Disclosure Report as at 31 December 2014

Pursuant to Part Eight of Regulation (EU) No 575/2013 on prudential requirements for credit institutions and investment firms (CRR)

Facts. Figures.

BayernLB

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Preliminary remarks

This disclosure report, which refers to the period from 1 January 2014 to 31 December 2014, has been drafted for the first time in accordance with the supervisory provisions under Part Eight of the CRR (Capital Requirements Regulation/Regulation (EU) No 575/2013) and CRD IV (Capital Requirements Directive IV/Directive 2013/36/EU), which apply as from 1 January 2014.

The report contains qualitative and quantitative information regarding
- own funds
- risks undertaken
- risk management procedures, including the internal models used
- credit risk mitigation techniques

at the BayernLB Group.

The disclosure policies of all institutions must be examined on a regular basis in terms of appropriateness and practicality. BayernLB has established its own parameters for disclosure, along with operative instructions and clear-cut responsibilities.

As a parent company, BayernLB drafts its disclosure report in an aggregated form, i.e. at Group level. The disclosure report is published on the Bank's website as a separate report alongside BayernLB's own annual report as a single entity – prepared under HGB (German Commercial Code) accounting rules – and the BayernLB Group's annual report, prepared under International Financial Reporting Standards (IFRS). It is based on IFRS.

Deutsche Kreditbank AG, Berlin (DKB) publishes an additional stand-alone disclosure report, as required under article 13 of the CRR. This is published on the DKB website.

Under the waiver rule, individual banks may apply for exemption from organisational and procedural rules relating to capital adequacy and disclosure requirements at individual bank level. BayernLB has opted not to apply the waiver rule under article 7 of the CRR.

This report is subject to the processes and systems for testing used by the auditors. Quantitative information has not been audited.

Note:

The last unit in the tables may be rounded to the nearest digit. Any data which do not appear in this report have been omitted insofar as the particular disclosure requirement does not apply to the BayernLB Group and/or does not apply to the year under review, e.g. debt ratio. Article 441 of the CRR, furthermore, is not relevant for BayernLB as the Bank is not classified as a global systemic institution.

Risk management objectives and policies (article 435 CRR)

Risk Strategy

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

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

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

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

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

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

The findings of the risk inventory are presented to the Board of Management each year. In identifying the total risks, they show that these are being managed and monitored appropriately.

Structure and organisation

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

Management structure

Supervisory Board and committees

The Supervisory Board monitors and advises BayernLB's Board of Management.

Pursuant to the Bayerische Landesbank Act and the Statutes, the Supervisory Board of BayernLB consists of eleven members, ten of whom representing the Bank's owners and one representing the Bank's staff. The Free State of Bavaria enjoys the right to propose three representatives of the Bavarian state government and four external officials to represent the owners. The Association of Bavarian Savings Banks proposes three members, at least one of whom must be external. The Chairman of the Supervisory Board is elected by the external representatives in accordance with the EU state aid ruling on BayernLB.

These legal provisions have been complied with in full: As at 31 December 2014 the Supervisory Board comprises eleven members – one of whom female – namely one staff representative, three government officials of the Free State of Bavaria, two representatives of the Association of Bavarian Savings Banks, and five external members. The Supervisory Board members come from different professional backgrounds, ranging from legal to auditing, to business – in particular the financial sector – through to economics. The Supervisory Board members, both individually and as a regulatory body, have the knowledge, capabilities, experience and qualifications otherwise required under banking supervisory law. The incumbents have been appointed for a term ending in the middle of 2018.

When the term expires – or should a member need to be replaced during this term – the owners will strive to sustain the breadth of knowledge among the Supervisory Board members in exercising their right to propose a candidate. The owners have not imposed a female quota for representation on the Supervisory Board. However, concerted efforts are being made to raise the percentage of women on committees.

The Supervisory Board is aided by the following committees:

The Audit Committee monitors the accounting process, the effectiveness of the risk management system, particularly the internal control system and Internal Audit unit, and the correction of open findings from audits and the annual accounts. It convened three times in financial year 2014.

The Risk Committee is involved in issues relating to the Risk Strategy approved by the Board of Management and the risk situation on a Group-wide basis and at BayernLB itself. The Risk Committee decides on loans requiring approval by the Supervisory Board under the German Banking Act and BayernLB's competence regulations. It convened seven times in financial year 2014.

The BayernLabo Committee handles all matters pertaining to Bayerische Landesbodenkreditanstalt (BayernLabo) on behalf of the Supervisory Board and passes resolutions concerning BayernLabo's affairs for which the Supervisory Board is responsible. It convened twice in financial year 2014.

The Nominating Committee assists the Supervisory Board in appointing new members to the Board of Management and filling other positions. It convened three times in financial year 2014.

The Compensation Committee monitors the appropriateness of the compensation schemes for members of the Board of Management and employees, in particular employees who have a significant impact on BayernLB's total risk profile. It convened three times in financial year 2014.

Number of executive and supervisory functions vested in the members of the Supervisory Board (monitoring mandates)

	Number of executive functions	Number of supervisory functions
Gerd Haeusler	–	4
Walter Strohmaier	1	2
Dr Hubert Faltermeier	–	1
Dr Roland Fleck		2
Dr Ute Geipel-Faber	–	1
Ralf Haase	–	1
Dr Ulrich Klein	–	3
Wolfgang Lazik	–	3
Prof. Dr Christian Rödl	–	3
Prof. Dr Bernd Rudolph	–	2
Dr Bernhard Schwab	–	4

Included in the table are also mandates which fall under section 25d of the German Banking Act (KWG).

Board of Management and committees

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

Board of Management member candidates are selected by the following criteria:

- The Board of Management would continue to possess all the skills required to run and sustain BayernLB over the long term
- The management, controlling and sales functions would remain proportionately represented on the Board of Management in terms of BayernLB's size, structure and business model
- Prior to the selection, the Nominating Committee will lay down the official qualifications required for each position. The basic qualifications are:
  - the ability to think strategically and abstractly
  - knowledge of, and experience in, the field or fields to be overseen by the new member
  - knowledge of, and experience in, the lending or capital market business
  - a theoretical and practical understanding of supervisory, risk management and corporate management principles
  - leadership and communication skills
  - professional experience in the financial services sector

In the absence of a potential candidate from within the BayernLB Group, the Supervisory Board will usually enlist an external consultant to seek out and pre-select suitable candidates based on the responsibilities to be assumed and the necessary qualifications. This pre-selection will then be narrowed down to roughly a handful of candidates. The Chairman of the Supervisory Board or Nominating Committee will interview these persons, one of whom will then be named to the Supervisory Board and nominated for appointment as a member of the Board of Management. Before a decision is made, the nomination will be submitted to the banking supervisory authorities to have the candidate's suitability and eligibility verified.

The Supervisory Board would like to have a proper percent of female members on the BayernLB Board of Management. However, it has not imposed a quota. Before Board of Management member candidates are nominated, the recruiters will check explicitly for female candidates who both fulfil the pre-requisites and would accept the remuneration restrictions which apply at BayernLB Board of Management level.

Number of executive and supervisory functions vested in the members of the Board of Management (monitoring mandates)

	Number of executive functions	Number of supervisory functions
Dr Johannes-Jörg Riegler	2*	1
Dr Edgar Zoller	2*	1
Marcus Kramer	1	2
Michael Bücker	1	1
Dr Markus Wiegelmann	2*	1
Ralf Woitschig	1	0

** One mandate of which on the BayernLB Holding AG executive board*

Included in the table are also mandates which fall under section 25c of the German Banking Act (KWG).

The Board of Management is aided by the following committees:

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

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

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

Senior Management

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

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

The Group Risk Committee focuses on BayernLB and, in particular, strengthening Group risk management at the BayernLB Group. The Group Risk Committee has replaced the former Credit Committee and the Risk Round Tables (the old CRO Board) in the Risk Office at Group level. It votes on loan decisions which go before the Group Board of Management and also those at DKB exceeding a certain amount and rating threshold. The Group Risk Committee remains the highest authority below the Group Board of Management and decides on applications involving credit risks that do not require the approval of the Board of Management owing to their size. The Group Risk Committee will be looking in greater detail at the Group's total risk profile across all types of risk.

Depending on the issue, the Group Risk Committee is chaired by the head of either the Credit Analysis or the Group Risk Control division within the Risk Office. Furthermore, reflecting Group risk aspects, the senior management of both BayernLB and DKB are represented.

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

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

The duties of the organisational units in relation to risk management are discussed in further detail below.

Organisation

Besides separating the functions of the Sales and Risk Office units and the Trading and Settlement units, a business organisation must have adequate internal control procedures and mechanisms to manage and monitor key risks.

The Board of Management is chiefly supported in this task by the Risk Office, Restructuring Unit, Financial Office, and Operating Office central areas as well as the Corporate Center.

Risk Office

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

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

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

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

The Research division is responsible for assessing country and sector risk. It issues economic analyses and forecasts, along with capital market studies and recommendations, e.g. on bonds and notes from individual issuers. The division contributes to risk management at the BayernLB Group and provides analyses and forecasts for BayernLB customers and for the securities and currency business of the Markets business area and the Bavarian savings banks.

Restructuring Unit

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

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

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

Financial Office

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

Its key tasks include preparing the consolidated financial statements and the Group management report, establishing accounting policies, initiating accounting-related projects, and providing guidance on national and international developments in accounting.

The Financial Office also implements the relevant accounting standards and legal requirements on accounting, which are detailed in the directives for preparing the accounts. These directives, which are an important component of the accounting-related internal control system, are summarised and documented in the Group Accounting Manual, and in the instructions for Group companies for preparing the financial statements.

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

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

Operating Office

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

Corporate Center

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

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

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

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

Managing credit risks

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

Definition

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

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

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

Organisation

Credit risk management is carried out jointly by the Sales units and Risk Office units. In BayernLB, as the parent company, the Risk Office function is allocated in organisational terms to the Credit Analysis division of the Risk Office central area. For the reduction portfolio the functions are performed by the Restructuring Unit.

Risk Strategy

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

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

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

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

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

Risk measurement

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

Risk limitation

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

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

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

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

Collateral is processed and valued in accordance with directives which also set out any discounts to be applied, along with the valuation intervals. Net risk positions are calculated on the basis of the liquidation value of the collateral.

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

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

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

Risk monitoring

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

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

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

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

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

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

Proper account has been taken of the risks in the credit business through risk provisions. The principles governing loan loss provisioning for problem loans establish how loans at risk of default are to be handled, valued and reported. Please see the accounting policies in the Notes of the consolidated financial statements of the BayernLB Group for details of how risk provisions are calculated and written off.

Managing investment risks

Definition

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

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

Organisation

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

Risk Strategy

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

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

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

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

Risk measurement and monitoring

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

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

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

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

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

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

Managing market risks

Definition

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

Organisation

The Group Risk Control division is responsible for monitoring market risks independently of Trading.

Risk Strategy

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

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

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

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

Risk measurement

Market risk is normally calculated for operational monitoring and management by using a VaR method based on a one-day holding period and confidence level of 99 percent. In the subsidiaries, besides the historical simulation approach mainly applied by BayernLB, methods such as the scenario matrix method (LBLux) and the variance-covariance approach (MKB, sold at the end of September 2014) are also used. Customer deposits at DKB are modelled using the dynamic replication method.

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

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

BayernLB and its subsidiaries follow the standard procedures when calculating regulatory capital backing for trading transactions.

Risk limitation

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

Risk monitoring

Subsidiaries are responsible for monitoring their own market risks internally with their own risk-monitoring units. Their market risks are included in BayernLB's daily risk reports. Market risks are monitored and reported independently of Trading. This is done daily at BayernLB for the trading book and the banking book, and at DKB daily for the A custody account and weekly for the banking book. Besides implementing regulatory requirements, the unit monitoring trading activities ensures risk transparency and regular reporting to those responsible for positions. If 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 regular risk calculation and monitoring processes of the risk-controlling units. Contractual or legal termination rights are modelled as options and incorporated into the risk calculation.

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

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

Managing operational risks

Definition

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

Legal risks are risks of loss from non-observance of legal provisions and rulings due to ignorance, lack of diligence in applying the respective law or a delay in reacting to changes in the legal framework. Legal risks do not include the risk of loss from changes in the legal framework that could make the future business activity of the BayernLB Group more difficult.

Organisation

Operational risk is managed and monitored both centrally in the Group Risk Control division and locally in the individual business areas and central areas. The Group Risk Control division has the authority to establish guidelines for all methods, processes and systems. Responsibility for OpRisk management resides with the business areas and central areas. The banking subsidiaries manage their operational risk through their own risk-controlling units; relevant investments are included in the loss reporting procedure for the BayernLB Group.

Risk Strategy

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

Risk measurement

For operational risks the BayernLB Group uses the standardised approach set out in CRR/CRD IV to calculate the own funds requirements under CRR/CRD IV (Pillar I) and the risk capital requirement under the risk-bearing capacity assessment (ICAAP)/Basel III (Pillar II). In 2015 BayernLB will switch to OpVaR, a risk-sensitive procedure, for calculating risk-bearing capacity.

Risk management and monitoring

When it comes to monitoring operational risks both BayernLB Group loss data and external loss data are taken into consideration, via the OpRisk data consortium DakOR and the ÖffSchOR loss database for publicly known OpRisk losses. Other risk management instruments such as scenario analysis are used (replacing the risk inventory), which go beyond pure quantification of own funds backing and stress scenarios. The stress scenarios are an integral part of the cross-risk stress scenarios in ICAAP.

Scope of consolidation (article 436 CRR)

BayernLB is an institution under public law with a German banking licence and its registered office in Munich. This means that for supervisory purposes it is a parent bank that comes under the CRR.

Consolidation matrix

The table below shows those direct shareholdings of the BayernLB Group which are fully consolidated in the IFRS financial statements, and their supervisory treatment. A complete list of shareholdings pursuant to section 285 sentence 1 no. 11 HGB and section 135a HGB in conjunction with section 313 para. 2 HGB is published separately in the electronic Federal Gazette.

Consolidation matrix

	Regulatory treatment			Consolidation under IFRS
	Consolidation			
Name	Full	Deduction method	Risk-weighted investments	Full
Institutions				
• BayernLB, Munich (parent company)	x			x
• Banque LBLux S.A., L - Luxembourg	x			x
• Deutsche Kreditbank Aktiengesellschaft, Berlin	x			x
Asset management companies				
• BayernInvest Kapitalverwaltungs-gesellschaft mbH, Munich	x			x
• Real I.S. AG Gesellschaft für Immobilien Assetmanagement, Munich	x			x
Financial institutions				
• BayernLB Capital LLC I, USA - Wilmington	x			x
Other				
• BayernLB Capital Trust I, USA - Wilmington			x	x

For purposes of calculating capital charges, the prudential scope of consolidation is as defined under section 10a KWG in conjunction with article 18 et seq. of the CRR. BayernLB makes use of the “exemption clause” under article 19 of the CRR. As a result, certain companies are not included in the consolidation. None of the investments are currently proportionally consolidated. The carrying values of subsidiaries are not deducted from capital (article 436d CRR).

The BayernLB Group's investments in banks

In keeping with the EU requirements, BayernLB sold MKB and LBLux's private banking business in 2014. The remainder of LBLux's portfolio was transferred to BayernLB for winding down. As at the reporting date, therefore, DKB is the only major banking subsidiary within the BayernLB Group.

DKB, wholly-owned, is BayernLB's online retail bank. It taps into the value chains of specific customer groups in the Mittelstand corporates business – agriculture & nutrition, environmental technology, the self-employed, tourism – mostly in the former East Germany, where it is the leading service provider in the infrastructure segment (residential property, healthcare, energy & utilities, municipalities and education & research). DKB is also the BayernLB Group's centre of excellence when it comes to public private partnerships, renewable energy, Mittelstand energy/utilities companies and credit card services (including corporate credit cards). The bank remains as an integral part of BayernLB's planning process.

No restrictions or other significant impediments exist preventing the transfer of funds or equity within the BayernLB Group.

No exemptions for group institutions under article 7 of the CRR have been applied under the waiver rule to date.

Own funds and capital requirements (articles 437 and 438 CRR)

Regulatory capital adequacy

To ensure the proper amount of regulatory capital, the objectives, methods and processes below have been defined:

The starting point for the allocation of regulatory capital is the BayernLB Group's own funds planning. Own funds are defined as Common Equity Tier 1 capital, additional Tier 1 capital and Tier 2 capital. Common Equity Tier 1 capital comprises subscribed capital plus reserves, the state aid of the Free State of Bavaria and various supervisory adjustments and deductions. Additional Tier 1 capital is mainly silent partner contributions. Tier 2 capital includes profit participation certificates and long-term subordinated liabilities.

Own funds planning is based largely on the internal target Common Equity Tier 1 capital ratio (ratio of Common Equity Tier 1 capital to RWA) and an internally set target total capital ratio (ratio of own funds to RWA) to be used for offsetting market movements. It establishes for the planning period upper limits for credit risks, market risks and operational risks arising from the business activities.

In the planning process, regulatory capital is distributed to each planning unit based on the RWA component. The planning units (Group units) are the defined business areas and central areas of BayernLB, as well as BayernLabo and DKB.

Risk-weighted assets (RWA) are allocated to the Group units through a top-down distribution approved by the Board of Management for credit, market and operational risks, combined with an internally assumed capital ratio of 10 percent. The RWA allocation to each Group unit is constantly monitored for compliance by ALCO. The Board of Management receives monthly reports on current RWA utilisations.

Own funds

Pursuant to article 72 of the CRR, the BayernLB Group's own funds comprise core capital, in turn consisting of Common Equity Tier 1 and additional Tier 1 capital, and Tier 2 capital.

Common Equity Tier 1 capital (CET1 capital)

CET1 capital consists mainly of subscribed capital, reserves and the capital contribution of BayernLabo. During the transition period, the perpetual silent partner contribution of the Free State of Bavaria (state aid) is also an element of CET1 capital. Furthermore, regulatory adjustments and deductions as set out under article 32 et seq. of the CRR are taken into account. These are mostly intangible assets, deferred tax assets which are dependent on future profitability, the shortfall resulting from discrepancies between writedowns and expected loss, and also certain adjustments (prudent valuation). For the transition period, however, these items are not to be completely deducted from CET1 capital but instead are being phased in in 20-percent portions (20 percent deducted from CET1 capital as at 31 December 2014). Amounts not to be deducted from CET1 capital are instead to be deducted from additional Tier 1 capital and Tier 2 capital.

Additional Tier 1 capital (AT1 capital)

Additional Tier 1 capital comprises mainly residual dated and perpetual silent partner contributions (excluding the state aid of the Free State of Bavaria) and the remaining deduction items pursuant to the transition regulations (article 469 et seq. of the CRR).

Dated silent partner contributions have original maturities of ten years or more. The annual dividend is dependent on capital market yields at the time of distribution and includes a risk premium based on market conditions. Although the CRR criteria for AT1 capital are not fulfilled, the dated silent partner contributions may be recognised as AT1 capital under the transition regulations.

Undated silent partner contributions have broadly similar terms and conditions but are perpetual and not cumulative (unpaid dividends are not carried forward). The capital-market based distribution is agreed for a ten-year time period. The instruments do not satisfy the CRR criteria for AT1 capital but rather those for Tier 2 capital.

Article 484 et seq. of the CRR allow for all silent partner contributions at BayernLB to be recognised as AT1 capital at present. The CRR requires that AT1 capital instruments be phased out at a rate of 20 percent for 2014, with this rate increasing by 10 percent p.a. thereafter (80 percent recognised as AT1 capital as at 31 December 2014).

Tier 2 capital (T2 capital)

Tier 2 capital in the BayernLB Group consists primarily of profit participation certificates and subordinated liabilities. While most of the T2 instruments do not formally qualify as T2 capital, they currently may nevertheless be recognised as such, with maturity adjustments taken into account, under the grandfathering regulations of article 484 et seq. of the CRR. These instruments are to be phased out analogously to the AT1 capital instruments. Only one subordinated liability is not in compliance with the CRR; it is not counted towards own funds.

Profit participation certificates have original maturities of at least five years, though most have maturities of ten years or more or are perpetual. The annual dividend is dependent on capital market yields at the time of distribution and includes a risk premium based on market conditions.

Long-term subordinated liabilities have original maturities of at least five years, whereby most have maturities of ten years or more. Interest rates are dependent on capital market yields at the time of distribution and include a risk premium based on market conditions.

The tables below show the capital structure and instruments in detail.

The capital disclosure requirements under article 438 of the CRR were specified in the Commission Regulating Implementation (EU) No 1423/2014, dated 20 December 2013. Own funds are disclosed accordingly in the tables.

Own funds structure (based on balance sheet figures)

As at 31 December 2014, the own funds of the BayernLB Group, adjusted for the 2014 financial accounts, were as follows:

Own funds structure (based on balance sheet figures)

	EUR million	31 Dec 2014	Pre-CRR-treatment residual amount
Common Equity Tier 1 capital (CET1): instruments and reserves			
1	Capital instruments and the related share premium accounts	3,888	
	of which: share capital including premium	3,276	
	of which: capital contribution	612	
2	Retained earnings	3,589	
3	Accumulated other comprehensive income (and other reserves)	1,265	
3a	Funds for general banking risk	N/A	
4	Grandfathered instruments	1,867	
	of which: public-sector capital injections grandfathered until 1 January 2018	1,867	
5	Minority interests (amount eligible as consolidated CET1)	N/A	N/A
5a	Independently reviewed interim profits net of any foreseeable charge or dividend	N/A	
6	Common Equity Tier 1 (CET1) capital before regulatory adjustments	10,610	
Common Equity Tier 1 (CET1) capital: regulatory adjustments			
7	Prudent valuation pursuant to Art. 105 CRR	−65	N/A
8	Intangible assets (net of related tax liability)	−23	−91
9	[In the EU: blank field]		
10	Deferred tax assets that rely on future profitability	−55	−219
11	Fair value reserves related to gains or losses on cash flow hedges	N/A	N/A
12	Negative amounts resulting from the calculation of expected loss amounts	−79	−315
13	Equity increase resulting from securitised assets	0	N/A
14	Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	−115	0
15	Defined-benefit pension fund assets	0	0
16	Direct and indirect holdings by an institution of own CET1 instruments	0	0
17	Direct, indirect and synthetic holdings by the institution of CET1 instruments of financial-sector entities with reciprocal cross-holdings	N/A	N/A
18	Direct, indirect and synthetic holdings by the institution of CET1 instruments of financial-sector entities in which the institution has no significant investment	N/A	N/A
19	Direct, indirect and synthetic holdings by the institution of CET1 instruments of financial-sector entities in which the institution has a significant investment	N/A	N/A
20	[In the EU: blank field]		
20a	Exposure amount of the following items which qualify for a RW of 1250%, where the institution opts for the deduction alternative	N/A	N/A
20b	of which: qualifying holdings outside the financial sector	N/A	N/A
20c	of which: securitisation exposures (negative amount)	N/A	N/A
20d	of which: free deliveries	N/A	N/A

EUR million		31 Dec 2014	Pre-CRR-treatment residual amount
21	Deferred tax assets arising from temporary differences	N/A	N/A
22	Amount exceeding the 17.5% threshold	N/A	N/A
23	of which: direct and indirect holdings by the institution of CET1 instruments of financial-sector entities in which the institution has a significant investment	N/A	N/A
24	[In the EU: blank field]		
25	of which: deferred tax assets arising from temporary differences	N/A	N/A
25a	Losses for the current financial year	0	0
25b	Foreseeable tax charges relating to CET1 items	N/A	N/A
26	Regulatory adjustments applied to Common Equity Tier 1 capital in respect of amounts subject to pre-CRR treatment	0	
26a	Regulatory adjustments relating to unrealised gains and losses	−452	
	of which: deductions and filters for unrealised losses (revaluation surplus)	0	
	of which: deductions and filters for unrealised gains (revaluation surplus)	−452	
26b	Amount to be deducted from or added to Common Equity Tier 1 capital with regard to additional filters and deductions required pre-CRR	N/A	
27	Qualifying AT1 deductions that exceed the AT1 capital of the institution	0	
28	Total regulatory adjustments to Common Equity (CET1) Tier 1 capital	−788	
29	Common Equity Tier 1 (CET1) capital	9,822	
Additional Tier 1 (AT1) capital: instruments			
30	Capital instruments and the related share premium accounts	N/A	
31	of which: classified as equity under applicable accounting standards	N/A	
32	of which: classified as liabilities under applicable accounting standards	N/A	
33	Grandfathered instruments	304	
	of which: public-sector capital injections grandfathered until 1 January 2018	N/A	
34	Instruments qualifying as additional Tier 1 capital issued by subsidiaries	N/A	N/A
35	of which: instruments issued by subsidiaries subject to phase-out	N/A	
36	Additional Tier 1 (AT1) capital before regulatory adjustments	304	N/A
Additional Tier 1 (AT1) capital: regulatory adjustments			
37	Direct and indirect holdings by an institution of own AT1 instruments	0	0
38	Holdings of AT1 instruments of financial-sector entities with reciprocal cross-holdings	N/A	N/A
39	Direct and indirect holdings by the institution of AT1 instruments of financial-sector entities in which the institution has no significant investment	N/A	N/A
40	Direct and indirect holdings by the institution of AT1 instruments of financial-sector entities in which the institution has a significant investment	N/A	N/A

EUR million		31 Dec 2014	Pre-CRR-treatment residual amount
41	Regulatory adjustments applied to additional Tier 1 capital in respect of amounts subject to pre-CRR treatment and transitional treatments (CRR residual amounts)	0	
41a	Residual amounts deducted from additional Tier 1 capital with regard to deduction from Common Equity Tier 1 capital during the transitional period	−248	
	of which: losses for the current financial year	0	
	of which: intangible assets	−91	
	of which: negative amounts resulting from the calculation of expected loss amounts	−158	
41b	Residual amounts deducted from additional Tier 1 capital with regard to deduction from Tier 2 capital during the transitional period	N/A	
41c	Amount to be deducted from or added to additional Tier 1 capital with regard to additional filters and deductions required pre-CRR	N/A	
	of which: any deductions and filters for unrealised losses	N/A	
	of which: any deductions and filters for unrealised gains	N/A	
42	Qualifying Tier 2 deductions that exceed the Tier 2 capital of the institution	0	
43	Total regulatory adjustments to additional Tier 1 (AT1) capital	−248	
44	Additional Tier 1 (AT1) capital	55	
45	Tier 1 capital (T1 = CET1 + AT1)	9,877	
Tier 2 (T2) capital: instruments and reserves			
46	Capital instruments and the related share premium accounts	0	
47	Grandfathered instruments	1,833	
	of which: public-sector capital injections grandfathered until 1 January 2018	N/A	
48	Instruments qualifying as Tier 2 capital issued by subsidiaries	163	N/A
49	of which: instruments issued by subsidiaries subject to phase-out	N/A	
50	Credit risk adjustments	N/A	
51	Tier 2 (T2) capital before regulatory adjustments	1,996	
Tier 2 (T2) capital: regulatory adjustments			
52	Direct and indirect holdings by an institution of own T2 instruments and subordinated loans	0	0
53	Holdings of T2 instruments and subordinated loans of financial-sector entities with reciprocal cross-holdings	N/A	N/A
54	Direct and indirect holdings by the institution of T2 instruments and subordinated loans of financial-sector entities in which the institution has no significant investment	N/A	N/A
54a	of which: new holdings not subject to transitional arrangements	N/A	N/A
54b	of which: holdings existing before 1 January 2013 and subject to transitional arrangements	N/A	N/A

EUR million		31 Dec 2014	Pre-CRR-treatment residual amount
55	Direct and indirect holdings by the institution of T2 instruments and subordinated loans of financial-sector entities in which the institution has a significant investment	N/A	N/A
56	Regulatory adjustments applied to Tier 2 capital in respect of amounts subject to pre-CRR treatment and transitional treatments (CRR residual amounts)	0	
56a	Residual amounts deducted from Tier 2 capital with regard to deduction from Common Equity Tier 1 capital during the transitional period	−158	
	of which: negative amounts resulting from the calculation of expected loss amounts	−158	
56b	Residual amounts deducted from Tier 2 capital with regard to deduction from additional Tier 1 capital during the transitional period	N/A	
56c	Amount to be deducted from or added to Tier 2 capital with regard to additional filters and deductions required pre-CRR	N/A	
	of which: any deductions and filters for unrealised losses	N/A	
	of which: any deductions and filters for unrealised gains	N/A	
	of which: deductions required pre-CRR	N/A	
57	Total regulatory adjustments to Tier 2 (T2) capital	−158	
58	Tier 2 (T2) capital	1,838	
59	Total capital (TC = T1 + T2)	11,715	
Risk assets before adjustments			
59a	Risk-weighted assets in respect of amounts subject to pre-CRR treatment and transitional treatments (CRR residual amounts)	N/A	
	of which: items not deducted from CET1 items	N/A	
	of which: items not deducted from AT1 items	N/A	
	of which: items not deducted from T2 items	N/A	
60	Total risk-weighted assets	76,616	
Capital ratios and buffers			
61	Common Equity Tier 1 capital ratio	12.8%	
62	Tier 1 capital ratio	12.9%	
63	Total capital ratio	15.3%	
64	Institution-specific buffer requirement	N/A	
65	of which: capital conservation buffer requirements	N/A	
66	of which: countercyclical buffer requirements	N/A	
67	of which: systemic risk buffer requirements	N/A	
67a	of which: buffer requirements for global systemically important institutions (G-SIIs) or other systemically important institutions (O-SIIs)	N/A	
68	Common Equity Tier 1 capital available to meet buffers	8.3%	
69	[Not relevant to EU directive]		
70	[Not relevant to EU directive]		
71	[Not relevant to EU directive]		

EUR million		31 Dec 2014	Pre-CRR-treatment residual amount
Capital and buffers			
72	Direct and indirect holdings by the institution of capital instruments of financial-sector entities in which the institution has no significant investment	218	
73	Direct and indirect holdings by the institution of CET1 instruments of financial-sector entities in which the institution has a significant investment	85	
74	[In the EU: blank field]		
75	Deferred tax assets arising from temporary differences	58	
Applicable caps on the inclusion of provisions in Tier 2 capital			
76	Credit risk adjustments included in T2 capital in respect of exposures subject to the standardised approach	0	
77	Cap on inclusion of credit risk adjustments in T2 capital under the standardised approach	52	
78	Credit risk adjustments included in T2 capital in respect of exposures subject to the Internal Ratings-Based approach	0	
79	Cap on inclusion of credit risk adjustments in T2 capital under the Internal Ratings-Based approach	374	
Capital instruments subject to phase-out arrangements (only applicable between 1 January 2013 and 1 January 2022)			
80	Current cap on CET1 instruments subject to phase-out arrangements	0	
81	Amount excluded from CET1 due to cap	0	
82	Current cap on AT1 instruments subject to phase-out arrangements	1,181	
83	Amount excluded from AT1 due to cap	0	
84	Current cap on T2 instruments subject to phase-out arrangements	3,475	
85	Amount excluded from T2 due to cap	0	

Capital instruments

As the features of the capital instruments have been disclosed in great detail, this information has been published on the BayernLB website as a separate file.

Balance sheet reconciliation of all elements of regulatory capital

Reconciliation from the consolidated balance sheet to the "prudential" balance sheet

Assets EUR million	**Consoli-dated balance sheet under IFRS**	**Impact of consoli-dation/ deconsoli-dation**	**"Pruden-tial" balance sheet**	**Reference**
Cash reserves	1,041	0	1,041	
Loans and advances to banks	37,091	0	37,092	
Loans and advances to customers	134,017	0	134,017	
Risk provisions	−3,039	0	−3,039	
Portfolio hedge adjustment assets	1,602	0	1,602	
Assets held for trading	24,048	0	24,048	
Positive fair values from derivative financial instruments (hedge accounting)	2,968	0	2,968	
Financial investments	32,650	−25	32,625	
Interests in companies measured at equity	0	0	0	
Investment property	37	0	37	
Property, plant and equipment	360	0	361	
Intangible assets	114	0	114	1
Current tax assets	74	0	74	
Deferred tax assets	314	0	314	
of which: loss/interest carryforwards	274	0	274	2
Non-current assets or disposal groups classified as held for sale[1]	80	0	80	
Other assets	767	10	776	
Total assets	**232,124**	**−14**	**232,110**	

1 *Including discontinued operations*

Liabilities EUR million	**Consolidated balance sheet under IFRS**	**Impact of consolidation/ deconsolidation**	**"Prudential" balance sheet**	**Reference**
Liabilities to banks	64,138	0	64,138	
Liabilities to customers	81,635	–50	81,585	
Securitised liabilities	44,285	0	44,285	
Portfolio hedge adjustment liabilities	–			
Liabilities held for trading	17,567	0	17,567	
Negative fair values from derivative financial instruments (hedge accounting)	2,780	0	2,780	
Provisions	4,360	20	4,380	
Current tax liabilities	175	0	175	
Deferred tax liabilities	28	0	28	
Liabilities of disposal groups[1]	0	0	0	
Other liabilities	646	24	670	
Subordinated capital	4,722	0	4,722	
Subordinated liabilities	4,275	0	4,275	3
Profit participation certificates (debt component)	353	0	353	4
Contributions of silent partners (debt component)	23	0	23	5
Hybrid capital	70	0	70	6
Equity	11,789	–8	11,780	
Equity excluding non-controlling interests	11,789	–8	11,780	
Subscribed capital	5,525	0	5,525	
Statutory nominal capital	2,800	0	2,800	7
Capital contribution	612	0	612	8
Silent partner contributions (perpetual)	2,113	0	2,113	9
of which: silent partner contribution of the Free State of Bavaria	1,867	0	1,867	10
Hybrid capital instruments (equity component)	143	0	143	
Silent partner contributions (dated)	11	0	11	11
Profit participation certificates	132	0	132	12
Capital surplus	2,356	0	2,356	13
of which: premium on subscribed capital	476	0	476	14
Retained earnings	3,305	–8	3,297	15
of which: remeasurement of defined benefit plans	–1,074	0	–1,074	16
Revaluation surplus	452	0	452	17
Foreign currency translation reserve	8	0	8	18
Net retained profits/net accumulated losses	0	0	0	
Profit/loss attributable to non-controlling interests	0	0	0	
Total liabilities	**232,124**	**–14**	**232,110**	

1 Including discontinued operations

The impact of consolidation/deconsolidation as shown above reflects the discrepancy between the accounting scope of consolidation and the prudential scope of consolidation.

Reconciliation from the "prudential" balance sheet to regulatory capital

EUR million		31 Dec 2014	Balance sheet reference
Common Equity Tier 1 capital: instruments and reserves			
Capital instruments and related premium		**3,888**	
Share capital	2,800		7
Share premium	476		14
Capital contribution	612		8
Retained earnings		**3,589**	
Retained earnings including benefit plans	3,297		15
Removal of negative remeasurement of defined benefit plans	1,074		16
Regulatory adjustment[1]	−782		
Other retained earnings		**1,880**	
Capital surplus	2,356		13
Less premium on subscribed capital	−476		14
Cumulative other income		**−614**	
Revaluation surplus	452		17
Foreign currency translation reserve	8		18
Revaluation surplus from benefit plans	−1,074		16
State allocations to equity grandfathered until 1 January 2018		**1,867**	
Silent partner contributions of the Free State of Bavaria	1,867		10
CET1 capital before regulatory adjustments		**10,610**	
CET1 capital: regulatory adjustments			
Prudent valuation pursuant to Art. 105 CRR		**−65**	
Intangible assets		**−114**	1
Deferred tax assets dependent on future profitability		**−274**	2
Negative results from the expected loss calculation		**−394**	
Gains or losses on liabilities valued at fair value resulting from changes in own credit standing		**−115**	
Transitional adjustments to CET1 pursuant to Art. 469 - 472 CRR		**173**	
Common Equity Tier 1 capital (CET1)		**9,822**	
Additional Tier 1 capital: instruments			
Grandfathered instruments		**350**	
Silent partner contributions (perpetual) less silent contributions of the Free State of Bavaria	245		9–10
Silent partner contributions (dated), equity component	11		11
Silent partner contributions (dated, lender-callable), debt component	23		5
Subordinated liabilities (hybrid capital)	70		6
Regulatory maturity adjustment		−37	
Other regulatory adjustments		−10	
Additional Tier 1 capital before regulatory adjustments		**304**	
Additional Tier 1 capital: regulatory adjustments			
Transitional adjustments to additional Tier 1 capital pursuant to Art. 474 and 475 CRR		**−248**	
Items exceeding the additional Tier 1 capital and to be deducted from the additional Tier 1 capital items (deduction from CET1)		**0**	
Additional Tier 1 capital (AT1 capital)		**55**	
Tier 1 capital (T1 capital)		**9,877**	

EUR million	31 Dec 2014		Balance sheet reference
Tier 2 capital: instruments and reserves			
Grandfathered instruments		**1,833**	
Subordinated liabilities (excluding hybrid capital)[2]	3,877		3
Profit participation certificates (debt component)[2]	332		4
Profit participation certificates (equity component)	132		12
Non-CRR-conform instruments	−505		
Regulatory maturity adjustment	−1,655		
Other regulatory adjustments[3]	−348		
Instruments issued by subsidiaries		**163**	
Subordinated liabilities and profit participation certificates	419		
Regulatory maturity adjustment	−256		
Tier 2 capital before regulatory adjustments		**1,996**	
Tier 2 capital: regulatory adjustments			
Transitional adjustments to Tier 2 capital pursuant to Art. 476 and 477 CRR		**−158**	
Tier 2 capital (T2 capital)		**1,838**	
Equity		**11,715**	

1 Restatement of the values of so-called special-purpose assets, carried at nominal value in the IFRS annual financial statements, to their lower present value in accordance with German GAAP
2 Excluding instruments issued by subsidiaries
3 Includes hedge accounting and pro-rated interest

Capital adequacy

Internal Capital Adequacy Assessment Process (ICAAP)

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

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

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

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

The planning of economic risks for the risk-bearing capacity calculation and the planning of the available economic capital are integral parts of the Group planning process described under "Regulatory capital adequacy". For an in-depth, forward-looking analysis of economic capital adequacy, the calculation of risk-bearing capacity is based on the Business Strategy and is supplemented by stress tests. Both scenario and sensitivity analyses are carried out for this purpose. In addition to historical scenarios, the impact of adverse changes in risk factors both on specific risk types and across all risk types is also analysed using hypothetical scenarios. The latter in particular have a major role in the analysis of situational scenarios.

The liquidation-based analysis of risk-bearing capacity is supplemented by a going concern perspective by means of the five-year loss scenario. This analyses capital adequacy with respect to the sustainability of the business model in the event of a loss that is statistically probable only once over a rolling five-year planning horizon.

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

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

Own funds requirements

In 2007, BayernLB obtained approval as an IRBA institution to use the Internal Ratings-Based approach (IRBA) at Bank and Group level. Since 2008, DKB has also been included in the IRB approach for the purposes of calculating own funds requirements at BayernLB Group level. In 2012 DKB received IRBA approval for other rating procedures. 2009 saw the integration of LBLux into the IRB approach. All other BayernLB investments are included in the BayernLB Group using the credit risk standardised approach (CRSA). Partial use is applied to calculate own funds requirements at Bank and at Group level.

Own funds requirements for credit risks are calculated in the IRB approach on the basis of the rating procedure approved for BayernLB. External ratings under the credit risk standardised approach (CRSA) are used to determine the own funds requirements for all exposures which do not fall within the range of application of the approved internal rating systems.

Besides the internal rating procedure and the ratings-based approach, BayernLB uses the supervisory formula approach to calculate risk-weighted items (RWA) from securitisations.

Investment risks are measured using the simple risk-weighted method unless where the grandfathering rule applies. Own funds requirements for investment units are mainly calculated using the look-through approach.

For market risks, BayernLB currently uses supervisory standardised methods instead of an in-house risk model. Operational risks are measured using the standardised approach.

Own funds requirements for CRR reporting

EUR million	31 Dec 2014
Credit risk	**5,210**
• Standardised approach	**329**
– Central governments and central banks	14
– Regional or local authorities	10
– Public authorities	1
– Multilateral development banks	–
– International organisations	–
– Institutions	5
– Corporates	99
– Retail business	61
– Exposures secured by real estate	56
– Impaired exposures	6
– Exceptionally high-risk exposures	42
– Covered bonds	0
– Securitisation exposures	2
– Exposures to institutions and corporates with short-term credit rating	–
– Undertakings for collective investment (UCIs)	0
– Investment risks	29
– Other items	3
• IRB approach	**4,863**
– Central governments and central banks	85
– Institutions	612
– Corporates	3,651
– Retail business	387
Exposures secured by real estate, SMEs	9
Exposures secured by real estate, non-SMEs	293
Qualified revolving	19
Other, SMEs	11
Other, retail	56
– Investment risks	71
Simple investment approach	71
Risks from private venture capital in sufficiently diversified portfolios	18
Exchange-traded investment risks	7
Other investment risks	46
PD/LGD approach	–
Internal model approach	–
– Securitisation exposures	24
– Other non-credit-obligation assets	33
• Exposure to contributions to a CCP default fund	**19**
Settlement and delivery risk	**–**
Market risk	**293**
• Standardised approach	**293**
– Exchange-traded bonds	240
of which securitisation exposures	–
– Equity	8
– Currency risk	35
– Commodities risk	10
• Internal model approach	**–**

EUR million	31 Dec 2014
Operational risk	**462**
• Basic indicator approach	**–**
• Standardised approach	**462**
• Advanced Measurement approaches (AMA)	**–**
Additional exposure amount due to fixed overheads	**–**
Credit valuation adjustment (CVA) risk	**164**
• Advanced method	**–**
• Standardised method	**164**
• Based on the original exposure method	**–**
Risk relating to large exposures in the trading book	**–**
Other exposures	**–**
Total	**6,129**

Capital ratios as at 31 December 2014 (based on balance sheet figures)

in %	Common Equity Tier 1 capital ratio	Tier 1 capital ratio	Total capital ratio
• BayernLB Institutsgruppe, Munich	12.8	12.9	15.3
• BayernLB, Munich (BayernLB-Bank)	13.3	13.6	16.4
Subsidiaries			
• Deutsche Kreditbank Aktiengesellschaft, Berlin	8.7	8.7	9.9
• SKG Bank Aktiengesellschaft, Saarbrücken	10.0	10.0	12.0

Based on the adopted annual financial statements as at 31 December 2014, the BayernLB Group had a fully loaded CET1 ratio of 10.2 percent.

Counterparty credit risk (article 439 CRR)

Capital allocation/allocation of upper limits for loans to counterparties

Within the BayernLB Group, derivative instruments are mostly employed by BayernLB. Banks and corporate customers are the main counterparties in the derivatives business.

BayernLB does not allocate capital separately or limit default risks for counterparties with derivatives exposures. Both are done as part of the generally applicable limitation process for counterparty risk. Furthermore, large credit risks are subject to both regulatory and internal management methods.

See the section "Internal Capital Adequacy Assessment Process (ICAAP)" for information on capital allocation for risk types.

Measures to mitigate risks

In derivatives trading, the usual practice is to conclude master agreements for the purposes of close-out netting. Collateral agreements exist with certain business partners restricting the default risk to an agreed maximum and authorising a call for additional collateral should this limit be exceeded.

With this in mind, BayernLB has laid down clear rules and responsibilities for the collateral management process within the Bank in its "Collateral Policy – Trading", a binding set of regulations established as part of the "BayernLB Group Collateral Guidelines for the Trading Business". The Policy contains both technical and administrative provisions for using collateral in trading transactions. The Bank acts as both protection buyer and protection seller. Thus the Policy also includes recommendations and guidelines on the acceptance of collateral, for example on haircuts. BayernLB is striving to make the overall collateral management process as efficient as possible so as to preserve its own funds and liquidity resources.

Actual collateral needs are regularly determined using mark-to-market valuations. Collateral calls are normally met by cash or government bonds.

Current economic risk is thereby reduced to a contractually agreed threshold or a minimum transfer amount that has not yet been reached. All collateral accepted is systematically documented.

Correlation between market risk and counterparty risk

Borrower risks are a subset of counterparty risk and therefore entered separately from market risk. The same applies to counterparty risk from derivatives transactions.

Given BayernLB's fields of activities, concentration and correlation risks lie mainly in securities repurchase transactions. In order to avoid undesirable collateral concentrations, BayernLB has put certain regulations into effect through the "BayernLB Group Collateral Guidelines for the Trading Business" and the "Collateral Policy – Trading". The aim of the Group Collateral Guidelines is to establish clear rules and standards throughout the BayernLB Group for accepting and handling securities and cash collateral that is to be used as security, i.e. as a component of a trading product. The regulations also apply for correlation and concentration risks. The "Collateral Policy – Trading" regulates the collateralisation of OTC derivatives and securities repurchase transactions concluded with counterparties based on bilateral framework agreements.

In risk-bearing capacity reporting at Group level, aggregation by risk type currently takes no account of the impact of diversification through correlations and is therefore conservative.

Collateral increases in the event of rating downgrades

A small number of OTC derivative transactions have been concluded that contractually require collateral to be provided or increased in the event that one of BayernLB's external ratings is downgraded. The amount of collateral to be provided in such an event – approximately EUR 350 million for a downgrade of one notch – would not affect BayernLB's risk-bearing capacity.

Counterparty credit risk

EUR million	Gross positive fair value	Netting effect	Collateral effect	Net derivatives credit exposure
Interest rate contracts	27,406	–	–	–
Foreign-exchange rate and gold contracts	2,892	–	–	–
Equities contracts	441	–	–	–
Credit derivatives	2	–	–	–
Precious metals and commodities contracts	717	–	–	–
Total	**31,459**	**13,353**	**1,745**	**16,362**

Methods

EUR million	Original exposure method	Mark-to-market method	Standardised method	Internal model
Exposure value	7	21,335	–	–

Hedging via credit derivatives

EUR million	Notional value of hedging
Credit derivatives	–

Credit derivatives

	Use for own credit portfolio		
Notional value in EUR million	Bought	Sold	As intermediary
Credit default swaps	401	451	–
Total return swaps	500	–	–

The first table shows the gross positive fair value (defined as the positive fair value of the derivative) for each exposure type, and the net derivatives credit exposure, which is the current credit derivatives exposure after considering both the benefits from legally enforceable netting agreements and collateral arrangements.

The second table ("Methods") indicates the exposure values based on the methods to be used under Part Three Title II Chapter 6 Sections 3 to 6 of the CRR.

In the third table ("Hedging via credit derivatives"), the notional value of the credit derivative hedges is displayed.

The fourth table ("Credit derivatives") lists the notional value of credit derivatives transactions, segregated between use for the institution's own credit portfolio and use in its intermediation activities. The institution's own credit portfolio is broken down further by credit derivatives product used, in turn broken down as protection bought or protection sold.

Credit risk adjustments (article 442 CRR)

Total exposure value by exposure class

The total amount of exposures is based on the exposure values. In calculating the exposure value, certain accounting offsets (writedowns) are applied. Credit risk mitigation techniques and credit conversion factors (CCFs) are left out of the equation.

Investment instruments and securitisations are not included in the breakdown as they have their own disclosure tables.

Total exposure value by exposure class

EUR million	Total exposure value as at 31 Dec 2014	Average exposure value for 2014
CRSA	**67,995**	**73,733**
• Central governments and central banks	110	807
• Regional governments	1,314	1,380
• Other public authorities	532	498
• Institutions	37,745	42,341
• Multilateral development banks	146	161
• Corporates	17,093	16,431
of which SMEs	151	271
• Retail	8,669	8,517
of which SMEs	137	106
• International organisations	199	212
• Exposures secured by real estate	2,005	2,522
• Especially high-risk exposures	33	33
• Covered bonds	15	15
• Exposures past due	92	565
• Other exposures	42	251
IRBA	**203,701**	**207,038**
• Central governments and central banks	48,828	49,411
• Institutions	29,172	31,948
• Corporates	108,763	108,449
of which SMEs	31,031	30,510
• Retail	16,938	17,230
of which SMEs	1,071	1,017

In some exposure classes there is a large discrepancy between the average exposure value for 2014 and the exposure value as at 31 December 2014. This is due to the sale of MKB and LBLux's private banking business that year.

Total exposure value by geographical region

EUR million	Africa	Asia	Caribbean	Latin America	Central and Eastern Europe/ CIS	Middle East	North America	Western/Central Europe	Other	Total
CRSA										**67,995**
• Central governments and central banks	–	–	–	–	–	–	–	110	–	110
• Regional governments	–	–	–	–	–	–	1,203	111	–	1,314
• Other public authorities	–	–	–	–	–	–	161	371	–	532
• Institutions	–	–	–	–	–	0	0	37,745	–	37,745
• Multilateral development banks	–	–	–	–	–	–		146	–	146
• Corporates	0	2	0	48	19	1	132	16,890	–	17,093
of which SMEs	–	–	–	–	–	–	–	151	–	151
• Retail	2	17	0	8	4	4	17	8,615	2	8,669
of which SMEs	–	0	–	0	0	0	–	137	–	137
• International organisations	–	–	–	–	–	–	–	199	–	199
• Exposures secured by real estate	–	–	–	–	–	–	–	2,005	–	2,005
• Especially high-risk exposures	–	–	–	–	–	–	–	33	–	33
• Covered bonds	–	–	–	–	–	–	–	15	–	15
• Exposures past due	–	–	–	–	–	37	–	55	–	92
• Other exposures	–	–	–	–	–	–	–	42	–	42
IRBA										**203,701**
• Central governments and central banks	102	67	–	3	261	6	3,795	44,573	22	48,828
• Institutions	176	641	–	347	278	10	1,652	26,049	19	29,172
• Corporates	18	1,186	66	202	2,787	1,498	4,950	97,821	234	108,763
of which SMEs	–	–	–	–	11	–	44	30,964	12	31,031
• Retail	1	14	0	3	6	3	15	16,892	3	16,938
of which SMEs	0	0	0	0	0	0	1	1,068	0	1,071

Total exposure value by sector

EUR million	Banks/Other monetary intermediation*	Public administration and defence	Real estate activities	Private individuals	Electricity, gas, steam and air conditioning supply	Miscellaneous real estate activities	Office administrative, office support and other business support activities	Land transport	Insurers	Other	Total
CRSA											**67,995**
• Central governments and central banks	–	20	–	–	–	–	–	–	–	91	110
• Regional governments	–	1,288	–	–	–	–	–	–	–	26	1,314
• Other public authorities	–	–	104	0	15	43	11	–	–	359	532
• Institutions	32,914	–		0	–		–	–	–	4,831	37,745
• Multilateral development banks	146	–	–	–	–	–	–	–	–	0	146
• Corporates	12,778	–	1,787	307	37	211	414	32	74	1,453	17,093
of which SMEs	9	–	20	13	6	46	9	0	–	49	151
• Retail	2	–	41	8,310	1	17	27	8	3	261	8,669
of which SMEs	2	–	3	0	1	11	0	0	–	120	137
• International organisations	172	27	–	–	–	–	–	–	–	0	199
• Exposures secured by real estate	0	–	13	1,733	0	10	47	1	–	201	2,005
• Especially high-risk exposures	–	–	–	–	–	–	–	–	–	33	33
• Covered bonds	15	–	–	–	–	–	–	–	–	0	15
• Exposures past due	2	–	–	19	–	1	4	0	–	67	92
• Other exposures	–	–	–	1	–	–	–	–	–	41	42
IRBA											**203,701**
• Central governments and central banks	4,187	43,150	0	0	16	–	17	–	–	1,458	48,828
• Institutions	17,385	1,199	6,969	0	1,055	87	16	439	–	2,023	29,172
• Corporates	4,814	59	18,483	151	18,333	9,675	3,076	2,910	3,040	48,222	108,763
of which SMEs	94	–	13,467	0	8,948	1,253	40	82	–	7,148	31,031
• Retail	0	–	51	15,994	26	3	2	2	2	858	16,938
of which SMEs	0	–	51	136	26	3	2	2	2	849	1,071

** Excluding the Deutsche Bundesbank and other central banks*

Total exposure value by residual maturity

EUR million	< 1 year	1 to 5 years	> 5 years to perpetual	Total
CRSA				**67,995**
• Central governments and central banks	91	–	20	110
• Regional governments	1,117	129	67	1,314
• Other public authorities	46	39	447	532
• Institutions	23,053	2,755	11,937	37,745
• Multilateral development banks	–	10	136	146
• Corporates	3,965	3,857	9,271	17,093
of which SMEs	34	7	110	151
• Retail	34	94	8,542	8,669
of which SMEs	15	15	108	137
• International organisations	–	93	106	199
• Exposures secured by real estate	114	369	1,523	2,005
• Especially high-risk exposures	–	33	–	33
• Covered bonds	–	–	15	15
• Exposures past due	7	32	53	92
• Other exposures	10	–	32	42
IRBA				**203,701**
• Central governments and central banks	8,052	14,351	26,425	48,828
• Institutions	9,390	6,281	13,501	29,172
• Corporates	22,291	33,270	53,202	108,763
of which SMEs	2,134	1,487	27,411	31,031
• Retail	181	925	15,832	16,938
of which SMEs	23	98	950	1,071

Risk provision procedure

To calculate risk provisions, customer relationships in the BayernLB Group are analysed at quarterly intervals as a rule. Specific loan loss provisions are established for significant individual credit exposures if objective indications of impairment exist with an impact on future expected cash flows. Objective indications include interest and principal payment arrears of more than 30 days or a rating of 19 or worse on a 25-tier scale.

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

For portfolios composed of similar, immaterial receivables, flat-rate specific loan loss provisions are made on the basis of collective risk assessment. These are also reported under the specific loan loss provisions due to creditworthiness risks.

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

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

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

Definition of “past due” and “impaired”

Default criteria are incorporated in the rating system within the rating process. Relevant default criteria are:

(1) The individual borrower is past due more than 90 days on a material liability to BayernLB.

(2) The Bank considers it unlikely that the individual borrower will pay its credit obligations to BayernLB in full, without recourse by the Bank to actions such as realising collateral (if held).

(3) The Bank consents to a mandatory restructuring/workout of the credit obligation, which will result in a diminished financial obligation of the individual borrower on the basis of material forgiveness or postponement of principal, interest or fees.

(4) The Bank makes a value adjustment or partial writedown due to a significant deterioration in credit quality subsequent to taking on the credit risk.

(5) The Bank makes a full writedown of irrecoverable receivables.

(6) The Bank sells part or all of the receivable of an individual borrower at a material, risk-related economic loss.

(7) The Bank has filed for the individual borrower’s insolvency or made a similar application in respect of the individual borrower’s credit obligations to BayernLB, or the individual borrower has sought or has been placed in bankruptcy or similar protection such that this avoids or delays repayment of a credit obligation to BayernLB.

These default criteria take account of the definitions in the CRR, under which “loans past due” fall within rating category 22 (criteria (1), (2), (3) or (4)) and “impaired loans” within rating categories 23 (criteria (3) or (4)) and 24 (criteria (5), (6) and (7)).

BayernLB’s individual borrowers are also classed as “past due” or “impaired” if they meet any of the default criteria of any subsidiary belonging to the BayernLB Group.

Changes in risk provisions

The following three tables show risk provisions under IFRS and are therefore comparable with the IFRS risk provisioning data for the BayernLB Group.

Changes in risk provisions*

EUR million		Opening balance as at 1 Jan 2014	Additions	Releases	Utilisations	Other changes	Closing balance as at 31 Dec 2014
Specific loan loss provisions (SLLP)	On balance sheet	2,451	1,841	−283	−351	−794	2,864
	Provisions	68	26	−13	–	−28	52
Portfolio loan loss provisions (PLLP)	On balance sheet	206	241	−176	−172	56	155
	Provisions	25	6	−7	–	−6	19

** Risk provisions for contingent liabilities and other commitments are shown as provisions for risks.*

The addition of EUR 1.9 billion to specific loan loss provisions came mainly from the risk provisions pertaining to the receivables due from Hypo Alpe-Adria Bank International AG, Klagenfurt, now operating as HETA ASSET RESOLUTION AG, Klagenfurt (HETA).

Impaired exposures and exposures past due by sector

	Exposures		Closing balance		Net of additions/ releases		
EUR million	Impaired	Past due	SLLP	PLLP	SLLP	PLLP	Direct writedowns
Banks/Other monetary intermediation*	3,212	7	1,690	–	1,224	–	126
Miscellaneous real estate activities	682	4	253	–	25	–	0
Private individuals	617	5	216	–	62	–	11
Electricity, gas, steam and air conditioning supply	408	–	130	–	83	–	1
Real estate activities	303	0	54	–	31	–	0
Water transport	240	–	94	–	70	–	6
Manufacture of fabricated metal products	80	–	38	–	33	–	–
Accommodation	66	0	18	–	3	–	3
Construction of buildings	61	3	67	–	10	–	–
Other	806	18	355	–	31	–	24
Total	**6,475**	**37**	**2,916**	**173**	**1,571**	**64**	**172**

** Excluding the Deutsche Bundesbank and other central banks*

Impaired exposures and exposures past due by geographical region

EUR million	Exposures		Closing balance		Net of additions/ releases		Direct writedowns
	Impaired	Past due	SLLP	PLLP	SLLP	PLLP	
Africa	15	–	7	–	7	–	–
Asia	29	–	6	–	3	–	–
Latin America	47	7	20	–	20	–	–
Central and Eastern Europe/CIS	43	–	19	–	62	–	–
Middle East	129	5	19	–	–4	–	7
North America	1	–	0	–	–27	–	1
Western/Central Europe	6,167	23	2,845	–	1,511	–	164
Other	44	1	0	–	–1	–	–
Total	**6,475**	**37**	**2,916**	**173**	**1,571**	**64**	**172**

The impaired exposures and exposures past due shown here are all loans bearing the maximum credit risk, before deductions of the specific loan loss provisions, in accordance with the risk report in the BayernLB Group annual report.

Unencumbered assets (article 443 CRR)

The EBA has issued its “Guidelines on disclosure of encumbered and unencumbered assets” (EBA/GL/2014/03) so as to further specify the data to be disclosed under the CRR.

Qualitative data

The qualitative data to be disclosed pursuant to article 443 of the CRR and the EBA Guidelines EBA/GL/2014/03 are discussed below. No additional criteria apply in determining whether or not an asset is encumbered.

Securities and loans pledged to central banks as collateral

BayernLB pledges securities and loans to the German Bundesbank and to the Federal Reserve Bank of New York as collateral so as to participate in liquidity facility programmes. This collateral is always to be considered as pledged, i.e. encumbered, only in the amount currently drawn. The degree of overcollateralisation is determined solely by the central bank’s haircut policy, which in turn is dependent on the Bundesbank’s general terms and conditions or the collateralisation agreement with the Federal Reserve Bank of New York, as the case may be. Group-internal transactions cannot be pledged as collateral.

Collateral pledged to development banks

Any asset which is assigned to a development bank as part of a loan refinancing measure is an encumbered asset. A distinction must be made between a global loan and an individual refinancing transaction (pass-through loan). The entire collateral pool, if any, is to be classified as encumbered as it may only be changed with the authorisation of the pledgee. The volume of overcollateralisation required by the development banks depends on the particular bank and programme. It is derived from the financing and security contracts signed with these banks, which set out among other terms and conditions the mode of assignment, the types of security eligible, and the necessary overcollaterisation. There are currently no credit enhancements in place within the BayernLB Group.

Pfandbriefs (covered bonds)

BayernLB is a regular issuer of Pfandbriefs and holds a register of cover each for mortgage-backed Pfandbriefs and for public Pfandbriefs. These covered bonds are issued from the two registers. Overcollateralisation is based on the Pfandbrief Act and the requirements set out by rating agencies Fitch and Moody’s. It is always in compliance with the current version of the German Pfandbrief Act (PfandBG). There are currently no credit enhancements in place within the BayernLB Group.

Securities for collateral deposit accounts

BayernLB holds a securities deposit for certain brokers as collateral. These securities serve a purpose similar to that of an initial margin in a derivatives transaction. The degree of overcollateralisation is determined by the haircut laid down by contract. Standardised framework contracts have been drawn up which set out the specific terms and conditions of collateral. There are currently no credit enhancements in place within the BayernLB Group.

Margins for derivatives, repo and securities lending transactions

In bilateral trading, that is, trading via central counterparties (CCPs), BayernLB deposits securities and cash with the CCP as protection should the sum market value of the instruments become negative for BayernLB. Unlike other counterparties, CCPs also require an initial margin, the amount of which depending mostly on the exposure. Overcollateralisation is therefore common only with CCPs. Initial margins are otherwise seldom in bilateral transactions. Standardised framework contracts have been drawn up which set out the specific terms and conditions of collateral There are currently no credit enhancements in place within the BayernLB Group.

Single-credit securitisations

BayernLB securitises loans for the purpose of increasing the liquidity of the credit transactions at hand. The resulting instrument can then be easily transferred to investors or, when certain conditions are met, to the German Bundesbank. Overcollateralisation does not come into play in this process. An appropriate template has been drawn up and is used for contracts of this type. There are currently no credit enhancements in place within the BayernLB Group.

Repo transactions and reverse repo transactions

BayernLB conducts bilateral repos and reverse repo transactions with various counterparties. The Bank also engages in transactions with the two principal repo clearinghouses, EUREX and LCH Repo. The terms and conditions of the security are laid down in standardised framework contracts. Overcollateralisation is relevant only in a few specific cases, e.g. for repos involving securities which cannot be pledged to a central bank. It is usually not required in bilateral repo transactions. No transactions with DKB of this type currently exist.

Securities lending and borrowing

BayernLB conducts securities lending and borrowing transactions with commercial banks and customers. In so doing, the Bank receives either an outright fee or a fee plus collateral (cash or securities). Overcollateralisation is relevant only in a few specific cases, e.g. when securities are concerned which cannot be pledged to a central bank; such transactions require collateral in addition to the fee. Standardised framework contracts have been drawn up which set out the specific terms and conditions of collateral. Various securities lending transactions with DKB currently exist, under which BayernLB provides DKB with securities for a fee.

Encumbered and unencumbered assets

EUR million	Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets
Assets	94,264		137,845	
of which equity instruments*	–	–	1,131	596
of which debt securities	6,494	6,075	28,298	29,485
of which other assets	–		25,953	

* *The discrepancy between the carrying amount and the fair value of the unencumbered assets is due to investments which are not measured at fair value.*

There are no items under "Other assets" which can be used for encumbrance.

Collateral received

EUR million	Fair value of encumbered collateral received or own debt securities issued	Fair value of collateral received or own debt securities issued available for encumbrance
Collateral received	2,440	8,924
of which equity instruments	–	166
of which debt securities	2,440	8,758
of which other collateral received	–	–
Own debt securities issued other than own covered bonds or ABSs	–	–

Sources of encumbrance

EUR million	Matched liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than own covered bonds and encumbered ABSs
Carrying amount of selected financial liabilities	65,838	83,319

Use of ECAIs (article 444 CRR)

Only external assessments from rating agencies Moody's and Standard & Poor's are used to measure creditworthiness in the standardised approach. These assessments are mapped to corresponding risk weights in accordance with a uniform system laid down by the EU supervisory authorities. Issues and issuers are also assessed. Issuers' credit ratings are used for loans which are not assessed, provided these loans are not ranked as subordinate.

The credit assessments are used for all exposure classes which require that the risk weight be measured depending on creditworthiness.

Exposure values before and after credit risk mitigation under the credit risk standardised approach

The exposure values shown in the following table are adjusted for accounting offsets (writedowns) and CCFs (credit conversion factors). Neither equity exposures nor securitisation exposures are included.

Exposure values before and after credit risk mitigation under the CRSA

Risk weighting in %	**Exposure value before credit risk mitigation** EUR million	**Exposure value after credit risk mitigation** EUR million
0	32,235	39,820
2	15,843	15,843
4	–	–
10	15	15
20	1,172	738
35	1,980	1,980
50	24	29
70	1	2
75	4,665	1,026
100	4,428	1,073
150	104	68
250	58	58
370	–	–
1250	–	–
Other risk weightings	–	–
Total	**60,526**	**60,652**

Market risk (article 445 CRR)

For the disclosure of market risk pursuant to article 445 of the CRR, please refer to the section on capital requirements.

Operational risk (article 446 CRR)

For the disclosure of operational risk pursuant to article 446 of the CRR, please refer to the section on capital requirements.

Exposures in equities not included in the trading book (article 447 CRR)

Purpose of the equity exposures

Investments at BayernLB level are divided into two portfolios: core investments and non-core investments. Core investments include equity investments that are conducive to BayernLB's business activities. Investments that are being considered for sale under BayernLB's realignment are allocated to non-core investments.

Core investments:
- The Group's strategic subsidiaries: investments that form an integral part of BayernLB's business model to expand; BayernLB has managerial control
- Investments that are in line with the business model; investments that are conducive to the business activities in the core segments
- Investments that support operating processes; investments undertaken to meet banking-related and/or non-banking related operating requirements
- Other investments: investments that are specifically conducive to neither BayernLB's business model nor to its operating processes, e.g. investments made on behalf of the public sector

Non-core investments:
- Investments which BayernLB plans to sell as part of its realignment

The EU Commission published on 24 September 2014 a version of its detailed list of conditions that protects commercial confidentiality, i.e. one in which certain names are omitted. In the interest of confidentiality, and to prevent any possible damage to BayernLB through the disclosure of any of the investments that need to be sold under the EU Commission's list of conditions, the investments cited below are only examples from the portfolios which have not been omitted. Section 26a para. 2 KWG and article 432 para. 2 CRR (disclosure by banks) are therefore being applied in such a way that BayernLB's investment exits are not allocated by name to the objectives of the investment portfolio mentioned in article 447 of the CRR.

Core investments:
- Deutsche Kreditbank AG is and will continue to be an integral part of the new BayernLB
- The subsidiary Real I.S. AG supports BayernLB's business activities as the funds service provider to the Bavarian S-Finanzgruppe
- Deutsche WertpapierService Bank AG (a transaction bank for securities processing) and BayernFacility Management GmbH support BayernLB's operational tasks

Non-core investments:
- BayernLB has already divested itself of such sizeable non-strategic investments as LB(Swiss) Privatbank AG, DekaBank, GBW AG and MKB Bank Zrt.

Measurement and accounting principles

BayernLB has a corporate valuation tool that fulfils all accounting requirements. Complex valuations that cannot be performed with the standardised tool are documented as part of a simplified internal assessment. Recognised valuation procedures are used to measure value:

- Market approach
- Income approach
- Cost approach

The income approach is normally applied when a company's value is not reflected by a stock market price. The cost approach is applied in justified exceptional cases (e.g. companies in liquidation). The valuation is based on data supplied by the investee company – first and foremost the balance sheet and P/L planning figures – which are checked in terms of plausibility and revised as necessary. All factors used to value a company are documented in the valuation tool and disclosed to the auditor.

Under German commercial law (section 340e para. 1 HGB), investments are valued according to the provisions applying to fixed assets (i.e. section 253 para. 1 and 3 HGB) unless they are not intended for long-term use by the business. In this case, they are valued in accordance with the provisions applicable to current assets (i.e. section 253 para. 1, 4 and 5 HGB).

Investment instruments are valued in regulatory terms on the basis of the simple risk-weighted method as long as the investments do not fall under the grandfathering rule. Investment funds are calculated in part using the look-through approach.

Values of investment instruments

	Comparison		
EUR million	**Carrying amount**	**Fair value**	**Stock market value**
HGB investments • listed positions	0	0	0
HGB investments • unlisted	592	702	–
Non-HGB investments • listed positions (equities in the banking book)	27	30	30
Non-HGB investments • unlisted (investment units)	157	198	–
Non-HGB investments • other investment positions	0	0	–
Total	**776**	**930**	**30**

The table includes all investment instruments in the BayernLB Group less consolidated Group investments and synthetic investments. Fair value comprises the carrying amount and any unrealised gains or losses.

Realised and unrealised gains or losses on investment instruments

			Unrealised gains/losses	
EUR million	IFRS	Realised gains/ losses from sales/ restructurings	Total	Of which reported under CET1 capital
Total		**28**	**154**	**0**

Unrealised gains on investment instruments are not included in the CET1 calculation as no approach can be applied for the 2014 reporting year under article 468 of the CRR.

Exposure to interest rate risk on positions not included in the trading book (article 448 CRR)

Interest rate risk type and the key assumptions

Interest rate risks in the Group banking book mainly arise from refinancing activities as part of asset/liability management, from placing excess undated funds and from pension obligations. Limiting and management are based on a VaR model based in turn on a historical time series. Interest rate risk is also limited as a percentage of liable equity by means of various stress tests simulating parallel shifts and pivots in the yield curve. The treasury units in the BayernLB Group and the ALCO are responsible for managing interest rate risk in the banking book; they take account of long-term strategic targets when placing undated funds and medium-term market expectations in their ongoing funding activities. In addition to VaR, which is used to set limits and serves as the basis for verifying risk-bearing capacity and capital requirements, sensitivity figures – especially PVBP (price value of a basis point) – are also used for management purposes. Interest rate risk in the banking book is dominated by euro risks; those in US dollar are much smaller, and in other currencies almost negligible.

For calculation purposes, all rate-sensitive positions in the banking book are included based on an interest rate gap analysis, either individually or on an aggregated basis. Undated deposits are mainly modelled using the dynamic replication method. Interest rate risks from termination rights are covered by special option pricing models. Undated capital is not taken into account, as specified in MaRisk. To this extent, product modelling using VaR is indistinguishable from stress simulation and PVBP.

Frequency of risk measurement

Interest rate risk is calculated at the BayernLB Group at least weekly independent of Trading; at BayernLB it is calculated daily. The historical simulation used most often for calculating VaR takes a period of at least one year and calculates the change in present value at a 99 percent confidence level for a one-day holding period. This calculation is used to calculate risk capital utilisation in terms of risk-bearing capacity.

Besides the daily (or in certain Group units monthly) VaR calculation, other stress tests and sensitivity analyses are run monthly.

Interest rate shock scenario

For the interest rate risk in the banking book, an interest rate shock scenario of +200/–200 basis points is calculated at both Bank and Group level. As at the reporting date, the calculated change in present value relative to liable capital at both BayernLB and the BayernLB Group was well below the 20 percent limit. If the present value of a bank falls by more than 20 percent of capital under this interest rate shock scenario, the regulator assumes that interest rate risk is disproportionately high, rendering countermeasures necessary.

Interest rate risk in the banking book

EUR million	Change in net present value	
	Interest rate shock +200 basis points	Interest rate shock –200 basis points
EUR	142	–1,013
USD	–68	6
CHF	–25	13
GBP	–14	25
JPY	2	0
Other	–4	2
Total	**33**	**–967**

Exposure to securitisation positions (article 449 CRR)

Objectives, type, scope and structure of the securitisation and resecuritisation activities and the role assumed in each securitisation

As at 31 December 2014 the BayernLB Group had securitisation exposures, acting either as sponsor or investor, of EUR 1.9 billion (2013: EUR 10.8 billion, including originator function) in total. This entire exposure amount was held by BayernLB. BayernLB assigns securitisations to the banking book.

The securitisation business is broken down into two segments:

Sponsor function:
- The exposure to securitisation positions where the BayernLB Group acts as a sponsor is EUR 1.8 billion (2013: EUR 2.2 billion)
- BayernLB sponsors this sub-portfolio via the ABCP programme Corelux S.A. In the asset-backed credit business, BayernLB structures receivables portfolios comprising receivables from core customers. The strategic goal of BayernLB here is to offer ABCP customer transactions to its core customers as funding
  All of these securitisation exposures have senior ranking with receivables from corporate loans (trade and leasing receivables from businesses) and retail loans (accounts receivables) as underlying assets
- The ABCP programme Giro Lion Funding Ltd. was ended in January 2014

Investor function:
- The exposure to securitisation positions where BayernLB acts as an investor is EUR 120 million (2013: EUR 1.0 billion); this is being gradually reduced
- These securitisation positions have senior ranking with mainly corporate loans as underlying assets

Originator function:
As a result of the sale of the ABS portfolio in October 2014, which had been hedged through the guarantee agreement concluded with the Free State of Bavaria, there are no longer any securitisation positions for which BayernLB assumes the role of originator.

Assessment of performance and changes

In its ongoing assessment of the credit quality of a securitisation, BayernLB focuses largely on the value and performance of the underlying portfolio of securitised receivables and on the suitability of the collateral elements available (credit enhancements). However, the impact of structural factors and the influence of the parties involved at individual transaction level are also factored in.

In addition to counterparty risks, securitisation exposures are subject to liquidity risks and operational risks. The Bank sponsors customer transactions by providing its conduits with overdraft and liquidity facilities which, when utilised, result in a cash outflow. These liquidity risks are fully integrated into the liquidity risk management. As with any type of transaction, securitisation activities can harbour operational risks that may arise from inadequate or failed internal processes, from people or systems, or from external events. Securitisation activities are also a part of operational risk management (see the section "Risk management objectives and policies (article 435 CRR)" for further details).

Procedures for calculating risk-weighted exposure amounts

In keeping with article 109 of the CRR, whether the IRB or the standardised approach for securitisations is to be followed depends on how the underlying securitised exposure is treated. The standardised approach is namely to be used whenever applicable. The IRB approach may be followed only when the securitised exposure comes under an internal rating procedure approved by the supervisory authorities. The above notwithstanding, the internal assessment approach is permissible for securitised exposures to which the standardised approach actually applies.

As at 31 December 2014, the following approaches were used for calculating the risk-weighted exposure amounts:

- Ratings-based approach (articles 251 and 261 of the CRR) – for investor exposures with externally rated securitisation exposures. The rating agencies Moody's and Standard & Poor's are used for determining the capital requirements
- Supervisory formula method (article 262 of the CRR) – for investor exposures, the securitised exposures of which BayernLB can issue its own PD estimates
- Internal assessment approach (article 259 para. 4 CRR) – for securitsation exposures under which BayernLB assumes the role of sponsor

The internal assessment approach for securitisations (IAA) is applied in the case of customer receivables that are refinanced through ABCP programmes. IRBA suitability was confirmed for the internal rating procedures for the following types of receivables: trade receivables, RMBS, auto/equipment loans and leases, credit card receivables, CDOs, consumer finance, student loans, CMBS and ground rent leases. At the beginning of 2015 BayernLB relinquished its approval for the IAA as a sub-procedure for RMBS, student loans, CMBS and ground rent leases as it does not plan to engage in any such further transactions.

As at 31 December 2014, portfolios with receivables in the form of trade receivables, consumer finance, auto/equipment loans and leases and CDOs were measured using internal rating procedures.

These procedures are based on quantitative, mathematical-statistical models drawn from the methodologies used by the external rating agencies (Moody's, Standard & Poor's and Fitch), with these models already having played a key role in the transactions' structuring.

The quantitative models show mostly the counterparty risks in the receivables portfolio and the transaction-specific credit enhancements used for hedging. To ensure that the same assets are measured using the same methodology, a specific rating agency model has been defined for each asset class relevant for BayernLB. Any necessary modifications must be documented.

To measure and mitigate the risks, the stress factors used in the respective rating agency model are applied. The quantitative models produce rating scores that are then used in the IAA rating procedure.

Besides these rating scores and the rating scores of the main parties to the transactions – the originator, the most relevant third party, and the servicer – the IAA rating procedure also involves measuring quantitative risk factors which cannot be assessed in the quantitative models (e.g. commingling, dilution or transaction cost risks – here the rating agencies' stress factors and/or the Bank's own modelling components are used instead) and qualitative (i.e. non-quantifiable) risk factors. Qualitative risk covers origination risk, operational risk, servicing risk, and legal and regulatory risk.

If there are additional risk factors that the model does not take sufficient or any account of, the rating result can be adjusted if needed (overwritten).

In addition to determining the capital requirements, the output of the internal rating procedures is used for internal management and incorporated into all stages of the credit process as a basis for decision.

The internal rating procedures are evaluated for suitability each year by the independent counterparty risk monitoring unit, as part of the validation process. Among the tools used for the validation are backtesting, rating distribution analyses and central tendency in accordance with the internal validation strategy for IRB approach rating methods. The procedures are modified where needed to ensure validity.

Hedge transactions aimed at minimising risks

The guarantee agreement with the Free State of Bavaria was the BayernLB Group's main hedging instrument for minimising risks from the securitisation exposures. With the sale of the ABS portfolio came the end of the agreement, under which the Free State of Bavaria was the protection seller and BayernLB the protection buyer. As at 31 December 2014 no credit risk mitigation techniques were used in calculating the risk-weighted exposure amounts.

Summary of the key accounting methods

Securitised financial instruments purchased by BayernLB are treated in accordance with generally accepted accounting principles.

Accounting under HGB

Securities in the trading portfolio: these are measured at fair value less a risk discount. Measurement results and current income and expenses are shown under “net income or net expenses from the trading portfolio”.

Securities in the liquidity reserve: these are valued on the basis of the strict principle of lower of cost or market value, taking account of the requirement to reverse writedowns. Measurement results are reported under “writedowns and valuation adjustments on receivables and certain securities and allocations to provisions in the credit business” and “income from reversals of writedowns on receivables and certain securities and from writebacks of provisions in the credit business”.

Securities valued as investments (investment portfolio): these are valued on the basis of the less strict principle of lower of cost or market value. Measurement results are reported under “writedowns and valuation adjustments on investments, shares in affiliated companies and securities treated as fixed assets” and “income from reversals of writedowns on investments, shares in affiliated companies and securities treated as fixed assets”. Securities allocated to the investment portfolio are regularly tested for indications of permanent impairment.

Receivables are reported at nominal value or at cost. Potential liabilities arising from guarantees, warranties, and letters of credit are reported under contingent liabilities. Committed facilities (overdraft/liquidity facilities) used for helping finance securitised receivables are reported as irrevocable credit commitments under “other commitments”.

Credit risks are taken into account by establishing appropriate risk provisions. General loan loss provisions have also been established for credit risks harboured by off-balance sheet transactions.

Current income is reported under net interest income.

The methods, basic assumptions, and data and parameter principles used for measuring securitisation exposures are unchanged on the previous year.

Accounting under IFRS

Held-for-trading financial instruments and financial instruments designated at fair value (fair value option): the fair value measurement attribute is used. Measurement results are reported under “gains or losses on fair value measurement”. Current income and expenses from financial instruments held for trading are reported under “gains or losses on fair value measurement” and financial instruments designated at fair value are reported under “net interest income”.

Financial instruments classed as available for sale: the fair value measurement attribute is used. Any difference between fair value and amortised cost is shown as a separate item in equity (in the revaluation surplus) and not recognised through profit or loss until the asset is either disposed of or permanently impaired. Gains or losses on their sale or permanent impairment are reported under “gains or losses on investments” and current income under “net interest income”.

Loans and receivables: these include non-derivative financial assets with fixed or determinable payments which are not quoted on an active market, are not designated at fair value through profit or loss (fair value option), and are not designated as available for sale. They are measured at amortised cost. Impaired loans are carried through the income statement and reported under "risk provisions in the credit business", and securities under "gains or losses on investments".

Current income is reported under interest income.

Liabilities from guarantees and indemnity agreements in particular are reported under contingent liabilities. Commitments (placement and underwriting commitments, overdraft/liquidity facilities) used for helping finance securitised receivables are reported under "other commitments" as irrevocable credit commitments. Provisions in the credit business are made for both single transactions and portfolios to meet contingent liabilities and other commitments where there is a risk of default.

The methods, basic assumptions, and data and parameter principles used for measuring securitisation exposures are unchanged on the previous year.

Total retained or acquired securitisation exposures (by type of securitised receivable)

	Banking book	
EUR million	CRSA	IRBA
On-balance sheet exposures		
• Receivables from residential mortgage loans	0	–
• Receivables from commercial mortgage loans	–	–
• Receivables from corporate loans	–	481
• Receivables from other retail loans	31	102
• Other on-balance sheet items	–	–
• Resecuritisations	–	–
Total on-balance sheet exposures	**31**	**583**
Off-balance sheet exposures		
• Liquidity facilities	14	1,244
• Derivatives	–	–
Total off-balance sheet exposures	**14**	**1,244**
Total	**45**	**1,827**

BayernLB has no net securitisation exposures in the trading book. The tables below therefore relate solely to the banking book.

The fall in the value of securitisation exposures by EUR 8.9 billion on the previous year was largely due to repayments and to the sale of BayernLB's ABS portfolio, which had been hedged together with the Free State of Bavaria. The ABS portfolio, for which BayernLB acted as originator, was sold in the fourth quarter. Its nominal value at the point in time was EUR 6.4 billion.

Detailed information is provided in the management report of the consolidated financial statements of the BayernLB Group.

Total receivables set to be securitised

As at the reporting date there was no concrete intention to securitise assets.

Total retained or acquired securitisation exposures by securitisation risk weighting (before scaling factors)

	Banking book			
	Securitisations		Resecuritisations	
EUR million	Exposure	Capital requirements	Exposure	Capital requirements
Ratings-based approach (standardised approach)				
20%	–	–	–	–
40%	–	–	–	–
50%	45	2	–	–
100%	–	–	–	–
225%	–	–	–	–
350%	–	–	–	–
650%	–	–	–	–
1250%	0	0	–	–
Ratings-based approach (IRBA)				
≤ 10%	–	–	–	–
> 10% ≤ 20%	20	0	–	–
> 20% ≤ 50%	–	–	–	–
> 50% ≤ 100%	–	–	–	–
> 100% ≤ 650%	–	–	–	–
1250% / capital deduction	–	–	–	–
Supervisory formula approach				
> 0% ≤ 10%	49	0	–	–
> 10% ≤ 20%	–	–	–	–
> 20% ≤ 50%	6	0	–	–
> 50% ≤ 100%	–	–	–	–
> 100% ≤ 650%	–	–	–	–
1250% / capital deduction	–	–	–	–
Internal rating procedure				
> 0% ≤ 10%	173	1	–	–
> 10% ≤ 20%	882	8	–	–
> 20% ≤ 50%	698	14	–	–
> 50% ≤ 100%	–	–	–	–
> 100% ≤ 650%	–	–	–	–
1250% / capital deduction	–	–	–	–
Total	**1,872**	**25**	**–**	**–**

Capital requirements for securitisation exposures plunged by EUR 449 million over the previous year, from EUR 474 million to EUR 25 million. This is due mostly to the fact that the originator exposures, accounting for EUR 226 million, ceased to exist, as well as to the decline in the sponsor exposures (EUR 207 million) following the closure of the ABCP securitisation programme Giro Lion Funding Ltd.

Total securitised originator receivables by portfolio and sponsor activity (by type of securitised receivable)

	Sponsor exposures
EUR million	Banking book
On-balance sheet exposures	
• Receivables from residential mortgage loans	–
• Receivables from commercial mortgage loans	–
• Receivables from corporate loans	455
• Receivables from other retail loans	102
• Other on-balance sheet exposures	–
• Resecuritisations	–
Total on-balance sheet exposures	**557**
Off-balance sheet exposures	
• Liquidity facilities	1,195
• Derivatives	–
Total off-balance sheet exposures	**1,195**
Total	**1,752**

As a result of the sale of the ABS portfolio in October 2014, which had been hedged through the guarantee agreement concluded with the Free State of Bavaria, there are no longer any securitisation positions for which BayernLB assumes the role of originator. The decrease in the sponsor exposures over the previous year is due mainly to the closure of the ABCP Giro Lion Funding Ltd. securitisation programme in January 2014.

The BayernLB Group has no securitised exposures to which the special rules under article 256 of the CRR apply.

Losses on defaults and sales of ABSs

As the ABS portfolio was sold in October 2014, the following table shows the losses on defaults and sales of ABSs as at 30 September 2014.

Losses on defaults and sales of ABSs (by asset class)

Asset class (EUR million)	**Losses**	**Outstanding notional of positions where losses have been realised**
RMBS – non-prime	701	642
RMBS – prime	86	455
CDO	396	2
CMBS	86	16
Total	**1,269**	**1,115**

As at 30 September 2014 the losses in the ABS portfolio, hedged by the Free State of Bavaria, had increased by EUR 133 million to EUR 1.3 billion over the previous year. EUR 1.2 billion of this amount was borne by BayernLB.

Remuneration policy (article 450 CRR)

For information on the disclosure requirements applicable to BayernLB and DKB under article 450 of the CRR, please refer to the remuneration report on the respective website.

Use of the IRB approach to credit risk (article 452 CRR)

Permission by the competent authorities

BayernLB obtained regulatory approval on 1 January 2007 to use the foundation IRB (Internal Ratings-Based) approach.

Structure and review of the internal rating systems

BayernLB uses several statistically based rating procedures in which borrowers are assigned to rating categories on a 25-tier master rating scale on the basis of default probabilities. There are 22 rating categories for solvent borrowers and three for those in default.

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

BayernLB's main rating procedures are:

- Scorecard procedure
  The scorecard or scoring procedure is used to allocate points to certain major attributes of customers (quantitative and qualitative) based on mathematical/statistical analyses to calculate a total score for creditworthiness. The calculated scorecards are converted into rating scores using a calibration function. These risk ratings are supplemented by warning signals and cross-liability matrices
- Simulation procedure
  The simulation procedure is principally used to classify property financing risks. This rating procedure creates scenarios for future cash flow trends and calculates rating scores and default probabilities based on loan-to-value and debt service coverage ratios through the use of default tests that differentiate between performing and non-performing loans. The quantitative risk assessment is supplemented by qualitative factors and warning signals

The 16 rating modules approved for use in the IRB approach are:

1. Banks
2. Insurers
3. Corporates (corporate clients, including municipally owned companies)
4. Savings banks standard rating
5. International regional authorities
6. Country and transfer risk
7. Supranationals
8. Leveraged finance
9. Retail customer scoring (DKB)
10. Internal assessment approach for securitisations
11. Leasing (leasing companies and real estate leasing SPVs)
12. Aircraft financing
13. International commercial real estate
14. Savings banks real estate rating
15. Project financing
16. Ship financing

Rating procedures 1 to 9 are scorecard procedures that measure risks at customer level. Simulation-based procedures (12 to 16) that in some cases take account of information on creditworthiness and, in particular, transaction-related criteria are used for the exposure class "specialised financing". Rating procedures 10 and 11 employ both simulation and scorecard methods.

The "central governments" exposure class mainly contains borrowers from the following rating procedures: international regional authorities (5), country and transfer risk (6) and supranationals (7). The "institutions" exposure class comprises borrowers from the banks rating procedure (1). With the exception of securitisations (10) and retail (9), all other procedures are assigned to the "corporates" exposure class.

As part of a joint project with the company RSU Rating Service Unit, the rating module international commercial real estate was thoroughly revised and upgraded. It now takes into consideration, for example, the current market phase of the various real estate segments.

The recession demonstrated that the rating procedures were for the most part robust and accurate. It became clear that taking account of market-induced factors significantly improved the depiction of the volatility of the financial markets during the crisis. These new findings have been and will continue to be integrated into the rating systems as much as possible.

The goal is to create sufficient leeway to implement risk avoidance/minimisation measures through the early detection of negative changes in the risk profile using suitable early warning indicators of risk. These indicators include prices (equities and credit default swaps), volatility, market capitalisation and other factors from peer group comparisons.

Use of internal estimates other than for calculating risk-weighted exposure values

Internal estimates of the probability of default (PD) and loss given default (LGD) rates are important parameters in risk management and credit decisions. In carrying out advance calculations (pricing), the minimum margin is calculated. This takes account of the credit ratings from the internal rating procedures and loss given default estimates, which are important input parameters in calculating risk and capital costs.

In addition to regulatory risk limitation, the Bank manages its risk-bearing capacity from an economic perspective. Assessments of economic risk-bearing capacity take account of, among other things, findings from the internal rating systems. Risk-bearing capacity is ensured by limiting available economic capital by risk type, business area and central area. The Group Risk Committee and the Board of Management are informed each month in the Group risk report summary of the current risk-bearing capacity, as seen from an economic perspective, both at Group and at BayernLB level.

Ratings also play an important role in credit approvals and credit processing. For example, the Competence Regulations are based (partly) on ratings. Each loan is classified according to its level of risk. Different types of support are given: normal support, intensive support or problem loan treatment. Loans allocated to the intensive support and problem loan handling processes are subdivided into the “special mention” (only intensive support), “substandard”, “doubtful” and “loss” categories.

The BayernLB Group uses a uniform master rating system for all rating procedures and all exposure classes. This enables comparisons of rating categories across all customer segments. There are 22 rating categories for solvent borrowers and three for those in default. The boundaries of each rating category are set by specific upper and lower PD limits.

The allocation of a borrower with an IRBA exposure to BayernLB’s rating systems is governed by the scope of application defined in the rating process. Criteria-compliant application is ensured by the respective authorisation system of the rating systems.

Processes for managing and recognising credit risk mitigation techniques

See the section “Use of credit risk mitigation techniques (article 453 CRR)”.

Control mechanisms for rating systems

The rating systems have technical control mechanisms that examine both the completeness and, where possible, the plausibility of individual data and their combination with other data. As a further control, ratings are approved in line with the dual control principle. With the exception of non-risk relevant business within the meaning of MaRisk, only the Risk Office may approve ratings.

The Group Risk Control division, which forms part of the Risk Office, is independent from the business areas. The counterparty risk monitoring unit, which is assigned to this division, has global responsibility for introducing, developing, maintaining and optimising rating systems.

All rating procedures are subject to ongoing validation. The validation process meets CRR requirements. This process draws on quantitative and qualitative analyses.

Total loan portfolio and exposure values in IRBA by PD category

		Central governments and central banks	Institutions	Corporates	of which specialised financing	Retail	of which construction financing	of which qualifying revolving retail receivables	of which other retail loans	Total
PD category 0% to < 0.5%	**Total loan portfolio** (EUR million)	47,804	26,730	71,898	15,282	11,772	6,138	4,688	946	**158,204**
	Exposure value (EUR million)	54,366	24,135	60,158	14,110	10,171	6,116	3,174	881	**148,831**
	Avg. LGD (in %)	–	–	–	–	40.3	28.9	57.3	58.0	**40.3**
	Avg. risk weighting (in %)	1.7	22.8	33.6	36.8	11.4	14.8	2.3	20.8	**16.7**
PD category 0.5% to <= 5%	**Total loan portfolio** (EUR million)	1,019	1,774	26,758	4,740	3,809	2,639	437	733	**33,360**
	Exposure value (EUR million)	116	1,330	20,675	3,890	3,691	2,637	335	718	**25,812**
	Avg. LGD (in %)	–	–	–	–	38.8	31.4	59.1	56.8	**38.8**
	Avg. risk weighting (in %)	105.5	104.6	90.9	98.0	43.1	40.6	31.7	57.6	**84.8**
PD category 5% to < 100%	**Total loan portfolio** (EUR million)	1	516	4,877	605	984	810	55	119	**6,378**
	Exposure value (EUR million)	1	367	2,855	581	978	810	50.2	117	**4,201**
	Avg. LGD (in %)	–	–	–	–	40.1	36.4	58.2	57.7	**40.1**
	Avg. risk weighting (in %)	245.0	199.5	189.7	186.2	185.4	198.9	114.5	122.1	**189.6**
Default PD = 100%	**Total loan portfolio** (EUR million)	3	652	4,778	1,129	561	447	6	108	**5,994**
	Exposure value (EUR million)	3	648	4,542	1,102	562	447	6	108	**5,755**
	Avg. LGD (in %)	–	–	–	–	57.3	52.8	70.3	75.0	**57.3**
	Avg. risk weighting (in %)	–	–	–	–	50.1	41.4	29.6	87.4	**50.1**
Total (excluding defaults)	**Total loan portfolio** (EUR million)	48,824	29,020	103,533	20,627	16,565	9,587	5,180	1,798	**197,942**
	Exposure value (EUR million)	54,484	25,833	83,688	18,581	14,839	9,563	3,559	1,716	**178,844**
	Avg. LGD (in %)	–	–	–	–	39.9	30.2	57.5	57.5	**39.9**
	Avg. risk weighting (in %)	2.0	29.6	53.1	54.3	30.7	37.5	6.7	43.1	**32.3**

The reported exposure values are IRBA exposures pursuant to article 166 of the CRR, after applying credit risk mitigation techniques and provided they can be allocated to PD categories. For exposure values of the central governments and central banks, institutions and corporate exposure classes bearing a PD of 100 percent, no risk weighting is calculated. Instead, article 158 of the CRR applies. Exposure to investments are not shown here as the BayernLB Group uses the simple risk-weighted method. The data for retail apply solely to DKB as it is the only member of the BayernLB Group to use this procedure.

Average PDs and LGDs by geographical location

In %		Germany	France	Italy	Luxembourg	United States	United Kingdom
Central governments and central banks	Avg. PD	0.0	20.0	0.1	0.0	0.0	0.0
	Avg. LGD	–	–	–	–	–	–
Institutions	Avg. PD	2.8	–	0.2	0.1	6.5	0.0
	Avg. LGD	–	–	–	–	–	–
Corporates	Avg. PD	6.0	100.0	2.5	–	0.9	9.8
	Avg. LGD	–	–	–	–	–	–
• of which specialised financing	Avg. PD	5.3	100.0	2.8	–	0.6	13.5
	Avg. LGD	–	–	–	–	–	–
Retail	Avg. PD	5.4	–	–	–	–	–
	Avg. LGD	40.6	–	–	–	–	–
• of which construction financing	Avg. PD	6.6	–	–	–	–	–
	Avg. LGD	31.3	–	–	–	–	–
• of which qualifying revolving retail receivables	Avg. PD	0.6	–	–	–	–	–
	Avg. LGD	57.5	–	–	–	–	–
• of which other retail loans	Avg. PD	7.9	–	–	–	–	–
	Avg. LGD	58.5	–	–	–	–	–
Total	**Avg. PD**	**4.0**	**94.5**	**2.2**	**0.0**	**1.3**	**7.5**
	Avg. LGD	**40.6**	**–**	**–**	**–**	**–**	**–**

Expected and actual losses in the credit business

The tables below are only relevant for the IRB approach. They therefore cannot be compared to the data in the tables “Change in risk provisions”, “Impaired exposures and exposures past due by sector” and “Impaired exposures and exposures past due by geographical region”. Actual losses consist of utilisations of SLLPs and direct writedowns less recoveries on written down receivables (IFRS basis).

The expected loss (EL) calculation includes loans that are performing or past due based on a one-year default probability. Loans past due are considered to have a 100 percent probability of default (PD). Based on the definition under article 178 of the CRR (e.g. “past due more than 90 days”), customers are classed as “past due” very early on, before the institution has experienced any actual losses (“recovery”). In the event of realisation, actual losses are not immediately shown, as average settlement times for exposures/customers may take several years.

The risk provision process is also a multi-year process in which several effects need to be taken into account (cyclicality, SLLP utilisation vs. writeback etc.).

Expected losses in the credit business

	2014		2013		2012	
EUR million	Expected loss (EL)	Actual loss	Expected loss (EL)	Actual loss	Expected loss (EL)	Actual loss
Central governments and central banks	3	–	–	–	1	–
Institutions	324	2	324	26	370	43
Corporates	2,352	185	1,538	135	1,838	274
• of which specialised financing	1	–	–	–	–	–
Retail	406	78	456	68	471	10
• of which construction financing	299	37	346	30	358	1
• of which qualifying revolving retail receivables	13	6	10	9	10	–
of which other retail loans	94	35	100	29	103	9
Total	**3,085**	**266**	**2,318**	**229**	**2,680**	**327**

Specific credit risk adjustments in the credit business

EUR million	SLLP additions in 2014	SLLP releases in 2014	Net of additions/ releases in 2014
Central governments	–	–	–
Institutions	5	–6	–1
Corporates	1,668	–205	1,463
• of which specialised financing	277	–162	115
Retail	84	–40	44
• of which construction financing	50	–21	29
• of which qualifying revolving retail receivables	2	–1	2
• of which other retail loans	32	–18	13
Total	**1,757**	**–251**	**1,506**

The expected loss figure of EUR 3.1 billion was significantly higher than that of the previous year (2013: EUR 2.3 billion). This increase is attributable mainly to the receivables due from HETA, which since 1 April 2014 are in a default category.

The actual loss amount rose slightly to EUR 266 million (2013: EUR 229 million), with the individual increases stemming mostly from non-core business activities. The allocation to the single loan loss provisions came mainly from the risk provisions set aside for the receivables due from HETA.

Use of credit risk mitigation techniques (article 453 CRR)

Policies and processes for, and the extent of use of, on- and off-balance sheet netting

When conducting derivatives transactions and securities repurchase transactions, the BayernLB Group regularly concludes bilateral netting agreements in the form of master agreements with business partners. Among the standard master agreements used are the ISDA Master Agreement for Financial Derivatives, the German Master Agreement for Financial Derivatives Transactions and the Global Master Repurchase Agreement for securities repurchase transactions. Agreements granting rights of set-off include the clearing conditions of Eurex Clearing AG, LCH.Clearnet Limited, European Commodity Clearing AG, and the client clearing agreements for indirect clearing. The netting agreements provide for conditional rights of set-off in the form of close-out netting for receivables and liabilities covered by these agreements, i.e. only if previously defined conditions, e.g. cancellation of the master agreement, default or insolvency, occur can the legal right of set-off be enforced.

Besides the master agreements for financial derivatives, collateral agreements are concluded with business partners to safeguard the net claim or liability left after offsetting. The main ones used are the Credit Support Annex to the ISDA Master Agreement and the collateral addendum to the German Master Agreement for Financial Derivatives Transactions. The master agreements for securities repurchase transactions and the derivatives clearing agreements contain similar collateral rules. Collateral agreements usually grant the protection buyer an unrestricted right of disposal over the collateral, which is normally cash or securities collateral. Collateral agreements with no or a limited right of disposal are rare. Bilateral master agreements mainly provide for the realisation of collateral through offsetting.

The exposure value for derivatives was reduced by around EUR 15.3 billion as at 31 December 2014 through off-balance sheet netting. On-balance sheet netting is not carried out at BayernLB.

Collateral valuation and administration

Sound collateral is requested for the purpose of hedging credit risk exposure. BayernLB follows the principle that real collateral (particularly charges on property) is preferable to debt undertakings.

Procedures for accepting collateral (formalities and requirements) are governed by the internal processing guidelines for each type of collateral.

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

Specialists are responsible for ensuring these agreements are properly documented, administered and monitored on an ongoing basis. Monitoring is computer-aided.

The collateral policy sets out the requirements for valuing and administering collateral. To manage collateral, a collateral management system has been put in place where valuation criteria are documented. To ensure constant legal enforceability, contracts are usually standardised and changes in the law – particularly foreign legal systems – are monitored on an ongoing basis in cooperation with other institutions.

The procedure used to calculate and determine the value of the collateral must be documented clearly and meaningfully in line with defined requirements. If expert opinions are available, it must be ensured that information on marketability and liquidity used to assess liquidation value is available. When collateral is realised, its value is calculated using the recovery rate, which is dependent on the collateral type. These rates are derived from historical loss data and are verified on a regular basis.

Market and credit risk concentrations within the credit risk mitigation

As part of the reporting, the key types and structures of eligible collateral are analysed and assessed for concentrations. The most important collateral types are real estate and guarantees.

The key types and structures of eligible collateral are analysed and assessed for concentrations. Concentration risks exist in relation to collateral for real estate and guarantees. Major guarantors (guarantees and eligible sureties) are reported on a quarterly basis. Most are loan collateral guarantees and first-demand guarantees. Guarantors mainly comprise export credit insurers, public-sector customers and financial institutions (particularly guarantee banks). In the guarantees category, the most important guarantor for BayernLB are public-sector institutions in Germany, which account for around 82 percent of the total.

Credit derivative transactions are only carried out with counterparties with investment-grade ratings. Collateral agreements exist with certain business partners restricting the default risk associated with certain trading partners to an agreed maximum and authorising a call for additional collateral should this limit be exceeded. Most counterparties in the credit derivatives business are banks.

Total collateralised exposures (excluding securitisations)

EUR million	Central governments and central banks	Institutions	Regional governments	Other public authorities	Retail	Corporates	Exposures secured by real estate	Exposures past due	Total
Financial collateral									**755**
• CRSA	–	–	–	12	0	240	–	0	253
• IRBA	2	19	–	–	8	473	–	–	502
Physical and other collateral									**34,040**
• CRSA	–	–	–	–	–	–	2,005	–	2,005
• IRBA	–	3,683	–	–	6,693	21,659	–	–	32,035
Other eligible collateral									**18,740**
• CRSA									**7,266**
– Guarantees	–	–	45	415	3,638	3,128	–	36	7,262
– Credit derivatives	–	–	–	–	–	–	–	–	–
– Funded credit protection	–	–	–	–	3	1	–	0	4
• IRBA									**11,474**
– Guarantees	928	2,602	–	–	26	7,838	–	–	11,394
– Credit derivatives	–	–	–	–	–	–	–	–	–
– Funded credit protection	–	0	–	–	26	54	–	–	80

The table above distinguishes between funded and unfunded credit protection for each exposure class. The exposure value disclosed as funded credit-protected under the CRSA stems from the exposure class “exposures secured by real estate”.

Use of the Advanced Measurement approaches to operational risk (article 454 CRR)

For operational risks, BayernLB currently uses supervisory standardised methods instead of an in-house risk model. The approaches used for measuring the capital requirements are disclosed in the section “Managing operational risks”.

Use of the internal market risk models (article 455 CRR)

For market risks, BayernLB currently uses supervisory standardised methods instead of an in-house risk model. The approaches used for measuring the capital requirements are disclosed in the section “Managing market risks”.

Disclosure report on Deutsche Kreditbank AG (DKB)

In keeping with the disclosure requirements under article 13 of the CRR, the DKB draws up its own financial reports, which are published on its website.

List of tables and charts

The layout of the tables is largely based on the examples used by the Bundesbank's Disclosure Expert Panel of September 2012, whereby modifications necessitated by the CRR have been made.

List of abbreviations

ABCP	asset-backed commercial paper
ABS	asset-backed securities
ALCO	Asset Liability Committee
AMA	Advanced Measurement Approach
AT1	Additional Tier 1 capital
BaFin	Bundesanstalt für Finanzdienstleistungsaufsicht (German Federal Financial Supervisory Authority)
CCF	credit conversion factor
CCP	central counterparty
CDO	credit debt obligation
CDS	credit default swap
CEO	Chief Executive Officer
CET1	Common Equity Tier 1 capital
CFO	Chief Financial Officer
CHF	Swiss franc
CIS	Commonwealth of Independent States
CMBS	commercial mortgage-backed securities
CMC	Capital Management Committee
COO	Chief Operating Officer
CRD IV	Capital Requirements Directive IV
CRO	Chief Risk Officer
CRR	Capital Requirements Regulation
CRSA	Credit Risk Standardised Approach
CVA	credit valuation adjustment
DakOR	OpRisk data consortium
EBA	European Banking Authority
ECAI	External Credit Assessment Institution
EL	expected loss
EU	European Union
EUR	euro
GBP	British pound sterling
HGB	Handelsgesetzbuch (German Commercial Code)

IAA	internal assessment approach
ICAAP	Internal Capital Adequacy Assessment Process
IFRS	International Financial Reporting Standards
IRBA	Internal Ratings-Based approach
JPY	Japanese yen
KWG	Kreditwesengesetz (German Banking Act)
LCH	London Clearing House
LGD	loss given default
MaRisk	Mindestanforderungen an das Risikomanagement (Minimum Requirements for Risk Management)
MaSan	Mindestanforderungen an die Ausgestaltung von Sanierungsplänen (Minimum Requirements for the Design of Recovery Plans)
ÖffSchOR	loss database run by the Association of German Public Banks
OpRisk	operational risk
OpVaR	operational value-at-risk
OTC	over-the-counter
p.a.	per annum
PD	probability of default
PfandBG	Pfandbriefgesetz (German Pfandbrief Act)
P/L	profit/loss
PLLP	portfolio loan loss provision
PVBP	price value of a basis point
RMBS	residential mortgage-backed securities
RW	risk weighting
RWA	risk-weighted assets
SLLP	single loan loss provision
SME	small and medium-sized enterprise
SPV	special-purpose vehicle
T2	Tier 2 capital
USA	United States of America
USD	US dollar
VaR	value at risk

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