume at DKB rose by around EUR 0.8 billion to EUR 29.6 billion. This growth was mainly due to credit card receivables and lending to private individuals.

Germany's share of the sub-portfolio remained unchanged at nearly 100 percent throughout the Group.

Summary

Against a weakener economic background, the overall market environment in 2019 remained very challenging.

Despite this difficult market environment, business volume was further expanded. Especially noteworthy is the Commercial Real Estate sub-portfolio, with a rise in gross credit volume of EUR 5.0 billion or 10.0 percent. The successful expansion of this sub-portfolio in 2019 is key to the implementation of the BayernLB Group's strategic realignment.

The quality of the credit portfolio was already very high but improved further in 2019, which is reflected in a further rise in the investment grade share from 86.5 percent to 87.1 percent. The already very low non-performing loan ratio also improved, falling from 0.8 percent to 0.7 percent during the reporting period.

Investment risk

Definition

Investment risk at BayernLB Group is defined as the risk incurred through acquiring investments. A distinction is made between investment risks in the narrower and broader sense. Investment risks in the narrower sense are potential financial losses from investments, including from:

- The provision of equity or equity-like financing (e.g. silent partner contributions), suspension of dividends, partial writedowns, losses on disposals, or reductions in hidden reserves
- Liability risks and/or profit and loss transfer agreements, e.g. assumption of losses under letters of comfort or company agreements
- Capital contribution commitments

BayernLB Group's risk perspective also includes investment risks in the broader sense. These are defined as risks associated with investments, which, independently of investment risks in the narrower sense have an influence on the risk profile of the BayernLB Group via other risk types.

Organisation

Group Risk Control is responsible for setting standards and internal risk reporting at portfolio level. The BayernLB Group 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

The goal is to hold a core portfolio of investments that support the BayernLB Group's business activities. The integral components of the BayernLB Group remain DKB and the other Group strategic subsidiaries: BayernInvest Kapitalverwaltungsgesellschaft mbH and Real I.S. AG Gesellschaft für Immobilien Assetmanagement. The BayernLB Group would like to dispose of its remaining non-core investments.

Measures and requirements to identify, manage and monitor investment risks in the broader sense are defined and implemented by the respective divisions responsible for the risk types.

The Group investment risk strategy, derived from the overarching BayernLB Group Risk Strategy, forms the framework for dealing with the risks on investments. The Bayerische Landesbank Act, the Statutes and the Rules of Procedure of the BayernLB Board of Management set further overall conditions for the Group Risk Strategy.

Measuring, managing 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 direct investments held by BayernLB. Key factors in this regard are risk-based early warning indicators and the assessment of the maximum potential loss.

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

Similar processes apply to DKB. This is also built into the entire Group strategy, planning, management and monitoring process.

For CRR/CRD IV reporting, investment risks are measured using the simple risk weighting method.

Risk capital requirements for investment risk are measured in ICAAP using the regulatory PD/LGD method in accordance with CRR/CRD IV.

The risks from direct investments are identified using the relevant procedures (classification and early warning) and reported to the Board of Management as part of the risk reporting process.

Summary

Implementation of the planned reduction of non-core investments was again driven forward.

Business and strategic risk

Definition

Business and strategic risk is defined as the risk resulting from unexpected changes in the economic, political, social, ecological, legal, technological or regulatory business environment that is not already explicitly or implicitly recognised in other risk types (e.g. market, credit or operational risk) in the risk-bearing capacity calculation. This risk manifests itself in the form of declining interest and commission income and rising administrative expenses. It may also be caused by a reputational loss on the part of the BayernLB Group.

Organisation

Group Risk Control quantifies the business and strategic risk for the purposes of the risk-bearing capacity calculation and analyses changes to those risks.

Risk Strategy

The management of business and strategic risks is examined in the business risk strategy as part of BayernLB's Risk Strategy. The management and monitoring of the relevant parameters for the business and strategic risk forms part of the BayernLB Group's management cycle.

Measuring and monitoring risk

The quantification of the business and strategic risk is based on target-actual historical deviations in the income statement items identified as pertinent to business risk using an analytical value-at-risk approach. The risk capital limits of the business and strategic risk are subject to a monthly Group-wide monitoring process. 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 risk situation.

Summary

The risk capital requirement for the business and strategic risk amounted to EUR 544 million on 31 December 2019 and remained within the allocated risk appetite during the reporting period.

Market risk

Definition

Actual market risk:

Actual market risk is the risk of financial losses due to changes in market prices on money, currency, capital and commodity markets. The potential losses arise through the financial transactions conducted in the course of the Bank's business activities (in both the trading and banking books), whose performance changes according to changes in market risk factors/market prices. Accordingly, the BayernLB Group breaks down its actual market risks into general and specific interest rate risk, currency risk, equity price risk, commodity risk and volatility risk.

Pension risk:

In addition to actual market risk, market risk also includes the risks from pension obligations. Pension risk is defined as the risk resulting from unexpected increases in the provisions for pensions, death benefits and medical costs (defined as the net present value of obligations) which must be established for candidates and recipients of benefits from BayernLB's civil service-style pension commitment (direct and indirect). The most important factor in the calculation of the net present value of the pension risk is the discount rate, which results from the general interest rate level and credit spread components. Pension risk therefore falls under market risk.

Organisation

Actual market risk:

Subsidiaries are responsible for monitoring their own actual market risks internally with their own risk-monitoring units. The actual market risks at BayernLB and DKB are included in a daily Group-wide risk report. Group Risk Control is responsible for setting Group-wide methodological standards and for the overall, Group-wide monitoring of market risk. The operational implementation is institution-specific.

Pension risk:

Group Risk Control monitors pension risks for the BayernLB Group. DKB's pension risks are classified as non-material from a stand-alone perspective in the risk inventory, but are incorporated in order to ensure the consistency of the Group-level analysis.

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 are measured, monitored and may only be assumed within approved limits.

Actual market risk:

The amount of economic capital provided for actual market risks is broken down by risk unit and individual market risk type and implemented in the form of value-at-risk (VaR) limits. Actual market risks are entered into in accordance with the current Business and Risk Strategy primarily for liquidity and asset-liability management reasons. In addition, market risks are incurred as a result of transactions on behalf of customers and related hedging transactions, as well as non-core business.

Pension risk:

The risk capital requirement for pension risk is also limited and monitored separately. The planned build-up of plan assets via a contractual trust arrangement construction (CTA) should reduce the impact of interest rate risks.

Risk measurement

Actual market risk:

For operational monitoring and management, the calculation of market risk normally uses a VaR procedure based on a one-day holding period and a confidence level of 99 percent. BayernLB and DKB both use the historical simulation approach. In December 2019, as part of the drive to standardise methodology, commodity trading switched from the variance-covariance method of assessing risk to the historical simulation model. Customer deposits at DKB are modelled using the dynamic replication method. Both contractual and legal termination rights on loan transactions are modelled as options and incorporated into the risk calculation. When estimating the interest rate risk from external credit margins, BayernLB takes a VaR risk premium into account. The interest rate risk in external credit margins is shown in the daily VaR at DKB. Market risks that cannot be covered by the VaR limit calculation are taken into account in the risk capital requirements through the use of alternative risk assessment methods (e.g. stress test estimates). At BayernLB this currently covers a risk premium for some downstream risk aspects in the case of the rating-related value adjustments. Market risk measurement methods are constantly checked for the quality of their forecasting. In the backtesting process, the risk forecasts are compared with actual outcomes (gains or losses). As at 31 December 2019, the forecasting quality of the market risk measurement methods used at the BayernLB Group, in accordance with the Basel traffic light approach, was classified as good.

For economic risk-bearing capacity, one-day VaR is scaled to a one-year horizon, i.e. it is assumed risk positions are closed or hedged over a one-year time horizon. This takes particular account of market liquidity risk – the risk of having to close out risk positions on financial terms that are less favourable than had been expected.

Valuation discounts for market liquidity-relevant factors (e.g. bid-ask spreads) which are relevant for accounting and reporting are also modelled.

In addition to the net present value risk measurement methods described above, net interest income risk also involves calculating the risk of a change in net interest income (NII) in the banking book. This is carried out assuming various interest rate scenarios based on business and margin trends over various periods of time.

The standard approach is used at BayernLB and DKB to calculate the regulatory capital backing for market risks.

Pension risk:

The risk capital requirements for pension risks (risks from pension liabilities) are calculated using a scenario-based approach. As a result of the declining volatility in the discount rate, the risk model has worked with the intended minimum fluctuation approach since October 2017.

The outcomes of VaR or scenario-based risk measurement for market risks including pension risks 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 simulating extraordinary changes in market prices are conducted monthly on the risk positions at each Group institution, and the potential risks are analysed accordingly. Additional stress tests are used at the level of the standalone organisations. Stress tests take into account all relevant types of market risk including pension risks, are regularly reviewed, and their parameters modified if necessary.

Risk monitoring

Actual market risk:

In the BayernLB Group, several tools are used to monitor and limit market risks. In addition to the institution-specific risk capital requirement limits, these include in particular one-day VaR and corresponding VaR limits, risk sensitivities (including related sensitivity limits for Sales units heavily involved in trading) and stress tests, which in different forms are used to assess risk-bearing capacity. The risk monitoring of the individual limit units has been performed separately for the trading and banking books since May 2019. This accounts for the respective underlying discretionary purpose and achieves a close interlinking of economic and supervisory capital adequacy. DKB does not execute any trading book transactions.

Market risks are monitored, agreed with officers responsible for the trading position and reported daily at BayernLB independently of Trading. At DKB the A custody account is monitored daily and the other banking book monitored weekly. If a VaR limit is breached, appropriate measures are taken as part of an escalation procedure.

Interest rate risk in the banking book forms part of the risk calculation and monitoring processes of the risk-controlling units. In particular, in the case of interest rate risk including pension risks in the banking book the fall in the present value in respect of the predefined interest rate scenarios is monitored monthly at institution level and across the Group and referenced against the corresponding supervisory thresholds or warning thresholds (threshold for the +/-200 basis point scenario: 20 percent of own funds; warning threshold for the additional interest rate scenarios (parallel scenarios, turnaround scenarios, or a short-term interest rate increase/decrease: 15 percent of Common Equity Tier 1 capital)). As at 31 December 2019, the calculated change in present value at both BayernLB and the BayernLB Group was well below the thresholds and/or alert thresholds. By way of illustration, the losses of net present value in the +/-200 basis points scenario amounted to four percent of capital at BayernLB and three percent across the Group.

Pension risk:

The risk capital limits of the pension risks are monitored monthly on a Group-wide basis. The interest rate risk of the pension risks is also taken into account in the actual market risk in the supervisory interest rate scenarios and limits are set.

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

Actual market risk:

In the BayernLB Group, the main factor affecting the VaR for the actual market risks is general interest rate risk. All other types of risk play a much less significant role by comparison. The risks in the banking book are of considerably greater significance than those in the trading book.

VaR contribution of actual market risks by risk type (confidence level 99 percent, holding period 1 day)

EUR million	31 Dec 2019	31 Dec 2018	Average	Maximum	Minimum
General interest rate VaR	41.7	29.7	24.2	42.7	12.6
Specific interest rate VaR (credit spreads)	9.9	11.2	10.2	14.5	8.0
Currency VaR	1.9	1.7	1.8	2.5	1.2
Equities VaR	3.5	2.8	3.2	3.6	2.6
Commodities VaR	0.9	2.9	1.4	2.6	0.7
Volatility VaR	1.4	0.4	1.1	3.2	0.4
Total VaR[1]	**45.3**	**34.9**	**31.2**	**46.5**	**21.5**

VaR contribution of actual market risks by banking and trading book (confidence level 99 percent, holding period 1 day)

EUR million	31 Dec 2019	Of which banking book	Of which trading book
General interest rate VaR	41.7	41.2	3.4
Specific interest rate VaR (credit spreads)	9.9	9.3	0.9
Currency VaR	1.9	1.4	0.6
Equities VaR	3.5	3.4	0.1
Commodities VaR	0.9	0.0	0.9
Volatility VaR	1.4	1.5	0.6
Total VaR[1]	**45.3**	**44.1**	**4.5**

1 After eliminating intra-Group positions on consolidation; when calculating the risk capital requirement for BayernLB, in addition to showing the VaR contributions, risk-bearing capacity takes into account monthly VaR premiums for risks on external credit margins and credit risks on money market transactions and a risk premium for some downstream risk aspects in the case of XVA risk.

Pension risk:

The risk capital requirements for pension risk as 31 December 2019 amounted to EUR 1.0 billion (FY 2018: EUR 1.0 billion).

Summary

Total VaR rose by around EUR 10.4 million compared with 31 December 2018 to EUR 45.3 million. This increase is primarily reflected in general interest rate risk and is largely due to new loan transactions at DKB. Furthermore, this trend continues to be boosted by an increase in volatility in the fixed-income market.

The total VaR in the trading book fell significantly during 2019 (from EUR 7.6 million on 31 December 2018 to EUR 4.5 million on 31 December 2019). This was due in part to a decrease in the position and reduced volatility in the CO_2 positions. The focus of the trading strategy will result in a further decline in the risk appetite in the trading book compared with the banking book.

Liquidity risk

Definition

Liquidity risk is defined as the risk that payment obligations falling due cannot be met in full or as due (insolvency risk) or, in a liquidity crunch, funding is only obtainable at above-market rates (liquidity cost risk). This section looks first at insolvency risk. The liquidity cost risk, which is also taken into account in the risk-bearing capacity calculation, is dependent in part on the development of the refinancing structure (funding mix), which is subsequently presented.

Organisation

During the reporting year, responsibility for strategic and operational liquidity management at BayernLB was vested in the Structuring & Trading Division of the Financial Markets Business Area and the Group Treasury Central Area. Liquidity management ensures adequate liquidity reserves at all times and the management of ad hoc liquidity on the market. Group-wide risk controlling of liquidity risks is conducted by Group Risk Control. This Division also prepares liquidity overviews, such as liquidity gap analyses and limiting ratios as the basis for controlling and monitoring liquidity risks. The Liquidity Committee consults with Group Treasury, Group Risk Control and Controlling on liquidity issues such as liquidity and funding strategies and acts as a driving force by preparing courses of action for the Board of Management so that the latter can decide swiftly on necessary measures.

Risk Strategy

The strategic principles for dealing with liquidity risk within the BayernLB Group are set out in the Group Risk Strategy. The objective 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 long-term access to the market.

These strategic targets are detailed for daily management in the Group Risk Guidelines and instruments, including the Group Treasury Guidelines in combination with the Liquidity & Collateral Management instrument. There is an emergency plan to safeguard liquidity in the event of emergencies. This defines the processes, management tools and hedging instruments needed to avert potential or address acute crises. It also contains 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.

BayernLB actively manages its liquidity reserves in accordance with the regulatory requirements of pillars 1 and 2. The active management of liquidity reserves also includes complying with the Net Stable Funding Ratio (NSFR) and the Liquidity Coverage Ratio (LCR) requirements contained in CRR and its subsequent regulations pursuant to the Delegated Regulation (DelReg). In line with regulatory requirements, the BayernLB Group's figures for these ratios are regularly reported.

The Additional Liquidity Monitoring Metrics (ALMM) for the BayernLB Group were also reported regularly to the supervisory authority in the year under review. Changes to regulatory requirements that have an impact on liquidity risk, such as from the new version of CRR or new implementing regulations are constantly monitored in order to ensure they are implemented as scheduled in close cooperation with all units affected. This ensures reporting requirements can be met and liquidity efficiently managed in the future.

Risk measurement

The BayernLB Group prepares daily liquidity overviews to measure, analyse, monitor and report on liquidity risk. These project and compare the liquidity gaps, i.e. the net deterministic and non-deterministic future payment inflows and outflows, and the realisable liquidity counterbalancing capacity to an accuracy of one day.

In terms of volumes and timing, the liquidity counterbalancing capacity quantifies 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 (Corelux S.A.) 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 its 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 funding 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 internally every quarter to the Board of Management. The balance of cumulative cash flows and available liquidity indicated there was surplus liquidity throughout 2019.

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 available assets in the registers of cover. The liquid funds that these can generate serve to cover unplanned cash outflows, even in a stress scenario.

The medium- to long-term structure of the liquidity is managed over all maturities, while limits are placed only on terms of up to five years. To safeguard the solvency of the BayernLB Group and its funding capacity, suitable instruments are used to create a funding structure that is balanced in terms of maturity, instruments and currencies. The key management tool is the Group-wide funding 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 on the market, with Collateral Management responsible for maintaining these standards. This ensures that BayernLB has an ongoing ability to issue bonds in the Pfandbrief segment.

The Bank also met the minimum supervisory Liquidity Coverage Ratio (LCR) at all times in the reporting year through its integrated management of ad hoc liquidity. The BayernLB Group's LCR amounted to 168 percent as at 31 December 2019 (FY 2018: 143 percent). The LCR is calculated by comparing the available highly liquid assets with the net cash outflows for the following 30 days. The minimum ratio required by the regulator is 100 percent.

The subsidiary DKB has its own measures in place to ensure it complies with its specific liquidity requirements. The relevant requirements were complied with during the period under review.

Risk monitoring

Group Risk Control monitors liquidity risks independently of Trading, calculates ratios derived from the daily scenario-based liquidity overviews and sets limits on them.

The risk appetite set by the BayernLB Group limits ad hoc 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 defined stress scenarios are sufficient is key to complying with the liquidity risk limits. Time-to-wall shows the earliest point in time at which the forecast liquidity needs cease to be met by the liquidity counterbalancing capacity. The time-to-wall figures to be observed every day and the scenario-dependent minimum liquidity surplus limits to be observed in euro and other currencies are set out in the BayernLB Group Strategy for Liquidity Risks.

In 2019 limiting liquidity risks once again ensured the BayernLB Group 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.

BayernLB enhanced its monitoring of intraday liquidity risk in 2019. As a result, intraday cash flows were scrutinised more closely from the beginning of the year, enabling more reliable stress scenarios to be calculated.

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 unutilised limits and other relevant ratios are included in the risk reports submitted regularly to the Board of Management, the Liquidity Committee and the responsible managing units.

Current situation

The liquidity situation as at 31 December 2019 is shown based on the maturity structures in accordance with IFRS 7.39 and IFRS 16.58 on the one hand and an economic approach on the other.

In accordance with IFRS 7.39, the breakdown of financial liabilities by contractual maturity structure is shown below.

Contractual maturities of financial liabilities[1]

31 Dec 2019 EUR million	Up to 1 month	Up to 3 months	Up to 1 year	Up to 5 years
Financial liabilities	79,153	87,293	99,313	139,528
Liabilities from derivatives	(350)	(324)	23	(152)
Total	78,803	86,969	99,337	139,376

31 Dec 2018 EUR million	Up to 1 month	Up to 3 months	Up to 1 year	Up to 5 years
Financial liabilities	74,898	86,514	99,053	133,068
Liabilities from derivatives	(622)	(769)	(498)	(818)
Total	74,276	85,745	98,555	132,249

1 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 fell slightly to EUR 25.9 billion (FY 2018: EUR 26.3 billion). The volume of contingent liabilities from guarantees and indemnity agreements rose to EUR 12.4 billion (FY 2018: EUR 11.2 billion). However, in contrast to the economic liquidity situation shown below, call probabilities have not been factored into these volumes.

The maturity structures of lease liabilities in accordance with IFRS 16.58 are shown for the first time as at 31 December 2019.

Contractual maturities of financial lease liabilities

30 Dec 2019 EUR million	**Up to 1 month**	**Up to 3 months**	**Up to 1 year**	**Up to 5 years**
Lease liabilities	7.5	3.9	18.6	86.9

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

The BayernLB Group management scenario showed the following results as at 31 December 2019 compared with 31 December 2018:

Economic liquidity situation

31 Dec 2019[1] Cumulative figures in EUR million	Up to 1 month	Up to 3 months	Up to 1 year	Up to 5 years
Liquidity surplus	23,186	24,370	20,518	20,819
arising from				
Liquidity counterbalancing capacity	29,670	35,791	29,300	12,738
less				
Liquidity gap	6,485	11,421	8,782	(8,082)

31 Dec 2018 Cumulative figures in EUR million	Up to 1 month	Up to 3 months	Up to 1 year	Up to 5 years
Liquidity surplus	18,096	14,987	10,461	14,503
arising from				
Liquidity counterbalancing capacity	31,076	37,302	30,286	12,883
less				
Liquidity gap	12,980	22,314	19,825	(1,619)

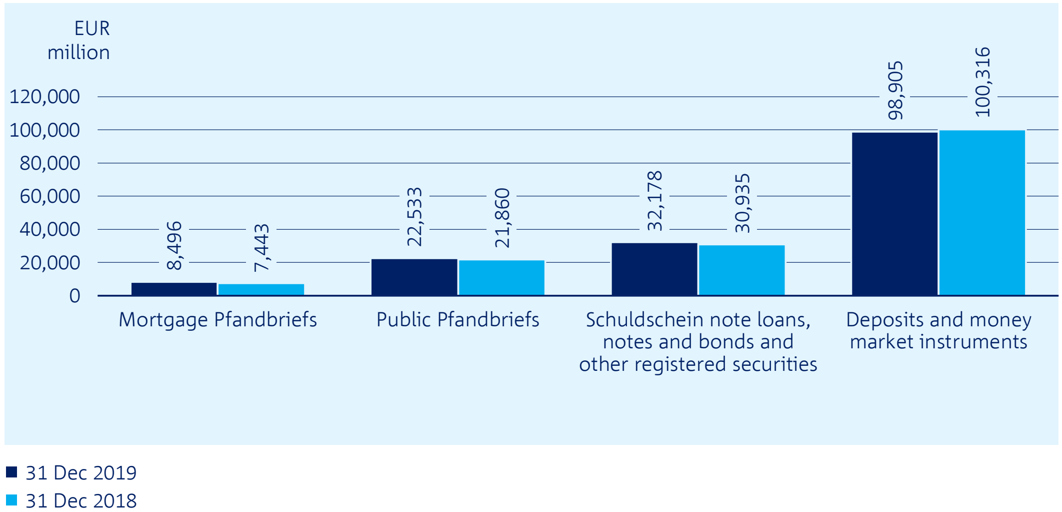
1 To improve depiction of risks from commitments, current account deposits and transactions where margins are mandatory, etc., their modelling was refined in the second half of 2019 (adjusted pursuant to IAS 8.32 – see note 2).

The year-on-year changes in the liquidity situation continued to be defined by the focus on the core business areas. The BayernLB Group increased its liquidity surpluses through additional customer deposits and by expanding its long-term wholesale-funding activities. In 2019 the Group subsidiary DKB bolstered its already strong position in the retail business through a surge in customer deposits and lending activities.

The liquidity surpluses as at 31 December 2019 indicate that the BayernLB Group’s liquidity is good.

The change in the funding structure of BayernLB for financial year 2019 compared with the previous year was as follows:

Funding structure



Events on the financial markets in 2019 continued to be driven by the same factors as in the previous year: (geo)political uncertainties, concerns about the global economy and monetary policy. The latter was based on the need to act in light of the weakness of the global economy and had nothing to do with the leadership changes at the helms of the Fed and the ECB. Following a trade dispute between the US and China that periodically intensified and expanded to include a battle about technological leadership, a reconciliation of their positions resulted in the conclusion of the Phase 1 Agreement towards the end of the year. The UK parliament's unambiguous vote in favour of Brexit at least ended the uncertainty in this regard in Q4 and diminishing fears of a debt crisis in Italy on the bond markets weakened investor flight to safe investment havens over the course of 2019. With three cuts in the key interest rate and the introduction of a purchase programme for T-bills, the Fed completed its reversal of monetary policy, which created favourable conditions for the further easing of monetary policy by central banks in the industrialised nations and further increased the scarcity of investment opportunities in the bond markets. Riskier asset classes benefited from investors chasing yield, who would otherwise face custodian fees or be forced to accept negative interest rates on safe investments. The ECB's ultra-expansive monetary policy will continue for banks. The ECB offers targeted improved rates with longer maturities in the form of its quarterly targeted longer-term refinancing operations (TLTRO III). In addition, the deposit rate was cut to minus 0.5 percent – but only as part of a sliding scale of deposits exceeding seven times the individual minimum reserve requirements, which will ease the pressure on banks. Net purchases of bonds in the QE programme, which had been suspended in the previous year, were relaunched in November at the rate of EUR 20 billion per month. The success of green bonds has finally put the topic of climate change on the financial markets. The ECB is also attempting to align its policies with climate goals. In the global political arena, nationalist tendencies were increasingly observable in election results.

In addition to equity, BayernLB's structural funding derives mainly from capital market issues, deposits and subsidised loans and ad hoc in the secured and unsecured money market. Short-term liquidity requirements were covered by the Group on an ad hoc basis via cash pooling or externally in the money market. The Group did not draw on the ECB's longer-term refinancing facilities (TLTRO).

Funding requirements are determined within the framework of the annual funding plans, which are calculated at an individual and Group level and reflect the overall maturity profile of assets and liabilities and the funding needs arising from planned new business.

To conserve and diversify the funding sources, the necessary funding is distributed to various asset classes in the funding matrix during the planning stage in order to safeguard and promote the granularity of the origin of the funds.

The funding volume of structural, i.e. multi-year liquidity realised was around EUR 9.1 billion (2019 plan: EUR 9 billion). Including the two benchmark issues of EUR 500 million each, secured funding of EUR 3.8 billion and unsecured funding of EUR 5.3 billion was raised from investors in the capital markets, partly in USD. In the category of unsecured funding, non-preferred senior (NPS) bonds are particularly important, as their contractual provisions mean that they represent funding that is non-preferred ('bail-in') in the event of liability and therefore, in addition to meeting regulatory requirements (MREL), also represent valuable recoverable assets that bolster the issuer's rating in Moody's LGF analysis and Fitch's new rating methodology for banks. At EUR 4.6 billion, this LGF-eligible unsecured funding represented the largest proportion of the total funding of around EUR 9.1 billion.

Access to all funding sources was unlimited and at low rates over the year as a whole. The funding costs remained at the lower end of the Group's peer group and reflect its reputation in the capital markets and the high degree of loyalty enjoyed by the Association among the Bavarian and non-Bavarian savings banks.

BayernLB's ratings from Fitch and Moody's and the stable outlook continued over the entire course of 2019. BayernLB's issuer rating, which is good compared with European benchmarks, is Aa3 (Moody's) and A- (Fitch).

The management and use of cover funds to issue Pfandbriefs and the protection against stress scenarios by building up and retaining the free liquidity buffer in the liquidity counterbalancing capacity are accorded a high priority in the management process. As a result of balance sheet management measures at the end of the year, the Group's liquidity portfolio amounted to just under EUR 50 billion. Economic and regulatory ratios and management limits, such as the internal limits of 110 percent for the LCR ratio and 100 percent for the NSFR ratio[29] during the monitoring phase, were comfortably complied with throughout the reporting period.

The asset encumbrance (AE) ratio shows the proportion of a bank's encumbered assets that could not be called upon to settle unsecured claims in the event of liquidation. Due to BayernLB's business model and the specifications for determining AE, a relatively high proportion of its asset portfolio is encumbered. Particularly worthy of note is the relatively high proportion –

[29] *This variable is currently only monitored, as compliance is not yet a mandatory regulatory requirement.*

including free overcollateralisation – in the cover pool for Pfandbriefs and the collateralisation of subsidised loans from state development banks, such as the KfW's on-lending loans. Adjusted for these transaction types, BayernLB's AE is low in the medium single-digit range.

As the municipal and development bank of the Free State of Bavaria, BayernLabo's liabilities are covered by a 100 percent state guarantee. In line with its mandate, BayernLabo is publicly funded via the KfW and the Landwirtschaftliche Rentenbank. The capital market offers further refinancing sources, such as bearer bonds, registered securities and Schuldschein note loans. BayernLabo meets ad hoc liquidity requirements by opening time deposits at BayernLB. At EUR 1.1 billion, the funding requirement in financial year 2019 was around 30 percent less than planned, despite the growth in municipal loan business due to liquidity inflows from unscheduled repayments and subdued new business in the internally funded programmes. BayernLabo issued around EUR 414 million of bonds in the capital market (FY 2018: EUR 460 million).

Customer deposits represented the largest source of funds in the DKB funding mix. In addition, much of the lending business is funded in the form of on-lending loans from development banks. The company's funding activities also include capital market issues, with an ongoing focus on sustainable securities issues.

DKB's funding requirements continued to be met principally by growth in deposits in 2019. The annual planning was significantly exceeded, in particular because of the continued inflow of small retail customer deposits. The budgeted figures for the subsidised loan business and capital market transactions were reached for the most part. Especially noteworthy is the success of DKB's blue social bond. The public-sector Pfandbrief to refinance the municipal water and sewerage company was a first in the sustainable bonds segment. More than four times oversubscribed and the best bid/cover for a covered sustainable bond to date, the high demand underscores the high level of interest on the part of investors in DKB and its successful capital market funding strategy.

DKB will continue to base its refinancing structure on three major sources in 2020 – customer deposits, the subsidised loan business and capital market funding. Their complementary nature provides the necessary sound basis for refinancing, whatever phase the market is in. In addition to managing the investment portfolio, improving the range of sustainable capital market products will be a focus of the business and funding strategy.

In the coming financial years, liquidity management and monitoring at the BayernLB Group will continue to revolve around the funding options available. The focus will continue to be on ensuring liquidity reserves at the BayernLB Group are always adequate, even in stress situations.

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

Summary

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

Reporting of products as defined in section 46f paras 6 and 7 KWG

The following tables show the debt instruments and structured financial products as defined in section 46f KWG, i.e. according to their seniority of payment under bankruptcy law:

Debt instruments as defined in section 46f para. 6 KWG (non-preferred senior)

EUR million	31 Dec 2019	31 Dec 2018
Liabilities to banks	3,722	3,849
of which Schuldschein note loans	2,428	2,435
of which other registered securities	1,295	1,414
Liabilities to customers	6,948	6,765
of which Schuldschein note loans	844	1,024
of which other registered securities	6,104	5,741
Securitised liabilities	18,233	17,738
Liabilities held for trading	433	430
Total	**29,336**	**28,782**

Debt instruments as defined in section 46f paras 5 and 7 KWG (preferred senior)

EUR million	31 Dec 2019	31 Dec 2018
Liabilities to banks	157	63
of which Schuldschein note loans	36	21
of which other registered securities	121	41
Liabilities to customers	783	895
of which Schuldschein note loans	157	155
of which other registered securities	626	740
Securitised liabilities	2,315	1,735
Liabilities held for trading	686	787
Total	**3,941**	**3,479**

Operational risk

Definition

In line with the regulatory definition in CRR, the BayernLB Group defines operational risk as the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. This includes legal risks.

In 2019, the MaRisk risk inventory identified the following non-financial risks as material operational risks: legal risk, which includes general legal risks, compliance risks and tax law risks; fraud risk; information security risk (including cyber risks); outsourcing risk; litigation risk; model risk and project risk.

General legal risk is the risk that the Bank will incur losses as a result of (actual or alleged) non-compliance with applicable legal regulations. This includes breaches of contractual arrangements and erroneous contractual provisions. Legal risk arises from errors in the application of the law, amongst other things, especially when entering into contracts.

Compliance risk is a component of legal risk and includes the risk that the Bank will incur losses as a result of non-compliance with applicable legal regulations.

Tax law risk, part of legal risk, is the risk arising from BayernLB breaching applicable tax law.

Fraud risk covers the risk of a loss being incurred for the BayernLB Group due to punishable actions, whether carried out internally or externally.

Information security risk describes the risk arising from the availability, integrity and confidentiality of information and the need to protect this for each individual.

Outsourcing risk arises when errors are made in agreements with outsourcing companies, performance is poor or the outsourcing company defaults.

Process risk is the risk that may arise as a result of processes that are poorly structured or carried out or when interfaces in procedures are insufficiently defined.

Model risk is the risk of loss that may arise when using results or basing decisions on results from models that are incorrect or incorrectly used.

Project risk includes the risk that may arise from the absence or inadequacy of project structures, poor performance of employees and risks in contracts with external service providers.

Sustainability risks are included as cross-sectional risks in the various risk types and are analysed and assessed as part of them.

Organisation

Operational risks are managed and monitored both centrally in Group Risk Control and, for non-financial risks, decentrally in the responsible divisions (e.g. the Legal Services & BoM Support Division for legal risks).

Group Risk Control has the authority to establish guidelines for all methods, processes and systems to quantify operational risks. DKB is included in the BayernLB Group's loss event reporting procedure.

Risk Strategy

The treatment of operational risks is set out in the Risk Strategy and related sub-risk strategies and guidelines for non-financial risks. The strategic objective is to minimise or avoid risk based on a cost-benefit analysis. This requires operational risks to be identified and assessed as completely as possible.

Moreover, as part of ensuring risk-bearing capacity, the risk appetite and limits are set for operational risks, and compliance with these is monitored on an ongoing basis.

Risk measurement

Operational risks are quantified for the calculation of risk-bearing capacity using the operational value at risk (OpVaR) calculation. The calculation is based on the losses incurred at BayernLB and DKB, the external losses collected via a data consortium, potential operational risks collected as part of the Operational Risk Self Assessment and the BayernLB and DKB scenario analyses (potential losses) drawn up for significant risks. The calculation is based on a loss distribution approach, using a confidence level of 99.90 percent. The key model assumptions and parameters used in the model are reviewed once a year.

The results of the OpRisk Self Assessment, which was further improved and repeated in 2019, in particular with regard to the integration of IT risks, will be used as a data basis for future OpRisk management activities (e.g. managing measures and developing early warning indicators) and for quantifying operational risks. As part of the OpRisk Self Assessment the results of Group-internal risk analyses of individual non-financial risks (e.g. information security risk) are taken into consideration.

The standard regulatory approach is used to calculate the regulatory capital backing for operational risks.

Risk management and monitoring

As part of the Operational Risk Applications Environment (OPAL) measure, the platform for the recording of OpRisk events for BayernLB was reconfigured and equipped with new workflows and data corrections were undertaken to improve the data quality in 2019.

Global networking, dependence on technology and the high degree of automation give rise to new vulnerabilities and previously unknown threats. Without an awareness of the existence of these vulnerabilities, some of which are still unknown, and the need to integrate preventive and reactive measures, there is an exponential rise in the risk to data. As a result, these risks are monitored particularly intensively. Operational risks at the BayernLB Group are reported to the Board of Management monthly as part of the regular reporting on risk and on an ad hoc basis if material losses occur. The operational risk loss situation and trends and the resulting measures taken and capital charges form a major part of the regular reporting. Group reporting was expanded in 2019 to include further significant risk types and associated key risk indicators in order to support the early identification and monitoring of risks.

Operational risks are 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

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 activities and resources.

BCM is embedded in the Group Risk Strategy and the Information Security Guidelines. The BCM requirements take account of the Group Risk Strategy and are given concrete form in the Strategic Concept on BCM, which the Group companies set out in their BCM strategies, reflecting the supervisory requirements. 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 effectiveness and suitability of the measures defined. Care is taken to ensure that the interfaces between disruption, emergency and crisis management are clearly defined and that clear escalation and de-escalation processes are in place. As part of BCM annual reporting the business continuity officer reports regularly to the member of the Board of Management responsible for BCM on compliance with standards by Group companies.

Current situation

The losses of EUR 20.0 million in BayernLB Group reported in 2018 were reduced to EUR 18.6 million in large part by partially releasing provisions, especially those at DKB for legal change risks (including the ruling by the Federal Court of Justice on compensation under distance-selling contracts).

The total loss at the BayernLB Group amounted to only EUR 9.8 million in 2019. It stemmed mainly from the event categories implementation, delivery and process management, with a share of 38.7 percent (restated FY 2018: 27.4 percent), external fraud with a share of 37.1 percent (restated FY 2018: 20.6 percent) and customers, products and business practices with a share of 12.1 percent (restated FY 2018: 45.7 percent).

In 2019 DKB's risk profile was principally defined by loss events totalling EUR 8.4 million (FY 2018: 15.0 million) from projects where, for instance, additional costs were incurred as a result of project risks and additional project costs for external consultants as a result of insufficient internal resources. In addition, there was an increase in the number of losses from card misuse in the retail customer business.

Summary

Losses at the BayernLB Group fell sharply year on year in 2019.

Summary and outlook

The risk profile of the BayernLB Group remained stable in financial year 2019.

The BayernLB Group had adequate risk-bearing capacity at all times in the financial year and as at 31 December 2019. The stress scenarios conducted also confirmed that adequate capital is held. In addition, the BayernLB Group had a comfortable supply of liquidity on hand. Risk provisions took appropriate account of known risks. Regulatory solvency requirements were met. Equity capital for the purpose of risk coverage amounted to EUR 11.6 billion (further details are reported in the Notes under Capital management).

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

BayernLB Group's consolidated financial statements

Statement of comprehensive income

Income statement

EUR million	Notes	1 Jan-31 Dec 2019	1 Jan-31 Dec 2018
Interest income		5,935	6,105
Interest income from financial instruments determined using the effective interest method		3,764	3,775
Interest income – other		2,171	2,330
Interest expenses		(4,203)	(4,363)
Interest expenses from financial instruments determined using the effective interest method		(1,804)	(1,930)
Interest expenses – other		(2,399)	(2,434)
Net interest income	(26)	1,733	1,742
Risk provisions	(27)	251	135
Net interest income after risk provisions		1,984	1,877
Commission income		715	676
Commission expenses		(428)	(405)
Net commission income	(28)	287	270
Gains or losses on fair value measurement	(29)	(2)	151
Gains or losses on hedge accounting	(30)	(19)	(50)
Gains or losses on derecognised financial assets[1]	(31)	4	(9)
Gains or losses on financial investments	(32)	40	10
Administrative expenses	(33)	(1,446)	(1,356)
Expenses for the bank levy and deposit guarantee scheme	(34)	(134)	(103)
Other income and expenses	(35)	156	76
Gains or losses on restructuring	(36)	(217)	2
Profit/loss before taxes		**653**	**869**
Income taxes	(37)	(187)	(41)
Profit/loss after taxes		**466**	**828**
Profit/loss attributable to non-controlling interests		(3)	(6)
Consolidated profit/loss		**463**	**822**

Rounding differences may occur in the tables.
1 For financial assets measured at amortised cost.

Statement of comprehensive income

EUR million	Notes	1 Jan-31 Dec 2019	1 Jan-31 Dec 2018
Profit/loss after taxes as per the income statement		**466**	**828**
Components of other comprehensive income temporarily not recognised in profit or loss			
Changes in the revaluation surplus containing gains or losses on fair value measurement of financial assets in the "financial assets mandatorily measured at fair value through other comprehensive income" category	(59)	45	(94)
Change not including deferred taxes		65	(137)
Change in measurement		170	(110)
Reclassification adjustment due to realised gains and losses		(106)	(28)
Change in deferred taxes		(20)	44
Changes in the revaluation surplus containing changes in the fair value of currency swaps arising from currency basis spread fluctuations	(59)	(8)	–
Change not including deferred taxes		(8)	–
Change in measurement		(8)	–
Reclassification adjustment due to realised gains and losses		–	–
Change in deferred taxes		–	–
Currency-related change	(59)	–	–
Change not including deferred taxes		–	–
Change in measurement		–	–
Reclassification adjustment due to realised gains and losses		–	–
Change in deferred taxes		–	–
Components of other comprehensive income permanently not recognised in profit or loss			
Rating-related changes in the fair value of financial liabilities from the “fair value option” category recognised through other comprehensive income	(59)	73	(19)
Change not including deferred taxes		97	(24)
Change in the revaluation surplus for rating-related changes in the fair value of financial liabilities from the “fair value option” category		92	(22)
Change in retained earnings for realised rating-related changes in the fair value of financial liabilities from the “fair value option” category		5	(3)
Change in deferred taxes		(24)	6
Change due to remeasurement of defined benefit plans	(59)	(321)	(86)
Change not including deferred taxes		(355)	(44)
Change in measurement		(355)	(44)
Change in deferred taxes		34	(43)
Other comprehensive income after taxes		**(211)**	**(199)**
Total reported comprehensive income recognised and not recognised in profit or loss		**256**	**629**
Attributable:			
To BayernLB shareholders		252	623
To non-controlling interests		3	6
Total comprehensive income attributable to BayernLB shareholders:			
From continuing operations		252	623
From discontinued operations		–	–

Rounding differences may occur in the tables.

Balance sheet

Assets

EUR million	Notes	31 Dec 2019	31 Dec 2018
Cash reserves	(7, 38)	8,512	3,335
Loans and advances to banks	(8, 39)	31,106	36,610
Loans and advances to customers	(8, 40)	144,997	138,872
Risk provisions	(9, 41)	(973)	(1,043)
Portfolio hedge adjustment assets	(10)	765	407
Assets held for trading	(11, 42)	13,925	12,335
Positive fair values from derivative financial instruments (hedge accounting)	(12, 43)	706	512
Financial investments	(13, 44)	23,561	25,465
Investment property	(14, 45)	28	29
Property, plant and equipment	(14, 46)	544	342
Intangible assets	(15, 47)	102	85
Current tax assets	(24, 48)	205	16
Deferred tax assets	(24, 48)	581	696
Other assets	(16, 49)	1,905	2,565
Total assets		**225,965**	**220,227**

Rounding differences may occur in the tables.

Liabilities

EUR million	Notes	31 Dec 2019	31 Dec 2018
Liabilities to banks	(17, 50)	50,152	54,060
Liabilities to customers	(17, 51)	100,436	93,479
Securitised liabilities	(17, 52)	44,570	45,469
Portfolio hedge adjustment liabilities		–	–
Liabilities held for trading	(18, 53)	10,312	8,225
Negative fair values from derivative financial instruments (hedge accounting)	(19, 54)	1,224	766
Provisions	(20, 55)	4,809	4,251
Current tax liabilities	(24, 56)	241	275
Other liabilities	(21, 57)	583	522
Subordinated capital	(22, 58)	2,107	1,925
Equity	(59)	11,530	11,255
Equity excluding non-controlling interests		11,513	11,237
Subscribed capital		3,412	3,412
Compound instruments	(22)	–	21
Capital surplus		2,182	2,182
Retained earnings		5,659	5,442
Revaluation surplus		109	4
Foreign currency translation reserve		2	2
Distributable profit		150	175
Non-controlling interests		16	18
Total liabilities		**225,965**	**220,227**

Rounding differences may occur in the tables.

Statement of changes in equity

	Parent								Non-controlling interests	
EUR million	Subscribed capital	Compound instruments	Capital surplus	Retained earnings	Revaluation surplus	Currency translation reserve	Consolidated profit/loss	**Equity before non-controlling interests**		**Consolidated equity**
As at 31 Dec 2017	**3,412**	**45**	**2,182**	**4,825**	**288**	**2**	**50**	**10,804**	**13**	**10,817**
Adjusted as per IAS 8	–	–	–	–	–	–	–	–	–	–
First-time application effect pursuant to IFRS 9[1]	–	–	–	58	(174)	–	–	(117)	–	(117)
As at 1 Jan 2018	**3,412**	**45**	**2,182**	**4,883**	**114**	**2**	**50**	**10,687**	**13**	**10,700**
Changes in the revaluation surplus										
Changes in the revaluation surplus from debt instruments - FVOCIM[2]	–	–	–	–	(94)	–	–	(94)	–	(94)
Rating-related changes in the fair value of financial liabilities - FVPLD (FVO)[3]	–	–	–	(3)	(16)	–	–	(19)	–	(19)
Changes in the fair value of currency swaps from currency basis spread fluctuations	–	–	–	–	–	–	–	–	–	–
Currency-related changes	–	–	–	–	–	–	–	–	–	–
Changes due to remeasurement of defined benefit plans	–	–	–	(86)	–	–	–	(86)	–	(86)
Other comprehensive income	*–*	*–*	*–*	*(89)*	*(110)*	*–*	*–*	*(199)*	*–*	*(199)*
Consolidated profit/loss	*–*	*–*	*–*	*–*	*–*	*–*	*822*	*822*	*6*	*828*
Total comprehensive income	*–*	*–*	*–*	*(89)*	*(110)*	*–*	*822*	*623*	*6*	*629*
Capital increase/ capital decrease	–	(1)	–	–	–	–	–	(1)	–	(1)
Changes in the scope of consolidation and other	–	(24)	–	4	–	–	–	(20)	–	(20)
Allocations to/withdrawals from reserves	–	–	–	645	–	–	(645)	–	–	–
Distributions on silent partner contributions, profit participation rights and specific-purpose capital	–	–	–	–	–	–	(1)	(1)	–	(1)
Distribution of profits	–	–	–	–	–	–	(50)	(50)	(1)	(51)
As at 31 Dec 2018	**3,412**	**21**	**2,182**	**5,442**	**4**	**2**	**175**	**11,237**	**18**	**11,255**

Rounding differences may occur in the tables.
Details on equity can be found in note 59.

1 Adjusted as per IFRS 9 (see note 2).
2 Revaluation surplus - gains or losses on fair value measurement of financial assets in the "financial assets mandatorily measured at fair value through other comprehensive income" category.
3 Revaluation surplus - rating-related changes in the fair value of financial liabilities from the "fair value option" category recognised through other comprehensive income, and reclassification of the rating-related changes in the fair value of these financial liabilities to retained earnings.

EUR million	Parent								Non-controlling interests	
	Subscribed capital	Compound instruments	Capital surplus	Retained earnings	Revaluation surplus	Currency translation reserve	Consolidated profit/loss	**Equity before non-controlling interests**		**Consolidated equity**
As at 31 Dec 2018	**3,412**	**21**	**2,182**	**5,442**	**4**	**2**	**175**	**11,237**	**18**	**11,255**
Adjusted as per IAS 8	**–**	**–**	**–**	**218**	**–**	**–**	**–**	**218**	**–**	**218**
First-time application effect pursuant to IFRS 9[1]	–	–	–	–	–	–	–	–	–	–
As at 1 Jan 2019	**3,412**	**21**	**2,182**	**5,660**	**4**	**2**	**175**	**11,455**	**18**	**11,473**
Changes in the revaluation surplus										
Changes in the fair value of debt instruments - FVOCIM[2]	–	–	–	–	45	–	–	45	–	45
Rating-related changes in the fair value of financial liabilities - FVPLD (FVO)[3]	–	–	–	5	68	–	–	73	–	73
Changes in the fair value of currency swaps from currency basis spread fluctuations	–	–	–	–	(8)	–	–	(8)	–	(8)
Currency-related changes	–	–	–	–	–	–	–	–	–	–
Changes due to remeasurement of-defined benefit plans	–	–	–	(321)	–	–	–	(321)	–	(321)
Other comprehensive income	–	–	–	(315)	105	–	–	(211)	–	(211)
Consolidated profit/loss	–	–	–	–	–	–	463	463	3	466
Total comprehensive income	–	–	–	(315)	105	–	463	252	3	256
Capital increase/ capital decrease	–	–	–	–	–	–	–	–	–	–
Changes in the scope of consolidation and other	–	(20)	–	1	–	–	–	(19)	–	(19)
Allocations to/withdrawals from reserves	–	–	–	313	–	–	(313)	–	–	–
Distributions on silent partner contributions, profit participation rights and specific-purpose capital	–	–	–	–	–	–	–	–	–	–
Distribution of profits	–	–	–	–	–	–	(175)	(175)	(5)	(180)
As at 31 Dec 2019	**3,412**	**–**	**2,182**	**5,659**	**109**	**2**	**150**	**11,513**	**16**	**11,530**

Rounding differences may occur in the tables.
Details on equity can be found in note 59.

1 *Adjusted as per IFRS 9 (see note 2).*
2 *Revaluation surplus - gains or losses on fair value measurement of financial assets in the "financial assets mandatorily measured at fair value through other comprehensive income" category.*
3 *Revaluation surplus - rating-related changes in the fair value of financial liabilities from the "fair value option" category recognised through other comprehensive income, and reclassification of the rating-related changes in the fair value of these financial liabilities to retained earnings.*

Cash flow statement

EUR million	1 Jan-31 Dec 2019	1 Jan-31 Dec 2018
Profit/loss after taxes	**466**	**828**
Items in consolidated profit/loss not affecting the cash flow and carryforwards to cash flow from operating activities		
Amortisation, depreciation, writedowns, loss allowances and writeups on receivables and fixed assets	271	207
Changes to provisions	808	217
Changes to other items not affecting cash flow	(651)	(452)
Gains or losses on the sale of assets	1	17
Other adjustments (net)	(1,516)	(1,382)
Sub-total	**(621)**	**(565)**
Changes to assets and liabilities from operating activities		
Loans and advances		
To banks	5,505	1,177
To customers	(6,447)	(4,342)
Risk provisions	(244)	(213)
Securities (unless financial investments) and derivatives	2,730	(1,264)
Other assets from operating activities	660	(516)
Liabilities		
To banks	(3,918)	(396)
To customers	6,889	1,382
Securitised liabilities	(1,034)	3,356
Other liabilities from operating activities	(186)	(293)
Cash flows from hedging derivatives	244	(82)
Interest and dividends received	9,009	10,144
Interest paid	(7,477)	(8,737)
Income tax payments	(16)	(25)
Cash flow from operating activities	**5,094**	**(374)**
Proceeds from the sale of		
Financial investments	8	39
Property, plant and equipment	1	–
Intangible assets	2	–
Payments for the acquisition of		
Financial investments	(19)	(7)
Property, plant and equipment	(37)	(18)
Intangible assets	(52)	(37)
Cash flow from investing activities	**(97)**	**(21)**
Disbursements to company owners and minority shareholders	(180)	(52)
Changes in cash from subordinated capital (net)	252	25
Cash flow from financing activities	**73**	**(27)**
Cash and cash equivalents at end of previous period	3,335	3,556
+/- cash flow from operating activities	5,094	(374)
+/- cash flow from investing activities	(97)	(21)
+/- cash flow from financing activities	73	(27)
+/- exchange-rate, scope of consolidation and measurement-related changes in cash and cash equivalents	107	202
Cash and cash equivalents at end of period	**8,512**	**3,335**

Rounding differences may occur in the tables.

Details on the cash flow statement can be found in note 71.

Notes

Notes to the consolidated financial statements

The consolidated financial statements for Bayerische Landesbank, an institution established under public law, Munich, Germany (BayernLB), entered in the Commercial Register at Munich District Court (HRA 76030), for financial year 2019 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 315e para. 1 of the German Commercial Code (HGB). In addition to the IFRS standards, IFRSs 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 2019 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. Rounding differences may occur in the tables. In the 2019 financial year, the use of plus and minus signs in the tables of the notes was changed to improve comprehensibility. Brackets are now used for figures for expenses and reductions in opening balances when showing changes in amounts over time; the previous year has been adjusted accordingly. The respective balance sheet items are defined as classes for the required disclosures for each class of financial assets and financial liabilities.

The Group management report has been published in a separate section of the annual report and also includes the information required under IFRS 7.31 to IFRS 7.42 – with the exception of the information on default risk as per IFRS 7.35A to IFRS 7.38, which is included in the notes.

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 through profit or loss 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 and interpretations had to be applied for the first time:

- *IFRS 9*
  The changes to IFRS 9 Financial Instruments permit measurement at amortised cost or at fair value through other comprehensive income for financial assets with early repayment options where the terminating party receives reasonable consideration for early termination of the contract. There was no impact on BayernLB's consolidated financial statements as at 31 December 2019.

- *IFRS 16*
  The new IFRS 16 Leases – which replaces IAS 17 Leases and the interpretations IFRIC 4 Determining Whether an Arrangement Contains a Lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions in the Legal Form of a Lease – contains new rules on the accounting treatment of leases.

  The new standard generally requires the lessee to recognise all leases and associated contractual rights and obligations in the balance sheet. Under IFRS 16, the lessee recognises a lease liability in its balance sheet for the obligation to make future lease payments. At the same time, it capitalises a right to use the underlying asset that corresponds to the net present value of future lease payments plus initial direct costs, upfront payments and dismantling costs, less any incentive payments received. This means that lessees no longer have to divide leases into operating leases and finance leases. In future the income statement will show depreciation on the capitalised right-of-use assets and interest expenses accruing on leasing liabilities instead of the previously recognised general expenses. In the case of lessors, the rules of IFRS 16 are largely unchanged on the previous rules in IAS 17. The new IFRS 16 also contains a number of other new rules on the definition of a lease, its disclosure and the information in the notes.

  The BayernLB Group applies IFRS 16 modified retrospectively. In the case of real estate leases, the term of the lease was determined retrospectively, taking into account renewal or termination options. Payment obligations from what were previously operating leases were discounted using the corresponding incremental borrowing rate upon transition to the new rule; the weighted average incremental borrowing rate of the BayernLB Group was 1.02 percent. The resulting net present value was recognised as a lease liability. Under the transitional rule, a right-of-use asset was capitalised in the amount of the lease liability.

  The BayernLB Group elected to take the following approach in respect of the options and simplification rules under IFRS 16:

- It applies the exemption from recognising in the balance sheet short-term leases or leases where the underlying asset is of low value.
- Right-of-use assets are reported under property, plant and equipment.
- Lease liabilities are shown under other liabilities.
- To a limited extent, no separation is made in contracts that contain non-lease components in addition to lease components. Each lease component is shown together with the other performance components as a lease.
- IFRS 16 does not apply to leases of intangible assets.

The overall impact of IFRS 16 as at 1 January 2019 was not large enough to have a bearing on decision-making. The first-time application of the new requirements of IFRS 16 had no effect on equity. The capitalisation of a right-of-use asset and the recognition of the lease liability gave rise to a non-material increase of EUR 0.2 billion each in both property, plant and equipment and other liabilities. The effects from the reconciliation of the payment obligations from operating leases under IAS 17 as at 31 December 2018 on the balance sheet lease liabilities under IFRS 16 as at 1 January 2019 were largely the result of discounting using the incremental borrowing rate, utilisation of the simplified rules for leases with low-value underlying assets, and application of extension and termination options and non-lease components. The disclosure requirements that go beyond those of the transitional rules under IFRS 16 are described in note 75.

- *IAS 19*

The changes to IAS 19 Employee Benefits include a stipulation that if a pension plan is amended, curtailed or settled, the current service cost and the net interest must be remeasured using the actuarial assumptions applicable at the time of the plan event. The changes had no impact on BayernLB's consolidated financial statements as at 31 December 2019.

- *IAS 28*

The changes to IAS 28 Investments in Associates and Joint Ventures clarify in particular that IFRS 9 must be applied to long-term interests which in substance form part of the net investment in an entity recognised in accordance with the equity method, but which are not themselves measured in accordance with that method. There was no impact on BayernLB's consolidated financial statements as at 31 December 2019.

- *IFRIC 23*

The new IFRIC 23 Uncertainty over Income Tax Treatments contains rules on the recognition and measurement of uncertain tax positions. These include all income tax matters that are subject to uncertainty as to their acceptance by the tax authorities. The first-time (modified retrospective) application of IFRIC 23 as at 1 January 2019 resulted in what had been a triple-digit million amount of contingent assets from income taxes – with the exception of claims to interest on income taxes – in BayernLB's consolidated financial statements as at 31 December 2018 being recognised as current tax assets, with a corresponding positive effect on equity.

- *Improvements to IFRS – 2015-2017 cycle*
  In the Annual Improvement Cycle relating to IFRSs, several smaller amendments were made to standards IFRS 3 Business Combinations, IFRS 11 Joint Arrangements, IAS 12 Income Taxes and IAS 23 Borrowing Costs. The changes had no impact on BayernLB's consolidated financial statements as at 31 December 2019.

As permitted in the reporting year, BayernLB elected not to engage in voluntary, early application of the following amended standards and interpretations incorporated into European law by the European Commission, whose application becomes mandatory in financial year 2020:

- *IFRS 9, IAS 39 and IFRS 7*
  In September 2019, the International Accounting Standards Board (IASB) issued amendments to IFRS 9 Financial Instruments, IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosures; these were incorporated into European law in January 2020. The amendments to IFRS 9 and IAS 39 allow a temporary exemption from the application of specific hedge accounting requirements for hedges directly affected by the reform of the Interbank Offered Rates (IBOR). IFRS 7 has also been amended to include disclosure requirements with respect to these hedges. The amendments take effect in financial years beginning on or after 1 January 2020. No impact on BayernLB's consolidated financial statements is expected as a result.

- *IAS 1 and IAS 8*
  In October 2018, the IASB issued amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors that reformulate the definition of materiality and standardise it in all IFRSs. Clarifications are also provided on the newly added concept of obscuring information and on the primary users of financial statements. The amendments were incorporated into European law in December 2019 and take effect in financial years beginning on or after 1 January 2020. BayernLB does not expect any impact on its consolidated financial statements as a result of these amendments.

- *Amendments to the references to the Framework in the IFRSs*
  In March 2018, the IASB published amendments to the corresponding references to the Conceptual Framework in the individual IFRSs as a result of the revision of the Conceptual Framework. The amendments were incorporated into European law in December 2019 and take effect in financial years beginning on or after 1 January 2020. No impact on BayernLB's consolidated financial statements is expected from these amendments.

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

- *IFRS 3*
  In October 2018, the IASB published amendments to IFRS 3 Business Combinations that redefined a business. The amendments take effect in financial years beginning on or after 1 January 2020. No impact on BayernLB's consolidated financial statements is expected as a result.

- *IFRS 17*
  In May 2017, the IASB published the new IFRS 17, which contains new rules on the recognition of insurance contracts. IFRS 17 replaces IFRS 4 Insurance Contracts. The Standard takes effect in financial years beginning on or after 1 January 2021. The impact on BayernLB's consolidated financial statements when the new Standard is implemented is currently being analysed.

- *IAS 1*
  In January 2020, the IASB issued amendments to IAS 1 Presentation of Financial Statements that alter the criteria for classifying liabilities as current or non-current. The amendments take effect in financial years beginning on or after 1 January 2022. No impact on BayernLB's consolidated financial statements is expected from these amendments.

(2) Changes on the previous year

Adjustments in accordance with IAS 8.14 et seq.

From the second half of 2019, the rules in IFRS 9 Financial Instruments on hedge accounting were applied in the BayernLB Group, with the exception of portfolio fair value hedges, which continue to be accounted for under IAS 39. The Group is prospectively applying the new rules on hedge accounting in IFRS 9. There was no impact on BayernLB's consolidated financial statements as at 31 December 2019 as a result of the changeover from the previous micro fair value hedge accounting under IAS 39 to IFRS 9.

Changes in accordance with 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. Overall, the changes in measurement produced a charge of EUR 308 million, reducing retained earnings by EUR 303 million. This was largely due to the updating of the discount rate for pension obligations (EUR –476 million) and the trend in payscale salaries and its impact on pension obligations (+EUR 170 million). In particular, the change in the discount rates for restructuring liabilities and liabilities from service anniversaries as well as the trend in payscale salaries affecting restructuring liabilities reduced restructuring gains or losses by EUR 4 million and administrative expenses by EUR 1 million. Due to adjustments, pension obligations rose by EUR 303 million, restructuring liabilities by EUR 4 million and liabilities from service anniversaries by EUR 1 million. The changes in estimates will also have an impact on future periods which currently cannot be reliably estimated.

In the second half of 2019, the criteria for determining a significant increase in default risk were extended to include forbearance measures. This produced a charge of EUR 6 million that was booked to the income statement The impact on future periods cannot be reliably estimated at present.

To improve liquidity risk management, parameters for calculating economic liquidity risk were modified in the second half of 2019. As presented in the BayernLB Group's management scenario in the management report (risk report), this resulted in a reduction of EUR 234 million in the "Up to 1 month" maturity band, EUR 345 million in the "Up to 3 months" maturity band and EUR 516 million in the "Up to 1 year" maturity band in the reporting year, and an increase of

EUR 62 million in the “Up to 5 years” maturity band. The modifications to the parameters will also have an impact on future periods which currently cannot be reliably estimated.

In the second half of 2019, the Bank refined the method for taking macroeconomic and political scenarios into account. This produced effects on gross carrying amounts and exposure in the reporting year (see notes 41, 55, 59 and 72). There was no impact on the income statement at overall portfolio level.

(3) Scope of consolidation

Besides the parent company, the group of companies consolidated within BayernLB comprises 11 (FY 2018: 11) subsidiaries that are consolidated in accordance with IFRS 10.

As before, it does not include any companies within the scope of consolidation that are measured at equity.

Determining the scope of consolidation

BayernLB’s scope of consolidation is determined by materiality criteria. 116 (FY 2018: 116) companies were neither consolidated nor 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 included in the consolidated financial statements (see note 80).

(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 includes entities whose relevant activities are predetermined by a narrowly defined purpose in the articles of association or in other contractual arrangements or where the decision-making power of the governing body is permanently limited. Structured entities are included in the scope of consolidation if they are subsidiaries and material for 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 decision-making 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 also controls a subsidiary if control is exercised by a third party in the interest of and for the benefit of the BayernLB Group (principal-agent relationship). In such cases, 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 consolidating 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 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 disclosed under the equity item as non-controlling interests.

If further equity interests are acquired in a company that is already fully consolidated, the transaction is not classified as a corporate acquisition as defined in IFRS 3 as a controlling relationship was already in existence. The acquisition of an interest is reported instead as a transaction with the minority shareholders. The positive or negative differences remaining after eliminating the additional interests acquired against equity are therefore offset against retained earnings within other comprehensive income.

If first-time consolidation takes place at a later date on materiality grounds, it is not classified as an acquisition as defined in IFRS 3 as control already existed. The positive or negative differences remaining after eliminating against equity are therefore offset against retained earnings within other comprehensive income.

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 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 direct 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 partnership 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 the form of a civil law partnership (e.g. a consortium) 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, 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.

Subsidiaries cease to be consolidated on the date the BayernLB Group loses control over the subsidiary.

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 intra-Group earnings from subsidiaries, all receivables and liabilities, income and expenses and intra-Group 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. When translating currency in subsequent periods, 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 rate on the 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 the end of the month using the ECB average exchange rate. Gains or losses on currency translation are recognised through profit or loss in gains or losses on fair value measurement.

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 the ECB's annual average rate. Currency exchange rate differences arising from this translation are reported in the foreign 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 or obliged to make the agreed payments. Purchases or sales of financial assets (regular-way contracts) are normally recognised on the date of the trade.

All financial instruments, including derivative financial instruments as defined under IFRS 9, are recognised in the balance sheet and assigned to measurement categories. Financial instruments are initially recognised at fair value, which, as a rule, is the cost of acquisition.

The classification of financial instruments is dependent on the business model in which the financial asset is held (business model criterion) and on the contractually agreed cash flow characteristics of the respective financial asset (cash flow criterion).

The business model is determined on the basis of the objective set by management for how groups of financial assets are managed together:

- Financial assets held to collect contractually agreed cash flows are assigned to the "hold to collect" business model.
- Financial assets held to collect contractually agreed cash flows and with a view to being sold are assigned to the "hold to collect and sell" business model.
- Financial assets held for trading or that do not meet the criteria of the "hold to collect" or "hold to collect and sell" business model are assigned to the "residual" business model.

When analysing the cash flow criterion, the Bank must examine each financial asset to determine if the contractually agreed cash flows are solely payments of principal and interest. Contractually agreed cash flows that are solely payments of principal and interest have the characteristics of a typical credit agreement. Interest is normally compensation for the time value of money and default risk, but can also incorporate compensation for other underlying credit risks (e.g. liquidity risk), costs (e.g. administrative costs) in connection with the holding of a financial asset over a certain period of time, and a profit margin. Repayments are repayments of the outstanding capital amount. In the BayernLB Group, the analysis of the cash flow criterion includes in particular an evaluation of the following contractual features: repayment, termination, interest rate, currency, renewal agreement, credit agreement clause and quasi-equity. If an investment is made in certain assets (principally in non-recourse financing), the Bank checks compliance with internal ratios (e.g. loan-to-value) relating to these financing transactions in addition to the general cash flow criterion. If the internal indicators are not complied with, the cash flow criterion is not met.

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

Financial assets measured at fair value through profit or loss

These include financial assets mandatorily measured at fair value through profit or loss (including derivatives in accordance with IFRS 9) and financial assets for which the fair value option was applied (financial assets designated at fair value through profit or loss). Derivative financial instruments which are used as hedges and meet hedge accounting criteria do not come under this category.

- Financial assets mandatorily measured at fair value through profit or loss:
  These include debt instruments that are assigned to the “residual” business model, derivative financial instruments with positive fair values that are recognised in accordance with IFRS 9 and are not designated as hedging instruments as part of hedge accounting, and equity instruments that are held for trading or are not classified as “investments in equity instruments designated at fair value through other comprehensive income”. In addition, the “financial assets mandatorily measured at fair value through profit or loss” category also includes debt instruments that are assigned to the “hold to collect” or “hold to collect and sell” business models but do not meet the cash flow criterion.

  These instruments are measured at fair value. The measurement gains or losses are booked to gains or losses on fair value measurement unless they are measurement gains or losses from equity instruments not held for trading and which are measured at fair value through profit or loss; in this case they are shown in gains or losses on financial investments. Gains or losses on fair value measurement also includes realised and current income. Current income from financial instruments not held for trading and 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. They are used for risk management and have not been concluded for trading purposes.

If debt instruments are allocated to the “residual” business model, they are reported in the balance sheet line item “assets held for trading” in the same way as derivatives and equity instruments held for trading. Debt instruments that must be measured at fair value through profit or loss based on the analysis of the cash flow criterion must be shown under the balance sheet line items “cash reserves”, “loans and advances to banks”, “loans and advances to customers” and “financial investments”. Equity instruments not held for trading and which are measured at fair value through profit or loss are reported under financial investments. As at the reporting date, the BayernLB Group only had loans and advances to customers, assets held for trading and financial investments.

- Financial assets designated at fair value through profit or loss (fair value option):
  The fair value option is applied to reduce or eliminate measurement or recognition inconsistencies. These instruments are measured at fair value. Measurement gains or losses are recognised under gains or losses on fair value measurement. Current income is reported under net interest income.

  The financial assets designated to the fair value option must be shown in the balance sheet line items “cash reserves”, “loans and advances to banks”, “loans and advances to customers” and “financial investments”. As at the reporting date, the BayernLB Group only had financial investments (securities).

Financial assets measured at amortised cost

These include debt instruments that are assigned to the “hold to collect” business model and meet the cash flow criterion and for which the fair value option is not applied. For the most part, these comprise loans.

These instruments are measured at amortised cost. Current income is reported under net interest income. This item also includes modification gains and losses on non-significant modifications of contractually agreed cash flows of financial assets, the loss allowances for which are measured in the amount of the 12-month expected credit losses, and in subsequent accounting the income and expenses from the amortisation of amortised costs of significantly and non-significantly modified financial assets. Modification gains and losses on non-significant modifications of contractually agreed cash flows of financial assets, the loss allowances for which are measured in the amount of the lifetime expected credit losses, are reported in the income statement under “risk provisions”. Realised gains or losses, including significant modification gains or losses, are recognised in gains or losses on derecognised financial assets. For details on the peculiarities of measuring hedged items which meet the hedge accounting criteria, see the section on hedge accounting.

The financial assets falling within this category must be shown in the balance sheet line items “cash reserves”, “loans and advances to banks”, “loans and advances to customers” and “financial investments”. As at the reporting date, the BayernLB Group had holdings only in cash reserves, loans and advances to banks and loans and advances to customers.

Loss allowances for the financial assets reported in the balance sheet items “cash reserves”, “loans and advances to banks” and “loans and advances to customers” are shown separately in the asset item “risk provisions”. In the case of securities included in the balance sheet item “financial investments”, any necessary loss allowances are deducted from the carrying amount of the financial asset. As at the reporting date, the BayernLB Group only had loss allowances for loans and advances to banks and loans and advances to customers. Income and expenses from the release or addition to risk provisions are taken to the income statement in the line item “risk provisions”. Income above the original cost of acquisition from the writeup of the carrying amount of purchased or originated credit-impaired financial assets is also shown here. The method for determining loss allowances is described in note 72.

Financial assets measured at fair value through other comprehensive income

This includes the financial assets mandatorily measured at fair value through other comprehensive income and equity instruments designated at fair value through other comprehensive income.

- Financial assets mandatorily measured at fair value through other comprehensive income: These include debt instruments that are assigned to the “hold to collect and sell” business model and meet the cash flow criterion and for which the fair value option is not applied. For the most part, these comprise securities.

  These instruments are measured at fair value. Measurement gains and losses are reported in the revaluation surplus within other comprehensive income. Current income is reported under net interest income. This item also includes modification gains and losses on non-significant modifications of contractually agreed cash flows of financial assets, the loss allowances for which are measured in the amount of the 12-month expected credit losses, and in subsequent accounting the income and expenses from the amortisation of amortised costs of significantly and non-significantly modified financial assets. Modification gains and losses on non-significant modifications of contractually agreed cash flows of financial assets, the loss allowances for which are measured in the amount of the lifetime expected credit losses, are reported in the income statement under “risk provisions”. If financial assets in the “financial assets mandatorily measured at fair value through other comprehensive income” category are derecognised, the amounts booked in the revaluation surplus are reclassified to the income statement. These realised gains or losses, including gains and losses on significant modifications, are shown in gains or losses on financial investments or other income and expenses. For details on the peculiarities of measuring hedged items which meet the hedge accounting criteria, see the section on hedge accounting.

  The financial assets falling within this category must be shown in the balance sheet line items “cash reserves”, “loans and advances to banks”, “loans and advances to customers” and “financial investments”. As at the reporting date, the BayernLB Group had holdings only in cash reserves, loans and advances to customers and financial investments.

Any necessary loss allowances are shown in the revaluation surplus within other comprehensive income. Income and expenses from the release or addition to risk provisions are taken to the income statement in the line item “risk provisions”. Income above the original cost of acquisition from the writeup of the carrying amount of purchased or originated credit-impaired financial assets is also shown here. The method for determining loss allowances is described in note 72.

- Investments in equity instruments designated at fair value through other comprehensive income:
  This includes equity instruments not held for trading and for which the option has been used to assign them to the “investments in equity instruments designated at fair value through other comprehensive income” category. This category has not been used in the BayernLB Group to date.

Financial liabilities are also measured according to the related measurement category. The categories are differentiated as follows:

Financial liabilities measured at fair value through profit or loss

These include financial liabilities held for trading (including derivatives in accordance with IFRS 9) and financial liabilities for which the fair value option is applied (financial liabilities designated at fair value through profit or loss). Derivative financial instruments which are used as hedges and meet hedge accounting criteria do not come under this category.

- Held-for-trading financial liabilities:
  Besides financial liabilities not used for trading purposes, this category includes derivative financial instruments with negative fair values reported on the balance sheet in accordance with IFRS 9 and not designated as hedging instruments in accordance with hedge accounting criteria.

  These instruments are measured at fair value. Measurement gains or losses are reported under gains or losses on fair value measurement. Realised and current income is 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. They are used for risk management and have not been concluded for trading purposes.

  Financial liabilities in the held-for-trading category (including derivatives) are shown in the balance sheet line item “liabilities held for trading”.

- Financial liabilities designated at fair value through profit or loss (fair value option):
  The fair value option is applied to reduce or eliminate measurement or recognition inconsistencies and to avoid bifurcating embedded derivatives which must be separated. These instruments are measured at fair value. Measurement gains or losses must be recognised under gains or losses on fair value measurement. Current income is reported under net interest income. Changes in value resulting from the Bank's own default risk (rating-related changes in the fair value) are not recognised through profit or loss but are recognised in the revaluation surplus within other comprehensive income, unless this would lead to or exacerbate a mismatch in the disclosure or measurement. There are no such recognition or measurement inconsistencies in the BayernLB Group at present. When financial liabilities in the "fair value option" category are derecognised, the amounts derecognised in the revaluation surplus are reclassified to retained earnings within equity.

  Financial liabilities (structured issues and liabilities with embedded derivatives) designated to the fair value option must be reported in the balance sheet line items "liabilities to banks", "liabilities to customers", "securitised liabilities" and "subordinated capital". In the BayernLB Group only loans and advances to banks, loans and advances to customers and securitised liabilities were held as at the reporting date.

Financial liabilities measured at amortised cost

These include financial liabilities not used for trading purposes and for which the fair value option is not applied.

These instruments are measured at amortised cost. Current income is reported under net interest income. This item also includes modification gains and losses on non-significant modifications of contractually agreed cash flows of financial liabilities, and in subsequent accounting the income and expenses from the amortisation of amortised costs of significantly and non-significantly modified financial liabilities. Realised gains or losses, including significant modification gains or losses, are recognised in net interest income and other income and expenses. For details on the peculiarities of measuring hedged items which meet the hedge accounting criteria, see the section on hedge accounting.

Financial liabilities falling into this category are shown under the balance sheet line items "liabilities to banks", "liabilities to customers", "securitised liabilities" and "subordinated capital".

Derecognition

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

Modification

In the case of contractual amendments to financial assets and financial liabilities that lead to a change in contractual cash flows but are not so significant that they result in derecognition, the gross carrying amount of the financial instrument is remeasured by discounting the modified contractual payments at the original or credit risk-adjusted effective interest rate (non-significant modification). Any resulting modification gain or loss is recognised through profit or loss. In subsequent accounting, the amortised cost of non-significantly modified financial instruments is amortised over their remaining term.

If the contractual rights to cash flows are modified so that they are deemed de facto to have been extinguished or expired, the financial instrument is derecognised and the modified financial instrument booked (significant modification). Any resulting income or expense is recognised through profit or loss. Subsequent accounting is based on the category to which the modified financial instrument is assigned.

When distinguishing between significant and insignificant modifications, the BayernLB Group applies both qualitative criteria (e.g. changes in borrower, currency or type of financial instrument) and quantitative criteria (e.g. adjustment of interest rates or maturities). The evaluation of the quantitative criteria for financial assets is based on the provisions for financial liabilities.

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.

Fair value

The fair value of a financial instrument is the price that would be received for the sale of an asset or paid for the transfer of 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. This means that pricing is regular, bid-ask spreads are small and several price contributors exist with only slightly different prices.

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 applied maximise the use of relevant 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. This method calculates the instruments' value based on their cash flow structures, taking account of their nominal values, residual maturities and the agreed day-count convention. If the financial instrument has a contractually agreed cash flow, the cash flow structure is calculated using the agreed 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, secured and unsecured yield curves, and a risk-adjusted spread. Market data is used where spreads are publicly available. Bid-ask valuations are used for fair value measurement.

To determine the fair values of asset-side loans and advances whose loss allowances are measured in the amount of the 12-month expected credit losses (Stage 1 of the general approach for determining loss allowances), in the amount of the lifetime expected credit losses (Stage 2 of the general approach for determining loss allowances) or in the amount of the lifetime expected credit losses and that are credit-impaired (Stage 3 of the general approach for determining loss allowances and purchased or originated credit-impaired financial assets (POCI)) for which, however, the creation of a risk provision was not necessary despite credit-impairment, the contractually agreed cash flows are discounted using the cost curve plus transaction-specific measurement spreads. This also applies to POCI that were no longer credit-impaired on the reporting date. The cost curve corresponds to the risk-free yield curve and a liquidity spread curve, which differs depending on the currency and cover status of the transaction. In addition to a constant margin over the term of the transaction, which is determined at the time the transaction is concluded, the transaction-specific valuation spread includes an updated risk component that reflects the creditworthiness of the business partner over time. Optional components included in credit agreements (e.g. termination options) are valued using common assessment methods. When determining the fair values of credit transactions whose loss allowances are measured in the amount of the lifetime expected credit losses and that are credit-impaired (Stage 3 of the general approach for determining loss allowances and POCI), and for which a risk provision was necessary due to the credit-impairment, the expected losses are taken into account by adjusting the cash flows for the risk costs and consequently not including them in the discounting in the form of a credit spread. The fair values of credit transactions measured at fair value through profit or loss are determined using the same approach on the basis of credit spreads observable on the market.

In the case of borrowing, cash flows are discounted using the risk-free yield curve plus a liquidity spread curve which reflects BayernLB's current credit rating and differs depending on the currency and the cover status of the transaction.

The liquidity 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.

As mid-rate inputs are usually used when theoretically measuring fair values of derivatives, an accounting fair-value discount is determined on the basis of bid-ask spreads. In the case of OTC derivatives, discounting takes account of the collateral status and currency. In addition, the Bank takes account of counterparty risk and own default risk using credit valuation adjustments (CVA) and debit valuation adjustments (DVA). These values are calculated by conducting a Monte Carlo simulation of future fair values, taking account of any netting or collateral agreements and weighting default probabilities based on credit spreads. The Bank also factors in bank-specific financing conditions using a funding valuation adjustment (FVA). Any allocations to individual transactions are made on the basis of the relative credit adjustment approach.

Options and other derivative financial instruments with option characteristics are measured largely using the Black-Scholes option pricing model. The displaced diffusion model is used to calculate valuations when interest rates are negative. In turn, the Black-Scholes model is used here after parallel shifting of the strike price and forward price parameters (depending on the product type and currency). The following inputs are used when measuring: cumulative probability distribution function for standard normal distribution, option strike prices, continuously compounding risk-free interest rates (for different currencies and maturities), volatility, time to option expiry, estimated dividends, interest rate and pricing barriers, discounts, increments and probability of occurrence.

The binomial model is used for options with several possible exercise dates. Publicly accessible market data is also used in the measurement.

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

Summary of the principal 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, displaced diffusion
Forward exchange transactions	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), in which the expected and valuation-relevant cash flows are based on budgeted values of the companies in question, which are discounted to the valuation date using a risk-adjusted capitalisation rate based on a capital asset pricing model.

The valuation models presented above are therefore used to calculate the fair values of financial instruments in the “financial assets measured at fair value through profit or loss”, “financial assets measured at amortised cost”, “financial assets measured at fair value through other comprehensive income”, “financial liabilities measured at fair value through profit or loss” and “financial liabilities measured at amortised cost” categories. The balance sheet items most affected are loans and advances to banks, loans and advances to customers, assets held for trading, positive fair values from derivative financial instruments (hedge accounting), financial investments, liabilities to banks, liabilities to customers, securitised liabilities, liabilities held for trading, negative fair values from derivative financial instruments (hedge accounting) and subordinated capital.

Embedded derivatives

Derivative financial instruments embedded in financial liabilities 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 compound (structured) products, no separation is made if the fair value option has been applied.

Hedge accounting

For risk management purposes, derivative financial instruments are used to hedge recognised financial assets and recognised financial liabilities. These hedged items are accounted for and measured on the basis of whether they meet hedge accounting criteria or are economic hedges.

The BayernLB Group conducts hedge accounting in the form of micro fair value hedges in accordance with IFRS 9 and portfolio fair value hedges in accordance with IAS 39 in order to hedge interest-rate risk and, from the second half of 2019, in the form of group fair value hedges in accordance with IFRS 9 in order to hedge currency risks (see note 64).

Derivatives used to hedge the fluctuations in the fair value of financial assets and financial liabilities on the balance sheet are measured at fair value and changes in their value are recognised through profit or loss. If the currency basis spread of a financial instrument is separate from a financial instrument and exempt from being designated as a hedging instrument, fair value changes arising from currency basis spread fluctuations are booked as hedging costs to other comprehensive income. The carrying amounts of hedged items in a micro hedge are adjusted in line with gains or losses on measurements attributable to the hedged risk and are recognised in the income statement. Where the fluctuations in the fair value are hedged in a portfolio hedge, the cumulative gains or losses on measurement attributable to the hedged risk for financial assets are recognised under portfolio hedge adjustment assets and the carrying amounts of the hedged items left at amortised cost.

Changes in the fair value of hedging instruments carried to profit or loss and changes in the fair value of hedged items arising from the hedged risk are reported under gains or losses on hedge accounting. Changes in the fair value from currency basis spread fluctuations are shown in the revaluation surplus in other comprehensive income. Interest income and expenses from hedging derivatives are recognised as net interest income. Derivative financial instruments (hedge accounting) are reported under positive fair values from derivative financial instruments (hedge accounting) or negative fair values from derivative financial instruments (hedge accounting).

Derivative financial instruments in economic hedges that do not meet hedge accounting criteria are recognised and measured in accordance with their categorisation as financial assets measured at fair value through profit or loss or financial liabilities measured at fair value through profit or loss. The amounts are reported under assets held for trading or liabilities held for trading. Measurement gains or losses are reported under gains or losses on fair value measurement. 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 issued by public entities and bills of exchange eligible for refinancing with central banks. Cash and balances at central banks are recognised at nominal value. Debt certificates issued by public entities and bills of exchange eligible for refinancing with central banks are financial assets assigned to the “hold to collect and sell” business model. These are measured at fair value and not carried to the income statement (see the comments on financial assets mandatorily measured at fair value through other comprehensive income in note 6).

(8) Loans and advances

Loans and advances to banks are non-derivative financial assets, which are allocated to the “hold to collect” or “hold to collect and sell” business models, regardless of whether they meet the cash flow criterion. These items are measured according to the related measurement category (refer to note 6).

(9) Risk provisions

Risk provisions comprise loss allowances for financial assets in the “financial assets measured at amortised cost” category which are recognised in the balance sheet line items “cash reserves”, “loans and advances to banks”, “loans and advances to customers” and “other assets”. For the calculation of loss allowances, including a breakdown of loss allowances, refer to note 72.

Income and expenses from the release or addition to risk provisions are taken to the income statement in the line item “risk provisions”.

(10) Portfolio hedge adjustment assets

This balance sheet item shows the changes in value of the hedged items for which fair value hedge accounting in the form of portfolio hedges was used.

(11) Assets held for trading

Assets held for trading include debt instruments that are assigned to the “residual” business model, derivative financial instruments with positive fair values that are recognised in accordance with IFRS 9 and are not designated as hedging instruments as part of hedge accounting, and equity instruments that are held for trading. Refer to note 6 for information on financial assets mandatorily measured at fair value through profit or loss“ (including derivatives).

If the requirements for netting financial assets against financial liabilities are met, derivative financial instruments are recognised at the net value of their market price and any variation margin paid or received.

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

This item on the balance sheet includes derivative financial instruments with positive fair values, which are used as hedges and meet hedge accounting criteria. The derivative instruments are measured at fair value. Changes in the fair value of hedging instruments recognised through profit or loss and changes in the fair value of hedged items arising from the hedged risk are reported under gains or losses on hedge accounting. Changes in the fair value from currency basis spread fluctuations are shown in the revaluation surplus in other comprehensive income. Interest income and expenses from hedging derivatives are recognised as net interest income.

If the requirements for netting financial assets against financial liabilities are met, derivative financial instruments are recognised at the net value of their market price and any variation margin paid or received.

(13) Financial investments

Financial investments comprise bonds, notes and other fixed-income securities, equities and other non-fixed income securities, investments and other financial investments. They are debt instruments allocated to the “hold to collect” or “hold to collect and sell” business models, regardless of whether they meet the cash flow criterion, and equity instruments not held for trading. These items are measured according to the related measurement category (refer to note 6).

(14) Investment property and property, plant and equipment

Land or buildings held for the purposes of earning rental income or capital appreciation is reported on the balance sheet under investment property. Property, plant and equipment comprises owner-occupied property, furniture and office equipment (including equipment leased under operating leases). These balance sheet line items comprise, besides own assets, capitalised rights as a lessee to use the underlying assets.

Mixed-use property that can be disposed of separately is allocated proportionately to the “investment property” and the “property, plant and equipment” items. If a theoretical division of the property is impossible, the entire property is reported as an investment asset if only a non-material proportion (less than 10 percent) is held for internal operations.

Upon initial recognition, property, plant and equipment is recognised at cost. Subsequent costs are capitalised if they lead to a significant improvement in the asset and thus add to the future economic benefit of the asset. Depreciable property, plant and equipment is subsequently reported on the balance sheet after deducting for straight-line depreciation corresponding to the useful life. BayernLB applies the option under IAS 40 to measure investment property at amortised cost.

Useful life is determined by considering the expected physical wear and tear, technical obsolescence and legal and contractual restrictions. In the case of buildings, the components are depreciated over their specific useful life (component approach).

All property, plant and equipment and investment property is depreciated on a straight-line basis over the following periods:

- Buildings 28 - 93 years
- Furniture and office equipment 3 - 25 years

Impairments are recognised in the amount by which the carrying amount exceeds the greater of the fair value less cost to sell and the value in use (impairment test). If the reasons for impairment cease to apply, an impairment reversal (writeup) is made up to no more than the value of the amortised cost.

Depreciation and impairment of investment property is reported under other income and expenses, while depreciation and impairment of property, plant and equipment is shown under administrative expenses. Writeups are reported in other income and expenses.

For materiality reasons acquisitions of low-value property, plant and equipment are recognised directly in administrative expenses. Profits and losses from the sale of property, plant and equipment and investment property are reported under other income and expenses.

(15) Intangible assets

Intangible assets comprise internally generated intangible assets and other intangible assets (purchased software).

The development costs of internally generated intangible assets are capitalised where their production is likely to result in an inflow of economic benefits and costs can be determined reliably. Expenditure on research is not capitalised but recognised through profit or loss.

Intangible assets are reported on the balance sheet 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. Useful life is determined by considering the expected technical obsolescence and legal and contractual restrictions.

Impairments are recognised in the amount by which the carrying amount exceeds the greater of the fair value less cost to sell and of the value in use (impairment test). If the reasons for impairment cease to apply, an impairment reversal (writeup) is made up to no more than the value of the amortised cost.

Amortisation and impairment of intangible assets is reported under administrative expenses. Writeups are reported in other income and expenses.

(16) Other assets

Other assets comprise assets not allocated to one of the other items on the assets side. This item includes emissions certificates, precious metals and claims from reinsurance. The measurement depends on the regulations for the respective asset.

(17) Liabilities

Liabilities to banks and customers and securitised liabilities are non-derivative financial liabilities not used for trading purposes. These items are measured according to the related measurement category (refer to note 6).

(18) Liabilities held for trading

Liabilities held for trading includes, besides financial liabilities not used for trading purposes, derivative financial instruments with negative fair values reported on the balance sheet in accordance with IFRS 9 and not designated as hedging instruments in accordance with hedge accounting criteria. For measurement of financial liabilities in the "held for trading" category (including derivatives), refer to note 6.

If the requirements for netting financial assets against financial liabilities are met, derivative financial instruments are recognised at the net value of their market price and any variation margin paid or received.

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

This item on the balance sheet includes derivative financial instruments with negative fair values, which are used as hedges and meet hedge accounting criteria. The derivative instruments are measured at fair value. Changes in the fair value of hedging instruments recognised through profit or loss and changes in the fair value of hedged items arising from the hedged risk are reported under gains or losses on hedge accounting. Changes in the fair value from currency basis spread fluctuations are shown in the revaluation surplus in other comprehensive income. Interest income and expenses from hedging derivatives are recognised as net interest income.

If the requirements for netting financial assets against financial liabilities are met, derivative financial instruments are recognised at the net value of their market price and any variation margin paid or received.

(20) 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 different 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). In addition, 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 salary-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 and length of service. Civil-servant style pension benefits are 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 are eligible for these pension benefits. The full benefits package also includes entitlements to allowances in the event of illness and an entitlement to payments of death benefits.

In essence, no more employees are being added to the number of employees eligible for civil-servant style pension benefits as BayernLB closed the scheme to 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, which BayernLB then reinstated subject to the original 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. BayernLB makes regular contributions 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 are invested through reinsurance and the plan assets invested with a foreign subsidiary are invested through externally managed funds. BayernLB sets the general guidelines for the investment strategy of these funds, but does not take specific investment decisions. The pension plan of the foreign branch is also subject to a legal minimum funding requirement for the plan assets. This obliges the trustee 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.

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. As far as the basic provision is concerned, the contributions to the pension institutions comprise employer-funded allowances based on a defined percentage of annual remuneration. In addition to the basic provision, employees can also pay supplementary contributions into the pension institution through deferred compensation via the employer. 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 rises. As an annual pension rise 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 under the accounting regulations 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 net present value of 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 rise guarantee will be utilised in a financially significant amount.

All direct obligations from pensions, allowances in the event of illness, payments of death benefits and other indirect pension obligations within the BayernLB Group are calculated each year and half-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, fixed rate 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 %	2019	2018
Discount rate for pensions and similar obligations	1.0	1.8
Discount rate for medical obligations and death benefit obligations	1.2	1.8
Changes in salaries[1]	2.0	2.3
Changes in benefits[2]	1.8	2.0
Changes in medical costs	5.3	5.3

1 In the case of non-payscale employees, a different assumption of a 2.5 percent change in estimated future salaries was used as a basis.
2 Eligible social insurance pensions at BayernLB in Germany were calculated to have increased by 2.3 percent.

They are measured in Germany on the basis of the biometric probabilities according to the "Richttafeln 2018G" 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 as at the reporting date. If plan assets exceed pension obligations, the resulting asset is reported under other assets. The asset is recognised mainly on the basis of the future economic benefits it will provide, taking account of future charges from a reduction in contributions due to existing minimum funding requirements being met.

When recognising the pension obligations of a foreign branch, the asset ceiling rules are applied to the resulting asset.

To calculate the amount of the pension provision, the fair value of any plan assets is deducted from the present value of the pension obligation (pension deficit or surplus). 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 reported equity and in parallel in pension provisions. The rules therefore specify that these amounts cannot be reclassified to the income statement in future periods.

Regular contributions to fund pension obligations, pension schemes and pension payments will have a negative impact on the BayernLB Group's liquidity in future periods. The netting of pension obligations and plan assets currently produces a negative financing status at Group level. 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. Existing 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. In this case the trustee and the Group jointly agree on the contribution amount taking into account local legal rules.

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.

Future salary and pension increases are calculated separately for each plan, if necessary, based on the inflation rate, and reflect both the remuneration structure or principles in the respective market and local legal rules or plan-specific regulations.

The risks arising from the pension plans in the BayernLB Group are part of the Bank's Group-wide risk strategy and are governed in the sub-risk strategy for pension risks.

Other provisions

Other provisions include provisions for off-balance sheet transactions, restructuring provisions and other provisions.

Provisions for off-balance sheet transactions are made for contingent liabilities and other liabilities where there is a risk of default. They include loss allowances for financial guarantees and for irrevocable and revocable credit commitments to which the impairment rules in accordance with IFRS 9 are applied (for calculation of loss allowances, including a breakdown of loss allowances, refer to note 72), in addition to provisions for other contingent liabilities and other commitments in accordance with IAS 37.

Restructuring provisions are recognised for termination benefits in accordance with IAS 19 and obligations under contracts in accordance with IAS 37. These are recognised if the BayernLB Group has a detailed formal plan for the restructuring measures and has already begun to carry it out, or if the major details of the restructuring have been announced.

Miscellaneous 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 obligations.

The size of the provision corresponds to the best estimate of the amount that would be required to settle the liability as at the reporting date. The risks and uncertainties associated with the liability are factored into the calculation.

Where the effect of the time value of money is material, provisions are discounted and the present value of the expenditures required to settle the liability is reported. To this end a pre-tax discount rate is used that reflects the current market assessments of the time value of money and the risks specific to the liability.

(21) Other liabilities

Other liabilities comprise liabilities not allocated to one of the other items on the liabilities side. This item includes deferred income and accruals. The measurement depends on the regulations for the respective liability.

(22) Compound 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

- it evidences a residual interest in the assets of an entity after deducting all of its liabilities (IAS 32.11) and
- in particular, it contains no contractual obligation to deliver cash or other financial assets to the contractual partner (IAS 32.16).

The contractual terms of the compound instruments used by BayernLB result in the following accounting treatment and measurement in the consolidated financial statements.

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 the debt component whose present value must be adjusted as necessary to take account of the changed cash flow expectations in accordance with IFRS 9.B5.4.6. 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.

(23) Leasing

Leases are agreements whereby the lessor conveys to the lessee the right to use an asset for an agreed period of time in return for a fee. They are recognised and measured on the basis of whether the BayernLB Group acts as a lessee or lessor.

The BayernLB Group as lessee

As at the date of preparation, lease liabilities are recognised at the net present value of the lease payments not yet made at the time. At the same time, the Bank capitalises a right to use the underlying asset that corresponds to the net present value of future lease payments plus initial direct costs, upfront payments and dismantling costs, less any incentive payments received. The BayernLB Group elects to use the option under IFRS 16 to apply the exemption from recognising in the balance sheet short-term leases or leases where the underlying asset is of low value. The rules in IFRS 16 do not apply to leases of intangible assets. Except for real estate leases, the BayernLB Group does not separate non-lease and lease components from each other.

Right-of-use assets are capitalised in subsequent measurements less straight-line depreciation or amortisation based on the useful life of the underlying assets or the term of the lease. In doing so the Bank also takes account of any impairments or remeasurements of lease liabilities. The carrying amount of the lease liability is adjusted for the accrued interest, the lease payments made and any remeasurements. The right-of-use asset is recognised in the balance sheet under property, plant and equipment. Lease liabilities are shown under other liabilities.

Depreciation and impairments of right-of-use assets are reported in administrative expenses. Interest expenses for lease liabilities are reported under net interest income. Lease payments associated with short-term leases and leases where the underlying asset is of low value are recognised as an expense in administrative expenses or in other income and expenses.

The BayernLB Group as lessor

Leases are recognised and measured on the basis of whether they are classified as finance or operating leases. Since effectively all risks and rewards associated with ownership of the underlying assets remain with the BayernLB Group as lessor, all leases are operating leases.

In the case of operating leases, the leased asset is recognised at amortised cost (see note 14). The lease payments received by the lessee are recognised in other income and expenses. Depreciation and impairments are reported in administrative expenses and other income and expenses.

(24) Tax

Current tax assets and liabilities are measured by applying the currently applicable tax rates and netting against expected tax refunds or tax liabilities.

Deferred tax assets and liabilities result from the temporary differences between the carrying amount of an asset or a liability and the tax base and from unused loss carryforwards and tax credits. This creates tax liabilities or assets expected in the future. Deferred taxes are recognised where permitted. They are measured for each of the companies consolidated within the Group, at the specific relevant 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 passed by the end of the reporting period.

Deferred tax assets are only reported if it is probable that taxable profit in future periods will be sufficiently high to offset the as yet unused tax losses carried forward and deductible temporary differences. The amount of deferred tax assets recognised is calculated on the basis of the tax planning for the company in question or – if a tax group exists – for the 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 other comprehensive income if the underlying item is recognised through other comprehensive income.

Income tax expenses and income calculated on 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

(25) Notes to the segment report

The segment report reflects the business structure of the BayernLB Group. A total of five segments, which are unchanged on the previous year, are shown. As before, the business segments are: Corporates & Mittelstand, Real Estate & Savings Banks/Association, Financial Markets and Deutsche Kreditbank (DKB), supplemented by Central Areas & Others (including Consolidation). The earnings of the consolidated subsidiaries and units are also allocated to the segment to which they have been assigned.

Segment reporting is based on IFRS 8 and thus 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 hence 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 banking transactions and financial services. Net interest income and net commission income are shown respectively as net figures comprising interest income and interest expenses and commission income and commission expenses. The additional information about products and services required under IFRS 8.32 and on non-current assets by geographical region required under IFRS 8.33 (b) is not available as the costs of providing the information would be excessive.

The risk-weighted assets (RWAs) shown include the figures as at the reporting date for credit risk, market risk positions and operational risk. For the Group, the average regulatory capital available over the reporting period is reported as equity. For this, Common Equity Tier 1 (CET1) capital is calculated using the supervisory regulations in force at the time. For the purposes of internal management, economic capital is allocated to the segments in the amount of 14 percent of their average risk-weighted assets. Economic capital is reconciled to regulatory capital in the column headed “Consolidation”.

The return on equity (RoE) shown is calculated on the basis of internal management information from the ratio of profit before taxes to the average regulatory capital (Group)/the average allocated economic capital (at segment level). The cost/income ratio (CIR) is the ratio of administrative expenses and gross profit comprising net interest income, net commission income, gains or losses on fair value measurement, gains or losses on hedge accounting, gains or losses on derecognised financial assets, gains or losses on financial investments and other income and expenses.

Segment reporting as at 31 December 2019

EUR million	Corporates & Mittelstand	Real Estate & Savings Banks/Association	Financial Markets	DKB	Central Areas & Others (including Consolidation)	Group
Net interest income	265	278	187	961	42	**1,733**
Risk provisions	(81)	117	2	(58)	271	**251**
Net commission income	103	139	55	(2)	(8)	**287**
Gains or losses on fair value measurement	40	51	(81)	30	(42)	**(2)**
Gains or losses on hedge accounting	–	1	6	(11)	(15)	**(19)**
Gains or losses on financial investments	3	2	37	15	(17)	**40**
Administrative expenses	(318)	(294)	(230)	(577)	(27)	**(1,446)**
Expenses for the bank levy and deposit guarantee scheme	–	–	–	(47)	(87)	**(134)**
Other income and expenses	(1)	5	2	(12)	162	**156**
Gains or losses on restructuring	–	–	–	–	(217)	**(217)**
Profit/loss before taxes	13	298	(21)	301	63	**653**
Risk-weighted assets (RWAs)	19,854	9,515	7,993	24,714	2,528	**64,604**
Average economic/regulatory capital	2,968	1,313	1,326	3,388	766	**9,761**
Return on equity (RoE) (%)	0.4	22.7	(1.6)	8.9	8.2	**6.7**
Cost/income ratio (CIR) (%)	77.3	61.8	111.4	58.7	22.0	**65.8**
Average number of employees (FTE)	328	639	469	3,852	2,096	**7,384**

Segment reporting as at 31 December 2018

EUR million	Corporates & Mittelstand	Real Estate & Savings Banks/Association	Financial Markets	DKB	Central Areas & Others (including Consolidation)	Group
Net interest income	265	253	182	977	65	**1,742**
Risk provisions	55	17	(3)	(105)	171	**135**
Net commission income	108	133	37	–	(7)	**270**
Gains or losses on fair value measurement	33	151	(6)	(1)	(26)	**151**
Gains or losses on hedge accounting	–	(1)	(5)	(45)	1	**(50)**
Gains or losses on derecognised financial assets	–	(2)	–	(7)	–	**(9)**
Gains or losses on financial investments	(2)	1	25	6	(20)	**10**
Administrative expenses	(297)	(273)	(224)	(506)	(56)	**(1,356)**
Expenses for the bank levy and deposit guarantee scheme	–	–	–	(37)	(65)	**(103)**
Other income and expenses	(2)	7	6	35	31	**76**
Gains or losses on restructuring	–	–	–	–	2	**2**
Profit/loss before taxes	161	284	12	317	96	**869**
Risk-weighted assets (RWAs)	20,971	8,793	9,182	23,738	2,910	**65,594**
Average economic/regulatory capital	2,548	1,038	1,073	3,026	1,529	**9,215**
Return on equity (RoE) (%)	6.3	27.4	1.1	10.5	6.3	**9.4**
Cost/income ratio (CIR) (%)	73.8	50.5	93.8	52.4	126.3	**61.9**
Average number of employees (FTE)	331	583	462	3,435	1,976	**6,787**

Breakdown of the aggregated Central Areas & Others segment results and consolidation entries not allocated to the segments as at 31 December 2019

EUR million	Central Areas & Others	Consolidation	Central Areas & Others (including Consolidation)
Net interest income	22	21	**42**
Risk provisions	271	–	**271**
Net commission income	(8)	–	**(8)**
Gains or losses on fair value measurement	(19)	(24)	**(42)**
Gains or losses on hedge accounting	(15)	–	**(15)**
Gains or losses on financial investments	(17)	–	**(17)**
Administrative expenses	(31)	5	**(27)**
Expenses for the bank levy and deposit guarantee scheme	(87)	–	**(87)**
Other income and expenses	158	4	**162**
Gains or losses on restructuring	(217)	–	**(217)**
Profit/loss before taxes	57	5	**63**
Risk-weighted assets (RWAs)	2,528	–	**2,528**
Average economic/regulatory capital	379	387	**766**

Breakdown of the aggregated Central Areas & Others segment results and consolidation entries not allocated to the segments as at 31 December 2018

EUR million	Central Areas & Others	Consolidation	Central Areas & Others (including Consolidation)
Net interest income	46	19	**65**
Risk provisions	171	–	**171**
Net commission income	(7)	–	**(7)**
Gains or losses on fair value measurement	(7)	(19)	**(26)**
Gains or losses on hedge accounting	1	–	**1**
Gains or losses on financial investments	(20)	–	**(20)**
Administrative expenses	(60)	4	**(56)**
Expenses for the bank levy and deposit guarantee scheme	(65)	–	**(65)**
Other income and expenses	43	(12)	**31**
Gains or losses on restructuring	2	–	**2**
Profit/loss before taxes	104	(8)	**96**
Risk-weighted assets (RWAs)	2,910	–	**2,910**
Average economic/regulatory capital	354	1,174	**1,529**

Notes on delimitation of segments

The Corporates & Mittelstand segment serves large German Mittelstand corporate customers, large German corporations and international companies. This includes DAX, MDAX and family-owned companies, as well as international companies in selected markets throughout the world. In addition, the Corporates & Mittelstand segment conducts the syndicated loan business together with the Bavarian savings banks for their corporate customers. The following core activities are located in this segment: traditional and structured loan financing, including working capital, capex and trade financing, leasing and aircraft financing, support to German companies abroad, and project and export financing for customers worldwide with a focus on the infrastructure, energy and renewable energy sectors. It also offers its customers syndicated loans, some of which as lead manager, and plays a leading role in placing corporate bonds and Schuldschein note loans on the market in cooperation with the Financial 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. In addition, the legally dependent institution Bayerische Landesbodenkreditanstalt, Munich (BayernLabo) and consolidated subsidiary Real I.S. AG Gesellschaft für Immobilien Assetmanagement, Munich (Real I.S.) are allocated to this segment. The Real Estate Division focuses on national and international long-term commercial financing 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 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. In addition, the Savings Banks & Association Division offers a broad range of products and services in the foreign notes and coins and precious metals business as a market leader. 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.

The Financial Markets segment comprises the business area of the same name including the Group Treasury Division[1] and the consolidated subsidiary BayernInvest Kapitalverwaltungsgesellschaft mbH, Munich (BayernInvest). The Financial Markets Business Area is assigned all trading and issuing activities, asset liability management and most of BayernLB's business relationships with banks, insurance companies and other institutional customers. The Financial 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 main component of the DKB segment is the business of the Deutsche Kreditbank Aktiengesellschaft, Berlin (DKB) sub-group. This segment also includes the consolidated subsidiary Bayern Card-Services GmbH – S-Finanzgruppe, Munich (BCS). In addition to providing online banking for its retail customers, DKB's business activities also include the infrastructure and corporate banking markets. In these markets DKB specialises largely in business with customers in promising sectors with long-term growth potential, such as residential property, healthcare, education and research, agriculture and renewable energy. BCS's business activities are focused on credit card services.

The Central Areas & Others segment incorporates the earnings contributions from the central areas Corporate Center, Financial Office, Operating Office, and Risk Office (including Credit Consulting) and Others. The segment also includes transactions that cannot be allocated to either a business area or a central area. The Consolidation column, disclosed with the segment on an aggregate basis, includes consolidation entries not allocated to any segment. These mainly arise from differences in the way intra-Group transactions are measured and the application of hedge accounting to cross-segment derivatives transactions.

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 derecognised financial assets, and gains or losses on financial investments) were EUR 2,294 million (FY 2018: EUR 2,250 million), including EUR 29 million (FY 2018: EUR 35 million) in Europe excluding Germany, and EUR 74 million (FY 2018: EUR 25 million) in America. Of the risk-weighted assets in the amount of EUR 64,604 million (FY 2018: EUR 65,594 million) recognised instead of non-current assets, EUR 213 million (FY 2018: EUR 233 million) relate to Europe excluding Germany and EUR 1,642 million (FY 2018: EUR 1,513 million) relate to America.

1 *In purely organisational terms, the Group Treasury Division ceased to be a part of the Financial Markets Business Area on 16 August 2019.*

Notes to the statement of comprehensive income

(26) Net interest income

EUR million	2019	2018
Interest income	**5,935**	**6,105**
Interest income from financial instruments determined using the effective interest method	3,764	3,775
From lending and money market transactions	3,402	3,432
From financial investments	227	213
From the amortisation of significant and non-significant modifications of financial assets	3	2
From negative interest	133	128
Interest income – other	2,171	2,330
From lending and money market transactions	71	71
From financial investments	32	45
From hedge accounting derivatives	490	593
From derivatives in economic hedges	1,236	1,276
From negative interest	343	344
Interest expenses	**(4,203)**	**(4,363)**
Interest expenses from financial instruments determined using the effective interest method	(1,804)	(1,930)
For liabilities to banks and customers	(1,145)	(1,236)
For securitised liabilities	(434)	(426)
For subordinated capital	(94)	(92)
Modification losses on non-significant modifications of financial assets[1]	(1)	(2)
From the amortisation of significant and non-significant modifications of financial assets	(2)	(2)
Other interest expenses	(50)	(98)
From negative interest	(78)	(74)
Interest expenses – other	(2,399)	(2,434)
For liabilities to banks and customers	(131)	(130)
For securitised liabilities	(53)	(57)
For hedge accounting derivatives	(580)	(619)
For derivatives in economic hedges	(1,166)	(1,183)
Other interest expenses	(70)	(68)
From negative interest	(399)	(376)
Total	**1,733**	**1,742**

1 Modification gains or losses from modifications of contractually agreed cash flows of financial assets, the loss allowances for which are measured in the amount of the 12-month expected credit losses.

Total interest income amounted to EUR 3,319 million (FY 2018: EUR 3,356 million) for financial assets measured at amortised cost and EUR 232 million (FY 2018: EUR 213 million) for financial assets mandatorily measured at fair value through other comprehensive income. Total interest expenses for financial liabilities not measured at fair value through profit or loss were EUR 1,590 million (2018: EUR 1,724 million).

(27) Risk provisions

EUR million	2019	2018
Income from risk provisions	**1,333**	**1,121**
From the release of risk provisions for on and off-balance sheet transactions	899	874
From the write-up of purchased or originated credit-impaired financial assets	106	1
From recoveries on written down receivables	327	246
Expenses for risk provisions	**(1,081)**	**(986)**
From additions to risk provisions for on and off-balance sheet transactions	(1,081)	(985)
Modification losses on non-significant modifications[1]	(1)	(1)
Total	**251**	**135**

1 Not including modification gains or losses from modifications of contractually agreed cash flows of financial assets, the loss allowances for which are measured in the amount of the 12-month expected credit losses.

(28) Net commission income

EUR million	2019	2018
Commission income	**715**	**676**
Securities business	75	60
Credit business	178	184
Payments	40	34
Documentary business	9	9
Credit card business	211	204
Fund business	171	156
Trust transactions	15	16
Other	15	13
Commission expenses	**(428)**	**(405)**
Securities business	(41)	(38)
Broker fees	(10)	(10)
Credit business	(70)	(64)
Payments	(72)	(67)
Documentary business	(6)	(5)
Credit card business	(156)	(147)
Fund business	(66)	(63)
Other	(7)	(10)
Total	**287**	**270**

Net commission income includes expenses of EUR 57 million (FY 2018: EUR 45 million) from financial instruments not measured at fair value through profit or loss.

(29) Gains or losses on fair value measurement

EUR million	2019	2018
Net trading income	**(115)**	**35**
Interest-related transactions	(104)	16
Currency-related transactions	41	33
Equity-related and index-related transactions and transactions with other risks	(75)	(37)
Credit derivatives	(8)	4
Other financial transactions	39	24
Refinancing of trading portfolios	8	8
Trading-related commission	(16)	(13)
Fair value gains or losses on debt instruments in the “financial assets mandatorily measured at fair value through profit or loss” category that are not held for trading	**122**	**105**
Fair value gains or losses from financial instruments in the "fair value option" category	**(9)**	**11**
Total	**(2)**	**151**

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 derivatives in economic hedges, from debt instruments in the “financial assets mandatorily measured at fair value through profit or loss” category that are not held for trading, and from financial instruments in the “fair value option” category are reported under net interest income.

(30) Gains or losses on hedge accounting

EUR million	2019	2018
Gains or losses on micro fair value hedges	**(8)**	**(5)**
Gains or losses on the measurement of hedged items	(202)	(80)
Gains or losses on the measurement of hedging instruments	193	75
Gains or losses on portfolio fair value hedges	**(11)**	**(45)**
Gains or losses on the measurement of hedged items	533	108
Amortisation of the portfolio hedge adjustment	(174)	(156)
Gains or losses on the measurement of hedging instruments	(369)	3
Gains or losses on group fair value hedges	**–**	**–**
Gains or losses on the measurement of hedged items	58	–
Gains or losses on the measurement of hedging instruments	(58)	–
Total	**(19)**	**(50)**

(31) Gains or losses on derecognised financial assets

EUR million	2019	2018
Gains on derecognised financial assets	**8**	**13**
Gains on disposals	2	4
Gains on significant modifications	6	9
Losses on derecognised financial assets	**(4)**	**(22)**
Losses on disposals	–	(3)
Losses on significant modifications	(4)	(19)
Total	**4**	**(9)**

The amounts relate to financial assets in the “financial assets measured at amortised cost” category.

(32) Gains or losses on financial investments

EUR million	2019	2018
Gains or losses on financial investments in the “financial assets mandatorily measured at fair value through other comprehensive income” category	**40**	**26**
Income from financial investments	73	28
Gains on disposals	73	28
Expenses from financial investments	(33)	(2)
Losses on disposals	(33)	(2)
Fair value gains or losses on equity instruments in the “financial assets mandatorily measured at fair value through profit or loss” category that are not held for trading	**–**	**(16)**
Total	**40**	**10**

(33) Administrative expenses

EUR million	2019	2018
Staff costs	**(771)**	**(725)**
Salaries and wages	(615)	(565)
Social security contributions	(82)	(72)
of which:		
Employer contributions to statutory pension scheme	(42)	(34)
Expenses for pensions and other employee benefits	(74)	(89)
of which:		
Expenses for defined contribution plans	(11)	(10)
Other administrative expenses	**(612)**	**(578)**
Expenses for real estate[1]	(33)	(55)
Data processing costs	(260)	(241)
Office costs	(4)	(3)
Advertising	(40)	(37)
Communication and other selling costs	(61)	(57)
Membership, legal and consulting fees	(164)	(138)
Miscellaneous administrative costs	(48)	(45)
Expenses from the amortisation and depreciation of property, plant and equipment and intangible assets	**(63)**	**(53)**
Total	**(1,446)**	**(1,356)**

1 Not including investment property.

(34) Expenses for the bank levy and deposit guarantee scheme

EUR million	2019	2018
Expenses for the bank levy	(56)	(52)
Expenses for the deposit guarantee scheme	(79)	(51)
Total	**(134)**	**(103)**

(35) Other income and expenses

EUR million	2019	2018
Other income	**301**	**208**
Rental income from investment property	3	3
Rental income from non-investment property	1	1
Gains on the sale of hedged items from hedge accounting[1]	4	11
Gains on repurchases of own issues	2	1
Income from the release of provisions	31	81
Interest income from tax refunds due	204	43
Sundry other income	55	67
Other expenses	**(145)**	**(131)**
Current expenses from investment property	(2)	(2)
Leased property	(2)	(2)
Losses on repurchases of own issues	(6)	(24)
Expenses from loss transfers	(6)	(3)
Expenses from the depreciation of investment property	(1)	(1)
Other taxes	6	22
Interest expenses from tax arrears	(62)	(64)
Sundry other expenses	(75)	(59)
Total	**156**	**76**

1 Financial liabilities in the "financial liabilities measured at amortised cost" category.

Sundry other income and sundry other expenses included principally income and expenses that are not typical for banks.

(36) Gains or losses on restructuring

EUR million	2019	2018
Income from restructuring measures	1	5
Expenses for restructuring measures	(218)	(3)
Total	**(217)**	**2**

Gains or losses on restructuring includes the expenses arising from the strategic realignment of BayernLB's business model agreed in the reporting year.

(37) Income taxes

EUR million	2019	2018
Current income taxes	**(80)**	**(121)**
Domestic and foreign corporation tax including solidarity surcharge	(39)	(58)
Municipal trade tax/foreign local taxes	(41)	(63)
Deferred taxes	**(107)**	**79**
Domestic and foreign corporation tax including solidarity surcharge	(68)	40
Municipal trade tax/foreign local taxes	(39)	39
Total	**(187)**	**(41)**

Tax expenses totalled EUR 187 million in the reporting year (FY 2018: EUR 41 million).

Current tax expenses of EUR 80 million (FY 2018: EUR 121 million) arose largely from the current income taxes in the reporting year of the consolidated tax group of the Bank in the amount of EUR 79 million and current income taxes for previous years of EUR –5 million. In addition, the New York branch reported current tax expenses amounting to EUR 3 million.

The deferred tax expense of EUR 107 million (FY 2018: EUR 79 million tax income) mainly arose as a result of the utilisation of recoverable tax loss carryforwards and the change in the value of the loss carryforwards and temporary differences.

The effective tax expenses recognised in the reporting year were EUR 21 million lower (FY 2018: EUR 237 million) than the estimated tax expenses. The factors responsible for this difference are shown in the table below.

EUR million	2019	2018
Profit/loss before taxes	653	869
Group tax rate (in %)	31.9	32.0
Estimated tax expenses (-) / income (+)	**(208)**	**(278)**
Effects from differing local tax rates	20	15
Effects from taxes from previous years recognised in the reporting year	2	203
Effects from changes in tax rates	(2)	1
Effects from additions to/deductions of municipal trade tax	(3)	(1)
Effects from other non-deductible operating expenses	(22)	(41)
Effects from tax-free income	38	68
Effects from permanent accounting differences	(24)	23
Effects from revaluations and corrections	12	(28)
Other	–	(3)
Effective tax expense (-) or income (+)	**(187.0)**	**(41.0)**
Effective tax rate (in %)	**28.6**	**4.7**

In the reporting year, based on the applicable tax rates for corporation tax, the solidarity surcharge and municipal trade tax, the Group tax rate was 31.9 percent as at the reporting date (FY 2018: 32.0 percent).

The impact of differing local tax rates of EUR 20 million (FY 2018: EUR 15 million) was largely due to BayernLabo's earnings not being subject to either corporation tax or trade tax as they are tax exempt.

The main impact on the calculation of the effective tax rate in the reporting year came from off-balance sheet tax income corrections within the consolidated tax group of BayernLB and the effects of impairments and recognition corrections.

The non-deductible operating expenses primarily arose from the non-deductible bank levy in the consolidated tax group of BayernLB. Offsetting tax-free income came primarily from interest refunds for previous years at BayernLB level.

The effects of permanent accounting differences amounting to EUR –24 million (FY 2018: EUR 23 million) arose primarily as a result of the increase in permanent differences from investments in unconsolidated limited companies.

The tax effects from revaluations/corrections of EUR 12 million (FY 2018: EUR –28 million) arose largely from the netting of the tax expense for unrecognised temporary differences and the tax income from the writeup of deferred tax assets from temporary differences in the reporting year. Where the revaluation relates to corrected tax carrying amounts and losses carried forward from previous years, the resulting deferred taxes from previous years were offset.

Notes to the balance sheet

(38) Cash reserves

EUR million	2019	2018
Cash	587	428
Deposits with central banks	7,527	2,907
Debt instruments issued by public entities and bills of exchange eligible for refinancing with central banks	397	–
Total	**8,512**	**3,335**

(39) Loans and advances to banks

EUR million	2019	2018
Loans and advances to domestic banks	23,380	29,748
Loans and advances to foreign banks	7,726	6,862
Total	**31,106**	**36,610**

Loans and advances to banks by maturity

EUR million	2019	2018
Payable on demand	**8,268**	**13,279**
With residual maturity of	**22,838**	**23,332**
Up to 3 months	4,887	4,243
Between 3 months and 1 year	3,308	3,998
Between 1 year and 5 years	6,179	6,591
More than five years	8,465	8,499
Total	**31,106**	**36,610**

(40) Loans and advances to customers

EUR million	2019	2018
Loans and advances to domestic customers	**117,963**	**113,820**
Government entities/companies under public law	22,917	22,790
Private companies/private individuals	95,046	91,030
Loans and advances to foreign customers	**27,033**	**25,052**
Government entities/companies under public law	1,906	1,830
Private companies/private individuals	25,127	23,222
Total	**144,997**	**138,872**

Loans and advances to customers by maturity

EUR million	2019	2018
With residual maturity of	**143,684**	**137,492**
Up to 3 months	13,700	13,199
Between 3 months and 1 year	12,541	10,824
Between 1 year and 5 years	48,266	46,299
More than five years	69,176	67,170
Perpetual maturities	**1,313**	**1,381**
Total	**144,997**	**138,872**

(41) Risk provisions

EUR million	2019	2018
Loss allowances – Stage 1	123	96
Loss allowances – Stage 2	142	206
Loss allowances – Stage 3	665	721
Loss allowances – POCI	44	19
Loss allowances – simplified approach	–	–
Total	**973**	**1,043**

Risk provisions comprise loss allowances for financial assets in the “financial assets measured at amortised cost” category which are recognised in the balance sheet line items “loans and advances to banks” and “loans and advances to customers”.

The loss allowances are broken down in the BayernLB Group as follows:

- Loss allowances measured in the amount of the 12-month expected credit losses (Stage 1)
- Loss allowances measured in the amount of the lifetime expected credit losses for financial assets for which the default risk has increased significantly since initial recognition but which are not credit-impaired financial assets (Stage 2)
- Loss allowances measured in the amount of the lifetime expected credit losses for financial assets that were credit-impaired as at the reporting date but which were not at the time of purchase or origination (Stage 3)
- Loss allowances for purchased or originated credit-impaired financial assets (POCI)

- Loss allowances for trade receivables where the loss allowances are always measured in the amount of the lifetime expected credit losses (simplified approach)

Whereas reclassifications to Stage 3 from Stage 1 or Stage 2 are shown separately in the changes in loss allowances, reclassifications from Stage 3 to Stage 1 or Stage 2 result in the release of loss allowances at Stage 3 and additions to loss allowances at Stage 1 or Stage 2.

Changes in loss allowances – Stage 1

	Loans and advances to banks		Loans and advances to customers		Total	
EUR million	2019	2018	2019	2018	2019	2018
As at 1 Jan	**3**	**3**	**93**	**72**	**96**	**76**
Currency-related changes	–	–	1	(2)	**1**	**(2)**
Changes in the expected credit loss due to changes in the risk parameters	–	1	12	40	**12**	**40**
Additions due to lending/purchases	2	7	31	47	**32**	**54**
Releases due to disposals/redemptions/sales	(1)	(5)	(22)	(45)	**(23)**	**(49)**
Reclassifications to Stage 1 from Stage 2	1	–	39	11	**40**	**11**
Reclassifications from Stage 1 to Stage 2	(2)	(3)	(22)	(25)	**(24)**	**(28)**
Reclassifications from Stage 1 to Stage 3	–	–	(11)	(5)	**(11)**	**(5)**
As at 31 Dec	**3**	**3**	**120**	**93**	**123**	**96**

Changes in loss allowances – Stage 2

	Loans and advances to banks		Loans and advances to customers		Total	
EUR million	2019	2018	2019	2018	2019	2018
As at 1 Jan	**4**	**–**	**202**	**179**	**206**	**179**
Changes in the expected credit loss due to changes in the risk parameters	(1)	1	93	136	**92**	**137**
Additions due to lending/purchases	3	1	21	14	**24**	**15**
Releases due to disposals/redemptions/sales	(7)	(1)	(131)	(113)	**(138)**	**(115)**
Reclassifications to Stage 2 from Stage 1	2	3	22	25	**24**	**28**
Reclassifications from Stage 2 to Stage 1	(1)	–	(39)	(11)	**(40)**	**(11)**
Reclassifications from Stage 2 to Stage 3	–	–	(26)	(28)	**(26)**	**(28)**
As at 31 Dec	**1**	**4**	**141**	**202**	**142**	**206**

Changes in loss allowances – Stage 3

EUR million	Loans and advances to banks		Loans and advances to customers		Total	
	2019	2018	2019	2018	2019	2018
As at 1 Jan	**2**	**–**	**719**	**842**	**721**	**842**
Currency-related changes	–	–	5	3	**5**	**3**
Changes in the expected credit loss due to changes in the risk parameters	4	2	175	102	**178**	**104**
Additions due to lending/purchases	–	–	83	87	**83**	**87**
Releases due to disposals/redemptions/sales	–	–	(127)	(131)	**(127)**	**(131)**
Utilisations/writedowns	–	–	(236)	(212)	**(236)**	**(213)**
Unwinding	–	–	(15)	(14)	**(15)**	**(14)**
Reclassifications to Stage 3 from Stage 1	–	–	11	5	**11**	**5**
Reclassifications to Stage 3 from Stage 2	–	–	26	28	**26**	**28**
Transfers/other changes	1	–	16	11	**17**	**11**
As at 31 Dec	**6**	**2**	**658**	**719**	**665**	**721**

Changes in loss allowances – POCI

EUR million	Loans and advances to customers		Total	
	2019	2018	2019	2018
As at 1 Jan	**19**	**27**	**19**	**27**
Changes in the expected credit loss due to changes in the risk parameters	12	2	**12**	**2**
Additions due to lending/purchases	8	6	**8**	**6**
Releases due to disposals/redemptions/sales	(10)	(14)	**(10)**	**(14)**
Utilisations/writedowns	(8)	–	**(8)**	**–**
Unwinding	(2)	(2)	**(2)**	**(2)**
Transfers/other changes	24	–	**24**	**–**
As at 31 Dec	**44**	**19**	**44**	**19**

The total volume of non-discounted expected credit losses as at first-time recognition of purchased or originated credit-impaired financial assets was EUR 75 million (FY 2018: EUR 48 million) in the reporting year. All of these relate to loans and advances to customers.

The gross carrying amount of financial assets in the "financial assets measured at amortised cost" category which are recognised in the balance sheet line items "cash reserves", "loans and advances to banks", "loans and advances to customers" and "other assets" stood at EUR 183,353 million (FY 2018: EUR 177,992 million) as at the reporting date and comprised:

EUR million	2019	2018
Financial assets – Stage 1	174,272	139,446
Financial assets – Stage 2	7,396	36,707
Financial assets – Stage 3	1,494	1,502
Financial assets – POCI	153	314
Trade receivables – simplified approach	37	23
Total	**183,353**	**177,992**

The table below shows the extent to which changes in the gross carrying amount of financial assets contributed to changes in the loss allowance.

Changes in gross carrying amounts – Stage 1

	Cash reserves		Loans and advances to banks		Loans and advances to customers		Total	
EUR million	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**
As at 1 Jan	**3,335**	**3,556**	**24,884**	**37,232**	**111,227**	**121,644**	**139,446**	**162,432**
Currency-related changes	30	57	122	318	125	114	**276**	**488**
Lending/ purchases	12,782	6,729	119,434	156,473	46,348	89,875	**178,565**	**253,078**
Disposals/ redemptions/sales	(8,033)	(7,007)	(135,736)	(159,566)	(41,930)	(86,558)	**(185,699)**	**(253,131)**
Non-significant modifications	–	–	–	–	6	(1)	**6**	**(1)**
Reclassifications to Stage 1 from Stage 2	–	–	23,797	159	33,679	1,943	**57,475**	**2,102**
Reclassifications to Stage 1 from Stage 3	–	–	–	–	24	24	**24**	**24**
Reclassifications from Stage 1 to Stage 2	–	–	(2,333)	(9,940)	(13,823)	(15,526)	**(16,155)**	**(25,466)**
Reclassifications from Stage 1 to Stage 3	–	–	–	–	(49)	(267)	**(49)**	**(267)**
Transfers/other changes	–	–	433	209	(51)	(21)	**383**	**188**
As at 31 Dec	**8,114**	**3,335**	**30,602**	**24,884**	**135,556**	**111,227**	**174,272**	**139,446**

Changes in gross carrying amounts – Stage 2

EUR million	Loans and advances to banks 2019	Loans and advances to banks 2018	Loans and advances to customers 2019	Loans and advances to customers 2018	Total 2019	Total 2018
As at 1 Jan	**11,720**	**547**	**24,987**	**8,604**	**36,707**	**9,151**
Currency-related changes	68	–	187	52	**255**	**53**
Lending/ purchases	44,467	3,377	30,372	6,260	**74,839**	**9,637**
Disposals/redemptions/sales	(34,256)	(1,993)	(28,318)	(3,192)	**(62,574)**	**(5,185)**
Non-significant modifications	–	–	(3)	(4)	**(3)**	**(4)**
Reclassifications to Stage 2 from Stage 1	2,333	9,940	13,823	15,526	**16,155**	**25,466**
Reclassifications to Stage 2 from Stage 3	–	–	85	30	**85**	**30**
Reclassifications from Stage 2 to Stage 1	(23,797)	(159)	(33,679)	(1,943)	**(57,475)**	**(2,102)**
Reclassifications from Stage 2 to Stage 3	–	(2)	(593)	(342)	**(593)**	**(344)**
Transfers/other changes	7	9	(7)	(4)	**–**	**5**
As at 31 Dec	**543**	**11,720**	**6,854**	**24,987**	**7,396**	**36,707**

Changes in gross carrying amounts – Stage 3

EUR million	Loans and advances to banks 2019	Loans and advances to banks 2018	Loans and advances to customers 2019	Loans and advances to customers 2018	Total 2019	Total 2018
As at 1 Jan	**5**	**4**	**1,497**	**2,979**	**1,502**	**2,984**
Currency-related changes	–	–	8	12	**8**	**12**
Lending/ purchases	1	4	365	805	**365**	**808**
Disposals/redemptions/sales	–	(6)	(880)	(2,755)	**(880)**	**(2,760)**
Utilisations/writedowns	–	–	(32)	(104)	**(32)**	**(104)**
Non-significant modifications	–	–	1	–	**1**	**–**
Reclassifications to Stage 3 from Stage 1	–	–	49	267	**49**	**267**
Reclassifications to Stage 3 from Stage 2	–	2	593	342	**593**	**344**
Reclassifications from Stage 3 to Stage 1	–	–	(24)	(24)	**(24)**	**(24)**
Reclassifications from Stage 3 to Stage 2	–	–	(85)	(30)	**(85)**	**(30)**
Transfers/other changes	–	**–**	(3)	**4**	**(3)**	**4**
As at 31 Dec	**6**	**5**	**1,488**	**1,497**	**1,494**	**1,502**

Changes in gross carrying amounts – POCI

EUR million	Loans and advances to banks 2019	Loans and advances to banks 2018	Loans and advances to customers 2019	Loans and advances to customers 2018	Total 2019	Total 2018
As at 1 Jan	**–**	**–**	**314**	**232**	**314**	**232**
Currency-related changes	–	**–**	1	**–**	**1**	**–**
Lending/purchases	1	**–**	106	**222**	**107**	**222**
Disposals/redemptions/sales	–	**–**	(281)	**(156)**	**(281)**	**(156)**
Utilisations/writedowns	–	**–**	(11)	**–**	**(11)**	**–**
Transfers/other changes	–	**–**	24	**15**	**24**	**15**
As at 31 Dec	**1**	**–**	**153**	**314**	**153**	**314**

Changes in gross carrying amounts – simplified approach

EUR million	Other assets 2019	Other assets 2018	Total 2019	Total 2018
As at 1 Jan	**23**	**37**	**23**	**37**
Lending/purchases	32	16	**32**	**16**
Disposals/redemptions/sales	(18)	29	**(18)**	**(29)**
As at 31 Dec	**37**	**23**	**37**	**23**

The reclassification of gross carrying amounts to Stage 1 from Stage 2 in the amount of EUR 57,475 million and the corresponding reclassification of loss allowances in the amount of EUR 40 million are mainly due to the change to the method for recognising macroeconomic and political scenarios (see note 2) which could arise in the event of a no-deal Brexit and the potential formation of a bubble in international real estate markets (for the derivation of the scenarios, see note 74).

(42) Assets held for trading

EUR million	2019	2018
Bonds, notes and other fixed-income securities	**2,304**	**2,085**
Money market instruments	449	434
Bonds and notes	1,855	1,651
Equities and other non-fixed income securities	**666**	**398**
Equities	666	398
Loans and advances	**2,078**	**1,992**
Schuldschein note loans	1,992	1,986
Loan syndications	86	6
Positive fair values from derivative financial instruments (not hedge accounting)	**8,877**	**7,860**
Total	**13,925**	**12,335**

Assets held for trading by maturity

EUR million	2019	2018
With residual maturity of	**13,259**	**11,937**
Up to 3 months	1,067	1,235
Between 3 months and 1 year	998	1,124
Between 1 year and 5 years	3,077	2,857
More than five years	8,117	6,722
Perpetual maturities	**666**	**398**
Total	**13,925**	**12,335**

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

EUR million	2019	2018
Positive fair values from micro fair value hedges	647	512
Positive fair values from group fair value hedges	60	–
Total	**706**	**512**

Positive fair values from derivative financial instruments (hedge accounting) by maturity

EUR million	2019	2018
With residual maturity of		
Up to 3 months	2	8
Between 3 months and 1 year	2	7
Between 1 year and 5 years	102	21
More than five years	599	477
Total	**706**	**512**

(44) Financial investments

EUR million	2019	2018
Bonds, notes and other fixed-income securities	**22,763**	**24,677**
Bonds and notes	22,763	24,677
Equities and other non-fixed income securities	**225**	**210**
Investment units	225	210
Equity interests	**547**	**445**
Interests in unconsolidated subsidiaries	143	156
Interests in joint ventures not measured at equity	1	1
Interests in associates not measured at equity	3	8
Other equity interests	401	280
Other financial investments	**26**	**134**
Total	**23,561**	**25,465**

Financial investments by maturity

EUR million	2019	2018
With residual maturity of	**22,793**	**24,813**
Up to 3 months	913	1,020
Between 3 months and 1 year	1,885	2,165
Between 1 year and 5 years	11,598	11,795
More than five years	8,397	9,833
Perpetual maturities	**769**	**652**
Total	**23,561**	**25,465**

For the presentation of the loss allowances for financial investments in the “financial assets mandatorily measured at fair value through other comprehensive income” category refer to note 59.

(45) Investment property

EUR million	2019	2018
Leased property	28	29
Total	**28**	**29**

Changes in investment property

EUR million	2019	2018
Cost		
As at 1 Jan	56	59
Transfers	–	(3)
As at 31 Dec	56	56
Depreciation, writedowns and writeups		
As at 1 Jan	(26)	(28)
Depreciation	(1)	(1)
Transfers	–	3
As at 31 Dec	(28)	(26)
Carrying amount		
As at 1 Jan	29	31
As at 31 Dec	28	29

As at the reporting date, the fair value of investment property was EUR 72 million (FY 2018: EUR 72 million). The fair value was calculated by independent experts and based on the German income method (Ertragswertverfahren) using market and geodata. The main inputs are unobservable (Level 3 in the fair value hierarchy).

As at the reporting date, there was a restriction on the realisability of an investment property in the amount of EUR 8 million (FY 2018: EUR 9 million).

(46) Property, plant and equipment

EUR million	2019
Property	**301**
Owner-occupied property	286
Assets leased under operating leases	15
Furniture and office equipment	**47**
Right-of-use assets from leases	**196**
Total	**544**

Changes in property, plant and equipment

EUR million	Real Estate[1] 2019	Furniture and office equipment 2019	Right-of-use assets from leases 2019	Total 2019
Cost				
As at 1 Jan	385	123	207	**715**
Additions	6	19	12	**37**
Transfers	–	1	–	**1**
Disposals	(1)	(17)	–	**(18)**
As at 31 Dec	390	126	220	**735**
Depreciation, writedowns and writeups				
As at 1 Jan	(81)	(86)	–	**(167)**
Depreciation	(8)	(9)	(23)	**(40)**
Impairments	–	(1)	–	**(1)**
Disposals	–	17	–	**17**
As at 31 Dec	(89)	(78)	(23)	**(191)**
Carrying amount				
As at 1 Jan	304	38	207	**549**
As at 31 Dec	301	47	196	**544**

1 Including assets leased under operating leases.

The following tables show the composition of property, plant and equipment as at 31 December 2018 and their changes over financial year 2018.

EUR million	2018
Owner-occupied property	304
Furniture and office equipment	38
Total	**342**

Changes in property, plant and equipment

EUR million	Owner-occupied property 2018	Furniture and office equipment 2018	Total 2018
Cost			
As at 1 Jan	379	119	**498**
Additions	3	15	**18**
Transfers	3	–	**3**
Disposals	–	(11)	**(11)**
As at 31 Dec	385	123	**508**
Depreciation, writedowns and writeups			
As at 1 Jan	(70)	(88)	**(158)**
Depreciation	(8)	(8)	**(16)**
Impairments	–	–	**–**
Transfers	(3)	–	**(3)**
Disposals	–	10	**10**
As at 31 Dec	(81)	(86)	**(167)**
Carrying amount			
As at 1 Jan	309	31	**340**
As at 31 Dec	304	38	**342**

Expenditure on construction in progress in the reporting year of EUR 1 million (2018: EUR 3 million) was capitalised.

(47) Intangible assets

EUR million	2019	2018
Internally generated intangible assets	47	37
Other intangible assets	55	48
Total	**102**	**85**

Other intangible assets comprise purchased software.

Changes in intangible assets

EUR million	Internally generated intangible assets 2019	Internally generated intangible assets 2018	Other intangible assets 2019	Other intangible assets 2018	Total 2019	Total 2018
Cost						
As at 1 Jan	168	158	220	194	**388**	**352**
Additions	20	9	31	27	**52**	**37**
Transfers	–	1	(1)	(1)	**(1)**	**–**
Disposals	(76)	–	(14)	–	**(90)**	**(1)**
As at 31 Dec	112	168	238	220	**349**	**388**
Depreciation, writedowns and writeups						
As at 1 Jan	(131)	(106)	(172)	(160)	**(303)**	**(266)**
Depreciation	(6)	(8)	(15)	(12)	**(21)**	**(20)**
Impairments	(2)	(17)	(8)	–	**(10)**	**(17)**
Disposals	74	–	13	–	**87**	**–**
As at 31 Dec	(65)	(131)	(182)	(172)	**(247)**	**(303)**
Carrying amount						
As at 1 Jan	**37**	**52**	**48**	**34**	**85**	**86**
As at 31 Dec	**47**	**37**	**55**	**48**	**102**	**85**

The impairment loss of EUR 10 million in the reporting year was due to the discontinuation or decommissioning of internally developed and purchased software in connection with the strategic realignment of BayernLB’s business model agreed in financial year 2019. This was reported in gains or losses on restructuring.

(48) Current and deferred tax assets

EUR million	2019	2018
Current tax assets	**205**	**16**
Domestic	110	3
Abroad	95	13
Deferred tax assets	**581**	**696**
Domestic	536	632
Abroad	45	64
Total	**786**	**711**

Current tax assets arose predominantly (in Germany) from reimbursement claims in the consolidated tax group of BayernLB (EUR 109 million) and in the New York branch (EUR 95 million). This included income tax receivables of the Bank’s domestic units in the amount of EUR 61 million and of the New York branch in the amount of EUR 87 million, which were capitalised in accordance with IFRIC 23.

The following deferred taxes under assets and liabilities relate to recognition and measurement differences in individual balance sheet items, and to tax loss carryforwards:

EUR million	Deferred tax assets 2019	Deferred tax liabilities 2019	Deferred tax assets 2018	Deferred tax liabilities 2018
Loans and advances to banks and customers including risk provisions in Germany	168	254	27	376
Assets held for trading	39	277	25	296
Positive fair values from derivative financial instruments (hedge accounting)	3	440	4	282
Financial investments	48	76	106	40
Property, plant and equipment	1	42	1	41
Other assets	386	159	193	7
Liabilities to banks and customers	365	11	379	–
Securitised liabilities	98	3	111	1
Liabilities held for trading	184	–	442	–
Negative fair values from derivative financial instruments (hedge accounting)	250	26	354	1
Provisions	223	1	117	75
Other liabilities	1	212	7	443
Subordinated capital	5	1	–	15
Loss carryforwards and other	312	–	507	–
Sub-total	**2,083**	**1,502**	**2,273**	**1,577**
less netting	1,502	1,502	1,577	1,577
Total deferred taxes less provisions and netting	**581**	**–**	**696**	**–**

The deferred tax assets and liabilities of each reporting unit subject to taxation and of the consolidated tax group of BayernLB were fully netted, as the applicable tax laws permit current tax liabilities to be offset against current tax assets.

The EUR 115 million change (FY 2018: EUR 152 million) in net deferred tax assets and liabilities (decrease in surplus assets) does not correspond to deferred tax expenses of EUR 107 million (FY 2018: deferred tax income of EUR 79 million). This was due to changes in deferred taxes of EUR 9 million (FY 2018: EUR –7 million) recognised in equity.

Tax loss carryforwards and instalments for which a deferred tax asset has been recognised or not recognised are listed separately in the table below for all types of loss relevant to the BayernLB Group. The tax loss carryforwards for the consolidated tax group of BayernLB were calculated based on the tax audit of the units. This was also the principal reason for the decrease. 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 subject to taxation in Germany may be used indefinitely.

EUR million	2019	2018
Corporation tax		
Loss carryforwards	3,824	4,692
Loss carryforwards for which a deferred tax asset has been recognised	1,052	1,624
Loss carryforwards for which no deferred tax asset has been recognised	2,772	3,068
Expire after 10 years	1,747	1,714
May be used indefinitely	1,025	1,354
Municipal trade tax		
Loss carryforwards	2,196	3,717
Loss carryforwards for which a deferred tax asset has been recognised	840	1,351
Loss carryforwards for which no deferred tax asset has been recognised	1,356	2,366
Expire after 10 years	578	567
May be used indefinitely	778	1,799

No deferred tax assets were recognised for deductible temporary differences of EUR 3,587 million (FY 2018: EUR 2,206 million).

The deferred tax assets recognised on loss carryforwards relate to the tax planning for the relevant company/consolidated tax group of BayernLB.

(49) Other assets

EUR million	2019	2018
Emissions certificates	954	1,742
Precious metals	476	365
Claims from reinsurance	227	225
Prepaid expenses	30	27
Other assets	218	207
Total	**1,905**	**2,565**

EUR 546 million (FY 2018: EUR 415 million) of other assets were due after more than 12 months.

The fair value of emissions certificates was calculated using prices quoted on active markets for similar financial instruments (Level 2 of the fair value hierarchy) and was EUR 954 million (FY 2018: EUR 1,742 million) as at the reporting date.

(50) Liabilities to banks

EUR million	2019	2018
Liabilities to domestic banks	44,187	48,330
Liabilities to foreign banks	5,965	5,729
Total	**50,152**	**54,060**

Liabilities to banks by maturity

EUR million	2019	2018
Payable on demand	**4,269**	**4,815**
With residual maturity of	**45,883**	**49,245**
Up to 3 months	5,205	8,123
Between 3 months and 1 year	3,915	4,616
Between 1 year and 5 years	14,783	13,731
More than five years	21,980	22,775
Total	**50,152**	**54,060**

Liabilities to banks by product

EUR million	2019	2018
Schuldschein note loans/issues	**5,185**	**5,198**
Schuldschein note loans	2,419	2,252
Registered public Pfandbriefs issued	841	942
Mortgage Pfandbriefs issued	443	487
Other registered securities	1,483	1,517
Book-entry liabilities	**44,967**	**48,862**
On-lending business/subsidised loans	33,048	32,454
Overnight and time deposits	6,414	8,211
Current account liabilities	3,834	4,416
Securities repurchase transactions	1,058	2,601
Other liabilities	613	1,180
Total	**50,152**	**54,060**

(51) Liabilities to customers

EUR million	2019	2018
Liabilities to domestic customers	**91,367**	**83,777**
Government entities/companies under public law	13,458	12,533
Private companies/private individuals	77,909	71,244
Liabilities to foreign customers	**9,069**	**9,702**
Government entities/companies under public law	2,811	3,117
Private companies/private individuals	6,257	6,586
Total	**100,436**	**93,479**

Liabilities to customers by maturity

EUR million	2019	2018
With residual maturity of		
Up to 3 months	72,356	66,366
Between 3 months and 1 year	7,538	5,935
Between 1 year and 5 years	6,304	6,773
More than five years	14,239	14,404
Total	**100,436**	**93,479**

Liabilities to customers by product

EUR million	2019	2018
Schuldschein note loans/issues	**18,627**	**18,768**
Schuldschein note loans	1,001	1,179
Registered public Pfandbriefs issued	8,583	8,381
Mortgage Pfandbriefs issued	2,313	2,692
Other registered securities	6,730	6,517
Book-entry liabilities	**81,809**	**74,711**
Overnight and time deposits	41,986	39,336
Current account liabilities	39,117	33,062
Securities repurchase transactions	–	18
Other liabilities	706	2,295
Total	**100,436**	**93,479**

(52) Securitised liabilities

EUR million	2019	2018
Bonds and notes issued	**39,394**	**36,271**
Mortgage Pfandbriefs	5,740	4,265
Public Pfandbriefs	13,109	12,536
Other bonds and notes	20,546	19,470
Other securitised liabilities	**5,176**	**9,197**
Money market instruments	5,176	9,197
Total	**44,570**	**45,469**

Securitised liabilities by maturity

EUR million	2019	2018
With residual maturity of		
Up to 3 months	5,242	10,374
Between 3 months and 1 year	3,472	3,117
Between 1 year and 5 years	21,131	16,043
More than five years	14,726	15,934
Total	**44,570**	**45,469**

(53) Liabilities held for trading

EUR million	2019	2018
Liabilities	**2,356**	**1,421**
Liabilities from short sales	1,237	204
Other liabilities	1,119	1,217
Negative fair values from derivative financial instruments (not hedge accounting)	**7,956**	**6,803**
Total	**10,312**	**8,225**

Liabilities held for trading by maturity

EUR million	2019	2018
With residual maturity of		
Up to 3 months	2,131	1,363
Between 3 months and 1 year	929	945
Between 1 year and 5 years	2,340	2,034
More than five years	4,912	3,882
Total	**10,312**	**8,225**

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

EUR million	2019	2018
Negative fair values from micro fair value hedges	978	718
Negative fair values from portfolio fair value hedges	40	48
Negative fair values from group fair value hedges	206	–
Total	**1,224**	**766**

Negative fair values from derivative financial instruments (hedge accounting) by maturity

EUR million	2019	2018
With residual maturity of		
Up to 3 months	17	8
Between 3 months and 1 year	65	17
Between 1 year and 5 years	280	129
More than five years	861	612
Total	**1,224**	**766**

(55) Provisions

EUR million	2019	2018
Provisions for pensions and similar obligations	**4,113**	**3,777**
Other provisions	**697**	**475**
Provisions for off-balance-sheet transactions	166	129
Loss allowances for financial guarantees/credit commitments as per IFRS 9	113	102
Provisions for other contingent liabilities/other commitments	53	28
Restructuring provisions	334	159
Miscellaneous provisions	196	187
Total	**4,809**	**4,251**

EUR 434 million (FY 2018: EUR 248 million) of other provisions 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	2019	2018
Present value of pension obligations	4,342	3,938
Fair value of plan assets	(244)	(180)
Effects of the asset ceiling	11	18
Recognised pension provisions	**4,113[1]**	**3,777**

1 This includes surplus assets of EUR 4 million. These result from offsetting pension provisions against claims from reinsurance.

Reimbursement rights of EUR 227 million (FY 2018: EUR 225 million) were 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.

To increase transparency, from the 2019 financial year the change in the net present value of pension obligations, the fair value of the plan assets, the effects of the asset ceiling and the recognised pension provisions are summarised in the following table:

Changes in provisions for pensions

	Present value of pension obligations		Fair value of plan assets		Effects of the asset ceiling		Recognised pension provisions	
EUR million	2019	2018	2019	2018	2019	2018	2019	2018
As at 1 Jan	**3,938**	**3,883**	**(180)**	**(168)**	**18**	**3**	**3,777**	**3,718**
Currency-related changes	4	(1)	(5)	1	1	–	–	–
Current service cost	51	50	–	–	–	–	51	50
Past service cost	–	14	–	–	–	–	–	14
Interest income/expenses	70	69	(4)	(4)	1	–	66	65
Changes due to remeasurement	380	22	(16)	6	(9)	16	355	44
Employer contributions	**–**	–	(44)	(21)	–	–	(44)	(21)
Employee contributions	**1**	1	(1)	(1)	–	–	–	–
Benefits paid	(102)	(101)	4	7	–	–	(99)	(94)
Transfers/other changes	–	–	2	–	–	–	6[1]	–
As at 31 Dec	**4,342**	**3,938**	**(244)**	**(180)**	**11**	**18**	**4,113**	**3,777**

1 This includes surplus assets of EUR 4 million. These result from offsetting pension provisions against claims from reinsurance.

Present value of pension obligations

As at the reporting date, the net present value of the BayernLB Group's pension obligations was EUR 4,342 million (FY 2018: EUR 3,938 million). EUR 3,016 million (FY 2018: EUR 2,786 million) of this relates to salary-related direct commitments, EUR 812 million (FY 2018: EUR 670 million) to allowances in the event of illness, and EUR 514 million (FY 2018: EUR 482 million) to other defined benefit plans, which are determined largely on the basis of contributions to legally independent benefits providers.

The changes arising from the remeasurement of the net present value of pension obligations are due to changes in actuarial assumptions. Of this, EUR –1 million (FY 2018: EUR 37 million) relates to changes in demographic assumptions, EUR 301 million (FY 2018: EUR –5 million) to changes in financial assumptions and EUR 78 million (FY 2018: EUR –9 million) to empirical changes.

To calculate the impact of changes in assumptions on the present value of pension obligations, a sensitivity analysis is conducted for each major measurement parameter in the same way as for the original measurement of the net present value of defined benefit obligations using the projected unit credit method. Potential correlations between the individual assumptions were not taken into account here.

A change in the assumptions used to calculate the net present value of pension obligations (see note 20) of 0.5 percentage points in each case would, as at the reporting date, impact the net present value of the pension obligations as follows:

	0.5 percentage point increase		**0.5 percentage point decrease**	
EUR million	**2019**	**2018**	**2019**	**2018**
Discount rate	(348)	(307)	399	351
Changes in salaries and benefits[1]	283	258	(252)	(230)
Changes in medical costs	93	76	(81)	(66)

1 In the sensitivity calculations, changes in estimated future salaries and benefits are shown together. These incorporate the offsetting impact from a change in the social insurance pension trend by +/– 0.25 percentage points.

The increase in life expectancy (biometrics) by one year had an impact of EUR 171 million (FY 2018: EUR 146 million).

Fair value of plan assets

The BayernLB Group’s plan assets comprise:

	Prices not quoted on active markets	
EUR million	2019	2018
Cash and cash equivalents	**84**	**68**
Equity instruments	**17**	**20**
Fund units	17	20
Debt instruments	**144**	**92**
Corporate bonds	33	24
Government bonds	62	58
Reinsurance	49	7
Other debt instruments	–	3
Total	**244**	**180**

Effects of the asset ceiling

As at 31 December 2019, the pension plan of a foreign branch reported pension assets in excess of pension obligations.

Change in the fair value of the reimbursement rights reported as an asset

EUR million	2019	2018
As at 1 Jan	**225**	**222**
Interest income	5	5
Benefits paid	(3)	(2)
As at 31 Dec	**227**	**225**

In the BayernLB Group, rights from insurance contracts were capitalised as reimbursement claims. These were acquired by BayernLB in Germany in its role as an employer to provide funding that matches employees’ entitlements in Versorgungskasse II BayernLB Gesellschaft mit beschränkter Haftung, Munich.

The pension expenses recognised in the income statement comprised:

EUR million	2019	2018
Current service cost	(51)	(50)
Past service cost	–	(14)
Interest income/expenses	(60)	(60)
Total	**(111)**	**(124)**

The total pension expenses in the reporting year of EUR 111 million (FY 2018: EUR 124 million) were recognised under net interest income as a charge of EUR 60 million (FY 2018: EUR 60 million) and under administrative expenses in the amount of EUR 51 million (FY 2018: EUR 64 million).

The current pension obligations had an average term (capital tie-up period) of 18 years (FY 2018: 18 years). Expected contributions to the BayernLB Group’s pension plans in financial year 2020 are estimated to be EUR 713 million (FY 2018: EUR 116 million).

Other provisions

Provisions as per IAS 37

Changes in provisions

	Provisions for off-balance-sheet transactions[1]		Restructuring provisions		Other provisions		Total	
EUR million	2019	2018	2019	2018	2019	2018	2019	2018
As at 1 Jan	**28**	**49**	**159**	**192**	**187**	**239**	**373**	**480**
Currency-related changes	–	1	–	–	–	–	**–**	**1**
Utilisation	–	–	(27)	(32)	(120)	(108)	**(148)**	**(140)**
Releases	(40)	(20)	(1)	(4)	(25)	(65)	**(65)**	**(89)**
Additions	76	8	201	1	144	120	**421**	**129**
Interest	–	–	2	2	1	1	**3**	**3**
Changes in discount rate	–	–	5	–	5	–	**10**	**–**
Transfers/other changes	(11)	(11)	(4)	–	4	(1)	**(11)**	**(12)**
As at 31 Dec	**53**	**28**	**334**	**159**	**196**	**187**	**584**	**373**

1 Not including loss allowances for financial guarantees and for irrevocable and revocable credit commitments to which the impairment rules in accordance with IFRS 9 are applied.

The restructuring provisions shown mainly arose from the strategic realignment programme of BayernLB's business model agreed in the reporting year. They mostly relate to human resources and are expected to be utilised up to 2023.

Miscellaneous provisions include personnel-related provisions which are mainly short-term in nature. This line item also includes provisions in connection with equity interests, the costs of storing business documents, 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 litigation, neither the length of the proceed-ings nor the amount can be reliably predicted when the provision is created.

Loss allowances for financial guarantees/credit commitments as per IFRS 9

The loss allowances for financial guarantees and for revocable and irrevocable credit commitments to which the impairment rules under IFRS 9 apply amounted to EUR 113 million (FY 2018: EUR 102 million) as at the reporting date (for the breakdown of the loss allowances see note 41):

EUR million	2019	2018
Loss allowances – Stage 1	28	25
Loss allowances – Stage 2	15	32
Loss allowances – Stage 3	64	36
Loss allowances – POCI	5	8
Total	**113**	**102**

Changes in loss allowances

	Stage 1		Stage 2		Stage 3		POCI		Total	
EUR million	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
As at 1 Jan	**25**	**20**	**32**	**19**	**36**	**40**	**8**	**1**	**102**	**80**
Currency-related changes	1	–	(1)	–	–	–	–	–	**–**	**–**
Changes in the expected credit loss due to changes in the risk parameters	(1)	12	15	31	58	(3)	–	(1)	**71**	**40**
Additions due to lending	24	29	12	10	17	29	1	6	**54**	**74**
Releases due to disposals	(21)	(31)	(38)	(31)	(37)	(26)	(3)	(4)	**(98)**	**(91)**
Unwinding	–	–	–	–	(1)	(1)	–	–	**(1)**	**(1)**
Reclassifications to Stage 1 from Stage 2	10	1	(10)	(1)	–	–	–	–	**–**	**–**
Reclassifications to Stage 2 from Stage 1	(9)	(6)	9	6	–	–	–	–	**–**	**–**
Reclassifications to Stage 3 from Stage 2	–	–	(5)	(2)	5	2	–	–	**–**	**–**
Transfers/ other changes	–	–	–	–	(14)	(6)	(2)	6	**(16)**	**–**
As at 31 Dec	**28**	**25**	**15**	**32**	**64**	**36**	**5**	**8**	**113**	**102**

The total volume of non-discounted expected credit losses as at first-time recognition of purchased or originated credit-impaired financial instruments was EUR 0 million in the reporting year (FY 2018: EUR 1 million).

The exposure to financial guarantees and revocable and irrevocable credit commitments stood at EUR 56,534 million as at the reporting date (FY 2018: EUR 54,459 million) and comprised:

EUR million	2019	2018
Financial guarantees/credit commitments – Stage 1	54,802	42,311
Financial guarantees/credit commitments – Stage 2	1,545	12,038
Financial guarantees/credit commitments – Stage 3	175	93
Financial guarantees/credit commitments - POCI	11	16
Total	**56,534**	**54,459**

The table below shows the extent to which changes in the exposure to financial guarantees and credit commitments contributed to changes in the loss allowance.

Change in exposure as at 31 December 2019

	Stage 1	Stage 2	Stage 3	POCI	Total
EUR million	2019	2019	2019	2019	2019
As at 1 Jan	**42,311**	**12,038**	**93**	**16**	**54,459**
Currency-related changes	129	62	–	–	**191**
Lending	40,207	9,908	158	54	**50,325**
Disposals/redemptions/sales	(37,943)	(10,287)	(157)	(59)	**(48,446)**
Reclassifications to Stage 1 from Stage 2	16,124	(16,124)	–	–	**–**
Reclassifications to Stage 1 from Stage 3	24	–	(24)	–	**–**
Reclassifications to Stage 2 from Stage 1	(6,048)	6,048	–	–	**–**
Reclassifications to Stage 2 from Stage 3	–	1	(1)	–	**–**
Reclassifications to Stage 3 from Stage 1	(6)	–	6	–	**–**
Reclassifications to Stage 3 from Stage 2	–	(100)	100	–	**–**
Transfers/ other changes	4	–	(1)	1	**5**
As at 31 Dec	**54,802**	**1,545**	**175**	**11**	**56,534**

Change in exposure as at 31 December 2018

EUR million	Stage 1 2018	Stage 2 2018	Stage 3 2018	POCI 2018	Total 2018
As at 1 Jan	**51,275**	**1,725**	**173**	**3**	**53,176**
Currency-related changes	272	27	–	–	**298**
Lending	37,473	2,633	52	29	**40,188**
Disposals/redemptions/sales	(37,301)	(1,714)	(172)	(17)	**(39,204)**
Reclassifications to Stage 1 from Stage 2	729	(729)	–	–	**–**
Reclassifications to Stage 1 from Stage 3	14	–	(14)	–	**–**
Reclassifications to Stage 2 from Stage 1	(10,118)	10,118	–	–	**–**
Reclassifications to Stage 2 from Stage 3	–	–	–	–	**–**
Reclassifications to Stage 3 from Stage 1	(34)	–	34	–	**–**
Reclassifications to Stage 3 from Stage 2	–	(21)	21	–	**–**
Transfers/ other changes	2	(2)	–	–	**–**
As at 31 Dec	**42,311**	**12,038**	**93**	**16**	**54,459**

(56) Current and deferred tax liabilities

EUR million	2019	2018
Current tax liabilities	**241**	**275**
Germany	241	273
Abroad	–	2
Total	**241**	**275**

Current tax liabilities of EUR 241 million arose in the consolidated tax group of BayernLB.

A breakdown of deferred tax liabilities is given in note 48, alongside the breakdown for deferred tax assets.

(57) Other liabilities

EUR million	2019	2018
Accruals	286	349
Lease liability from right-of-use assets[1]	197	–
Deferred income	19	22
Other liabilities	81	151
Total	**583**	**522**

1 No disclosure was made for financial year 2018 due to the modified retrospective application of IFRS 16.

EUR 183 million (FY 2018: EUR 8 million) of other liabilities are due after more than 12 months.

(58) Subordinated capital

EUR million	2019	2018
Subordinated liabilities	1,680	1,449
Profit participation certificates (debt component)	400	430
Dated silent partner contributions (debt component)	27	46
Total	**2,107**	**1,925**

Subordinated capital by maturity

EUR million	2019	2018
With residual maturity of	**2,078**	**1,896**
Up to 3 months	469	74
Between 3 months and 1 year	35	406
Between 1 year and 5 years	290	346
More than five years	1,284	1,070
Perpetual maturities	**29**	**29**
Total	**2,107**	**1,925**

(59) Equity

EUR million	2019	2018
Equity excluding non-controlling interests	**11,513**	**11,237**
Subscribed capital	3,412	3,412
Statutory nominal capital	2,800	2,800
Capital contribution	612	612
Compound instruments	–	21
Profit participation certificates (equity component)	–	19
Dated silent partner contributions (equity component)	–	2
Capital surplus	2,182	2,182
Retained earnings	5,659	5,442
Statutory reserve	1,268	1,268
Other retained earnings	4,391	4,175
Revaluation surplus	109	4
Foreign currency translation reserve	2	2
Distributable profits	150	175
Non-controlling interests	**16**	**18**
Total	**11,530**	**11,255**

Subscribed capital

BayernLB Holding AG, Munich holds 100 percent of BayernLB's nominal capital. As at 31 December 2019, 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 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 since 1 January 2014, specific-purpose capital was modified and transferred to the capital contribution reported in subscribed capital with effect from 1 January 2013.

Capital surplus

The capital surplus is derived mainly from additional contributions to the parent company's equity.

Retained earnings

Allocations to the reserves from earnings generated in previous years and the reporting year are reported in retained earnings.

In addition, retained earnings includes the impact from the remeasurement of defined benefit pension plans.

Revaluation surplus

EUR million	2019	2018
Gains or losses on fair value measurement of financial assets in the "financial assets mandatorily measured at fair value through other comprehensive income" category	144	80
Loss allowances for financial assets in the "financial assets mandatorily measured at fair value through other comprehensive income" category	3	3
Rating-related changes in the fair value of financial liabilities from the "fair value option" category recognised through other comprehensive income	21	(71)
Changes in the fair value of currency swaps from currency basis spread fluctuations recognised through other comprehensive income	(8)	–
Deferred taxes recognised through other comprehensive income	(52)	(8)
Total	**109**	**4**

The loss allowances for financial assets in the "financial assets mandatorily measured at fair value through other comprehensive income" category comprised (for the breakdown of the loss allowances see note 41):

EUR million	2019	2018
Loss allowances – Stage 1	2	2
Loss allowances – Stage 2	–	–
Loss allowances – Stage 3	–	–
Loss allowances – POCI	1	1
Total	**3**	**3**

Changes in loss allowances – Stage 1

	Financial investments			Total
EUR million	2019	2018	2019	2018
As at 1 Jan	**2**	**2**	**2**	**2**
Additions due to lending/purchases	1	1	**1**	**1**
Releases due to disposals/redemptions/sales	(1)	(1)	**(1)**	**(1)**
As at 31 Dec	**2**	**2**	**2**	**2**

Changes in loss allowances – POCI

	Loans and advances to customers		Total	
EUR million	2019	2018	2019	2018
As at 1 Jan	**1**	**–**	**1**	**–**
Changes in the expected credit loss due to changes in the risk parameters	–	1	**–**	**1**
As at 31 Dec	**1**	**1**	**1**	**1**

The gross carrying amount of financial assets in the "financial assets mandatorily measured at fair value through other comprehensive income" category was EUR 22,574 million (FY 2018: EUR 24,265 million) as at the reporting date and comprised:

EUR million	2019	2018
Financial assets – Stage 1	22,563	23,122
Financial assets – Stage 2	10	1,141
Financial assets – Stage 3	–	–
Financial assets – POCI	1	2
Total	**22,574**	**24,265**

The table below shows the extent to which changes in the gross carrying amount of financial assets contributed to changes in the loss allowance.

Changes in gross carrying amounts – Stage 1

	Cash reserves		Financial investments		Total	
EUR million	2019	2018	2019	2018	2019	2018
As at 1 Jan	**–**	**–**	**23,122**	**22,117**	**23,122**	**22,117**
Currency-related changes	(1)	–	73	184	**72**	**184**
Lending/purchases	398	–	4,052	5,871	**4,450**	**5,871**
Disposals/ redemptions/sales	–	–	(5,518)	(3,832)	**(5,518)**	**(3,832)**
Reclassifications to Stage 1 from Stage 2	–	–	1,560	–	**1,560**	**–**
Reclassifications from Stage 1 to Stage 2	–	–	(1,063)	(1,140)	**(1,063)**	**(1,140)**
Transfers/other changes	–	–	(61)	(77)	**(61)**	**(77)**
As at 31 Dec	**397**	**–**	**22,165**	**23,122**	**22,563**	**23,122**

Changes in gross carrying amounts – Stage 2

	Financial investments		Total	
EUR million	2019	2018	2019	2018
As at 1 Jan	**1,141**	**15**	**1,141**	**15**
Disposals/ redemptions/sales	(621)	(15)	**(621)**	**(15)**
Reclassifications to Stage 2 from Stage 1	1,063	1,140	**1,063**	**1,140**
Reclassifications from Stage 2 to Stage 1	(1,560)	–	**(1,560)**	**–**
Transfers/other changes	(13)	1	**(13)**	**1**
As at 31 Dec	**10**	**1,141**	**10**	**1,141**

Changes in gross carrying amounts – POCI

	Loans and advances to customers		Total	
EUR million	2019	2018	2019	2018
As at 1 Jan	**2**	**3**	**2**	**3**
Disposals/redemptions/sales	–	(1)	**–**	**(1)**
As at 31 Dec	**1**	**2**	**1**	**2**

Distributable profits

The distributable profits of the BayernLB Group correspond to the consolidated profit after changes in reserves.

Notes to financial instruments

(60) Fair value of financial instruments

EUR million	Fair value 2019	Carrying amount 2019	Fair value 2018	Carrying amount 2018
Assets				
Cash reserves	8,512	8,512	3,335	3,335
Loans and advances to banks[1]	31,142	31,106	36,613	36,610
Loans and advances to customers[1]	147,840	144,997	141,370	138,872
Assets held for trading	13,925	13,925	12,335	12,335
Positive fair values from derivative financial instruments (hedge accounting)	706	706	512	512
Financial investments	23,561	23,561	25,465	25,465
Liabilities				
Liabilities to banks	51,434	50,152	55,073	54,060
Liabilities to customers	102,579	100,436	95,174	93,479
Securitised liabilities	45,184	44,570	45,873	45,469
Liabilities held for trading	10,312	10,312	8,225	8,225
Negative fair values from derivative financial instruments (hedge accounting)	1,224	1,224	766	766
Subordinated capital	2,269	2,107	2,098	1,925

1 Carrying amount not including deductions of loss allowances for loans and advances to banks of EUR 10 million (FY 2018: EUR 9 million) and loans and advances to customers of EUR 963 million (FY 2018: EUR 1,033 million) in the "financial assets measured at amortised cost" category.

For details on the fair value calculation, refer to note 6.

(61) Financial instrument measurement categories

EUR million	2019	2018
Assets		
Financial assets measured at fair value through profit or loss	15,023	13,408
Financial assets mandatorily measured at fair value through profit or loss	14,923	13,321
Loans and advances to customers	189	183
Assets held for trading	13,925	12,335
Financial investments	808	803
Fair value option	100	87
Financial investments	100	87
Financial assets measured at amortised cost	184,026	178,633
Cash reserves[1]	8,114	3,335
Loans and advances to banks[1]	31,106	36,610
Loans and advances to customers[1]	144,806	138,687
Financial assets measured at fair value through other comprehensive income	23,052	24,577
Financial assets mandatorily measured at fair value through other comprehensive income	23,052	24,577
Cash reserves	397	–
Loans and advances to customers	1	2
Financial investments	22,653	24,575
Derivative financial instruments in hedges (hedge accounting)	706	512
Positive fair values from derivative financial instruments (hedge accounting)	706	512
Liabilities		
Financial liabilities measured at fair value through profit or loss	19,150	17,157
Held-for-trading financial liabilities	10,312	8,225
Liabilities held for trading	10,312	8,225
Fair value option	8,838	8,932
Liabilities to banks	356	366
Liabilities to customers	4,283	4,003
Securitised liabilities	4,199	4,563
Financial liabilities measured at amortised cost	188,428	186,000
Liabilities to banks	49,796	53,693
Liabilities to customers	96,153	89,476
Securitised liabilities	40,371	40,906
Subordinated capital	2,107	1,925
Derivative financial instruments in hedges (hedge accounting)	1,224	766
Negative fair values from derivative financial instruments (hedge accounting)	1,224	766

1 Not including deduction of loss allowances.

In addition, as at the reporting date there was a portfolio hedge adjustment asset of EUR 765 million (FY 2018: EUR 407 million) for hedged items for which fair value hedge accounting in the form of portfolio hedges was used. This is assigned to the “financial assets measured at amortised cost” category.

(62) 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:

- Level 1: Unadjusted quoted prices for identical financial instruments in active markets that the BayernLB Group can access at the measurement date
- Level 2: Inputs not 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 3: Unobservable inputs

Financial instruments measured at fair value by level

	Level 1		Level 2		Level 3		Total	
EUR million	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**
Assets								
Cash reserves	**397**	**–**	**–**	**–**	**–**	**–**	**397**	**–**
Loans and advances to customers	–	–	–	–	191	185	**191**	**185**
Assets held for trading	1,932	752	11,834	11,441	159	142	**13,925**	**12,335**
Positive fair values from derivative financial instruments (hedge accounting)	–	–	706	512	–	–	**706**	**512**
Financial investments	17,760	9,360	5,502	15,692	300	413	**23,561**	**25,465**
Total	**20,089**	**10,112**	**18,042**	**27,646**	**650**	**740**	**38,781**	**38,497**
Liabilities								
Liabilities to banks	–	–	356	366	–	–	**356**	**366**
Liabilities to customers	–	–	4,283	4,003	–	–	**4,283**	**4,003**
Securitised liabilities	–	282	4,109	4,095	90	186	**4,199**	**4,563**
Liabilities held for trading	1,184	258	9,124	7,959	4	8	**10,312**	**8,225**
Negative fair values from derivative financial instruments (hedge accounting)	–	–	1,224	766	–	–	**1,224**	**766**
Total	**1,184**	**539**	**19,096**	**17,189**	**94**	**195**	**20,374**	**17,923**

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	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Assets										
Loans and advances to customers	191	185	–	–	–	–	–	–	**191**	**185**
Assets held for trading	158	137	1	4	–	–	–	1	**159**	**142**
Financial investments	26	26	–	–	274	387	–	–	**300**	**413**
Total	**375**	**348**	**1**	**4**	**274**	**387**	**–**	**1**	**650**	**740**
Liabilities										
Securitised liabilities	90	186	–	–	–	–	–	–	**90**	**186**
Liabilities held for trading	3	7	1	1	–	–	–	–	**4**	**8**
Total	**93**	**193**	**1**	**1**	**–**	**–**	**–**	**–**	**94**	**195**

Reclassifications between Level 1 and 2

	Reclassifications			
	to Level 1 from Level 2		to Level 2 from Level 1	
EUR million	2019	2018	2019	2018
Assets				
Assets held for trading	121	24	23	16
Financial assets	9,576	2,822	861	1,155
Total	**9,698**	**2,845**	**885**	**1,171**
Liabilities				
Securitised liabilities	-	129	229	158
Liabilities held for trading	-	4	3	38
Total	**-**	**133**	**232**	**195**

In the reporting year, financial instruments were reclassified between Level 1 and Level 2, as they will again be measured/will no longer be measured using prices quoted on active markets. The reclassifications to Level 1 from Level 2 in the case of financial assets were mainly the result of the active market being more precisely defined. The amounts reclassified were calculated on the basis of the fair value as 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 2019	Loans and advances to customers 2018	Assets held for trading 2019	Assets held for trading 2018	Financial investments 2019	Financial investments 2018	Total 2019	Total 2018
As at 1 Jan	**185**	**174**	**142**	**130**	**413**	**486**	**740**	**789**
Currency-related changes	4	3	(30)	16	1	1	**(25)**	**21**
Income and expenses recognised in the income statement	1	9	114	(55)	(11)	(20)	**104**	**(66)**
Purchases	2	–	22	–	19	7	**43**	**7**
Put options	–	–	(30)	–	(122)	(60)	**(152)**	**(60)**
Settlements	(1)	(1)	–	–	–	–	**(1)**	**(1)**
Reclassifications to Level 3 from Levels 1 and 2	–	–	13	84	–	–	**13**	**84**
Reclassifications from Level 3 to Levels 1 and 2	–	–	(138)	(76)	–	–	**(138)**	**(76)**
Transfers/other changes	–	–	66	42	–	–	**66**	**42**
As at 31 Dec	**191**	**185**	**159**	**142**	**300**	**413**	**650**	**740**
Income and expenses recognised in the income statement during the financial year for financial instruments held at 31 Dec	39	16	146	13	(13)	(20)	**172**	**10**

Changes in fair values calculated on the basis of unobservable market data (Level 3) – liabilities

EUR million	Securitised liabilities 2019	Securitised liabilities 2018	Liabilities held for trading 2019	Liabilities held for trading 2018	Total 2019	Total 2018
As at 1 Jan	**186**	**241**	**8**	**10**	**195**	**251**
Currency-related changes	6	18	(1)	1	**5**	**18**
Income and expenses recognised in the income statement	(102)	(72)	19	4	**(82)**	**(68)**
Reclassifications to Level 3 from Levels 1 and 2	–	–	–	2	**–**	**2**
Reclassifications from Level 3 to Levels 1 and 2	–	–	(57)	(50)	**(89)**	**(50)**
Transfers/other changes	–	–	34	42	**66**	**42**
As at 31 Dec	**90**	**186**	**4**	**8**	**94**	**195**
Income and expenses recognised in the income statement during the financial year for financial instruments held at 31 Dec	(3)	(5)	19	2	**17**	**(3)**

The income and expenses recognised in the income statement are shown under net interest income, risk provisions, gains or losses on fair value measurement, gains or losses on hedge accounting and gains or losses on financial investments.

In the reporting period, the materiality of the unobservable inputs was assessed based on fair value. As a result financial instruments were reclassified to Level 3 from Levels 1 and 2 and from Level 3 to Levels 1 and 2.

The models used to calculate fair value must conform with accepted 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 Development 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.

The fair values of credit transactions assigned to Level 3 of the fair value hierarchy are calculated on the basis of inputs that are not observable on the market. As at 31 December 2019, the sensitivity of these credit transactions to changes in key factors was:

- for a ten-basis point increase (decrease) in the measurement spread:
  EUR –0.5 million (EUR 0.5 million) (31 December 2018: EUR –0.6 million (EUR 0.6 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 2019, the sensitivity of these financial instruments to changes in key factors was

- for a ten-basis point increase (decrease) in expected loss given default:
  EUR –2.2 million (EUR 2.2 million) (31 December 2018: EUR –2.0 million (EUR 2.0 million))
- for a one notch improvement (deterioration) in the ratings:
  EUR 0.5 million (EUR –0.7 million) (31 December 2018: EUR 1.7 million (EUR –1.7 million))

In addition, receivables secured by real estate that were purchased on the non-performing loan market were allocated to Level 3 of the fair value hierarchy as there was no current market activity in these or similar loans and advances. As at 31 December 2019, the sensitivity of these real estate-secured receivables to changes in key factors was:

- for a 5-percentage point increase (decrease) in the realisable value:
  EUR 0.1 million (EUR –0.1 million) (31 December 2018: EUR 0.1 million (EUR –0.1 million)),
- for a 6-month extension (reduction) in the realisation period:
  EUR 0.0 million (EUR 0.0 million) (31 December 2018: EUR 0.0 million (EUR 0.0 million))

For the acquisition of its shares in Visa Europe Limited, London by Visa Inc., San Francisco on 21 June 2016, the BayernLB Group received a payment in cash, the right to further payments in future, and preference shares in Visa Inc., San Francisco. The fair value of the preference shares is determined by the market price of Visa Inc. common stock and potential risks from litigation. A risk discount of about 50 percent was therefore used to calculate the fair value. As at 31 December 2019, the key sensitivity of this financial instrument to changes in key factors was:

- for a 10-percentage point upward (downward) movement in the conversion ratio: EUR 9.3 million (EUR –9.3 million) (31 December 2018: EUR 3.4 million (EUR –3.4 million))

As at 31 December 2019, 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 –5.2 million (EUR 5.7 million) (31 December 2018: EUR –5.1 million (EUR 5.5 million)),
- for a 25-basis-point upward (downward) movement in the market risk premium: EUR –3.9 million (EUR 4.1 million) (31 December 2018: EUR –4.0 million (EUR 4.2 million))

The base interest rate used moved within a range of –0.05-0.45 percent (average: 0.2 percent) (31 December 2018: 0.75-1.25 percent (average: 1.0 percent)), while the underlying market risk premium moved within a range of 7.25-7.75 percent (average: 7.5 percent) (31 December 2018: 6.25-6.75 percent (average: 6.5 percent)).

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	2019	2018	2019	2018	2019	2018	2019	2018
Assets								
Cash reserves	–	–	–	–	8,114	3,335	**8,114**	**3,335**
Loans and advances to banks	–	–	7,182	13,079	23,960	23,534	**31,142**	**36,613**
Loans and advances to customers	–	–	4,239	4,230	143,411	136,955	**147,650**	**141,185**
Total	**–**	**–**	**11,420**	**17,309**	**175,485**	**163,824**	**186,905**	**181,133**
Liabilities								
Liabilities to banks	–	–	12,489	15,375	38,590	39,332	**51,078**	**54,707**
Liabilities to customers	–	–	28,984	29,042	69,312	62,129	**98,296**	**91,171**
Securitised liabilities	14,035	2,416	26,949	38,894	–	–	**40,984**	**41,310**
Subordinated capital	–	396	2,124	1,526	145	176	**2,269**	**2,098**
Total	**14,035**	**2,812**	**70,546**	**84,837**	**108,047**	**101,637**	**192,627**	**189,286**

(63) 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 89 million as at the reporting date (FY 2018: EUR 87 million). The rating-related change in the fair value of these financial assets was EUR -–3 million in the reporting year (FY 2018: EUR 1 million), and EUR 2 million (FY 2018: EUR 5 million) since designation.

The rating-related changes in fair value are calculated as the difference between the changes in the fair value of financial assets and the changes in the fair value of financial instruments measured on the basis of a risk-free yield curve. Only parameters observable on the market are used when determining rating-related changes in the fair value.

For financial liabilities in the fair value option category, there have been EUR 21 million (FY 2018: EUR –71 million) in rating-related changes in fair value booked to the revaluation surplus within other comprehensive income since designation. Due to the derecognition of financial liabilities in the reporting year, a reclassification was made within equity from the revaluation surplus to retained earnings in the amount of EUR 5 million (FY 2018: EUR –3 million). The difference between the carrying amount of the financial liabilities in the “fair value option” category and the redemption amount at maturity was EUR 706 million as at the reporting date (FY 2018: EUR 594 million).

The rating-related changes in the fair value of the financial liabilities are calculated as the sum of the monthly rating-related changes in the fair value in the reporting period or from designation, taking into account the residual maturities of the liabilities. The monthly changes are calculated as the difference between the fair values, which – while retaining all other market parameters – are calculated on the one hand with the credit spread at the end of each month and on the other with the credit spread at the end of the previous month. Only parameters observable on the market are used when calculating rating-related changes in the fair value.

(64) Hedging relationships (hedge accounting)

Derivative financial instruments are used for risk management purposes to hedge recognised financial assets and recognised financial liabilities to which hedge accounting can be applied under certain circumstances. Hedge accounting in the BayernLB Group is based on the decisions by Risk Management in Trading. Further information on the risk strategy and the management and monitoring of risks can be found in the risk report in the Group management report.

At present, only fair value hedges come under hedge accounting. This involves financial assets or financial liabilities (or a portion of them) recognised on the balance sheet, or a portfolio or group of financial instruments, being hedged against changes in fair value resulting from interest rate or currency risk which could affect the earnings for the period. Hedges must be proven to have a high prospective and, in the case of a portfolio fair value hedge in accordance with IAS 39, a high retrospective effectiveness. If this is not the case, the hedge must be terminated. The BayernLB Group measures effectiveness largely using a regression analysis and the critical term match method.

Hedging interest rate risks

Hedge accounting for interest rate risks is conducted in the BayernLB Group in the form of micro fair value hedges in accordance with IFRS 9 and portfolio fair value hedges in accordance with IAS 39.

This involves the use of hedged items subject to interest rate risk. The entire interest rate risk is generally hedged. This means that most of the changes in fair value are covered by hedges. Interest rate derivatives are used as hedging instruments.

The changes in the value of the hedged items and the hedging instruments cancel each other out. Possible reasons for ineffective hedges during the term of the hedge include:

- The factors determining the value between a hedged item and a hedging instrument not being perfectly matched
- A multi-curve effect arising from the measurement of a hedged item and hedging instrument with different yield curves

As part of a portfolio fair value hedge, interest rate risk is managed using interest rate swaps and a dynamic hedging strategy is employed. The pre-defined hedging period is one month. After this period ends, the respective hedge is recombined or adjusted, which in the latter case is primarily based on the variations on the hedged-item side. To determine the hedge ratio, the terms of the hedged items and hedging instruments are taken into account so that interest rate sensitivities are calculated for both sides and placed in relation to each other. The interest rate swaps are designated in full as hedging instruments.

Hedging instruments for foreign currency risks

The BayernLB Group hedges currency risks using group fair value hedges in accordance with IFRS 9, where the bottom layer of a whole population of hedged items is designated. Currency swaps are used as hedging instruments. They are designated as group hedges by currency. The currency basis spread is separated from the currency swap and exempted from being designated as a hedging instrument. The entire spot rate-related change in the value of the bottom layer is hedged per currency.

The changes in the value of the hedged items and the hedging instruments cancel each other out. A hedge can become ineffective during its term if the gains or losses from the measurement of the rate from both variable legs of the currency swap do not offset the corresponding measurement gains or losses of the hedged items measured only at the spot rate.

Hedging instruments

			Carrying amount			
	Nominal value		Assets		Liabilities	
EUR million	2019	2018	2019	2018	2019	2018
Interest rate risks	39,200	26,678	647	512	1,018	766
Currency risks	5,163	–	60	–	206	–
Total	**44,364**	**26,678**	**706**	**512**	**1,224**	**766**

The hedging instruments are shown in the balance sheet under “positive fair values of derivative financial instruments (hedge accounting)” and “negative fair values of derivative financial instruments (hedge accounting)”.

Hedging instruments by maturity

	Nominal value			
	Interest rate risks		Currency risks	
EUR million	2019	2018	2019	2018
Residual maturities				
Up to 3 months	830	1,299	195	–
Between 3 months and 1 year	3,245	3,323	1,076	–
Between 1 year and 5 years	16,930	10,357	2,355	–
More than five years	18,196	11,698	1,537	–
Total	**39,200**	**26,678**	**5,163**	**–**

The average price or rate of the instruments used to hedge interest rate risks was 1.81 percent (FY 2018: 1.99 percent). This does not include hedging instruments in dynamic hedges. The average price of instruments used to hedge CHF currency risks was EUR/CHF 1.13, for GBP currency risks it was EUR/GBP 0.88 and for USD currency risks it was EUR/USD 1.18.

Hedged items

	Carrying amount[1]		Fair value hedge adjustments in the carrying amount[2]	
EUR million	2019	2018	2019	2018
Assets				
Interest rate risks	26,594	25,940	1,086	895
Loans and advances to banks	106	101	(3)	1
Loans and advances to customers	14,597	13,218	756	663
Financial investments	11,891	12,620	334	231
Total	**26,594**	**25,940**	**1,086**	**895**
Liabilities				
Interest rate risks	14,446	16,728	907	591
Liabilities to banks	579	1,001	42	39
Liabilities to customers	3,921	4,448	528	330
Securitised liabilities	9,115	10,527	287	229
Subordinated capital	831	752	50	(6)
Total	**14,446**	**16,728**	**907**	**591**

1 Not including deductions of loss allowances for loans and advances to banks and/or loans and advances to customers in the "financial assets measured at amortised cost" category.

2 Not including a fair value adjustment for the hedged items for which fair value hedge accounting in the form of portfolio hedges in the broader sense was used.

Currency risks are also hedged using group fair value hedges, where the bottom layer of a population of hedged items recognised in loans and advances to banks, loans and advances to customers and financial investments is designated. Their nominal value was EUR 5,163 million as at the reporting date.

The fair value hedge adjustment[1] remaining on the balance sheet from terminated hedges comprises:

EUR million	2019	2018
Assets		
Interest rate risks	15	19
Loans and advances to customers	15	19
Total	**15**	**19**
Liabilities		
Interest rate risks	160	196
Liabilities to banks	25	31
Liabilities to customers	89	101
Securitised liabilities	46	64
Total	**160**	**196**

1 Not including a fair value adjustment for the hedged items for which fair value hedge accounting in the form of portfolio hedges was used.

In addition, as at the reporting date there was a portfolio hedge adjustment asset of EUR 765 million (FY 2018: EUR 407 million) for hedged items for which fair value hedge accounting in the form of portfolio hedges was used. EUR 756 million (FY 2018: EUR 406 million) of this related to hedges still existing as at the reporting date and EUR 9 million (FY 2018: EUR 1 million) to hedges that had been terminated.

Hedge ineffectiveness

	Change in value of the hedging instruments		Change in value of hedged items		Hedge ineffectiveness	
EUR million	2019	2018	2019	2018	2019	2018
Interest rate risks	**(344)**	**(46)**	**331**	**28**	**(13)**	**(18)**
Gains or losses on hedge accounting	(344)	(46)	331	28	(13)	(18)
Micro fair value hedges	193	75	(202)	(80)	(8)	(5)
Portfolio fair value hedges[1]	(537)	(121)	533	108	(4)	(13)
Currency risks	**(58)**	**–**	**58**	**–**	**–**	**–**
Gains or losses on hedge accounting	(58)	–	58	–	–	–
Group fair value hedges	(58)	–	58	–	–	–
Total	**(401)**	**(46)**	**389**	**28**	**(13)**	**(18)**

1 Not including amortisation of the portfolio hedge adjustment and pull-to-par effect.

Hedging costs

The following table shows the changes in the fair value of currency swaps arising from currency basis spread fluctuations booked as hedging costs in the revaluation surplus. In the case of these group fair value hedges only period-related hedged items are hedged against changes in fair value arising from currency risk.

EUR million	2019
As at 1 Jan	**–**
Hedging costs recognised through other comprehensive income	(8)
As at 31 Dec	**(8)**

Refer to the statement of comprehensive income for a breakdown of other comprehensive income in accordance with IAS 1.

(65) Net profit or loss from financial instruments

The net profit or loss on financial instruments in each category incorporates the gains or losses from measurement and realisation.

EUR million	2018	2018
Financial assets and financial liabilities measured at fair value through profit or loss	**95**	**111**
Financial assets mandatorily measured at fair value through profit or loss/ held-for-trading financial liabilities[1]	7	124
Gains or losses on fair value measurement	7	140
Gains or losses on financial investments	–	(16)
Fair value option	88	(14)
Gains or losses on fair value measurement	(9)	11
Change in the revaluation surplus[2]	98	(24)
Financial assets measured at amortised cost	**909**	**139**
Net interest income	(1)	(1)
Risk provisions	316	146
Gains or losses on hedge accounting[3]	591	3
Gains or losses on derecognised financial assets	4	(9)
Financial assets measured at fair value through other comprehensive income	**319**	**(59)**
Financial assets mandatorily measured at fair value through other comprehensive income	319	(59)
Risk provisions	–	(1)
Gains or losses on hedge accounting[3]	109	26
Gains or losses on financial investments	40	26
Change in the revaluation surplus[4]	170	(111)
Financial liabilities measured at amortised cost	**(368)**	**(13)**
Gains or losses on hedge accounting[3]	(368)	(1)
Other income and expenses	–	(12)
Derivative financial instruments in hedges (hedge accounting)	**(176)**	**79**
Gains or losses on hedge accounting[3]	(176)	79

1 Includes current income from financial instruments held for trading purposes (except for derivatives in economic hedges) and gains or losses on foreign currency translation.

2 Rating-related changes in the fair value of financial liabilities recognised through other comprehensive income.

3 Not including group fair value hedges.

4 Gains or losses on fair value measurement recognised through other comprehensive income.

The BayernLB Group also hedges currency risks using group fair value hedges, where the bottom layer of a whole population of hedged items in the “Financial assets measured at amortised cost” measurement category is designated. The measurement gains or losses on these hedged items recognised in gains or losses on hedge accounting stood at EUR 58 million in the reporting year.

The measurement gains or losses on hedging instruments in group fair value hedges that are shown in gains or losses on hedge accounting stood at stood at EUR –58 million in the reporting year. Refer to note 64 for information on the fair value changes from currency basis spread fluctuations recognised in the revaluation surplus.

(66) 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 hedge 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 agreements” 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 2019 – assets

EUR million	Gross carrying amount	Set-off amount	Net carrying amount recognised	Effect of netting agreements	Collateral	Net amount
Derivative transactions	**21,563**	**(11,979)**	**9,583**	**(5,640)**	**(1,472)**	**2,471**
Assets held for trading/positive fair values from derivative financial instruments (hedge accounting)	21,563	(11,979)	9,583	(5,640)	(1,472)	2,471
Securities repurchase transactions	**3,852**	**–**	**3,852**	**(351)**	**(3,452)**	**49**
Loans and advances to banks	3,786	–	3,786	(351)	(3,387)	48
Loans and advances to customers	67	–	67	–	(65)	1
Total	**25,415**	**(11,979)**	**13,435**	**(5,991)**	**(4,924)**	**2,520**

Offsetting of financial assets and financial liabilities as at 31 December 2019 – liabilities

EUR million	Gross carrying amount	Set-off amount	Net carrying amount recognised	Effect of netting agreements	Collateral	Net amount
Derivative transactions	**22,013**	**(12,833)**	**9,180**	**(5,640)**	**(1,967)**	**1,572**
Liabilities held for trading/negative fair values from derivative financial instruments (hedge accounting)	22,013	(12,833)	9,180	(5,640)	(1,967)	1,572
Securities repurchase transactions	**1,058**	**–**	**1,058**	**(351)**	**(697)**	**10**
Liabilities to banks	1,058	–	1,058	(351)	(697)	10
Liabilities to customers	–	–	–	–	–	–
Total	**23,071**	**(12,833)**	**10,238**	**(5,991)**	**(2,665)**	**1,582**

Offsetting of financial assets and financial liabilities as at 31 December 2018 – assets

EUR million	Gross carrying amount	Set-off amount	Net carrying amount recognised	Effect of netting agreements	Collateral	Net amount
Derivative transactions	**17,604**	**(9,231)**	**8,373**	**(4,490)**	**(1,724)**	**2,159**
Assets held for trading/positive fair values from derivative financial instruments (hedge accounting)	17,604	(9,231)	8,373	(4,490)	(1,724)	2,159
Securities repurchase transactions	**3,467**	**–**	**3,467**	**(197)**	**(3,228)**	**42**
Loans and advances to banks	3,467	–	3,467	(197)	(3,228)	42
Loans and advances to customers	–	–	–	–	–	–
Total	**21,071**	**(9,231)**	**11,840**	**(4,688)**	**(4,952)**	**2,201**

Offsetting of financial assets and financial liabilities as at 31 December 2018 – liabilities

EUR million	Gross carrying amount	Set-off amount	Net carrying amount recognised	Effect of netting agreements	Collateral	Net amount
Derivative transactions	**17,985**	**(10,413)**	**7,572**	**(4,490)**	**(1,503)**	**1,578**
Liabilities held for trading/negative fair values from derivative financial instruments (hedge accounting)	17,985	(10,413)	7,572	(4,490)	(1,503)	1,578
Securities repurchase transactions	**2,114**	**–**	**2,114**	**(197)**	**(1,885)**	**31**
Liabilities to banks	2,096	–	2,096	(197)	(1,885)	14
Liabilities to customers	18	–	18	–	–	18
Total	**20,099**	**(10,413)**	**9,686**	**(4,688)**	**(3,389)**	**1,609**

(67) Derivatives 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	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**
Interest rate risks	**612,031**	**719,904**	**19,399**	**15,043**	**19,466**	**14,697**
Interest rate swaps	474,855	538,006	18,287	14,409	17,843	13,810
Forward rate agreements	88,035	120,865	19	22	18	22
Interest rate options	21,823	21,878	962	487	1,414	771
Purchases	7,916	8,318	737	391	150	59
Put options	13,907	13,560	224	96	1,264	712
Caps, floors	14,558	11,865	124	118	64	58
Exchange-traded contracts	11,331	25,962	–	–	–	–
Other interest-based forward transactions	1,429	1,329	7	6	127	35
Currency risks	**126,649**	**117,704**	**1,898**	**1,938**	**2,146**	**1,881**
Forward exchange transactions	103,705	94,259	1,349	1,178	1,253	1,088
Currency swaps/cross-currency swaps	19,034	20,750	530	741	847	762
Foreign exchange options	1,723	1,831	10	12	7	10
Purchases	1,045	926	10	11	1	1
Put options	677	905	–	2	6	8
Other currency-based forward transactions	2,187	864	8	8	39	21
Equity and other price risks	**6,606**	**5,235**	**232**	**565**	**370**	**804**
Equity forward transactions	318	297	–	20	29	–
Equity/index options	403	403	5	1	1	–
Purchases	365	365	5	1	–	–
Put options	38	38	–	–	1	–
Exchange-traded contracts	2,378	1,343	–	–	17	46
Other forward transactions	3,507	3,192	226	545	322	758
Credit derivative risks	**255**	**335**	**–**	**1**	**6**	**1**
Protection buyer	255	335	–	1	6	1
Total	**745,541**	**843,178**	**21,529**	**17,548**	**21,987**	**17,383**

Derivatives transactions by maturity

	Nominal value							
	Interest rate risks		Currency risks		Equity and other price risks		Credit derivative risks	
EUR million	2019	2018	2019	2018	2019	2018	2019	2018
Residual maturities								
Up to 3 months	25,929	46,129	54,810	49,584	2,717	2,008	–	–
Between 3 months and 1 year	125,208	154,897	31,823	35,494	1,761	1,129	–	40
Between 1 year and 5 years	234,831	273,987	29,114	21,930	2,074	1,917	255	295
More than five years	226,064	244,892	10,902	10,697	53	181	–	–
Total	**612,031**	**719,904**	**126,649**	**117,704**	**6,606**	**5,235**	**255**	**335**

Derivatives transactions by counterparty

	Nominal value		Positive fair value		Negative fair value	
EUR million	2019	2018	2019	2018	2019	2018
OECD banks	445,057	367,608	10,084	7,332	11,505	7,759
Non-OECD banks	837	3,040	15	99	3	13
Public-sector entities within the OECD	8,752	9,639	667	501	464	357
Other counterparties[1]	290,895	462,890	10,762	9,617	10,016	9,255
Total	**745,541**	**843,178**	**21,529**	**17,548**	**21,987**	**17,383**

1 *Including exchange-traded contracts.*

Derivatives for trading purposes

	Nominal value		Positive fair value		Negative fair value	
EUR million	2019	2018	2019	2018	2019	2018
Interest rate derivatives	403,890	511,781	12,996	11,127	12,518	10,386
Currency derivatives	117,320	108,608	1,561	1,453	1,915	1,795
Equity derivatives	4,326	3,016	164	207	222	243
Credit derivatives	255	335	-	1	6	1
Total	**525,791**	**623,740**	**14,721**	**12,788**	**14,661**	**12,426**

(68) 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

As at the reporting date the volume of financial assets transferred as collateral that are not derecognised was EUR 51,445 million (FY 2018: EUR 50,331 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 gains and current income) are largely retained by the

BayernLB Group, the financial assets are not derecognised. The obligation of the lender to return the payment received as collateral for the transferred security 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 lends 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 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 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 carrying amount of transferred financial collateral relates to the following items:

EUR million	2019	2018
Loans and advances to banks	18,511	16,623
Loans and advances to customers	20,309	19,439
Assets held for trading	557	383
of which:		
Collateral received which may be sold or pledged on	37	93
Financial investments	12,069	13,886
of which:		
Collateral received which may be sold or pledged on	779	1,795
Total	**51,445**	**50,331**

The transferred financial assets are matched against liabilities of EUR 20,091 million (FY 2018: EUR 20,786 million).

The assets in the cover pool are managed in accordance with the German Pfandbrief Act (Pfandbriefgesetz). As at the reporting date the volume of the cover funds was EUR 45,377 million (FY 2018: EUR 46,133 million) for an outstanding volume of mortgage-backed Pfandbriefs and public Pfandbriefs of EUR 29,846 million (FY 2018: EUR 28,374 million).

The BayernLB Group also pledged collateral of EUR 137 million (FY 2018: EUR 97 million) for the utilisation of irrevocable payment obligations in connection with the bank levy and deposit guarantee scheme. Of this amount, cash collateral of EUR 54 million (FY 2018: EUR 44 million) was deposited for the bank levy and EUR 19 million (FY 2018: EUR 13 million) for the statutory deposit guarantee scheme which DKB belongs to. Securities collateral of EUR 63 million (FY 2018: EUR 40 million) was transferred for the bank-specific guarantee scheme BayernLB belongs to (see note 79).

Transferred financial assets that are derecognised in their entirety

As at 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

(69) 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 “cash and cash equivalents” line item corresponds to the “cash reserves” item in the balance sheet and comprises cash and deposits with central banks, including the corresponding exchange rate loss of EUR 5 million (FY 2018: gain of EUR 145 million). Cash and cash equivalents are not subject to any drawing restrictions.

Cash flows from operating activities comprise payments from loans and advances to banks and to customers, from securities (not including financial investments), derivatives, and other assets. Payments from liabilities to banks/customers, securitised liabilities, and from other liabilities also fall under this category. Likewise included are interest and dividend payments from operating activities.

Cash flows from investing activities include payments for: financial investments; investment property; property, plant and equipment; and intangible assets. The impact from changes to the scope of consolidation is also reported under this line item.

Distributions to company owners and minority shareholders, and changes in subordinated capital and non-controlling interests are part of cash flow from financing activities. The non-cash changes in subordinated capital on the balance sheet were due to gains in fair value of EUR 76 million (FY 2018: EUR 11 million) and other gains (including exchange rate gains) of EUR 19 million (FY 2018: EUR 14 million).

Supplementary disclosures

(70) Subordinated assets

Subordinated assets are recognised in the following line items on the balance sheet:

EUR million	2019	2018
Loans and advances to banks	162	2
Loans and advances to customers	156	220
Financial investments	3	111
Total	**320**	**333**

(71) Assets and liabilities in foreign currency

EUR million	2019	2018
Foreign currency assets	**21,855**	**23,529**
CAD	394	419
CHF	1,673	1,375
GBP	5,151	5,203
HKD	7	3
JPY	54	74
USD	13,701	15,451
Other currencies	874	1,003
Foreign currency liabilities	**16,856**	**20,850**
CAD	75	101
CHF	249	208
GBP	2,393	2,992
HKD	26	8
JPY	161	282
USD	13,508	16,920
Other currencies	444	339

(72) Default risk

The impairment rules of IFRS 9 follow an approach in which not just incurred losses but also expected losses must be accounted for using the expected credit loss model.

The impairment rules apply to all debt instruments in the “financial assets measured at amortised cost” and “financial assets mandatorily measured at fair value through other comprehensive income” categories and to financial guarantees and irrevocable and revocable credit commitments where the committor cannot unilaterally and unconditionally withdraw from its commitment at any time and which are not measured at fair value through profit or loss. Provisions for other contingent liabilities and other obligations for which there is a default risk must be made in accordance with IAS 37.

The following approaches are used to determine the loss allowances:

- general approach
- approach for purchased or originated credit-impaired financial assets
- simplified approach

General approach

Under the general approach, loss allowances are determined pursuant to the principle of a deterioration in creditworthiness. In essence, this is a relative credit risk model, according to which a significant increase in the default risk as at the reporting date compared with initial recognition requires higher risk provisions to be made. The loss allowances are broken down accordingly as follows:

- Loss allowances measured in the amount of the 12-month expected credit losses (Stage 1)
- Loss allowances measured in the amount of the lifetime expected credit losses for financial instruments for which the default risk has increased significantly since initial recognition but which are not credit-impaired financial assets (Stage 2)
- Loss allowances measured in the amount of the lifetime expected credit losses for financial assets that were credit-impaired as at the reporting date, but not at the time of purchase or origination (Stage 3)

Determining a significant increase in the default risk

On initial recognition, the respective financial instrument is assigned to Stage 1. A significant increase in default risk in the BayernLB Group is determined on the basis of the change in the 12-month probability of default (PD), which is calculated based on the Bank's credit risk processes. The rating of the financial instrument at the time of initial recognition is compared with the rating of the financial instrument at the respective reporting date. If the deviation exceeds the statistically expected value of the change in default risk determined for the respective reporting date at the time of addition, the change in default risk is classified as significant (expected downgrade). The statistically expected change in default risk (rating significance thresholds) is calculated as a function of the current term of the financial instrument.

The main inputs for determining a significant increase in default risk are the customer-specific expected change in conditional PD (PD profile per rating module) and the associated rating migration matrix. The rating migration matrix indicates the probability of a change in the rating occurring within the next 12 months. The conditional PD profile describes the probability that a business partner can no longer meet its financial obligations at a certain point in time in the future, assuming that it was able to meet its obligations up to that point in time. In determining the conditional PD profile, forward-looking information, in particular macroeconomic developments, are taken into account.

In addition to the relative criterion for determining a significant increase in the default risk, the BayernLB Group also applies the absolute criterion in the form of 30-day payment arrears and the existence of the "problem loan handling" form of support. The BayernLB Group does not apply the rebuttal of the assumption that there is a significant increase in the default risk in the event of 30-day payment arrears.

The option of always assigning a financial instrument with a low default risk to Stage 1 applies in the BayernLB Group for a selected securities portfolio. The default risk of a financial instrument is considered low if it has an investment grade rating.

A financial instrument is reclassified from Stage 2 to Stage 1 if the default risk as at the reporting date is no longer significantly higher than on initial recognition. The procedure for a stage transfer is the same for a non-significantly modified financial instrument.

If a financial asset is credit-impaired as at the reporting date, it is reclassified to Stage 3. To determine whether a financial asset is credit-impaired, the BayernLB Group implemented the following quantitative and qualitative criteria in particular:

- 90-day payment arrears by the obligor in respect of a substantial amount of the contractually agreed payments
- Significant doubt as to the creditworthiness of the obligor
- Restructuring/reorganisation of debt with a substantial waiver or postponement of interest and fee payments
- A loss allowance or a partial or full writedown due to a significant deterioration in credit quality
- Sale of receivables at a considerable economic loss
- Application for the insolvency of the borrower or comparable protective measures
- Default due to a transfer event

If at least one criterion is met, the credit analysts determine if there is an adverse effect on expected future cash flows by assessing the documents evidencing the credit quality of the respective financial instrument or business partner.

These criteria apply to all transactions in the BayernLB Group and are also used for internal credit risk management. They correspond to the supervisory definition of a loan default according to Article 178 para. 1 of the Capital Requirements Regulation (CRR).

As soon as the default criterion is no longer met, the financial instrument is no longer recognised at Stage 3, taking into account a recovery phase. For the 90-day arrears criterion, a business partner is considered healthy and is no longer considered to be in default if no further 90-day arrears occur during a period of six consecutive months and no other default criterion is met.

Determining the loss allowance

When determining the expected credit losses of a financial instrument in Stage 1 and Stage 2, the following parameters are multiplicatively linked:

- Probability of default: this represents the probability that a business partner can no longer meet its financial obligations, with respect to the next 12 months (12-month PD) or over the contractual term of the obligation (lifetime PD). Multi-year PD is determined on the basis of historical observations and forward-looking information, which are based on cross-institutional data histories of the rating procedures used. In particular, macroeconomic developments based on BayernLB's economic forecasts are also included.
- Exposure at default (EAD): this estimates the outstanding exposure at the time of default and is modelled on the basis of product-specific ancillary agreements (e.g. rights of termination and their probability of exercise, which is determined on the basis of historical practice). In addition to the current drawings, expected future drawings are also taken into account for commitments. The drawings in the year prior to default are recognised via the credit conversion factor (CCF) calculated on the basis of historical drawings and the remaining open line.

- Loss given default (LGD): this shows the expected loss in the event of default, with a distinction being made between an LGD for the secured and unsecured parts of the EAD. In the case of the unsecured part of the EAD, the maturity component is modelled on the basis of the forecast change in the collateral's fair value (collateral value over time). The estimate is based on observed historical values over time.

The expected credit loss is discounted using the effective interest rate at the time of initial recognition or an approximation thereof.

To calculate the expected credit loss, forward-looking information over a two-stage process is taken into account. In a first step, provided that it has a relevant influence on the associated business partner or the respective financial instrument, forward-looking information for each individual financial instrument is used to determine the various credit risk parameters (in particular probability of default, collateral values and recovery rates). This also applies to relevant macroeconomic variables. In a second step, the credit risk parameters calculated at the level of the financial instruments and aggregated at (sub-)portfolio level with corresponding credit risk parameters, which can be expected largely on the basis of various, macroeconomic scenarios for the following years, are compared in a quantitative and qualitative expert-based analysis prior to the reporting date. In the event of a significant deviation within one or more (sub)portfolios, the resulting effects on the expected credit loss are approximated and taken into account. This allows forward-looking information on the individual characteristics of a particular financial instrument and enhanced forecasting quality at a higher aggregation level to be incorporated in the best possible way in a combined form.

In the case of Stage 3 financial instruments, the loss allowance is recognised as the difference between amortised cost and the present value of expected cash flows. When determining expected cash flows, various scenarios (i.e. at least two) normally need to be defined and weighted with the expected probability of occurrence. The expected cash flow is discounted using the effective interest rate at the time of initial recognition or an approximation thereof.

Utilisations/writedowns

A financial instrument is derecognised if, based on current information, the Bank is confident that all economically reasonable measures to limit losses have been exhausted. This must be assumed if all measured collateral is realised and there is no prospect of other payments (e.g. concluded insolvency proceedings, insolvency rejected for lack of assets). When an instrument is derecognised, a loss allowance that has already been recognised is utilised or a direct writedown is booked as a utilisation with a concomitant addition to the loss allowance, provided that no or insufficient loss allowances were recognised.

The Bank will also continue its efforts to recover derecognised financial instruments for which an external claim still exists.

Procedure for purchased or originated credit-impaired financial assets

This method is used for purchased or originated credit-impaired financial assets (POCI). The BayernLB Group assumes that creditworthiness is impaired if the counterparty is assigned to a (non-performing) default category and the financial instrument was received with a big discount.

In these cases, the cumulative changes in the lifetime expected credit losses since initial recognition must be recorded. To determine the expected credit losses, the risk-adjusted effective interest rate is used as the discount rate for calculating present value.

Simplified approach

The simplified approach is used in the BayernLB Group for trade receivables, regardless of whether they contain a significant financing component. The loss allowances are always measured in the amount of the lifetime expected credit losses.

Loss allowances and gross carrying amounts/exposure

The following table shows the loss allowances and gross carrying amounts/exposure of financial instruments.

Loss allowances as at 31 December 2019

	Stage 1	Stage 2	Stage 3	POCI	Simplified approach	Total
EUR million	2019	2019	2019	2019	2019	2019
Cash and balances at central banks	-	-	-	-	-	**-**
Loans and advances to banks	3	1	6	-	-	**10**
Loans and advances to customers	120	141	658	45	-	**964**
Financial assets	2	-	-	-	-	**2**
Other assets	-	-	-	-	-	**-**
Financial guarantees/ credit commitments	28	15	64	5	-	**113**
Total	**154**	**157**	**729**	**49**	**-**	**1,090**

Loss allowances as at 31 December 2018

	Stage 1	Stage 2	Stage 3	POCI	Simplified approach	Total
EUR million	2018	2018	2018	2018	2018	2018
Cash and balances at central banks	-	-	-	-	-	**-**
Loans and advances to banks	3	4	2	-	-	**9**
Loans and advances to customers	93	202	719	20	-	**1,034**
Financial assets	2	-	-	-	-	**3**
Other assets	-	-	-	-	-	**-**
Financial guarantees/ credit commitments	25	32	36	8	-	**102**
Total	**124**	**238**	**757**	**28**	**-**	**1,148**

The total volume of non-discounted expected credit losses as at first-time recognition of purchased or originated credit-impaired financial instruments was EUR 76 million in the reporting year (FY 2018: EUR 49 million).

For information on the changes in loss allowances, refer to notes 41, 55 and 59.

Gross carrying amount/exposure as at 31 December 2019

	Stage 1	Stage 2	Stage 3	POCI	Simplified approach	Total
EUR million	2019	2019	2019	2019	2019	2019
Cash reserves	8,512	–	–	–	–	**8,512**
Loans and advances to banks	30,602	543	6	1	–	**31,151**
Loans and advances to customers	135,556	6,854	1,488	154	–	**144,051**
Financial investments	22,165	10	–	–	–	**22,175**
Other assets	–	–	–	–	37	**37**
Financial guarantees/ credit commitments	54,802	1,545	175	11	–	**56,534**
Total	**251,637**	**8,952**	**1,670**	**165**	**37**	**262,461**

Gross carrying amount/exposure as at 31 December 2018

	Stage 1	Stage 2	Stage 3	POCI	Simplified approach	Total
EUR million	2018	2018	2018	2018	2018	2018
Cash reserves	3,335	–	–	–	–	**3,335**
Loans and advances to banks	24,884	11,720	5	–	–	**36,610**
Loans and advances to customers	111,227	24,987	1,497	315	–	**138,025**
Financial investments	23,122	1,141	–	–	–	**24,263**
Other assets	–	–	–	–	23	**23**
Financial guarantees/ credit commitments	42,311	12,038	93	16	–	**54,459**
Total	**204,880**	**49,886**	**1,595**	**331**	**23**	**256,715**

For information on the changes in gross carrying amounts and the exposure, refer to notes 41, 55 and 59.

Gross carrying amount/exposure by rating category as at 31 December 2019

EUR million	Stage 1 2019	Stage 2 2019	Stage 3 2019	POCI 2019	Simplified approach 2019	Total 2019
Rating categories 0-7	163,638	1,760	–	14	16	**165,428**
Rating categories 8-11	60,836	1,318	–	1	–	**62,155**
Rating categories 12-17	22,607	4,035	–	4	–	**26,646**
Rating categories 18-21	470	1,791	–	13	–	**2,274**
Rating categories 22-24	1	–	1,670	134	–	**1,804**
Unrated	4,085	48	–	–	21	**4,154**
Total	**251,637**	**8,952**	**1,670**	**165**	**37**	**262,461**

Gross carrying amount/exposure by rating category as at 31 December 2018

EUR million	Stage 1 2018	Stage 2 2018	Stage 3 2018	POCI 2018	Simplified approach 2018	Total 2018
Rating categories 0-7	133,739	24,662	–	–	7	**158,408**
Rating categories 8-11	41,791	15,446	–	–	–	**57,238**
Rating categories 12-17	18,600	7,451	25	2	–	**26,078**
Rating categories 18-21	862	2,118	158	8	–	**3,146**
Rating categories 22-24	13	–	1,391	321	–	**1,725**
Unrated	9,874	210	21	–	16	**10,121**
Total	**204,880**	**49,886**	**1,595**	**331**	**23**	**256,715**

Non-significant modifications

For financial instruments for which the contractually agreed cash flows were modified in the reporting year and whose loss allowance was measured in the amount of the lifetime expected credit losses the amortised cost before modification amounted to EUR 216 million (FY 2018: EUR 250 million). The modification gain or loss on these non-significant modifications amounted to EUR 0 million (FY 2018: EUR –1 million) in the reporting year.

The gross carrying amount of financial instruments that were modified when the loss allowance was measured in the amount of the lifetime expected credit losses, and for which the loss allowance was adjusted in the amount of the 12-month expected credit losses in the reporting year, was EUR 31 million (FY 2018: EUR 10 million) as at the reporting date.

The calculation methods for certain benchmark interest rates were also adjusted in the reporting year under the IBOR reform. These adjustments did not produce any modification gain or loss.

Maximum default risk

The following table shows the maximum default risk as at the reporting date for all financial instruments to which the impairment rules pursuant to IFRS 9 are applied. Collateral received or other loan collateral is not taken into account.

EUR million	2019	2018
Cash reserves	8,512	3,335
Loans and advances to banks	31,096	36,601
Loans and advances to customers	143,844	137,656
Financial investments	22,653	24,575
Other assets	37	23
Financial guarantees/credit commitments	56,534	54,459
Total	**262,675**	**256,649**

The BayernLB Group holds collateral to mitigate default risks. The principles for accepting and valuing collateral are embedded in the Bank's collateral policy.

The main types of collateral are real estate liens, which predominantly relate to domestic real estate properties, and guarantees. Guarantees include in particular standby letters of credit, directly enforceable guarantees and export guarantees. The main guarantors are monolines, the public sector and financial institutions, most of which have an investment grade credit rating. Liens are also accepted as collateral, in particular in the form of financial collateral, and transfers of title for collateral purposes and assignments.

Collateral is recognised on the basis of the liquidation value, which corresponds to the expected proceeds of collateral within an orderly realisation. The liquidation value is calculated by taking into account the fair value of the collateral and an expected recovery rate specific to each type of collateral. For guarantees, the liquidation value is calculated on the basis of the recovery rate derived from the credit rating of the respective collateral provider and the size of the guaranteed loan amount.

In addition, the BayernLB Group holds securities as collateral in genuine repurchase agreements (reverse repo transactions). Only liquid marketable securities in currencies usually traded are accepted. The securities are measured at their fair value. Discounts for potential fluctuations in value are taken into account. Both concentration and correlation risk limits have been put in place and are regularly monitored.

In the case of credit-impaired financial assets, the default risk was reduced by collateral received and other loan collateral amounting to EUR 493 million (FY 2018: EUR 462 million). The collateral is broken down as follows:

EUR million	2019	2018
Loans and advances to customers	487	455
Financial guarantees/credit commitments	6	7
Total	**493**	**462**

As at the reporting date, BayernLB had financial instruments for which no loss allowances were made, as they were covered by collateral. Their gross carrying amount related to the following balance sheet line items:

EUR million	2019	2018
Loans and advances to banks	20	23
Loans and advances to customers	33,219	31,789
Financial guarantees/credit commitments	1,855	4,039
Total	**35,094**	**35,852**

The following table shows the maximum default risk as at the reporting date for all financial instruments to which the impairment rules pursuant to IFRS 9 are not applied. Collateral received or other loan collateral is not taken into account.

EUR million	2019	2018
Loans and advances to customers	189	183
Assets held for trading	13,259	11,937
Positive fair values from derivative financial instruments (hedge accounting)	706	512
Financial investments	682	666
Total	**14,837**	**13,298**

Derivatives transactions are often hedged. Collateral is principally in the form of cash in euros. In the case of cash collateral in foreign currencies and collateral in the form of securities, discounts are made to take account of fluctuations in value.

Foreclosure proceedings on written down financial instruments

In the case of financial instruments that were written down in the reporting year but still subject to foreclosure proceedings, the contractual amount outstanding stood at EUR 19 million (FY 2018: EUR 8 million) as at the reporting date.

(73) 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 9,504 million (FY 2018: EUR 7,540 million).

EUR 5,701 million (FY 2018: 5,312 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.

(74) Revenue from contracts with customers

The BayernLB Group recognises revenue from contracts with customers in the form of commission and fees from a wide range of services. As a rule, commissions and fees from one-off services are collected at specific points in time and from recurring services over time. Revenue from performance obligations fulfilled at specific points in time is recognised at the time of the transfer of control over the asset (essentially when the service is rendered), and revenue from performance obligations settled over time is recognised in accordance with the progress made. This is determined on the basis of the contract, according to which progress is generally even throughout the performance period. The amount of revenue recognised corresponds to the promised consideration contractually agreed by the customer for the transfer of the services. As a rule, the promised consideration can be clearly allocated to the individual performance obligations contained in the contract.

Depending on the contract, payment in advance or in arrears for the services is agreed with the customer.

In the BayernLB Group, commissions and fees are mainly recognised for the following services:

- *Securities business*
  In the securities business, revenue is generated in particular from securities custody and custody management, execution and settlement of spot and forward transactions, and the placement of Schuldschein note loans. As a rule, revenue from one-off services, such as the settlement of securities transactions, is recognised at a point in time and from recurring services, such as securities custody, over time.

- *Credit business*
  In the credit business, revenue is primarily received from the processing and administration of (syndicated) loans and the provision of guarantee loans. As a rule, one-off processing and syndicate fees are booked at a specific point in time, while revenues from recurring services, such as acting as an agent in a banking syndicate (e.g. as a collateral manager) and the provision of guarantee facilities, are booked over time. BayernLB Group primarily acts as an agent for subsidised loans.

- *Payments*
  In the case of payments, revenue is mainly produced from account management, the processing of transfers, and the collection and redemption of direct debits. As a rule, one-off revenue, such as fees for bank transfers and direct debits, is booked at a point in time, while revenue from recurring services, such as account management, is booked over time.

- *Documentary business*
  In the case of documentary business, revenue is primarily generated from the settlement of payments in international trade using letters of credit. As a rule, revenue from one-off services, such as the opening and processing of letters of credit, is recognised at a point in time, while revenue from recurring services, such as credit confirmations, is recognised over time.

- *Credit card business*
  In the credit card business, income is mainly generated from the issue of credit cards and services associated with credit cards, in particular settlement. As a rule, one-off fees, such as foreign usage fees and cash service fees, are booked at a point in time, while recurring charges, such as cardholder fees, are booked over time. The BayernLB Group primarily acts as an agent when brokering insurance services and other ancillary services, and revenue is recognised on a net basis in such cases.

- *Fund business*
  In the fund business, proceeds are primarily received from fund structuring and management, portfolio and asset management, and investor support. As a rule, one-off revenue, such as transaction fees, is recognised at a point in time, while revenue from recurring services, such as fund management, is recognised over time.

- *Trust transactions*
  In the trust transactions business, revenue is mainly generated from the granting and administration of trust loans. As a rule, revenue from one-off administrative cost contributions is recognised at a point in time and from recurring administrative cost contributions over time. In the trust transaction business, the BayernLB Group primarily acts as an agent, and revenue is recognised on a net basis in such cases.

The BayernLB Group makes use of the practical expedient under IFRS 15.63 and refrains from adjusting the promised amount of consideration for the effects of a significant financing component if it expects, at contract inception, that the period between when the entity transfers a promised service to the customer and when the customer pays for that service will be one year or less.

Breakdown of revenues

Revenue from contracts with customers booked to net commission income is broken down as follows:

EUR million	2019	2018
Commission income	**708**	**664**
Securities business	75	60
Credit business	172	172
Payments	40	34
Documentary business	9	9
Credit card business	211	204
Fund business	171	156
Trust transactions	15	16
Other	15	13
Commission expenses	**(354)**	**(340)**
Securities business	(41)	(38)
Credit business	(9)	(10)
Payments	(72)	(67)
Documentary business	(6)	(5)
Credit card business	(156)	(147)
Fund business	(65)	(63)
Other	(6)	(10)
Total	**354**	**323**

In the reporting year, revenue from contracts with customers of EUR 16 million (FY 2018: EUR 21 million) and related expenses of EUR 3 million (FY 2018: EUR 2 million) for various services, in particular IT and financial services, was recognised in other income and expenses.

The segment report (see note 25) shows net commission income and other income and expenses for each business segment of the BayernLB Group. This is presented in each case as a net figure consisting of commission income, commission expenses, other income and other expenses, and includes the revenue recognised from contracts with customers in accordance with IFRS 15.

Contract balances

The following table shows the opening and closing balances of receivables from contracts with customers.

EUR million	2019	2018
Loans and advances	54	35

A receivable is recognised when invoiced by the BayernLB Group.

Transaction price allocated to remaining performance obligations

The BayernLB Group has made use of the practical expedient under IFRS 15.121 to refrain from disclosing the transaction price allocated to the remaining performance obligations for contracts with an original expected duration of one year or less and for contracts from which revenue can be recognised for simplification purposes in accordance with IFRS 15.B16 in the amount to which the entity has a right to invoice.

Capitalised costs

The BayernLB Group makes use of the practical expedient under IFRS 15.94 and recognises the incremental costs of obtaining a contract with a customer as an expense when incurred if the amortisation period will be one year or less.

(75) Leasing

The BayernLB Group as lessee

BayernLB Group’s existing leasing activities mainly involve the leasing of office and parking spac-es, vehicles, IT devices and other assets. The leases provide the Bank with flexibility it would not have if it had purchased the underlying assets, including the option to extend or terminate and, where applicable, to replace leased assets on a regular basis.

Right-of-use assets

EUR million	2019
Property, plant and equipment	196
Total	**196**

Breakdown of the carrying amount of the right-of-use assets recognised under property, plant and equipment by class of underlying assets

EUR million	2019
Property	192
Furniture and office equipment	2
Other assets	2
Total	**196**

Additions to right-of-use assets stood at EUR 12 million in the reporting year.

Breakdown of the depreciation amount of the right-of-use assets by class of underlying assets

EUR million	2019
Property[1]	(21)
Furniture and office equipment	(1)
Other assets	(1)
Total	**(23)**

1 Not including investment property.

Lease liabilities

EUR million	2019
Other liabilities	197
Total	**197**

Interest expenses for lease liabilities amounted to EUR 2 million in the reporting year.

No lease liabilities were recognised for short-term leases or for leases where the underlying asset is of low value. Instead, lease payments associated with these leases were recognised as expenses. In the reporting year the costs for short-term leases stood at EUR 1 million, while for leases where the underlying asset is of low value the cost was EUR 2 million. Lease liabilities from short-term leases amounted to EUR 1 million as at the reporting date. The total cash outflow for leases amounted to EUR 27 million in the reporting year.

The BayernLB Group as lessor

In the reporting year the BayernLB Group was a lessor in respect of operating leases. The leased property was real estate.

Breakdown of lease payments by maturity

EUR million	2019
Residual maturities	
Up to 1 year	5
Between 1 year and 2 years	4
Between 2 years and 3 years	4
Between 3 years and 4 years	4
Between 4 years and 5 years	4
More than 5 years	19
Total	**40**

Income from operating leases in the reporting year was EUR 4 million.

Leasing arrangements in financial year 2018

In financial year 2018 the BayernLB Group was both a lessor and lessee in respect of operating leases.

The BayernLB Group as lessor

The leased assets that are the subject of operating leases in the BayernLB Group are real estate. Future minimum lease payments from non-cancellable operating leases in financial year 2018 comprised:

EUR million	2018
Residual maturities	
Up to 1 year	4
Between 1 year and 5 years	12
More than 5 years	1
Total	**18**

The BayernLB Group as lessee

The BayernLB Group's current commitments from operating leases were primarily for leases for office space with options to extend the lease or clauses to adjust prices. Future minimum lease payments from non-cancellable operating leases in financial year 2018 comprised:

EUR million	2018
Residual maturities	
Up to 1 year	23
Between 1 year and 5 years	78
More than 5 years	100
Total	**201**

In financial year 2018 minimum lease payments of EUR 21 million were recognised as an expense.

(76) Trust transactions

EUR million	2019	2018
Assets held in trust	**5,093**	**4,940**
Loans and advances to banks	12	17
Loans and advances to customers	5,081	4,923
Liabilities held in trust	**5,093**	**4,940**
Liabilities to banks	10	11
Liabilities to customers	5,083	4,929

(77) Contingent assets, contingent liabilities and other commitments

EUR million	2019	2018
Contingent liabilities	**12,454**	**11,206**
Liabilities from guarantees and indemnity agreements	12,435	11,202
Other contingent liabilities	18	3
Other commitments	**25,857**	**26,324**
Irrevocable credit commitments	25,857	26,324
Total	**38,311**	**37,529**

Contingent liabilities and other commitments are for the most part potential liabilities arising from the occurrence of an uncertain future event whose settlement amount and date cannot be reliably estimated. Other contingent liabilities include potential liabilities arising from legal disputes, which are offset by contingent assets in the mid double-digit million range.

EUR 8,877 million (FY 2018: EUR 7,835 million) of contingent liabilities and EUR 14,554 million (FY 2018: EUR 14,235 million) of other liabilities are due after more than 12 months.

(78) Other financial obligations

Other financial obligations arise principally from agency, rental, leasing, usage, service, maintenance, consulting and marketing agreements.

As at the end of the reporting period, there were call commitments for capital not fully paid up of EUR 13 million (FY 2018: EUR 14 million) and uncalled liabilities from German limited partnership (Kommanditgesellschaft) interests of EUR 17 million (FY 2018: EUR 29 million). Liabilities to subsidiaries not incorporated in the consolidated financial statements totalled EUR 17 million (FY 2018: EUR 29 million).

As at the reporting date, the BayernLB Group had EUR 137 million (FY 2018: EUR 97 million) of irrevocable payment obligations in connection with the bank levy and deposit guarantee scheme. Cash collateral of EUR 73 million (FY 2018: EUR 57 million) and securities collateral of EUR 63 million (FY 2018: EUR 40 million) were provided for these obligations (see note 68).

Following the implementation of the Deposit Guarantee Scheme Act (EinSiG), which entered into effect on 3 July 2015, agreement was reached on a new system for calculating the target volume in the guarantee scheme. Member institutions have until 3 July 2024 to achieve the target volume of funds for the guarantee scheme (the fill-up phase). It is calculated each year based on the data as at 31 December of the previous year The German Savings Bank Association (DSGV), the body responsible for the guarantee scheme, calculates the mandatory annual contribution by 31 May of any given year.

Under the terms of the statutes of the deposit insurance fund run by the Association of German Public Banks, VÖB, e. V., BayernLB has undertaken to reimburse the fund for all payments made pursuant to the statutes on behalf of DKB to cover proven defaults as the fund is unable to enforce its rights of recourse against DKB.

(79) 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.

BayernLB is liable for ensuring that DKB is able to fulfil its contractual obligations in proportion to the size of its equity interest except in cases of political risk.

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 am 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, para. 2 HGB. 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.

Expiry of the letter of comfort for Banque LBLux S.A. (since renamed Banque LBLux S.A. in Liquidation), Luxembourg as at 1 May 2015

BayernLB previously issued a letter of comfort for Banque LBLux S.A. (since renamed Banque LBLux S.A. in Liquidation), Luxembourg. This letter of comfort was rescinded 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. (since renamed Banque LBLux S.A. in Liquidation) that were created after 30 April 2015, and all previously issued letters were also rescinded.

(80) Shareholdings

Name and location of the investee	Investment	Percentage held	Equity/ fund assets in EUR k	Earnings in EUR k
Consolidated subsidiaries				
Bayern Card-Services GmbH - S-Finanzgruppe, Munich	Direct	50.1	28,573	5,292
BayernInvest Kapitalverwaltungsgesellschaft mbH, Munich[1]	Direct	100.0	18,754	–
Deutsche Kreditbank Aktiengesellschaft, Berlin[1]	Direct	100.0	2,435,913	–
Subsidiaries included in the Deutsche Kreditbank Aktiengesellschaft sub-group:				
DKB Finance GmbH, Berlin	Indirect	100.0	16,592	–
DKB Grund GmbH, Berlin	Indirect	100.0	101	(27)
DKB Service GmbH, Potsdam	Indirect	100.0	7,100	–
FMP Forderungsmanagement Potsdam GmbH, Potsdam	Indirect	100.0	12,150	–
MVC Unternehmensbeteiligungsgesellschaft mbH, Berlin	Indirect	100.0	3,091	834
PROGES EINS GmbH, Berlin	Indirect	100.0	480	–
Real I.S. AG Gesellschaft für Immobilien Assetmanagement, Munich[1]	Direct	100.0	45,455	–
Subsidiaries included in the Real I.S. AG Gesellschaft für Immobilien Assetmanagement sub-group:				
Real I.S. Investment GmbH, Munich	Indirect	100.0	3,000	–
Non-consolidated subsidiaries				
Banque LBLux S.A. i.L., L - Luxembourg	Direct	100.0	50,693	10,460
Bauland GmbH, Baulandbeschaffungs-, Erschließungs- und Wohnbaugesellschaft, Munich	Indirect	94.5	(2,687)	–
Bavaria Immobilien-Beteiligungs-Gesellschaft mbH & Co. Objekt Fürth KG, Munich	Indirect	100.0	–	–
Bavaria Immobilien-Beteiligungs-Gesellschaft mbH, Munich	Indirect	100.0	11	3
Bayerische Landesbank Europa-Immobilien-Beteiligungs-GmbH, Munich	Indirect	100.0	109	–
Bayerische Landesbank Immobilien-Beteiligungs-Gesellschaft mbH & Co. KG, Munich	Direct	100.0	34,658	479
Bayerische Landesbank Immobilien-Beteiligungs-Verwaltungsgesellschaft mbH, Munich	Direct	100.0	60	3
Bayern Bankett Gastronomie GmbH, Munich[1]	Direct	100.0	514	–
Bayern Corporate Services GmbH, Munich	Indirect	100.0	205	–
Bayern Facility Management GmbH, Munich[1]	Direct	100.0	2,560	–
BayernFinanz Gesellschaft für Finanzmanagement und Beteiligungen mbH, Munich[1]	Direct	100.0	725	–
Bayernfonds Immobilien Concept GmbH, Munich	Indirect	100.0	36	21
Bayernfonds Immobiliengesellschaft mbH, Munich	Direct and indirect	100.0	5,606	465
Bayernfonds Kambera GmbH, Munich	Indirect	100.0	25	–
Bayernfonds Opalus GmbH, Munich	Indirect	100.0	25	–
BayernImmo 2019 Joint Venture Verwaltungs GmbH, Munich[2]	Indirect	100.0		
BayernImmo 2. Joint Venture Verwaltungs GmbH, Munich	Indirect	100.0	16	(4)
BayernInvest Luxembourg S.A., L - Munsbach	Indirect	100.0	2,029	237
BayernLB Capital Partner GmbH, Munich	Direct	100.0	1,378	25
BayernLB Capital Partner Verwaltungs-GmbH, Munich	Direct	100.0	48	2

Name and location of the investee	Investment	Percentage held	Equity/ fund assets in EUR k	Earnings in EUR k
BayernLB Mittelstandsfonds GmbH & Co. Unternehmensbeteiligungs KG i.L., Munich	Direct and indirect	100.0	18,010	1,552
BayernLB Private Equity GmbH i.L., Munich	Direct	100.0	15,366	319
BayTech Venture Capital II GmbH & Co. KG i.L., Munich	Direct and indirect	47.6	1,128	7,188
BayTech Venture Capital Initiatoren GmbH & Co. KG i.L., Munich	Indirect	46.8	1	67
Berchtesgaden International Resort Betriebs GmbH, Munich[1]	Direct	100.0	9,368	–
BestLife 3 International GmbH & Co. KG Invest II, Munich	Indirect	50.4	8,259	(84)
BGV IV Verwaltungs GmbH, Munich	Indirect	100.0	45	1
BGV V Verwaltungs GmbH, Munich	Indirect	100.0	40	2
BGV VI Verwaltungs GmbH, Munich	Indirect	100.0	25	4
BGV VII Europa Verwaltungs GmbH, Munich	Indirect	100.0	27	5
BGV VII Verwaltungs GmbH, Munich	Indirect	100.0	7	(11)
BLB-Beteiligungsgesellschaft Sigma mbH, Munich[1]	Direct	100.0	971	–
BLB-VG22-Beteiligungsgesellschaft mbH, Munich	Direct	100.0	501	(4)
DKB BayernImmo Beteiligungs GmbH & Co. KG, Munich	Indirect	100.0	4,637	(117)
DKB Campus GmbH, Berlin[2]	Indirect	100.0		
DKB Code Factory GmbH, Berlin	Indirect	100.0	800	–
DKB Immobilien Beteiligungs GmbH, Potsdam	Indirect	100.0	2,184	175
DKB Stiftung Liebenberg gGmbH, Löwenberger Land/OT Liebenberg[3]		100.0	379	244
DKB Stiftung Schloss Liebenberg, Fürth[3]		100.0	12	(2)
DKB STIFTUNG Jugenddörfer gemeinnützige GmbH, Fürth[3]		100.0	131	90
DKB Wohnen GmbH, Berlin	Indirect	94.5	25	–
DKB Wohnungsbau- und Stadtentwicklung GmbH, Berlin	Indirect	100.0	2,500	–
GbR Olympisches Dorf, Potsdam	Indirect	100.0	4,977	4,977
German Centre for Industry and Trade Shanghai Co. Ltd., PRC - Shanghai	Indirect	100.0	38,749	1,895
German Centre for Industry and Trade Taicang Co. Ltd., PRC - Taicang	Indirect	100.0	3,102	(564)
German Centre Limited, BVI - Tortola	Direct	100.0	27,888	1,100
gewerbegrund AIRPORT GmbH Beteiligungsgesellschaft, Munich	Indirect	100.0	56	(3)
gewerbegrund Bauträger GmbH & Co. Objekt IGG KG, Munich	Indirect	100.0	–	50
gewerbegrund Projektentwicklungsgesellschaft (gpe) mbH, Munich	Direct	100.0	1,750	–
Global Format GmbH & Co. KG, Munich	Direct	52.4	1,950	2
Global Format Verwaltungsgesellschaft mbH, Munich	Indirect	100.0	31	1
LB Immobilienbewertungsgesellschaft mbH, Munich[1]	Direct	100.0	827	–
LB-RE S.A., L - Luxembourg	Indirect	100.0	5,253	(364)
Melhoria Immobiliengesellschaft mbH, Potsdam	Indirect	100.0	3,102	–
Oberhachinger Bauland GmbH, Wohnbau- und Erschließungsgesellschaft, Munich	Indirect	100.0	(437)	989
Potsdamer Immobiliengesellschaft mbH, Potsdam	Indirect	100.0	98	47
PROGES DREI GmbH, Berlin	Indirect	100.0	1,256	583

Name and location of the investee	Investment	Percentage held	Equity/ fund assets in EUR k	Earnings in EUR k
PROGES ENERGY GmbH, Berlin	Indirect	100.0	800	83
PROGES Sparingberg GmbH, Berlin	Indirect	100.0	1,228	1,084
PROGES VIER GmbH, Berlin	Indirect	100.0	79	(122)
PROGES ZWEI GmbH, Berlin	Indirect	100.0	2,950	(17)
Real I.S. Australia 10 STC Pty. Ltd., AUS - Sydney	Indirect	100.0	–	–
Real I.S. Australia 10 Subtrust, AUS - Sydney	Indirect	100.0	18,399	(98)
Real I.S. Australia 10 TC Pty. Ltd., AUS - Sydney	Indirect	100.0	–	–
Real I.S. Australia 10 Trust, AUS - Sydney	Indirect	100.0	18,480	(18)
Real I.S. Australia Pty. Ltd., AUS - Sydney	Indirect	100.0	501	363
Real I.S. Australien 10 GmbH & Co. KG, Munich	Indirect	100.0	–	(170)
Real I.S. Beteiligungs GmbH, Munich	Indirect	100.0	91	(2)
Real I.S. Finanz GmbH, Munich[1]	Direct	100.0	25	–
Real I.S. Fonds Service GmbH, Munich[1]	Direct	100.0	177	(8)
Real I.S. France SAS, F - Paris	Indirect	100.0	948	252
Real I.S. Fund Management GmbH, Munich	Indirect	100.0	69	6
Real I.S. Gesellschaft für Immobilienmanagement mbH & Co. KG, Munich	Indirect	100.0	5,878	1,367
Real I.S. Gesellschaft für Immobilienmanagement und Verwaltung mbH, Munich	Indirect	100.0	69	99
Real I.S. GREF Verwaltungs GmbH, Munich	Indirect	100.0	16	(3)
Real I.S. Management Hamburg GmbH, Munich	Indirect	100.0	28	1
Real I.S. Management SA, L - Munsbach	Indirect	100.0	303	1
Real I.S. SMART Verwaltungs GmbH, Munich	Indirect	100.0	17	(2)
Schütz Group GmbH & Co. KG i.L., Rosbach	Indirect	54.4	940	(30)
Schütz Group Verwaltungsgesellschaft mbH i.L., Rosbach	Indirect	100.0	49	2
SEPA/Real I.S. Objekt Bruchsal Rathausgalerie GmbH & Co. KG, Munich	Indirect	100.0	60	(30)
SEPA/Real I.S. Objekt Bruchsal Rathausgalerie Verwaltungs-GmbH, Munich	Indirect	100.0	38	2
TFD und BGV VI Verwaltungs GmbH, Munich	Indirect	100.0	17	(5)
TFD und RFS Verwaltungs GmbH, Munich	Indirect	100.0	20	(3)
TFD Verwaltungs GmbH, Munich	Indirect	100.0	17	(3)
Joint ventures not measured at equity				
ABG Allgemeine Bauträger- und Gewerbeimmobiliengesellschaft & Co. Holding KG, Munich	Indirect	50.0	158	(14)
ABG Allgemeine Bauträger- und Gewerbeimmobiliengesellschaft mbH, Munich	Indirect	50.0	61	–
AKG ImmoPlus GmbH, Berlin	Indirect	50.0	169	(317)
BayernImmo 1. Joint Venture GmbH & Co. KG, Munich	Indirect	50.0	10,005	(9)
BayernImmo 1. Joint Venture Verwaltungs GmbH, Munich	Indirect	50.0	18	(1)
BayernImmo 2019 Joint Venture GmbH & Co. KG, Munich[2]	Indirect	50.0		
BayernImmo Böhmisches Viertel Beteiligungs GmbH & Co. KG, Munich[2]	Indirect	50.0		
CommuniGate Kommunikationsservice GmbH, Passau	Indirect	50.0	3,872	272
Einkaufs-Center Györ Verwaltungs G.m.b.H., Hamburg	Indirect	50.0	36	2
German Biofuels GmbH, Pritzwalk	Indirect	19.9	(1,153)	8,062

Name and location of the investee	Investment	Percentage held	Equity/ fund assets in EUR k	Earnings in EUR k
German Centre for Industry and Trade India Holding-GmbH, Munich	Direct	50.0	906	(14)
GHM MPP Reserve GmbH, Regenstauf	Indirect	50.0	353	(4)
GHM MPP Verwaltungs GmbH, Regenstauf	Indirect	50.0	20	(1)
MTI Main-Taunus Immobilien GmbH, Bad Homburg v.d.H.	Indirect	50.0	66	(77)
S-Karten-Service-Management GmbH - Saarbrücken - München, Munich	Indirect	50.0	100	–
TEGES Grundstücks-Vermietungsgesellschaft mbH, Berlin	Indirect	50.0	24	3
TEGES Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt Berlin KG, Berlin	Indirect	47.0	(6,568)	(89)
Associates not measured at equity				
Bayerngrund Grundstücksbeschaffungs- und -erschließungs-Gesellschaft mit beschränkter Haftung, Munich	Direct	50.0	7,606	(645)
Bayern Mezzaninekapital Fonds II GmbH & Co. KG Unternehmensbeteiligungsgesellschaft, Munich	Direct	40.0	1,999	(508)
Bayern Mezzaninekapital GmbH & Co. KG - Unternehmensbeteiligungsgesellschaft, Munich	Direct	25.5	17,599	1,458
Bayern Mezzaninekapital Verwaltungs GmbH, Munich	Direct	49.0	50	3
GHM Holding GmbH, Regenstauf	Indirect	40.0	17,200	(19)
Neumarkt-Galerie Immobilienverwaltungsgesellschaft mbH i.L., Cologne	Indirect	49.0	71	(1)
RSU Rating Service Unit GmbH & Co. KG, Munich	Direct	20.0	11,331	(2,245)
Unconsolidated structured entities				
Baserepo No. 1 S.A., L - Luxembourg[4]			31	–
Bayern Invest Renten Europa-Fonds, Munich	Direct	38.0	47,500	696
DKB Nachhaltigkeitsfonds EUROPA AL, L - Luxembourg	Indirect	84.0	77,123	1,146
DKB Nachhaltigkeitsfonds Klimaschutz AL, L - Luxembourg	Indirect	78.2	50,846	4,396
DKB Nachhaltigkeitsfonds SDG AL, L - Luxembourg	Indirect	70.2	44,029	7,273
DKB Stiftung für gesellschaftliches Engagement, Löwenberger Land/OT Liebenberg[4]			16,693	508
EK-Fonds der BayernInvest, Munich	Indirect	100.0	20,342	16
Other investees				
AKA Ausfuhrkredit-Gesellschaft mbH, Frankfurt am Main	Direct	7.2	246,672	12,040
Bau-Partner GmbH i.L., Halle/Saale	Indirect	49.6	(245)	(1,474)
BayBG Bayerische Beteiligungsgesellschaft mbH, Munich	Direct	12.9	237,213	4,370
Bayerische Garantiegesellschaft mbH für mittelständische Beteiligungen, Munich	Direct	8.2	53,351	1,962
Bayernfonds Asia-Pacific Growth GmbH & Co. KG, Munich	Indirect	0.1	17,244	490
Bayernfonds Immobilien Bürocenter Magdeburg KG, Munich	Indirect	0.1	995	1,883
Bayernfonds Immobilien City-Investitionen Objekte Erfurt und Jena KG, Munich	Indirect	5.1	16,709	812
Bayernfonds Immobilien Dresden Bürozentrum Falkenbrunnen KG, Munich	Indirect	–	17,666	(313)
Bayernfonds Immobilien Fachmarktzentrum Erfurt, Leipziger Straße KG, Munich	Indirect	0.2	3,299	616

Name and location of the investee	Investment	Percentage held	Equity/ fund assets in EUR k	Earnings in EUR k
Bayernfonds Immobiliengesellschaft mbH & Co. Objekt Hannover Forum im Pelikanviertel KG i.L., Munich	Indirect	0.1	–	(110)
Bayernfonds Immobilien Jena Gewerbepark KG, Munich	Indirect	0.1	9,000	515
Bayernfonds Immobilien Objekt Leipzig, Friedrich List Haus KG, Munich	Indirect	–	24,364	809
Bayernfonds Immobilienverwaltung Austria Objekt Bischofshofen KG, Munich	Indirect	–	12,784	5,507
Bayernfonds Immobilienverwaltung Austria Objekte Salzburg und Wien KG, Munich	Indirect	0.1	17,485	(933)
Bayernfonds Immobilienverwaltung GmbH & Co. Australien 7 KG i.L., Munich	Indirect	–	68,161	1,372
Bayernfonds Immobilienverwaltung GmbH & Co.Australien 8 KG, Munich	Indirect	–	76,887	2,248
Bayernfonds Immobilienverwaltung GmbH & Co. Australien 9 KG, Munich	Indirect	–	79,176	2,646
Bayernfonds Immobilienverwaltung GmbH & Co. Hamburg Steindamm KG, Munich	Indirect	0.3	16,378	909
Bayernfonds Immobilienverwaltung GmbH & Co. Kambera KG, Munich	Indirect	–	25	–
Bayernfonds Immobilienverwaltung GmbH & Co. Objekt Hamburg 3 KG, Munich	Indirect	5.3	22,959	422
Bayernfonds Immobilienverwaltung GmbH & Co. Objekt Hamburg I KG, Munich	Indirect	0.3	7,493	357
Bayernfonds Immobilienverwaltung GmbH & Co. Objekt München KG, Munich	Indirect	0.3	9,621	528
Bayernfonds Immobilienverwaltung GmbH & Co. Objekt München Landsberger Straße KG, Munich	Indirect	0.3	21,892	1,033
Bayernfonds Immobilienverwaltung GmbH & Co. Objekt München Ungerer Straße KG, Munich	Indirect	0.3	12,480	354
Bayernfonds Immobilienverwaltung GmbH & Co. Opalus KG, Munich	Indirect	–	96,917	7,758
Bayernfonds Immobilienverwaltung GmbH & Co. Regensburg KG, Munich	Indirect	0.3	31,131	1,266
Bayernfonds Immobilienverwaltung Objekt Bad Homburg KG i.L., Munich	Indirect	5.1	7,988	189
Bayernfonds Immobilienverwaltung Objekt Berlin Schönhauser Allee Arcaden KG, Munich	Indirect	5.7	2,314	1,650
Bayernfonds Immobilienverwaltung Objekt Berlin Taubenstraße KG, Munich	Indirect	0.4	(9,633)	917
Bayernfonds Immobilienverwaltung Objekt Düsseldorf Bonneshof GmbH & Co. KG, Munich	Indirect	0.3	24,240	669
Bayernfonds Immobilienverwaltung Objekt Wiesbaden, Hagenauer Straße 42, 44 und 46 KG, Munich	Indirect	5.1	13,396	376
Bayernfonds Pacific Growth GmbH & Co. KG, Munich	Indirect	–	17,244	490
BF Gewerbepark I GmbH i.L., Munich	Indirect	6.0	22	–
BF Immobilienverwaltung Objekte München, Rüsselsheim, Düsseldorf-Ratingen KG i.L., Munich	Indirect	0.3	1,966	(83)
BF REAL I.S. - DB Real Estate Immobilienverwaltung Objekte Berlin, Düsseldorf, Essen KG, Munich	Indirect	5.5	41,751	2,198
BGV Bayerische Grundvermögen III SICAV-FIS, L -	Indirect	–	232,942	16,429

Name and location of the investee	Investment	Percentage held	Equity/ fund assets in EUR k	Earnings in EUR k
Luxembourg				
BGV Holding GmbH & Co. KG, Munich	Indirect	–	25,559	(7,285)
BGV III Feeder 1 S.C.S. SICAV-FIS, L - Luxembourg	Indirect	0.1	84,171	1,546
BGV IV LYON 1 SCI, F - Paris	Indirect	–	8,362	(693)
BGV IV PARIS 1 SCI, F - Paris	Indirect	–	5,850	(95)
BGV V LYON 1 SCI, F - Paris	Indirect	–	21,606	(545)
BGV V Paris 1 SCI, F - Paris	Indirect	–	2,766	(1,046)
BGV V PARIS 2 SCI, F - Paris	Indirect	–	22,266	(1,203)
BGV V ST GENEVIEVE 1 SCI, F - Paris	Indirect	–	7,738	(1,462)
BGV VI FAUBOURG SCI, F - Paris	Indirect	–	22,064	(461)
BGV VI Servon SCI, F - Paris[2]	Indirect	–		
BGV VII Europa Lyon 1 SCI, F - Paris	Indirect	–	23,364	(150)
BGV VII Europa Lyon 2 SCI, F - Paris[2]	Indirect	–		
BGV VII Europa Paris 1 SCI, F - Paris[2]	Indirect	–		
Cap Decisif S.A.S., F - Paris	Indirect	6.0	1,304	(957)
CLS Group Holdings AG, CH - Zurich	Direct	0.7	509,634	214
Deutsche WertpapierService Bank AG, Frankfurt am Main	Direct	3.7	195,780	17,078
DKB Wohnimmobilien Beteiligungs GmbH & Co. KG, Potsdam	Indirect	5.1	36,746	2,288
Fay & Real I.S. IE Regensburg GmbH & Co. KG i.L., Oberhaching	Indirect	50.0	–	–
Fay & Real I.S. IE Regensburg Verwaltungs GmbH i.L., Munich	Indirect	50.0	39	3
FidesSecur Versicherungs- und Wirtschaftsdienst Versicherungsmakler GmbH, Munich	Indirect	14.0	5,346	572
Fondsbörse Deutschland Beteiligungsmakler AG, Hamburg	Indirect	2.5	4,299	416
Galintis GmbH & Co. KG, Frankfurt am Main	Direct	15.9	533,627	14,598
GbR Datenkonsortium OpRisk, Bonn[2,5]	Direct	–		
GESO Gesellschaft für Sensorik, geotechnischen Umweltschutz und mathematische Modellierung mbH i.L., Jena	Indirect	43.1	(353)	–
GLB GmbH & Co. OHG, Frankfurt am Main	Direct	6.3	2,892	(61)
GLB-Verwaltungs-GmbH, Frankfurt am Main	Direct	6.2	56	2
JFA Verwaltung GmbH, Leipzig	Indirect	10.7	(12,860)	(92)
KGAL GmbH & Co. KG, Grünwald	Direct	3.4	72,474	33,905
Kreditgarantiegemeinschaft des bayerischen Gartenbaus GmbH, Munich	Direct	6.1	649	–
Kreditgarantiegemeinschaft des bayerischen Handwerks GmbH, Munich	Direct	9.9	4,846	–
Kreditgarantiegemeinschaft des Hotel- und Gaststättengewerbes in Bayern GmbH, Munich	Direct	6.9	4,359	–
Kreditgarantiegemeinschaft für den Handel in Bayern GmbH, Munich	Direct	5.8	6,317	–
LEG Kiefernsiedlung Grundstücksgesellschaft b.R., Berlin	Indirect	6.4	(2,521)	407
LEG Wohnpark am Olympischen Dorf Grundstücksgesellschaft b.R., Berlin	Indirect	7.5	(4,314)	756
LEG Wohnpark Heroldplatz Grundstücksgesellschaft b.R., Berlin	Indirect	7.7	(1,370)	143

Name and location of the investee	Investment	Percentage held	Equity/ fund assets in EUR k	Earnings in EUR k
MVP Fund II GmbH & Co. KG, Munich	Direct	10.0	50,687	35,647
Neue Novel Ferm Verwaltungs GmbH, Berlin	Indirect	49.0	7	(2)
Novel Ferm Brennerei Dettmannsdorf GmbH & Co. KG, Berlin	Indirect	49.0	3,959	(12)
PARIS EDEN MONCEAU SCI, F - Paris	Indirect	–	52,250	(1,858)
RAC 2 N.V., B - Watermael-Boitsfort	Indirect	–	(1,253)	30
Real I.S. Grundvermögen GmbH & Co. geschlossene Investment-KG, Munich	Indirect	5.4	81,180	6,024
Real I.S. Institutional Real Estate 1 GmbH & Co. geschlossene Investment-KG, Munich	Indirect	–	65,154	3,249
Real I.S. Westbahnhof Wien GmbH & Co. geschlossene Investment-KG, Munich	Indirect	–	66,917	2,860
S CountryDesk GmbH, Cologne[6]	Direct	2.5	499	50
SIZ GmbH, Bonn	Direct	5.0	6,146	716
Sophia Euro Lab S.A.S. i.L., F - Sophia Antipolis Cedex	Indirect	32.3	(195)	(33)
SOUTH CITY OFFICE FONSNY S.A., B - Watermael-Boitsfort	Indirect	–	30,280	(922)
Swiss Fintech AG, CH - Zurich	Indirect	3.8	3,528	(1,724)
TAG Wohnungsgesellschaft Berlin-Brandenburg mbH, Potsdam	Indirect	5.2	15,033	3,310
THE GREEN CORNER S.A., B - Watermael-Boitsfort	Indirect	–	5,581	(313)
True Sale International GmbH, Frankfurt am Main	Direct	7.7	4,616	(163)
Versorgungskasse I BayernLB Gesellschaft mit beschränkter Haftung, Munich	Direct	100.0	13,390	(1,401)
Versorgungskasse II BayernLB Gesellschaft mit beschränkter Haftung, Munich	Direct	100.0	22,734	1,492
Visa Inc., USA - San Francisco	Direct and indirect	–	31,852,328	11,093,764

1 A profit and loss transfer agreement has been concluded with the company.
2 Approved annual accounts are not available yet.
3 Control through a structured entity of the BayernLB Group.
4 Structured entity under IFRS 10 with no equity interests held by the BayernLB Group.
5 Share of voting rights: the BayernLB Group 11.1 percent, third party 88.9 percent.
6 Share of voting rights: the BayernLB Group 2.6 percent, third party 97.4 percent.

Investments in large limited companies (including credit institutions and investment companies) exceeding 5 percent of the voting rights

Name and location of the investee
AKA Ausfuhrkredit GmbH, Frankfurt am Main
BayBG Bayerische Beteiligungsgesellschaft mbH, Munich
BayernInvest Kapitalverwaltungsgesellschaft mbH, Munich
BayernInvest Luxembourg S.A., L - Munsbach
Bayerische Garantiegesellschaft mbH für mittelständische Beteiligungen, Munich
Bayern Card-Services GmbH - S-Finanzgruppe, Munich
Bayern Facility Management GmbH, Munich
Deutsche Kreditbank Aktiengesellschaft, Berlin
DKB Service GmbH, Potsdam
Real I.S. AG Gesellschaft für Immobilien Assetmanagement, Munich
Real I.S. Investment GmbH, Munich

Companies for which BayernLB or a consolidated subsidiary acts as a partner with unlimited liability

Name and domicile of the companies
ABAKUS GbR, Hannover
GbR Datenkonsortium OpRisk, Bonn
GLB GmbH & Co. OHG, Frankfurt am Main

(81) 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, with voting rights relating only to administrative tasks. The structured entity's 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 through which the BayernLB Group absorbs 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 ABCP programme Corelux S.A., Luxembourg that was set up exclusively for this purpose. The securitisation vehicle Corelux S.A. 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 had a weighted average term of 2 years (FY 2018: 2 years). The value of the unconsolidated securitisation vehicles with which the BayernLB Group has business relationships is based on the sum of their assets and was EUR 5,547 million (FY 2018: EUR 5,858 million).

Investment funds

The BayernLB Group invests in funds launched by its investment companies Real I.S. and BayernInvest. As a member of the Savings Banks Finance Group, Real I.S. is the BayernLB Group's asset manager and fund service provider for real estate. It invests to a limited extent in equity instruments, for example, in its capacity as a managing limited partner. In certain cases it extends loans to the investment company's special funds. BayernInvest is the centre of expertise for institutional asset management within the BayernLB Group and a master investment company. Equity interests in certain special funds exist to an insignificant extent. These investments are usually secured by the fund's underlying pool of assets. As at the reporting date the BayernLB Group held no investments in which it has no holdings but supports by paying costs and providing collateral (FY 2018: EUR 8 million). The weighted average term of funding for investment funds was 9 years (FY 2018: 7 years). The value of the investment funds with which the BayernLB Group has business relationships is based on their fund assets and was EUR 286,214 million (FY 2018: EUR 208,920 million).

Other financing

The BayernLB Group lends 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, property, project and leasing financing, as well as fund-based financing of commercial real estate. This financing had a weighted average term of 10 years (FY 2018: 15 years). The size of the structured entities in the form of other financing is based on the sum of their assets and was EUR 8,127 million (FY 2018: EUR 2,304 million).

Assets and liabilities from interests in unconsolidated structured entities recognised on the balance sheet

	Securitisation vehicles		Investment funds		Other financing		Total	
EUR million	2019	2018	2019	2018	2019	2018	2019	2018
Assets								
Loans and advances to customers	1,215	1,761	3,757	3,299	1,730	1,597	**6,701**	**6,657**
Risk provisions	–	1	10	24	37	29	**47**	**55**
Assets held for trading	35	31	67	80	67	37	**169**	**148**
Financial investments	–	15	174	160	283	179	**456**	**354**
Liabilities								
Liabilities to customers	31	33	4,710	4,927	81	205	**4,822**	**5,165**
Liabilities held for trading	–	–	40	36	1	–	**41**	**36**
Provisions	–	–	2	1	3	3	**4**	**4**

Contingent liabilities and other liabilities from interests in unconsolidated structured entities

	Securitisation vehicles		Investment funds		Other financing		Total	
EUR million	2019	2018	2019	2018	2019	2018	2019	2018
Contingent liabilities	–	–	23	25	18	19	**41**	**44**
Other commitments	1,271	1,103	279	212	159	226	**1,710**	**1,542**

The maximum risk of loss 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 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 risk of loss of off-balance sheet transactions is reflected by their nominal value. The nominal values do not represent the 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	2019	2018	2019	2018	2019	2018	2019	2018
Net interest income	16	9	60	2	31	4	**107**	**15**
Risk provisions	2	(2)	21	14	(11)	(14)	**12**	**(2)**
Net commission income	3	3	9	7	1	1	**14**	**11**
Gains or losses on fair value measurement	3	–	(12)	44	122	3	**113**	**47**
Gains or losses on hedge accounting	–	–	–	2	–	–	**–**	**2**
Other income and expenses	–	–	–	–	–	(3)	**–**	**(3)**

(82) 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 multi-year operational plan. Regulatory capital is allocated in the Group planning process to the individual planning units. The planning units (Group units) are the defined business segments of BayernLB, as well as BayernLabo and DKB. Regulatory capital is allocated to the Group units on a top-down basis approved by the BayernLB Board of Management, through limits on RWAs combined with an internally set capital ratio of 14.0 percent.

Capital management deals with, among other things, the planning and development of regulatory capital ratios, the type and amount of the capital base and the allocation of RWAs, and entails ongoing monitoring of changes.

In addition to the Capital Requirements Regulations (CRR), BayernLB is subject to the European Central Bank's supervisory review and evaluation process (SREP). As a result of the outcome of the SREP, BayernLB was assigned a total capital ratio of 10.0 percent on a consolidated basis and taking into account the transitional provisions in CRR.

The SREP capital ratio is used in BayernLB's capital management. It is used to determine the internal planned capital ratio set in the planning process, monitored on an ongoing basis and regularly reported to the committees and bodies referred to below.

Management structure

BayernLB's Board of Management is assisted in this area by the Performance & Capital Committee. The Performance & Capital Committee's responsibilities include the management and allocation of the key resource of capital. The Performance & Capital Committee is supported by the Capital Board.

The Performance & Capital Committee mainly comprises the Chief Financial Officer and senior management from the risk control, financial controlling and treasury units. Its tasks include preparing decisions for the Board of Management on capital management, taking account of framework conditions such as rules set by the owners, and regulatory or EU requirements. The Performance & Capital Committee is therefore an important source of input for BayernLB's Board of Management and prepares suitable recommendations for action on capital-related matters.

The Capital Board comprises senior management from risk control and financial controlling, the Group strategy and key business areas. It monitors and manages RWA trends across the Group, particularly RWA plan utilisation at segment level and optimisation measures. It also prepares RWA-related topics for the Performance & Capital Committee.

Key banking regulatory data

The BayernLB Group's supervisory capital is calculated on the basis of CRR/CRD IV.

Own funds are defined as Common Equity Tier 1 capital (CET1), Additional Tier 1 capital and Tier 2 capital. Common Equity Tier 1 capital comprises subscribed capital plus reserves, the capital contribution of BayernLabo and various supervisory adjustments and deductions. The Additional Tier 1 capital is made up of dated silent partner contributions. Tier 2 capital comprises primarily long-term subordinated liabilities.

Banking supervisory capital of the BayernLB Group (as reported)

EUR million	2019	2018
Total RWAs	**64,604**	**65,594**
Own funds	**11,597**	**11,039**
of which:		
Tier 1 capital	10,078	9,622
Common Equity Tier 1 capital (CET1)	10,076	9,620

Banking supervisory ratios of the BayernLB Group (as reported)

In %	2019	2018
Total capital ratio	17.9	16.8
Common Equity Tier 1 (CET1) capital ratio	15.6	14.7

Banking supervisory capital of the BayernLB Group (as per consolidated financial statements)

EUR million	2019	2018
Total RWAs	**64,604**	**65,594**
Own funds	**11,821**	**11,465**
of which:		
Tier 1 capital	10,266	9,974
Common Equity Tier 1 capital (CET1)	10,264	9,973

Banking supervisory ratios of the BayernLB Group (as per consolidated financial statements)

In %	2019	2018
Total capital ratio	18.3	17.5
Common Equity Tier 1 (CET1) capital ratio	15.9	15.2

The BayernLB Group complied at all times with the external capital requirements under Art. 92 para. 1 CRR, sections 10c to 10i KWG and in accordance with the minimum requirements under SREP in the reporting year.

(83) Administrative bodies of BayernLB

Supervisory Board

Dr Wolf Schumacher
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

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

Jan-Christian Dreesen
Deputy Chairman of the Executive Board
FC Bayern München AG
Munich

Dr Roland Fleck
Managing Director
NürnbergMesse GmbH
Nuremberg

Dr Ute Geipel-Faber
Independent management consultant
Munich

Dr Kurt Gribl
Lord Mayor
Augsburg

Harald Hübner
Deputy Secretary
Bavarian State Ministry of Finance
and Regional Identity
Munich

Dr Jörg Schneider
since 1 June 2019
Member of the BayernLB Supervisory Board
Lawyer
Munich

Henning Sohn
Chairman of the General Staff Council
BayernLB
Munich

Judith Steiner
Under Secretary
Bavarian State Ministry of Finance
and Regional Identity
Munich

Stephan Winkelmeier
until 31 May 2019
Member of the BayernLB Supervisory Board

Board of Management (including allocation of responsibilities)

Stephan Winkelmeier
since 1 July 2019
CEO since 1 July 2019
Corporate Center
Deutsche Kreditbank Aktiengesellschaft
Group Treasury

Dr Edgar Zoller
Deputy Chairman
Interim management until 30 June 2019
Real Estate & Savings Banks/Association
Bayerische Landesbodenkreditanstalt[1]
Real I.S. AG Gesellschaft für Immobilien
Asset Management

Marcus Kramer
CRO
Risk Office

Michael Bücker
Corporates & Mittelstand
Financial Markets (excluding Group Treasury)
BayernInvest Kapitalverwaltungsgesellschaft
mbH

Dr Markus Wiegelmann
CFO/COO
Financial Office
Operating Office

Ralf Woitschig
until 15 August 2019

1 *Dependent institution of the Bank*

(84) Related party disclosures

The BayernLB Group maintains business relationships with related parties. These include the Free State of Bavaria and 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, associates, Versorgungskasse I BayernLB Gesellschaft mit beschränkter Haftung, Munich and Versorgungskasse II BayernLB Gesellschaft mit beschränkter Haftung, Munich. The members of BayernLB's Board of Management and Supervisory Board 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 80).

Relationships with the Free State of Bavaria

EUR million	2019	2018
Loans and advances	3,254	3,908
Assets held for trading	105	117
Financial investments	4	4
Liabilities	510	1,318
Securitised liabilities	16	15
Liabilities held for trading	11	14
Liabilities held in trust	4,844	4,662
Contingent liabilities	5	4
Other commitments	1,066	1,065

The following were material relationships with companies controlled by the Free State of Bavaria, or which it jointly controls or has significant influence over:

EUR million	2019	2018
Loans and advances to customers	462	300
Assets held for trading	158	155
Financial investments	30	30
Liabilities to banks	3,232	3,142
Liabilities to customers	65	48
Securitised liabilities	109	157
Other liabilities	–	1
Assets held in trust	419	390
Contingent liabilities	6	6
Other commitments	75	221

Relationships with the Association of Bavarian Savings Banks

EUR million	2019	2018
Loans and advances	4	–
Liabilities	159	89
Other liabilities	7	–

Relationships with investees

EUR million	2019	2018
Loans and advances to customers	**128**	**159**
Non-consolidated subsidiaries	65	85
Joint ventures	31	29
Associates	32	44
Risk provisions	**12**	**12**
Non-consolidated subsidiaries	–	5
Joint ventures	11	7
Financial investments	**41**	**47**
Non-consolidated subsidiaries	41	47
Other assets	**6**	**1**
Non-consolidated subsidiaries	6	1
Liabilities to customers	**151**	**175**
Non-consolidated subsidiaries	131	140
Joint ventures	5	1
Associates	16	33
Provisions	**3**	**13**
Non-consolidated subsidiaries	1	12
Joint ventures	2	2
Other liabilities	**5**	**1**
Non-consolidated subsidiaries	4	1
Joint ventures	1	–
Contingent liabilities	**13**	**16**
Non-consolidated subsidiaries	7	1
Associates	5	15
Other commitments	**20**	**19**
Non-consolidated subsidiaries	7	1
Associates	13	18

An expense of EUR 31 million (FY 2018: EUR 3 million) was recognised for non-recoverable or doubtful receivables in the reporting year.

In the reporting year, capital contributions were made to unconsolidated entities, joint ventures and associates in the amount of EUR 14 million (FY 2018: EUR 3 million). These investees repaid capital in the amount of EUR 4 million (FY 2018: EUR 5 million).

Relationships with other related parties

EUR million	2019	2018
Liabilities to customers	27	26

As at the reporting date, there were liabilities to benefit plans as related parties of the BayernLB Group of EUR 27 million (FY 2018: EUR 26 million).

The contribution to the plan assets of Versorgungskasse I BayernLB Gesellschaft mit beschränkter Haftung, Munich, in the amount of EUR 1 million (FY 2018: EUR 2 million) was recognised through other comprehensive income as a reduction in pension provisions. In the reporting year, staff costs of EUR 4 million (FY 2018: EUR 4 million) arose for the contribution to the plan assets of Versorgungskasse II BayernLB Gesellschaft mit beschränkter Haftung, Munich.

Relationships with members of the BayernLB Board of Management and Supervisory Board

EUR million	2019	2018
Members of the BayernLB Board of Management		
Loans	1	–
Deposits	2	2

Remuneration of members of the BayernLB Board of Management and Supervisory Board

EUR k	2019	2018
Members of the BayernLB Board of Management	**8,150**	**21,162**
Short-term benefits	5,667	5,047
Post-employment benefits	2,483	16,115
Defined benefit plan costs	2,325	2,297
Defined contribution plan costs	158	–
Other post-employment benefits	–	13,818
Members of the BayernLB Supervisory Board	**968**	**907**
Short-term benefits	968	907
Former members of the BayernLB Board of Management and their surviving dependants	**4,825**	**4,357**
Pension provisions established for members of the BayernLB Board of Management	**24,791**[1]	**37,273**
Pension provisions established for former members of the BayernLB Board of Management and their surviving dependants	**129,025**[2]	**104,174**

1 Pension obligations of EUR 24,629,000 were offset in the balance sheet against claims from reinsurance (EUR 26,466,000).
2 Pension obligations of EUR 14,345,000 were offset in the balance sheet against claims from reinsurance (EUR 16,845,000).

(85) External auditor's fees

The external auditor's fees recognised as an expense in the reporting year comprise:

EUR k	2019	2018
Financial statements audit services	(7,113)	(5,819)
Other assurance services	(643)	(144)
Tax consultancy services	(50)	–
Other services	(2,287)	(241)
Total	**(10,093)**	**(6,204)**

PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft (PwC) was appointed the successor to Deloitte GmbH Wirtschaftsprüfungsgesellschaft (Deloitte) to audit the financial statements for the reporting year. PwC is also the auditor of all subsidiaries included in BayernLB's consolidated financial statements from the 2019 financial year. The previous year's figure relates to fees paid to Deloitte.

Other assurance services include mainly fees for statutory audits (conducted under the German Investment Services Act (Wertpapierdienstleistungsgesetz)). Other services includes fees for providing audit support for projects mandatory under supervisory law.

The amounts for the reporting year include a total of EUR 49,000 for services rendered in previous years.

(86) Human resources

Average headcounts for the reporting year were:

	2019	2018
Full-time employees (not including trainees)	**5,701**	**5,190**
Female	2,327	2,092
Male	3,374	3,097
Part-time employees (not including trainees)[1]	**2,231**	**2,119**
Female	1,722	1,665
Male	509	454
Trainees[2]	**85**	**88**
Female	32	33
Male	53	55
Total	**8,017**	**7,396**

1 Part-time headcount equated to 1,544 full-time employees (Vj.: 1,456)
2 Including students on a work/study programme.

(87) Events after the reporting period

With the outbreak of novel coronavirus SARS-CoV-2 (coronavirus), the Bank is having to grapple with a high level of uncertainty. However, it is too soon to estimate the financial impact of the coronavirus pandemic. What is already clear though is that the longer the pandemic lasts, the greater the negative impact will be on BayernLB.

As a result of the worsening coronavirus crisis, the Bank's portfolio quality could deteriorate and its overall liquidity requirements may increase. A decline in customers' credit ratings may also increase RWAs, which would weigh on BayernLB's capital. If interest rates fall much lower for a longer and more sustained period than previously anticipated, this could put even more pressure on earnings.

Overall, it is uncertain how events will unfold and very close monitoring is called for.

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 2020

Bayerische Landesbank
The Board of Management

Stephan Winkelmeier   Dr Edgar Zoller   Marcus Kramer

Michael Bücker   Dr Markus Wiegelmann

Independent Auditor's Report

To Bayerische Landesbank AöR, Munich

Report on the Audit of the Consolidated Financial Statements and of the Group Management Report

Audit Opinions

We have audited the consolidated financial statements of Bayerische Landesbank AöR, Munich, and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the financial year from 1 January to 31 December 2019, and notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the group management report of Bayerische Landesbank AöR, Munich for the financial year from 1 January to 31 December 2019.

In our opinion, on the basis of the knowledge obtained in the audit,

the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § [Article] 315e Abs. [paragraph] 1 HGB [Handelsgesetzbuch: German Commercial Code] and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as at 31 December 2019, and of its financial performance for the financial year from 1 January to 31 December 2019, and

the accompanying group management report as a whole provides an appropriate view of the Group's position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development.

Pursuant to § 322 Abs. 3 Satz [sentence] 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the group management report.

Basis for the Audit Opinions

We conducted our audit of the consolidated financial statements and of the group management report in accordance with § 317 HGB and the EU Audit Regulation (No. 537/2014, referred to subsequently as "EU Audit Regulation") in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report" section of our auditor's report. We are independent of the group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2) point (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions on the consolidated financial statements and on the group management report.

Key Audit Matters in the Audit of the Consolidated Financial Statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the financial year from 1 January to 31 December 2019. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our audit opinion thereon; we do not provide a separate audit opinion on these matters.

In our view, the matters of most significance in our audit were as follows:

❶ Risk provisions in the customer lending business
❷ Pension provisions
❸ Restructuring provisions in the context of the strategic realignment of the capital market business

Our presentation of these key audit matters has been structured in each case as follows:

① Matter and issue
② Audit approach and findings
③ Reference to further information

Hereinafter we present the key audit matters:

❶ Risk provisions in the customer lending business

① In the Company's consolidated financial statements loan receivables amounting to € 145,0 billion are reported under the "Loans to customers" balance sheet item. The associated r isk provisions amount to € 963,5 million and are reported in a separate line item. In addition, financial guarantees and loan commitments exist in the amount of € 56,5 billion with associated loan loss provisions amounting to € 112,9 million. The Company calculates risk provisions in the reporting year in accordance with the applicable provisions of IFRS 9 using a three-stage model based on the expected credit loss system. For financial instruments at levels 1 and 2, mathematical-statistical methods are used; for financial instruments at level 3, expected credit losses are determined on the basis of estimates of future cash flows at the level of the individual financial instrument. The measurement of the expected credit loss is based in particular on the estimates of the executive directors with regard to the level allocation and certain parameters such as the loss amount in the event of default, the probability of default and the loss ratio -in the case of level 3 transactions- is determined by estimating the future cash flows, taking into account existing collateral. In addition, valuation-relevant risk factors have been taken into account within the framework of so-called special constellations, insofar as they were not already included in the calculation parameters of the models. The amounts of the valuation allowances in the customer lending business are highly significant for the assets, liabilities and financial performance of the Group and they involve considerable judgment on the part of the executive directors. The estimation of the aforementioned parameters and the consideration of forward-looking macroeconomic information have a significant influence on the recognition and amount of risk provisions. With this background, this matter was of particular significance during our audit.

② As part of our audit, we initially assessed the appropriateness of the design of the controls in the company's relevant internal control systems and tested the controls' effectiveness under consideration of the business organization, the IT systems and the relevant measurement model. Moreover, we evaluated the measurement of the customer loans, including the appropriateness of estimated values, on the basis of sample testing of loan exposures. For this purpose, we assessed, among other things, the available documentation of the company with respect to the economic circumstances as well as the recoverability of the related collaterals. For real estate as collateral, we obtained an understanding of and critically assessed the source data, measurement parameters applied, and assumptions made on which the expert valuations provided to us by the Company were based and evaluated whether they lay within an acceptable range. With the support of our specialists in financial mathematics, we have examined the models used to determine risk provisions for suitability and functionality. In addition, we examined the assumptions and the derivation of the parameters used for the allocation of levels and for determining the expected credit loss. We assessed the consideration of other risk factors relevant for valuation for adequacy on the basis of current economic uncertainties,. Based on our audit procedures, we were able to satisfy ourselves that overall the assumptions made by the executive directors for the purpose of testing the recoverability of the loan portfolio are appropriate, and that the processes implemented by the Company are appropriate and effective.

③ The information of the executive directors of the Company on risk provisions in the customer lending business are contained in the numbers (6), (9), (27), (41), (55) and (72) of the notes to the consolidated financial statements.

❷ Pension provisions

① There are various pension plans with active, former and retired employees of the Group with vested entitlements, which are reported under the balance sheet item provisions at the balance sheet date with a total of € 4,1 billion. The amount of the provision is determined on the basis of actuarial reports commissioned by the Company using the projected unit credit method, taking into account existing plan assets. For the calculation the pension obligations are based in particular on assumptions regarding the long-term salary and pension trends, fluctuation, the development of pensions in the statutory pension insurance, inflation and biometric probability. The discount rate must be determined by reference to market yields on high-quality corporate bonds with matching currencies and consistent maturities. This usually requires the data to be extrapolated, since sufficient long-term corporate bonds do not exist. The plan assets are measured at fair value, which in turn involves making estimates that are subject to estimation uncertainties.

From our point of view, these matters were of particular significance in the context of our audit because the recognition and measurement of this significant item in terms of its amount are based to a large extent on estimates and assumptions made by the Company's executive directors.

② As part of our audit we evaluated the actuarial expert reports obtained and the professional qualifications of the external experts. We also examined the specific features of the actuarial calculations and assessed the numerical data, the actuarial parameters and the valuation methods on which the valuations were based on for accuracy and appropriateness, respectively, in addition to other procedures. On this basis, we examined the calculation of provisions and the presentation in the balance sheet and notes to the consolidated financial statements. For the purpose of our audit of the fair values of the plan assets we obtained certificates from life insurance companies and external pension institutions as well as other asset statements.

Based on our audit procedures, we were able to satisfy ourselves that the estimates and assumptions made by the executive directors are substantiated and sufficiently documented.

③ The information of the executive directors of the Company on the pension provisions are contained in the numbers (20), (55) and (59) of the notes to the consolidated financial statements.

❸ Restructuring provisions in the context of the strategic realignment of the capital market business

① During the financial year, the Company initiated a strategy project to realign the BayernLB group. Within the scope of said strategy project, the strategic realignment of the capital market business and a corresponding restructuring plan were decided on. This includes a clear redimensioning of the existing product portfolio as well as significant savings in administrative costs, including a reduction in the number of employees. The firm has informed the employee representative bodies of the restructuring plan and has subsequently opened channels of communication with employess directly during the financial year 2019. Human resources instruments agreed upon with the employee representative bodies will build the basis for the target workforce reduction in the group. In connection with the planned restructuring measures the Company has recognized € 200,9 million as restructuring provisions in 2019 through profit and loss. From our point of view, this matter was of particular significance for our audit, as on the one hand, the valuation of the restructuring provisions is of material importance in terms of the amount, and on the other, said valuation is based upon the estimates and assumptions of the executive directors.

② The requirement for recognizing a restructuring provision is that the definition of restructuring measures within the meaning of IAS 37.10 has been met. According to that, the general recognition and measurement criteria for provisions according to IAS 37.14 and the more detailed criteria in IAS 37.72 have to be assessed. If the provision is a provision for termination benefits, the requirements of IAS 19 apply. In the course of our audit, we assessed whether the individual recognition criteria were met and whether the measurement of the restructuring provision was appropriate. For this purpose, we obtained and evaluated relevant evidence from the executive directors of the Company. We were able to satisfy ourselves that the matter as well as the estimates and assumptions made by the executive directors were sufficiently documented and substantiated for the recognition and measurement of a restructuring provision. The measurement is within the ranges we consider to be acceptable.

③ The information of the executive directors of the Company on provisions is contained in the numbers (20), (36) and (55) of the notes to the consolidated financial statements.

Other Information

The executive directors are responsible for the other information. The other information comprises the annual report - excluding cross-references to external information - with the exception of the audited consolidated financial statements, the audited group management report and our audit opinion, and the separate non-financial report pursuant to § 289b Abs. 3 and § 315b Abs. 3 HGB.

Our audit opinions on the consolidated financial statements and on the group management report do not cover the other information, and consequently we do not express an audit opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the consolidated financial statements, with the group management report or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

Responsibilities of the Executive Directors and the Supervisory Board for the Consolidated Financial Statements and the Group Management Report

The executive directors are responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315e Abs. 1 HGB and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position, and financial performance of the Group. In addition, the executive directors are responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the executive directors are responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, the executive directors are responsible for the preparation of the group management report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the executive directors are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a group management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the group management report.

The supervisory board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and of the group management report.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the group management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our audit opinions on the consolidated financial statements and on the group management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with § 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this group management report.

We exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements and of the group management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.
- Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the group management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these systems.

- Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.
- Conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the group management report or, if such disclosures are inadequate, to modify our respective audit opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315e Abs. 1 HGB.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express audit opinions on the consolidated financial statements and on the group management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinions.
- Evaluate the consistency of the group management report with the consolidated financial statements, its conformity with German law, and the view of the Group's position it provides.
- Perform audit procedures on the prospective information presented by the executive directors in the group management report. On the basis of sufficient appropriate audit evidence, we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate audit opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

Other Legal and Regulatory Requirements

Further Information pursuant to Article 10 of the EU Audit Regulation

We were elected as group auditor by the annual general meeting on 26 October 2017. We were engaged by the supervisory board on 13 April 2018. We have been the group auditor of the Bayerische Landesbank AöR, Munich, without interruption since the financial year 2019.

We declare that the audit opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

German Public Auditor Responsible for the Engagement

The German Public Auditor responsible for the engagement is Sven Hauke.

Munich, 16 March 2020

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

Sven Hauke
Wirtschaftsprüfer
[German Public Auditor]

Anne Witt
Wirtschaftsprüferin
[German Public Auditor

Country by country reporting pursuant to section 26a para. 1 sentence 2 of the German Banking Act (KWG) as at 31 Dec 2019

This report shows revenues, number of employees, profit or loss before taxes, taxes on profit or loss and state aid received for the reporting year by country on an unconsolidated basis. It covers the companies fully included in the IFRS consolidated financial statements.

The revenue shown is profit/loss before taxes, without accounting for risk provisions, administrative expenses, expenses for the bank levy and deposit guarantee scheme and gains or losses on restructuring as reported in the consolidated financial statements. Taxes on profit or 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	Taxes on profit or loss	State aid received
Germany	2,774	7,441	1,285	–76	0
United Kingdom	25	63	5	0	0
Italy	4	13	3	–1	0
USA	68	87	28	–3	0
France	0	20	1	0	0

Name of foreign subsidiary/ investee	Type of business	Location	Country
Foreign branch offices of Bayerische Landesbank			
BayernLB London	Financial institution	London	United Kingdom
BayernLB Milan	Financial institution	Milan	Italy
BayernLB New York	Financial institution	New York	USA
BayernLB Paris	Financial institution	Paris	France

Supplementary information

Financial measures not calculated in accordance with IFRS

For its entire financial reporting and other documents it publishes, the BayernLB Group uses financial measures not calculated in accordance with accounting standards under IFRS. These measures indicate historical or future financial performance, financial position and cash flows derived from the financial statements or internal management information prepared in accordance with the relevant accounting framework and then adjusted.

They should be seen as a supplement to and not a replacement of the figures calculated in accordance with IFRS. Readers of the financial reports and other documents containing these measures should be aware that similarly named financial measures published by other companies may have been calculated differently.

The BayernLB Group uses the following financial measures not calculated in accordance with IFRS:
- Return on equity (RoE)
- Cost/income ratio (CIR)

The RoE and CIR are important financial performance indicators. They provide information about profitability and are used by BayernLB to manage it.

Return on equity (RoE)

The RoE shown is calculated on the basis of internal management information from the ratio of profit before taxes to the average regulatory capital (Group)/the average allocated economic capital (at segment level). At Group level, the average Common Equity Tier 1/CET1 capital available over the financial year has been used for this purpose. For all management levels below this, the average economic capital employed in the financial year is derived from the average risk-weighted assets (RWAs) of the underlying individual transactions as specified by the regulatory authorities. The allocated amount corresponds to 14.0 percent (FY 2018: 12.5 percent) of the average risk-weighted assets specified by the regulatory authorities arising from the individual transactions entered into by the respective segment in the reporting period concerned. Economic capital is reconciled to regulatory capital in the column headed Central Areas/Other (including Consolidation)

RoE reconciliation calculation (as at 31 December 2019)

EUR million	Corporates & Mittelstand	Real Estate & Savings Banks/ Association	Financial Markets	DKB	Central– Areas/ Other incl. Consol– idation	Group
Profit/loss before taxes	**13**	**298**	**−21**	**301**	**63**	**653**
Average risk-weighted assets (RWAs)	21,199	9,378	9,471	24,202	2,704	66,954
Target CET1 ratio (%)	14.0	14.0	14.0	14.0	-	-
Average economic/ regulatory capital	**2,968**	**1,313**	**1,326**	**3,388**	**766**	**9,761**
Return on equity (RoE) (%)	**0.4**	**22.7**	**−1.6**	**8.9**	**8.2**	**6.7**

RoE reconciliation calculation (as at 31 December 2018)

EUR million	Corporates & Mittelstand	Real Estate & Savings Banks/ Association	Financial Markets	DKB	Central– Areas/ Other incl. Consol– idation	Group
Profit/loss before taxes	**161**	**284**	**12**	**317**	**96**	**869**
Average risk-weighted assets (RWAs)	20,386	8,304	8,586	24,212	2,836	64,323
Target CET1 ratio (%)	12.5	12.5	12.5	12.5	-	-
Average economic/ regulatory capital	**2,548**	**1,038**	**1,073**	**3,026**	**1,529**	**9,215**
Return on equity (RoE) (%)	**6.3**	**27.4**	**1.1**	**10.5**	**6.3**	**9.4**

Cost/income ratio (CIR)

The CIR is the ratio of administrative expenses and gross profit comprising net interest income, net commission income, gains or losses on fair value measurement, gains or losses on hedge accounting, gains or losses on derecognised financial assets, gains or losses on financial investments and other income and expenses. The CIR is calculated using the figures reported in the respective consolidated financial statements.

CIR reconciliation calculation (as at 31 December 2019)

EUR million	Corporates & Mittelstand	Real Estate & Savings Banks/ Association	Financial Markets	DKB	Central– Areas/ Other incl. Consol– idation	Group
Administrative expenses	**–318**	**–294**	**–230**	**–577**	**–27**	**–1,446**
Net interest income	265	278	187	961	42	1,733
Net commission income	103	139	55	–2	–8	287
Gains or losses on fair value measurement	40	51	–81	30	–42	–2
Gains or losses on hedge accounting	-	1	6	–11	–15	–19
Gains or losses on derecognised financial assets[1]	1	-	-	3	-	4
Gains or losses on financial investments	3	2	37	15	–17	40
Other income and expenses	–1	5	2	–12	162	156
Gross earnings	**411**	**476**	**206**	**984**	**122**	**2,198**
Cost/income ratio (CIR) (%)	**77.3**	**61.8**	**111.4**	**58.7**	**22.0**	**65.8**

1 For financial assets measured at amortised cost

CIR reconciliation calculation (as at 31 December 2018)

EUR million	Corporates & Mittelstand	Real Estate & Savings Banks/ Association	Financial Markets	DKB	Central– Areas/ Other incl. Consol– idation	Group
Administrative expenses	**(297)**	**(273)**	**(224)**	**(506)**	**(56)**	**(1.356)**
Net interest income	265	253	182	977	65	1,742
Net commission income	108	133	37	-	(7)	270
Gains or losses on fair value measurement	33	151	(6)	(1)	(26)	151
Gains or losses on hedge accounting	-	(1)	(5)	(45)	1	(50)
Gains or losses on derecognised financial assets[1]	-	(2)	-	(7)	-	(9)
Gains or losses on financial investments	(2)	1	25	6	(20)	10
Other income and expenses	**(2)**	**7**	**6**	**35**	**31**	**76**
Gross earnings	**402**	**541**	**239**	**965**	**44**	**2,191**
Cost/income ratio (CIR) (%)	**73.8**	**50.5**	**93.8**	**52.4**	**126.3**	**61.9**

1 For financial assets measured at amortised cost

Combined separate non-financial report of the BayernLB Group for 2019

As part of the formalities for complying with the German Corporate Social Responsibility Directive Implementation Act (Corporate Social Responsibility-Richtlinie-Umsetzungsgesetz (CSR-RUG)), this section contains the non-financial report of the BayernLB Group combined with the report of the parent company Bayerische Landesbank, Munich (BayernLB or Bank). The information in the report always relates to both BayernLB and the Group, unless expressly stated otherwise.

The content is based on the specific materiality approach taken under CSR-RUG, which is not equivalent to the understanding of materiality under the current Global Reporting Initiative (GRI) Standards or other frameworks. Therefore when preparing the separate non-financial report of the BayernLB Group – hereinafter referred to in brief as the non-financial report – the Bank made only piecemeal use of the GRI Standards and did not utilise any framework in full. For example, the section entitled “Compliance management system – corruption and bribery” contains information on “GRI 205: Anti-corruption” and the section entitled “HR management – human resources development and policy” on “GRI 405: Diversity and Equal Opportunity”.

The information material for the BayernLB Group under CSR-RUG which is needed to understand the course of business, performance, the Group’s position, and in particular the impacts of its activities on the environmental, employee and social aspects, respect for human rights and anti-corruption and bribery, was identified in 2017 for the first time and summarised in the following topic areas:

- Sustainable banking business (main aspects: respect for human rights, and environmental and social issues)
- Combatting corruption and bribery (aspect: anti-corruption and bribery)
- Human resources development (main aspect: employee issues)

The key topics were examined and updated during the year as part of a management review.

This resulted in changes compared with the previous year, mostly in respect of employee issues, which are listed in detail below. This comes in the context of a strategic realignment announced by BayernLB, which will result in a headcount reduction.

As a starting point, a small number of certain aspects of the business model and the Group’s current situation are outlined below with reference to the relevant parts of the management report and used as a basis for drawing conclusions about the impacts on non-financial aspects. In the next step, the Bank broadly fleshes out the management systems referred to for dealing with non-financial aspects if it has not already done so sufficiently in other parts of the management report. This includes a description of human resources management and purchasing activities. Integrated within this are the requirements placed on product and service areas where these systems have a particular impact; the purpose here is to shape and/or mitigate the potential and actual impacts on the aspects referred to above.

Having applied the net method to identify notifiable risks under CSR-RUG, BayernLB is not aware of any notifiable net risks that are or will be very likely to a have severe impact on notifiable aspects. The relevant risks of the individual aspects are dealt with in the separate sections of the report.

Where applicable, references to relationships to figures in the annual financial statements of the BayernLB Group are stated in the text of the non-financial report under the relevant issue.

In addition, sustainability topics in the BayernLB Group identified as not relevant for this report from a CSR-RUG perspective are published in other publications (e.g. environmental statements). All references to information not in the Group management report do not form part of the non-financial report.

Business model of the BayernLB Group and impact on non-financial aspects

As a commercial bank, Landesbank and central bank for the savings banks, BayernLB is an effective corporate and real estate lender with a regional focus on Bavaria and Germany and a reliable partner to the Bavarian savings banks.

BayernLB's strategic business model is based on the following operating business segments (operating segments):

- Corporates & Markets including the subsidiary BayernInvest Kapitalverwaltungsgesellschaft mbH, Munich (BayernInvest)
- Real Estate & Savings Banks/Association including the legally dependent institution Bayerische Landesbodenkreditanstalt, Munich (BayernLabo) and the subsidiary Real I.S. AG Gesellschaft für Immobilien Assetmanagement, Munich (Real I.S.)
- DKB with the core business activities of the Deutsche Kreditbank Aktiengesellschaft, Berlin (DKB) sub-group and Bayern Card-Services GmbH – S-Finanzgruppe, Munich (BCS)

For a detailed description of the segments, please see the section entitled "Overview of the BayernLB Group – Business model and strategy" in the Group management report.

Bayerische Landesbodenkreditanstalt (BayernLabo) and BayernLB core Bank together make up BayernLB Bank. BayernLabo is a legally dependent institution established under public law within BayernLB that is organisationally and financially independent. As an institution implementing state housing policy, it has a statutory obligation to promote housing in the Free State of Bavaria. In addition, as a municipal and development bank for the Free State of Bavaria and in partnership with Kreditanstalt für Wiederaufbau (Reconstruction Loan Corporation (KfW)), BayernLabo supports Bavarian municipalities and special-purpose associations with municipal loans and its development programmes in areas such as barrier-free access and energy-efficiency improvements for buildings.

Although BayernLB's regional focus is on Bavaria and Germany, it also supports its customers in their global activities. It has its own branches and offices at particularly important locations in Germany. In other countries, there are branches in London, Milan, Paris and New York as well as a representative office in Moscow.

The strong connections of the core business with Germany and Europe are, for instance, evidenced by the gross credit volume by region, of which only around 10 percent is attributable to the other regions (see also the "Gross credit volume by region" table in the risk report of the management report).

Securities asset management for BayernLB is handled by BayernInvest. This asset management company focuses mainly on advisory services and managing securities investment funds for institutional and private investors.

DKB, an integral part of the BayernLB Group, complements the business model. It operates in the retail segment as an online direct bank with a steadily growing customer base, and in the infrastructure and corporate customers segment as a specialist. Its expertise extends especially to financing and investment products in the environmental technology, residential, municipal, social infrastructure, health services, education & research, energy and utilities segments and other areas. DKB operates in Germany. At the end of 2019, DKB adopted a sustainability strategy based on the UN Sustainable Development Goals.

As a fund service provider, Real I.S. is the centre of expertise in the Group for the “real estate” asset class and is one of the leading German providers of real estate investments for retail and institutional investors. Real I.S. Group has two licensed asset management companies (KVGs) in accordance with the German Capital Investment Code (KAGB) and subsidiaries or branches in France, Luxembourg, Spain, the Netherlands and Australia.

Bayern Card-Services (BCS) is the centre of expertise in the Group for the credit card business and one of the leading providers of credit card processing across Germany.

Due to the market and competitive situation, persistently low interest rates, high ongoing costs for meeting regulatory requirements and the changes wrought by digitalisation, BayernLB underwent an intensive strategy process in the reporting year. Further information on this can be found in the “Strategic realignment of BayernLB Group” section in the report on expected developments and on opportunities and risks (see above). In referring to non-financial aspects the Bank also looked at the EU Action Plan on Sustainable Growth and other EU initiatives and their impact on BayernLB’s business. The aforementioned EU Action Plan’s goals are:

- to reorient capital flows towards sustainable investment, in order to achieve sustainable and inclusive growth
- to manage financial risks arising from climate change, resource depletion, environmental degradation and social issues
- to foster transparency and long-termism in financial and economic activity

In conjunction with this, the EBA (European Banking Authority) incorporated climate risks into the lending guidelines (this must be implemented by 7/2020).

Partly with the aid of an external consulting firm, BayernLB brought these generally more regulatory requirements and other aspects such as Germany’s National Sustainable Development Strategy and Bavaria’s climate goals together in an environmental analysis which shows that society, politicians, regulators, stakeholders and customers are increasingly acting upon them and making them a part of their business activities. In other words, demand for financial services is growing where our society and economic system must “sustainably” adapt (transformation) and where customers themselves (disruption) respond to megatrends, such as climate change or the energy transition with new services (innovation).

Given these strategic considerations, the BayernLB Group’s already broadly diversified range of sustainable financial solutions will be further expanded and refined.

At the same time sustainable banking and responsibility for society will be clearly positioned as a guiding principle for the Group. Corporate financing will also be streamlined to focus especially on forward-looking, high-growth industries: mobility, energy, technology, mechanical engineering, and construction and basic materials, with a particular leaning towards structured finance.

Efficient structures and strict cost management will also be brought in. Please refer to the section on human resources management in this non-financial report for more details on the associated headcount reduction.

The BayernLB Group comprises non-manufacturing companies focused on the banking business whose registered offices are in Germany, Europe or North America. Any potential impacts on non-financial aspects are mitigated by various strict requirements under the prevailing legal systems and the corresponding judiciary (e.g. a very large proportion of the workforce benefits from collective agreements, staff representation is firmly established). Like many other groups of companies, BayernLB has a validated environmental management system which, besides the environmental aspects of operations, covers the indirect environmental impact of business relationships and includes occupational health and safety-related aspects. Sustainability management also provides concepts, objectives and measures to identify and leverage potential improvements in the areas mentioned. These management systems additionally extend to areas not covered by the strict German and European frameworks or where potentially any equally large-scale and intensive business relationship with an adverse impact on the aspects material for BayernLB could arise. In conjunction with this, the Group also has a compliance management system which explicitly directs various areas of governance, including combatting corruption and bribery, and beyond this, any ecological, social and governance-related (ESG) topics relevant for reputational risk by means of reputational risk management.

Managing non-financial aspects

Within the BayernLB Group, various units manage the above-mentioned aspects in accordance with CSR-RUG. The main units responsible, such as Compliance (including Reputational Risk Management), Sustainability Management, Human Resources and Purchasing, are shown here. Integrated within this is an overview of the requirements for the banking business.

The various management components are intertwined in many ways. For example, Sustainability Management coordinates the sustainability report, which reports on a number of areas including compliance, human resources and purchasing. In turn, Compliance Management provides Sustainability Management with policies. In reality, these processes, which run simultaneously, result in a multi-dimensional management in the company, which make the respective measures taken markedly more effective from BayernLB's perspective.

No management is currently carried out at Group level based on uniform non-financial performance indicators. Group-wide indicators are accordingly collected in the respective Group units purely on an ad-hoc basis, e.g. to produce reports for various ends.

DKB has developed a separate system of supplementary reporting for its business model, which it discloses in its annual report, the sustainability report in accordance with the German Sustainability Code (DNK), the abridged environmental statement, the green bond reports and on its website www.dkb.de. DKB also supplies information in its management report on, for example, the topics of sustainability and employees. These should be seen as providing supplementary information without being an explicit part of DKB's business management.

Compliance management system

Non-financial aspects are managed centrally in the BayernLB Group principally by Compliance, Reputational Risk and Sustainability Management. It is important to note that the areas illustrated here are established not with reference to the CSR-RUG system as a whole, but based on other and in each case different (regulatory) requirements and expectations of their stakeholder groups.

Observing rules, regulations and standards and fulfilling the expectations of stakeholder groups have clearly gained in importance in the banking environment in the past few years in the face of a changing regulatory and social environment.

This is evident in the growth in activity of groups within civil society with respect to the financial industry and increasingly in requirements, directives, recommendations for action, etc.

Faced with more external demands, BayernLB took action years ago at both an organisational and procedural level and steadily expanded Group Compliance’s remit: key tasks for this division are to avoid, investigate and punish breaches of regulations. It gives advice on compliance in a broader sense in order to safeguard BayernLB’s reliable market presence, which is shaped by compliance with statutory and regulatory requirements, and to protect it against illegal activities. Another objective is to support and implement legal, corporate, social and ethical policies and values within BayernLB. Besides fighting money laundering, financial crime and the financing of terrorism, Group Compliance’s remit includes combatting corruption and bribery, and central reputational risk management. The division is directly subordinate to the Chief Risk Officer and regularly reports to the Board of Management and the Audit Committee of the Supervisory Board on the relevant topics by means of the annual compliance report.

Group companies and foreign branch offices have their own compliance units.

The main principles for protecting the Group against reputational losses/damage are set out in the Group Reputational Risk Guidelines. These stipulate, among other things, that the experts in Central Reputational Risk Management (CRRM) must be contacted in regard to all issues with medium to high reputational risk and that they even have a right of veto in some areas, which are connected to the critical sectors detailed below, for example. These issues can also include risky business activities that fall within the scope of application of existing ESG Standards and Policies on environmental or social issues.

The measures taken to ensure compliance with regulatory requirements and to take account of society’s expectations focus on the individual employees themselves. All employees have a duty to ensure they are aware of the relevant legal obligations, instructions, policies and framework relating to their area of activities and responsibility and to follow these. They are fully supported by Group Compliance as well as other areas such as Legal Services and Sustainability Management.

Code of Conduct

BayernLB regards acting lawfully, ethically and responsibly as a fundamental and essential part of its corporate and social responsibility.

The Code of Conduct serves as a set of standards for day-to-day activities and describes the appropriate procedure for complying with the framework. It lists the most important legal and social requirements, e.g. in relation to responsibility for employees, transparent internal and external communication, dealing with conflicts of interest, sustainability and ethics, social responsibility and a risk and compliance culture. The rules formulated are necessary minimum standards in the BayernLB Group. They apply in dealings with colleagues, customers, suppliers, business partners, market participants, shareholders, the public and official bodies. In addition to the Code of Conduct, there are detailed internal instructions and policies for each of the specific issues.

The Code of Conduct is also an important component of BayernLB's "risk culture" principles. The risk culture has equal standing with our mission and our values and describes how risk awareness and conduct must be implemented in practice.

The Code of Conduct applies to all BayernLB's business areas, to all employees and the members of the Board of Management and Supervisory Board. New members of staff are made aware of the Code of Conduct when they take up their position. It is also published on BayernLB's website and serves as a template for the codes of conduct of Group units.

The obligations in the Code of Conduct far exceed simply adhering to regulations. All employees are called upon to exercise propriety and judgement in their areas, so as to maintain a culture that discharges the Bank´s social responsibility and allows the company to move ahead in a sustainable manner.

BayernLB's Code of Conduct is managed by the Group Compliance Division. Compliance is an integral component of corporate management and is defined as risk management with a focus on prevention. Appropriate risk analysis, measures based on this process, the promotion of a uniform understanding of values and integrity, and penalties in the event of breaches all play a role here. BayernLB has a "zero tolerance" policy. The independent Compliance function is considered to be a trustworthy and fair point of contact, both inside and outside the Bank.

The Code of Conduct is supplemented by guidelines such as Management Principles, environmental and sustainability policies, which are also publicly available, and by internal regulations, for issues such as equal treatment and conflicts of interest, including the acceptance and granting of gifts and invitations. This is carried out in the respective Group units in line with their business model and local needs. DKB and BayernInvest also publish their own environmental and sustainability policies and/or respective guidelines on their websites.

Other sub-segments of the compliance management system, which are described below, are relevant for the management of the aspects under CSR-RUG that are relevant for BayernLB.

Management of conflicts of interest

The Conflicts of Interest Management Group Policy is used to manage conflicts of interest. This is implemented at BayernLB Bank through the official instruction on "Managing conflicts of interest" and rolled out to the subsidiaries DKB, BCS, Real I.S. and BayernInvest. The latter have implemented the content relevant to them into their own rules. The policy provides guidance for dealing with conflicts of interest and summarises the relevant points from existing detailed regulations in the form of a framework. A multi-stage procedure is followed that may ultimately mean the Bank not conducting particular transactions or business.

A reporting office was set up in 2018 to identify and manage conflicts of interest (outside the German Securities Trading Act (WpHG)). It investigates and evaluates conflicts of interest and decides, together with the units concerned, on necessary measures and consequences. The reporting office also documents key circumstances that can cause a conflict of interest in a conflicts of interest catalogue.

For example, in the annual MaRisk compliance risk survey, the subsidiary BayernInvest is regarded as having a high reputational risk with regard to potential conflicts of interest due to the asset management activities that form part of its business model. This assessment is taken into account by appropriate guidelines and controls, such as the monitoring of all employee transactions. According to the survey, the probability of a loss occurring at BayernInvest is considered to be low, not just in light of the internal control system and measures taken in particular, but also the lack of loss events to date.

In accordance with the "Guidelines for employee transactions" which are embedded in all relevant Group units, employees may not, for example, buy or sell securities they deal with professionally, in accordance with the prohibitions and rules contained therein.

Furthermore, staff transactions may not be in conflict with the interests of customers or the Bank. Capital Market Compliance continually monitors adherence by staff to the guidelines on the basis of an internal process description. Breaches of these guidelines may involve steps being taken under employment law.

In addition to requirements under criminal and tax law that must be observed, the regulations on accepting and granting benefits provide employees with a code of conduct and support for dealing with the acceptance and granting of gifts and invitations (see also "Combatting corruption and bribery").

Furthermore, all ancillary activities must be approved in writing by BayernLB as the employer and criteria have been determined for gaining approval.

BayernLB's Corporate Governance Principles and the Statutes of Bayerische Landesbank also provide for the abstention of Board of Management members in respect of decisions affecting them or their family members.

DKB's Corporate Governance Principles also govern and communicate the issue of conflicts of interest.

Overarching control mechanisms

The independent Supervisory Board functions as the primary supervisory and control body. Important decisions of the Board of Management are taken on the multiple control principle, noted in meeting minutes and forwarded to auditors and legal supervisors for review. Decisions taken within the context of adepartment's responsibilities are generally prepared and implemented by operating units and are therefore subject to the corresponding controls of these units regardless of whether such controls are dependent on or independent of processes.

As a public-sector institution, BayernLB is subject to the legal supervision of the Bavarian Ministry of Finance and Regional Identity (supervisory authority). The supervisory authority has extensive rights to information and regularly participates in General Meetings and Supervisory Board meetings. It can lay down all necessary regulations to ensure that BayernLB's business operations meet the laws, articles of incorporation and other statutory requirements.

By law, BayernLB is subject to auditing by Bavaria's supreme audit institution. In particular the audit covers compliance with the regulations and principles governing business management, i.e. amongst other things whether management has acted economically and frugally.

This monitoring function not only prevents conflicts of interest but also ensures overall that CSR-RUG-relevant matters are given special consideration.

Combatting corruption and bribery

One of the key tasks of BayernLB's compliance management system is compliance with legal and supervisory requirements with respect to combatting corruption and bribery in all locations. This includes the avoidance of cases of corruption and monitoring all locations for corruption risks. Non-compliance with these standards can result, in particular, in legal (and/or potentially supervisory) penalties and loss of reputation. Various measures are therefore implemented in the BayernLB Group to achieve the above goals.

BayernLB's written organisational rules enshrine the principle that the Group may not enter into any business relationship with persons who have been legally convicted of corruption or with companies managed by such persons.

The prohibition on accepting and granting benefits at BayernLB concerns both direct financial contributions and other benefits which call into question the official independence of the employee. Any gifts, invitations or benefits which could limit the personal independence of the recipient or raise doubts among the public about the integrity of BayernLB or the recipient are not permitted. Further details can be found in an internal instruction "Regulations on accepting and granting gifts and invitations" (see "Managing conflicts of interest" above).

The Group-wide review and monitoring of all corruption risks is carried out annually by the respective compliance units in the Group companies. They have taken the appropriate precautions and regularly carry out suitable risk analyses. This takes the form of a risk analysis, conducted at least once a year, that is explicitly focussed on financial crime, with a subsequent report being sent to the Board of Management and the Audit Committee of the Supervisory Board. The risk analysis identifies the basic risk and the effectiveness of the measures taken. Sales practices and specific features of customers such as whether a person should be classed as a public official are considered.

All in all, as far as the aspect “Corruption and Bribery” is concerned, no risks were identified in the business activities of the BayernLB Group that are notifiable under CSR-RUG.

The preventative measures anchored in the Bank include the compliance management system, the Code of Conduct, special policies, banking instructions and related forms, the strict separation of donations and sponsorship, the competence regulations, the whistleblowing system, checks on accepted and granted invitations and gifts on the basis of the relevant documentation, the evaluation of and controls governing pricing and the evaluation of and checks on new lending. Within the framework of the regular training courses for all employees, which are prescribed and obligatory in accordance with section 6 para. 2 no. 6 of the German Money Laundering Act (GWG) (in accordance with the risk-oriented cycle), the existing regulations and conduct in the fight against corruption are discussed. Examples are used to illustrate how to recognise corruption and conduct/events that are out of the ordinary, and what options are available in the existing whistleblowing system.

New employees and temporary staff are also subjected to an intensive checking process, including submission of a police clearance certificate. Certain employee groups regularly undergo a reliability assessment.

During the reporting period no violations of the law relating to corruption at or by BayernLB were identified by the courts.

MaRisk compliance risk identification

Pursuant to MaRisk AT 4.4.2 the MaRisk compliance function at Group Compliance is responsible for identifying and analysing the key legal rules and requirements at regular intervals. To this end, an assessment examining potential compliance risks is carried out every year in conjunction with the individual areas and units of BayernLB.

The corresponding compliance risk strategy specifies the following: “Compliance risk is a component of legal risk and includes the risk that the Bank will incur losses as a result of non-compliance with applicable legal regulations. This does not include breaches of contractual arrangements or internal rules. Compliance risk is characterised as a breach of duty or omission that results in sanctions, particularly in the form of fines or compensation claims. Compliance risk does not include risk of losses as a result of inappropriate conduct when providing banking or financial services (conduct risk)."

When examining risks, legal rules and regulations are also assessed if non-compliance arising from business activities could have a serious adverse impact on the aspects under CSR-RUG that are relevant for BayernLB. The issue of corruption is already covered in the above-mentioned assessment, where the focus is on the risks for the Bank that could arise from breaches of rules.

To identify risks both to BayernLB itself and to “third parties” such as the environment, employees or other persons, this assessment and the annual inventory by Reputational Risk Management mentioned below are used as a basis for this combined non-financial report. To classify the size of the damage to “third parties” certain criteria were drawn up that take account of the specific intentions of CSR-RUG.

Reputational risk management

Reputational risk within the BayernLB Group is managed through an in-house set of rules containing, among other things, a (Group and Bank) strategy, specific guidelines, various theme-specific policies, official instructions and the definition of tasks and competencies for employees, managers and other reputational risk-specific roles.

In the strategies mentioned it states that: “Reputational risks can arise in principle from all matters related to business activities. Business activities are all activities within or in connection with the BayernLB Group along the entire value chain that may have an impact on the perception of its stakeholders (stakeholder groups) such as the conclusion of business or transactions (with existing or potential customers, other business partners such as suppliers or external service providers), […] human resources policy or corporate citizenship (e.g. donations, sponsorship) […]."

The guidelines that apply in the major Group units in respect of the ecological, social and governance-related (ESG) issues from which reputational risks could arise state that:

“Reputational risk may arise from dealing inadequately with the relevant (sub-) aspects of: […]

- Climate and environmental protection (protecting the atmosphere, water, etc.)
- Conservation of natural resources/avoiding damage to ecosystems
- Preservation of natural habitats and biodiversity/animal protection […]
- Protection of human rights/non-discrimination
- Compliance with fair labour conditions/provision of a safe and healthy working environment
- Prohibition of forced labour and exploitative child labour
- Preservation of cultural heritage/fair treatment of indigenous peoples/prevention of displacement, forced resettlement and land seizure
- Freedom of the press and opinion/freedom of assembly and the freedom to form trade unions
- Consumer protection […]
- Prevention of financial crime, corruption and the financing of terrorism […]”

The guidelines therefore cover the aspects that are relevant for BayernLB under CSR-RUG. CRRM is continually involved in assessing and managing event and transaction-based issues that pose a medium to high reputational risk. It also conducts an annual risk inventory at BayernLB and the relevant Group companies. This meant that CRRM’s findings relating to the estimation of risks from business activities pursuant to CSR-RUG could be incorporated into the non-financial report.

CRRM also analysed the sector portfolio reports published during the year. The number of issues processed continued to increase. CRRM gave its approval, partially subject to certain stipulations. Furthermore, CRRM, the Compliance function, Sustainability Management or the functional unit itself declined to approve certain matters, e.g. due to governance requirements, in particular guidelines or sector policies.

Collaboration between Sustainability Management and CRRM is close; information is exchanged on a case-by-case basis and in regular meetings. CRRM also holds regular meetings with Communications and Press, Investor Relations and local reputational risk managers in Corporates & Mittelstand.

The Bank also drove forward the process of synchronising reputational risk methodology (in particular definitions/risk levels) with other "survey units" for reputational risks such as MaRisk compliance in accordance with MaRisk AT 4.4.2, operational risks, and outsourcing management.

BayernLB has identified as a permanent challenge the tension between the sharp rise in the expectations of certain stakeholder groups (e.g. in matters relating to climate protection and the energy transition) with regard to sustainable corporate social responsibility, corporate culture, etc. on the one hand, and the steadily increasing pressure on earnings and competition on the other.

Sustainability and environmental management system

BayernLB is actively committed to the challenge of sustainable development and heeds its responsibility by taking environmental, economic and social aspects into account along the entire value chain. It does so within its company operations by being careful in its use of resources, avoiding harmful environmental impacts and treating employees responsibly.

It also considers non-financial aspects in respect of business relationships and when reviewing (business) transactions. It ensures they are compatible with the relevant international environmental, ethical and social standards which BayernLB has signed up to. For examples, refer to BayernLB's other sustainability reporting (see https://www.bayernlb.com. The BayernLB Group Reputational Risk Guidelines stipulate that Sustainability Management has to be included in all (planned) business activities that (potentially) fall within the scope of existing ESG standards and policies relating to environmental or social topics and/or potentially incur social and/or environmental risks.

The guidelines therefore look at human rights and environmental, social and employee issues under CSR-RUG. Transactions include all types of business activities and relationships along the value chain of the Group. These are set out in more detail in an internal Group-wide sustainability management instruction.

Both BayernLB and DKB report transparently on their respective sustainability performance and environmental aspects and publish detailed information in, for instance, the Sustainability Report, the Sustainability Report in compliance with the German Sustainability Code (DNK), and the respective environmental statements on their websites www.bayernlb.de and www.dkb.de.

BayernLB and DKB also have their own sustainability and environmental policies, which are published on their respective websites.

Sustainability Management is responsible for the design of the environmental management system validated in line with the Eco Management and Audit Scheme (EMAS), which covers large parts of the Group. It regularly conducts a materiality analysis with all relevant Group units to ensure that non-financial issues such as employee issues, environmental issues, etc. are given greater consideration. Based on the system used in the GRI, Sustainability Management looks for the topics that are the most important to both BayernLB and its stakeholders.

The starting point when preparing the definition of the main topics for the first time was the UN Sustainable Development Goals (SDGs), which cover the aspects relevant under CSR-RUG. Out of a total of 17 development goals, BayernLB identified ten that it could make a significant contribution to achieving within the framework of its business activities. Furthermore, 12 BayernLB-specific areas for action were identified on the basis of these ten goals and prioritised according to various criteria such as expectations of stakeholder groups. These range from corporate environmental protection to sustainable financing.

This analysis was updated at the end of 2018 and for the first time supplemented by a direct stakeholder survey carried out with the support of a consulting agency. It forms both the basis for BayernLB's sustainability reporting and the foundation on which the Bank defines the objectives for its sustainability programme. BayernLB usually reports every other year on the progress of these objectives and the corresponding measures adopted in its sustainability report. The update mentioned mainly resulted in a reassessment of "sustainable financing" as an important area of activity.

DKB has its own environmental programme within the environmental management system. It also has additional human resources management objectives which it voluntarily reports on, for instance in the publicly available Sustainability Report in compliance with the German Sustainability Code (DNK).

Real I.S. considers the issue of sustainability to be important – both with regard to itself as a company and the products for its investors. In the reporting period, the company drew up key aspects of a sustainability concept, which will be fleshed out into a sustainability strategy in the near future. Real I.S. will implement both the measures that have already been carried out and those that have recently been identified in strict compliance with these principles.

These sustainability activities contribute to a reduction in the corresponding risks, with the basic level of risks being classified as essentially low, especially from business activities relating to operations for social and environmental concerns.

In the opinion of the BayernLB Group, the effects on the natural environment directly attributable to operations, such as water and energy consumption, are not material to its business activities from a CSR-RUG perspective and therefore are not looked at in detail in this report. Further information on BayernLB's environmental commitment can be found in the environmental statement, which is published regularly as part of the certification of the environmental management system under EMAS.

DKB also publishes its own environmental statement every year.

Sustainable banking business: internal requirements and financial solutions

The purpose of creating sustainable banking products is set out in BayernLB's Code of Conduct:

"We acknowledge our responsibility by taking ecological, economic and social issues into consideration along the entire value chain. [...]

We also consider sustainability issues when looking at (business) transactions. Our actions, as well as our business relationships and transactions, are always guided by ethical principles and sustainability aspects. We ensure that these are compatible with the relevant international environmental, ethical and social standards we have signed up to."

This is specified in greater detail in the sustainability policy:

“Because we integrate social and environmental aspects into our financing and capital market products, both we and our customers weigh the risks and opportunities that come with such global challenges as climate change and dwindling resources and thus make an active contribution to sustainable development. In addition to setting and continuously improving basic social and ecological standards for our financing and capital market transactions, we set out to serve companies and projects that explicitly tackle these global challenges through, for instance, renewable energy.”

A sustainable banking business and the corresponding financial solutions at BayernLB therefore cover the following areas:

- Compliance with environmental, social and ethical standards in financing and capital market transactions
- Offering sustainable investment products for retail and institutional investors
- Financing companies and projects to address societal challenges such as climate change and the energy transition

A description is given below of the BayernLB Group’s corresponding standards and guidelines and of the range of products in this regard.

The components of the compliance and sustainability management system mentioned above combine to form a system of internal requirements that ensures that sustainability aspects and thus also the relevant aspects for BayernLB under CSR-RUG are adequately reflected in the BayernLB Group’s banking products and services.

These specifications are presented in this report in an integrated methodology and are regulated within the Bank in various policies, guidelines, etc.

The BayernLB Group’s commitment to sustainable development is based on the sustainability policy approved by the Board of Management. It is transposed into daily action through specific ESG-related standards, which are assigned to three categories based on their scope. The first category includes all kinds of business activities in the Group, from procurement to financial services. The second category relates to the overall guidelines for trade and capital market transactions and financing, while further regulations relate to individual sectors or topics.

The success of efforts to achieve sustainable banking activities and the corresponding range of financial solutions is regularly analysed and evaluated by independent sustainability ratings agencies. These sustainability ratings are based on comprehensive lists of criteria relating to environmental, social and governance – i.e. responsible corporate management (ESG) aspects – which regularly cover the aspects referred to in CSR-RUG.

BayernLB Group, BayernLabo and DKB all continue to hold the coveted prime rating from ISS ESG.

MSCI ESG, the specialist arm of financial services provider MSCI, rates the sustainability management of BayernLB as AA, putting it in the top 13 percent of its peer group.

Overarching ESG standards for all business activities

The first category of the principles, which apply Group-wide to all types of business activities, includes the following rules:

- The Group adheres to all embargoes and sanctions imposed by the EU and the UN. Moreover, it also adheres to any applicable local regulations.
- The Group engages in no business activities of any kind with persons or with companies run by persons who have been legally declared bankrupt or insolvent or convicted of serious offences against property, or financial crimes.
- The Group engages in no business activities of any kind that serve to evade and/or reduce duties or taxes or to conceal and/or unfairly and significantly encourage such actions in its own or a foreign country.
- The Group engages in no business activities of any kind connected with a deliberate breach of copyright and industrial property rights.
- The Group engages in no business activities of any kind connected with illegal forms of business (such as drug, human or organ trafficking, slavery), prostitution, sexual exploitation or pornography, or exploitative (child) labour or forced labour.

Transactions involving offshore destinations are standard in many areas of business life, particularly for international companies, and are product-specific and not illegal per se. However, lax local legislation means that there is an increased risk that such transactions may be used for illegal purposes, such as money laundering or tax evasion. The objective of the Group-wide Offshore Policy is to create a clear and binding framework for the BayernLB Group's business activities as regards "offshore countries" to prevent BayernLB from being (unintentionally) involved in illegally motivated transactions wherever possible. Accordingly, BayernLB does not support any business relationship/activities involving money laundering, tax evasion or other illegal use of offshore companies or where this is suspected on the basis of concrete evidence. It does not procure, either itself or indirectly, offshore companies for clients, and does not arrange contact with specialised service providers or law firms in this regard.

Guidelines for trading and capital market transactions

BayernLB has defined the following guidelines for trading and capital market transactions:

Food

A Group-wide policy stipulates that the BayernLB Group does not engage in speculative transactions in staple foods. In this vein the Group does not invest directly in staple foods, nor indirectly in derivatives which replicate or speculate on the price performance and/or shortages of staple foods. Furthermore, it does not offer any investment products which replicate or speculate on the price performance and/or shortages of staple foods. In addition, the BayernLB Group does not provide any financing for speculative transactions with staple foods.

In actively managed mandates and funds, BayernInvest does not invest in individual commodity exposures to foodstuffs. This also applies when managing its own retail funds, from which agricultural commodities and related derivatives are excluded. This exclusion also applies to all retail funds managed or administered by BayernInvest.

Physical trading in gold

The BayernLB Group is aware of the great responsibility that comes with trading in gold. The Group has therefore been a member of the LBMA (London Bullion Market Association) since 2002 and complies Group-wide with this body’s standards. Refineries approved for trading on the London Bullion Market must ensure that the gold delivered does not originate from sources associated with money laundering, terrorism financing or abuses of human rights.

Controversial weapons

BayernInvest excludes companies which manufacture controversial or illegal weapons from its actively managed investments. These include anti-personnel mines, nuclear weapons, biological and chemical weapons and cluster munitions. This applies to the investment volumes actively managed by BayernInvest. In particular, BayernInvest ensures compliance with this regulation through the use of a database – the Controversial Weapons Monitor (CWM) – established by the sustainability ratings agency ISS ESG, and automated monitoring.

Guidelines for financing transactions

BayernLB has also defined detailed guidelines for financing operations. These are used for earmarked financing where BayernLB is aware of the purpose of use.

Complying with the relevant BayernLB standards wards off the risk to the realisation of projects and BayernLB’s reputation. Among other things, this precludes to the extent possible any negative impact on human rights in the context of financed projects. BayernLB has also undertaken to comply with the Modern Slavery Act.

World Bank standards

BayernLB observes the World Bank’s environmental and social standards in all relevant financing transactions. These are based on the performance standards of the World Bank Group’s International Finance Corporation (IFC) and the World Bank's Environmental, Health, and Safety (EHS) Guidelines. The standards include criteria for the observance of human and employee rights, the protection of indigenous peoples, the inclusion and protection of the population (such as local communities) affected by the projects as well as the protection of biotopes and habitats.

Violations of human rights and the rights of indigenous peoples are often associated with large mining and infrastructure projects in emerging and developing countries, which is why the specifications for earmarked project financing are of central importance. In complying with the World Bank standards and topic and sector-specific policies, BayernLB respects, among other things, the protection of human rights within the context of project financing. This also often involves dealing with local communities or indigenous peoples, so that respect for human rights is closely linked to the “social issues” aspect.

Sector and topic-specific standards

BayernLB has formulated Group-wide policies based on the World Bank standards for certain sectors and topics that are particularly sensitive from an environmental and social perspective.

Nuclear power and fossil fuel energy industries

A focus here is on the principles governing the financing of activities in connection with the use of fossil fuels, which can be assessed on a differentiated basis in terms of their various impacts on the environment and climate (see below for more information). The Group also defines criteria for financing activities linked to nuclear energy. The guidelines for the nuclear power and fossil fuel energy industries govern earmarked financing and general corporate financing and include both exclusions and strict conditions. In the case of earmarked financing of projects, BayernLB takes account of the directly related infrastructure.

Projects and all related goods and services for mining or extracting nuclear fuels and constructing new nuclear power plants are excluded from earmarked financing, while companies that generate their sales exclusively from products and services employed in the excluded areas are excluded from general corporate financing.

Exclusions and requirements for earmarked financing in the field of nuclear energy and fossil fuels

Sector	Exclusion	Conditions
Nuclear power	• Mining/extracting nuclear fuels • Construction of new nuclear power plants	
Coal	• Mining of lignite and developing new coal mines • Construction of new and expansion of coal-fired power plants • Construction of new coal infrastructure in connection with new coal-fired power plants • Financing of projects in protected natural and cultural environments	• Modernising/retrofitting existing coal-fired power plants only if efficiency gains/higher levels of efficiency are realised and/or climate-damaging emissions are reduced
Oil & gas	• Extraction of crude oil from tar sands • Extraction by fracking • Financing of projects in protected natural and cultural environments • Construction of new oil-fired power plants within the EU, in the non-EU European countries Iceland, Norway and Switzerland and in the USA and Canada • Construction of new transport infrastructure used exclusively to transport oil/gas obtained through fracking, extraction from tar sands or in protected areas • Construction of new processing plants used to process oil or gas obtained through fracking, extraction from tar sands or in protected areas	

In the nuclear area, the rules permit both the financing of projects targeted at the safety of nuclear power plants currently in operation and the provision of replacement capital expenditure if it is needed for compliance with the strictest safety standards. Also permitted is the financing of projects for the decommissioning of nuclear power plants, as well as of projects for the treatment, intermediate storage and disposal of nuclear waste. By providing financing in the areas of safety and waste disposal, BayernLB is meeting its social responsibilities for dealing with the consequences of the use of nuclear power.

In the case of fossil fuels, BayernLB excludes from financing in particular projects that are harmful to the climate or the environment. For example, earmarked financing is not provided for the construction of new coal-fired power plants or to obtain natural gas or crude oil through fracking or extraction from tar sands. Companies that generate their sales exclusively from products and services employed in areas excluded from financing by the financing guidelines are excluded from corporate financing.

Wind energy

Separate Wind Energy Financing Guidelines at DKB lay down specific lending criteria and documentation and collateral standards which stipulate that A) only (onshore) wind energy projects in Germany may be financed, where B) approval under the German Federal Immission Control Act (BImSchG) has been granted – thus ensuring compliance with minimum social and environmental standards in Germany. As part of the regulatory approval process, detailed assessments of the impact of wind turbines on affected ecosystems are undertaken and measures specified if any environmental impacts of the construction and operation of the wind turbines are identified. These include noise proofing (noise maps, noise action plans), shutdown times (prevention of shadows and ice shedding, as well as protection of bats and birds), the use of reflection-reducing coatings and measures for water protection.

Gambling

In line with its gambling policy BayernLB generally does not do business in the gambling industry. Exceptions apply if gambling is offered by a public or non-profit body or organisation. Various rules must be observed in this case. For example, gambling may be offered only in compliance with applicable laws, e.g. federal and state law, and the protection of consumers must be demonstrably taken into consideration, for example, in terms of addiction prevention and protecting gamblers from reckless loss of assets.

Arms manufacture

BayernLB recognises the right of a state to defend itself. On this basis, offering services to arms companies or individual financial transactions for weapons and armaments is in principle possible within the framework of existing laws. We require that the financing is approved following an obligatory case-specific examination and that it is in line with our business model. Processes and criteria are set out in a separate policy. Accordingly, during each review an assessment is made of the arms companies, the purpose of the funding and, where appropriate, the importer, the importing country as well as the current local political and social situation. Controversial and CBRN weapons are excluded from financing.

With BayernLB's new strategic focus defence ceased to be a focus sector at the end of 2019 and will be scaled down over the long term.

Forests

The goal of the forest policy is to ensure in particular that:

- No transactions related to illegal deforestation are carried out
- No forested areas that are protected or worthy of protection are destroyed when clearing land for plantations, especially to cultivate palm oil and soya
- Recognised environmental and social standards are complied with in the management of forests and plantations, especially of palm oil and soya plantations

BayernLB helps raise sustainability standards in the sector by referring to existing environmental and social certifications, e.g. Forest Stewardship Council (FSC), Roundtable on Sustainable Palm Oil (RSPO) and Round Table on Responsible Soy (RTRS).

Organisational anchoring

Responsibility for reviewing existing and formulating new policies on the subject of sustainability and reputational risk usually falls within the remit of the Group's central Sustainability Management/CRRM. All policies were approved by the Board of Management of BayernLB and apply throughout the Group. The respective specialist divisions and subsidiaries are responsible for implementing the guidelines and policies. If it is unclear whether a transaction falls within the scope of the policies, Sustainability Management/CRRM will provide an opinion at the request of the person responsible.

BayernLB keeps a constant eye on current developments, the global political situation and the expectations of various stakeholder groups so that it can make the necessary changes to its policies, for example. In the reporting year changes were made to the aforementioned policies on nuclear power and fossil fuel energy industries.

The risks related to aspects relevant to BayernLB that mainly arise in the business relationships, products and services are thus minimised. This functioning risk management system covers risks related to all CSR-RUG aspects relevant to BayernLB.

Sustainable products and services

From BayernLB's perspective, there is also the option of actively promoting environmentally responsible developments such as the climate-friendly restructuring of the energy supply or social projects by means of suitable products and services, thereby opening up business potential.

This includes:

Product area	BayernLB Group FY 2019	Of which BayernLB FY 2019	Of which DKB FY 2019	BayernLB Group FY 2018	Of which BayernLB FY 2018	Of which DKB FY 2018
Volume of sustainability instruments issued or arranged by the BayernLB Group	EUR 3.4 bn	EUR 2.9 bn	EUR 0.5 bn	EUR 2.25 bn	EUR 1.75 bn	EUR 0.5 bn
Volume of new subsidised loans business (e.g. the relevant KfW programmes) targeting ecological applications (through the increased use of renewable energy/energy-saving measures)	EUR 1.4 bn[1]	EUR 0.3 bn	EUR 1.0 bn	EUR 1.1 bn	EUR 0.5 bn	EUR 0.6 bn

1 The cumulative figures for BayernLB and DKB do not match the figure reported for the BayernLB Group due to rounding differences.

In 2019, the BayernLB Group issued a total volume of EUR 3.39 billion in sustainable bonds. The increase of EUR 1.14 billion is due to stronger market demand and is testimony to the Bank's good reputation in this area. The following issues were carried out:

- EUR 1.00 billion green Schuldschein note loan:
  Together with ING and LBBW, BayernLB arranged the first green Schuldschein note loan for Porsche AG. The transaction was originally marketed at a volume of EUR 300 million but was topped up to EUR 1 billion as the order book was several times oversubscribed. Porsche AG will use the funding within its Green Finance Framework to research, develop and produce electric cars and invest in efficient factories which produce exclusively battery-powered vehicles. The alignment of its plans with the Green Bond Principles was confirmed by independent agency ISS ESG.
- EUR 0.39 billion sustainable/social Schuldschein note loan:
  A banking syndicate made up of BayernLB and SEB placed a EUR 600 million corporate Schuldschein note loan for Barry Callebaut, currently the global number one in the chocolate and cocoa industry. The sustainable portion of this bond, which is predominantly linked to sustainable cocoa farming and financial support for cocoa farmers, was EUR 390 million. The firm Sustainalytics prepared a second party opinion in conjunction with the Sustainability Framework.
  Both the green Schuldschein note loan transaction for Porsche AG and the sustainable/social Schuldschein note loan for Barry Callebaut received the Deal of the Year Award from data provider platform/magazine mtn-i.

- EUR 1.00 billion social covered bond:
  BayernLB acted as joint lead manager for the first social covered bond from France, which was also the first European social covered issue in the public healthcare domain. CAFFIL, a subsidiary of French development bank SFIL, issued EUR 1 billion of an eight-year bond. To present the framework, various investor meetings in Germany, France, the UK, the Netherlands, Denmark and Finland were arranged in advance in a road show. The idea of refinancing loans to French public hospitals to allow full coverage for all the medical needs of all citizens regardless of their social/financial position via a social covered bond with public funding was greeted with considerable interest, especially but not exclusively from investors with a special focus on sustainability. For its role here the Bank was awarded the ESG Award for Excellence 2019 by respected specialist journal "The Covered Bond Report".
- EUR 0.50 billion hybrid bond:
  BayernLB acted as joint lead manager in arranging a green hybrid bond for EnBW, the proceeds of which will be used solely to fund climate-friendly projects. The ratings agency ISS ESG, which specialises in sustainability matters, has confirmed that the EnBW bond complies with the Green Bond Principles. It was also certified in accordance with the high standards of the Climate Bonds Initiative (CBI). The bond has a volume of EUR 500 million and maturity of around 60 years.
- EUR 0.50 billion blue social bond:
  ABN Amro, BayernLB, DZ Bank, Natixis and UniCredit joined forces to place a blue social bond for BayernLB subsidiary DKB. The public Pfandbrief is part of DKB's social bond programme and fulfils both the Social Bond Principles (SBP) and the UN's Social Development Goals (SDGs). The EUR 500 million in funds raised will be used partly to finance water supply and the disposal of effluents. The order book stood at over EUR 2 billion.

The product range is also being expanded, based on corresponding Bond Frameworks. A committee will be set up in the Bank for this in 2020 in collaboration with Treasury to drive the business ahead.

Smaller-scale measures were also funded, e.g. DKB's crowdfunding platform. This platform can be used to fund sustainable projects with the help of private investors (e.g. regenerative energy or social infrastructure).

BayernLB launched a green finance initiative in 2018, partly in light of the EU action plan to finance sustainable growth. Its goals include:

- Supporting (potential) customers to fund the transformation of their business models, processes and products within the framework of decarbonisation
- Refining the product and service range
- Expanding BayernLB's positioning as a centre of expertise for green finance

The initiative will be gradually incorporated into BayernLB's strategy process.

To actively drive this issue forward a project group, headed by the CEO, was formed in 2019.

Research services

For more than four years the megatrends of energy and climate change, demographic change, digitalisation, political conditions and regulatory frameworks, low interest rates and debt, and the move to passive investing have been an integral part of BayernLB Research's analyses and service offering. Megatrends are long-term global trends that are already making their mark on politics, society, the economy and financial markets. Although the megatrend of energy and climate change (including numerous publications on the energy transition) has a direct bearing on the issue of sustainability, the trends of demographic change (such as the issues of urbanisation, migration and the ageing population) and digitalisation (including greentec and decarbonisation) also fall under "social" and "governance" sustainability aspects. At the same time BayernLB Research is analysing the financing side (green loans, green bonds and social bonds). Besides special megatrend publications, regular publications (including country and sector analyses) are increasingly looking at the impact of megatrends on economies, sectors and financial markets. BayernLB Research is therefore making an important contribution to the sustainability management of the Bank and its customers.

BayernInvest's sustainability offering

Since the start of 2019 BayernInvest has supported its customers with ESG reporting for all special AIFs and retail funds managed and administered. Drawing on the data of rating agency MSCI, this shows sustainability aspects and the impact of investments in a transparent manner and can be used as a basis for analysing the future opportunities and risks of capital investment. BayernInvest's new customers use these reports for their investment strategies.

Investors also gain an overview of the CO_2 data of companies with the smallest and biggest emissions and their CO_2 carbon footprint. In addition, if UN Global Compact criteria are breached, the percentage weighting in the portfolio is disclosed.

In 2019 BayernInvest committed to bringing the discretionary portfolios it manages into line with the 1.5-degree target in the Paris Agreement by 2025 – in coordination with clients' investment strategies. Other individual sustainable investment solutions are also being developed for customers that request them.

In addition, three equity funds were restructured as sustainability funds in 2019 (focused on climate protection, SDGs and Europe). These are based on an equity factor strategy, which is considered in the stock selection process in addition to the style factors value, quality, momentum, low risk and ESG criteria (Environmental, Social, Governance). The investment universe is initially filtered to exclude stocks that fundamentally violate ESG criteria (e.g. nuclear power producers, tobacco, weapons, breaches of UN Compact Principles) and, additionally, fund-specific ESG criteria. Then, using a factor investing strategy, securities are selected that are expected to perform better based on certain factors or quantifiable corporate features, e.g. ROE (return on equity), historical performance and volatility. All three funds have been set up by BayernInvest's subsidiary, BayernInvest Luxembourg S.A. BayernInvest Kapitalverwaltungsgesellschaft mbH in Munich is the fund manager.

BayernInvest also offers sustainable investments solutions for special AIFs (formerly known as special funds).

BayernLB considers the non-financial aspects of its services, e.g. through voluntary commitments, and demonstrates this in its corporate citizenship.

BayernLB's awareness of its responsibilities in these areas is underlined by official memberships held by parts of the Group with, e.g. the UN PRI (United Nations Principles for Responsible Investment) and by signing up to the codes of conduct of the BVI Bundesverband Investment und Asset Management e.V. or the Green Bond and Social Bond Principles, for example. BayernLB is currently working on a Green Bond Framework.

Its commitment in this area regularly appears in the BayernLB Group's sustainability reporting.

The Group's social and green bonds are reported separately in accordance with the above principles.

Classification of financial services under CSR-RUG

The BayernLB services shown above underline its strategic positioning in the aforementioned product segments, such as social and green bonds. Their contribution to earnings is at present, however, still minor. Moreover, their impact on non-financial aspects should be seen as indirect: investors are supported in the investment strategies by bond issues, fund solutions and ESG reporting (see above). This makes it easier to raise capital for investments that have been demonstrated to be sustainable, but it does not guarantee a significant impact on matters relevant to CSR-RUG. Except for the green and social bonds mentioned above, no controlling or management reporting in this area currently takes place.

Personnel management

In line with the Group-wide sustainability policy, the employees at BayernLB Group play a key role in, for example, meeting numerous political, social and technological challenges.

The goal and major key to success is therefore the continuous honing of employees' personal and professional skills. BayernLB sets an appropriate further training budget each year to implement this goal (more information is provided below).

The BayernLB Group's headcount changed over the year as follows:

Headcount	BayernLB Group 31 Dec 2019	(Of which) BayernLB 31 Dec 2019	(Of which) DKB 31 Dec 2019	BayernLB Group 31 Dec 2018	(Of which) BayernLB 31 Dec 2018	(Of which) DKB 31 Dec 2018
Number of employees	8,316	3,491	4,149	7,703	3,343	3,731
of which women	4,200	1,588	2,296	3,909	1,517	2,097
of which men	4,116	1,903	1,853	3,794	1,826	1,634
of which in Germany	8,123	3,303	4,149	7,514	3,157	3,731
of which abroad	193	188	0	189	186	0
of which full-time	6,054	2,464	3,091	5,521	2,344	2,716
of which part-time	2,262	1,027	1,058	2,182	999	1,015
Average age (in years)	43.3	44.7	42.7	43.4	44.4	42.9

In the wake of its strategic realignment BayernLB agreed in 2019 to substantially reduce the size of the workforce. Initially this will mean cutting 400 FTE (full-time equivalent staff). This is therefore a matter of concern to employees, i.e. a CSR-RUG-relevant number are at risk of losing their job. By agreeing wide-ranging provisions with the Staff Council this risk has, however, been mitigated, so there are no major risks at present and none are anticipated.

The specifics of the situation are:

Jobs will be cut over the next few years as a result of the strategic realignment (please refer to the section entitled "Strategic realignment of the BayernLB Group" in the report on expected developments and on opportunities and risks contained in the BayernLB Group management report for more details). In the capital market business, including downstream units in the back office and central areas, 400 jobs will be shed in a socially responsible manner. The number of further job cuts required will be determined as the programme of measures is fleshed out under the aforementioned realignment. These cuts will also be carried out in a socially responsible manner, and BayernLB has ruled out redundancies until autumn 2022. BayernLB booked restructuring expenses for the job cuts in the form of a provision of around EUR 192 million in the reporting year. Please see the Notes to the annual financial statements of the BayernLB Group, where these figures are reported with commentary.

Inter alia, the measures agreed with the General Staff Council provide for severance, pre-retirement, partial retirement, early retirement and training to take on other types of tasks.

The employees will be kept abreast of BayernLB's future strategic direction, the comprehensive headcount reduction tools and measures to safeguard employment. This will be mainly communicated through intranet updates. The staff affected will be given support from a consulting firm specialised in professional re-orientation.

Human resources development and policy

The foundations of human resources (HR) policy and employee management are defined in various principles and guidelines. They include the Code of Conduct, which comprises two chapters on the topics of "Individual rights and protection from discrimination" and "Responsibility for employees". Key aspects of employee management are laid down in BayernLB's "Management Principles". Both documents are published on the Bank's website www.bayernlb.com and regularly communicated to the management. The Management Principles are used as the basis for management training at all levels as well as for feedback tools and the staff appraisal. Various relevant individual aspects are regulated in binding policies. For example, the principles governing interaction between women and men were defined in the "Directive regulating cooperative behaviour", which was published in the middle of 2015 and communicated in the Bank via the intranet.

During the reporting year a service agreement was reached with the Staff Council setting new rules for staff appraisals, to be known in future as development and performance dialogues. Particular attention has been accorded in this agreement to the development aspect for employees.

The HR policy contains various conditions including statutory regulations such as the German General Act on Equal Treatment (Allgemeines Gleichstellungsgesetz (AGG)), with employees being given regular training on its provisions and codes of conduct.

Although the workforce contains almost equal numbers of men and women (see table above), the same is not true of management roles. BayernLB has set itself a non-binding target to increase the number of women in management positions to 30 percent in the medium term. To make this a reality, the Bank has initiated a series of voluntary measures. However, this will not entail any mandatory measures or goals.

Management positions: female headcount	**BayernLB Group 31 Dec 2019**	**BayernLB 31 Dec 2019**	**DKB 31 Dec 2019**	**BayernLB Group 31 Dec 2018**	**BayernLB 31 Dec 2018**	**DKB 31 Dec 2018**
1st management level[1]	13.0%	0.0%	25.0%	18.5%	0.0%	23.1%
All other management levels	31.5%	24.5%	36.0%	32.1%	23.0%	37.9%

1 1st management level = Board of Management/company management.

Besides this indicator, DKB collects non-notifiable information and data (among other things) on equality and employee health, and voluntarily reports on this in its annual report.

A key tool of staff management and development is the development and performance dialogue. This tool promotes an open and constructive development dialogue between managers and employees and ensures they have a common focus. It governs the systematic transformation of the goals derived from the Bank's business strategy and risk culture to employee level.

On the basis of the objectives agreement reached at the beginning of the year, employees are given feedback each year in the appraisal on areas such as the degree to which targets were achieved as well as guidance to enable them to determine where they currently stand in terms of their personal development and to reconcile their career and personal development objectives. Individual development planning highlights prospects and areas for development.

With the help of an appropriate further training budget, a comprehensive range of training and qualification programmes is available at BayernLB for this purpose. This allows the individually tailored objectives agreed in the development and performance dialogue to be realised by the employee.

Further training	**BayernLB Group FY 2019**	**Of which BayernLB FY 2019**	**Of which DKB FY 2019**	**BayernLB Group FY 2018**	**Of which BayernLB FY 2018**	**Of which DKB FY 2018**
Further training budget	EUR 6.4 m[1]	EUR 2.4 m	EUR 3.5 m	EUR 4.8 m	EUR 2.0 m	EUR 2.5 m

1 From 2019 BayernLB's further training budget also includes the budget for the foreign branches. From 2019 DKB's further training budget also includes the budget for DKB Service GmbH.

Health management

The BayernLB Group faces the challenge of maintaining and promoting the health of its workers. This obligation is highlighted by the Bank's Code of Conduct: "Occupational health and safety regulations must be observed by all employees. It is one of the management tasks of BayernLB to provide a healthy and hazard-free working environment. [...] In turn, we expect that our employees show a responsible approach to their health and fitness."

The Bank has an integrated health management system. This includes company doctors, nurses and human resources managers specialised in health management. They work closely with the Staff Council, occupational safety officers, BayernLB's sports club and the nutritional specialists for the employee canteen. There is also an occupational safety committee in accordance with occupational safety law, which supports the monitoring of occupational health and safety programmes and also has an advisory role. Members from the Staff Council and therefore the workforce sit on the committee. There are no indications of relevant (mainly health-related) risks in the area of health and safety at work. In the reporting year BayernLB renovated its in-house gym and added modern training equipment to improve the options to engage in sporting activities in the employees' immediate working environment.

Health	BayernLB Group FY 2019	BayernLB FY 2019	DKB FY 2019	BayernLB Group FY 2018	BayernLB FY 2018	DKB FY 2018
Health rate[1]	95.3%	95.6%	95.3%	95.3%	95.6%	95.1%

1 Ratio of absences due to illness (with and without continued payment of salary, regardless of insurance status) to planned working days.

To prevent "typical" health problems associated with activities performed mainly while sitting at computer workstations, the health and safety officers pay attention to the ergonomic design of workstations. As part of its healthcare management the Bank also offers its employees opportunities for sports activities and holds regular Health Days, focusing on topics such as exercise and a healthy diet. BayernLB offers comprehensive services and support for the issues of mental health problems, coping with stress and burn-out, in part by providing extensive information in the intranet and holding seminars for employees and managers on topics such as "stress, burn-out and depression". The Bank has also successfully implemented an operational integration management programme (BEM) pursuant to section 84 (2) of the Social Security Code (SGB) IX, in which its employees can request professional support when reintegrating after a long illness.

The corresponding measures are also firmly anchored at DKB.

Challenges

Detailed information has been provided above on the challenges arising from the measures agreed to reduce the workforce as part of BayernLB's strategic realignment and an assessment of the associated risks given. It should be noted in particular that redundancies have been ruled out for the period from 1 October 2019 to 30 September 2022 where reductions in headcount are to be made.

Human resources management helps reduce CSR-RUG-related risks in the area of employee issues primarily by introducing measures to further equality and promote the health, skills and professional and personal further development of the employees. At the same time it is responsible for structuring the salary, bonus and pension systems. Risks may arise here both for the Bank and staff through non-payment of salary components.

Another risk is that the remuneration system might encourage inappropriate conduct in certain circumstances. To manage this particular risk, a Group Remuneration Strategy and Guidelines are in place which specify in detail the requirements under the Remuneration Ordinance for Institutions (Institutsvergütungsverordnung) stipulating appropriate remuneration and defining them for BayernLB. BayernLB and DKB provide detailed information on this matter in their respective remuneration reports. During the course of the year, the relevant documentation demonstrating the suitability of the remuneration system was presented to a compensation committee that met on several occasions.

To counter the risk of employees' human rights and right of assembly being infringed, they can turn to the Code of Conduct and the works and staff councils in many organisational units and levels, for instance. Other risks arise from the national specifics of employment law. These are specifically monitored by the above-mentioned risk instruments.

As a result of the measures taken, no notifiable risks under CSR-RUG were identified in respect of either employee issues or human rights. The information (including figures) in the Notes to the annual financial statements of the BayernLB Group on provisions for restructuring expenses, pensions and similar liabilities, which is referred to here, is relevant for gaining an understanding of the Bank's situation.

Purchasing

BayernLB purchases a range of items, including IT hardware and software, office equipment and materials, and consulting and audit services. BayernLB's suppliers and external service providers are almost all based in Germany and neighbouring countries. The purchasing volume tends to be of subordinate importance compared with the overall economic activity of the BayernLB Group.

There are risks here of bribery and corruption, both in BayernLB's own business activities and with business partners. These risks are regularly monitored by the above-mentioned risk analysis. The process is also monitored in the MaRisk compliance assessment pursuant to AT 4.4.2 (see above). As far as the "Corruption and Bribery" aspect is concerned, no risks that are notifiable under CSR-RUG were identified.

This is largely due to the effective preventive measures and controls enshrined in the procurement processes in the written organisational rules (including minimum requirements for the procurement of goods and services, dual-control principle, signature regulations, tiered approval limits, and preliminary and recurrent service provider checks for legal and reputational risk issues).

There are also risks relating to other aspects such as the environment and employees. In the case of outsourcing arrangements and other external procurements of goods and services, the Bank requires its suppliers and external service providers to adhere to ecological, ethical and social standards, e.g. the core labour standards laid out in the fundamental conventions of the International Labour Organization (ILO), so that human rights are respected. The relevant documents in this regard are BayernLB's Code of Conduct and the sustainability agreement for suppliers and external service providers. Among other requirements, BayernLB expects its suppliers and external service providers to offer fair working conditions. It obliges them and their supplier chains to comply with these requirements. The Bank does not work with external partners who have objectives that are hostile to the constitution or cult-like.

DKB also attaches great importance to compliance with ecological, ethical and social minimum requirements along the entire value chain. Standard suppliers and partners with a master agreement have the appropriate sustainability certificate or have accepted sustainable investing in compliance with a sustainability agreement.

Community work and engagement with stakeholders

Corporate citizenship in terms of donations, sponsorship and corporate citizenship at BayernLB's locations is in BayernLB's view not material for the purposes of CSR-RUG and is therefore not addressed in this report.

As an active part of society, BayernLB is engaged in regular exchanges with numerous social groups with different, partly conflicting expectations and demands on the company. BayernLB's Group Reputational Risk Guidelines define as a stakeholder a group (or person) with a legitimate interest in the business practices of BayernLB who – depending on how they react to events in the BayernLB Group – may have an influence on its reputation. The guidelines distinguish between material stakeholders – e.g. employees, customers and business partners, investors and shareholders – and other relevant stakeholders – e.g. supervisory bodies, the public, ratings agencies and non-governmental organisations. This delineation is based on risk considerations.

A number of areas are responsible for engaging with the different stakeholders. For example, the HR area is the point of contact for employees, the front office area is responsible for contact with customers, Rating & Investor Relations for working with the investors and ratings agencies, and the Press Office for media contacts. In connection with this, the reputational risk management system has introduced the special role of "stakeholder managers" (SHM), who have been assigned independent "tasks, competencies and responsibilities" (TCRs). Sustainability Management supports the areas and the SHM where there are sustainability-relevant issues, and also engages directly with selected stakeholders, in particular through the Bank's own SHM role with non-governmental organisations (NGOs), environmental associations and sustainability ratings agencies.

Independent Practitioner’s Report on a Limited Assurance Engagement on Non-financial Reporting[3]

To Bayerische Landesbank Anstalt des öffentlichen Rechts, Munich

Our Mission

We have performed a limited assurance engagement on the combined separate non-financial report pursuant to §§ (Articles) 289b Abs. (paragraph) 3 and 315b Abs. 3 HGB ("Handelsgesetzbuch": "German Commercial Code") of Bayerische Landesbank Anstalt des öffentlichen Rechts, Munich, (hereinafter the “Company”) for the period from 1 January to 31 December 2019 (hereinafter the “Non-financial Report”).

Responsibilities of the Executive Directors

The executive directors of the Company are responsible for the preparation of the Non-financial Report in accordance with §§ 315c in conjunction with 289c to 289e HGB.

This responsibility of Company’s executive directors includes the selection and application of appropriate methods of non-financial reporting as well as making assumptions and estimates related to individual non-financial disclosures which are reasonable in the circumstances. Furthermore, the executive directors are responsible for such internal control as they have considered necessary to enable the preparation of a Non-financial Report that is free from material misstatement whether due to fraud or error.

Independence and Quality Control of the Audit Firm

We have complied with the German professional provisions regarding independence as well as other ethical requirements.

Our audit firm applies the national legal requirements and professional standards – in particular the Professional Code for German Public Auditors and German Chartered Auditors (“Berufssatzung für Wirtschaftsprüfer und vereidigte Buchprüfer“: “BS WP/vBP”) as well as the Standard on Quality Control 1 published by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany; IDW): Requirements to quality control for audit firms (IDW Qualitätssicherungsstandard 1: Anforderungen an die Qualitätssicherung in der Wirtschaftsprüferpraxis - IDW QS 1) – and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements

Practitioner’s Responsibility

Our responsibility is to express a limited assurance conclusion on the Non-financial Report based on the assurance engagement we have performed.

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[3] *PricewaterhouseCoopers GmbH has performed a limited assurance engagement on the German version of the combined separate non-financial group report and issued an independent assurance report in German language, which is authoritative. The following text is a translation of the independent assurance report.*

Within the scope of our engagement, we did not perform an audit on external sources of information or expert opinions, referred to in the Non-financial Report.

We conducted our assurance engagement in accordance with the International Standard on Assurance Engagements (ISAE) 3000 (Revised): Assurance Engagements other than Audits or Reviews of Historical Financial Information, issued by the IAASB. This Standard requires that we plan and perform the assurance engagement to allow us to conclude with limited assurance that nothing has come to our attention that causes us to believe that the Company's Non-financial Report for the period from 1 January to 31 December 2019 has not been prepared, in all material aspects, in accordance with §§ 315c in conjunction with 289c to 289e HGB.
In a limited assurance engagement the assurance procedures are less in extent than for a reasonable assurance engagement, and therefore a substantially lower level of assurance is obtained. The assurance procedures selected depend on the practitioner's judgment

Within the scope of our assurance engagement, we performed amongst others the following assurance procedures and further activities:
- Obtaining an understanding of the structure of the sustainability organization and of the stakeholder engagement
- Inquiries of the legal representatives and personnel involved in the preparation of the Non-financial Report regarding the preparation process, the internal control system relating to this process and selected disclosures in the Non-financial Report
- Identification of the likely risks of material misstatement of the Non-financial Report
- Analytical evaluation of selected disclosures in the Non-financial Report
- Comparison of selected disclosures with corresponding data in the consolidated financial statement and in the group management report
- Evaluation of the presentation of the non-financial information

Assurance Conclusion

Based on the assurance procedures performed and assurance evidence obtained, nothing has come to our attention that causes us to believe that the Company's Non-financial Report for the period from 1 January to 31 December 2019 has not been prepared, in all material aspects, in accordance with §§ 315c in conjunction with 289c to 289e HGB.

Intended Use of the Assurance Report

We issue this report on the basis of the engagement agreed with the Company. The assurance engagement has been performed for purposes of the Company and the report is solely intended to inform the Company about the results of the limited assurance engagement. The report is not intended for any third parties to base any (financial) decision thereon. Our responsibility lies only with the Company. We do not assume any responsibility towards third parties.

Frankfurt, 16th March 2020

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

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in German

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 Bayerische Landesbank as well as the auditor's report is for convenience only; the German versions prevail.

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Bayern LB