BayernLB
2015
Annual Report and Accounts

Separate Financial Statements

BayernLB's financial statements at a glance

Income statement (HGB)

EUR million	1 Jan – 31 Dec 2015	1 Jan – 31 Dec 2014	Change in %
Net interest income	1,180	1,408	–16.2
Net commission income	198	204	–3.0
Net income of the trading portfolio	–215	–120	79.7
Administrative expenses	–1,038	–895	16.0
Operating profit/loss	**415**	**–2,100**	**> 100**

Balance sheet (HGB)

EUR million	31 Dec 2015	31 Dec 2014	Change in %
Total assets	147,139	178,132	–17.4
Business volume	175,700	210,968	–16.7
Credit volume	109,152	120,215	–9.2
Total deposits	85,462	87,857	–2.7
Securitised liabilities	31,790	45,925	–30.8
Reported equity	14,234	14,817	–3.9

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

EUR million	31 Dec 2015	31 Dec 2014	Change in %
Common Equity Tier 1 capital (CET 1 capital)	9,937	9,801	1.4
Own funds	11,890	12,096	–1.7
Total RWA	74,935	73,645	1.8
CET 1 ratio	13.3%	13.3%	–
CET 1 ratio (fully loaded)	10.1%	10.7%	–0.6 pp[1]
Total capital ratio	15.9%	16.4%	–0.5 pp[1]

1 Percentage points.

Employees

	31 Dec 2015	31 Dec 2014	Change in %
Number of employees	3,186	3,283	–3.0

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Report by the Supervisory Board

Ladies and gentlemen,

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

BayernLB's Board of Management kept the Supervisory Board and its committees informed of key developments at the Bank and the Group at regular intervals in 2015, both promptly and comprehensively, and in writing and orally. This included its supervisory duty to disclose deficiencies detected by Internal Audit.

We held detailed discussions with the Board of Management on BayernLB's business policy and fundamental issues relating to corporate planning, especially in its financial, investment and personnel aspects. We were also briefed on business performance, focusing especially on earnings, expenses, risks, liquidity and capital status, profitability, legal and business relations, and material events and business transactions of the Group.

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

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

The Supervisory Board and Board of Management always worked together under the guiding principle of securing BayernLB's future success and growth.

From a regulatory perspective, 2015 was the year in which the first practical implications of the newly formed European Banking Union were felt. Since the start of last year the European Central Bank has been the primary supervisory authority for systemically important banks like Bayerische Landesbank.

This step has also meant some important changes for the Supervisory Board.

New European supervisory practice is based increasingly on the internationally widespread single-tier board system. In concrete terms, this means that the members of the Supervisory Board have been classified as risk takers.

Furthermore, the newly formed joint supervisory teams from the ECB and national supervisory authorities are now looking to hold regular meetings with the chairman of the board and the chairpersons of the Audit Committee and Risk Committee.

4 Report by the Supervisory Board

BayernLB's preliminary talks with the new European supervisory authority on corporate governance have got off to a good start.

Supervisory Board meetings – key points in the discussions

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

Besides the detailed reports of the chairpersons on the activities of the various boards and committees, all ordinary Supervisory Board meetings dealt with the regular reports of the Board of Management on the status of BayernLB's financial position and performance. One area we focused on in the past financial year in this regard was BayernLB's capital situation, particularly in light of the conditions imposed under the EU state aid proceedings.

We subjected the Board of Management's reports to the Supervisory Board to critical scrutiny and requested additional information in some cases, which was always immediately provided in full.

In the past financial year the Supervisory Board also devoted much of its time to the various issues relating to HETA Asset Resolution AG ("HETA"), even holding four special meetings for the purpose. In July 2015, in a memorandum of understanding, the Free State of Bavaria and the Republic of Austria expressed their joint desire to resolve the HETA dispute. At a special meeting on 29 October 2015, after extensively examining the financial and legal aspects of the matter with the assistance of external consultants, the Supervisory Board approved a proposed settlement on the basis of the memorandum of understanding.

Over several meetings, after taking advice from the relevant committees, we discussed Board of Management affairs, in particular the changes to the Board of Management remuneration system. In accordance with the EU state-aid ruling, the absolute upper limit on monetary remuneration for members of the Board of Management was raised from EUR 511,000 p.a. to EUR 750,000 p.a. as at 1 January 2015. Along with the introduction of a performance-based remuneration system for the Board of Management of BayernLB as at 1 January 2015, the Bank raised the annual base salaries of the Board of Management members and introduced a variable remuneration component. The absolute upper limit was not reached in most cases. We also set the targets for the Board of Management for 2015.

Also in 2015, we regularly looked at current supervisory and regulatory issues and discussed with the Board of Management their impact on BayernLB.

In January 2015, as part of the policy dialogue, the Supervisory Board took a close look at the business strategy and related sub-strategies. We also held detailed talks with the Board of Management on the Group's medium-term planning for 2015-2019, which we subsequently approved. The Board of Management also gave us its preliminary indications for the 2014 annual financial statements. We were also informed about the sale of the New York branch's office premises.

In our March meeting, which took the form of a telephone conference, we discussed in detail the business performance in 2014.

In April 2015, the focus was on the Board of Management's Report for financial year 2014, the adoption of the annual financial statements and the approval of the consolidated financial statements. The resolution was adopted on the basis of the recommendations of the Audit Committee and a subsequent detailed discussion with the auditors Deloitte & Touche GmbH Wirtschaftsprüfungsgesellschaft. In accordance with a proposal by the Audit Committee, the Supervisory Board recommended to the General Meeting that the auditing firm Deloitte & Touche GmbH be reappointed to audit the 2015 annual financial statements of BayernLB and the Group, which the General Meeting agreed to.

In our meeting in May 2015 we discussed the updating of key planning parameters and its impact on the medium-term planning for 2015-2019. The Board of Management also reported on the reorganisation of S-Finanzgruppe's guarantee scheme (joint liability scheme). Other important items on the agenda included the status report on the K2 IT project and a presentation by an external speaker on the latest developments in corporate governance in the banking industry.

In the meeting in July 2015 the Board of Management updated us on the current status of the Financial Markets project and on talks with the ratings agencies. We also deliberated on the HR report for financial year 2014 and noted the remuneration officer's remuneration review report and the status report on variable remuneration for employees in financial year 2014.

At the top of the agenda of the meeting in September 2015 was the external expert's report on the various issues relating to HETA, which we noted after careful consideration. The Board of Management also reported on the successful completion of the K2 IT project. We also discussed the status report on IT at BayernLB and noted the update to the IT strategy.

In the last meeting of the calendar year in December 2015, we focused on BayernLB's enterprise value. Other highlights of the meeting were the Board of Management's reports on regulatory and supervisory issues, such as the ECB's decision to create new supervisory requirements (SREP decision). We also approved a necessary change to the Risk Committee's rules of procedure.

4 Report by the Supervisory Board

Supervisory Board committees – an overview

In a total of seven meetings, the Risk Committee dealt with all major issues relating to the risk strategy agreed by the Board of Management and all aspects of BayernLB's risk situation at both Group and Bank level. It discussed the Group-wide risk strategies, which must be updated at least once a year, and approved individual loans requiring authorisation. It also examined reports by the Board of Management on sub-portfolio strategies, risk trends and especially risk-bearing capacity. The Risk Committee also checked whether the terms and conditions in the customer business were in line with the Bank's business model and risk structure.

Other areas the Committee was involved in over the course of 2015 included the impact of the low interest rate environment on BayernLB's sales units and Deutsche Kreditbank AG, the risks posed by pension liabilities and the impact of the expiry of the guarantee obligation on the Bank's liquidity profile.

The Compensation Committee carried out its legally mandated duties in a total of three meetings. It discussed in particular the Board of Management's reports on the structure of the remuneration systems (focusing mainly on their relationship to the business and risk strategy), monitored their suitability and received regular updates on specific issues. It evaluated the impact of the remuneration systems on the Bank's and Group's risk, capital and liquidity situation and discussed the setting and distribution of the bonus pool. The Committee noted the remuneration officers' report on the suitability of the remuneration systems for employees. It also devoted much of its attention to enhancing the remuneration systems for employees and for members of the Board of Management taking into account regulatory requirements.

The Compensation Committee and Risk Committee worked closely together and regularly exchanged information. The same applied to the Compensation Committee and the Nominating Committee. Both worked closely together to prepare various resolutions on Board of Management matters for the plenary session. The Nominating Committee also carried out an assessment of the Board of Management in accordance with the German Banking Act. The Committee met three times during the reporting period, two of which with the Compensation Committee.

In its three sessions the Audit Committee mainly dealt with the monitoring of the accounting process and the effectiveness of the internal control system, the internal auditing system and the system used for risk management. It also discussed in detail the monitoring of the audit of the annual financial statements and of the consolidated financial statements and the review and monitoring of the independence of the auditors, particularly the additional services performed by the auditors for the Bank. In 2015 Internal Audit and Group Compliance reported to the Audit Committee on issues including their respective work and audit findings. The Committee deliberated on the money laundering and financial crime threat analysis and conferred with the auditors Deloitte on what the audit of the 2015 annual financial statements should focus on.

In its two meetings, as required by law, the BayernLabo Committee dealt with all matters in respect of BayernLabo on behalf of the Supervisory Board and passed resolutions concerning BayernLabo's affairs which the Supervisory Board is responsible for. It also discussed the business and risk strategy, refinancing and HR planning with both the Board of Management and BayernLabo Management. The Committee was updated by the Board of Management and BayernLabo Management on business performance and it approved BayernLabo's own contribution to its internally funded programmes.

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

Additional specialist training

The Supervisory Board attended two information events given by specialists from the Bank, external experts on regulatory requirements and supervisory law and representatives of the external auditors on current developments, with the focus on BayernLB. This delved into a range of areas including selected aspects of supervisory law and regulatory requirements, in particular changes to banking regulations as a result of the transfer of supervisory functions to the ECB, and also management logic and methods.

Corporate governance

The BayernLB Corporate Governance Principles set out the regulations on corporate management and corporate supervision that apply to BayernLB on the basis of binding and in-house regulations. The Supervisory Board discussed compliance with these Corporate Governance Principles in 2015 in its meeting on 16 March 2016. The Board of Management, Supervisory Board and General Meeting agreed that they were aware of no evidence that these principles had not been observed in financial year 2015.

Changes to the Supervisory Board

Dr Bernhard Schwab stepped down from the Supervisory Board on 31 October 2015 and was succeeded in his post by Dr Thomas Langer.

Audit and approval of the 2015 annual financial statements

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

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

4 Report by the Supervisory Board

In its meeting of 13 April 2016, the BayernLabo Committee adopted BayernLabo's submitted annual financial statements and approved the management report to BayernLabo's accounts.

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

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

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

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

The Supervisory Board would like to thank all of BayernLB's customers and business partners for their loyalty over this past financial year. It also wishes to thank the members of the Board of Management and all of BayernLB's staff for all their hard work over the past year, and for their huge personal contribution.

Munich, 14 April 2016

On behalf of the Supervisory Board

Gerd Haeusler
Chairman

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Overview of BayernLB

Business model and strategy

BayernLB maintained its customer-focused strategy in 2015. The framework for the strategy is the restructuring plan hammered out with the European Commission between 2009 and 2012 based on the Bank's target structure. Sales activities were further strengthened and deepened in 2015 as part of a project initiated the year before to sustainably expand the earnings base. The overriding objective here is to structure an earnings base that will preserve capital over the long term.

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

One important milestone in resolving the existing legacy issues was reached when the Free State of Bavaria and BayernLB negotiated a settlement with the Republic of Austria on 11 November 2015. The agreement puts an end to all legal disputes between BayernLB, the Republic of Austria and Kärntner Landesholding. The Bank will seek a legally binding ruling only in respect of the EKEG proceedings in Munich dealing with the classification of capital provided as equity, which it has already won in the first instance. The proceedings revolve around the question of whether the loans to HETA Asset Resolution AG, Klagenfurt (HETA), formerly Hypo Alpe Adria Bank International AG, Klagenfurt qualify as equity-replacing shareholder loans under the Austrian Equity Capital Substitution Act (EKEG). BayernLB and HETA have agreed to a prolongation in the interests of obtaining legal clarity. The Republic of Austria paid the Free State of Bavaria EUR 1.23 billion. This amount will only be paid back when and so far as BayernLB receives proceeds from the resolution of HETA.

BayernLB has also already repaid around EUR 2.7 billion in state aid, most of it ahead of schedule. Still remaining is the repayment of EUR 2.3 billion in silent partner contributions to the Free State of Bavaria (originally EUR 3 billion) in order to comply with all major EU conditions and commitments. In Q4 2015 BayernLB applied to the ECB to repay a further EUR 1.3 billion of the silent partner contributions to the Free State of Bavaria.

Owing to its systematic focus on the core business and steady run-off of the remaining non-core business, the BayernLB Group has reduced its total assets from EUR 421 billion in 2008 to EUR 216 billion.

The cost base, which was already favourable relative to peers, was further improved in 2015 thanks to a successful cost cutting programme. Furthermore, extensive measures were carried out as part of the plan agreed in 2014 to optimize sales by developing sales structures capable of achieving goals. In Germany, new offices were opened in Hamburg, Stuttgart and Frankfurt in addition to the existing branches in Nuremberg, Düsseldorf and Berlin. Outside Germany it still has branches in London, Milan, Paris and New York and a representative office in Moscow. One way in which the sales structure has been revamped to focus even more heavily on customer needs is the multi-faceted optimisation of IT interfaces. This will provide a good basis for expanding market share in the core business areas and leveraging new sources of earnings in the medium to long term.

In 2015 the Bank drove forward the repositioning of the capital markets business, a key component of its goal to strengthen the commission-based business in the future. In the commercial and residential real estate businesses, the Bank exceeded its target of roughly EUR 3.7 billion by achieving new business growth of about EUR 4.4 billion. In the retail customer business area, Deutsche Kreditbank AG, Berlin (DKB) grew its customer base to about 3.2 million in 2015. The retail-like savings bank business performed well on the back of a broad and attractive range of products and services. The foreign notes, coins and precious metals business achieved double-digit growth, and BayernLB and the savings banks remained market leaders for subsidised loans in Bavaria.

BayernLB's medium and large corporates business and the associated capital market business remained stable over the year. Earnings fell marginally below expectations due to stiff competition, particularly for Mittelstand customers, combined with customers' low capital spending and very high liquidity.

The still challenging market environment in particular had an impact on BayernLB's operating business in 2015. Accordingly, the main challenges to its earnings base were persistently low interest rates, stiff competition for large corporate and Mittelstand customers, and the growing importance of non-banks.

Building upon this, in the annual strategic process, the Bank drew up and then fleshed out specific measures for all its business areas based on the strategic direction and goals. To ensure long-term competitiveness, the Bank's main aim is to increase and intensify business with existing customers while gaining new customers in the defined core segments. The Bank will work towards achieving this by making sure products and services meet customer needs and by taking measures to step up sales and further improve customer-focused sales structures, partly also by selectively digitalising sales channels.

This, coupled with a solid capital base and the good, longstanding customer relationships that the Bank enjoys, will lay the foundations for preserving existing and gaining new customers going forward.

Internal management system

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

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

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

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

Capital is managed using the Common Equity Tier 1 (CET 1) ratio and the total capital ratio as defined by the Capital Requirements Regulation and Directive (CRR/CRD IV). Besides the capital ratios, which take account of the transitional provisions currently applicable under CRR, capital is also managed using the fully-loaded capital ratios, i.e. where the transitional provisions are not applied. The capital required and the corresponding capital ratios are derived from the Business and Risk Strategies and the latest medium-term planning. Risk-weighted assets (RWA) are allocated, limited and monitored to ensure compliance at all times with the capital ratios planned and required by the regulator as a basic condition for all business activities. As part of overall bank management, target capital amounts, risk-bearing capacity and funding are combined.

Human resources

For BayernLB 2015 was a year about safeguarding the future and also one of profound change. A plethora of projects and initiatives laid the foundations for a stable future. This stability must now be cemented. Human Resources was focused on driving forward the initiatives to refine the business model and on the restructuring, while developing a new self-image and defining BayernLB's set of values based on it.

As at 31 December 2015, 3,186 staff were employed at BayernLB. Headcount fell by 97 over the year. Of these, 51 were based in Germany and 46 abroad.

Corporate responsibility

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

Specialised, independent sustainability rating agencies regularly rate the targets and measures of the Bank's sustainability management on behalf of investors and give it very high scores compared with the sector as a whole. A very welcome development in this connection last year was the decision by respected rating agency oekom research to renew its prime rating for the Group as a whole and for DKB, which was separately rated for the first time.

BayernLB has held coveted oekom prime status since 2001 and thereby demonstrated its continual commitment to sustainable development.

Key changes in the participations portfolio

There were no material changes in the Bank's participations portfolio in financial year 2015.

Report on the economic position

Macroeconomic and sector-specific environment

Germany's economic upturn continued into 2015. As forecast, gross domestic product rose by 1.7 percent on the previous year.[1] This was driven mainly by private consumption, which was sharply up (1.9 percent) year on year. Low oil and energy prices that fell even further buoyed consumers' purchasing power. Above-inflation wage increases bolstered buying power in real terms. Domestic demand was further boosted by spending to house and aid the large influx of refugees. This not only led to increased government spending and investment in infrastructure but also spilled over to private consumption. Capital spending by companies rose 3.6 percent over the year before, in line, for example, with the Bank's 2014 forecasts. As expected, the increase in capex was somewhat more subdued than usual during an upswing due to a welter of uncertainty-fuelling geopolitical factors such as the Greek crisis, concerns about the stability of key emerging markets and an escalation in political and religious conflicts, especially in the Middle East. On balance, foreign trade made a positive contribution to growth in Germany despite higher imports as a result of strong domestic demand. However, exports rose at an even faster pace. The euro's downward drift following the ECB's decision in January to buy back bonds and the US economy's revitalisation more than counteracted the drop in demand in China. Export sales in the eurozone (Germany's most important sales market) along with the currency region's own stronger-than-expected economic renaissance (with year-on-year growth estimated at 1.4 percent) contributed to the 2015 rally in exports.[2]

The steady revival caused the unemployment rate to retreat to 6.3 percent from 6.5 percent.[3] Strong, sustained job creation absorbed the inflows into the German labour market. On a less positive note consumer prices rose by 0.3 percent on the previous year, significantly less than in 2014 and below more optimistic forecasts.[4] The culprit here was the oil price, which, averaged out over the year, tumbled unexpectedly to USD 53/barrel (Brent crude), compared with an average of USD 99 in 2014.

The ECB loosened monetary policy again after inflationary expectations continued to fade over the course of the year. For example, in January 2015 it agreed to start purchasing public-sector securities. Since then it has been buying back EUR 60 billion of public and private-sector bonds each month under its asset purchase QE programme.[5] In December 2015 it once again cut the rate it pays on deposits by 10 basis points to –0.3 percent.[6]

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1 See Statistisches Bundesamt 2016, press release no. 014
2 BayernLB January forecast update of 17 December 2015, published by Eurostat on 29 January 2016
3 Agentur für Arbeit, monthly report December 2015; http://statistik.arbeitsagentur.de/Statischer-Content/Arbeitsmarktberichte/Monatsbericht-Arbeits-Ausbildungsmarkt-Deutschland/Monatsberichte/Generische-Publikationen/Monatsbericht-201512.pdf
4 See Statistisches Bundesamt 2016, press release no. 002
5 ECB press release of 22 January 2015, https://www.ecb.europa.eu/press/pr/date/2015/html/pr150122_1.en.html.
6 ECB press release of 03/12/2015, https://www.ecb.europa.eu/press/pr/date/2015/html/pr151203.en.html.

Bank lending in Germany to companies and households picked up slightly by 2.0 percent (November year on year), but was sluggish despite the low interest rate environment.[7]

On balance in 2015 the euro lost significantly more ground against the US dollar than forecast. The factors behind this were the ECB's decision to start its bond purchases at the start of the year and implement other QE measures and the Federal Reserve's first interest rate hike at the end of the year. Over the course of the year, the large euro short positions based on this divergence in monetary policy resulted in repeated short covering during risk-off periods, pushing the currency up. This limited the depreciation in the euro against the greenback to 9 percent, to just under 1.09 USD/EUR at the end of 2015. The euro also shed more value against pound sterling than forecast. In the final quarter, however, due to weaker economic data from the UK and mounting fears of Brexit, the pound chalked up another significant fall, closing the year at nearly 0.74 GBP/EUR, the forecast at the start of the year. When the Swiss National Bank (SNB) caught everyone completely unawares by removing the EUR/CHF floor in January 2015, the franc initially traded at close to parity with the euro. By the end of 2015, as BayernLB had predicted, the franc had ticked down against to the euro to almost 1.10 CHF/EUR, driven by deeply negative Swiss interest rates and the sapping effect of the "franc shock" on the economy.

In spite of high volatility over the course of the year (especially in Q2 2015 with the Flash Crash and imminent risk of Grexit), yield whipsawing in absolute terms was surprisingly modest. 10-year Bunds opened 2015 with a yield of 0.54 percent, only to close the year slightly higher on 0.63 percent. It was a similar picture for 10-year US Treasuries, the factor weighing the most on the Bunds market. Here year-end yields stood at 2.27 percent, only fractionally higher than their year-start level of 2.17 percent, despite the Fed's interest rate volta-face in December. As anticipated, risk premiums in the European market for covered bonds narrowed in the first half of 2015, only to widen in the second half, so tending sideways for the year as a whole. The ECB's announcement of large-scale bond buybacks stoked the market at the start of the year. As anticipated, further support comes from the high volume of maturing instruments and regulatory preference. Risk premiums widened after that, however, due to an unexpectedly high supply on the primary market in September. On European credit markets, risk premiums on investment-grade bonds, as tracked by iBoxx Euro Corporates, widened by around 30 basis points in 2015 and failed to benefit from the start of the ECB purchases. By contrast, the primary market posted its third-best year ever with new issue volumes of around EUR 295 billion.

Although the German stock market experienced high volatility in 2015, the DAX finished the year as forecast with an overall gain of 9.6 percent to 10,743, making it the fourth year of growth in a row. In 2015 the EURO STOXX 50 (price index) trailed the DAX's performance somewhat, with a 3.8 percent rise to 3,268. But, if dividends are included, it grew by 7.3 percent.

7 See Deutsche Bundesbank 2015: "Banking Statistics – December 2015, Statistical Supplement 1 to the Monthly Report", Table I 6a), p. 10, http://www.bundesbank.de/Redaktion/EN/Downloads/Publications/Statistical_Supplement_1/2015/2015_12_banking_statistics.pdf?__blob=publicationFile.

For the financial services industry, 2015 too was a year of uncertainty marked by a tough market environment. The main challenges were fierce competition, historically low interest rates, and the morass of ever more complex and numerous guidelines and regulations at national and international level.

In addition to the challenges of the sustained low interest rate environment, BayernLB's business activities in 2015 were primarily affected by notably sluggish capital spending by companies, and increasingly cut-throat competition in the core segments. It faces competitors in all three pillars of the German banking landscape: large German and international commercial banks, Landesbanks, and special institutions which operate in selected segments, such as real estate financing. Moreover, non-banks are also increasingly competing selectively against established banks.

In spite of falling demand for credit and the economic uncertainties in European markets, international banks continued to home in on large corporate and Mittelstand customers in Germany in 2015. The proliferation of competitors and plentiful supply of liquidity in the market had a direct impact on BayernLB as prices were cut to gain an edge. Mittelstand firms with good to very good credit ratings were assiduously courted.

Course of business

BayernLB posted a net profit of EUR 402 million in FY 2015 after reporting a net loss of EUR 2,114 million in the previous year. Weighing particularly on the previous year's result were extraordinary items for the HETA exposure, the sale of the Hungarian subsidiary and the sale of the ABS portfolio. The notable turnaround of EUR 2,516 million resulted from a sharp drop in risk provisions in the credit business and significant measurement gains on the value of securities. The net profit for 2015 and a withdrawal from capital reserves was booked to equity and used to settle the losses absorbed by the holders of silent partner contributions and profit participation rights, resulting in net retained profits for the financial year of zero.

By the end of 2015 BayernLB had met its repayment obligations from the EU ruling and already paid back more than half (EUR 2,660 million) of the roughly EUR 5 billion in state aid it must repay the Free State of Bavaria by the end of 2019.

Still remaining is the repayment of EUR 2.3 billion in silent partner contributions to the Free State of Bavaria (originally EUR 3 billion) in order to comply with all major EU conditions and commitments. In Q4 2015 BayernLB applied to the ECB to repay a further EUR 1.3 billion of the silent partner contributions to the Free State of Bavaria.

As at year-end, total assets amounted to around EUR 147 billion, about EUR 31 billion lower than the year before. This drop was largely due to a decrease of around EUR 11 billion in credit volumes and a fall of about EUR 9 billion in the securities holdings (excluding the trading portfolio), mainly as a result of the sale of investment portfolios. The lending business once again had a major impact on the financial position of the Bank's assets.

The financial situation was solid throughout the financial year, and sufficient liquidity was available at all times. BayernLB's overall financial situation is therefore stable.

Results of operations

EUR million	1 Jan – 31 Dec 2015	1 Jan – 31 Dec 2014	Change in %
Net interest income	1,180	1,408	–16.2
Net commission income	198	204	–3.0
Gross profit	**1,378**	**1,612**	**–14.5**
Personnel expenses	–642	–530	21.2
Operating expenses	–396	–365	8.4
Administrative expenses	**–1,038**	**–895**	**16.0**
Net income of the trading portfolio	–215	–120	79.7
Net of other operating expenses, income and other taxes	–13	43	>–100.0
Risk provisions	30	–1,532	>–100.0
Gains or losses on measurement	272	–1,208	>–100.0
Operating profit/loss (operating earnings)	**415**	**–2,100**	**>–100.0**
Gains or losses from extraordinary items	–19	–12	55.1
Income taxes	6	–2	>–100.0
Net profit/loss for the year	**402**	**–2,114**	**>–100.0**
Withdrawals from capital reserve	174	1,536	–88.7
Withdrawals from profit participation certificates	0	83	–100.0
Withdrawals from silent partner contributions	0	495	–100.0
Replenishment of profit participation certificates	–82	0	–
Replenishment of silent partner contributions	–494	0	–
Net retained profits	–	–	–

Rounding differences may occur in the tables.

Net interest income amounted to EUR 1,180 million, down 16.2 percent on the previous year (FY 2014: EUR 1,408 million). This was due to the fall in interest-bearing positions and persistently low interest rates. The drop in interest income from credit and money market transactions (EUR –412 million) and fixed income securities (EUR –181 million) could not be offset despite a decrease in interest expenses (EUR –408 million). Also contributing to the lower net interest income was the EUR 39 million fall in earnings from profit transfers from subsidiaries.

Net commission income fell by 3 percent year-on-year to EUR 198 million (FY 2014: EUR 204 million). A major reason was the decrease in net earnings in the credit business (EUR –54 million). Higher net earnings in the securities business (EUR +11 million) could not compensate for this.

Administrative expenses rose by 16 percent in total to EUR 1,038 million (FY 2014: EUR 895 million). Personnel expenses stood at EUR 642 million, EUR 112 million (21.2 percent) higher than the previous year. Although expenses for wages and salaries fell by EUR 25 million, expenses for pensions and other employee benefits rose by a significant EUR 137 million. This was due primarily to the negative impact of falling actuarial rates on pension provisions. Operating expenses rose by EUR 31 million (8.4 percent) to EUR 396 million year on year. The prime cause was the cost of banking supervisory regulations. This resulted in higher contributions to the deposit gurantee scheme (EUR 48 million) and a higher bank levy (EUR 27 million). The savings from the ongoing initiatives under the cost-cutting programme were not sufficient to offset these charges.

The trading portfolio reported net earnings of EUR –215 million (FY 2014: EUR –120 million), considerably lower than the previous year. This was mainly due to negative currency effects of EUR –168 million (FY 2014: EUR –35 million). Of this amount, EUR –102 million related to foreign-currency effects on CHF-denominated risk provisions and EUR –49 million to the partial buybacks of the USD hybrid bond issued by Bayern Capital LLC. Also contributing to the negative earnings was a EUR –49 million provision for potential losses on interest rate derivatives, which was set up for the first time in 2015. A positive contribution of EUR 17 million to earnings came from mark-to-market valuations on counterparty-specific OTC derivatives (FY 2014: EUR –96 million).

After netting other operating expenses, income and other taxes, the Bank posted an other operating loss of EUR 13 million (FY 2014: other operating income of EUR 43 million). The main factors impacting this item were: sharply higher earnings of EUR 35 million (FY 2014: EUR 2 million) from the sale of receivables, of which EUR 24 million was from the cancellation of profit participation certificates, and sales of real estate, which made a far smaller contribution to earnings of EUR 6 million than in the year before (FY 2014: EUR 55 million). The other taxes item reported a charge of EUR –3 million, a swing of EUR 9 million from the tax income of EUR 6 million posted in FY 2014.

The cost-income ratio (CIR)[8] was 83.7 percent (FY 2014: 58.0 percent). The rise was due to the fall in net interest and commission income and higher administrative expenses.

In financial year 2015 there was a very marked improvement in the costs associated with risk provisions, comprising risk provisions in the credit business and gains or losses on securities in the liquidity reserve, resulting in a gain of EUR 30 million (FY 2014: loss of EUR 1,532 million). This was largely due to a year-on-year fall in risk provisions in the credit business of EUR 1,496 million (FY 2014: EUR +1,021 million) and a EUR 66 million increase in the item gains or losses on the liquidity reserve (FY 2014: EUR –4 million). Compared with the previous year, where waivers of receivables from MKB Bank Zrt., Budapest (MKB) and writedowns on receivables from HETA weighed heavily on risk provisions in the credit business, in 2015, there were no major credit events associated with individual customers, and reversals were made over the course of the year, partly in connection with the restructuring of non-performing loans.

Risk provisions for securities in the liquidity reserve rose sharply to EUR 87 million (FY 2014: EUR 21 million). A boost to earnings came from the EUR 33 million writeup on the carrying amount of the participations of Banque LBLux S.A. in Liquidation, Luxembourg (LBLux i.L.) and EUR 21 million from sales of shares. Earnings were dampened by realised losses of EUR 52 million from the sale of securities and writedowns on securities in the amount of EUR 20 million.

8 A change was made to how CIR is calculated by taking into account expenses for the bank levy and deposit protection scheme. The previous-year's figure has been adjusted; as from 2015 CIR is calculated as follows: CIR = (administrative expenses – expenses for the bank levy and deposit protection scheme)/ ((gross profit + net income/losses from the trading portfolio + net of other operating expenses, income and other taxes).

Gains or losses on measurement of fixed assets swung to a positive EUR 272 million from a negative figure of EUR 1,208 million in the year before. This includes mainly realised gains on the sale of securities in the amount of EUR 180 million and gains on the writeup of participations in the amount of EUR 92 million.

Due in part to the factors described above, the Bank reported an operating profit of EUR 415 million (FY 2014: operating loss of EUR 2,100 million).

BayernLB's net profit for the year resulted in a return on equity (RoE)[9] of 5.3 percent (FY 2014: –27.2 percent).

Gains or losses from extraordinary items came in at EUR –19 million (FY 2014: EUR –12 million). The item largely comprises expenses from restructuring activities as part of the cost-cutting programme. The increase is due to the adjustment of valuation parameters.

In financial year 2015 a release of around EUR 93 million was made from the fund for general bank risks under section 340g HGB (FY 2014: EUR 266 million).

There was a gain on taxes on income and earnings of EUR 6 million (FY 2014: loss of EUR 2 million). The tax expense for the reporting year arose on gains or losses on ordinary activities and amounted to EUR 41 million (FY 2014: EUR 9 million). Tax income of EUR 47 million arose from the other financial years (FY 2014: EUR 7 million). This was mainly due to the findings of the company audit concluded in financial year 2015.

BayernLB posted a net profit of EUR 402 million after reporting a net loss of EUR 2,114 million in the previous year. EUR 82 million and EUR 320 million of this profit was used to replenish the profit participation certificates and silent partnership contributions respectively. EUR 174 million was released from the capital reserve to replenish the silent partner contributions. No distributions on silent partner contributions were made as there was no contractual obligation to do so.

In addition, deferred distribution payments on profit participation certificates for 2013 and 2014 totalling EUR 46 million were paid in full along with the full amount of EUR 23 million due for 2015. Deferred interest payments on silent partner contributions for 2010 to 2015 totalling EUR 9 million remain outstanding. Deferred payments may only be made during the lifetime of these instruments and only if their payment does not produce or increase a net accumulated loss. BayernLB recognised net retained profits for the year of zero.

Financial position

Both total assets and business volume were lower in 2015:

EUR billion	31 Dec 2015	31 Dec 2014	Change in %
Total assets	147.1	178.1	–17.4
Business volume*	175.7	211.0	–16.7

** Total assets plus contingent liabilities and credit commitments.*

9 RoE = operating profit/average, relevant reported equity

BayernLB's total assets fell by 17.4 percent to EUR 147.1 billion year-on-year. Business volume was correspondingly lower. Contingent liabilities and credit commitments fell by a total of 13.0 percent to EUR 28.6 billion (FY 2014: EUR 32.8 billion).

Assets

EUR billion	31 Dec 2015	31 Dec 2014	Change in %
Credit volume*	109.2	120.2	−9.2
Due from banks	28.7	38.5	−25.5
Due from customers	71.1	70.9	0.3
Securities	24.8	33.2	−25.5
Trading portfolio	11.7	25.5	−54.2
Participations/shares in affiliated companies	2.4	2.7	−11.8

** Due from banks and customers plus contingent liabilities from guarantees and indemnity agreements.*

The Bank's lending business continued to shrink. Amounts due from banks went down – as in previous years – decreasing from EUR 38.5 billion to EUR 28.7 billion in Germany and abroad.

Amounts due from customers marginally rose by 0.3 percent to EUR 71.1 billion (FY 2014: EUR 70.9 billion), with increases in medium-dated maturities almost matching falls at the short and the long end. Amounts due from domestic customers decreased by 1.8 percent to EUR 48.7 billion (FY 2014: EUR 49.6 billion). Amounts due from foreign borrowers rose by 5.2 percent to EUR 22.4 billion (FY 2014: EUR 21.3 billion).

The securities portfolio contracted significantly from EUR 33.2 billion to EUR 24.8 billion. Bonds and other fixed-income securities were down by EUR 8.5 billion to EUR 24.6 billion while equities and other non-fixed income securities rose by EUR 38 million to EUR 118 million. The main reason for the large fall in the bonds and other fixed-income securities portfolio was the sale of securities.

The trading portfolio was valued at EUR 11.7 billion (FY 2014: EUR 25.5 billion) and largely comprised derivatives with positive market values, which fell by EUR 12.8 billion. Most of the fall occurred in respect of interest rate and currency derivatives, whose underlying markets experienced high volatility.

In financial year 2015, participations and shares in affiliated companies declined slightly from EUR 2.7 billion to EUR 2.4 billion.

Liabilities

The main items on the liabilities side are as follows:

EUR billion	31 Dec 2015	31 Dec 2014	Change in %
Due to banks	49.5	55.7	–11.1
Due to customers	35.9	32.2	11.8
Securitised liabilities	31.8	45.9	–30.8
Trading portfolio	5.2	19.6	–73.3
Equity	9.5	9.2	3.5

BayernLB once again covered or exceeded its moderate funding needs in 2015 and relatively cheaply. Funding management is focused on further improving the quality and mix of liabilities.

Ongoing and extensive support from central banks, which increasingly took on the role of investors, led to even lower interest rates and high demand from investors for issues, a trend from which BayernLB was able to benefit.

Amounts due to banks fell significantly from EUR 55.7 billion to EUR 49.5 billion (–11.1 percent), mainly in medium-dated maturities and at the long end. Amounts due to customers rose by 11.8 percent to EUR 35.9 billion (FY 2014: EUR 32.2 billion).

Securitised liabilities decreased from EUR 45.9 billion to EUR 31.8 billion, largely as a result of many of the issued bonds falling due. Public-sector Pfandbriefs declined by EUR 1.6 billion to EUR 9.6 billion. Mortgage Pfandbriefs rose slightly, by EUR 0.3 billion to EUR 3.7 billion.

The trading portfolio fell by 73.3 percent to EUR 5.2 billion (FY 2014: EUR 19.6 billion). A significant component was negative market values from derivatives, which fell year-on-year by EUR 14.4 billion to EUR 4.6 billion. This trend was in line with trading assets.

Further information on liquidity management and the liquidity situation is provided in the Risk Report.

Equity

The Bank’s reported equity totalled EUR 9.5 billion as at 31 December 2015, an increase on the previous year’s EUR 9.2 billion.

In spite of a EUR 0.2 billion withdrawal from the capital reserve, equity rose due to the replenishment of the silent partner contributions which had been written down by 18.8 percent in the previous year (EUR 0.5 billion).

Banking supervisory capital and ratios under CRR/CRD IV and KWG

Since 1 January 2014, capital has been calculated for banking supervisory purposes on the basis of CRR/CRD IV.

The figures under the supervisory disclosure as at 31 December 2015 were:

EUR billion	31 Dec 2015	31 Dec 2014
Total RWA	74.9	73.6
Own funds	11.5	12.1
• Tier 1 capital	10.0	10.0
• Common Equity Tier 1 capital (CET 1 capital)	9.8	10.0
Total capital ratio	15.3%	16.4%
Tier 1 capital ratio	13.3%	13.6%
CET 1 ratio	13.0%	13.6%

Based on the adopted annual financial statements as at 31 December 2015, the Bank had CET 1 capital of EUR 9.9 billion and a CET 1 ratio of 13.3 percent (fully loaded: 10.1 percent). Based on own funds of EUR 11.9 billion, the total capital ratio was 15.9 percent.

As at 31 December 2015, the return on capital employed as defined in section 26a para. 1 sentence 4 of the German Banking Act was 0.3 percent (FY 2014: –1.2 percent).

General overview of financial performance

BayernLB’s results of operations in financial year 2015 were solid taking into account the difficult economic environment.

On the whole, a look at the earnings performance in FY 2015 shows that the Bank is well on track in its core business areas and its business model has proven effective even in the difficult market environment throughout the period. Moreover, risks were reduced further and appropriate measures taken for the future in the reporting year. Proper account has been taken of the risks.

BayernLB’s net assets, financial position and operating results were stable in financial year 2015 despite the challenging environment. The Bank’s liquidity was good throughout the reporting period. The Risk Report contains additional information on the financial position.

Events after the reporting period

The following events of major significance to BayernLB occurred after the close of financial year 2015:

In its letter of 6 January 2016 the ECB approved BayernLB's request to repay part (EUR 1.3 billion) of the Free State of Bavaria's silent partner contributions, which are thereby no longer counted as regulatory capital.

No other events of major significance occurred after the close of financial year 2015.

Report on expected developments and on opportunities and risks

Report on expected developments including opportunities and risks

Economic environment

The forecasts set out in the following report relating to BayernLB's performance in 2016 may differ substantially from the actual outcome should one of the following uncertain factors or other uncertainties occur or should the assumptions underlying our forecasts prove incorrect. BayernLB is under no obligation to update its forecasts in light of new information or future events outside the regular reporting schedule.

Following a slight cooldown in the German economy in the second half of 2015, growth momentum is likely to pick up to a small degree in 2016. Averaged out over the year, GDP is set to grow by 1.6 percent year on year. Persistently low interest rates (which favour consumption and capital spending) coupled with the renewed fall in the oil price at the start of the year should act as an economic stimulus. Private consumption should increase significantly once again and confirm its role as one of the economy's main drivers. BayernLB also expects government spending for the influx of refugees to provide a short-term fillip. In spite of the buoyant economy, the Bank is not expecting any major increase in capital spending. The reasons for this are once again the persistently high uncertainty over the strength of the global economy and the elevated geopolitical risks, notably the concerns about the stability of the European Union against the backdrop of the Brexit referendum, Greece's unresolved problems and the refugee crisis. Low interest rates coupled with high immigration into Germany are expected to further support the labour market. Demand for residential property is forecast to remain high, especially in large metropolitan areas, and this should push up spending on (residential) construction in 2016 also. German exports should continue to be supported by the euro's weaker value against other currencies and the economic recovery in the eurozone, Germany's main market for exports. On balance, however, foreign trade is likely to stymie growth somewhat as economic weaknesses in some emerging countries and oil-exporting nations will curb robust export growth and imports are likely to pick up momentum in the wake of high consumer demand. Inflationary pressures in the eurozone and Germany will probably remain minimal partly as a result of the renewed fall in the oil price which is likely to stay low. Given fierce competition, especially in the peripheral countries, falling input prices should largely be passed on to consumers. Germany is also likely to significantly undershoot the ECB's inflation target of under, but close to 2 percent once again. The Bank is expecting another easing of the ECB's monetary policy in March given the increased downside risks to the inflationary outlook. This should include a fresh rate cut and an expansion in the bond buyback programme. The biggest risks to economic growth in the eurozone are the notable weaknesses in emerging economies and a renewed flare up in concerns about the stability of the currency union and the European Union itself.

Regarding exchange rates, in the first half of 2016 BayernLB is expecting the euro to moderately decrease in value against the US dollar. First it assumes the ECB will take a more dovish stance in its monetary policy in March, causing the euro to fall. Second elevated risk aversion on the markets is likely to ease, resulting in stronger capital flows out of the the eurozone again. The Bank, however, expects the Federal Reserve to hold off on another rate hike in the first half of the year, probably limiting the appreciation of the greenback against the euro. The dollar is not expected to gain ground against the euro once more until the Fed implements a second hike in September with the prospect of further increases in 2017. The Bank is expecting a USD/EUR exchange rate of 1.03 by the end of 2016, a fraction above parity. Pound sterling should also benefit from further ECB loosening. But Brexit fears and dampened interest rate expectations will probably continue to weigh on GBP. Shortly before the Brexit referendum on 23 June 2016, the currency is likely to weaken significantly to 0.80 per euro. If the country votes to stay in the EU and the Bank of England starts to tighten rates at the end of 2016, the pound will probably recover to 0.70 per euro. BayernLB expects to see less volatility in the EUR/CHF exchange rate. The franc will probably appreciate against the euro, but only slightly, if the SNB does not respond to the ECB's renewed dovish line with a cut in its deposit rate.

In 2016, on the bond market, investors will remain heavily dependent on the central banks' forward guidance. This will trigger heightened uncertainty as the central banks themselves (for fear of committing policy mistakes in an environment that is very hard to read) only act on the basis of data and are therefore focused very much on the short term. In 2016 scarcity will continue to be a determining factor for German government bonds. Purchases of German bonds are expected to increase as a result of the extension of QE and the asset pool will be expanded as a result of the relaxation of ISIN limits and the inclusion of bonds issued by German states, but investor appetite will tend to wane. By the year-end BayernLB expects 10-year Bunds to be yielding around 0.8 percent. Volatility risk will remain high despite only a small change in yields. On the covered bond market BayernLB forecasts spreads will narrow moderately in 2016 on the back of the boost to covered bonds when the ECB steps up QE over the course of the year. Further support will come from the high level of maturing assets and regulatory preference compared with other asset classes. After a very sobering 2015, the environment for the European corporate bond markets will stay challenging in the coming year. Even if local conditions are by no means bad, global risk factors in the shape of poor growth in emerging markets and low commodity prices will take their toll. For 2016 BayernLB expects risk premiums in investment grade (iBoxx Euro Corporates) to widen by 50–60 basis points on average.

It is also forecasting seesawing prices on equity markets in 2016. The sharp price corrections at the start of the year should be made good over the course of 2016 if investor fears about a major downturn in the global economy on the back of a slowdown in economic growth in China and the oil price slump prove exaggerated, as expected. Ultra-loose monetary policy (particularly in the case of the ECB) will also help rally stock markets in 2016. The Bank therefore does not foresee a downturn on equity markets. Given the (geo)political crisis, sustained volatility must, however, be factored in.

BayernLB's future performance

BayernLB's strategy over the coming years will continue to be based on the agreements that emerged from the EU state-aid proceedings in 2013. The key condition is therefore the repayment of state aid of around EUR 1 billion to the Free State of Bavaria, which will be still outstanding after the payment to the Free State of Bavaria of EUR 1.3 billion in April 2016. For it to do so its core business must remain stable and it must wind down the remaining non-core business in the Bank's Non-Core Unit (NCU) as planned.

In 2015, as one of the key cornerstones of BayernLB's future strategic direction, the Bank defined an overarching strategic course and drew up the specific measures for achieving it. For 2016 and beyond, the focus of the Bank's overarching strategic goals will be on sustainably expanding the earnings base by growing business with customers in core business areas, strengthening the low-risk commission business and developing robust sales structures capable of achieving sales targets. Also among the strategic goals is ensuring that the Bank has a capital base suitable for its long-term needs and maintaining and further improving the healthy cost base. BayernLB's market presence will continue to be shaped by its universal bank-like business model focused regionally on Bavaria and Germany. BayernLB offers a comprehensive product mix to its corporate, real estate and asset management customers, the savings banks and public sector.

In corporate banking, the Bank's focus in 2016 will mainly be on strengthening sales, expanding the customer base and cross-selling. The Bank believes its expanded regional sales network will boost business, especially with Mittelstand companies. In this regard, the expansion of BayernLB's business through its strategic partnership with private bank Joh. Berenberg, Gossler & Co. KG., Hamburg (Berenberg) is already showing the first signs of success. Existing and new corporate customers of both companies have shown an interest in the expanded line of financing and investment banking products.

With regard to commercial and residential real estate customers, the focus of the strategic goals will be on boosting sales activities and increasing market penetration by offering comprehensive customer relationship management across the whole product range. BayernLB expects to achieve steady portfolio growth between now and 2019 by implementing the planned increases in business with existing customers and expanding the customer base, for example by opening new sales offices.

BayernLB's work with the savings banks and municipalities will continue to be built on a solid basis of full-service, sales-orientated customer relationships and products tailored to meet their needs.

As before, interest rates are expected to remain low. This will lead to a shift (particularly by institutional investors) to bonds and Schuldschein note loans at the long end as they pay higher interest. Market liquidity should continue to be plentiful in 2016, thanks to the continued presence of central banks looking to buy Pfandbriefs. Nevertheless, the priority of funding management, as last year,will remain on diversifying the funding base more. The goal is to continue the expansion of the funding mix that occurred last year to create a secure funding base even after central banks scale back their asset purchasing programmes. This has been assured for 2016, partly by building up extensive liquidity cover assets.

BayernLB expects to post net income in the lower three-digit millions in financial year 2016. This forecast is subject to the proviso that no major negative economic or financial events occur in the eurozone or global economy. Further significant regulatory intervention could also impact the Bank's planning.

The American firm VISA Inc., San Francisco, California (Visa Inc.) announced on 2 November 2015 that it expected to acquire the shares in London-based VISA Europe Limited, London, UK (Visa Europe) in Q2 2016 after obtaining all required approvals. As a member institution of Visa Europe Limited (Visa Europe), BayernLB expects to receive a small amount. Based on information received on the planned structure of the transaction, BayernLB is due to receive about 74 percent of this amount in cash and about 26 percent in preference shares in Visa Inc. The amount is subject to change depending on the transaction costs and justified objections from participating Visa Europe members. The transaction between Visa Inc. and Visa Europe also contains an earn-out agreement, which provides for an additional payment to BayernLB four years after the transaction is concluded. It is not known what the impact of the earn-out agreement will be on the BayernLB Group's results.

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

Risk report

Principles

This risk report is prepared in accordance with the requirements of the German Commercial Code (Handelsgesetzbuch (HGB)) on risk reporting. The following information relates to the provision in section 289 para. 5 HGB, which requires corporations within the meaning of section 264d HGB in conjunction with section 340a HGB to describe the key features of the internal monitoring and risk management system they use for the accounting process.

Key developments in 2015

- Stable risk profile
- Core business expanded in line with strategy
- Risk-bearing capacity maintained at all times
- Good liquidity

BayernLB had a healthy risk profile in financial year 2015.

Gross credit volume fell by EUR 14.3 billion to EUR 172.0 billion.

The Bank's good portfolio quality was maintained and supported by the expansion of the core business with good quality assets and by the positive financial and economic environment in Germany, BayernLB's core market.

Thanks to strict risk discipline, the key metrics of portfolio quality remained stable, with a high investment grade share of 83.8 percent (FY 2014: 84.3 percent) and non-performing loan ratio of 2.9 percent (FY 2014: 2.8 percent). In the core business, the non-performing loan ratio was 0.5 percent (FY 2014: 0.7 percent).

Risk-bearing capacity was maintained throughout financial year 2015 as the provision of risk capital was solid. In addition, BayernLB had a good supply of liquidity on hand.

Internal control and risk management system

Tasks and objectives

BayernLB has established an internal control system (ICS) to ensure that its accounts are properly prepared and reliable. This includes principles, procedures and measures for ensuring the accounts are produced in an efficient and cost-effective manner. Consequently, the internal control system helps to limit risks in the accounting process and plays a key role in providing a true and fair view of BayernLB's financial performance and financial position.

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

Management structure

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

Management structure

Supervisory Board and committees

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

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

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

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

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

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

Board of Management and committees

BayernLB's Board of Management is responsible for providing BayernLB 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 BayernLB level. To prevent conflicts of interest, Sales and Risk Office units and Trading and Settlement units are functionally separated within the business organisation.

The Board of Management is supported by the following committees:

The focus of the Management Committee established in 2015 is to advise and support the Group Board of Management in respect of BayernLB's strategy and implementation of the Management Agenda. Besides BayernLB's CEO, individual members of the BayernLB and DKB Boards of Management also take part in the timely and regular exchanges of information, depending on the topics under discussion. Senior management is represented by the division managers of BayernLB's and DKB's business areas, the heads of the Group Treasury, the Group Risk Control, Group IT, Organisation, Human Resources, Group Strategy & Group Communications divisions and one representative each from the Credit Analysis divisions and the Financial Office central area.

The CFO/COO Committee oversees the introduction and implementation of standards and guidelines for consistent accounting across the Group and exchanging information on current legal and technical developments in accounting, supervisory law, regulatory reporting, tax, business planning, controlling and equity planning and allocation. The committee prepares Board of Management decisions for the Group Board of Management and the relevant bodies of subsidiaries that affect the use of IT and communications technology at BayernLB Group and looks at issues relating to IT and procurement of goods and services. In addition to the CFO/COO, the members include the senior management from BayernLB's and DKB'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 member in charge of capital markets and senior management from the risk control, financial control, treasury and accounting units.

Senior Management

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

The Investment Committee decides for the Corporates & Mittelstand business area on the German connectivity of customers or transactions, satisfying the conditions imposed by the EU for transactions with borrowers whose registered office is outside Germany. Moreover, the Investment Committee is a standing body in Corporates & Mittelstand 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 respective division managers in the business area act as the heads of the Investment Committees.

The Group Risk Committee focuses on strengthening risk management at BayernLB and, in particular, the BayernLB Group. The Group Risk Committee votes on loan decisions which go before the Group Board of Management and also those at DKB above a certain amount and rating structure. Moreover, the Group Risk Committee is the highest competence holder below the Group Board of Management and decides on submissions related to credit risks that do not require the approval of the Board of Management owing to their size. In addition, it also closely examines the Group's total risk profile across all types of risk.

Depending on the issue, the Group Risk Committee is chaired by either the head of the Credit Analysis or Group Risk Control divisions within the Risk Office central area. 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. The head of the Restructuring Unit chairs this committee. Other members include the division's department managers and/or chief specialists.

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 Product Committee is responsible for complying with MaRisk requirements for the launch of business activities in new products. It is mainly responsible for approving new products and regularly approving the valuation models used and changes to these models. The Product Committee comprises senior management from the business areas and the relevant divisions of the central areas and is organised from the Group Risk Control division.

The Remuneration Committee advises the Board of Management on the structuring of a suitable, transparent remuneration system promoting BayernLB's sustainable growth. One of its key focuses is on variable remuneration. The Committee also supports the Remuneration Officer monitor the remuneration system in accordance with regulatory requirements (especially under section 25a of the German Banking Act (KWG), the Institution Remuneration Ordinance (Instituts-Vergütungsverordnung (IRO)) and BayernLB's business model. The head of HR chairs this committee. The Remuneration Committee also comprises the senior management of the Real Estate, Mittelstand, RO Credit Analysis, Capital Markets, Global Structured & Trade Finance, Group Risk Control, Audit, Group Compliance and Controlling divisions, the Remuneration Officer and his or her deputy.

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, Mid Office and Research divisions.

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

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

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 and Country Risk Strategy for individual customers, sectors, countries and special products such as leasing, project finance and acquisition finance, is responsible for ongoing credit and transaction analysis and votes on behalf of the Risk Office in the credit approval process. The same applies to DKB.

The Mid Office division established in 2015 pools the credit-related tasks previously located in the sales and analysis units and the Restructuring Unit division. The Mid Office frees the sales and credit analysis units to concentrate on their primary tasks and with its standardised, lean processes makes a key contribution to boosting customer business and achieving the planned business growth. The establishment of this new division was buttressed by the introduction of a more streamlined credit process, which will provide for significantly more standardised processing of new and existing customer transactions that meet certain criteria. BayernLB also brought in a new loan booking system.

The Research division is responsible for risk assessment of countries, sectors and issues, economic analyses and forecasts, and also capital market studies and recommendations (including on bonds and notes from individual issuers). The division contributes to risk management at the BayernLB Group and provides analyses and forecasts for BayernLB customers and for the securities and currency business of the Financial 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 corporates portfolio of Banque LBLux S.A. in Liquidation which has been transferred to BayernLB.

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

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 central area 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. Upon request, the auditor takes part in the discussions of the Audit Committee and Supervisory Board on the consolidated financial statements and reports on the key findings of its audit.

The Controlling division is also 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, Operations & Services and Organisation 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 adequacy and efficacy of the internal control system and risk management.

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

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

Scope of monitoring and monitoring procedures

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

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

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

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

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

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

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

BayernLB has outsourced some of its services (principally IT services, rating services and securities back office operations) to external companies.

Both central and local units within BayernLB ensure these outsourced services are subject to the internal control system:

- The Outsourcing Central Registry in the Corporate Center central area sets the rules for the outsourcing process in BayernLB and provides centralised status reports on outsourcing to the Board of Management.
- The outsourcing officer locally monitors and manages external service providers as required by section 25b KWG and MaRisk AT 9, in the functional units responsible for accepting the services.
- The Group Risk Control division records and evaluates outsourcing risks and submits regular cross-divisional risk reports to the Board of Management.
- Companies performing outsourced activities are also regularly checked by BayernLB's Internal Audit division.

Risk-oriented management

Risk Strategy

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

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

The Risk Strategy sets the following main objectives and guidelines:

Objectives:

- Ensure on a sustainable basis that the amount and quality of capital is appropriate from both a regulatory and economic perspective
- Ensure BayernLB is solvent at all times
- Achieve sustainable earnings using value-based management of RWA

Guidelines:

- BayernLB 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
- BayernLB applies high ethical principles in its business activities

The economic capital available for allocation is based on the long-term capital available and was allocated within BayernLB by risk type in line with the Risk Strategy in force for 2015.

The basis for setting the Risk Strategy is the annual risk inventory carried out in accordance with MaRisk and the risk-bearing capacity calculation. The risk inventory examines not only BayernLB but also the participations and special purpose entities in the BayernLB Group, regardless of whether they are consolidated under German commercial law or supervisory requirements. The BayernLB Group's core risks are counterparty risks resulting from credit and country risks, market risks including risks from pension liabilities, operational risks, participation risks, the risk of a rise in the cost of liquidity, business and strategic risks, including reputational risks,and real estate risks from the real estate in the BayernLB Group's portfolio. The report will look at the individual risk types in greater detail further on.

Capital management

Capital management is based on a planning process that incorporates strategic, risk-based and regulatory factors into a long-term operational plan. As part of this process, the Risk Strategy, which is developed on the basis of the Business Strategy, is reviewed and modified as necessary.

Integrated risk and earnings reporting

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

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

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

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

Regulatory capital adequacy (solvency)

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

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

Regulatory capital is distributed in the planning process to each planning unit through RWA. The planning units (Group units) are the defined business areas/central areas within BayernLB, 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. Compliance with RWA limits available to each Group unit is constantly monitored by ALCO. The Board of Management receives monthly reports on current RWA utilisations.

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

Economic capital adequacy (risk-bearing capacity)

Economic capital adequacy (risk-bearing capacity) is monitored using the Internal Capital Adequacy Assessment Process (ICAAP) at the BayernLB, DKB and BayernLB Group level. 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 targets 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 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 risks of a rise in the cost of liquidity, and the risks from real estate in the BayernLB Group's portfolio).

The Risk Strategy, in tandem with the Business Strategy, sets the risk appetite and the framework for risk planning. The risk capital requirement for business and strategic risks, real estate risks and the risks of a rise in the cost of liquidity are deducted directly from economic capital. The remaining available economic capital can be allocated to credit, country and market risks, risks from pension liabilities, operational risk and participation 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. The upper limit for the Group in 2015 was EUR 7.5 billion and corresponds to 64.3 percent (FY 2014: 76 percent) of the available economic capital (EUR 11.7 billion (FY 2014: EUR 13.2 billion)).

The planning of economic risks for the risk-bearing capacity calculation and the planning of the economic capital are integral parts of the Group planning process described under the "Regulatory capital adequacy" section. 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 monthly to the Board of Management as part of the regular ongoing internal risk reporting, together with the results and key assumptions of the stress tests performed.

Current situation

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

Risk capital requirements

EUR million	31 Dec 2015	31 Dec 2014
Risk capital requirements	**3,585**	**3,121**
• from capital provided to customers and other participations	**3,104**	**2,347**
credit risk and country risk (counterparty risk)	795	1,074
market risk	1,770	921
operational risk	439	263
participation risk	99	89
• from capital provided to institutions of the BayernLB Group	**481**	**775**
credit and participation risks	481	775

The increase in the risk capital requirement was largely due to market risk and associated risks relating to pension liabilities in the amount of EUR 1.3 billion (FY 2014: EUR 723 million).

BayernLB had adequate risk-bearing capacity at all times during the financial year and as at 31 December 2015.

As part of BayernLB's stress testing programme, the possibility of a severe economic downturn (ICAAP stress scenario) is routinely calculated. Under the severe recession scenario, the risk capital requirement for the individual risk types rises to a total of EUR 6.5 billion (FY 2014: EUR 8.0 billion).

A severe economic downturn (ICAAP stress scenario) would see 57.4 percent utilisation of available economic capital (FY 2014: 63.6 percent). The regulatory minimum capital ratios were met in the going concern scenario.

Inverse stress testing

Inverse stress tests were conducted at the BayernLB level as an integral element of the stress testing programme. Contrary to the logic of conventional stress tests, scenarios that could potentially jeopardise the existence of the Bank's current business model are identified using a retrograde procedure. Inverse stress tests are conducted for both individual risk types and across all risk types. The integration of different divisions in the scenario parameters makes it possible to analyse varying perspectives of BayernLB's risk and earnings situation simultaneously and integrate them into the stress testing in a consistent manner. Both qualitative and quantitative analyses are carried out, based in particular on the effects of current developments in external and internal risk factors on BayernLB.

Recovery plan

The BayernLB Group has had a recovery plan in place since 2013, in accordance with the German Recovery and Resolution Directive (Sanierungs- und Abwicklungsgesetz (SAG)) and Minimum Requirements for the Design of Recovery Plans (MaSan). This sets out the options open to the BayernLB Group to ensure it has sufficient capital and liquidity even in situations of financial stress. Thresholds for one and two-stage indicators are continuously monitored so that early action can be taken to ensure solvency. The status of these indicators is reported to the Asset Liability Committee and the Board of Management monthly and to the Risk Committee of the Supervisory Board quarterly in the risk reporting.

The recovery plan is updated annually and was revised in 2015, largely to meet the EBA's supervisory requirements. The thresholds for the one and two-stage indicators in the recovery plan based on the German Recovery and Resolution Directive (Sanierungs- und Abwicklungsgesetz (SAG) and Minimum Requirements for the Design of Recovery Plans (MaSan) were complied with by comfortable margins. Against this background, no recommendations for action needed to be sent to the ALCO, which has taken over the tasks of the dissolved Recovery Committee.

Liquidity management

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

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

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

During FY 2015, responsibility for strategic and operational liquidity management at BayernLB belonged to the Group Treasury and the Structuring & Trading divisions of the Financial Markets business area. This is also where adequate liquidity reserves are ensured at all times and operational liquidity is managed on the market. Liquidity overviews (e.g. capital flow accounts, limit utilisation ratios and Group-wide risk monitoring of liquidity risks) are produced in the Group Risk Control division of the Risk Office central area. The cross-divisional Liquidity Management Committee, under Group Risk Control, consults with the Group Treasury and the Controlling divisions on issues such as liquidity and refinancing strategies and acts as a driving force by preparing courses of action for decisions to be taken by the Asset Liability Committee.

BayernLB started early to increase both the quantity and quality of its substantial liquidity reserves in order to comply with the future requirements under MaRisk and the Capital Requirements Regulation (CRR). This created a stable basis for active management of liquidity reserves in 2015.

The active management of liquidity reserves, also includes complying with the Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) requirements contained in CRR. In line with regulatory requirements BayernLB's figures for ratios are regularly reported.

Regulatory changes relating to liquidity risk in addition to these are constantly monitored so that they can be implemented as scheduled in close cooperation with all units affected. These mainly involve the new liquidity rules under CRR/CRD IV and the related technical standards issued by the EBA on Additional Liquidity Monitoring Metrics (ALMM). This ensures reporting requirements can be met and liquidity can be efficiently managed in the future.

Credit risk

In accordance with its business model as a corporate and real estate lender and partner to the savings banks with a regional focus on Bavaria and Germany, the largest risk for BayernLB is credit risk.

Definition

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

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

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

Credit Risk Strategy and approval process

The Credit Risk and Country Risk Strategy – which is part of the comprehensive Risk Strategy – is set by the Board of Management for BayernLB 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.

Risk measurement

Risk classification procedure

In accordance with the Internal Ratings Based Approach (IRBA), BayernLB uses rating procedures that are approved by the supervisory authorities. To maintain and refine the rating procedures, BayernLB works mainly with RSU Rating Service Unit GmbH & Co. KG and Sparkassen Rating und Risikosysteme GmbH. All rating procedures are subject to an ongoing validation process to ensure they are able to correctly determine the default probabilities in each customer and financing segment. This process draws on quantitative and qualitative analyses. These assess the rating factors, the accuracy and calibration of the procedure, the data quality and the design of the model using statistical and qualitative analyses, and users' feedback.

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

Exposure at default

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

Collateral valuation and loss ratios

The starting point for valuing collateral is the market value. This is reviewed on both a scheduled and ad-hoc basis and adjusted whenever there is a change in valuation-relevant parameters. Based on these individual collateral valuations, the Bank estimates the size of the loss upon default, which is principally calculated using differentiated models for realisation ratios (average expected proceeds from the realisation of collateral) and for recovery rates (share of proceeds from the unsecured portion of a claim). These models are likewise maintained and improved in partnership with RSU Rating Service Unit GmbH & Co. KG using pooled data and internal loss data. All models are regularly validated and, if necessary, checked for their representativeness.

Expected loss

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

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

Unexpected loss

BayernLB calculates unexpected loss at portfolio level using a simulated credit portfolio model, which estimates default risks on a one-year horizon. Dependencies among borrowers in the portfolio are estimated using a country and sector-specific correlation model. In addition, the effects of rating migrations and uncertainties in calculating loss ratios are also taken into account. The impact of an unexpected loss by an individual business partner on the whole portfolio is also calculated for risk analysis purposes.

Risk monitoring

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

Early warning

All relevant borrowers and exposures are monitored daily using the Bank's internal early warning system. The goal is to identify negative changes in the risk profile by means of suitable early risk warning indicators (e.g. based on market price information such as CDSs or share prices) so there is sufficient scope for action to avoid or minimise risk.

Risk capital requirements

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

Counterparty default risk limits for borrowers/borrower units

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

Sector and country limits

To prevent risk concentrations, risk-based limits are set for sectors and countries. Sector and country limits apply Group-wide. Gross credit volumes are limited. Limits are set by BayernLB's Board of Management. These are based in part on the sector, country and portfolio structure analysis and vote by the Risk Office central area. In addition to the sector limits, additional specific guidelines are set for each sector and approved by the Board of Management to safeguard portfolio quality. Sector and country limits and guidelines are monitored centrally by BayernLB's Group Risk Control division. Sector and country strategies are reviewed annually. Irrespective of this, strategies can be changed as events arise.

Collateral

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

Up to the sale of the ABS portfolio in autumn 2014, collateral also included monolines (insurance companies that specialise in hedging structured securities) for the ABS portfolio to the extent this can be recognised as protecting value.

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

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

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

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

Problem loan handling and forbearance

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 problem loans in the substandard and doubtful categories as forbearance exposures.

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

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

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

Risk provisions

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

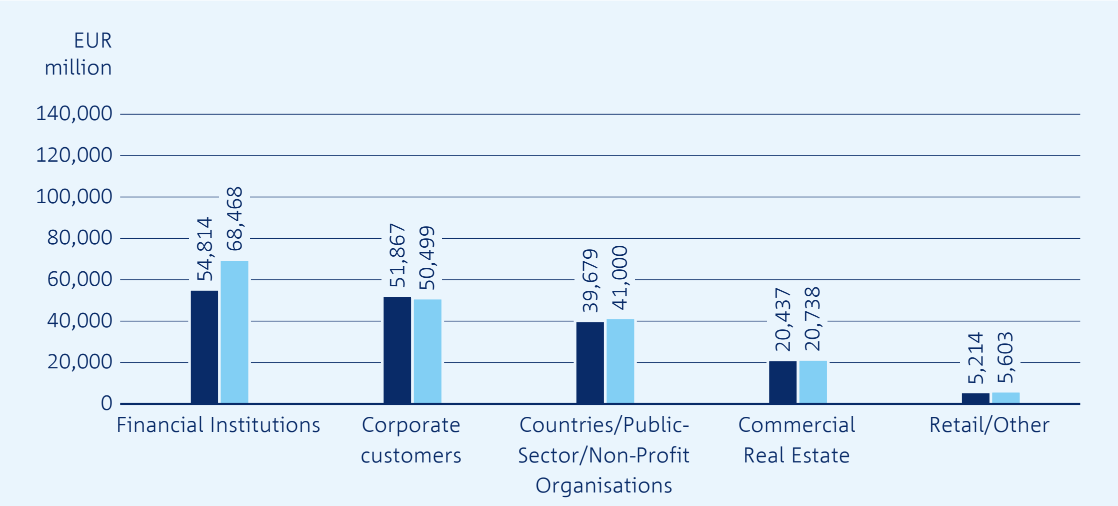
Current situation

The following discussion of the credit portfolio is based on the internal risk reports to the Board of Management and the Risk Committee of the Supervisory Board.

Credit volume comprises the gross volume of credit transactions (drawdowns plus unutilised commitments and undrawn internal current account facilities) and the risk-weighted amounts of trading transactions (market values and the credit equivalent amount from derivative transactions).

It contains a breakdown of BayernLB’s gross credit volume by sub-portfolio, rating category, region and issuer risks.

Gross credit volume by sub-portfolio



■ 31 Dec 2015 Total: EUR 172,011 million
■ 31 Dec 2014 Total: EUR 186,308 million

In financial year 2014, the gross credit volume of BayernLB including Bayerische Landesbodenkreditanstalt (BayernLabo) decreased from EUR 186.3 billion to EUR 172.0 billion, a fall of around 7.7 percent (EUR 14.3 billion). In 2015 the gross credit volume was largely affected by two key developments: the reduction in transactions with Landesbanks and savings banks backed by government guarantees and its partial compensation by an expansion into new business with corporate customers in target sectors and commercial real estate customers. Gross credit volume also fell as a result of the reduction in undrawn internal current account limits for other financial institutions and winding down of the non-core portfolio.

Financial Institutions sub-portfolio

In 2015 the largest decrease in credit volume took place in the Financial Institutions sub-portfolio, which contracted by EUR 13.7 billion or 19.9 percent. Gross credit volume in the banks/savings banks sector fell due to the maturing of transactions with Landesbanks and savings banks backed by government guarantees (totalling EUR 9.1 billion) and a reduction in undrawn internal current account facilities for other financial institutions (EUR 1.9 billion). Exposure to the bank sector also fell partly due to repayments by individual customers in emerging markets during the ordinary course of business. This was partly compensated by liquidity stockpiling with large European and North American companies.

Corporates sub-portfolio

Despite the tough interest rate environment and excessive liquidity in the market, the gross credit volume in the Corporates sub-portfolio rose significantly by EUR 1.4 billion or 2.7 percent to EUR 51.9 billion (FY 2014: EUR 50.5 billion) through new business. The German share remained stable at 61.5 percent (FY 2014: 62.8 percent).

As in the previous year, BayernLB focused on German corporates and rigorously reduced gross credit volumes with large customers with no connection to Germany and corporates allocated to the Restructuring Unit. As a result, the non-core portfolio was reduced by more than a third (EUR 1.2 billion). The remaining exposure contains mainly smaller exposures with gross credit volumes of up to EUR 50 million.

Sector performance was mixed. The largest increase was in the consumer goods, tourism, wholesale and retail, manufacturing and engineering and the telecoms, media and technology sectors.

With a volume of EUR 9.3 billion (FY 2014: EUR 9.0 billion) the utilities sector accounted for nearly one fifth of the total Corporates sub-portfolio. There was an increase in the share of renewable energy financing to German customers for projects such as wind farms. The remainder of the gross credit volume in the utilities sector decreased at the expense of conventional energy producers and multi-utilities. The decrease was spread granually over both the conventional electricity industry and municipally-owned and operated utility companies.

Exposures to customers in the raw materials, oil and gas industry sector were wound down in line with strategy, especially in the Non-Core Portfolio. As at the reporting date the portfolio with customers in the oil and gas industry accounted for 47.6 percent or EUR 2.4 billion of the gross credit volume (FY 2014: EUR 2.7 billion); the remainder of the sub-portfolio consists mainly of customers in the steel industry.

Gross credit volumes with the automotive industry also declined.

The investment grade share remained almost stable at 71.6 percent (FY 2014: 72.5 percent).

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

The small fall of EUR 1.3 billion in the Countries/Public-Sector/Non-Profit Organisations sub-portfolio was primarily a result of the EUR 1.5 billion reduction in business with the public-law institutions. Business with the Deutsche Bundesbank, the German government and the US and the UK central banks, however, grew. Customer relationships in this sub-portfolio were utilised in part for liquidity management.

Commercial Real Estate sub-portfolio

The total exposure in the Commercial Real Estate sub-portfolio was almost unchanged at EUR 20.4 billion (FY 2014: EUR 20.7 billion) after the Bank steadily expanded the core business, while winding down the non-core business as planned.

In 2015 the main focus was on new and existing residential and commercial customers. The new business won during the year increased the core portfolio through the addition of residential and commercial real estate mainly in Germany. The German share stood at 72.9 percent (FY 2014: 68.6 percent).

BayernLabo accounted for EUR 2.6 billion (12.6 percent) of the gross credit volume.

The collateralisation ratio of 71.9 percent (FY 2014: EUR 71.0 percent) in the Commercial Real Estate sub-portfolio remained high in 2015. The gross credit volume of EUR 20.4 billion was offset by collateral with a value of EUR 14.7 billion.

The investment grade share rose year on year to 79.2 percent (FY 2014: 74.8 percent). The average rating improved to MR 11 (FY 2014: MR 12).

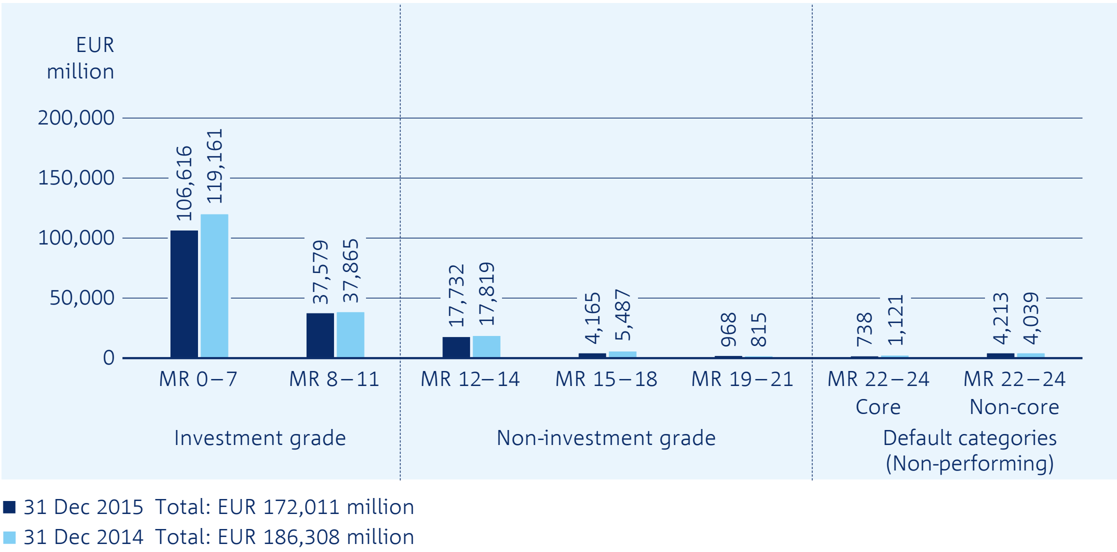
The non-core portfolio fell by an additional EUR 1.0 billion or 29.3 percent, mainly due to repayments in western Europe.

Retail/Other sub-portfolio

In Retail/Other, the smallest sub-portfolio, gross credit volume fell slightly by EUR 389 million to EUR 5.2 billion (FY 2014: EUR 5.6 billion).

The decline was mainly a result of the planned reduction in retail customer business, which is no longer a core activity of BayernLB and is being run down.

Gross credit volume by rating category



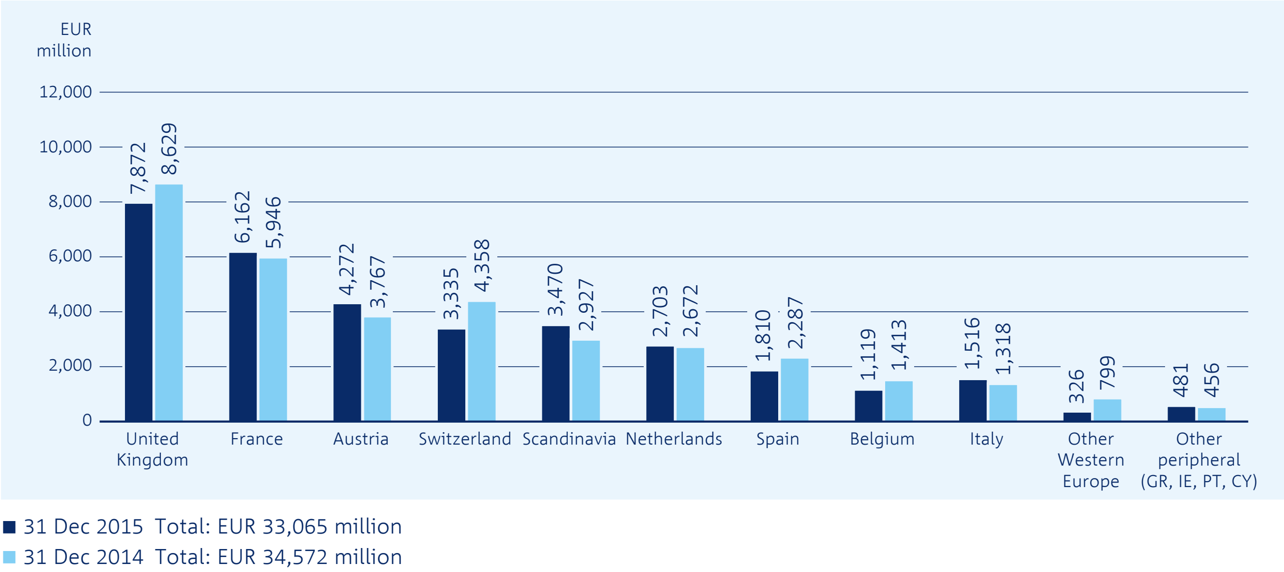
The significant fall in credit volume in rating category master rating (MR) 0–7 was due to maturing government-guaranteed transactions in the Financial Institutions sub-portfolio.

The gross credit volume in investment grade amounted to EUR 144.2 billion or 83.8 percent FY 2014: 84.3 percent).

The non-performing loan ratio (NPL ratio) was 2.9 percent as at the reporting date (FY 2014: 2.8 percent). The NPL ratio in the core business was virtually unchanged at 0.5 percent (FY 2014: 0.7 percent). In the non-core business, the NPL ratio rose to 36.2 percent (FY 2014: 23.9 percent), mostly due to the significant fall in exposure in the non-core portfolio from EUR 16.9 billion to EUR 11.7 billion. Adequate risk provisions were set aside to cover loans added to the default categories.

The following table shows gross credit volume by region.

Gross credit volume in Western European countries



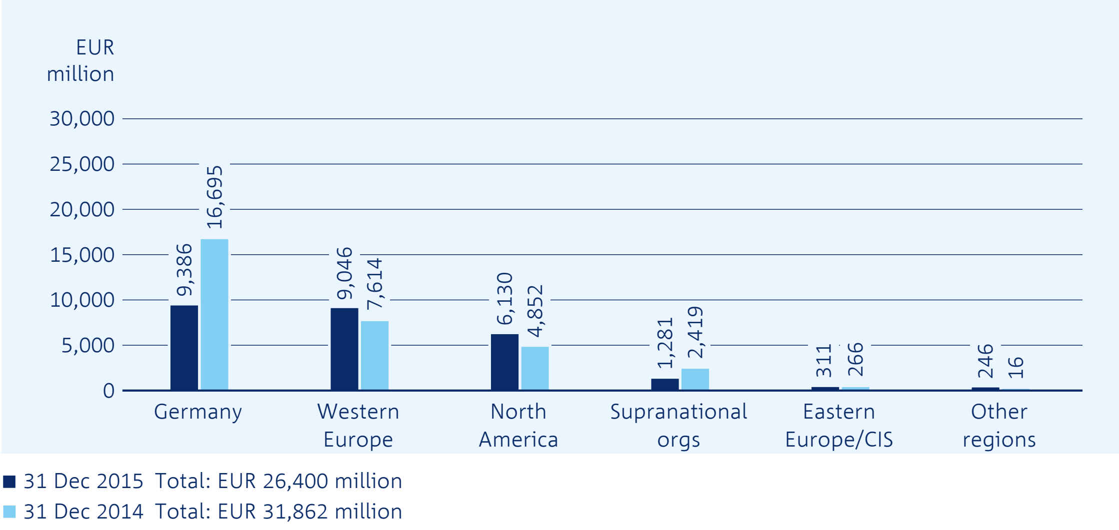
Exposure to government bonds and Pfandbriefs in western Europe significantly increased (mainly in France, the Netherlands and Scandinavia) in FY 2015 to comply with the Liquidity Coverage Ratio (LCR) regulatory requirement. New business in corporate loans was relatively brisk in certain countries.

Transactions in the peripheral countries affected by the sovereign debt crisis, were limited to a few in Ireland. The existing portfolio of Greek, Portuguese and Cypriot assets, some of which are impaired, was further wound down in FY 2015.

As a result of the fall in business with banks and insurance companies, there was a reduction in countries with strong financial sectors such as the UK and Switzerland.

The following table shows gross issuer risk by region.

Gross issuer risk by region



Gross issuer risk fell in the reporting period. The almost full repayment of bonds from German Landesbanks backed by government guarantee was partly offset by an increase in Pfandbriefs and government bonds, diversified by country. Volumes from German issuers also fell sharply, partly the result of low interest rates.

Summary

In summary the quality of the credit portfolio is very good, as reflected by the investment-grade share, which remains above 80 percent. The fall in the gross credit volume in the Financial Institutions sub-portfolio, partly due to maturing government-guaranteed transactions, was offset in part by new business with target customers in the Corporates and Commercial Real Estate sub-portfolios. The Bank continued to wind down the non-core portfolio in line with strategy, while expanding the core business.

Participation risk

Definition

Participation risk (shareholding risk) comprises BayernLB’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-like financing (e.g. silent partner contributions), such as suspension of dividends, partial writedowns, losses on disposal, or reductions in hidden reserves
- Liability risks (e.g. letters of comfort) and/or profit and loss transfer agreements (e.g. assumption of losses)
- Capital contribution commitments

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

Risk Strategy

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. DKB, BayernInvest Kapitalverwaltungsgesellschaft mbH and Real I.S. AG are Group strategic participations.

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.

Participation risks are handled in accordance with the Risk Strategy, which is derived from the Business Strategy and also the participation risk policy. These govern the investment process, the capital base and controlling and reporting. All participations are approved by BayernLB's Board of Management (BoM). Approvals by the BoM must be endorsed by the Supervisory Board. Other issues to be decided and mandatory consent for investments are governed in detail by the Bayerische Landesbank Act, the Statues and the Rules of Procedure of the Board of Management of BayernLB.

Measuring and monitoring risk

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

DKB has a similar process. It is also built into the entire Group strategy, planning, management and monitoring process.

For CRR/CRD IV reporting purposes, participation 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 for investment risk are measured in ICAAP using the PD/LGD method in accordance with CRR/CRD IV.

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

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

Summary

The changes in the participations portfolio during the year under review were in line with strategy and complied with the conditions set by the EU.

Market risk

Definition

Market risk is the risk of potential losses in value from changes in market prices (interest rates, credit spreads, exchange rates, equity and commodity prices) and other factors (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. Risks from pension liabilities are also shown under market risks.

Risk Strategy

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

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

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

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

Risk measurement

BayernLB uses historical simulation as the main value-at-risk method, which is able to take account of correlations between the various types of market risk. Calculations for daily management and monitoring are based on a one-day holding period and a confidence level of 99 percent. The same methods are used for both the trading book and the banking book.

In 2015, the following changes were made to the methodology for calculating pension risks: Starting from the daily report on 8 May 2015, the pension risks for risk-bearing capacity are calculated fully using a scenario-based method for all risk types, with general interest rate risks from pension obligations no longer shown in the VaR report. One reason for this change is that, besides interest rate risks, credit spread risks and biometric and economic factors play a role in pension risks. In addition, the conservative scaling of operative 1-day VaR values over a holding period of 250 days simulated potential losses for the risk-bearing capacity which did not adequately show the interest rate risks from pension obligations.

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 2015, based on the Basel traffic light approach, the forecasting quality of the procedure for measuring market risk was 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, risk positions are subjected to regular stress tests based on historical crises and hypothetical changes in market prices and then the potential risks are analysed. Stress tests take into account all relevant types of market risk and are regularly reviewed to assess the suitability of the parameters used, with parameter changes being made where required.

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

For risk-bearing capacity one-day VaR is scaled to a one-year horizon, i.e. it is assumed risk positions are closed or hedged over a one-year time horizon. This ensures particular account is taken of market liquidity risk, i.e. of risk positions being closed on terms that are less favourable than had been expected. Valuation discounts for market liquidity-relevant factors (e.g. bid-ask spreads), which are relevant for accounting and reporting, are also modelled.

Risk monitoring

In BayernLB, 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.

Market risks are monitored daily by the market risk controlling units independently of trading units and forwarded as part of the daily reporting to the responsible members of the Board of Management. Supervisory requirements are implemented and risk transparency is assured by means of regular reporting to those responsible for positions in the divisions. If a VaR limit is breached, appropriate measures are taken as part of an escalation procedure.

Interest rate risk in the banking books forms part of the daily risk calculation and monitoring processes of the market risk controlling units. Contractual or legal termination rights are modelled as options and incorporated into the risk calculation.

Alongside the regulatory interest rate shock scenario of +/–200 basis points calculated for the interest rate risk in the banking book, additional interest rate shock scenarios are also calculated and limited. As at 31 December 2015, the change in the present value relative to BayernLB's eligible capital in the interest rate shock scenario of +/–200 basis points was well below the 20 percent limit set in BaFin's criterion for "institutions with elevated interest rate risk".

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

Current situation

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

VaR contribution by risk type (confidence level 99 percent)

			1 Jan 2015 to 31 Dec 2015		
EUR million	**31 Dec 2015**	**31 Dec 2014**	**Average**	**Maximum**	**Minimum**
General interest rate VaR	12.7	36.5	31.1	89.3	10.9
incl. pension obligations (until 7 May 2015)	–	36.5	64.7	89.3	36.8
excl. pension obligations (from 8 May 2015)	12.7	21.5**	13.6	20.0	10.9
Specific interest rate VaR (credit spreads)*	10.5	5.2	8.0	10.8	5.3
Currency VaR	3.9	1.9	3.5	9.7	0.9
Equities VaR	0.7	1.9	1.2	2.5	0.5
Commodities VaR	1.0	0.6	0.9	1.2	0.6
Volatility VaR	3.2	0.7	1.5	3.7	0.3
Total VaR*	**17.0**	**38.2**	**34.0**	**94.7**	**12.0**
incl. pension obligations (until 7 May 2015)	–	38.2	68.5	94.7	39.6
excl. pension obligations (from 8 May 2015)	17.0	20.6**	16.0	19.2	12.0

* *In addition to calculating VaR, premiums for credit rating risk from money market transactions and OTC derivatives are also taken into account in the risk-bearing capacity when calculating the risk capital requirement.*
** *The VaR contribution as at 31 December 2014 was calculated without pension obligations for comparison purposes.*

General interest rate risk fell significantly compared to 31 December 2014 as a result of changes to the methodology for calculating risks from pension obligations and changes to interest rate positioning.

Specific interest rate risk rose as a result of building up positions (purchases of European financial bonds and sovereign debt and also US Treasuries as part of liquidity management).

Currency risk increased due to a CHF option position to hedge currency risks on the balance sheet, which also accounts for part of the rise in volatility risk. There was also increased use of swaptions to manage interest rate risk in the banking book.

Summary

General interest rate risk fell significantly overall as a result of changes to the methodology for calculating risks from pension obligations, while specific interest rate risk rose mainly due to the build up of positions.

Liquidity risk

Definition

BayernLB defines liquidity risk as the risk of not being able to meet payment obligations in full or as and when they fall due (liquidity risk in the narrow sense). It also considers it to be the risk – for example, in a liquidity crisis – that funding cannot be obtained at all or only at above-market rates (refinancing risk) or that assets can only be sold at increased discounts to their market prices. This section looks first at liquidity risk in the narrow sense before moving on to refinancing risk, by indicating changes in the funding mix.

Risk Strategy

Further information on the risk strategy for managing liquidity risks is given above in the section "Liquidity management".

Risk measurement

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

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

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

To be adequately prepared for various risk situations, BayernLB also calculates and limits its liquidity on the basis of its management scenario and several stress scenarios (systematic and idiosyncratic stress scenarios, and a combination of both).

BayernLB regularly analyses the sensitivity of the liquidity risk profile to a series of extreme hypothetical stress scenarios. A check is also carried out to identify conditions that represent inverse scenarios which could jeopardise normal operations at BayernLB.

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

A net cash flow figure for the next 180 days is calculated daily for the public Pfandbrief register and the mortgage register. In accordance with section 27 of the Pfandbrief Act (Pfandbriefgesetz), the results and other indicators with respect to the register of cover are reported quarterly to the Board of Management. The balance of cumulative cash flows and available liquidity indicated there was surplus liquidity throughout 2015.

Risk management

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

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

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

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

Operational liquidity management (observation period of up to one year) also ensures compliance with the supervisory requirements of the Liquidity Ordinance (Liquiditätsverordnung (LiqV)). In the year under review, BayernLB had a liquidity ratio of between 1.85 and 2.29 (FY 2014: between 1.73 and 2.23). The supervisory requirement that there always be sufficient available cash to cover callable payment obligations over the same period (ratio always in excess of 1.0) was therefore observed at all times.

The Bank also met the Liquidity Coverage Ratio (LCR) at all times in the reporting year through its integrated management of operational liquidity. BayernLB benefited from the fact it had already carried out measures to achieve an adequate LCR before the legal requirements came into force. The LCR is calculated by comparing highly liquid assets with the net cash outflows for the following 30 days. In the reporting year there was a regulatory requirement that highly liquid assets cover at least 60 percent of the net cash outflow. Over the next few years, the minimum ratio will be gradually increased to 100 percent.

Risk monitoring

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

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

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

In 2015 the limitation of liquidity risks once again ensured BayernLB was solvent and able to fund itself at all times and made a valuable contribution to optimising the management of short-term and structural liquidity.

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

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

Current situation

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

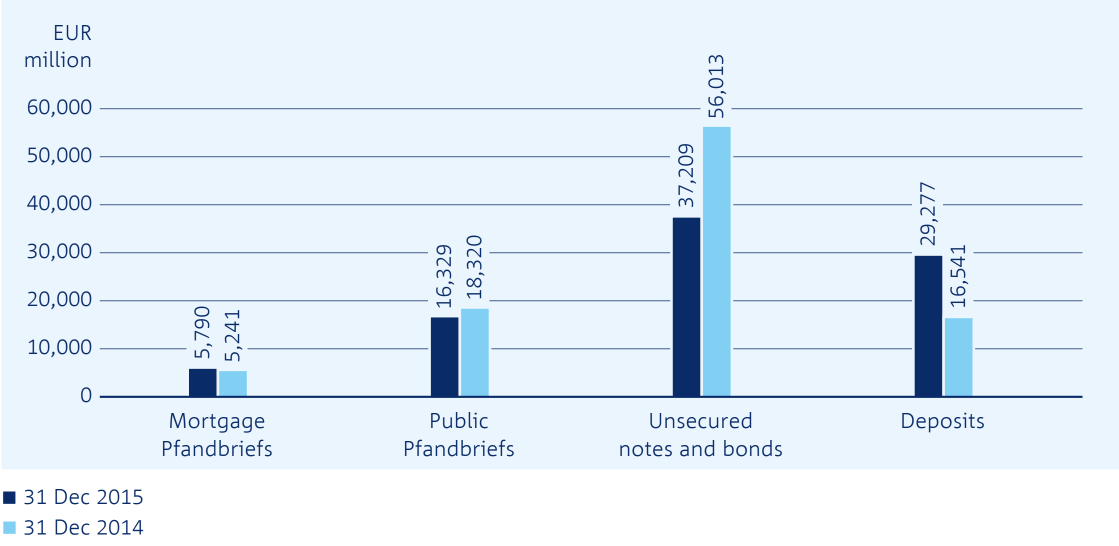
The BayernLB management scenario yielded the following results as at 31 December 2015 compared to 31 December 2014:

31 Dec 2015 Cumulative figures in EUR million	**up to 1 month**	**up to 3 months**	**up to 1 year**	**up to 5 years**
Liquidity surplus	**9,862**	**9,901**	**3,694**	**5,789**
arising from				
• liquidity counterbalancing capacity	27,842	29,585	26,023	9,028
less				
• liquidity gap	17,980	19,684	22,330	3,239
31 Dec 2014 Cumulative figures in EUR million	**up to 1 month**	**up to 3 months**	**up to 1 year**	**up to 5 years**
Liquidity surplus	**14,956**	**13,834**	**2,716**	**814**
arising from				
• liquidity counterbalancing capacity	31,657	29,194	21,059	5,812
less				
• liquidity gap	16,701	15,360	18,344	4,998

The changes in liquidity overviews between 31 December 2014 and 31 December 2015 continued to be marked by the focus on core business areas. By implementing timely measures to counter the liquidity effects from the government-guaranteed issues expiring in 2015, BayernLB not only offset, but actually improved its liquidity surplus, particularly in maturity bands of up to 1 year and up to 5 years.

The liquidity surplus as at 31 December 2015 indicates that BayernLB's liquidity is good. The change in the refinancing structure of BayernLB for 2015 compared to the previous year was as follows:

Refinancing structure*



** including registered securities and Schuldschein note loans*

2015 was marked by a targeted reduction in total assets and a high volume of maturing government-guaranteed issues.

As the maturing liabilities almost completely matched securities, loans and other assets falling due, refinancing BayernLB's volumes proved not to be quite so much of a challenge as in the previous year. The Bank's refinancing management focused again on improving the quality of the refinancing structure and optimising the funding mix, while complying with supplementary conditions arising under supervisory requirements and ratings (loss given failure analysis). The qualitative improvements included refining the process for differentiating unsecured funding curves by investor group to increase attractiveness to a broad selection of investors and continuously expanding the deposit base in unsecured funding.

ECB policy aimed at creating a cheap supply of money helped lower German banks' refinancing costs, particularly on the secured capital market.

Pfandbriefs are viewed internationally as a safe haven not just on account of the tight rules of the German Pfandbrief Act, but also because their cover pool assets are concentrated in Germany. Demand was also stoked not just by regular purchases under the ECB bond buying programme, but also by regulatory preference in respect of LCR, risk weightings and bail-in eligibility. BayernLB's ability to regularly issue Pandbriefs on the market is ensured by the steady generation of cover pool assets through its business model, e.g. from commercial real estate customers, Pfandbrief pooling with the Bavarian savings banks or transfers of cover assets from BayernLabo. The most recent flip side of low money market rates, which are close to those of the deposit facility, was the negative interest rates on deposits at the ECB.

In 2015 rating agencies Moody's and Fitch rated BayernLB's Pfandbriefs as AAA and its unsecured issues at A3 outlook negative and A- outlook stable respectively. On 26 January 2016, Moody's raised BayernLB's long-term issuer rating one notch from A3 to A2. The outlook was upgraded from negative to stable.

BayernLabo did not need all the refinancing it had planned because major municipal and public-sector borrowers did not have to finance their revenue gaps due to a healthy economy and accompanying rise in tax receipts.

Besides the familiar geopolitical risks, the narrative on money and capital markets in 2016 will be dictated by central bank policy. The low oil price will prove a major hurdle for the ECB's inflation target. The divergence in monetary policy between the Fed on the one hand and the ECB and central banks of other developed countries on the other will make its mark most acutely on the structure of curves, spreads and currency exchange rates. All in all BayernLB Research does not expect capital markets in 2016 to perform all that differently from how they did in 2015, i.e. it expects comparatively small changes in yields along with high volatility.

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

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

Summary

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

Operational risk

Definition

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

Legal risks are risks of loss from non compliance with legal provisions and rulings due to ignorance, lack of diligence in applying the respective law or delays 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 BayernLB's future business activities more difficult.

Risk Strategy

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

Risk measurement

Since 31 January 2015, the operational risk for the calculation of risk-bearing capacitiy has been quantified using the risk-sensitive operational value at risk (OpVaR) calculation.

The calculation is based on losses arising at BayernLB and DKB, external losses collected by a data consortium and scenario analyses (potential losses) of BayernLB and DKB. It includes losses from IT and legal risks. The calculation is based on a loss distribution approach. A confidence level of 99.95 percent is used to calculate the OpVaR in the risk-bearing capacity. The key model assumptions and parameters used in the model are validated once a year.

As at 31 December 2015 the risk capital requirement was EUR 439 million.

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

Risk management and monitoring

Operational risk is managed and monitored both centrally in the Group Risk Control division and locally in the individual business areas and central areas. The Group Risk Control division has the authority to establish guidelines for all methods, processes and systems. Responsibility for OpRisk management resides with the business areas and central areas. When it comes to monitoring operational risks both BayernLB 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, which go beyond pure quantification of own funds backing and stress scenarios. The stress scenarios are an integral part of the cross-risk type stress scenarios in ICAAP. Operational risk management is rounded off by measures management.

Reporting

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

Business Continuity Management (BCM)

Business Continuity Management (BCM) is used at BayernLB to manage risks to the continuation of business operations and deal with crisis situations. BCM establishes a core procedure for continuing/restoring operations and has an integrated emergency/crisis management procedure for handling events that could have a sustained impact on the Bank's activities and resources.

BCM requirements are laid out in BayernLB's BCM Strategy, taking account of the Group Risk Strategy. BCM is embedded in the Data Security Principles.

BCM identifies time-critical activities and processes and lays down specific business continuity and restart procedures to protect these. Regular tests ensure that the emergency measures and crisis control procedures are effective and appropriate and are continually improved.

The roles and responsibilities and where these intersect are clearly defined and set out in the Bank-wide BCM standards.

The emergency officer monitors compliance with these standards and reports to the member of the Board of Management responsible for BCM on a regular basis. Central BCM information is also used to manage operational risks.

The Chief Operating Officer is responsible for BCM.

Current situation

Losses from operational risks in financial year 2015 amounted to EUR 45.4 million (BayernLB only), compared with EUR 47.6 million in the previous year (of which EUR 47.54 million at BayernLB and EUR 0.02 million at BayernLabo).

BayernLB's losses in 2015 mainly relate to risks from the ongoing period of low interest rates as these may result in negative interest rates in certain transactions with customers that have not been contractually agreed.

Summary

The amount of operational risk losses in 2015 was in line with expectations.

Summary and outlook

All in all BayernLB's risk profile in financial year 2015 was stable.

BayernLB had adequate risk-bearing capacity in the financial year and as at 31 December 2015. The stress scenarios conducted also confirm that the capital base is adequate. In addition, BayernLB had a comfortable supply of liquidity on hand. Risk provisions take appropriate account of known risks. Regulatory solvency requirements were met. Equity capital for the purpose of risk coverage amounted to EUR 11.9 billion (further details are reported in the management report under the banking supervisory ratios under CRR/CRD IV).

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

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Balance sheet and income statement

Balance sheet – Bayerische Landesbank
as at 31 December 2015

				2015	2014
Assets	*EUR '000*	EUR '000	EUR '000	EUR '000	EUR '000
Cash reserves					
a) Cash			41,578		20,247
b) Deposits with central banks			1,484,905		361,421
of which:					
at Deutsche Bundesbank	*225,141*				*141,567*
				1,526,483	**381,668**
Due from banks					
a) Payable on demand			1,239,076		949,898
b) Other receivables			27,449,587		37,556,701
of which:					
• *mortgage loans*	*15,572*				*29,717*
• *municipal loans*	*239,282*				*2,453,899*
				28,688,663	**38,506,599**
Due from customers				**71,117,365**	**70,923,190**
of which:					
• *mortgage loans*	*14,174,937*				*15,195,605*
• *municipal loans*	*29,209,985*				*31,090,685*
Bonds and other fixed-income securities					
a) Money market instruments					
aa) issued by public-sector borrowers		—			—
of which:					
eligible as collateral at Deutsche Bundesbank	—				—
ab) issued by other borrowers		158,265			449,252
of which:					
eligible as collateral at Deutsche Bundesbank	—				—
			158,265		449,252
b) Bonds and notes					
ba) issued by public-sector borrowers		11,326,795			9,739,807
of which:					
eligible as collateral at Deutsche Bundesbank	*6,680,059*				*6,125,081*
bb) issued by other borrowers		11,531,257			17,405,474
of which:					
eligible as collateral at Deutsche Bundesbank	*10,394,804*				*16,483,881*
			22,858,052		27,145,281
c) Own debt securities			1,616,268		5,529,684
Nominal value	*1,607,192*				*5,520,392*
				24,632,585	**33,124,217**
Equities and other non-fixed income securities				**118,439**	**80,199**
Trading portfolio				**11,671,936**	**25,503,244**
Carried forward				137,755,471	168,519,117

Liabilities	EUR '000	EUR '000	EUR '000	2015 EUR '000	2014 EUR '000
Due to banks					
a) Payable on demand			5,756,387		5,013,097
b) With agreed maturity or period of notice			43,757,554		50,684,040
of which:					
• *registered mortgage Pfandbriefs*	*337,225*				*402,609*
• *registered public Pfandbriefs*	*991,685*				*1,362,844*
• *issued to the lender to secure loans raised:*					
• *registered mortgage Pfandbriefs*	*—*				*—*
• *registered public Pfandbriefs*	*—*				*—*
				49,513,941	**55,697,137**
Due to customers					
a) Savings deposits					
aa) with agreed period of notice of three months		—			—
ab) with agreed period of notice of more than three months		—			—
			—		—
b) Other liabilities					
ba) payable on demand		7,346,397			6,767,747
bb) with agreed maturity or period of notice		28,601,220			25,392,603
of which:					
• *registered mortgage Pfandbriefs*	*1,326,465*				*1,487,341*
• *registered public Pfandbriefs*	*5,999,949*				*6,112,250*
• *issued to the lender to secure loans raised:*					
• *registered mortgage Pfandbriefs*	*—*				*—*
• *registered public Pfandbriefs*	*—*				*—*
			35,947,617		32,160,350
				35,947,617	**32,160,350**
Securitised liabilities					
a) Bonds issued					
aa) mortgage Pfandbriefs		3,675,656			3,404,755
ab) public Pfandbriefs		9,555,873			11,131,568
ac) other bonds		16,757,742			31,221,640
			29,989,271		45,757,963
b) Other securitised liabilities			1,801,031		166,979
of which:					
• *money market instruments*	*1,801,031*				*166,979*
• *own acceptances and promissory notes outstanding*	*—*				*—*
				31,790,302	**45,924,942**
Trading portfolio				**5,217,385**	**19,561,978**
Liabilities held in trust				**5,032,498**	**5,140,705**
of which:					
loans on a trust basis	*5,031,905*				*5,140,051*
Other liabilities				**1,020,117**	**1,025,380**
Carried forward				128,521,860	159,510,492

Balance sheet – Bayerische Landesbank
as at 31 December 2015 (continued)

				2015	2014
Assets	*EUR '000*	EUR '000	EUR '000	EUR '000	EUR '000
Carried forward				137,755,471	168,519,117
Participations				**204,291**	**209,492**
of which:					
• in banks	*18,877*				*20,375*
• in financial service providers	*—*				*—*
Shares in affiliated companies				**2,186,142**	**2,500,550**
of which:					
• in banks	*2,013,559*				*2,315,486*
• in financial service providers	*—*				*—*
Assets held in trust				**5,032,498**	**5,140,705**
of which:					
loans on a trust basis	*5,031,905*				*5,140,051*
Intangible assets					
a) Internally generated industrial property rights and similar rights and assets			76,561		78,003
b) Purchased licences, industrial property rights and similar rights and assets as well as licences to such rights and assets			19,882		25,212
c) Goodwill			—		—
d) Down payments effected			—		—
				96,443	**103,215**
Tangible assets				**339,361**	**361,195**
Other assets				**1,114,579**	**849,971**
Pre-paid expenses					
a) From the new issues and loans business			125,153		130,769
b) Others			285,428		316,519
				410,581	**447,288**
Total assets				**147,139,366**	**178,131,533**

Liabilities	EUR '000	EUR '000	EUR '000	2015 EUR '000	2014 EUR '000
Carried forward				128,521,860	159,510,492
Deferred income					
a) From the new issues and loans business			95,221		90,652
b) Others			788,931		582,298
				884,152	**672,950**
Provisions					
a) For pensions and similar obligations			2,429,265		2,112,964
b) For taxes			236,550		189,249
c) Other provisions			833,277		829,004
				3,499,092	**3,131,217**
Subordinated liabilities				**3,447,006**	**4,331,503**
Profit participation certificates				**434,550**	**356,876**
of which:					
due in less than two years	—				—
Fund for general bank risks				**862,639**	**955,699**
of which:					
special items pursuant to section 340e para. 4 HGB	*31,770*				*31,770*
Equity					
a) Subscribed capital					
aa) statutory nominal capital	2,800,000				2,800,000
uncalled nominal capital	—				—
called nominal capital		2,800,000			2,800,000
ab) capital contribution		612,016			612,016
ac) silent partner contributions		2,628,900			2,137,175
			6,040,916		5,549,191
b) Capital reserve			2,181,643		2,356,097
c) Retained earnings					
ca) statutory reserves		1,267,508			1,267,508
cb) other retained earnings		—			—
			1,267,508		1,267,508
d) Net retained profits			—		—
				9,490,067	**9,172,796**
Total liabilities				**147,139,366**	**178,131,533**
Contingent liabilities					
a) Contingent liabilities from the endorsement of bills rediscounted			—		—
b) Liabilities from guarantees and indemnity agreements (see also the notes)			9,346,182		10,785,099
c) Liabilities from collateral furnished for third-party obligations			—		—
				9,346,182	**10,785,099**
Other liabilities					
a) Repurchase obligations from non-genuine sale and repurchase agreements			—		—
b) Placement and underwriting commitments			—		—
c) Irrevocable loan commitments			19,214,286		22,050,986
				19,214,286	**22,050,986**

Income statement – Bayerische Landesbank
for the period from 1 January to 31 December 2015

				2015	2014
	EUR ’000	EUR ’000	EUR ’000	EUR ’000	EUR ’000
Interest income from					
a) Credit and money market transactions		2,276,742			2,688,888
b) Fixed-income securities and debt-register claims		325,191			505,706
			2,601,933		**3,194,594**
Interest expenses			**−1,610,231**		**−2,018,611**
				991,702	**1,175,983**
Current income from					
a) Equities and other non-fixed income securities			1,049		1,568
b) Participations			4,513		4,631
c) Shares in affiliated companies			3,544		7,754
				9,106	**13,953**
Income from profit-pooling agreements, profit transfer agreements and partial profit transfer agreements				**179,410**	**218,448**
Commission income			**252,253**		**269,539**
Commission expenses			**−54,174**		**−65,247**
				198,079	**204,292**
Net income or net expenses of the trading portfolio				**−214,895**	**−119,592**
of which: allocation to/releases from the fund for general bank risks pursuant to section 340e para. 4 HGB	—				—
Other operating income				**263,046**	**226,433**
General administrative expenses					
a) Personnel expenses					
aa) salaries and wages		−295,422			−320,149
ab) social security contributions, pensions and other employee benefits		−346,764			−209,884
			−642,186		−530,033
of which: for pensions	*−224,373*				*−142,087*
b) Other administrative expenses			−363,227		−330,055
				−1,005,413	**−860,088**
Amortisation, depreciation and writedowns on intangible assets and tangible assets				**−32,820**	**−35,240**
Other operating expenses				**−272,485**	**−190,634**
Carried forward				115,730	633,555

				2015	2014
	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
Carried forward				115,730	633,555
Amortisation, depreciation and writedowns on receivables and certain securities and additions to provisions in the credit business			—		**−1,531,981**
of which:					
• withdrawal from the fund for general bank risks	—				*314,865*
• allocation to the fund for general bank risks	—				*−49,172*
Income from reversals of writedowns on receivables and certain securities as well as from the release of provisions in the credit business			**30,193**		—
of which:					
• withdrawal from the fund for general bank risks	*93,060*				—
• allocation to the fund for general bank risks	—				—
				30,193	**−1,531,981**
Amortisation, depreciation and writedowns on participations, shares in affiliated companies and securities classified as fixed assets			—		**−1,203,116**
Income from reversals of writedowns on participations, shares in affiliated companies and securities classified as fixed assets			**277,890**		—
				277,890	**−1,203,116**
Expenses from loss transfers				**−5,725**	**−4,821**
Gains or losses on ordinary activities				**418,088**	**−2,106,363**
Extraordinary income			**2,618**		**96**
Extraordinary expenses			**−21,861**		**−12,499**
Net extraordinary income/loss				**−19,243**	**−12,403**
Taxes on income and earnings			**6,256**		**−1,910**
of which: deferred taxes	—				—
Other taxes, unless disclosed under "Other operating expenses"			**−3,357**		**6,495**
				2,899	**4,585**
Net income/loss for the financial year				**401,744**	**−2,114,181**
Withdrawals from capital reserve				**174,454**	**1,536,408**
Withdrawals from profit participation certificates				—	**82,674**
Withdrawals from silent partner contributions				—	**495,099**
Replenishment of profit participation certificates				**−81,734**	—
Replenishment of silent partner contributions				**−494,464**	—
Net retained profits				—	—

Notes

The annual financial statements of Bayerische Landesbank, an institution established under public law, Munich, Germany (BayernLB), have been prepared in accordance with the provisions of the German Commercial Code (HGB), the Ordinance Regulating the Accounting Requirements for Financial Institutions and Financial Service Providers (RechKredV), the provisions of the Pfandbrief Act (PfandBG), the supplementing regulations of the Bayerische Landesbank Act, and the Bank's Statutes.

The layout of the balance sheet and income statement complies with RechKredV and includes items required for Pfandbrief banks.

Figures are given in millions of euros. Rounding differences may occur in the tables.

Accounting policies

Assets and liabilities are measured in accordance with the general measurement provisions of sections 252 et seq. HGB, taking account of the special provisions applicable to banks (sections 340 et seq. HGB).

The accounting policies used for the annual financial statements as at 31 December 2015 were the same as those used for the annual financial statements as at 31 December 2014. Any changes on the previous year are noted below.

From financial year 2015, in line with the BFA's statement (at its 258th meeting on 11 February 2015), the market values of bilaterally settled derivative financial instruments in the trading portfolio are offset against variation margins received or paid whenever the requirements for netting financial assets against financial liabilities are met. For accounting purposes hypothetical settlement via pledged collateral is assumed in these cases. In FY 2015 there was a negative net effect of EUR 8 billion in the due from banks, due from customers, the trading portfolio (assets), due to banks, due to customers and the trading portfolio (liabilities) items.

Receivables and liabilities (non-trading portfolio)

Receivables in the non-trading portfolio are reported at nominal amount or at cost. Low-interest or non-interest bearing receivables are discounted if necessary.

All identifiable risks are taken into account through risk provisions. Risk provisions are calculated in accordance with the methods used in the IFRS consolidated accounts. On indications of impairment, specific loan loss provisions are calculated by deducting from the carrying amount of the receivable the present value of future expected cash flows calculated using the original effective interest rate. Additions to or releases of risk provisions are made if expected cash flows change.

Furthermore, general loan loss provisions are made for hidden credit risks and calculated on the basis of historical probabilities of default, loss ratios and the latest ratings. General loan loss provisions are made for receivables due from banks, from customers and off-balance sheet transactions.

General loan loss provisions specifically for country risks are made for country risks not already taken into account in specific loan loss provisions. These are calculated based on the probabilities of default and loss rates specific to each country.

Reserves have been established to meet general bank risks in accordance with sections 340f and 340g HGB. The reserves in accordance with section 340f HGB were deducted from assets.

Liabilities in the non-trading portfolio are recognised at their settlement value. Discounted bonds and similar liabilities are reported at their net present value.

Premiums and discounts on receivables and liabilities are reported under the pre-paid and deferred items and amortised on a pro-rata temporis basis.

Securities (non-trading portfolio)

The securities portfolios in the liquidity reserve are measured according to the strict principle of lower of cost or market value observing the requirement to reverse writedowns. Securities in the "securities measured as investments" portfolio (investment portfolio) are measured according to the less strict principle of lower of cost or market value; any premiums and discounts arising are amortised on a pro-rata temporis basis. Securities allocated to the investment portfolio are tested for permanent impairment on an ongoing basis; the actual hidden risks of default are recognised through the creation of general loan loss provisions.

Trading portfolio

All financial instruments in the trading portfolio, including executory contracts concluded for trading, are measured at fair value less a risk discount.

The methodology used to calculate the risk discount is based on the supervisory regulations of the Minimum Requirements for Risk Management (Mindestanforderungen an das Risikomanagement (MaRisk)) and the requirements of section 365 of the Capital Requirements Regulation (CRR). The risk discount is calculated in the form of value-at-risk (VaR) with a confidence level of 99 percent, a holding period of 10 days and an observation period of one year. The risk discount for the whole trading portfolio is recognised under the "trading portfolio" item.

All income and expenses from the trading portfolios, including their refinancing costs, are recognised under the net income or net expenses of the trading portfolio item. In accordance with section 340e para. 4 HGB, allocations to the fund for general bank risks required by section 340g HGB are made from the net income of the trading portfolio. A release may be made according to section 340e para. 4 HGB to offset net expenses of the trading portfolio.

The Bank's own criteria for including financial instruments in the trading portfolio were left unchanged in the financial year.

Fair value

The fair value of a financial instrument is the amount for which it could be exchanged between knowledgeable, willing parties in an arm's length transaction.

The fair value is calculated where possible by referring to a quoted price on an active market (e.g. stock market price). A market is considered active for a financial instrument if quoted prices are readily and regularly available from an exchange, dealer or similar, and these prices represent actual and regularly occurring market transactions between knowledgeable, willing parties in an arm's length transaction.

If no active market exists, the fair value is calculated using a range of valuation methods including valuation models based on the net present value method and indicative valuation prices. The goal is to establish what the transaction price would have been in an arm's length exchange between knowledgeable, willing parties on the valuation date. An inactive market is characterised by very limited trading volumes, very wide bid/ask spreads and wide swings in indicative prices.

Other valuation models

Fair values are also calculated using recognised valuation models based largely on market data. The net present value method and option price models are among the valuation models used.

When a market price is not available, the net present value method is used for interest-bearing financial instruments. This method calculates the instruments' value based on their cash flow structures, taking account of their nominal values, residual maturities and the agreed day-count convention. If the financial instrument has a contractually agreed fixed cash flow, the cash flow structure is calculated using the agreed cash flows. In the case of variable rate instruments, cash flows are determined using forward curves. Discounting uses matching currency and maturity and secured and unsecured yield curves, and a risk-adjusted spread. Market data is used where spreads are publicly available. In the case of OTC derivatives, counterparty risk is considered by taking account of any netting agreements (credit valuation adjustment). In the case of uncollateralised OTC derivatives, account is taken of bank-specific financing conditions using a funding valuation adjustment.

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

If an option has several possible exercise dates, it is valued using a binomial model and publicly accessible market data.

Credit derivatives are valued using the hazard rate model based on the latest credit spread.

Summary of key valuation models by derivative product group:

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

Securities lending transactions

Secured securities lending transactions are treated on the balance sheet as genuine repurchase agreements. Loaned securities remain part of the securities portfolio and are recognised and measured according to whether they have been allocated to the investment portfolio, trading portfolio or liquidity reserve. Borrowed securities are not recognised. Cash pledged as collateral for securities lending transactions is recognised as a receivable (depending on the counterparty, either as “due from banks” or “due from customers”) and received collateral as a liability (depending on the counterparty, either as “due to banks” or “due to customers”). Precious metal transactions (except for gold) are recognised and measured in the same way.

Derivative financial instruments

Derivative financial instruments (mainly forward transactions, swaps, options, credit derivatives) are allocated to a hedging or trading portfolio depending on their intended use. As executory contracts, they are not disclosed in the balance sheet if the intended use is as a hedging transaction. Option premiums paid or received, premiums that are not yet due for credit derivatives, and offsetting payments for price changes from total return swaps over the term are reported under the “other assets” or “other liabilities” items.

Upfront payments for interest rate and (cross) currency swaps (non-trading portfolio) are recognised under the pre-paid and deferred items. Under accounting standards IDW RS BFA 1, IDW RS BFA 5 and IDW RS BFA 6, realised and unrealised gains or losses on derivatives in the non-trading portfolio are recognised under the items “other operating income” and “other operating expenses” in the income statement. Realised gains or losses on interest rate derivatives in the non-trading portfolio are recognised under net interest income.

Derivative financial instruments in the trading portfolio are measured at fair value less a risk discount and recognised in the respective “trading portfolio” item (under assets if the fair value is positive and under liabilities if the fair value is negative). If the requirements for netting financial assets against financial liabilities are met, derivative financial instruments in the trading portfolio are recognised at the net value of their market price and any variation margin paid or received. If the valuation results in a negative figure for stand-alone derivative financial instruments in the non-trading portfolio that are not part of a valuation unit, then provisions are made for expected losses from executory contracts.

If interest rate and currency risks from the banking book are transferred to the trading book, internal deals are recognised in the same way as external deals in accordance with the mirroring principle.

Structured products

Structured products in the trading portfolio and the liquidity reserve are reported as a uniform financial instrument as they are measured at fair value less a risk discount (trading portfolio) or at the strict principle of lower of cost or market value (liquidity reserve). Structured liabilities are recognised at the settlement value.

Valuation units

BayernLB utilises valuation units (underlying transactions and their related hedges) in accordance with section 254 HGB. Micro fair-value valuation units are predominantly used. They are therefore reported in accordance with the risk management approach of the corresponding non-trading books. Interest rate risk is normally hedged. If the product is structured, other market risks (equity, currency and commodity risks) may also be hedged. In a few exceptional cases, credit risk may also be hedged. Fair value valuation units are also created on portfolios of emission rights.

In accordance with the Risk Strategy, micro valuation units are normally created on inception and end when the underlying and hedging transactions mature. The total volumes of the transactions are hedged in each case. Underlying transactions in a valuation unit may be assets, liabilities or derivative financial instruments. The critical term match method is used to test prospective and retrospective effectiveness in perfect 1:1 hedges. The level of ineffectiveness is calculated using the cumulative changes in the value of the underlying and hedging transaction. If the net value is negative, a provision for expected losses is recognised. For imperfect hedges, effectiveness is tested using the dollar-offset method and the variance reduction method. As with perfect hedges, net negative amounts are shown as provisions for expected losses. The effective portions of the valuation units shown are recognised in accordance with the freeze method. These are recognised in the income statement in the same way as the gains or losses on measurement of the underlying transactions.

In line with the Risk Strategy, portfolio valuation units on emission rights are created on inception. The total volumes of the transactions are hedged in each case. Underlying transactions in a valuation unit may be assets or derivative financial instruments. The prospective effectiveness is verified using correlation analysis. The level of ineffectiveness is calculated using the cumulative changes in the value of the underlying and hedging transactions. The effective portions of the valuation units shown are recognised in accordance with the book-through method. Consequently assets and derivative financial instruments are recognised under other assets or other liabilities. Reporting in the income statement is under the items other operating income or other operating expenses.

Loss-free measurement in the banking book

IDW RS BFA 3 governs specific issues relating to the loss-free measurement of the banking book under HGB. Due to the nature of banks' business in the banking book, it is not possible to directly match individual financial instruments with each other on a regular basis. The banking book is managed as a whole. For all interest-bearing on and off-balance sheet financial instruments in the banking book, the principle of prudence is observed by making a provision for any surplus of liabilities in accordance with section 249 HGB (provision for expected losses). BayernLB calculates potential surpluses of liabilities using the net present value method. Besides the net present values and carrying amounts of interest-bearing financial instruments in the non-trading portfolio, the calculation to determine whether a provision for expected losses must be made under section 249 HGB takes account of administrative and standard risk costs. Administrative costs are calculated based on internal cost controlling. This takes into account the process costs for transactions in the portfolio as at the reporting date plus a surcharge for overheads and inflation. Standard risk costs are calculated using the same method as for risk costs. It is based on the expected losses over several years. For the sake of uniformity, the Bank decided to close out surplus assets as at the reporting date by means of hypothetical transactions, using money and capital market interest rates with matching terms and a bank-specific refinancing premium. BayernLB had no surplus liabilities on the reporting date. No provision for expected losses from loss-free measurement was required.

Participations and shares in affiliated companies

Participations and shares in affiliated companies are valued at cost in accordance with the rules for investment assets or – if an impairment is expected to be permanent – at the lower of cost or market value as at the reporting date, taking account of the IDW's position on accounting standard IDW RS HFA 10. Where there is no further reason for impairment, a reversal is made.

Intangible assets and tangible assets

Intangible assets and tangible assets are measured at cost less depreciation or amortisation where applicable. The period of depreciation is equivalent to their economic life.

Software developed internally is capitalised. After large-scale renovation work, buildings are measured using the component method. Separate wear and tear of individual components is recognised as a partial disposal and their replacement as a partial addition. They are depreciated separately over their useful life. Low-value items are fully written off in the year acquired.

Deferred taxes

In accordance with section 274 HGB, deferred taxes are calculated on the temporary differences between the accounting value and the tax value of assets, liabilities and pre-paid and deferred items that give rise to a future tax liability or benefit, and on tax loss carryforwards. BayernLB, the parent company of the tax group, also recognises the temporary differences of its subsidiaries. Deferred taxes are computed in Germany (for the tax group) at the combined corporation tax and municipal trade tax rate (including the solidarity surcharge) of 31.96 percent, except for deferred taxes on participations in partnerships, which are computed at the corporation tax rate (including the solidarity surcharge) of 15.82 percent. Deferred taxes on municipal trade tax loss carryforwards are computed at an average municipal trade tax rate of 16.14 percent. For BayernLB's foreign branches, deferred taxes are measured on the basis of the local tax rates applicable in the country concerned; the range is between 20.00 percent and 38.00 percent.

A deferred tax liability is recognised if a tax liability remains after netting. As permitted under section 274 para. 1 HGB, BayernLB has elected not to recognise any deferred taxes if a tax benefit is left after netting. Tax assets exceeded tax liabilities in the financial year. No deferred taxes were therefore recognised.

Provisions

In accordance with section 253 HGB, provisions are recognised at the settlement amount dictated by prudent business judgement, taking into account future rises in prices and costs. Provisions with a residual term of more than one year are discounted at the average market rate for the past seven financial years that corresponds to their residual term as published by Deutsche Bundesbank. Provisions with a residual term of less than one year are not discounted.

Pension provisions for direct retirement benefit obligations are calculated using the projected unit credit method. The actuarial report in this case is based on biometric assumptions using Klaus Heubeck's "Richttafeln 2005 G" (actuarial tables) and future expected salary and pension increases. In accordance with section 253 para. 2 sentence 2 HGB, discounting is carried out on a simplified basis using an average market rate published by Deutsche Bundesbank calculated on the assumption of a residual term of 15 years. This method meets the requirements of the IDW's position on accounting standard IDW RS HFA 30. The fiscal net present value as calculated in accordance with section 6a EStG is exceeded.

Pension provisions are calculated using the following actuarial assumptions:

in %	2015	2014
Actuarial interest rate	3.89	4.53
Changes in salary	2.75	2.75
Adjustments to pensions[1]	2.25	2.25
Changes in medical costs	4.50	4.25

1 Eligible social insurance pensions were calculated to have increased by 1.25 percent.

Besides the pension system, for which pension provisions are made, BayernLB has two legally independent support funds for indirect retirement benefits payable to employees within Germany. The Bank regularly contributes to the fund assets of these support funds where permitted under tax law. In accordance with Art. 28 para. 1 sentence 2 EGHGB, pension provisions are not made for indirect retirement benefits. As at 31 December 2015, there was a shortfall of EUR 260 million (FY 2014: EUR 247 million). Reinsurance concluded by BayernLB to fund these retirement benefit obligations offset this amount by EUR 215 million (FY 2014: EUR 210 million).

Currency translation

Currencies are translated in accordance with the principles of sections 256a and 340h HGB and the IDW's position on accounting standard IDW RS BFA 4. Assets, liabilities and spot transactions denominated in foreign currencies that are not yet settled are translated at the mid-market spot rate on the reporting date. In accordance with the less strict principle of the lower of cost or market value, assets denominated in a foreign currency that are treated as fixed assets and not hedged in the same currency are recognised at cost. Assets and liabilities on the balance sheet and executory contracts denominated in a foreign currency are treated in accordance with section 340h HGB if they are specifically hedged. Currency risks arising in non-trading portfolios are transferred to the trading books. Income and expenses from currency translation are recognised under the "net income or net expenses of the trading portfolio" item.

Notes to the balance sheet

Unless otherwise stated, information in the tables includes accrued interest.

Assets

Due from banks

EUR million	2015	2014
Due from banks	**28,689**	**38,507**
This item includes:		
Other receivables with a residual maturity of		
• up to three months (including accrued interest)	7,813	14,662
• over three months up to one year (including the swap interest)	4,741	6,806
• over one year up to five years	7,515	8,022
• over five years	7,380	8,067
Due from affiliated companies	**1,106**	**1,893**
Due from companies in which participations are held	**23**	**72**
Due from related savings banks	**14,169**	**14,425**
Subordinated receivables	**270**	**484**

Due from customers

EUR million	2015	2014
Due from customers	**71,117**	**70,923**
This item includes:		
Receivables with a residual maturity of		
• up to three months (including accrued interest)	10,316	9,849
• over three months up to one year (including the swap interest)	6,521	8,141
• over one year up to five years	25,635	22,118
• over five years	26,959	29,385
Receivables without a fixed date of maturity	**1,686**	**1,430**
Due from affiliated companies	**26**	**88**
Due from companies in which participations are held	**155**	**194**
Subordinated receivables	**571**	**544**

Bonds and other fixed-income securities

EUR million	2015	2014
Bonds and other fixed-income securities	**24,633**	**33,124**
This item includes:		
Amounts falling due in the following year (including accrued interest)	**2,761**	**15,656**
Securitised receivables from affiliated companies	**384**	**368**
Securitised receivables from companies in which participations are held	**–**	**–**
Subordinated securities	**427**	**436**
Marketable securities, of which		
• listed	23,886	32,252
• unlisted	747	872

In the investment portfolio as a whole, bonds and other fixed-income securities were recognised on the basis of the less strict principle of lower of cost or market value at a carrying value of EUR 17,964 million (FY 2014: EUR 24,076 million) and had a fair value of EUR 17,926 million (FY 2014: EUR 24,060 million). No writedown is made if the Bank does not consider the current fluctuations in value to be long term and assumes that the securities will be repaid in full when they mature.

Equities and other non-fixed income securities

EUR million	2015	2014
Equities and other non-fixed income securities	**118**	**80**
This item includes:		
Marketable securities, of which		
• listed	–	–
• unlisted	8	8

On the reporting date, as in the previous year, no equities or other non-fixed income securities were recognised on the basis of the less strict principle of lower of cost or market value.

Trading portfolio

EUR million	2015	2014
Trading portfolio	**11,672**	**25,503**
This item includes:		
Positive fair values of derivative financial instruments	**7,724**	**20,533**
Receivables	**1,133**	**1,151**
Bonds and other fixed-income securities	**2,391**	**3,210**
Equities and other non-fixed income securities	**349**	**464**
Other assets	**94**	**162**
Risk discount for the whole trading portfolio	**–19**	**–17**
Subordinated securities	**1**	**6**

Participations

As at the reporting date, the carrying amount of the participations portfolio was EUR 204 million (FY 2014: EUR 209 million). As in the previous year, the portfolio was not encumbered by any legacy assets.

Shares in affiliated companies

EUR million	2015	2014
Shares in affiliated companies	**2,186**	**2,501**
This item includes:		
Marketable securities, of which		
• listed	–	–
• unlisted	2,040	2,342

Assets held in trust

EUR million	2015	2014
Assets held in trust	**5,032**	**5,141**
This item mainly includes housing loans granted by Bayerische Landesbodenkreditanstalt and breaks down as follows:		
Due from banks	43	56
Due from customers	4,989	5,084

Intangible assets

Research and development costs totalled EUR 17 million in the reporting year (FY 2014: EUR 36 million). This included EUR 8 million in development costs (FY 2014: EUR 27 million) resulting from internally developed intangible assets categorised as fixed assets, namely internally developed software.

Tangible assets

EUR million	2015	2014
Tangible assets	**339**	**361**
This item includes:		
Land and buildings used for own operations	289	296
Furniture and office equipment	16	17

Other assets

EUR million	2015	2014
Other assets	**1,115**	**850**
This item includes:		
Emissions certificates	428	208
Claims from reinsurance	215	210
Accrued income from participations	180	219
Claims on the German Tax Authorities	179	60

Pre-paid expenses

EUR million	2015	2014
Pre-paid expenses	**411**	**447**
This item includes:		
Upfront payments from swaps	260	289
Discount on liabilities	93	104
Premium on receivables	32	26
Cash settlement payments	17	20

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Changes in fixed assets

EUR million	Purchase/ manufacturing costs	Additions	Disposals	Transfers	Writeups	Cumulative depreciation/ writedowns	Net carrying value 31 Dec 2015	Net carrying value 31 Dec 2014	Depreciation/ writedowns for the financial year
			Changes +/–[1]						
Participations			–5				204	209	
Shares in affiliated companies			–314				2,186	2,501	
Securities in the investment portfolio			–6,112				17,964	24,076	
Intangible assets[2]	285	11	21	1	–	181	96	103	19
of which: produced in house	*132*	*9*	–	–	–	*65*	*77*	*78*	*10*
Tangible assets	525	5	34	–1	–	155	339	361	13
Other fixed assets	16	–	–	–	1	3	14	13	–

1 BayernLB elected to use the aggregation option under section 34 para. 3 RechKredV.
2 Additions include capitalised development costs plus licence costs.

Genuine sale and repurchase agreements

EUR million	2015	2014
Carrying values of assets transferred under sale and repurchase agreements	1,450	1,788

Assets in foreign currencies

EUR million	2015	2014
Total amount of assets denominated in foreign currency	24,296	27,224

Assets held as cover

EUR million	2015	2014
Mortgage Pfandbriefs and Landesbodenbriefs	**5,790**	**5,241**
Cover assets contained in:		
• Due from banks	8	28
• Due from customers	7,304	8,808
• Bonds and other fixed-income securities	486	681
• Additional cover	–	–
Excess cover	**2,008**	**4,275**
Public Pfandbriefs	**16,329**	**18,320**
Cover assets contained in:		
• Due from banks	323	3,732
• Due from customers	22,442	24,660
• Bonds and other fixed-income securities	598	700
• Additional cover	147	–
Excess cover	**7,181**	**10,772**

Units in funds carried in the banking book where more than 10 percent of the shares of the fund are held

Fund name	Fair value EUR million	Carrying value EUR million	Difference between fair value and carrying value EUR million	Distribution of earnings EUR million	Daily redemption possible
Bond funds					
BayernInvest Renten Europa-Fonds	10	8	2	–	Yes
Equity funds					
BayernInvest AVT-Fonds	73	71	2	–	Yes

Liabilities

Due to banks

EUR million	2015	2014
Due to banks	**49,514**	**55,697**
This item includes:		
Term liabilities with a residual maturity of		
• up to three months (including accrued interest)	9,206	10,274
• over three months up to one year (including swap interest)	6,413	8,547
• over one year up to five years	13,542	16,783
• over five years	14,596	15,080
Due to affiliated companies	**4,705**	**5,969**
Due to companies in which participations are held	**222**	**85**
Due to related savings banks	**4,950**	**4,959**

Due to customers

EUR million	2015	2014
Due to customers	**35,948**	**32,160**
This item includes:		
Other term liabilities with a residual maturity of		
• up to three months (including accrued interest)	7,119	4,776
• over three months up to one year (including swap interest)	5,439	4,207
• over one year up to five years	5,547	6,044
• over five years	10,497	10,366
Due to affiliated companies	**161**	**154**
Due to companies in which participations are held	**32**	**29**

Securitised liabilities

EUR million	2015	2014
Securitised liabilities	**31,790**	**45,925**
This item includes:		
Bonds and notes issued		
• amounts falling due in the following year	3,612	21,146
Other securitised liabilities with a residual maturity of		
• up to three months (including accrued interest)	859	27
• over three months up to one year	942	140
• over one year up to five years	–	–
• over five years	–	–
Due to affiliated companies	**–**	**265**
Due to companies in which participations are held	**8**	**8**

Trading portfolio

EUR million	2015	2014
Trading portfolio	**5,217**	**19,562**
This item includes:		
Negative fair values of derivative financial instruments	**4,615**	**19,049**
Liabilities	**602**	**513**

Liabilities held in trust

EUR million	2015	2014
Liabilities held in trust	**5,032**	**5,141**
This item breaks down as follows:		
Due to banks	1	2
Due to customers	5,031	5,138

Other liabilities

EUR million	2015	2014
Other liabilities	**1,020**	**1,025**
This item includes: Offsetting item for foreign currency translation	705	565
Buy-in obligation resulting from the sale of securities borrowed	85	85
Interest payable on profit participation certificates	68	–
Forward transactions on emissions certificates	37	24

Deferred income

EUR million	2015	2014
Deferred income	**884**	**673**
This item includes: Upfront payments from swaps	768	556
Premium on liabilities	83	72
Discount on receivables	12	18

Subordinated liabilities

EUR million	2015	2014
Subordinated liabilities	**3,447**	**4,332**
This item includes: **Subordinated liabilities to affiliated companies**	**809**	**726**

In the reporting year, interest expenses on subordinated liabilities were EUR 209 million (FY 2014: EUR 208 million).

If BayernLB goes insolvent or is liquidated, the subordinated liabilities cannot contractually be repaid until the claims of all senior creditors have been settled. Creditors have no right to demand early repayment. Under CRR not all subordinated liabilities can be reported under supplementary capital as original instruments. However, under the transitional rule, these securities may be offset within supplementary capital for a limited period and subject to limits on amounts.

There are no contractual provisions for a conversion into equity or another debt instrument.

The following borrowings exceed 10 percent of the total subordinated liabilities:

	Volume in EUR million	Interest rate	Maturity
EUR bond	1,000	5.75%	23/10/2017
EUR bond	462	0.74%	07/02/2019
USD Schuldschein note loan	781	6.21%	31/05/2037

Liabilities in foreign currency

EUR million	2015	2014
Total amount of liabilities denominated in foreign currency	18,442	21,994

Contingent liabilities and other liabilities

EUR million	2015	2014
Contingent liabilities	**9,346**	**10,785**
This item includes:		
Liabilities from guarantees and indemnity agreements		
• Letters of credit	468	468
• Guarantees	1,204	2,141
• Other guarantees and indemnities	7,638	8,102

Potential liabilities from sureties, guarantees, letters of credit, other indemnities and other liabilities acquired by the Bank in the course of its ordinary business with customers are recognised under contingent liabilities. There is also a small volume of guarantees to affiliated companies.

EUR million	2015	2014
Other liabilities	**19,214**	**22,051**
This item includes:		
Irrevocable loan commitments to		
• Banks	1,348	1,788
• Customers	17,866	20,263

Other liabilities result from irrevocable loan commitments, mainly granted to customers in the course of ordinary business.

Irrevocable loan commitments to affiliated companies made as part of the Group-wide management system (Group management) totalled EUR 5 million (FY 2014: EUR 81 million). The unutilised portions of lines of credit granted to two special purpose vehicles in connection with ABS customer transactions amounted to EUR 740 million (FY 2014: EUR 586 million). The commitments ensure that each of the special purpose vehicles can gain access to funding if they are unable to place securitised instruments on the market as planned.

No individual off-balance sheet amounts are material in relation to overall activities.

The risks from drawdowns for contingent liabilities and other liabilities are assessed on the basis of the creditworthiness of the principal or borrower. Provisions are made if creditworthiness deteriorates to the extent that it is no longer expected that the drawdown will be repaid in full or in part. Information on the credit risk management process can be found in the risk report.

Assignment of collateral for the Bank's own liabilities

In addition to the assets transferred under sale and repurchase agreements and receivables used as cover pools for issued Pfandbriefs, assets have been assigned as collateral in the case of the following own liabilities in the amounts shown below:

EUR million	2015	2014
Due to banks	14,661	14,754
Due to customers	1,281	898
Contingent liabilities	3	11

Collateral for own liabilities primarily relates to transferred receivables for pass-through loans to banks (EUR 14,629 million), collateral for issued municipal guaranteed investment contracts (EUR 1,277 million) and cash pledged as collateral for repurchase agreements (EUR 36 million).

Cash pledged as collateral of EUR 4,388 million and securities with a value of EUR 1,616 million have also been deposited as collateral for derivatives transactions, non-cash lending transactions and transactions on futures and options exchanges and other stock exchange and clearing facilities.

BayernLB also pledged cash collateral of EUR 12 million for the utilisation of the irrevocable payment obligation in connection with the bank levy.

Valuation units

Countermovements in values and cash flows were almost fully balanced on the reporting date and should continue to offset each other. When the underlying and hedging transactions mature and the valuation units therefore expire, the changes in value arising from the hedged risks will have completely offset each other.

	Hedged amount	
EUR million	2015	2014
Carrying value of underlying transactions in micro valuation units	**9,208**	**12,082**
• Assets	2,178	3,106
• Liabilities	6,946	8,761
• Derivative financial instruments	84	215
Carrying value of underlying transactions in portfolio valuation units	**440**	**210**
• Assets	440	208
• Forward contracts	–	2

Notes to the income statement

Interest income and interest expenses

Interest income includes EUR 84 million (FY 2014: EUR 14 million) of interest on tax receivables and interest expenses includes EUR 34 million (FY 2014: EUR 19 million) of interest on tax liabilities.

Other operating income and other operating expenses

In the reporting year, the Bank produced other operating income of EUR 263 million (FY 2014: EUR 226 million) and other operating expenses of EUR 272 million (FY 2014: EUR 191 million) resulting in a net other operating expense for the year of EUR 9 million (FY 2014: EUR 36 million income).

The Bank disclosed EUR 30 million (FY 2014: EUR 42 million) of gains on emissions certificates under other operating income and EUR 10 million (FY 2014: EUR 15 million) of losses under other operating expenses.

In the reporting year the Bank reported EUR 7 million (FY 2014: EUR 5 million) of gains arising on standalone derivatives in the non-trading portfolio in other operating income and EUR 6 million (FY 2014: EUR 9 million) of losses in other operating expenses.

Releases of other provisions gave rise to other operating income of EUR 36 million (FY 2014: EUR 69 million).

Capitalisation of interest on provisions resulted in other operating expenses of EUR 96 million (FY 2014: EUR 94 million). Expenses were higher due to the low interest rates at the time resulting in a lower discount interest rate.

The Bank reported EUR 144 million (FY 2014: EUR 13 million) of gains arising on the purchase and sale of receivables in other operating income and EUR 109 million (FY 2014: EUR 11 million) of losses in other operating expenses. This includes the liquidation proceeds from the profit participation certificates of Banque LBLux S.A. in Liquidation, Luxembourg, in the amount of EUR 24 million.

Amortisation, depreciation and writedowns on receivables and certain securities and additions to provisions in the credit business

This item includes a gain from recoveries on written-off receivables of EUR 110 million (FY 2014: EUR 93 million).

Amortisation, depreciation and writedowns on participations, shares in affiliated companies and securities classified as fixed assets

This item includes a net gain of EUR 66 million from writedowns and writeups on participations.

Extraordinary income and extraordinary expenses

Extraordinary income and extraordinary expenses includes only income and expenses from restructuring measures.

Taxes on income and earnings

Corporation tax, municipal trade tax, solidarity surcharge and income taxes in other countries were reported as income tax expenses.

Deferred tax liabilities mainly arose from tangible assets and intangible assets. Deferred tax assets mainly arose from amounts due from customers and provisions.

Deferred tax assets were offset against deferred tax liabilities. BayernLB elected to use the option under section 274 para. 1, sentence 2 HGB and did not capitalise the deferred tax assets remaining after offsetting.

Distributions on silent partner contributions and profit participation certificates

In financial year 2014, BayernLB utilised silent partner contributions and profit participation certificates to absorb losses. In accordance with the terms of the agreements, the principal amounts of silent partner contributions and profit participation certificates were therefore entitled to be replenished by EUR 494 million and EUR 82 million respectively as at the reporting date of 31 December 2015.

All outstanding liabilities on profit participation certificates were paid from the net income for financial year 2015 in accordance with the terms of the contract. In addition to fully replenishing the profit participation certificates in the amount of EUR 82 million, deferred distribution payments for 2013 and 2014 totalling EUR 46 million were paid in full along with the full amount of EUR 23 million due for 2015.

The silent partner contributions were also fully replenished in the amount of EUR 494 million. No distributions on silent partner contributions were made as there was no contractual obligation to do so. Deferred interest payments on silent partner contributions for 2010 to 2015 totalling EUR 9 million remain outstanding. Deferred payments may only be made during the lifetime of these instruments and only if their payment does not produce or increase a net accumulated loss. EUR 174 million was released from the capital reserve to replenish the silent partner contributions. BayernLB recognised net retained profits for the year of zero.

Amount not available for distribution

In accordance with section 268 para. 8 HGB, the full amount that BayernLB was not allowed to distribute in the reporting year was EUR 52 million (FY 2014: EUR 53 million). As in the previous year, this amount resulted solely from the capitalisation of intangible assets produced in house. Reserves are available to cover the full amount that may not be distributed under section 268 para. 8 HGB.

Geographical markets

The sum of earnings from
- interest income
- current income from equities and other non-fixed income securities, participations and shares in affiliated companies
- commission income
- net income of the trading portfolio
- other operating income

is broken down by geographical market as follows:

EUR million	2015	2014
Germany	2,819	3,421
Europe (ex Germany)	150	216
America	162	208

Derivatives transactions

The tables below show open external interest rate, foreign currency and other forward transactions and credit derivatives as at the reporting date. The transactions are primarily for hedging changes in interest rates, exchange rates or market prices and conducting trades for customers. They also include derivatives that form part of a hedge.

Derivatives transactions – volumes

EUR million	Nominal value 2015	Nominal value 2014	Positive market value[1] 2015	Negative market value[1] 2015
Interest rate risks				
• Interest rate swaps	557,311	529,664	23,035	21,314
• FRAs	277,192	218,927	49	49
• Interest rate options	18,251	21,133	908	1,272
– *call options*	*7,002*	*8,529*	*867*	*33*
– *put options*	*11,250*	*12,605*	*41*	*1,239*
• Caps, floors	12,463	24,019	200	75
• Exchange-traded contracts	43,658	62,734	1	1
• Other interest-based forward transactions	927	3,675	5	30
Total interest rate risks	**909,802**	**860,153**	**24,198**	**22,740**
Currency risks				
• Forward exchange transactions	83,343	60,893	1,822	1,632
• Currency/cross-currency swaps	31,044	39,882	991	1,911
• Foreign exchange options	5,560	4,957	51	46
– *call options*	*3,169*	*2,575*	*43*	*19*
– *put options*	*2,392*	*2,382*	*7*	*27*
• Other currency-based forward transactions	142	201	6	1
Total currency risks	**120,090**	**105,933**	**2,869**	**3,590**
Equity and other price risks				
• Equity forward transactions	236	351	–	24
• Equity/index options	407	411	10	2
– *call options*	*366*	*372*	*10*	*–*
– *put options*	*40*	*38*	*–*	*2*
• Exchange-traded contracts	641	771	–	21
• Other forward transactions[2]	3,589	4,457	545	498
Total equity and other price risks	**4,871**	**5,989**	**555**	**545**
Credit derivative risks				
• Protection buyer	228	447	1	1
• Protection seller	692	980	–	1
Total credit derivative risks	**920**	**1,427**	**1**	**2**
Total	**1,035,684**	**973,502**	**27,623**	**26,877**

1 Calculation of market values, see Accounting Policies: Fair Value and Derivative Financial Instruments.
2 Exclusively energy and commodity-related transactions.

Derivatives transactions – maturities

	Nominal value							
	Interest rate risks		Currency risks		Equity and other price risks		Credit derivative risks	
EUR million	2015	2014	2015	2014	2015	2014	2015	2014
Residual maturities								
• up to three months	47,205	67,050	45,977	29,291	1,004	1,176	–	–
• up to one year	321,994	309,401	36,530	37,650	1,384	1,946	35	600
• up to five years	309,695	290,383	27,558	28,793	2,124	2,431	840	781
• more than five years	230,908	193,320	10,024	10,200	358	436	45	46
Total	**909,802**	**860,153**	**120,090**	**105,933**	**4,871**	**5,989**	**920**	**1,427**

Derivatives transactions – counterparties

	Nominal value		Positive market value[1]	Negative market value[1]
EUR million	2015	2014	2015	2015
OECD banks	278,899	376,538	11,215	10,769
Non-OECD banks	758	1,634	10	14
Public-sector entities within the OECD	17,057	17,398	951	548
Other counterparties[2]	738,969	577,932	15,448	15,546
Total	**1,035,684**	**973,502**	**27,623**	**26,877**

Derivatives transactions – trading portfolios

	Nominal value		Positive market value[1]	Negative market value[1]
EUR million	2015	2014	2015	2015
Interest rate derivatives	777,703	758,846	20,023	18,873
Currency derivatives	108,578	93,633	2,504	3,066
Equity derivatives	3,988	5,326	537	515
Credit derivatives	792	1,302	1	2
Total	**891,061**	**859,107**	**23,065**	**22,456**

Derivatives transactions – non-trading portfolios

	Nominal value		Positive market value[1]	Negative market value[1]
EUR million	2015	2014	2015	2015
Interest rate derivatives	132,099	101,307	4,175	3,867
Currency derivatives	11,513	12,300	366	524
Equity derivatives	883	663	18	30
Credit derivatives	128	126	–	–
Total	**144,623**	**114,396**	**4,558**	**4,421**

1 Calculation of market values, see Accounting Policies: Fair Value and Derivative Financial Instruments.
2 Including exchange-traded contracts.

Notes pursuant to section 35 para. 1 no. 7 RechKredV in connection with section 28 of the Pfandbrief Act (PfandBG)

Outstanding Pfandbriefs and cover pools

EUR million	Nominal value		Present value		Risk-related present value	
	2015	2014	2015	2014	2015	2014
Mortgage Pfandbriefs	**5,790**	**5,241**	**6,110**	**5,644**	**6,060**	**5,445**
Cover pools [1]	7,798	9,516	8,438	10,168	8,193	9,893
of which: derivatives	–	–	–	–	–	–
Excess cover	**2,008**	**4,275**	**2,328**	**4,524**	**2,133**	**4,448**
Public Pfandbriefs	**16,329**	**18,320**	**18,282**	**20,456**	**16,976**	**19,618**
Cover pools [1,2]	23,091	29,874	25,653	32,796	23,637	31,006
of which: derivatives	–	–	–	–	–	–
Excess cover	**6,762**	**11,554**	**7,371**	**12,340**	**6,661**	**11,388**

1 Including additional cover assets pursuant to sections 19 para. 1 and 20 para. 2 PfandBG.
2 Including discount for BayernLabo's below-market interest rate receivables.

Maturities structure of outstanding Pfandbriefs and interest rate lock-in periods of cover pools

EUR million	Mortgage Pfandbriefs		Cover pools [1]		Public Pfandbriefs		Cover pools [1,2]	
	2015	2014	2015	2014	2015	2014	2015	2014
Residual maturities and interest rate lock-in periods								
• up to six months	695	839	476	1,672	788	2,440	2,793	4,578
• over six months up to one year	635	260	386	1,327	1,621	2,597	1,033	2,256
• over one year up to eighteen months	786	205	808	495	489	788	1,470	1,761
• over eighteen months up to two years	892	621	606	589	1,307	1,564	856	996
• over two years up to three years	921	1,047	1,573	1,913	1,573	1,753	2,141	2,798
• over three years up to four years	498	919	789	1,327	1,000	1,096	1,713	2,213
• over four years up to five years	519	498	843	562	671	892	1,466	2,078
• over five years up to ten years	840	842	2,172	1,542	6,674	5,430	6,658	8,278
• over ten years	5	10	144	90	2,207	1,761	4,961	4,917
Total	**5,790**	**5,241**	**7,798**	**9,516**	**16,329**	**18,320**	**23,091**	**29,874**

1 Including additional cover assets pursuant to sections 19 para. 1 and 20 para. 2 PfandBG.
2 Including discount for BayernLabo's receivables at below-market interest rates.

Net cash value of mortgage Pfandbriefs and public Pfandbriefs by foreign currency

	Mortgage Pfandbriefs		Public Pfandbriefs	
EUR million	2015	2014	2015	2014
CAD	–	–	138	147
CHF	127	155	29	–77
GBP	–201	34	783	756
SEK	9	24	–	–
USD	306	152	49	672

Composition of mortgage Pfandbriefs and public Pfandbriefs by percentage

	Mortgage Pfandbriefs		Public Pfandbriefs	
in %	2015	2014	2015	2014
Share of fixed-income cover pool	64	50	92	86
Share of fixed-income Pfandbriefs	61	66	94	87

Composition of other cover assets used to cover Pfandbriefs

EUR million	2015	2014
Cover assets in accordance with		
• section 19 para. 1 no. 2 of the Pfandbrief Act (PfandBG)	–	–
• section 19 para. 1 no. 3 of the Pfandbrief Act (PfandBG)	486	681
• section 20 para. 2 no. 2 of the Pfandbrief Act (PfandBG)	147	700
Total	**633**	**1,381**

The country of domicile of the borrowers of the other cover assets is Germany. As at the reporting date the other cover assets did not comprise covered bonds as defined by Art. 129 Regulation (EU) No 575/2013.

Receivables used to cover mortgage Pfandbriefs by size

	Mortgages serving as cover	
EUR million	2015	2014
up to EUR 300,000	379	673
over EUR 300,000 up to EUR 1 million	81	123
over EUR 1 million up to EUR 10 million	1,398	1,763
more than EUR 10 million	5,454	6,276
additional cover	486	681
Total	**7,798**	**9,516**

Receivables used to cover public Pfandbriefs by size

	Cover assets
EUR million	2015
up to EUR 10 million	3,444
over EUR 10 million up to EUR 100 million	6,384
more than EUR 100 million	13,114
Total	**22,942**

Pursuant to section 54 of the Pfandbrief Act (PfandBG), disclosure of the previous year's figures does not become mandatory until financial year 2016.

Receivables used to cover mortgage Pfandbriefs by age and average loan to value

		2015
Section 28 para. 1 no. 11 of the Pfandbrief Act (PfandBG) – volume-weighted average age of receivables (seasoning)	in years	6
Section 28 para. 2 no. 3 of the Pfandbrief Act (PfandBG) – average-weighted loan to value	in %	53

Pursuant to section 54 of the Pfandbrief Act (PfandBG), disclosure of the previous year's figures does not become mandatory until financial year 2016.

Receivables used to cover mortgage Pfandbriefs by country where the real estate collateral is located and by type of use

	Mortgages serving as cover			
	Commercial		Residential	
EUR million	2015	2014	2015	2014
Germany	**4,400**	**4,813**	**1,549**	**1,910**
• flats	–	–	206	388
• single-family homes	–	–	151	269
• multi-family homes	–	–	1,166	1,206
• office buildings	1,634	1,541	–	–
• retail buildings	1,353	1,673	–	–
• industrial buildings	15	21	–	–
• other commercial buildings	851	793	–	–
• unfinished new buildings not yet generating income	47	75	5	26
• building plots	15	29	21	21
• additional cover	486	681	–	–
Austria	**95**	**91**	**–**	**–**
• office buildings	15	31	–	–
• retail buildings	61	41	–	–
• other commercial buildings	19	19	–	–

	Mortgages serving as cover			
	Commercial		Residential	
EUR million	2015	2014	2015	2014
Belgium	**26**	**38**	**–**	**–**
• office buildings	26	28	–	–
• building plots	–	9	–	–
Czech Republic	**155**	**69**	**–**	**–**
• office buildings	40	40	–	–
• retail buildings	115	29	–	–
France	**269**	**611**	**–**	**–**
• office buildings	237	579	–	–
• retail buildings	32	32	–	–
Italy	**208**	**292**	**–**	**–**
• office buildings	155	192	–	–
• retail buildings	53	100	–	–
Netherlands	**311**	**399**	**–**	**–**
• office buildings	230	344	–	–
• retail buildings	38	35	–	–
• other commercial buildings	44	19	–	–
Poland	**48**	**84**	**–**	**–**
• office buildings	28	60	–	–
• retail buildings	20	24	–	–
Slovakia	**–**	**3**	**–**	**–**
• retail buildings	–	3	–	–
Spain	**54**	**50**	**–**	**–**
• office buildings	–	49	–	–
• retail buildings	54	1	–	–
Sweden	**9**	**23**	**–**	**–**
• retail buildings	–	23	–	–
• other commercial buildings	9	–	–	–
Switzerland	**20**	**18**	**–**	**–**
• retail buildings	–	18	–	–
• other commercial buildings	20	–	–	–
United Kingdom	**369**	**806**	**–**	**–**
• office buildings	189	460	–	–
• retail buildings	179	342	–	–
• other commercial buildings	–	4	–	–
USA	**284**	**309**	**–**	**–**
• office buildings	284	277	–	–
• retail buildings	–	9	–	–
• other commercial buildings	–	23	–	–
Total	**6,249**	**7,607**	**1,549**	**1,910**

Total amount of mortgage receivables overdue for at least 90 days by country where the real estate collateral is located

EUR million	2015	2014
Germany	–	–
Total	**–**	–

Additional information on mortgage receivables pursuant to section 28 para. 2 no. 3 PfandBG

As at the reporting date, no (FY 2014: 0) commercial and no (FY 2014: 0) residential properties were the subject of foreclosure sale proceedings. No (FY 2014: 0) commercial and no (FY 2014: 0) residential properties were under administrative receivership.

No (FY 2014: 0) commercial property and no (FY 2014: 0) residential properties were foreclosed on in the reporting year.

No properties were repossessed in 2015 or 2014 to avoid losses on mortgages.

No interest was overdue on mortgage loans on residential property (FY 2014: 0) as at the reporting date.

No interest was overdue on mortgage loans on commercial property in financial years 2014 or 2015.

Receivables used to cover public Pfandbriefs by debtor, guarantor and its domicile

	Cover assets	
EUR million	2015	2014
Germany	**21,315**	**27,484**
• national government	1,250	1,371
• regional authorities	9,108	12,827
• local authorities	9,322	8,994
• other debtors	1,488	3,592
• additional cover	147	700
of which: export credit insurers	1,045	1,270
Austria	**15**	**29**
• national government	15	29
of which: export credit insurers	15	29
Canada	**132**	**142**
• regional authorities	–	71
• local authorities	132	71
European Union	**–**	**97**
• other debtors	–	97
France incl. Monaco	**91**	**82**
• national government	91	82
of which: export credit insurers	90	82
Luxembourg	**26**	**30**
• national government	26	30
of which: export credit insurers	22	30
Spain	**61**	**135**
• regional authorities	61	135
Switzerland	**222**	**535**
• regional authorities	135	217
• other debtors	87	318
United Kingdom	**1,187**	**1,293**
• national government	434	584
• regional authorities	–	710
• local authorities	753	–
of which: export credit insurers	394	606
USA	**41**	**46**
• national government	41	46
of which: export credit insurers	41	46
Total	**23,091**	**29,874**

Total amount of public receivables overdue for at least 90 days and their regional distribution

EUR million	2015	2014
Germany	**–**	**1**
• regional authorities	–	1
Luxembourg	**1**	**1**
• national government	1	1
Total	**1**	**2**

Overdue public receivables due from regional authorities are principally receivables from private individuals which regional authorities have guaranteed.

Total amount of public receivables overdue for at least 90 days and their regional distribution

EUR million	2015	2014
Germany	**1**	**3**
• regional authorities	1	3
Luxembourg	**9**	**11**
• national government	9	11
Total	**10**	**14**

Supplementary information

Shareholdings

Name and location of the investee	Type of share-holding	Percentage held	Equity/ fund assets in EUR '000	Earnings in EUR '000
Subsidiaries included in the IFRS consolidated financial statements				
Banque LBLux S.A. i.L., L - Luxembourg	Direct	100.0	95,825	1,822
Bayern Card-Services GmbH - S-Finanzgruppe, Munich	Direct	50.1	26,213	9,848
BayernInvest Kapitalverwaltungsgesellschaft mbH, Munich[1]	Direct	100.0	18,754	–
BayernLB Capital LLC I, USA - Wilmington[2]	Direct	100.0	108	9
BayernLB Capital Trust I, USA - Wilmington[2]	Direct	100.0	1	–
Deutsche Kreditbank Aktiengesellschaft, Berlin[1]	Direct	100.0	2,335,912	–
Subsidiaries included in the Deutsche Kreditbank Aktiengesellschaft sub-group:				
• DKB Finance GmbH, Berlin	Indirect	100.0	11,645	–
• DKB Grundbesitzvermittlung GmbH, Berlin	Indirect	100.0	101	–
• DKB PROGES GmbH, Berlin	Indirect	100.0	480	–
• DKB Service GmbH, Potsdam	Indirect	100.0	7,133	–
• FMP Forderungsmanagement Potsdam GmbH, Potsdam	Indirect	100.0	3,411	1,290
• MVC Unternehmensbeteiligungsgesellschaft mbH, Berlin	Indirect	100.0	2,469	107
Real I.S. AG Gesellschaft für Immobilien Assetmanagement, Munich[1]	Direct	100.0	45,455	–
Subsidiaries not included in the IFRS consolidated financial statements				
Bauland GmbH, Baulandbeschaffungs-, Erschließungs- und Wohnbaugesellschaft, Munich	Indirect	94.5	–10,106	–
Bavaria Immobilien-Beteiligungs-Gesellschaft mbH & Co. Objekt Fürth KG, Munich	Indirect	100.0	–	–
Bavaria Immobilien-Beteiligungs-Gesellschaft mbH, Munich	Indirect	100.0	10	–5
Bayerische Landesbank Europa-Immobilien-Beteiligungs-GmbH, Munich	Indirect	100.0	109	–
Bayerische Landesbank Immobilien-Beteiligungs-Gesellschaft mbH & Co. KG, Munich	Direct	100.0	31,585	2,398
Bayerische Landesbank Immobilien-Beteiligungs-Verwaltungsgesellschaft mbH, Munich	Direct	100.0	47	2
Bayern Bankett Gastronomie GmbH, Munich[1]	Direct	100.0	514	–
Bayern Corporate Services GmbH, Munich	Indirect	100.0	205	–
Bayern Facility Management GmbH, Munich[1]	Direct	100.0	2,560	–
BayernFinanz Gesellschaft für Finanzmanagement und Beteiligungen mbH, Munich[1]	Direct	100.0	725	–
Bayernfonds Australien 4 GmbH, Munich	Indirect	100.0	25	–
Bayernfonds BestEnergy 1 GmbH & Co. KG, Oberhaching	Indirect	100.0	31,571	–9,104
Bayernfonds Immobilien Concept GmbH, Munich	Indirect	100.0	65	–3
Bayernfonds Immobiliengesellschaft mbH, Munich	Direct and indirect	100.0	4,907	159
Bayernfonds Kambera GmbH, Munich	Indirect	100.0	25	–
Bayernfonds Opalus GmbH, Munich	Indirect	100.0	25	–

Name and location of the investee	Type of share-holding	Percentage held	Equity/ fund assets in EUR ’000	Earnings in EUR ’000
BayernInvest Luxembourg S.A., L - Munsbach	Indirect	100.0	1,327	4
BayernLB Capital Partner GmbH, Munich	Direct	100.0	1,264	32
BayernLB Capital Partner Verwaltungs-GmbH, Munich	Direct	100.0	40	3
BayernLB Mittelstandsfonds GmbH & Co. Unternehmensbeteiligungs KG, Munich	Direct and indirect	100.0	34,506	502
BayernLB Private Equity GmbH, Munich	Direct	100.0	34,773	−16,673
BayTech Venture Capital II GmbH & Co. KG, Munich	Direct and indirect	47.6	5,511	273
BayTech Venture Capital Initiatoren GmbH & Co. KG, Munich	Indirect	46.8	42	−5
Berchtesgaden International Resort Betriebs GmbH, Munich[1]	Direct	100.0	9,368	–
Berthier Participations SARL, F - Paris	Direct	100.0	470	−113
BestLife 3 International GmbH & Co. KG, Munich	Indirect	50.4	16,348	−78
BGFM Bayerische Gebäude- und Facilitymanagement AG & Co. KG, Munich	Indirect	100.0	90	−18
BGV IV Verwaltungs GmbH, Munich	Indirect	100.0	36	3
BGV VI Verwaltungs GmbH, Munich[3]	Indirect	100.0		
BGV V Verwaltungs GmbH, Munich	Indirect	100.0	30	4
BLB-Beteiligungsgesellschaft Sigma mbH, Munich[2]	Direct	100.0	971	–
BLB-VG22-Beteiligungsgesellschaft mbH, Munich	Direct	100.0	4,728	369
DKB Immobilien Beteiligungs GmbH, Potsdam	Indirect	100.0	2,164	156
DKB Wohnen GmbH, Berlin	Indirect	94.5	25	–
DKB Wohnungsbau- und Stadtentwicklung GmbH, Berlin	Indirect	100.0	2,500	–
GbR Olympisches Dorf, Potsdam	Indirect	100.0	151	151
German Centre for Industry and Trade Shanghai Co. Ltd., PRC - Shanghai/PRC	Indirect	100.0	34,765	2,158
German Centre for Industry and Trade Taicang Co. Ltd., PRC - Taicang/PRC[3]	Indirect	100.0		
German Centre Limited, BVI - Tortola	Direct	100.0	27,090	982
gewerbegrund AIRPORT GmbH Beteiligungsgesellschaft, Munich	Indirect	100.0	62	1
gewerbegrund Airport GmbH & Co. Hallbergmoos KG, Munich	Indirect	100.0	6,504	−1,109
gewerbegrund Bauträger GmbH & Co. Objekt IGG KG, Munich	Indirect	100.0	54	−3
gewerbegrund Projektentwicklungsgesellschaft (gpe) mbH, Munich[1]	Direct	100.0	50	–
Global Format GmbH & Co. KG, Munich	Direct	52.4	1,521	10
Global Format Verwaltungsgesellschaft mbH, Munich	Indirect	100.0	28	1
Hausbau Dresden GmbH, Munich	Indirect	100.0	47	−1
Hörmannshofer Fassaden GmbH & Co. Halle KG, Halle/Saale	Indirect	100.0	157	387
Hörmannshofer Fassaden GmbH & Co. Niederdorf KG, Niederdorf by Chemnitz	Indirect	80.0	157	168
Hörmannshofer Fassaden Süd GmbH & Co. KG, Marktoberdorf	Indirect	100.0	223	668
Hörmannshofer Unternehmensgruppe GmbH, Marktoberdorf	Indirect	52.6	2,790	−12,172
Hörmannshofer Verwaltungs GmbH, Pöttmes/Augsburg	Indirect	100.0	130	15

Name and location of the investee	Type of share-holding	Percentage held	Equity/ fund assets in EUR '000	Earnings in EUR '000
Koch - Betontechnik GmbH & Co. KG, Pöttmes/Augsburg	Indirect	100.0	32	–
LB Immobilienbewertungsgesellschaft mbH, Munich[1]	Direct	100.0	827	–
LB-RE S.A., L - Luxembourg	Indirect	100.0	5,082	–
Melhoria Immobiliengesellschaft mbH, Potsdam	Indirect	100.0	305	172
Oberhachinger Bauland GmbH, Wohnbau- und Erschließungsgesellschaft, Munich	Indirect	91.0	–2,416	–
Potsdamer Immobiliengesellschaft mbH, Potsdam	Indirect	100.0	45	20
PROGES DREI GmbH, Berlin	Indirect	100.0	467	51
PROGES ENERGY GmbH, Berlin	Indirect	100.0	287	215
PROGES Sparingberg GmbH, Berlin	Indirect	100.0	618	13
PROGES VIER GmbH, Berlin	Indirect	100.0	159	3
PROGES ZWEI GmbH, Berlin	Indirect	100.0	972	–527
Real I.S. Australia Pty. Ltd., AUS - Buderim QLD	Indirect	100.0	243	393
Real I.S. Beteiligungs GmbH, Munich	Indirect	100.0	74	9
Real I.S. Finanz GmbH, Munich[1]	Direct	100.0	25	–
Real I.S. Fonds Service GmbH, Munich[1]	Direct	100.0	42	6
Real I.S. France SAS, Paris	Indirect	100.0	599	28
Real I.S. Fund Management GmbH, Munich	Indirect	100.0	43	7
Real I.S. Gesellschaft für Immobilienentwicklung mbH, Munich	Indirect	100.0	1,134	11
Real I.S. Gesellschaft für Immobilien Entwicklung und Projektrealisierung mbH & Co. KG, Munich	Indirect	100.0	4,461	–47
Real I.S. Investment GmbH, Munich	Indirect	100.0	3,176	531
Real I.S. Management Hamburg GmbH, Munich	Indirect	100.0	27	–
Real I.S. Management SA, L - Munsbach	Indirect	100.0	255	14
Real I.S. Objekt Bruchsal Verwaltungsgesellschaft mbH, Oberhaching	Indirect	100.0	23	2
Schütz Group GmbH & Co. KG, Rosbach	Indirect	54.4	7,679	–1,422
Schütz Group Verwaltungsgesellschaft mbH, Rosbach	Indirect	100.0	42	2
SEPA Objekt Bruchsal GmbH & Co. KG, Oberhaching	Indirect	100.0	112	–12
SEPA/Real I.S. Objekt Bruchsal Rathausgalerie GmbH & Co. KG, Oberhaching	Indirect	100.0	6,217	357
SEPA/Real I.S. Objekt Bruchsal Rathausgalerie Verwaltungs-GmbH, Oberhaching	Indirect	94.0	27	3
Süd-Fassaden GmbH, Königsbrunn	Indirect	100.0	81	–
TFD und BGV VI Verwaltungs GmbH, Munich[3]	Indirect	100.0		
TFD und RFS Verwaltungs GmbH, Munich[3]	Indirect	100.0		
WPA Fonds Partners Sàrl, L - Luxembourg	Indirect	100.0	13	–
WPI Fonds Partners Sàrl, L - Luxembourg	Indirect	100.0	13	–
Other joint ventures				
ABG Allgemeine Bauträger- und Gewerbeimmobilien-gesellschaft & Co. Holding KG, Munich	Indirect	50.0	158	–22
ABG Allgemeine Bauträger- und Gewerbeimmobilien-gesellschaft mbH, Munich	Indirect	50.0	58	3
BayernImmo 1. Joint Venture GmbH & Co. KG, Munich[3]	Indirect	50.0		
BayernImmo 1. Joint Venture Verwaltungs GmbH & Co. KG, Munich[3]	Indirect	50.0		
CommuniGate Kommunikations-Service GmbH, Passau	Indirect	50.0	3,321	240
Einkaufs-Center Györ Verwaltungs G.m.b.H., Hamburg	Indirect	50.0	27	2

Name and location of the investee	Type of share-holding	Percentage held	Equity/ fund assets in EUR ’000	Earnings in EUR ’000
Fay & Real I.S. IE Regensburg GmbH & Co. KG, Oberhaching	Indirect	50.0	539	–3
Fay & Real I.S. IE Regensburg Verwaltungs GmbH, Oberhaching	Indirect	50.0	32	3
German Biofuels GmbH, Pritzwalk[4]	Indirect	19.9	–3,982	87
German Centre for Industry and Trade India Holding-GmbH, Munich	Direct	50.0	859	–445
Harburg Arcaden Projektbeteiligung mbH, Essen	Indirect	50.0	52	–
MTI Main-Taunus Immobilien GmbH, Bad Homburg v.d.H.	Indirect	50.0	186	56
S-Karten-Service-Management GmbH - Saarbrücken - München, Munich	Indirect	50.0	101	–
TEGES Grundstücks-Vermietungsgesellschaft mbH, Berlin	Indirect	50.0	19	–1
TEGES Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt Berlin KG, Berlin[4]	Indirect	47.0	–7,185	212
Other participations				
Bayerngrund Grundstücksbeschaffungs- und -erschließungs-Gesellschaft mit beschränkter Haftung, Munich	Direct	50.0	8,947	25
Bayern Mezzaninekapital GmbH & Co. KG - Unternehmensbeteiligungsgesellschaft, Munich	Direct	25.5	38,365	2,904
Bayern Mezzaninekapital Verwaltungs GmbH, Munich	Direct	49.0	43	1
Erste Tinten Holding GmbH, Hohenbrunn	Indirect	21.0	3,487	769
GHM Holding GmbH, Regenstauf	Indirect	40.0	15,530	427
G.I.E. Max Hymans, F - Paris	Indirect	33.3	–28,941	3,845
Neumarkt-Galerie Immobilienverwaltungs-gesellschaft mbH, Cologne	Indirect	49.0	88	–1
RSU Rating Service Unit GmbH & Co. KG, Munich	Direct	20.0	13,813	1,683
Other significant shareholdings of 20 percent or more				
Abacus Eight Limited, GBC - George Town/Grand Cayman[5]	Direct	48.5	7,759	5,108
Abacus Nine Limited, GBC - George Town/Grand Cayman[5]	Direct	48.5	7,844	5,192
Abacus Seven Limited, GBC - George Town/Grand Cayman[5]	Direct	48.5	5,623	2,980
Abacus Ten Limited, GBC - George Town/Grand Cayman[5]	Direct	43.9	3,083	409
ADS-click S.A., CH - Geneva	Indirect	49.5	2,593	–1,097
Aero Lloyd Erste Beteiligungsgesellschaft GmbH, Kelsterbach	Indirect	100.0	24	–1
Aero Lloyd Flugreisen GmbH & Co. Luftverkehrs-KG, Oberursel	Indirect	66.3	20,405	–5,671
Aero Lloyd Flugreisen GmbH, Oberursel	Indirect	94.0	77	7
Aero Lloyd ReiseCenter GmbH, Oberursel	Indirect	100.0	65	–17
Bau-Partner GmbH, Halle/Saale	Indirect	49.6	–239	–553
Corporate Computer Lease Limited, CCL.Limited, GB - Camberley, Surrey[6]	Indirect	33.3	3,951	86
Film und Video Untertitelung Gerhard Lehmann AG i.L., Potsdam	Indirect	33.3	–1,997	–495
Fondations Capital I S.C.A., L - Senningerberg	Direct	23.1	223,297	–36,826
GbR VÖB-ImmobilienAnalyse, Bonn[3]	Indirect	20.0		
GESO Gesellschaft für Sensorik, Geotechnischen Umweltschutz und mathematische Modellierung mbH, Jena	Indirect	43.1	–353	–

Name and location of the investee	Type of share-holding	Percentage held	Equity/ fund assets in EUR '000	Earnings in EUR '000
MB Holding GmbH, Lüdenscheid	Indirect	54.6	3,025	1,488
Mediport Venture Fonds Zwei GmbH, Berlin	Indirect	53.8	267	–1,687
mfi Grundstück GmbH & Co. Harburg Arcaden KG, Essen	Indirect	42.1	–	–1,688
Neue Novel Ferm Verwaltungs GmbH, Dettmannsdorf	Indirect	49.0	24	–3
Novel Ferm Brennerei Dettmannsdorf GmbH & Co. KG, Dettmannsdorf	Indirect	49.0	–	–21
RSA Capak alma ve kesme Sistemlerim San. Ve. Tic. Ltd. Sti., TR - Izmit KOCAELI	Indirect	100.0	–64	–6
RSA Entgrat- u. Trenn-Systeme GmbH & Co. KG, Lüdenscheid	Indirect	100.0	1,026	2,179
RSA Entgrat- u. Trenn-Systeme Verwaltungs-GmbH, Lüdenscheid	Indirect	100.0	62	4
RSA Systèmes Ebavurage et Tronconnage S.A.R.L., F - Sarreguemines Cedex	Indirect	100.0	26	–54
Sophia Euro Lab S.A.S., F - Sophia Antipolis Cedex	Indirect	32.3	1,402	–134
SSC Sky Shop Catering GmbH & Co. KG, Kelsterbach	Indirect	100.0	1,279	825
TRMF Gewerbeimmobilien GmbH, Essen	Indirect	50.0	–	758
Versorgungskasse I BayernLB Gesellschaft mit beschränkter Haftung, Munich	Direct	100.0	19,105	–3,767
Versorgungskasse II BayernLB Gesellschaft mit beschränkter Haftung, Munich	Direct	100.0	15,013	1,783

The information is based on the most recent available annual financial statements of the investees. Foreign currency amounts were converted to euros at the respective spot exchange rate at the end of the year.
1 A profit and loss transfer agreement has been concluded with the company.
2 The company is both a subsidiary and a structured entity consolidated within the Group.
3 Approved annual financial statements are not available yet.
4 Classified as a joint venture based on contractual agreements.
5 The BayernLB Group's share of the voting rights: 0 percent; third-parties' share of the voting rights: 100 percent.
6 The BayernLB Group's share of the voting rights: 41.7 percent; third-parties' share of the voting rights: 58.3 percent.

Participations in large limited companies (including credit institutions) exceeding 5 percent of the voting rights

Name and location of the investee
AKA Ausfuhrkredit GmbH, Frankfurt/Main
BayBG Bayerische Beteiligungsgesellschaft mbH, Munich
Bayerische Garantiegesellschaft mbH für mittelständische Beteiligungen, Munich
Bayern Card-Services GmbH - S-Finanzgruppe, Munich
Deutsche Factoring Bank Deutsche Factoring GmbH & Co., Bremen
Deutsche Kreditbank Aktiengesellschaft, Berlin
DKB Service GmbH, Potsdam

As at the reporting date, BayernLB was a general partner in the following entities:

- ABAKUS, Hannover, GbR
- GbR Datenkonsortium OpRisk, Bonn, GbR
- GLB GmbH & Co. OHG, Frankfurt/Main, GmbH & Co. OHG

Letters of comfort

Certain of BayernLB's subsidiaries and their creditors have been issued with letters of comfort, giving them significant benefits in terms of improved business terms and better financing conditions. BayernLB also benefits as the value of its subsidiaries is enhanced. At the same time, however, it is also potentially liable for losses.

BayernLB is liable for ensuring that Deutsche Kreditbank Aktiengesellschaft, Berlin is able to fulfil its contractual obligations in proportion to the size of its equity interest except in cases of political risk.

Expiry of the letter of comfort for LB(Swiss) Privatbank AG as at 21 December 2009 and for Landesbank Saar as at 21 June 2010

Prior to the reporting year, BayernLB issued letters of comfort for LB(Swiss) Privatbank AG, Zurich (LB(Swiss)) and Landesbank Saar, Saarbrücken (SaarLB). At the end of 21 December 2009 BayernLB transferred its equity interest in LB(Swiss) to Landesbank Hessen-Thüringen, Frankfurt/Main and at the end of 21 June 2010 sold a 25.2 percent stake in SaarLB to the government of Saarland. SaarLB therefore no longer qualifies as an affiliated company of BayernLB under section 271 para. 2 HGB. As a result the letter of comfort for LB(Swiss) expired at the end of 21 December 2009 and for SaarLB at the end of 21 June 2010. The liabilities of LB(Swiss) created after the end of 21 December 2009 and the liabilities of SaarLB created after the end of 21 June 2010 are not covered by the letters of comfort and therefore any previous declarations were revoked.

Expiry of the letter of comfort for Banque LBLux S.A. (since renamed Banque LBLux S.A. in Liquidation), Luxembourg as at 1 May 2015

BayernLB previously issued a letter of comfort for Banque LBLux S.A. (since renamed Banque LBLux S.A. in Liquidation), Luxembourg. As stated in the Events after the reporting period section of the 2014 Annual Report, BayernLB rescinded this letter of comfort with effect from the end of 30 April 2015. As a result, the letter of comfort will in particular no longer cover liabilities of Banque LBLux S.A.(since renamed Banque LBLux S.A. in Liquidation) that were created after 30 April 2015, and all previously issued letters were also revoked.

Other financial obligations

Other financial obligations, which arise from daily operations principally under agency, rental, lease, usage, service and maintenance, consulting and marketing agreements, were within normal bounds.

As at the reporting date, there were call commitments for capital not fully paid up of EUR 23 million and liabilities from limited partnership interests of EUR 29 million. Amounts due to affiliated companies totalled EUR 41 million.

As at the reporting date, BayernLB had EUR 12 million of irrevocable payment obligations in connection with the bank levy. Cash collateral was pledged in the full amount for this.

In the previous year, BayernLB's liability as a member of the guarantee fund of the Landesbanks and central giro institutions was EUR 152 million. Following implementation of the Deposit Guarantee Scheme Act (EinSiG), which became law on 3 July 2015, agreement was reached on a new system for calculating the target volume in the guarantee scheme. Member institutions have until 3 July 2024 to achieve the target volume of funds for the guarantee scheme (the fill-up phase). The amount of the target volume will be calculated each year based on the data as at 31 December of the previous year. The annual contribution needed to achieve this (the target volume) will be calculated by 31 May each year by the German Savings Bank Association (DSGV), the body responsible for the guarantee scheme.

Under the terms of the statutes of the deposit insurance fund run by the Association of German Public Banks, VÖB, e. V. (VÖB), BayernLB has undertaken to exempt the VÖB from any losses arising from measures taken on behalf of a private-law credit institution in which it has a majority stake.

Under the terms of the contract of 10 December 2012 to spin off Bayerische Landesbausparkasse (LBS AöR-old) to LBS Bayerische Landesbausparkasse (LBS AöR-new), BayernLB and LBS AöR-new are jointly and severally liable for BayernLB's liabilities that were created up until the date of spin-off and assigned to LBS AöR-new in the spin-off agreement. BayernLB is liable for the liabilities within the meaning of the preceding sentence only if they mature within five years of the date of spin-off and the resulting claim is legally asserted against BayernLB. Due to the stable net assets, financial position and results of operations of LBS AöR-new there is currently no risk of a claim being brought.

Transactions with related parties under section 285 no. 21 HGB

BayernLB maintains commercial relationships with related parties. These include the Free State of Bavaria and the Association of Bavarian Savings Banks, Munich (SVB), whose indirect stakes in BayernLB are 75 percent and 25 percent respectively, subsidiaries, joint ventures and associates. In addition, the members of BayernLB's Board of Management and Supervisory Board and their close family members and companies controlled by these parties or jointly controlled if these parties are members of their management bodies are also deemed related parties.

Transactions with related parties were concluded at standard market terms and conditions.

Administrative bodies of BayernLB

Supervisory Board

Gerd Haeusler
Chairman of the BayernLB Supervisory Board
Munich

Walter Strohmaier
Deputy Chairman of the
BayernLB Supervisory Board
Chairman of the Board of Directors
Sparkasse Niederbayern-Mitte
Straubing

Dr Hubert Faltermeier
Chief District Administrator
Kelheim

Dr Roland Fleck
Managing Director
NürnbergMesse GmbH
Nuremberg

Dr Ute Geipel-Faber
Senior Director – Client Portfolio Management
Invesco Real Estate GmbH
Munich

Ralf Haase
Chairman of the General Staff Council
BayernLB
Munich

Dr Ulrich Klein
Under Secretary
Bavarian State Ministry of Finance,
Regional Development and Regional Identity
Munich

Dr Thomas Langer
since 1 November 2015
Member of the BayernLB Supervisory Board
Under Secretary
Bavarian State Ministry for Economic Affairs
and the Media, Energy and Technology
Munich

Wolfgang Lazik
Deputy Secretary
Bavarian State Ministry of Finance,
Regional Development and Regional Identity
Munich

Professor Dr Christian Rödl
Managing Partner
Rödl & Partner GbR
Nuremberg

Professor Dr Bernd Rudolph
Professor at LMU Munich
and Steinbeis-Hochschule Berlin

Dr Bernhard Schwab
until 31 October 2015
Member of the BayernLB Supervisory Board
Deputy Secretary
Bavarian State Ministry for Economic Affairs
and the Media, Energy and Technology
Munich

Board of Management (including allocation of responsibilities as at 1 October 2015)

Dr Johannes-Jörg Riegler
CEO
Corporate Center
Deutsche Kreditbank Aktiengesellschaft

Dr Edgar Zoller
Deputy CEO
Real Estate & Savings Banks/Association
Bayerische Landesbodenkreditanstalt[1]

Marcus Kramer
CRO
Risk Office
Restructuring Unit
Group Compliance

Michael Bücker
Corporates & Mittelstand

Dr Markus Wiegelmann
CFO/COO
Financial Office
Operating Office

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

1 Dependent institution of the Bank.

Remuneration of the administrative bodies

EUR '000	2015	2015	2014	2014
Total remuneration for the financial year: Members of the Board of Management		**3,944**		**2,921**
• CEO	710		506	
– Base salary	700		506	
– Variable compensation	10		–	
• Deputy CEO	670		506	
– Base salary	650		506	
– Variable compensation	20		–	
• Ordinary members of the Board of Management	2,480		1,811	
– Base salary	2,400		1,811	
– Variable compensation	80		–	
• Ancillary remuneration (non-cash compensation)	84		99	
Members of the Supervisory Board		**697**		**663**
Former members of the Board of Management and their surviving dependants		**4,292**		**4,590**
Pension provisions established for former members of the Board of Management and their surviving dependants		**84,977**		**77,954**

The information on variable compensation is based on the assumption targets are achieved 100 percent. The Supervisory Board is expected to decide on the payout and the exact size of the Board of Management's variable compensation for financial year 2015 in its meeting in April 2016.

Loans to the administrative bodies

There were no loans to administrative bodies in financial year 2015.

Mandates held by legal representatives or by other employees

Name	Mandates held in supervisory bodies constituted under German law for large companies (including all credit institutions)[1]
Board of Management	
Dr Johannes-Jörg Riegler	Deutsche Kreditbank Aktiengesellschaft, Berlin
Dr Edgar Zoller	Deutsche Kreditbank Aktiengesellschaft, Berlin
Marcus Kramer	Deutsche Kreditbank Aktiengesellschaft, Berlin
Michael Bücker	Deutsche Factoring Bank Deutsche Factoring GmbH & Co., Bremen
Dr Markus Wiegelmann	Deutsche Kreditbank Aktiengesellschaft, Berlin
Employees	
Dr Michael Braun	Landesbank Saar, Saarbrücken

1 This information is valid as at 31 December 2015.

External auditor's fees

EUR million	2015	2014
Total fees recorded as expenses in the financial year for		
• the financial statements audits	4	4
• other certification services	1	1
• tax consultancy services	–	–
• other services	1	2
Total	**5**	**6**

Number of employees (annual average)

	2015	2014
Female	1,443	1,507
Male	1,654	1,736
Total	**3,097**	**3,243**

The total figure includes 856 (FY 2014: 760) part-time employees, which corresponds to 580 (FY 2014: 501) full-time employees. The 96 (FY 2014: 95) trainees and students on a vocationally integrated course at a vocational academy are not included.

Responsibility statement by the Board of Management

To the best of our knowledge, and in accordance with the applicable reporting principles for the preparation of the annual financial statements, the Bank's financial statements give a true and fair view of the net assets, financial position and results of operations of Bayerische Landesbank, Munich, and the management report includes a fair review of the development and performance of the business and the position of Bayerische Landesbank, together with a description of the principal opportunities and risks associated with the expected performance of Bayerische Landesbank.

Munich, 14 March 2016

Bayerische Landesbank
The Board of Management

Dr Johannes-Jörg Riegler	Dr Edgar Zoller	Marcus Kramer
Michael Bücker	Dr Markus Wiegelmann	Ralf Woitschig

Auditor's Report

We have audited the annual financial statements, comprising the balance sheet, the income statement and the notes to the financial statements, together with the bookkeeping system and the management report of Bayerische Landesbank, Munich, for the financial year from 1 January to 31 December 2015.

The maintenance of the books and records and the preparation of the annual financial statements and the management report in accordance with German commercial law and supplementary provisions of the Bayerische Landesbank Act (Gesetz über die Bayerische Landesbank) and the Statutes of Bayerische Landesbank (Satzung der Bayerischen Landesbank) are the responsibility of the Company's management. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, and the management report based on our audit.

We conducted our audit of the annual financial statements in accordance with section 317 German Commercial Code (HGB) and German generally accepted standards for the audit of financial statements promulgated by the Institute of Public Auditors in Germany (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the annual financial statements in accordance with German principles of proper accounting and in the management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Company and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the books and records, the annual financial statements and the management report are examined primarily on a sample basis within the framework of the audit. The audit also includes assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall presentation of the annual financial statements and management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the annual financial statements of Bayerische Landesbank, Munich, comply with the legal requirements and supplementary provisions of the Bayerische Landesbank Act and the Statutes of Bayerische Landesbank and give a true and fair view of the Company's net assets, financial position and results of operations in accordance with German principles of proper accounting. The management report is consistent with the annual financial statements and as a whole provides a suitable view of the Company's position and suitably presents the opportunities and risks of future development.

Munich, 14 March 2016

Deloitte & Touche GmbH
Wirtschaftsprüfungsgesellschaft

(Löffler)
German public auditor
(Wirtschaftsprüfer)

(Apweiler)
German public auditor
(Wirtschaftsprüfer)

Committees and advisory boards
Locations and addresses

We would like to thank all our committees and advisory boards for their dedicated support in financial year 2015.

118 Supervisory Board

119 General Meeting

120 Audit Committee

121 Risk Committee

122 BayernLabo Committee

122 Nominating Committee

123 Compensation Committee

123 Trustees

124 Savings Bank Advisory Council

125 Wirtschafts- und Finanzforum Bayern
(Bavarian Economic and Finance Forum) –
BayernLB Economic Advisory Council

130 Locations and addresses

Supervisory Board

Gerd Haeusler
Chairman of the BayernLB Supervisory Board
Munich

Walter Strohmaier
Deputy Chairman of the
BayernLB Supervisory Board
Chairman of the Board of Directors
Sparkasse Niederbayern-Mitte
Straubing

Dr Hubert Faltermeier
Chief District Administrator
Kelheim

Dr Roland Fleck
Managing Director
NürnbergMesse GmbH
Nuremberg

Dr Ute Geipel-Faber
Senior Advisor
Invesco Real Estate GmbH
Munich

Ralf Haase
Chairman of the General Staff Council
BayernLB
Munich

Dr Ulrich Klein
Under Secretary
Bavarian State Ministry of Finance,
Regional Development and Regional Identity
Munich

Dr Thomas Langer
since 1 November 2015
Member of the BayernLB Supervisory Board
Under Secretary
Bavarian State Ministry for Economic Affairs
and the Media, Energy and Technology
Munich

Wolfgang Lazik
Deputy Secretary
Bavarian State Ministry of Finance,
Regional Development and Regional Identity
Munich

Professor Dr Christian Rödl
Managing Partner
Rödl & Partner GbR
Nuremberg

Professor Dr Bernd Rudolph
Professor at LMU Munich
and Steinbeis-Hochschule Berlin

Dr Bernhard Schwab
until 31 October 2015
Member of the BayernLB Supervisory Board
Deputy Secretary
Bavarian State Ministry for Economic Affairs
and the Media, Energy and Technology
Munich

General Meeting

Free State of Bavaria

Dr Markus Söder
Chairman and Principal
State Minister
Bavarian State Ministry of Finance,
Regional Development and Regional Identity
Munich

Harald Hübner
First Deputy Principal
Deputy Secretary
Bavarian State Ministry of Finance,
Regional Development and Regional Identity
Munich

Dr Heiko Bauer
Second Deputy Principal
Senior Government Councillor
Bavarian State Ministry of Finance,
Regional Development and Regional Identity
Munich

Association of Bavarian Savings Banks

Dr Ulrich Netzer
Principal
President
Association of Bavarian Savings Banks
Munich

Professor Ulrich Reuter
First Deputy Principal
Chief District Administrator
Aschaffenburg

Walter Pache
Second Deputy Principal
Chairman of the Board of Directors
Sparkasse Günzburg-Krumbach
Günzburg

Audit Committee

Professor Dr Christian Rödl
Chairman of the Audit Committee
Managing Partner
Rödl & Partner GbR
Nuremberg

Professor Dr Bernd Rudolph
Deputy Chairman of the Audit Committee
Professor at LMU Munich
and Steinbeis-Hochschule Berlin

Dr Hubert Faltermeier
Chief District Administrator
Kelheim

Dr Roland Fleck
Managing Director
NürnbergMesse GmbH
Nuremberg

Gerd Haeusler
since 1 January 2016
Member of the Audit Committee
Chairman of the BayernLB Supervisory Board
Munich

Dr Thomas Langer
since 1 January 2016
Member of the Audit Committee
Under Secretary
Bavarian State Ministry for Economic Affairs
and the Media, Energy and Technology
Munich

Dr Bernhard Schwab
until 31 October 2015
Member of the Audit Committee
Deputy Secretary
Bavarian State Ministry for Economic Affairs
and the Media, Energy and Technology
Munich

Risk Committee

Professor Dr Bernd Rudolph
since 1 January 2016
Member and Chairman of the Risk Committee
Professor at LMU Munich
and Steinbeis-Hochschule Berlin

Dr Ulrich Klein
since 1 January 2016
Deputy Chairman of the Risk Committee
Under Secretary
Bavarian State Ministry of Finance,
Regional Development and Regional Identity
Munich

Dr Ute Geipel-Faber
Senior Advisor
Invesco Real Estate GmbH
Munich

Ralf Haase
Chairman of the General Staff Council
BayernLB
Munich

Gerd Haeusler
until 31 December 2015
Chairman of the Risk Committee
Chairman of the BayernLB Supervisory Board
Munich

Walter Strohmaier
until 31 December 2015
Member and Deputy Chairman
of the Risk Committee
Chairman of the Board of Directors
Sparkasse Niederbayern-Mitte
Straubing

BayernLabo Committee

Wolfgang Lazik
Chairman of the BayernLabo Committee
Deputy Secretary
Bavarian State Ministry of Finance,
Regional Development and Regional Identity
Munich

Dr Ulrich Klein
Deputy Chairman of the BayernLabo Committee
Under Secretary
Bavarian State Ministry of Finance,
Regional Development and Regional Identity
Munich

Dr Hubert Faltermeier
Chief District Administrator
Kelheim

Dr Ute Geipel-Faber
Senior Advisor
Invesco Real Estate GmbH
Munich

Dr Thomas Langer
since 1 January 2016
Member of the BayernLabo Committee
Under Secretary
Bavarian State Ministry for Economic Affairs
and the Media, Energy and Technology
Munich

Dr Bernhard Schwab
until 31 October 2015
Member of the BayernLabo Committee
Deputy Secretary
Bavarian State Ministry for Economic Affairs
and the Media, Energy and Technology
Munich

Nominating Committee

Gerd Haeusler
Chairman of the Nominating Committee
Chairman of the BayernLB Supervisory Board
Munich

Wolfgang Lazik
Deputy Chairman of the Nominating Committee
Deputy Secretary
Bavarian State Ministry of Finance,
Regional Development and Regional Identity
Munich

Professor Dr Christian Rödl
Managing Partner
Rödl & Partner GbR
Nuremberg

Walter Strohmaier
Chairman of the Board of Directors
Sparkasse Niederbayern-Mitte
Straubing

Compensation Committee

Gerd Haeusler
since 16 April 2015
Member of the Compensation Committee
since 1 January 2016
Chairman of the Compensation Committee
Chairman of the BayernLB Supervisory Board
Munich

Walter Strohmaier
since 1 January 2016
Member and Deputy Chairman
of the Compensation Committee
Chairman of the Board of Directors
Sparkasse Niederbayern-Mitte
Straubing

Ralf Haase
Chairman of the General Staff Council
BayernLB
Munich

Dr Ulrich Klein
until 31 December 2015
Deputy Chairman of the
Compensation Committee
Under Secretary
Bavarian State Ministry of Finance,
Regional Development and Regional Identity
Munich

Dr Roland Fleck
Managing Director
NürnbergMesse GmbH
Nuremberg

Professor Dr Bernd Rudolph
until 31 December 2015
Member and Chairman
of the Compensation Committee
Professor at LMU Munich
and Steinbeis-Hochschule Berlin

Trustees

Herbert Scheidel
since 1 January 2009
Vice President of the State Office for Taxes
(retired)

Norbert Schulz
First Deputy
since 1 November 1991
Senior Assistant Secretary (retired)

Klaus Puhr-Westerheide
Second Deputy
since 1 July 2009
Senior Assistant Secretary (retired)

Savings Bank Advisory Council

Renate Braun
until 31 March 2015
Savings Bank Director
Chairwoman of the Board of Directors
Sparkasse Passau
Passau

Roland Friedrich
Savings Bank Director
Chairman of the Board of Directors
Sparkasse Bad Kissingen
Bad Kissingen

Dr Rudolf Gingele
Savings Bank Director
Member of the Board of Directors
Sparkasse Regensburg
Regensburg

Eckhard Helber
since 1 April 2015
Savings Bank Director
Member of the Board of Directors
Sparkasse Passau
Passau

Hermann Krenn
Savings Bank Director
Chairman of the Board of Directors
Sparkasse Dachau
Dachau

Winfried Nusser
Savings Bank Director
Chairman of the Board of Directors
Kreis- und Stadtsparkasse Kaufbeuren
Kaufbeuren

Thomas Orbig
Savings Bank Director
Member of the Board of Directors
Vereinigte Sparkassen im Landkreis Weilheim i. OB
Weilheim

Walter Pache
Savings Bank Director
Chairman of the Board of Directors
Sparkasse Günzburg-Krumbach
Günzburg

Dr Klaus-Jürgen Scherr
Savings Bank Director
Chairman of the Board of Directors
Sparkasse Kulmbach-Kronach
Kulmbach

Roland Schmautz
Vice President
Association of Bavarian Savings Banks
Munich

Hans Wölfel
Savings Bank Director
Chairman of the Board of Directors
Sparkasse Fürth
Fürth

Wirtschafts- und Finanzforum Bayern (Bavarian Economic and Finance Forum) – BayernLB Economic Advisory Council

Dr Markus Söder
Chairman of the BayernLB
Economic Advisory Council
State Minister
Bavarian State Ministry of Finance,
Regional Development and Regional Identity
Munich

Dr Otto Beierl
Chairman of the Management Board
LfA Förderbank Bayern
Munich

Professor Dr Roland Berger
Management Consultant, Honorary Chairman
Roland Berger Strategy Consultants
Munich

Dr Manfred Bode
Chairman of the Shareholders Council
Wegmann Group
Munich

Johann Bögl jun.
Managing Partner
Max-Bögl Bauunternehmung GmbH & Co. KG
Sengenthal

Simone Büber-Monath
CFO
M-net Telekommunikations GmbH
Munich

Dr Dr Axel Diekmann
Shareholder
Verlagsgruppe Passau
Passau

Klaus Dittrich
Chairman of the Management
Messe München GmbH
Munich

Rachel Empey
CFO
Telefónica Deutschland Holding AG
Munich

Dr Hubert Faltermeier
Chief District Administrator
Kelheim

Dr Roland Fleck
Managing Director
NürnbergMesse GmbH
Nuremberg

Alfred Gaffal
President
Vereinigung der Bayerischen Wirtschaft e.V.
Munich

Dr Ute Geipel-Faber
Senior Advisor
Invesco Real Estate GmbH
Munich

Ralf Haase
Chairman of the General Staff Council
BayernLB
Munich

Karl Haeusgen
CEO
HAWE Hydraulik SE
Munich

Gerd Haeusler
Chairman of the BayernLB Supervisory Board
Munich

Josef Hasler
CEO
N-Ergie AG
Nuremberg

Andreas Helber
Member of the Board of Management
BayWA AG
Munich

Ingrid Hofmann
Managing Partner
I. K. Hofmann GmbH
Nuremberg

Erwin Horak
President
Staatliche Lotterieverwaltung
Munich

Georg Huber
CEO
Huber SE
Berching

Daniel Just
Chairman of the Board of Management
Bayerische Versorgungskammer
Munich

Dr Michael Kerkloh
Chairman of the Management
Flughafen München GmbH
Munich

Otto Kirchner
Managing Partner
Fränkische Rohrwerke
Gebr. Kirchner GmbH & Co. KG
Königsberg

Dr Ulrich Klein
Under Secretary
Bavarian State Ministry of Finance,
Regional Development and Regional Identity
Munich

Dr-Ing. Martin Komischke
until 8 January 2016
Member of the BayernLB
Economic Advisory Council
Chairman of the Group's Management
Hoerbiger Holding AG
Zug

Volker Kronseder
Executive Board Chairman
Krones AG
Neutraubling

Dr Thomas Langer
from 3 February 2016
Under Secretary
Bavarian State Ministry for Economic Affairs
and the Media, Energy and Technology
Munich

Wolfgang Lazik
Deputy Secretary
Bavarian State Ministry of Finance,
Regional Development and Regional Identity
Munich

Dr Klaus N. Naeve
Chairman of the Executive Board
Schörghuber Stiftung & Co. Holding KG
Munich

Dr Ulrich Netzer
President
Association of Bavarian Savings Banks
Munich

Professor Dr Merith Niehuss
President
Universität der Bundeswehr
Neubiberg

Michael Oschmann
Managing Director
Müller Medien
Nuremberg

Professor Dr Matthias Ottmann
Shareholder
Ottmann GmbH & Co. Südhausbau KG
Munich

Rainer Otto
Managing Director
Wirtgen Beteiligungs GmbH
Windhagen

Dr Helmut Platzer
Chairman of the Board of Directors
AOK Bayern – Die Gesundheitskasse

Elisabeth Prigge
Member of the Executive Board
Schaltbau Holding AG
Munich

Dr Matthias J. Rapp
Member of the Management Board
TÜV Süd AG
Munich

Markus Reif
Archepiscopal Financial Director
Archepiscopal Diocesan Authorities
Financial Department
Munich

Jürgen Reimer
Member of the Management Board
Webasto SE
Stockdorf

Angelique Renkhoff-Mücke
Chairwoman of the Board of Directors
WAREMA Renkhoff SE
Marktheidenfeld

Dr Ingo Riedel
Chairman of the Management
Riedel Holding GmbH & Co. KG
Nuremberg

Professor Dr Christian Rödl
Managing Partner
Rödl & Partner
Nuremberg

Dr Helmut Röschinger
Managing Partner
Argenta Unternehmensgruppe
Munich

Professor Dr Bernd Rudolph
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It is also available in German.

The translation of the annual financial statements, comprising the balance sheet, the income statement and the notes to the financial statements, together with the management report and the report by the Supervisory Board of the Bayerische Landesbank as well as the auditor's report is for convenience only; the German versions prevail.

Savings Banks Finance Group in Bavaria

Savings Banks Finance Group
Market leader in Bavaria

- **Aggregate total assets** (bank business): EUR 408.9 billion
- **Aggregate regulatory capital** (excl. BayernLB): EUR 18.2 billion
- **Aggregate premium volume** (insurance business): EUR 7.6 billion[1]

BayernLB

Consolidated total assets:
EUR 215.7 billion

Staff:
Bank: 3,186
Group: 7,082[2]

Bayerische Landesbodenkreditanstalt

Lending volume (proprietary and fiduciary business): EUR 22.2 billion

State subsidised business (number of apartments): 8,941

BayernLB Group companies include

- Deutsche Kreditbank AG, Berlin
- BayernInvest Kapitalverwaltungsgesellschaft mhH, Munich
- Real I. S. AG, Munich

as well as many other subsidiaries which offer special services to savings banks

71 Sparkassen

Total assets: EUR 193.2 billion

Staff: 42,470
- Branches: 2,245
- Self-service branches: 408
- Advisory centres: 469

Customer loans: EUR 122 billion
Customer deposits: EUR 152 billion

Market share
- Approx. 40% of SMEs
- Two-thirds of trade businesses
- 50% of company start-ups

DekaBank
Share of Bavarian savings banks organisation: 14.7%
Consolidated total assets: EUR 112.6 billion[4]

Landesbank Berlin
Share of Bavarian savings bank organisation incl. VKB share: 13.6%

Deutsche Leasing
Share of Bavarian savings banks: 12.54%
New business volume of Deutsche Leasing Group: EUR 8.2 billion

LBS Bayerische Landesbausparkasse
Portfolio of 2.1 million home loan savings contracts with a volume of EUR 62.9 billion

Staff: 716

Sparkassen-Immobilien
Volume of business brokered: EUR 2.19 billion

Versicherungskammer Bayern (total insurance business)

Premium volume: EUR 7.6 billion
Staff: 6,670[3]
Investment portfolio: EUR 46.8 billion[1]

Germany's largest public-sector insurance provider

Market leader in Bavaria and the Palatinate

Entities within the Versicherungskammer Bayern Group (VKB)

- Composite insurers
- Life insurers
- Health insurers
- Re-insurers

Association of Bavarian Savings Banks

Association members: 71 Bavarian savings banks and their owners

1 As at: 30 September 2015
2 Increase due to consolidation of Bayern Card-Services GmbH
3 Not incl. external sales force
4 As at: 30 June 2015

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