Group Interim Report First half of 2015

Facts. Figures.

Contents

The translation of consolidated interim financial statements – comprising the condensed statement of comprehensive income (including income statement), the balance sheet, statement of changes in equity, condensed statement of cash flows and selected explanatory notes – and the interim group management report of the Bayerische Landesbank as well as the auditor's review report is for convenience only; the German versions prevail.

BayernLB Group – the first half of 2015 at a glance

BayernLB Group – the first half of 2015 at a glance

Income statement (IFRS)

EUR million	1 Jan – 30 Jun 2015	1 Jan – 30 Jun 2014	Change in %/pp
Net interest income	824	831	–0.8
Risk provisions in the credit business	13	45	–71.0
Net interest income after risk provisions	**837**	**876**	**–4.4**
Net commission income	110	116	–5.3
Gains or losses on fair value measurement	–52	140	–
Gains or losses on hedge accounting	–5	–13	–63.8
Gains or losses on financial investments	207	–92	–
Administrative expenses	–560	–537	4.3
Expenses for the bank levy and deposit guarantee scheme	–147	–2	>100.0
Other income and expenses	44	53	–17.5
Gains or losses on restructuring	–2	–12	–83.9
Profit/loss before taxes	**433**	**527**	**–17.9**
Cost/income ratio (CIR)	49.6%	51.9%	–2.3 pp[1]
Return on equity (RoE)	7.6%	7.1%	+0.5 pp[1]

Quarterly comparison

The table below compares performance in the first and second quarters of 2015:

EUR million	Q2 2015	Q1 2015	Change in %
Net interest income	415	409	1.5
Risk provisions in the credit business	6	7	–22.4
Net interest income after risk provisions	**421**	**416**	**1.0**
Net commission income	49	60	–17.6
Gains or losses on fair value measurement	66	–118	–
Gains or losses on hedge accounting	6	–11	–
Gains or losses on financial investments	89	119	–25.4
Administrative expenses	–276	–284	–2.8
Expenses for the bank levy and deposit guarantee scheme	–147	0	–
Other income and expenses	19	25	–26.9
Gains or losses on restructuring	0	–2	–
Profit/loss before taxes	**226**	**206**	**9.7**

Rounding differences may occur in the tables.

Balance sheet (IFRS)

EUR million	30 Jun 2015	31 Dec 2014	Change in %
Total assets	224,526	232,124	–3.3
Business volume	263,081	272,834	–3.6
Credit volume	179,310	182,584	–1.8
Total deposits	144,542	145,773	–0.8
Securitised liabilities	40,064	44,285	–9.5
Subordinated capital	4,724	4,722	–
Equity	12,082	11,789	2.5

Banking supervisory capital and ratios under CRR/CRD IV

EUR million	30 Jun 2015	31 Dec 2014	Change in %
Common Equity Tier 1 capital (CET1 capital)	9,718	9,822	–1.1
Own funds	11,479	11,715	–2.0
Total RWA	71,877	76,616	–6.2
Common Equity Tier 1 ratio (CET1 ratio)	13.5%	12.8%	0.7 pp[1]
Total capital ratio	16.0%	15.3%	0.7 pp[1]

Employees

	30 Jun 2015	31 Dec 2014	Change in %
Number of employees	6,791	6,842	–0.7

Current ratings

	Long-term	Short-term	Pfandbriefs[2]
Fitch Ratings	A–	F1	AAA
Moody's Investors Service	A3	Prime-2	Aaa

1 Percentage points.
2 Applies to public Pfandbriefs and mortgage Pfandbriefs.

Selected business highlights in the first half of 2015

Selected business highlights in the first half of 2015

Joining forces

BayernLB focuses solely on services it can provide to its customers at uncompromising high quality. The two key issues are: What do customers need? And how can the Bank help them meet the challenges of the market and the competition?

BayernLB answers these questions every single day – with premium expertise, great dedication and a partnership in which the customers' interests are always at the forefront.

2015

Verbundnetz Gas Aktiengesellschaft, Leipzig

EUR 1,310 million
Bookrunner & MLA
Syndicated loan

March 2015

JYSKE BANK A/S

EUR 500 million
FRN March 2018
Joint Lead Manager

2015

Ares Management

EUR 28.4 million
Financing of two office buildings in Berlin and Hamburg

2015

ProSiebenSat1 Media AG, Munich

EUR 2,000 million
Bookrunner & MLA
Syndicated loan

February 2015

Infineon Technologies AG

EUR 500 million/EUR 300 million
1.50% March 2022/1.00% Sep 2018
Joint Lead Manager

April 2015

State of North Rhine-Westphalia

EUR 1.25 billion
0.200% April 2023
Joint Lead Manager

2015

The Export-Import Bank of China

EUR 121,440,353
Equipment for steel production
Euler Hermes covered export finance facility
Original lender (China)

2015

S-Kreditbasket XI

EUR 395.4 million
Arranger & Administrator of the annual nation-wide loans basket transaction for savings banks

2015

Senvion SE, Hamburg

EUR 950 million
Bookrunner, Mandated Lead Arranger, Collateral Agent, Syndicated loan

Selected results of our partnership-based strategy are presented below: they all represent transactions conducted by companies and savings banks hand in hand with BayernLB in the first half of 2015.

BayernLB would like to express its thanks – and as a Bavarian bank for the German economy looks forward to building on these success stories and opening new chapters in close collaboration with its customers.

2015

S-Plafond investments:

EUR 8.0 million
Kreis- und Stadtsparkasse Dillingen a. d. Donau
Sector: commercial vehicles

EUR 4.0 million
Taunus Sparkasse
Sector: real estate

EUR 4.0 million
Sparkasse Hochfranken
Sector: textile production

EUR 2.0 million
Sparkasse Passau
Sector: metalworking

Telefónica Deutschland

March 2015

Telefónica Deutschland GmbH & Co. OHG

EUR 300 million
March 2020/2023/2025/2027/2030/2032
Joint Lead Arranger

ThyssenKrupp

February 2015

Thyssen Krupp AG

EUR 750 million/EUR 600 million
1.75% Nov 2020/2.5% Feb 2025
Joint Lead Manager

January 2015

ZF Friedrichshafen AG

EUR 2.2 billion
Jan 2018/2020/2022
Joint Lead Arranger

KAEFER

2015

KAEFER Isoliertechnik GmbH & Co. KG, Bremen

EUR 500 million
Syndicated loan
MLA

WL BANK

January 2015

WL Bank

EUR 500 million
0.875% Jan 2030
Joint Lead Manager

ASPERBRAS

2015

Asperbras

EUR 61,136,000
Production plant (MDF panels)
Euler Hermes covered export finance facility
ECA lender (Brazil)

immeo wohnen

2015

Immeo SE

EUR 177 million
Financing of a residential portfolio in North Rhine-Westphalia and a residential portfolio in Berlin

Reiß & Co. Real Estate München GmbH

HIGHRISE ONE

2015

Reiß & Co. Real Estate München GmbH

EUR 53 million
Financing of the HIGHRISE one office building, Munich

Board of Management

Foreword

Dear customers and business partners,
ladies and gentlemen,

BayernLB posted profit before taxes of EUR 433 million in the first half of 2015 (H1 2014: EUR 527 million). This is the first reporting period in which we paid the EU bank levy and the contribution to the new deposit guarantee scheme, which amounted to EUR 147 million (H1 2014: EUR 2 million). Adjusted for this extraordinary factor, BayernLB's profit before taxes rose by EUR 51 million or 10 percent year on year. We achieved pre-tax profits of EUR 550 million in our core business with large and Mittelstand companies, real estate customers, savings banks and our DKB subsidiary's 3 million plus retail customers. This represents an increase of more than 50 percent on the year-before period.

Net interest income was stable at EUR 824 million (H1 2014: EUR 831 million) in spite of persistently low interest rates. Net commission income amounted to EUR 110 million. The figure of EUR 116 million for the year-before period included an EUR 8 million contribution from BayernLB's subsidiary in Luxembourg, which has since been sold. Thanks to the good quality of our portfolio, we once again posted a gain from risk provisions in the credit business. We have also become more efficient: BayernLB's cost/income ratio improved from 51.9 percent to 49.6 percent.

The BayernLB Group's capital base remains solid. The Common Equity Tier 1 (CET1) ratio rose to 13.5 percent (31 December 2014: 12.8 percent). As at 30 June of this year, our total assets amounted to EUR 224.5 billion, 3.3 percent lower than at the end of FY 2014.

Our first-half figures illustrate the strength of BayernLB's customer business and the success of our efficiency improvement measures. We have made clear progress in realigning the Bank.

However, business success must be earned again and again. For this reason we have implemented a number of business initiatives. These include our partnership agreement with the private bank Berenberg in the corporate customer business and the upcoming opening of new offices in Hamburg, Frankfurt, Stuttgart and Berlin. We are therefore now even closer to our Mittelstand and real estate customers in Germany's economically strongest cities.

Our asset management subsidiaries BayernInvest and Real I.S. will step up their collaboration in the second half of the year. We will continue to pursue our digitalisation strategy at DKB to provide our retail customers with an even better, simpler and more pleasant banking experience. In addition to relying on our own innovative power for this project, we are also working closely with a number of promising start-ups in the financial sector (“fintechs”).

At the same time we are making BayernLB leaner, faster and more efficient. Further optimising our capital base and cost structures will be a continuous job for us in the months and years to come.

In the second half of the year we will also work towards reaching a final settlement for all the legal disputes in the “HETA affair”. In a memorandum of understanding of 7 July, the Free State of Bavaria and the Republic of Austria laid out the main points for a resolution.

In the first six months of 2015 we made clear progress along our path to becoming a sustainable, profitable and strong “Bavarian bank for the German economy”. On behalf of my Board of Management colleagues and all the staff at BayernLB, I would like to thank you, our customers and business partners, for the trust you have placed in us and look forward to continuing our journey together.

Sincerely,

Johannes-Jörg Riegler
CEO

The Board of Management

Allocation of tasks as at 20 August 2015

Dr Johannes-Jörg Riegler
CEO

Corporate Center
Deutsche Kreditbank AG

Dr Edgar Zoller
Deputy CEO

Real Estate & Savings Banks/Association
Bayerische Landesbodenkreditanstalt

Marcus Kramer
Member of the Board of Management
CRO

Risk Office
Restructuring Unit
Group Compliance

Michael Bücker
Member of the Board of Management

Corporates & Mittelstand

Dr Markus Wiegelmann
Member of the Board of Management
CFO/COO

Financial Office
Operating Office

Ralf Woitschig
Member of the Board of Management

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

Group interim management report

Overview of the BayernLB Group

Key changes in the scope of consolidation and investment portfolio

In the first half of 2015 there were no material changes in the BayernLB Group's scope of consolidation or investment portfolio.

Please refer to the Group management report and financial statements for 2014 for information on the business model, strategy and internal Group management system.

Report on the economic position

Macroeconomic environment

The German economy briefly lost some of its steam at the start of 2015.[1] However, in the first half of the year there was a marked expansion in total economic output compared with the previous six-month period. Domestic demand was the main driver of the economy, fuelled largely by a jump in consumer spending. Capital spending also soared again. Monetary policy, which became significantly looser once more when the European Central Bank (ECB) massively expanded its government bond purchase programme from March 2015, played its part in improving financing conditions. But the primary reason was Germany's status as a safe haven, and this outweighed the drag that has come with the increased uncertainty from the Greek crisis and geopolitical risks. On the production side, the construction industry was a big beneficiary. Private consumption was boosted by very low interest rates, persistently cheap energy and again by a buoyant labour market. The pace of job creation barely slowed despite the introduction of the statutory minimum wage at the start of the year, and unemployment, already at a very low level, fell slightly again.[2] Even though wage growth is accelerating, inflation is still very moderate, and this has been supporting real wage growth and households' purchasing power.[3] Again no notable contribution to growth came from exports in the first half of 2015. These flagged somewhat, partly after demand from China and Russia dipped in the wake of an economic slowdown affecting the former and sanctions imposed on the latter. Imports rose steeply, however, yet again.

On financial markets the ECB's ultra accommodative monetary policy in the first four months caused interest rates and the euro to tumble yet further and push up the prices of equities. On the bond market, German Bunds initially made strong gains. Yields on 10-year Bunds tanked to just 0.05 percent by 17 April 2015. But, from the end of April, yields headed north appreciably, closing the first half on 0.8 percent, around 25 basis points above the start of the year.[4] The ECB's bond buying pushed the euro down to nearly USD 1.04 by mid March. Later on in the first half, the currency rebounded slightly to around USD 1.12 when expectations of a rate hike in the US were deferred towards the end of 2015 and yields on longer-dated government bonds sprung back from their nadirs. Overall the euro lost 8 percent of its value in the first six months of the year.[5] After an ECB-triggered rally on European equity markets in the first quarter, the second quarter saw a correction as the euro temporarily strengthened, doubts about the economy emerged and the Greece crisis flared up. Against this backdrop, the DAX index reached an all-time high of 12,391 in mid April before, however, falling temporarily below 11,000 in June. Overall the DAX has risen by 11.6 percent since the start of the year.[6]

1 Bundesbank monthly report for May 2015.
2 Federal Employment Agency monthly report for June 2015.
3 Federal Statistical Office press release no. 258 dated 14 July 2015.
4 See Bloomberg Markets 2015: "Germany Generic Govt 10Y Yield", http://www.bloomberg.com/quote/GDBR10:IND.
5 See ECB 2015: "US dollar (USD)", http://www.ecb.europa.eu/stats/exchange/eurofxref/html/eurofxref-graph-usd.en.html.
6 See Thomson Reuters Datastream: "DAXINDX".

Course of business

The BayernLB Group closed the first half of 2015 with solid profit before taxes of EUR 433 million (H1 2014: 527 million) and a marked improvement in core business earnings. Last year's figure was higher due to the favourable performance of the non-core business and the adverse impact on the 2015 results from combined first-time contributions of EUR 147 million to the restructuring fund in accordance with European rules (bank levy) and to the deposit guarantee scheme under the German Deposit Guarantee Act, which became law on 3 July 2015.

Core business increased earnings by over 50 percent to EUR 550 million in spite of the high charge for the bank levy and deposit guarantee scheme. Consolidated profit doubled to EUR 310 million from the figure of EUR 155 million in the year-before period, which was partly pushed down by BayernLB's stake in MKB Bank Zrt., Budapest (MKB) and expenses related to its sale shortly afterwards.

As at 30 June 2015, total assets amounted to EUR 224.5 billion, 3.3 percent lower than at the end of FY 2014. The lending business once again had a major impact on the Group's assets.

The financial position was sound in the first six months of the year under review, and sufficient liquidity was on hand at all times. The BayernLB Group continued to enjoy a stable economic situation.

The BayernLB Group's capital base remains solid. As at 30 June 2015, the Common Equity Tier 1 (CET1) ratio had risen to 13.5 percent (31 December 2014: 12.5 percent).

Results of operations

Net interest income was stable overall at EUR 824 million despite a fresh fall in business volumes (H1 2014: EUR 831 million). The marked improvement in Deutsche Kreditbank AG, Berlin's (DKB) net interest income offset the fall at BayernLB, which was partly related to the further wind-down of non-core business.

Although releases were less than in the year-before period, a drop in additions to risk provisions led to an overall gain of EUR 13 million (H1 2014: EUR 45 million). The consolidated figure is significantly below forecast overall, but, based on experience, will increase in the second half of the year.

Net commission income was EUR 110 million (H1 2014: EUR 116 million). The year-before period figure included a contribution of EUR 8 million from Banque LBLux S.A., Luxembourg (LBLux).

The gains or losses on fair value measurement item came in at EUR –52 million (H1 2014: EUR 140 million). Losses of EUR 109 million (H1 2014: gains of EUR 10 million) arose on currency-related transactions. This was primarily due to the writedown on the exposure to HETA Asset Resolution AG, Klagenfurt (HETA), formerly Hypo Alpe Adria Bank International AG, Klagenfurt, which was compounded by the ending of the exchange rate floor for the Swiss franc (CHF) in January 2015. The year-before period figure also included measurement gains of EUR 67 million from the guarantee agreement with the Free State of Bavaria to hedge the ABS portfolio

(Umbrella), which was ended in 2014, and EUR 47 million from the fair value option (current year: EUR 8 million). In the first half of 2015, measurement gains from fair value adjustments stood at EUR 20 million (H1 2014: losses of EUR 37 million), while customer margins contributed EUR 61 million (H1 2014: EUR 47 million) to this item.

Gains or losses on financial investments swung to a gain of EUR 207 million from a loss of EUR 92 million in H1 2014, due mostly to a boost in earnings from the proceeds from the sale of securities and the sale of an equity interest. The loss in the year-before period was due to a charge of EUR 100 million arising from mark-to-market measurement of the terminated Umbrella guarantee agreement.

Administrative expenses were slightly up on the year-before period, rising by 4.3 percent to EUR 560 million. Staff costs rose in the wake of the first-time consolidation of DKB Service GmbH, Potsdam, which increased headcount by more than 1,000, while operating costs fell. There was a significant increase in expenses for court costs relating to the legal disputes with HETA.

Other income and expenses in the amount of EUR 44 million (H1 2014: EUR 53 million) in 2015 included income and expenses from the non-banking activities of the subsidiaries and also interest income on tax reimbursements from previous years.

Expenses for the bank levy and deposit guarantee scheme comprised a total charge of EUR 147 million (H1 2014: EUR 2 million). This included the bank levy of EUR 99 million and the contribution of EUR 47 million to the Savings Banks Finance Group's deposit guarantee scheme. Both figures are based on BayernLB's own estimates as the exact amounts due were not available as at 30 June 2015. The expected expense for full-year 2015 was recognised in each case.

There were no gains or losses on discontinued operations in 2015. In the first half of 2014 the item (EUR –311 million) included the loss after taxes for MKB (sold in the third quarter of 2014) for the period and other measurement effects, which arose from the classification of MKB as a discontinued operation under IFRS 5.

Return on equity (RoE)[7] stood at 7.6 percent in the first half of 2015 (H1 2014: 7.1 percent). The cost/income ratio (CIR)[8] improved to 49.6 percent (H1 2014: 51.9 percent).

Further information on each item can be found in the notes.

7 RoE = profit or loss before taxes/average reported equity.

8 CIR = administrative expenses/(net interest income + net commission income + gains or losses on fair value measurement + gains or losses on hedge accounting + gains or losses on financial investments + other income and expenses).

Core and non-core business of the BayernLB Group

Since 2009, BayernLB has been consistently focusing on its forward-looking core business and winding down all non-core activities, which were pooled into the Non-Core Unit for this purpose.

The BayernLB Group's profit before taxes of EUR 433 million (H1 2014: EUR 527 million) comprises earnings of EUR 550 million (H1 2014: earnings of EUR 356 million) from core business and a loss of EUR 118 million (H1 2014: earnings of EUR 171 million) from non-core business. Earnings from core business were significantly higher than in the first half of the previous year in spite of persistently tough market conditions and stiff competition and the high charge for the bank levy and the deposit guarantee scheme. The Bank continued to wind down its non-core business rapidly and systematically. Risk-weighted assets in the Non-Core Unit now make up only around 10 percent of the Group total.

1 Jan – 30 Jun 2015	Core business (EUR million)	Share (in percent)	Non-core business (EUR million)
Total income	**1,149**	**> 100**	**–21**
Risk provisions	34	> 100	–21
Administrative expenses	–488	87.2	–72
Expenses for the bank levy and deposit guarantee scheme	–147	100.0	0
Gains or losses on restructuring	2	–	–4
Profit/loss before taxes	**550**	**> 100**	**–118**
Risk-weighted assets	64,680	90.0	7,196

Segments

The segment report is based on the monthly internal management report to the Board of Management and reflects the BayernLB Group's six segments. As of 30 June 2015, BayernLB's core business comprised the operating business segments Corporates & Mittelstand, Real Estate & Savings Banks/Association including the legally dependent institution Bayerische Landesbodenkreditanstalt, Munich (BayernLabo), DKB, and Financial Markets with the consolidated subsidiaries Real I.S. AG Gesellschaft für Immobilien Assetmanagement, Munich (Real I.S.) and BayernInvest Kapitalverwaltungsgesellschaft mbH, Munich (BayernInvest). Also included is the Central Areas & Others segment with the Consolidation column. The Non-Core Unit primarily includes the Restructuring Unit, which holds portfolios of non-core assets, and other non-core activities such as the LBLux sub-group and the loans to HETA (incl. their funding).

The contributions of the individual segments to the profit before taxes of EUR 433 million (H1 2014: EUR 527 million) are shown below:

EUR million	1 Jan – 30 Jun 2015	1 Jan – 30 Jun 2014
Corporates & Mittelstand	175	94
Real Estate & Savings Banks/Association	98	149
DKB	154	68
Financial Markets	149	0
Central Areas & Others (including Consolidation)	–26	45
Non-Core Unit	–118	171

Corporates & Mittelstand segment

- Profit before taxes significantly higher than in the first half of 2014
- Earnings boosted by positive trend in risk provisions
- Segment posts total income of EUR 242 million, EUR 12 million lower than in 2014

Profit before taxes in the Corporates & Mittelstand segment jumped in the first half of 2015 to EUR 175 million from EUR 94 million in the year-before period. The segment's results were stoked by the positive trend in risk provisioning resulting in gains of EUR 52 million (H1 2014: losses of EUR 44 million). This was mainly related to releases and recoveries on written down receivables. Largely as a result of low capital spending by companies, net interest income fell to EUR 154 million (H1 2014: EUR 175 million), but this was partly offset by a rise in gains on fair value measurement in the customer business to EUR 30 million (H1 2014: EUR 17 million). Administrative expenses were on par with the year-before period at EUR 119 million (H1 2014: EUR 117 million). The segment posted another solid performance overall in the currently tough and highly competitive market environment. It also further strengthened its position as a lender to large German and Mittelstand companies and international companies with a connection to Germany.

Real Estate & Savings Banks/Association segment

- Real Estate business area once again posts solid earnings and growth in new business
- Subdued demand for capital market products depresses earnings in the Savings Banks & Association business area
- BayernLabo's earnings crimped by loss on fair value measurement

The Real Estate & Savings Banks/Association segment reported profit before taxes of EUR 98 million, significantly lower than the EUR 149 million in the first six months of the previous year. Overall business performance was once again satisfactory, with the difference partly due to large gains from the release of risk provisions in the year-before period.

The Real Estate business area made a significant contribution to the segment's earnings by posting a profit before taxes of EUR 75 million (H1 2014: EUR 100 million). The fall was largely due in equal measure to total income and risk provisioning. Customer demand and the new business driven by it continued to perform well. The segment also posted solid total income of EUR 87 million (H1 2014: EUR 98 million). This was lower than the year-before period as a result of market conditions which squeezed profit margins. Earnings were, however, boosted once again by the decrease in risk provisions to EUR 18 million (H1 2014: EUR 30 million), although releases were not as high as in the first half of the previous year.

The Savings Banks & Association business area reported profit before taxes of EUR 5 million, also down from the previous-year period (H1 2014: EUR 20 million). The fall was largely due to subdued demand for capital market products in the low interest rate environment, which was reflected in the dip in total income to EUR 45 million (H1 2014: EUR 56 million).

BayernLabo generated profit before taxes of EUR 16 million (H1 2014: EUR 28 million). With operating performance stable, most of the decrease was due to a loss on fair value measurement of EUR 4 million (H1 2014: gain of EUR 5 million). The temporary impact of funding restructuring was primarily responsible for this.

DKB segment

- Renewed business growth in first half of 2015
- Profit before taxes more than doubles from year-before period figure after jump in net interest income
- Retail customer base now grown to over 3 million

The DKB segment continued to perform well in the first half of the year as reflected by the jump in profit before taxes to EUR 154 million, up from EUR 68 million in the year-before period. The rise in earnings resulted primarily from a sharp increase in net interest income to EUR 387 million (H1 2014: EUR 299 million). An improved funding structure and the adjustment of variable interest terms to the low interest rate environment were mainly responsible for the hike. The charge from risk provisioning fell further to EUR 34 million from the year-before period figure of EUR 57 million, as a result of good portfolio quality. Administrative expenses rose to EUR 180 million (H1 2014: EUR 161 million). This was principally driven by the ever-growing number of customers and by the first-time consolidation of DKB Service GmbH, Potsdam at the end of FY 2014. Considering the current economic situation, customer business continued to perform well. For example, receivables from customers were in line with the year-before period despite large, early repayments. With retail customers now totalling around 3.1 million, DKB has further strengthened its position as "Your Bank on the web."

Financial Markets segment

- Profit before taxes up to nearly EUR 150 million
- Earnings lifted sharply by price gains on securities, income from releases of fair value adjustments and lower administrative expenses
- Income from the customer business slightly higher than the year-before period despite persistently subdued demand for capital market products

First half profit before taxes in the Financial Markets segment rose to EUR 149 million (H1 2014: EUR 0 million). Price gains on securities and a fall in fair value adjustments boosted earnings. The release of fair value adjustments, mainly due to a fall in the fair values of derivative transactions, produced income of EUR 21 million. In contrast, the creation of fair value adjustments had reduced the year-before period's income by EUR 30 million. Administrative expenses fell to EUR 91 million (H1 2014: EUR 99 million). As usual, earnings from financial market products on behalf of the customer-serving business segments were reported under those segments. Income from the customer business was slightly higher than the year-before period despite subdued demand for capital market products in the low interest rate environment.

BayernInvest contributed EUR 5 million to the segment's pre-tax profit (H1 2014: EUR 4 million) while Real I.S. posted a profit before taxes of EUR 1 million (H1 2014: EUR 5 million).

Central Areas & Others segment

- High charge for the bank levy and deposit guarantee scheme weighs heavily on segment results
- Loss before taxes posted in spite of income from the sale of securities and an equity stake

The Central Areas & Others segment posted a loss of EUR 26 million for the reporting period. The figure includes consolidation entries not allocated to the segments and was significantly below the year-before period, when it reported earnings of EUR 45 million. The fall in earnings was largely due to the high charge for the bank levy and deposit guarantee scheme of EUR 137 million (H1 2014: EUR 0 million). In addition to interest income related to excessive corporation tax payments in the past, the segment's results were boosted in particular by the sale of securities and an equity stake.

Consolidation entries not allocated to the segments reduced profit before taxes by EUR 1 million (H1 2014: increased profit before taxes by EUR 12 million). These mainly arise from differences in the way internal Group transactions are measured and the application of hedge accounting to cross-divisional derivative transactions.

Non-Core Unit segment

- Segment results dragged down sharply by currency-related charge in connection with the write-down of receivables due from HETA
- More good headway made by the Restructuring Unit, both in the rapid winding down of the securities and loan portfolio and in profit before taxes
- High risk provisions weigh on DKB's non-core business

The Non-Core Unit segment posted a loss before taxes of EUR 118 million in the first half of 2015 (H1 2014: gain of EUR 171 million). This was mainly due to a measurement effect reflecting a risk provision made in the previous year for the loans to HETA, compounded by the ending of the exchange rate floor for Swiss francs. Earnings were also dampened heavily by further expenses for court costs. This was again related to receivables due from HETA and associated legal disputes. Another key cause of the large half-year-on-half-year fall in revenue was the earnings-boosting extraordinary items included in the year-before period figure: LBLux's profit before taxes stood at EUR 128 million in the first half of 2014 (largely due to exit activities) and at EUR 5 million in the reporting period. The sale of a stake in SaarLB also lifted the segment's results in the year-before period by EUR 25 million.

The Restructuring Unit division reported higher earnings of EUR 66 million (H1 2014: EUR 51 million). This was mainly due to sales proceeds, which exceeded the expected fall in net interest income. The segment continued to rapidly run down the securities and loan portfolio, freeing up capital. Risk-weighted assets contracted by EUR 1.8 billion to EUR 5.0 billion in the first half of the year. Administrative expenses also tumbled.

The loss before taxes in DKB's non-core business amounted to EUR 55 million (H1 2014: loss of EUR 13 million). The main reason for the fall in earnings was an increase in risk provisions.

Financial position

The BayernLB Group's total assets fell a further 3.3 percent to EUR 224.5 billion.

Credit volume, defined as the total of loans and advances to banks and customers and contingent liabilities from guarantees and indemnity agreements, shrank by 1.8 percent to EUR 179.3 billion.

As at 30 June 2015, loans and advances to banks amounted to EUR 33.5 billion (H1 2014: EUR 37.1 billion).

Loans and advances to customers stood at EUR 134.3 billion, an increase of 0.2 percent. Subsequent to the events described in the Report on the economic position of the 2014 annual report, there have been several new developments in the legal disputes with HETA.

In its ruling on 8 May 2015, Munich District Court I largely found in favour of BayernLB. The court ordered HETA to pay BayernLB around EUR 1.0 billion and around CHF 1.3 billion (plus interest in each case) and rejected HETA's counter suit in full. In the court's opinion HETA failed to provide evidence that the loans qualified as a capital injection. The court also ruled that neither the Austrian Federal Act on Restructuring Measures for the Hypo Alpe Adria Bank International AG (HaaSanG) and the Ordinance by the Austrian Financial Market Authority (FMA) Governing the Implementation of Reorganising Measures pursuant to section 7 para. 2 in conjunction with section 3 and section 4 para. 1 HaaSanG (HaaSanV), nor the debt moratorium imposed by the FMA on 1 March 2015 could be applied in Germany as they had no foundation in European law. Only in regard to securities claims in the amount of CHF 300 million did the court dismiss BayernLB's suit without ruling on the merits, due to a lack of jurisdiction. HETA duly filed an appeal with the Munich Higher Regional Court. The grounds for appeal must be submitted by the start of October 2015. BayernLB is now looking to have the ruling by Munich District Court enforced.

Review of the constitutionality of HaaSanG which took effect on 1 August 2014: BayernLB filed a constitutional complaint with the Austrian Constitutional Court (VfGH) on the grounds that its assets were expropriated by HaaSanG 2014. However, in March 2015, the VfGH dismissed BayernLB's (and all other plaintiffs) direct constitutional complaint as ineligible on formal grounds without ruling on the merits (see Events after the reporting period).

Liabilities to banks fell by 1.5 percent to EUR 63.2 billion on the reporting date. Liabilities to customers was nearly unchanged at EUR 81.4 billion (H1 2014: EUR 81.6 billion).

Securitised liabilities stood at EUR 40.1 billion as at 30 June 2015, 9.5 percent below the end of 2014, due to a higher amount of maturing issues and a fall in funding needs.

After including the consolidated profit from the first half of 2015, equity rose slightly by EUR 0.3 billion to EUR 12.1 billion.

Further information on individual items can be found in the notes.

Banking supervisory capital and ratios for the BayernLB Group

Common Equity Tier 1 capital (CET1) amounted to EUR 9.7 billion as at 30 June 2015 (H1 2014: EUR 9.6 billion). The 6.2 percent decrease in risk-weighted assets (RWA) to EUR 71.9 billion led to another improvement in capital ratios. The CET1 ratio was a solid 13.5 percent (H1 2014: 12.5 percent), while the "fully loaded" CET1 ratio stood at 10.6 percent. Total own funds as at 30 June 2015 amounted to EUR 11.5 billion (H1 2014: EUR 11.4 billion) and the total capital ratio rose to 16.0 percent (H1 2014: 14.9 percent).

General overview of financial performance

The BayernLB Group's financial position and financial performance was sound overall in the first half of 2015 despite the still challenging environment. The Risk Report contains additional information on the financial position.

Events after the reporting period

The following events of major significance to the BayernLB Group occurred after 30 June 2015:

On 7 July 2015, the Free State of Bavaria and the Republic of Austria signed a memorandum of understanding (MoU) in which both parties undertook to intercede so that a settlement will be reached between BayernLB and HETA. This would fully resolve all legal disputes between BayernLB and HETA, the Republic of Austria and Kärntner Landesholding. According to the MoU proposals, the main points of the settlement are

- all ongoing legal disputes between the named parties would be ended
- BayernLB would participate in the resolution of HETA as a senior creditor in the amount of its claims equal to EUR 2.4 billion plus interest
- the Republic of Austria would pay the Free State of Bavaria around EUR 1.2 billion to safeguard BayernLB's claims. The Free State of Bavaria would repay this amount to Austria to the extent that BayernLB receives payments from HETA as part of the resolution

BayernLB and HETA were requested to consider and, if possible, reach a settlement based on the MoU. Before the settlement can be reached, the parties must flesh out the details of the resolution to the legal dispute and institute further formal measures. The parties to the MoU hope to reach a settlement by the end of October 2015.

If the disputes are resolved in accordance with the MoU, BayernLB would receive a share of the proceeds of an orderly HETA resolution, ranked equally with that of the bond holders, in the amount of its claims plus interest still to be agreed in the settlement with HETA.

In its ruling on 28 July 2015 the Austrian Constitutional Court annulled HaaSanG, which had sought, among other things, to revoke and defer BayernLB's claims, after declaring it unconstitutional. This applied especially to the following HaaSanG provisions:

- BayernLB's claims against HETA in the amount of around EUR 800 million were to become void
- BayernLB's residual claims against HETA in the amount of around EUR 1.5 billion were to be compulsorily deferred to 30 June 2019

No other events of major significance have occurred since 30 June 2015.

Risk report

The information provided in the risk report of the Group interim report relates mainly to the changes in the first half of 2015. The risk report in the 2014 consolidated financial statements gives a detailed description of the principles, methods, procedures and organisational structures of the risk management used within the BayernLB Group and of the internal control and risk management system for ensuring the accounts have been properly prepared and are reliable.

Rounding differences may occur in the tables.

Key developments in the first half of 2015

- Stable risk profile
- Very good portfolio quality, particularly in core business
- Risk-bearing capacity maintained at all times
- Good liquidity

The BayernLB Group's risk profile was stable overall in the first half of 2015. Gross credit volume fell by a total of EUR 4 billion to EUR 261.6 billion. Most of the drop was in the Financial Institutions sub-portfolio. This was mitigated by an increase in credit volumes in the Corporates sub-portfolio, which is now the largest sub-portfolio in the BayernLB Group. In line with the Business Strategy, Germany's share of the portfolio was virtually unchanged at 76.3 percent (31 December 2014: 76.8 percent).

In the first half of 2015 the portfolio's high quality was confirmed again with an investment grade share of 80.8 percent (31 December 2014: 80.9 percent) and a low non-performing loan ratio of 2.4 percent (31 December 2014: 2.5 percent).

The amount of economic capital required rose at the BayernLB Group, largely due to risks from pension obligations.

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

Risk-bearing capacity

Risk-bearing capacity is monitored using the Internal Capital Adequacy Assessment Process (ICAAP) at BayernLB, DKB, and the BayernLB Group level. The aim of ICAAP is to ensure that there is sufficient economic capital to fully cover the risks assumed or planned at all times.

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 BayernLB Group had adequate risk-bearing capacity throughout the first half of the year as the provision of risk capital was solid. The BayernLB Group holds sufficient available economic capital (EUR 13.1 billion) to cover risk capital requirements.

Economic capital adequacy (risk capital requirement)

EUR million	30 Jun 2015	31 Dec 2014
Risk capital requirements	**4,404**	**3,305**
• credit risk and country risk (counterparty risk)	1,402	1,393
• market risk	2,416	1,354
• operational risk	485	462
• investment risk	101	96

The increase in the risk capital requirement in the first half of 2015 was largely due to market risk and associated risks relating to pension obligations (30 June 2015: EUR 1.3 billion; 31 December 2014: EUR 723 million).

As part of the BayernLB Group's stress testing programme, the possibility of a severe economic downturn arising (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 9.3 billion (31 December 2014: EUR 9.4 billion). The BayernLB Group has adequate capital even for this scenario.

Management of the individual risk types in the Group

Credit risk

At the end of the first half of 2015 no significant changes had been made in the instruments and methods for measuring, controlling and monitoring credit risks from those described in the risk report in the 2014 consolidated financial statements.

The following discussion of credit risk uses the management approach, which is based on figures derived from the financial situation (such as taking account of undrawn internal current account facilities) and which are used for internal reporting to the Board of Management and the Risk Committee of the Supervisory Board.

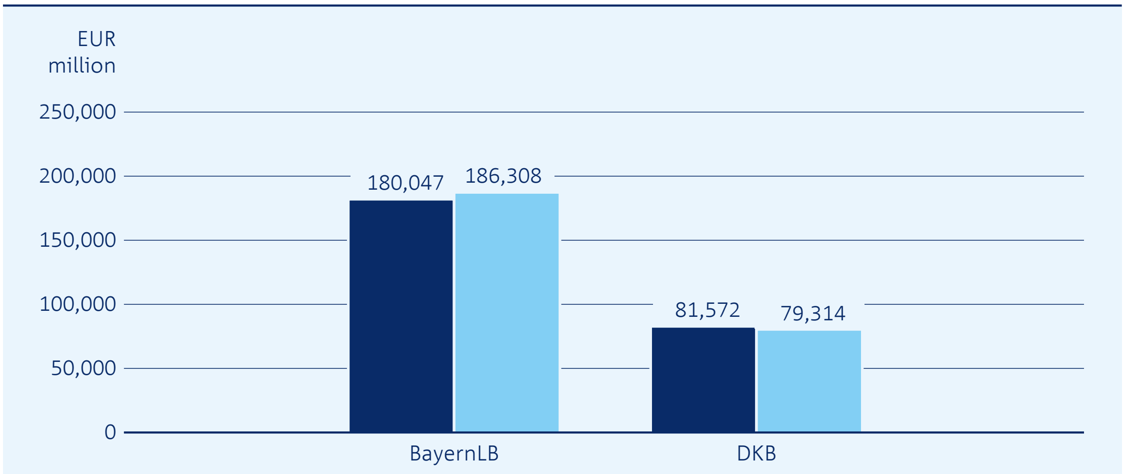
Credit risk is also presented using the balance sheet approach, which is based on balance sheet figures and focuses on the value of the financial assets shown in the balance sheet.

For the purposes of internal risk management and risk reporting to the Board of Management and the Risk Committee of the Supervisory Board, credit volume is defined differently in certain respects than under the rules applicable for balance sheet purposes.

Similarly, the materiality thresholds for including subsidiaries in the MaRisk risk inventory for internal risk management may differ from those used to determine the scope of consolidation in the balance sheet. The figures for the first half of financial year 2015 under the management approach include BayernLB and DKB. The figures used in the balance sheet approach for the maximum credit risk pursuant to IFRS 7.36a are based on the IFRS scope of consolidation. This also primarily includes Real I.S. AG.

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

Gross credit volume by unit



■ 30 Jun 2015 Total: EUR 261,619 million
■ 31 Dec 2014 Total: EUR 265,622 million

Credit volume includes 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).

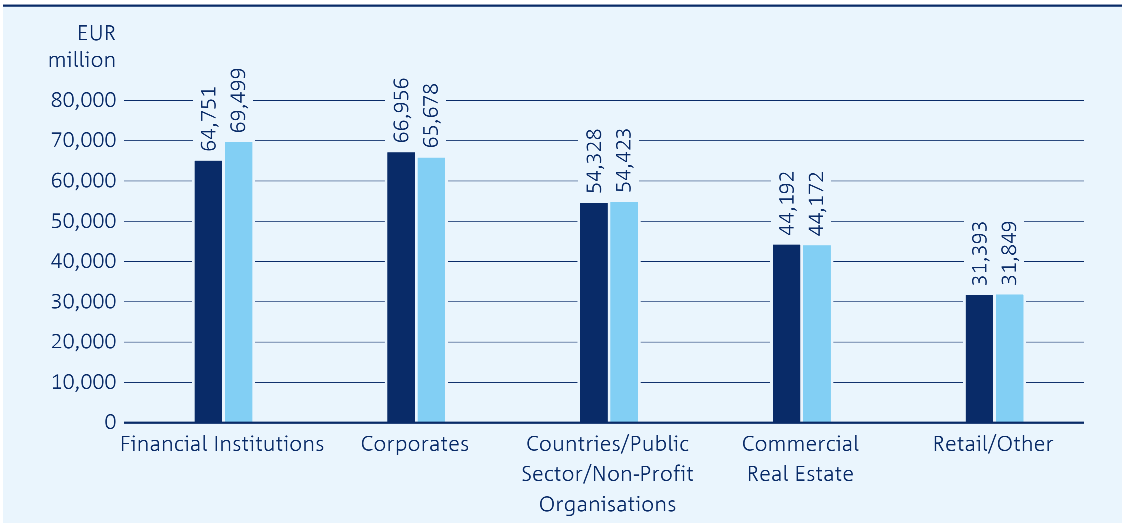
Compared to 31 December 2014, the BayernLB Group's gross credit volume fell by EUR 4.0 billion or 1.5 percent to EUR 261.6 billion. Since implementation of the new business model in 2009, gross credit volume has been cut by a total of EUR 109.0 billion or 29.4 percent.

The fall at BayernLB of EUR 6.3 billion (3.4 percent) was mainly due to maturing business with Landesbanks and savings banks backed by government guarantees (EUR 3.4 billion) and a decrease in undrawn internal current account facilities for other financial institutions in the amount of EUR 1.9 billion.

In line with strategy, DKB's credit volume grew once again with an inflow totalling EUR 2.3 billion or 2.8 percent. The main increase was in the Corporates sub-portfolio focusing on renewable energy.

Gross credit volume in the BayernLB Group is broken down below by sub-portfolio, rating category, region and size.

Gross and net credit volume by sub-portfolio



■ 30 Jun 2015 Total: EUR 261,619 million
■ 31 Dec 2014 Total: EUR 265,622 million

	Gross			Net		
Sub-portfolios (EUR million)	**30 Jun 2015**	**31 Dec 2014**	**Change (in %)**	**30 Jun 2015**	**31 Dec 2014**	**Change (in %)**
Financial Institutions	64,751	69,499	−6.8	63,116	66,821	−5.5
Corporates	66,956	65,678	1.9	51,415	50,736	1.3
Countries/Public Sector/ Non-Profit Organisations	54,328	54,423	−0.2	52,535	52,522	0.0
Commercial Real Estate	44,192	44,172	0.0	13,238	12,956	2.2
Retail/Other	31,393	31,849	−1.4	17,347	17,216	0.8
• *of which Retail*	*31,179*	*31,387*	*−0.7*	*17,145*	*16,782*	*2.2*
Total	**261,619**	**265,622**	**−1.5**	**197,650**	**200,252**	**−1.3**

Net credit volume is calculated as gross exposure less the value of collateral and business that has been placed. Net credit volume fell by EUR 2.6 billion or 1.3 percent, mainly as a result of reduced undrawn internal current account facilities.

Financial Institutions sub-portfolio

The largest decrease in credit volume took place in the Financial Institutions sub-portfolio, which contracted by EUR 4.7 billion or 6.8 percent. Gross credit volume in the banks/savings banks sector fell by EUR 4.8 billion to EUR 60.1 billion.

The main reason was maturing business with Landesbanks (EUR 2.6 billion) and savings banks (EUR 0.8 billion) backed by government guarantees, and lower undrawn internal current account facilities for other financial institutions. Part of this fall was offset by new business with savings banks and financial institutions in western Europe and the US. At DKB the main increase in credit volumes occurred with German and northern European banks.

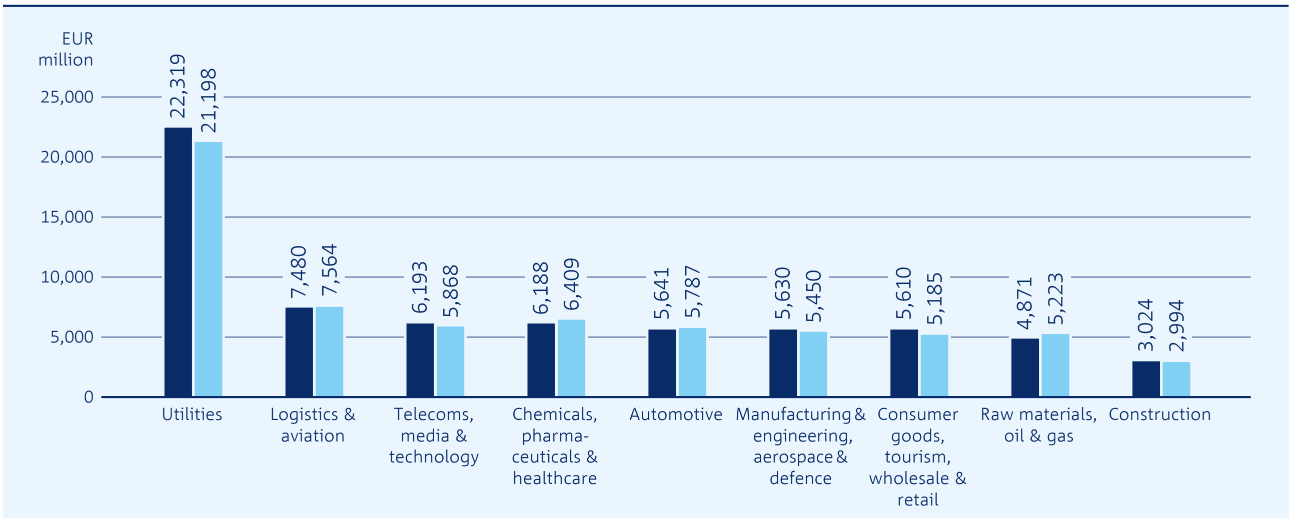
Credit volume in the insurance sector stood at EUR 4.6 billion, unchanged from the year-before period.

After rising sharply at the end of 2014, portfolio quality remained very high with over 92 percent of assets rated as investment grade.

Corporates sub-portfolio

The Corporates sub-portfolio is now the largest sub-portfolio within the BayernLB Group after growing EUR 1.3 billion or 1.9 percent.

Sector breakdown within the Corporates sub-portfolio



■ 30 Jun 2015 Total: EUR 66,956 million
■ 31 Dec 2014 Total: EUR 65,678 million

Sector performance was mixed.

Utilities, still the largest sector by far, enjoyed the biggest increase in volume within the Corporates sub-portfolio, rising by EUR 1.1 billion or 5.3 percent, with the bulk of this at DKB. In addition to traditional corporate and project financing, financing renewable energy projects such as wind farms and solar energy was an area of focus accounting for 51.4 percent of credit volume. The main increase at both BayernLB and DKB was in small-scale renewable energy financing with a connection to Germany, where volumes rose by EUR 1 billion in total, improving granularity: 94.6 percent (80.4 percent in Germany) of this was exposures with a gross credit volume below EUR 50 million.

Besides utilities, gross credit volumes rose in other sectors, including consumer goods, wholesale & retail, and technology. Most of the new business in these sectors was in Germany and other western European countries. Oil & gas posted the largest fall due to subdued capital spending by customers in light of the persistent geopolitical uncertainties.

Germany's share of the overall portfolio remains unchanged at 71.4 percent.

Customers with a gross credit volume of less than EUR 50 million accounted for 52.3 percent (31 December 2014: 53.6 percent) of the portfolio, underscoring the Corporates sub-portfolio's highly granular structure.

The investment grade share remained stable at 68.5 percent.

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

The gross credit volume of the Countries/Public Sector/Non-Profit Organisations sub-portfolio remained virtually unchanged on the previous year's level at EUR 54.3 billion (31 December 2014: EUR 54.4 billion).

Gross credit volumes to the US government and the Federal Reserve were higher compared to 31 December 2014, increasing the foreign share of this sub-portfolio overall. Falls were posted in several areas including transactions with Swiss municipalities and the French government. Other declines in the sub-portfolio included transactions with the German Bundesbank, public-law institutions and German state governments. Customer relationships in this sub-portfolio were utilised in part for liquidity management.

The investment grade share remained stable at 97.2 percent (31 December 2014: 97.1 percent).

Commercial Real Estate sub-portfolio

Gross credit volume in the Commercial Real Estate sub-portfolio remained steady at EUR 44.2 billion.

Despite an unchanged total exposure, the non-core portfolio was further wound down as planned, contracting by EUR 599.8 million or 1.4 percent, particularly in exposures to western Europe. As a result the share to be wound down was reduced to 8.0 percent of the whole Commercial Real Estate sub-portfolio.

New business generated in BayernLB and DKB's core business in the first half of 2015 fully offset the decrease from non-core business. The bulk of this was exposures with a focus on Germany. The Commercial Real Estate sub-portfolio now has the second largest German share (86.3 percent) after the Retail/Other sub-portfolio.

As before, the sub-portfolio was highly granular: the proportion of customers with a gross credit volume of less than EUR 50 million stood at 61.8 percent, virtually unchanged on the previous year. DKB's customer relationships were responsible for a large part of this, accounting for 53.7 percent of the total sub-portfolio.

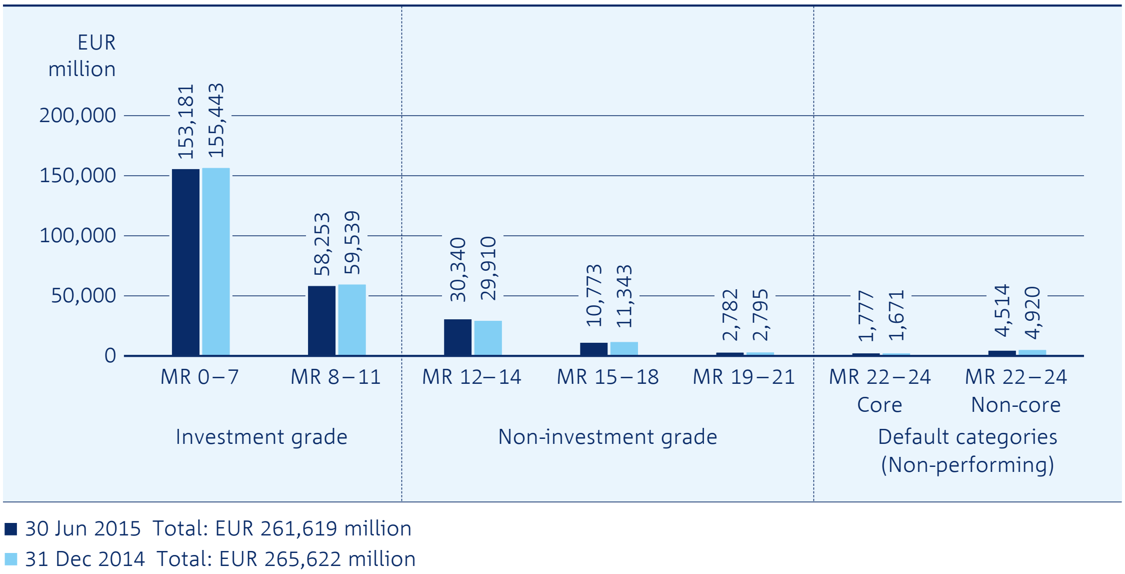
The collateralisation ratio remained stable at 70.0 percent (31 December 2014: 70.7 percent).

The investment grade share improved slightly to 74.8 percent (31 December 2014: 74.4 percent).

Retail/Other sub-portfolio

In Retail/Other, the smallest sub-portfolio, gross credit volume fell slightly by EUR 456 million or 1.5 percent to EUR 31.4 billion. The main reason for the drop was the reduction in the retail business at BayernLB in line with strategy. DKB's retail customer business remained stable in the first half of 2015. Germany's share is virtually 100 percent Group-wide.

Gross credit volume by rating category and sub-portfolio



30 Jun 2015 **Rating categories** EUR million	**MR 0–7**	**MR 8–11**	**MR 12–14**	**MR 15–18**	**MR 19–21**	**MR 22–24**	**(of which non-core)**	**Total**
Financial Institutions	55,448	4,510	924	546	8	3,313	*3,168*	64,751
Corporates	19,373	26,470	13,685	5,176	987	1,266	*647*	66,956
Countries/Public Sector/ Non-Profit Organisations	51,954	836	1,007	492	36	3	–	54,328
Commercial Real Estate	19,295	13,764	6,343	2,860	834	1,096	*667*	44,192
Retail/Other*	7,110	12,673	8,382	1,698	917	613	*32*	31,393
Total	**153,181**	**58,253**	**30,340**	**10,773**	**2,782**	**6,290**	***4,514***	**261,619**

31 Dec 2014 **Rating categories** EUR million	**MR 0–7**	**MR 8–11**	**MR 12–14**	**MR 15–18**	**MR 19–21**	**MR 22–24**	**(of which non-core)**	**Total**
Financial Institutions	60,056	4,573	1,048	657	16	3,150	*2,980*	69,499
Corporates	18,705	26,287	12,957	5,324	985	1,420	*711*	65,678
Countries/Public Sector/ Non-Profit Organisations	52,038	782	1,062	487	51	3	–	54,423
Commercial Real Estate	17,843	15,028	6,158	3,055	746	1,342	*573*	44,172
Retail/Other*	6,801	12,870	8,685	1,820	997	676	*656*	31,849
Total	**155,443**	**59,539**	**29,910**	**11,343**	**2,795**	**6,591**	***4,920***	**265,622**

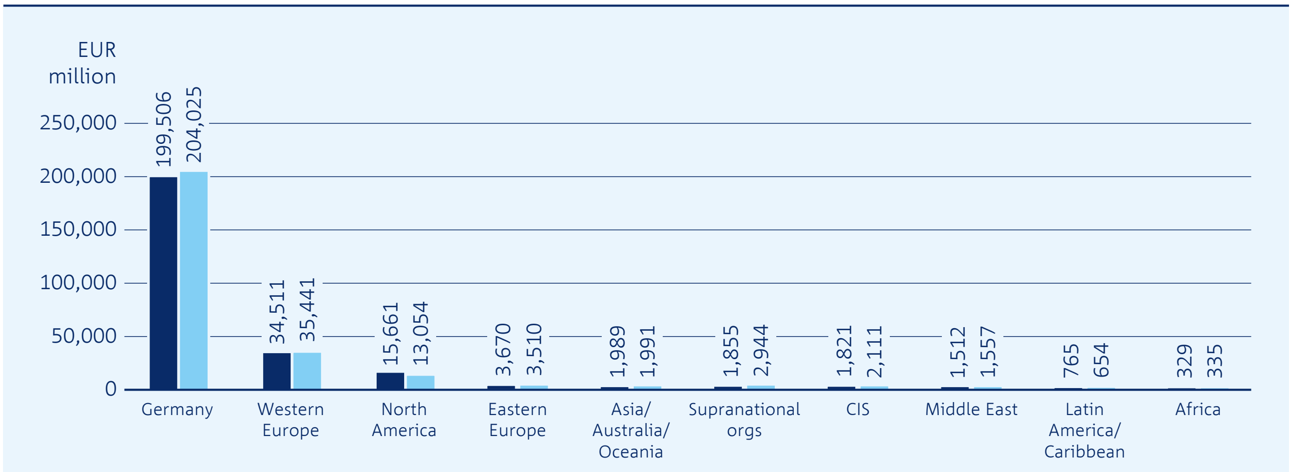
** Of which gross credit volumes in Retail of EUR 31.2 billion as at 30 June 2015 and EUR 31.4 billion as at 31 December 2014.*

The investment grade share rose steeply to 80.9 percent as at 31 December 2014 after the sale of MKB and the ABS portfolio. It remained stable at 80.8 percent in the first half of 2015.

Credit volume in rating category MR 12–14 rose by EUR 430 million or 1.4 percent in the first half of the year, but fell in all other rating categories.

The non-performing loan ratio (NPL ratio) was 2.4 percent as at 30 June 2015 (31 December 2014: 2.5 percent). This corresponds to an almost unchanged NPL ratio in the core business of 0.7 percent. In the non-core business, the NPL ratio rose slightly to 27.7 percent (31 December 2014: 27.5 percent – previous year's figure adjusted[9]). Risk provisions are adequate to cover new additions to the default categories.

Gross credit volume by region



■ 30 Jun 2015 Total: EUR 261,619 million
■ 31 Dec 2014 Total: EUR 265,622 million

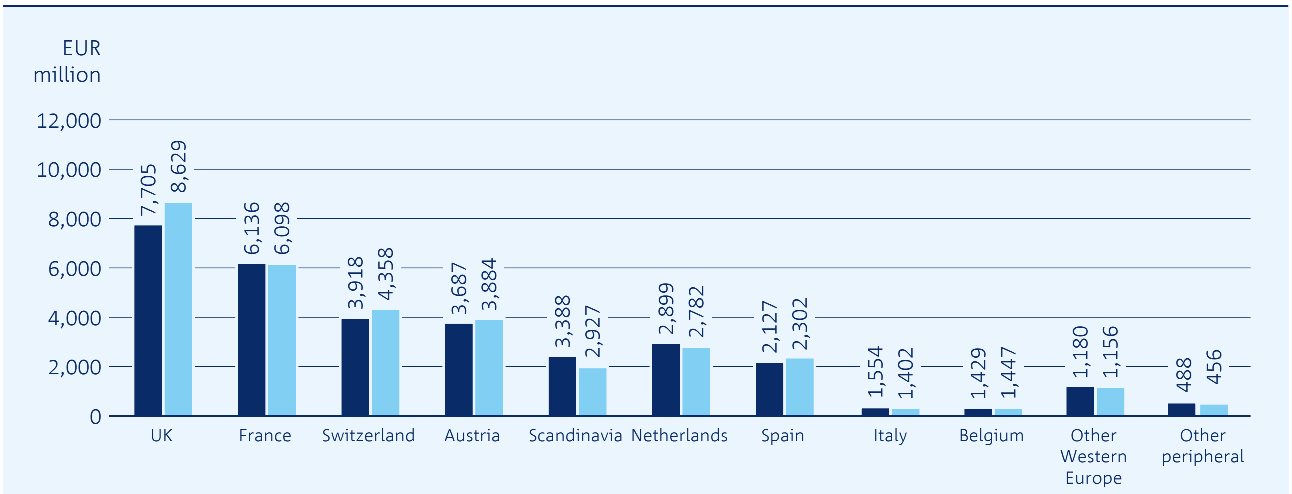
In line with the Business and the Risk Strategy, Germany accounted for a dominant share of the BayernLB Group's lending at 76.3 percent (31 December 2014: 76.8 percent), with a gross credit volume of EUR 199.5 billion (31 December 2014: EUR 204.0 billion).

After the consolidation measures (sale of MKB and the ABS portfolio) in 2014, which affected mostly the foreign exposure, the total lending volume with customers outside Germany remained largely stable in the first half of 2015 at EUR 23.8 percent (31 December 2014: 23.2 percent).

In terms of regions, there was a marked increase in North America (EUR 15.7 billion, 31 December 2014: EUR 13.1 billion). This was due to an upturn in new business and the significant appreciation of the US dollar against the euro. The US had the biggest single volume at EUR 14.2 billion (31 December 2014: EUR 12.0 billion).

9 Due to adjustments to system settings.

Gross credit volumes in western Europe



■ 30 Jun 2015 Total: EUR 34,511 million
■ 31 Dec 2014 Total: EUR 35,441 million

The restrictions on new business in Spain, Italy, Ireland and Portugal have been slightly eased following the reform measures and increasingly stable macroeconomic situation in these countries. Nonetheless, gross credit volumes there remained steady at EUR 4.2 billion.

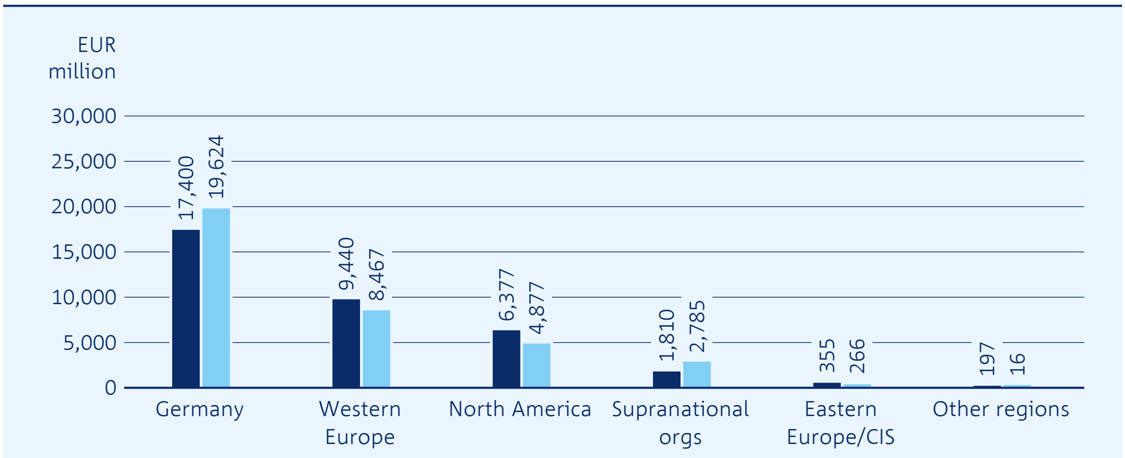
As before, no new credit risks were taken on in Greece. The remaining volume there of EUR 26 million (31 December 2014: EUR 30 million) is adequately covered by risk provisions.

Volumes were stable or fell slightly in the other western European countries, except for the Scandinavian countries. The largest single volumes were with the United Kingdom (EUR 7.7 billion, 31 December 2014: EUR 8.6 billion) and France (EUR 6.1 billion, 31 December 2014: EUR 6.1 billion).

Aside from western Europe and North America, the largest country exposure was with Turkey (EUR 2.4 billion, 31 December 2014: EUR 2.3 billion). In contrast, there was a significant fall in the credit volume with Russia (EUR 1.5 billion, 31 December 2014: EUR 1.8 billion).

The following table shows gross issuer risk by region.

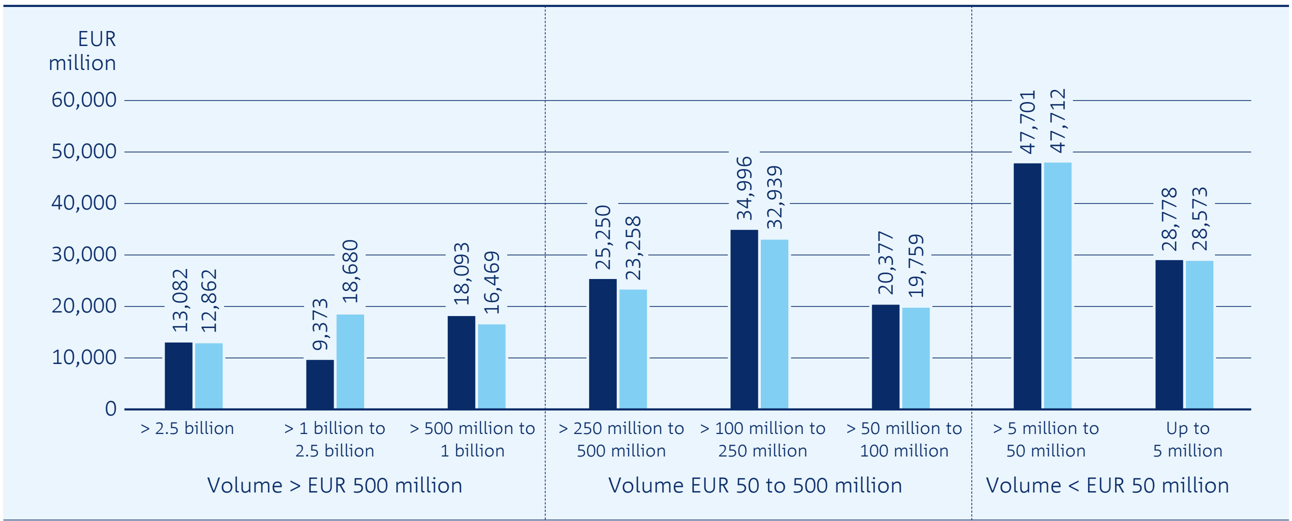
Gross issuer risk by region



■ 30 Jun 2015 Total: EUR 35,579 million
■ 31 Dec 2014 Total: EUR 36,035 million

Gross issuer risk fell in the first half of 2015. The ongoing repayment of bonds from German Landesbanks backed by government guarantee was partly offset by an increase in Pfandbriefs and government bonds, diversified by country.

Net credit volume by size



■ 30 Jun 2015 Total: EUR 197,650 million
■ 31 Dec 2014 Total: EUR 200,252 million

Exposure in the largest size category (net credit volume of more than EUR 2.5 billion) increased slightly to EUR 13.1 billion (31 December 2014: EUR 12.9 billion). This was mostly in the form of loans and advances to investment grade public entities.

The net credit volume with customers in the EUR 1 billion to EUR 2.5 billion exposure category halved to nearly EUR 9.4 billion. The fall was largely related to the reduction in exposures, most of which are now in the lower size categories.

The net credit volume in the EUR 5 million to EUR 100 million exposure category was almost unchanged. The most granular part of the portfolio (exposures to customers with a net credit volume of less than EUR 5 million) was also stable compared with the previous year at EUR 28.8 billion or 14.6 percent (31 December 2014: EUR 14.3 percent).

In summary the quality of the credit portfolio remained very good after the sale of MKB and the ABS portfolio, with an investment grade share of 80.8 percent. At the same time, the portfolio's already high granularity was further increased: exposures with a net credit volume of less than EUR 500 million were up on the previous reporting date at 79.5 percent (31 December 2014: 76.0 percent).

Portfolio overview pursuant to IFRS 7.36a (balance sheet approach)

Based on data from the IFRS consolidated financial statements, the table below shows the BayernLB Group's maximum credit risk under IFRS 7.36a taking account of IFRS 7.B9. The gross carrying amounts are reduced by the offsetting amounts calculated in accordance with IAS 32 and impairment losses calculated in accordance with IAS 39. The quality of financial assets that are neither past due nor impaired (IFRS 7.36c) is shown using the internal rating scale (modified in line with IAS 8.32 – see note 2). Credit risks included under non-current assets or disposal groups classified as held for sale are allocated to the relevant positions in the following tables (for individual amounts see the details in note 27).

Maximum credit risk

EUR million	30 Jun 2015	31 Dec 2014
Cash reserves	**1,432**	**1,041**
• Loans and receivables	1,432	1,041
Loans and advances to banks	**33,013**	**36,572**
• Loans and receivables	33,007	36,562
• Fair value option	6	10
Loans and advances to customers	**131,925**	**131,673**
• Loans and receivables	131,201	130,925
• Available for sale	15	18
• Fair value option	710	729
Assets held for trading*	**20,259**	**23,654**
• Held for trading	20,259	23,654
Positive fair values from derivative financial instruments	**2,071**	**2,968**
• Held for trading	2,071	2,968
Financial investments*	**31,656**	**31,799**
• Available for sale	24,722	22,398
• Fair value option	11	11
• Loans and receivables	6,924	9,390
Contingent liabilities	**11,520**	**11,489**
Irrevocable credit commitments	**21,704**	**24,065**
Total	**253,580**	**263,260**

** Not including equity instruments.*

Financial assets that are neither past due nor impaired

30 Jun 2015 in %	Maximum credit risk Rating categories 0–7	8–11	12–17	18–21	Default categories	Unrated	Total
Cash reserves	**0.6**	**0.0**	**–**	**–**	**–**	**0.0**	**0.6**
• Loans and receivables	0.6	0.0	–	–	–	0.0	0.6
Loans and advances to banks	**11.3**	**1.6**	**0.1**	**0.0**	**–**	**0.0**	**12.9**
• Loans and receivables	11.3	1.6	0.1	0.0	–	0.0	12.9
• Fair value option	0.0	–	–	–	–	–	0.0
Loans and advances to customers	**24.7**	**12.5**	**10.3**	**1.5**	**0.0**	**1.7**	**50.7**
• Loans and receivables	24.5	12.5	10.3	1.5	0.0	1.7	50.4
• Available for sale	–	–	–	–	–	–	–
• Fair value option	0.2	0.0	0.0	0.0	0.0	0.1	0.3
Assets held for trading	**6.2**	**1.4**	**0.4**	**0.0**	**0.0**	**0.0**	**8.0**
• Held for trading	6.2	1.4	0.4	0.0	0.0	0.0	8.0
Positive fair values from derivative financial instruments	**0.8**	**0.0**	**–**	**–**	**–**	**–**	**0.8**
• Held for trading	0.8	0.0	–	–	–	–	0.8
Financial investments	**12.1**	**0.3**	**0.1**	**–**	**0.0**	**0.0**	**12.5**
• Available for sale	9.6	0.2	0.0	–	0.0	0.0	9.7
• Fair value option	–	0.0	–	–	–	–	0.0
• Loans and receivables	2.5	0.1	0.1	–	–	–	2.7
Contingent liabilities	**2.2**	**1.2**	**1.0**	**0.1**	**0.0**	**0.0**	**4.5**
Irrevocable credit commitments	**4.2**	**2.9**	**1.4**	**0.1**	**0.0**	**0.0**	**8.5**
Total	**61.9**	**19.9**	**13.2**	**1.8**	**0.0**	**1.8**	**98.6**

31 Dec 2014 in %	Maximum credit risk Rating categories 0–7	8–11	12–17	18–21	Default categories	Unrated	Total
Cash reserves	**0.4**	**0.0**	**–**	**–**	**–**	**0.0**	**0.4**
• Loans and receivables	0.4	0.0	–	–	–	0.0	0.4
Loans and advances to banks	**10.9**	**2.4**	**0.5**	**0.0**	**0.0**	**0.0**	**13.8**
• Loans and receivables	10.9	2.4	0.5	0.0	0.0	0.0	13.8
• Fair value option	0.0	–	–	–	–	–	0.0
Loans and advances to customers	**22.7**	**13.0**	**9.8**	**1.5**	**0.0**	**1.7**	**48.6**
• Loans and receivables	22.5	13.0	9.8	1.5	0.0	1.7	48.3
• Available for sale	–	–	–	–	–	–	–
• Fair value option	0.2	0.0	0.0	0.0	0.0	0.1	0.3
Assets held for trading	**6.7**	**1.9**	**0.3**	**0.0**	**0.0**	**–**	**9.0**
• Held for trading	6.7	1.9	0.3	0.0	0.0	–	9.0
Positive fair values from derivative financial instruments	**1.1**	**0.1**	**–**	**–**	**–**	**–**	**1.1**
• Held for trading	1.1	0.1	–	–	–	–	1.1
Financial investments	**11.7**	**0.3**	**0.1**	**0.0**	**–**	**0.0**	**12.1**
• Available for sale	8.3	0.2	0.0	–	–	0.0	8.5
• Fair value option	–	0.0	–	–	–	–	0.0
• Loans and receivables	3.3	0.1	0.1	0.0	–	–	3.6
Contingent liabilities	**2.2**	**1.1**	**1.0**	**0.1**	**0.0**	**0.0**	**4.4**
Irrevocable credit commitments	**4.9**	**2.7**	**1.3**	**0.1**	**0.0**	**0.0**	**9.1**
Total	**60.4**	**21.4**	**13.0**	**1.8**	**0.0**	**1.8**	**98.5**

Financial assets that are past due but not impaired*

30 Jun 2015 EUR million	Maximum credit risk Time past due ≤ 30 days	> 30 days to 3 months	> 3 months to 1 year	> 1 year	Total	Fair value collateral
Cash reserves	**–**	**–**	**–**	**–**	**–**	**–**
• Loans and receivables	–	–	–	–	–	–
Loans and advances to banks	**–**	**–**	**0.9**	**4.6**	**5.5**	**0.7**
• Loans and receivables	–	–	0.9	4.6	5.5	0.7
• Fair value option	–	–	–	–	–	–
Loans and advances to customers	**69.9**	**224.6**	**18.3**	**27.2**	**339.9**	**30.6**
• Loans and receivables	69.9	224.6	18.3	27.2	339.9	30.6
• Available for sale	–	–	–	–	–	–
• Fair value option	–	–	–	–	–	–
Assets held for trading	**–**	**–**	**–**	**–**	**–**	**–**
• Held for trading	–	–	–	–	–	–
Positive fair values from derivative financial instruments	**–**	**–**	**–**	**–**	**–**	**–**
• Held for trading	–	–	–	–	–	–
Financial investments	**3.1**	**–**	**–**	**–**	**3.1**	**–**
• Available for sale	3.1	–	–	–	3.1	–
• Fair value option	–	–	–	–	–	–
• Loans and receivables	–	–	–	–	–	–
Contingent liabilities	**–**	**–**	**–**	**–**	**–**	**–**
Irrevocable credit commitments	**–**	**–**	**–**	**–**	**–**	**–**
Total	**73.0**	**224.6**	**19.1**	**31.8**	**348.5**	**31.3**
Fair value collateral	**4.9**	**9.7**	**10.5**	**6.1**	**31.3**	

* *The portfolio reflects the creation of portfolio loan loss provisions: "not impaired" in this context means "no specific loan loss provisions made".*

31 Dec 2014 EUR million	Maximum credit risk					
	Time past due					
	≤ 30 days	> 30 days to 3 months	> 3 months to 1 year	> 1 year	Total	Fair value collateral
Cash reserves	**–**	**–**	**–**	**–**	**–**	**–**
• Loans and receivables	–	–	–	–	–	–
Loans and advances to banks	**0.0**	**–**	**1.2**	**4.0**	**5.3**	**–**
• Loans and receivables	0.0	–	1.2	4.0	5.3	–
• Fair value option	–	–	–	–	–	–
Loans and advances to customers	**272.9**	**197.2**	**10.0**	**21.3**	**501.4**	**75.5**
• Loans and receivables	272.9	197.2	10.0	21.3	501.4	75.5
• Available for sale	–	–	–	–	–	–
• Fair value option	–	–	–	–	–	–
Assets held for trading	**–**	**–**	**–**	**–**	**–**	**–**
• Held for trading	–	–	–	–	–	–
Positive fair values from derivative financial instruments	**–**	**–**	**–**	**–**	**–**	**–**
• Held for trading	–	–	–	–	–	–
Financial investments	**2.9**	**–**	**–**	**–**	**2.9**	**–**
• Available for sale	2.9	–	–	–	2.9	–
• Fair value option	–	–	–	–	–	–
• Loans and receivables	–	–	–	–	–	–
Contingent liabilities	**–**	**–**	**–**	**–**	**–**	**–**
Irrevocable credit commitments	**–**	**–**	**–**	**–**	**–**	**–**
Total	**275.8**	**197.2**	**11.3**	**25.3**	**509.6**	**75.5**
Fair value collateral	**51.6**	**9.3**	**3.1**	**11.5**	**75.5**	

* *The portfolio reflects the creation of portfolio loan loss provisions: “not impaired” in this context means “no specific loan loss provisions made”.*

Financial assets that are impaired

	Maximum credit risk		Fair value collateral	
EUR million	30 Jun 2015	31 Dec 2014	30 Jun 2015	31 Dec 2014
Cash reserves	**–**	**–**	**–**	**–**
• Loans and receivables	–	–	–	–
Loans and advances to banks	**191.0**	**213.8**	**–**	**–**
• Loans and receivables	191.0	213.8	–	–
• Fair value option	–	–	–	–
Loans and advances to customers	**3,015.2**	**3,239.5**	**1,025.3**	**1,235.9**
• Loans and receivables	3,000.7	3,221.5	1,011.1	1,218.2
• Available for sale	14.5	18.0	14.2	17.7
• Fair value option	–	–	–	–
Assets held for trading	**–**	**–**	**–**	**–**
• Held for trading	–	–	–	–
Positive fair values from derivative financial instruments	**–**	**–**	**–**	**–**
• Held for trading	–	–	–	–
Financial investments	**0.0**	**1.7**	**–**	**–**
• Available for sale	0.0	1.6	–	–
• Fair value option	–	–	–	–
• Loans and receivables	–	0.0	–	–
Contingent liabilities	**24.0**	**24.6**	**–**	**–**
Irrevocable credit commitments	**54.8**	**79.9**	**–**	**–**
Total	**3,284.9**	**3,559.4**	**1,025.3**	**1,235.9**

Renegotiated credits

Forbearance exposures

30 Jun 2015 EUR million	Forbearance/ deferrals	Impairments	Collateral/financial guarantees received
Loans and advances to banks	83.0	–12.4	0.0
Loans and advances to customers	5,098.8	–1,919.9	1,110.7
Credit commitments	78.4	5.4	0.3
Total	**5,260.2**	**–1,926.9**	**1,111.0**

31 Dec 2014 EUR million	Forbearance/ deferrals	Impairments	Collateral/financial guarantees received
Loans and advances to banks	0.0	0.0	0.0
Loans and advances to customers	5,228.2	–1,889.9	1,061.8
Credit commitments	145.3	5.0	46.0
Total	**5,373.5**	**–1,884.8**	**1,107.8**

Portfolios with elevated risk profiles (Financial Stability Board recommendations)

The Financial Stability Board, which was established by the supervisory authorities and governments of countries in which the world's leading financial centres are located, issued recommendations in 2008 on the disclosure of information on portfolios with elevated risk profiles. The greater transparency is intended to strengthen trust among financial market participants.

Portfolios with elevated risk profiles as defined by the Financial Stability Board contain transactions structured exclusively for customers, leveraged finance transactions and the indirect exposure to US monolines.

Customer transactions

The nominal volume of transactions structured for customers rose to EUR 1.8 billion in the first half of the year (31 December 2014: EUR 1.7 billion). The main focus of the portfolio, accounting for EUR 1.8 billion (31 December 2014: EUR 1.6 billion), is on transactions structured for BayernLB's target customers. Trade, leasing receivables and accounts receivables from target customers are financed via the Corelux S.A. ABCP programme, which exists solely for this purpose.

Only one transaction remains in the amount of EUR 48 million (31 December 2014: EUR 45 million; currency-related rise in the first half of 2015), which is not target-customer related and is therefore scheduled for run-off.

Monolines

BayernLB's indirect exposure to monolines (insurance companies that specialise in hedging structured securities) rose to a nominal volume of EUR 106 million due solely to the exchange rate (31 December 2014: EUR 98 million). The rest of BayernLB's indirect credit exposure is scheduled for runoff and will shrink as transactions gradually mature.

With regard to its indirect exposure, the monolines are not direct borrowers but serve as guarantors. BayernLB always based its credit decision in these cases primarily on the credit standing of the actual borrower or issuer or on the financing structure. The monoline guarantee was viewed at the time the transaction was concluded only as an additional hedging instrument.

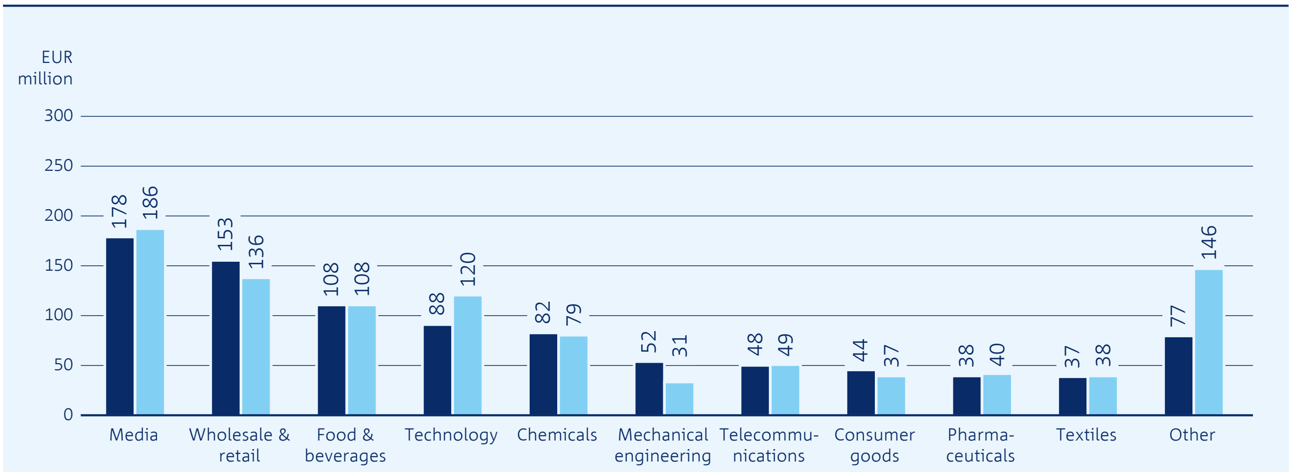
Leveraged finance

This includes leveraged buyouts (corporate acquisitions by financial investors) and corporate to corporate transactions (corporate acquisitions by a strategic investor). Leveraged finance transactions generally have comparatively high debt ratios, are serviced from the operating cash flows of the financed entity, and thus have relatively long terms (normally more than five years).

The volume of leveraged financing in the BayernLB Group as at 30 June 2015 fell by 7 percent to EUR 904 million (31 December 2014: EUR 971 million). There are few transactions related to non-core business. The share in Germany remained largely stable at 83 percent (31 December 2014: 84 percent), while the share in the rest of western Europe was at 17 percent (31 December 2014: 16 percent).

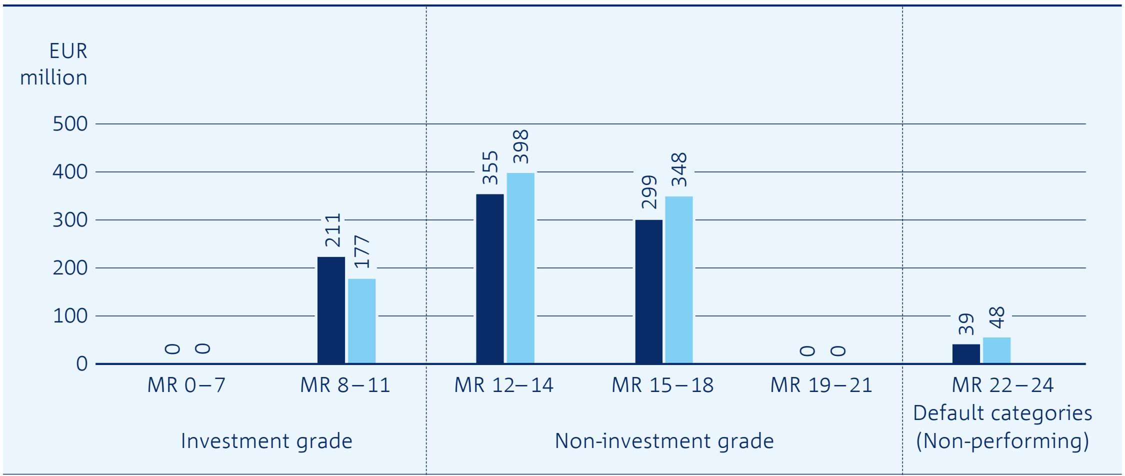
The charts below give a breakdown of the BayernLB Group's leveraged finance transactions by sector and rating category.

Gross credit volume by sector



■ 30 Jun 2015 Total: EUR 904 million
■ 31 Dec 2014 Total: EUR 971 million

Gross credit volume by rating category



■ 30 Jun 2015 Total: EUR 904 million
■ 31 Dec 2014 Total: EUR 971 million

Portfolio quality improved over the reporting period. The share of the portfolio in master rating categories 0–14 rose to 62.6 percent (31 December 2014: 59.2 percent), while the risk provision set aside for problem loans remained largely unchanged at 2.4 percent (31 December 2014: 2.3 percent).

Investment risk

BayernLB does not aim to expand business activities by acquiring stakes in companies. The existing portfolio of shareholdings will be gradually adapted to meet the needs of the realigned business model. The goal is to retain a core of shareholdings that support the Bank's business activities. DKB is an integral component.

The key changes in the scope of consolidation and investment portfolio in the first half of 2015 are discussed in more detail in the same-named section of the Report on the economic position.

Market risk

The BayernLB Group uses several tools to monitor and limit market risks, including value-at-risk (VaR), risk sensitivity and stress tests, all of which form part of the mix in the assessment of risk capacity to various degrees.

VaR is used for operational management and monitoring of market risks. It is calculated using a one-day holding period and a confidence interval of 99 percent. The historical simulation model is the main method used at BayernLB and DKB. Customer deposits at DKB are modelled here using the dynamic replication method.

In the first half of 2015, a change was made to the methodology for calculating pension risks (risks from BayernLB's pension obligations). Starting from the daily report on 8 May 2015, the pension risks for risk-bearing capacity is calculated fully using a cross-risk, scenario-based approach, 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 30 June 2015, the forecasting quality of the market risk measurement methods used at BayernLB, in accordance with the Basel traffic light approach, was classified as good. At DKB, an add-on factor for risk-bearing capacity is used because the forecasting quality of the backtesting for total VaR as at 30 June 2015 was only satisfactory.

For the interest rate risk in the banking book, an interest rate shock scenario of +/–200 basis points is calculated at both single entity and Group level. As at the reporting date, the calculated change in present value relative to regulatory capital at both BayernLB and the BayernLB Group was well below the 20 percent limit set in BaFin's criterion for "institutions with elevated interest rate risk".

VaR contribution by risk type (99 percent confidence level)

EUR million	30 Jun 2015	31 Dec 2014	1 Jan 2015 to 30 Jun 2015 Average	Maximum	Minimum
General interest rate VaR	42.7	55.1	68.1	106.0	30.9
• incl. pension obligations (until 7 May 2015)	–	55.1	82.0	106.0	55.3
• excl. pension obligations (from 8 May 2015)	42.7	40.0**	36.2	42.7	30.9
Specific interest rate VaR (credit spreads)*	9.2	6.2	8.1	9.3	6.2
Currency VaR	2.6	2.0	2.3	5.2	1.0
Equities VaR	3.3	4.5	4.4	5.2	3.2
Commodities VaR	0.6	0.6	0.8	1.2	0.6
Volatility VaR	1.0	0.7	0.7	1.7	0.3
Total VaR*	**48.2**	**58.2**	**73.2**	**111.2**	**36.9**
• incl. pension obligations (until 7 May 2015)	–	58.2	86.8	111.2	59.5
• excl. pension obligations (from 8 May 2015)	48.2	40.5**	41.9	48.2	36.9

** After eliminating intra-Group positions upon consolidation; in the risk-bearing capacity, in addition to the specific interest rate VaR, premiums for credit rating risk from money market transactions and OTC derivatives at BayernLB are also taken into account when calculating the risk capital requirement.*
*** The VaR contribution as at 31 December 2014 was calculated without pension obligations for comparison purposes.*

Within the Group, the main factor affecting total VaR is general interest rate risk. All other types of risk play a much less significant role by comparison.

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

Specific interest rate risk rose slightly after positions were built up (purchase of European financial assets and US Treasuries).

Liquidity risk

Liquidity overviews are drawn up each day across all currencies and separately for the major currencies to manage and monitor liquidity risk on a consistent basis across the Group. This involves calculating the liquidity surplus by subtracting in each maturity band the cumulative liquidity gaps from the realisable liquidity counterbalancing capacity. A suitable limit system takes proper account of the key variables here.

In addition, time-to-wall figures for stress scenarios are calculated, limited and monitored. These show the length of time before the liquidity surplus turns negative under stressed conditions. For further details on the measurement, management and monitoring of liquidity risk, please refer to the relevant sections of the risk report as at 31 December 2014.

The methods applied Group-wide to limit and manage liquidity risk are being constantly checked and refined, helping to optimise liquidity management.

The following tables show the outcomes of the management scenario for the BayernLB Group and give an overview of the liquidity situation as at 30 June 2015 compared with 31 December 2014:

Liquidity situation

30 Jun 2015 **Cumulative figures** in EUR million	**up to 1 month**	**up to 3 months**	**up to 1 year**	**up to 5 years**
Liquidity surplus	**17,632**	**17,312**	**15,087**	**12,171**
• arising from				
– liquidity counterbalancing capacity	39,070	41,581	31,790	13,552
• less				
– liquidity gap	21,438	24,268	16,703	1,382

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	**19,393**	**16,895**	**6,321**	**4,121**
• arising from				
– liquidity counterbalancing capacity	38,409	36,278	27,594	9,968
• less				
– liquidity gap	19,016	19,383	21,273	5,847

In the first half of 2015, inflows from margin payments were switched to a market-value based model as part of the revisions to the liquidity risk scenarios (modified in line with IAS 8.32 – see note 2). Liquidity counterbalancing capacity rose in the up to 1 year and up to 5 year maturity bands mostly as a result of the increased discounting of commercial loans with the Bundesbank.

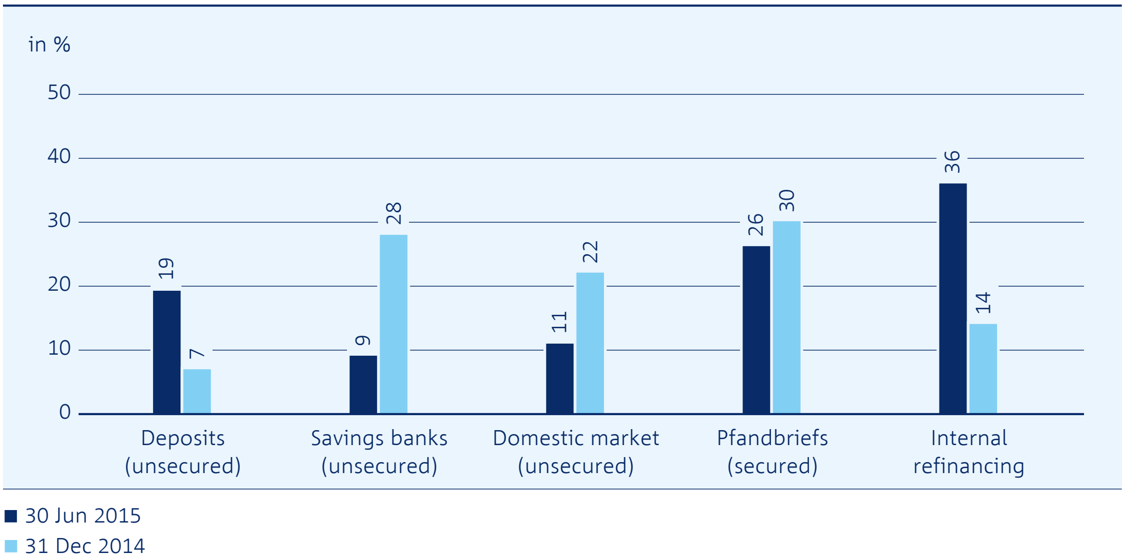
The BayernLB Group’s liquidity position was comfortable at all times during the period under review.

The Liquidity Ordinance ratio (which must always exceed 1.0) was 2.22 at BayernLB as at 30 June 2015, having varied between 2.06 and 2.29 over the first half of 2015. The range for full-year 2014 was 1.73 to 2.23.

Regulatory changes relating to liquidity risk are also constantly monitored in order to implement them on schedule 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. This ensures reporting requirements can be met and liquidity can be efficiently managed in the future.

The BayernLB Group’s funding structure as at 30 June 2015 compared with 31 December 2014 was as follows:

Funding structure



The chart presents secured and unsecured issues in terms of sales in the first half of 2015, while deposits are shown in terms of growth to date in 2015. Internal funding includes proceeds in excess of funding needs and funds freed up by the sale of assets. Further growth in deposits in the first half of 2015 was recorded. Secured and unsecured capital market funding was reduced as planned.

As at 30 June 2015, 74 percent of 2015 capital market funding had been met. In 2015, besides ensuring BayernLB's and the BayernLB Group's funding requirements are fulfilled, the focus of funding management is to implement strategic measures to improve the quality and composition of liabilities and prepare for future regulatory requirements.

In view of the stable domestic investor base and its subsidiary DKB, BayernLB considers that, based on its long-term wholesale business and high levels of retail deposits, it is well placed to meet the growing regulatory requirements.

Operational risk

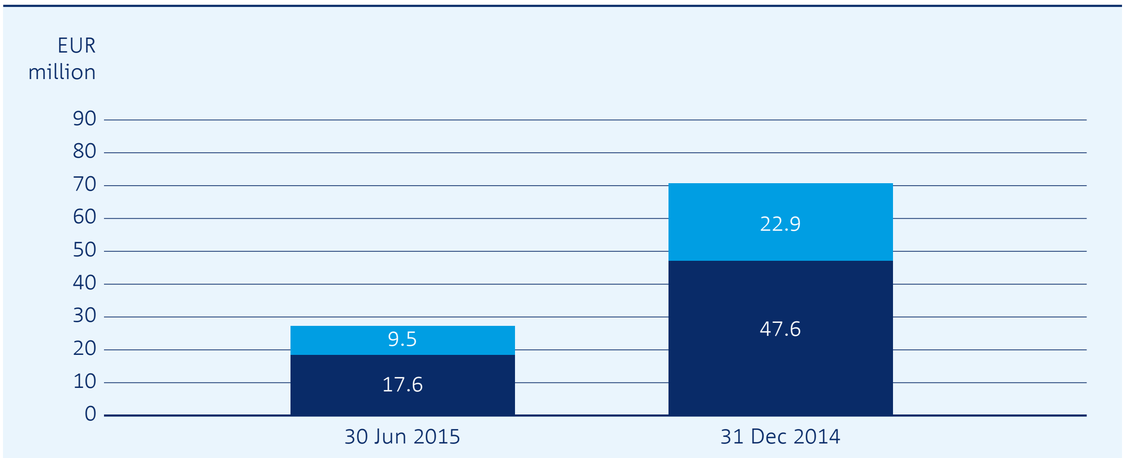
From 31 January 2015, the risk-sensitive operational value at risk (OpVaR) calculation has been used to assess operational risks for the risk-bearing capacity calculation in Pillar II.

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 30 June 2015 the risk capital requirement was EUR 485 million.

The graph below shows the changes in operational risk losses recorded at BayernLB and DKB in the first half of 2015 compared to financial year 2014. The losses from the now sold MKB (EUR 4.7 million) and former Banque LBLux S.A. (EUR 0.1 million) as at 31 December 2014 are no longer shown.

Losses by Group unit



30 Jun 2015 Total: EUR 27.1 million
31 Dec 2014 Total: EUR 70.5 million
■ BayernLB ■ DKB

The cumulative losses at BayernLB and DKB up to the two reporting dates are shown. Since the end of 2014 these have been shown according to the date they are booked, not the date they are reported.

BayernLB's losses in the first half of 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.

DKB's losses relate primarily to cases under the rulings handed down by the German Federal Court of Justice in 2014 on invalid processing fee clauses in consumer credit agreements and cancellation policies.

Summary

The BayernLB Group's risk profile remained stable in the first half of 2015.

The BayernLB Group had adequate risk-bearing capacity in the reporting period at all times. The stress scenarios conducted also confirm that adequate capital is held.

The liquidity situation remained good. Risk provisions took appropriate account of known risks.

Regulatory solvency requirements were met. Own funds available to cover risks amounted to EUR 11.5 billion. For more details please see "Banking supervisory capital and ratios for the BayernLB Group" in the general section of the management report.

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

Report on expected developments and opportunities

Economic environment

The upturn in Germany is expected to continue into the second half of 2015. Private consumption is still the most important driver of demand, supported by steady rises in real wages, little incentive to save in the low interest rate environment and a robust labour market. But the economy is unlikely to gain additional momentum as cheaper energy is not providing the boost it once did and demand for exports should remain sluggish. The latter is partly due to the still considerable uncertainty surrounding the reform process in Greece. Averaged out over 2015, Germany's real gross domestic product should, however, grow by 2 percent.

On the bond markets, German Bunds and US Treasuries are likely to continue to decouple. While deflationary risks in the eurozone have prompted the ECB to loosen monetary policy, statements by the Fed have fuelled expectations it will carry out its first interest rate hike. Given the resulting negative US market environment and the increasing dilution of the credit quality of Bunds, against the backdrop of the rescue measures for Greece, a sustained fall in German government bond yields is not on the cards. The euro will probably depreciate again by the end of the year as interest rates in the eurozone will remain low for the foreseeable future while the first rate hike in the US (probably in December 2015) draws near. The market is set to focus increasingly on the difficulties in implementing the reforms needed for the Greek rescue package and the still high risk of Grexit, which will weigh on the euro. After the corrections of the second quarter, the stock market should head north again in the second half of the year and so continue on its medium-term upward trajectory. Higher volatility is once again anticipated, not least because of the uncertainty surrounding Greece and the increase in interest rates in the US.

The BayernLB Group's future performance

For key forecasts, opportunities and other statements on the expected economic performance for financial year 2015, please refer to the 2014 Group management report whose earnings forecast remains intact.

Consolidated interim financial statements

Statement of comprehensive income

Income statement

EUR million	Notes		1 Jan – 30 Jun 2015	1 Jan – 30 Jun 2014
• Interest income		3,297		3,707
• Interest expenses		–2,472		–2,877
Net interest income	(5)		824	831
Risk provisions in the credit business	(6)		13	45
Net interest income after risk provisions			837	876
• Commission income		297		315
• Commission expenses		–188		–200
Net commission income	(7)		110	116
Gains or losses on fair value measurement	(8)		–52	140
Gains or losses on hedge accounting	(9)		–5	–13
Gains or losses on financial investments	(10)		207	–92
Administrative expenses	(11)		–560	–537
Expenses for the bank levy and deposit guarantee scheme[1]	(12)		–147	–2
Other income and expenses	(13)		44	53
Gains or losses on restructuring	(14)		–2	–12
Profit/loss before taxes			**433**	**527**
Income taxes			–123	–64
Gains or losses on continuing operations			**310**	**463**
Gains or losses on discontinued operations	(15)		–	–311
Profit/loss after taxes			**310**	**153**
Profit/loss attributable to non-controlling interests			–	2
Consolidated profit/loss			**310**	**155**

Rounding differences may occur in the tables.
1 The previous year's figure only includes expenses for the bank levy (see note 2).

Statement of comprehensive income (condensed)

EUR million	Notes	1 Jan – 30 Jun 2015	1 Jan – 30 Jun 2014
Profit/loss after taxes as per the income statement		**310**	**153**
Components of other comprehensive income temporarily not recognised in profit or loss			
• Changes in the revaluation surplus	(36)	–133	151
– Change not including deferred taxes		–210	189
– Change in deferred taxes		77	–39
• Currency-related changes	(36)	–8	–8
– Change not including deferred taxes		–8	–8
– Change in deferred taxes		–	–
Components of other comprehensive income permanently not recognised in profit or loss			
• Changes due to remeasurement of defined benefit plans	(36)	116	–233
– Change not including deferred taxes		132	–239
– Change in deferred taxes		–16	5
Other comprehensive income after taxes		**–25**	**–91**
Total comprehensive income recognised and not recognised in profit or loss		**285**	**62**
• attributable:			
– to BayernLB shareholders		285	61
– to non-controlling interests		–	–
• Total comprehensive income attributable to BayernLB shareholders:			
– from continuing operations		285	397
– from discontinued operations		–	–335

Rounding differences may occur in the tables.

Balance sheet

Assets

EUR million	Notes	30 Jun 2015	31 Dec 2014
Cash reserves	(16)	1,432	1,041
Loans and advances to banks	(17)	33,536	37,091
Loans and advances to customers	(18)	134,267	134,017
Risk provisions	(19)	−3,014	−3,039
Portfolio hedge adjustment assets		1,298	1,602
Assets held for trading	(20)	20,481	24,048
Positive fair values from derivative financial instruments (hedge accounting)	(21)	2,071	2,968
Financial investments	(22)	32,561	32,650
Investment property	(23)	36	37
Property, plant and equipment	(24)	354	360
Intangible assets	(25)	112	114
Current tax assets		62	74
Deferred tax assets		347	314
Non-current assets or disposal groups classified as held for sale	(26)	64	80
Other assets	(27)	919	767
Total assets		**224,526**	**232,124**

Rounding differences may occur in the tables.

Liabilities

EUR million	Notes	30 Jun 2015	31 Dec 2014
Liabilities to banks	(28)	63,158	64,138
Liabilities to customers	(29)	81,384	81,635
Securitised liabilities	(30)	40,064	44,285
Liabilities held for trading	(31)	15,764	17,567
Negative fair values from derivative financial instruments (hedge accounting)	(32)	2,309	2,780
Provisions	(33)	4,356	4,360
Current tax liabilities		201	175
Deferred tax liabilities		84	28
Other liabilities	(34)	401	646
Subordinated capital	(35)	4,724	4,722
Equity	(36)	12,082	11,789
• subscribed capital		5,525	5,525
• compound instruments (equity component)		143	143
• capital surplus		2,356	2,356
• retained earnings		3,430	3,305
• revaluation surplus		319	452
• foreign currency translation reserve		–1	8
• consolidated profit/loss		310	–
Total liabilities		**224,526**	**232,124**

Rounding differences may occur in the tables.

Statement of changes in equity

EUR million	Parent								Non-controlling interests	
	Subscribed capital	Compound instruments (equity component)	Capital surplus	Retained earnings	Revaluation surplus	Currency translation reserve	Consolidated profit/loss	**Equity before non-controlling interests**		**Consolidated equity**
As at 1 Jan 2014	**6,846**	**145**	**3,893**	**4,102**	**–37**	**–92**	**–**	**14,857**	**30**	**14,886**
Changes in the revaluation surplus					151			151		151
Currency-related changes						–11		–11	3	–8
Changes due to remeasurement of defined benefit plans				–234				–234		–233
Other comprehensive income				*–234*	*151*	*–11*		*–94*	*3*	*–91*
Consolidated profit/loss							155	155	–2	153
Total comprehensive income				*–234*	*151*	*–11*	*155*	*61*		*61*
Transactions with owners								–		–
Capital increase/ capital decrease								–		–
Changes in the scope of consolidation and other				–8				–8	–16	–24
As at 30 Jun 2014	**6,846**	**145**	**3,893**	**3,861**	**115**	**–103**	**155**	**14,910**	**14**	**14,923**

Rounding differences may occur in the tables.
Details on equity can be found in note 36.

EUR million	Parent								Non-controlling interests	
	Subscribed capital	Compound instruments (equity component)	Capital surplus	Retained earnings	Revaluation surplus	Currency translation reserve	Consolidated profit/loss	**Equity before non-controlling interests**		**Consolidated equity**
As at 1 Jan 2015	**5,525**	**143**	**2,356**	**3,305**	**452**	**8**	**–**	**11,789**	**–**	**11,789**
Changes in the revaluation surplus					–133			–133		–133
Currency-related changes						–8		–8		–8
Changes due to remeasurement of defined benefit plans				116				116		116
Other comprehensive income				*116*	*–133*	*–8*		*–25*		*–25*
Consolidated profit/loss							310	310		310
Total comprehensive income				*116*	*–133*	*–8*	*310*	*285*		*285*
Transactions with owners								–		–
Capital increase/ capital decrease								–		–
Changes in the scope of consolidation and other				9				9		9
As at 30 Jun 2015	**5,525**	**143**	**2,356**	**3,430**	**319**	**–1**	**310**	**12,082**	**–**	**12,082**

Rounding differences may occur in the tables.
Details on equity can be found in note 36.

Cash flow statement (condensed)

EUR million	1 Jan – 30 Jun 2015	1 Jan – 30 Jun 2014
Cash and cash equivalents at end of previous period	**1,041**	**3,160**
+/– cash flow from operating activities	515	–506
+/– cash flow from investment activities	30	114
+/– cash flow from financing activities	–19	–69
+/– exchange-rate, scope of consolidation and measurement-related changes in cash and cash equivalents	–135	–726
Cash and cash equivalents at end of period	**1,432**	**1,973**

Rounding differences may occur in the tables.

of which cash flow from discontinued operations

EUR million	1 Jan – 30 Jun 2015	1 Jan – 30 Jun 2014
Cash and cash equivalents at end of previous period	**0**	**672**
+/– cash flow from operating activities	0	–392
+/– cash flow from investment activities	0	–13
+/– cash flow from financing activities	0	274
+/– exchange-rate, scope of consolidation and measurement-related changes in cash and cash equivalents	0	31
Total cash flow	**0**	**–99**

Rounding differences may occur in the tables.

Notes

Notes to the interim financial statements

The interim financial statements of the BayernLB Group as at 30 June 2015 have been prepared in accordance with International Financial Reporting Standards (IFRS) pursuant to Regulation (EC) No 1606/2002 of the European Parliament and of the Council of 19 July 2002 (including all amendments) as well as the supplementary provisions applicable under section 315a para. 1 of the German Commercial Code (HGB). In addition to the IFRS standards, IFRS also comprise the International Accounting Standards (IAS) and the interpretations of the IFRS Interpretations Committee (IFRIC) and the Standing Interpretations Committee (SIC). All standards and interpretations that are mandatory within the EU up to 30 June 2015 have been applied. The interim financial statements comply in particular with the requirements of IAS 34.

Unless otherwise stated, all amounts are given in EUR million and rounded up or down. Rounding differences may occur in the tables. Plus or minus symbols are not inserted in front of figures except where they are needed for clarity.

Accounting policies

(1) Principles

With the exception of the changes referred to below, the accounting policies used for the interim financial statements as at 30 June 2015 were essentially the same as those used for the 2014 consolidated financial statements. Information provided in these interim financial statements is to be read in conjunction with the information in the published and audited consolidated financial statements as at 31 December 2014. Items are recognised and measured on a going concern basis.

Income tax expenses for the interim financial statements are calculated on the basis of the expected income tax ratio for the full year.

Impact of amended and new IFRS

In financial year 2015 the following amended or newly issued standards and interpretations that the European Commission has incorporated into European law were applied for the first time:

- *IFRIC 21*
  The new interpretation IFRIC 21 “Levies” deals with the recognition of liabilities for paying levies imposed by a government that do not meet the definition of income taxes under IAS 12. There was no impact on the interim financial statements of the BayernLB Group as at 30 June 2015.

- ***Improvements to IFRS – 2011–2013 cycle***
  In the annual improvements to IFRS minor amendments were made to IFRS 3 "Business Combinations", IFRS 13 "Fair Value Measurement" and IAS 40 "Investment Property". The changes had no impact on the interim financial statements of the BayernLB Group as at 30 June 2015.

Amended or new standards not yet incorporated into European law were not applied to these interim financial statements. The same applies to standards which have already been incorporated into European law, but will not become compulsory for the BayernLB Group until financial year 2016.

(2) Changes on the previous year

Changes in accordance with IAS 8.14 et seq.

From financial year 2014 one-time administrative charges from the Bavarian discounted interest rate scheme (Bayerisches Zinsverbilligungsprogramm) to promote residential construction have been recognised under commission income to improve the presentation of information in the financial statements. Adjustments as at 30 June 2014 were not made as it is not possible to retroactively differentiate all relevant accruals according to the origin of the discount.

With the changes to the rules of the EU deposit guarantee scheme and the bank levy, the contributions have been calculated since financial year 2015 using methodology brought in line with the new regulatory requirements. In the reporting period the BayernLB Group's expenses for the EU deposit guarantee scheme and bank levy amounted to EUR 47 million and EUR 99 million respectively and provisions were raised accordingly. Since financial year 2015 the BayernLB Group has reported these expenses together under the expenses for the bank levy and deposit guarantee scheme item as the expenses for the two are logically similar (see note 12). No adjustments were made to the comparison period as the new rules must be applied prospectively.

Changes under IAS 8.32 et seq.

In the reporting period BayernLB made changes to estimates of measurement parameters for calculating liabilities under IAS 19 and refined measurement methods. Overall the changes in measurement produced a gain of EUR 153 million, increasing retained earnings by EUR 150 million. Of this amount, the increase in the discount rate for pension obligations accounted for EUR 165 million, estimated future social insurance pensions for EUR 23 million, estimated future medical costs for pension obligations for EUR –26 million and the refinement of measurement methods for EUR –12 million. The increase in the discount rates for restructuring liabilities, the increase in estimated future medical costs for restructuring liabilities and the refinement of measurement methods had an impact of EUR 3 million on gains or losses on restructuring. As a result of the adjustments, pension obligations fell by EUR 150 million and restructuring liabilities fell by EUR 3 million. The changes in estimates and refinement of measurement methodology will also have an impact on future periods which currently cannot be reliably estimated.

In the reporting period, based on new findings, the DKB sub-group revised its assumptions on the amortisation of portfolio hedge adjustment assets, which it made when new software to model hedge accounting was installed in 2012. The change in estimates is expected to have the following impact on gains or losses on hedge accounting which will cancel out as they mature:

EUR million	1 Jan – 30 Jun 2015	1 Jul – 31 Dec 2015	1 Jan – 31 Dec 2016	1 Jan – 31 Dec 2017	1 Jan – 31 Dec 2018	1 Jan 2019 – 31 Dec 2036
Gains or losses on hedge accounting	6	6	4	–8	–4	–4

The impact of the change in estimates on future periods is mainly linked to market interest rate trends going forward and changes in holdings.

In the management report (risk report), refinements were made to the estimates of maximum credit risk under IFRS 7.36 and liquidity risk under IFRS 7.39 in the first half of 2015. With respect to credit risk, the estimates in rating calculations for certain exposures were refined. The business partners' country was considered along with the sector resulting in changes to the rating allocations in the table "Financial assets that are neither past due nor impaired", which are not systematically calculated. Within liquidity risk, the modelling of inflows from margin payments from derivatives where margins are mandatory was switched over to a market-oriented approach to improve risk management. This narrowed the liquidity gap, thereby increasing the liquidity surplus by EUR 2,163 million in the maturity band of up to one year and by EUR 1,984 million in the maturity band of up to 5 years. The refinements will also have an impact on future periods which currently cannot be reliably estimated.

Changes under IAS 8.41 et seq.

The sensitivity of receivables secured by real estate measured at fair value and allocated to Level 3 was not disclosed in the 2014 Annual Report. A 5 percentage point increase (decrease) in the realisable value would have increased fair value by EUR 0.9 million (decreased by EUR 0.8 million).

(3) Scope of consolidation

BayernLB's scope of consolidation is unchanged from that as at 31 December 2014. Besides the parent company, it comprises 14 subsidiaries which are consolidated in accordance with IFRS 10. As before, it does not include any companies measured at equity.

Determining the scope of consolidation

BayernLB's scope of consolidation is determined by materiality criteria. 155 companies (31 December 2014: 136) were not consolidated or measured at equity due to their negligible importance individually or collectively to the financial position and financial performance of the Group. The impact on the balance sheet from the contractual relationships between Group companies and these non-consolidated companies is reported in the interim financial statements.

Segment reporting

(4) Notes to the segment report

The segment report reflects the business structure of the BayernLB Group. A total of six segments are shown comprising the operating business segments, the Central Areas & Others segment, including the Consolidation column, and the Non-Core Unit. The earnings of the consolidated subsidiaries and units are also allocated to the segment to which they have been assigned.

Segment reporting is based on IFRS 8 and therefore on the monthly management reports submitted to the Board of Management, which serves as the chief operating decision maker as defined in IFRS 8.7. The management reports – and therefore the segmentation – are based on the accounting policies used in the consolidated financial statements under IFRS. Segment reporting does not therefore need to be reconciled with the IFRS accounting policies used in the consolidated financial statements. The earnings contributions reported under the segments are generated largely from financial services. Net interest income and net commission income are shown respectively as net figures comprising interest income and interest expenses and commission income and commission expenses. The additional information about products and services required under IFRS 8.32 and on non-current assets by geographical region required under IFRS 8.33 (b) is not available and the costs of providing the information would be excessive.

In line with the business model of the BayernLB Group, the segment structure has been slightly modified from that as at 30 June 2014. The business segments are now: Corporates & Mittelstand (Corporates, Mittelstand & Financial Institutions up to 31 December 2014), Real Estate & Savings Banks/Association, Deutsche Kreditbank (DKB) and Financial Markets (Markets up to 31 December 2014). In addition, there are the Central Areas & Others and the Non-Core Unit segments. With the exception of DKB, all other segments are affected by the changes to the segment structure.

As private equity is no longer part of BayernLB's core business, four subsidiaries (principally BayernLB Capital Partner GmbH, Munich and companies belonging to this association) were transferred as at 31 December 2014 from the Corporates, Mittelstand & Financial Institutions segment to the Non-Core Unit segment. In addition, in financial year 2014, bank-wide tasks previously conducted in the Corporates, Mittelstand & Financial Institutions segment were transferred to the Central Areas & Others segment.

At the beginning of financial year 2015, most of the Financial Institutions division was transferred from the Corporates, Mittelstand & Financial Institutions segment to the Financial Markets segment. This involved mostly BayernLB's business relationships with banks in the developed markets, insurers and other institutional customers, which are primarily focused on capital market-oriented products. At the same time, the subsidiary Real I.S. AG Gesellschaft für Immobilien Assetmanagement, Munich (Real I.S.), which was in the Real Estate & Savings Banks/Association in the previous year, was transferred to the Financial Markets segment.

Due to the ongoing restructuring of the Group and in order to ensure more systematic allocation to financial sources, selected adjustments were also made to the allocation of the impact on earnings arising from subsidiaries and to consolidation entries, which will be booked as far as possible under the segments. Besides the Consolidation column, this affected the DKB, Central Areas & Others and Non-Core Unit segments. The remaining consolidation entries not allocated to the segments are shown under the Consolidation column. This mainly relates to the measurements results in the net interest income, gains and losses on fair value measurement and other income and expenses items. These mainly arise from differences in the way internal Group transactions are measured and the application of hedge accounting to cross-divisional derivatives transactions. The consolidation entries not allocated to the segments had only a minor net overall impact on profit before taxes.

The quantitative segment figures for the comparison period were adjusted in accordance with the new structure, the allocation of the impact on earnings arising from subsidiaries and consolidation entries.

In accordance with internal management reporting, the Central Areas & Others segment and the Consolidation column will be aggregated in the future. A breakdown of the Central Areas & Others segment and consolidation entries not allocated to the segments is shown separately.

For the purposes of internal management, economic capital is allocated to the segments on the basis of the risk-weighted assets taken on in accordance with the applicable supervisory regulations. Since 1 January 2014, these have been the Capital Requirements Regulation (CRR)/Capital Requirements Directive IV (CRD IV). In the Consolidation column, which is aggregated with the Central Areas & Others segment, economic capital is reconciled with reported equity on the balance sheet.

The risk-weighted assets (RWA) include the figures on the reporting date for credit risk, market risk positions and operational risk. The reported return on equity (RoE) has been calculated at segment level by dividing profit before taxes by economic capital actually allocated; the cost/income ratio (CIR) is the ratio of administrative expenses to the sum of net interest income, net commission income, gains or losses on fair value measurement, gains or losses on hedge accounting, gains or losses on financial investments and other income and expenses.

Segment reporting as at 30 June 2015

EUR million	Corporates & Mittelstand	Real Estate & Savings Banks/ Association	DKB	Financial Markets	Central Areas & Others (including Consolidation)	Non-Core Unit	Group
Net interest income	154	114	387	81	51	37	**824**
Risk provisions in the credit business	52	18	–34	–	–2	–21	**13**
Net commission income	56	42	–9	18	–3	6	**110**
Gains or losses on fair value measurement	30	19	8	28	–39	–98	**–52**
Gains or losses on hedge accounting	–	–1	–21	15	2	–	**–5**
Gains or losses on financial investments	–	–	7	88	94	18	**207**
Administrative expenses	–119	–92	–180	–91	–6	–72	**–560**
Expenses for the bank levy and deposit guarantee scheme	–	–	–9	–	–137	–	**–147**
Other income and expenses	2	–2	5	9	14	16	**44**
Gains or losses on restructuring	–	–	–	–	2	–4	**–2**
Profit/loss before taxes	175	98	154	149	–26	–118	**433**
Risk-weighted assets (RWA)	21,688	7,349	25,130	8,820	1,693	7,196	**71,876**
Average economic/ reported equity	2,258	827	2,883	1,047	3,595	781	**11,391**
Return on equity (RoE) (%)	15.5	23.7	10.7	28.5	–	–30.1	**7.6**
Cost/income ratio (CIR) (%)	49.2	53.6	47.7	37.8	–	–346.3	**49.6**
Average number of employees (FTE)	344	456	2,841	572	1,800	196	**6,209**

Segment reporting as at 30 June 2014[1]

EUR million	Corporates & Mittelstand	Real Estate & Savings Banks/ Association	DKB	Financial Markets	Central Areas & Others (including Consolidation)	Non-Core Unit	Group
Net interest income	175	139	299	42	61	114	**831**
Risk provisions in the credit business	–44	31	–57	19	–4	100	**45**
Net commission income	63	36	–17	16	–	18	**116**
Gains or losses on fair value measurement	17	28	9	32	–27	80	**140**
Gains or losses on hedge accounting	–	2	–	–17	1	1	**–13**
Gains or losses on financial investments	–	–	–15	3	8	–88	**–92**
Administrative expenses	–117	–86	–161	–99	–7	–67	**–537**
Expenses for the bank levy and deposit guarantee scheme	–	–	–2	–	–	–	**–2**
Other income and expenses	–	–1	12	4	20	17	**53**
Gains or losses on restructuring	–	–	–	–	–8	–4	**–12**
Profit/loss before taxes	94	149	68	–	45	171	**527**
Risk-weighted assets (RWA)	20,948	8,498	25,711	11,642	1,754	13,181	**81,732**
Average economic/ reported equity	2,135	828	2,981	1,127	5,870[2]	1,925	**14,866**
Return on equity (RoE) (%)	8.8	36.0	4.6	–	–	17.8	**7.1**
Cost/income ratio (CIR) (%)	45.9	42.1	55.8	124.1	–	46.8	**51.9**
Average number of employees (FTE)	498	506	1,698	578	1,708	295	**5,282**

1 Adjusted as per IFRS 8.29.
2 Adjusted as per IAS 8.22 (see note 2).

Breakdown of the aggregated Central Areas & Others segment results and consolidation entries not allocated to the segments as at 30 June 2015

EUR million	Central Areas & Others	Consolidation	Central Areas & Others (including Consolidation)
Net interest income	34	17	51
Risk provisions in the credit business	–2	–	–2
Net commission income	–3	–	–3
Gains or losses on fair value measurement	–24	–15	–39
Gains or losses on hedge accounting	2	–	2
Gains or losses on financial investments	92	2	94
Administrative expenses	–8	2	–6
Expenses for the bank levy and deposit guarantee scheme	–137	–	–137
Other income and expenses	21	–7	14
Gains or losses on restructuring	2	–	2
Profit/loss before taxes	–24	–1	–26
Risk-weighted assets (RWA)	1,693	–	1,693
Average economic/reported equity	214	3,381	3,595

Breakdown of the aggregated Central Areas & Others segment results and consolidation entries not allocated to the segments as at 30 June 2014[1]

EUR million	Central Areas & Others	Consolidation	Central Areas & Others (including Consolidation)
Net interest income	34	27	61
Risk provisions in the credit business	–4	–	–4
Net commission income	–1	–	–
Gains or losses on fair value measurement	–9	–18	–27
Gains or losses on hedge accounting	–1	1	1
Gains or losses on financial investments	8	–	8
Administrative expenses	–8	–	–7
Expenses for the bank levy and deposit guarantee scheme	–	–	–
Other income and expenses	19	1	20
Gains or losses on restructuring	–8	–	–8
Profit/loss before taxes	33	12	45
Risk-weighted assets (RWA)	1,754	–	1,754
Average economic/reported equity	533	5,337[2]	5,870

1 Adjusted as per IFRS 8.29.
2 Adjusted as per IAS 8.22 (see note 2)

Notes on delimitation of segments

The Corporates & Mittelstand segment serves large German companies, international companies with a connection to Germany and large German Mittelstand customers. These include in particular DAX and MDAX-listed companies, and family-owned or operated businesses which conduct international business from their German home market. To better serve our customers' export and trade finance needs as well as provide payment services, this segment also includes relationships with banks in emerging markets. It also conducts the syndicated loan business together with the Bavarian savings banks for their corporate customers. The following core activities are located in this segment: traditional loan financing, including working capital, capex and trade financing, leasing finance and global project and export financing for customers worldwide with a focus on the infrastructure, energy and renewable energy sectors. It also acts as lead manager for its customers in syndicated loans and plays a leading role in successfully placing corporate bonds and Schuldschein note loans on the market in cooperation with the Financial Markets business area.

The Real Estate & Savings Banks/Association segment incorporates business with commercial and residential real estate customers, the savings banks and the public sector. In addition, the legally dependent institution Bayerische Landesbodenkreditanstalt, Munich (BayernLabo) is allocated to this segment. The Real Estate division focuses on long-term commercial real estate financing in Bavaria and Germany and business with residential construction companies and residential property developers. BayernLB offers commercial real estate customers a comprehensive range of services related to real estate financing. The Savings Banks & Association division now forms the central hub for collaboration with savings banks and public sector customers in Germany. Its activities include BayernLB's business with savings banks in Germany, particularly Bavaria, and the state-subsidised loan business. The savings banks are a fundamental part of BayernLB's business model as both customers and as sales partners. The division also serves state and municipal customers and public entities in Germany which BayernLB, as a partner, provides with a wide range of products and tailor-made solutions. BayernLabo is responsible for the non-competitive residential construction and urban development business under public mandate on behalf of BayernLB. It also provides financing for local authorities in Bavaria.

The DKB segment consists of the core business activities of the Deutsche Kreditbank Aktiengesellschaft, Berlin (DKB) sub-group. DKB is well positioned in retail banking as "Your bank on the web". Besides internet banking, DKB's business activities include the promising infrastructure and corporate customers markets. It specialises here largely on sectors with long-term growth potential such as residential property, healthcare, and education and research. DKB also focuses on the renewable energy and agriculture target markets.

The Financial Markets segment comprises the business area with the same name and the consolidated subsidiaries BayernInvest Kapitalverwaltungsgesellschaft mbH, Munich (BayernInvest) and Real I.S. AG Gesellschaft für Immobilien Assetmanagement, Munich (Real I.S.). The Financial Markets business area combines all trading and issuing activities as well as asset and liability management. Related to this, BayernLB's business relationships with banks in the developed markets, insurers and other institutional customers, which are primarily focused on capital market-oriented products, are allocated to this business area. The Financial Markets segment also provides a range of capital market and Treasury products that are cross-sold to BayernLB's Corporates, Mittelstand, Savings Banks and Real Estate customers. Market and default risks are hedged and solvency assured at all times through risk and liquidity management.

The Central Areas & Others segment is aggregated with the Consolidation column in accordance with internal management reporting. It comprises earnings contributions from the central areas Corporate Center, Financial Office, Operating Office and Risk Office. The segment also includes core business transactions that cannot be allocated to either a business area or a central area. The consolidated subsidiary BayernLB Capital LLC I, Wilmington is also allocated to this segment. The Consolidation column includes consolidation entries not allocated to any segment. A breakdown of the Central Areas & Others segment and consolidation entries not allocated to the segments is shown separately.

All non-core activities have been transferred to the Non-Core Unit segment. It contains the Restructuring Unit, the non-core activities of DKB, the Other NCU sub-segment, including the Banque LBLux S.A., Luxembourg (LBLux) sub-group, and the loans to HETA Asset Resolution AG, Klagenfurt (HETA), including their funding.

Income from typical banking operations after risk provisioning (net interest income, net commission income, gains or losses on fair value measurement, gains or losses on hedge accounting, gains or losses on financial investments) totalled EUR 1,097 million (30 June 2014: EUR 1,025 million), of which EUR 67 million (30 June 2014: EUR 63 million) relates to Europe excluding Germany, and EUR 81 million (30 June 2014: EUR 309 million) to America. Of the risk-weighted assets (RWA) in the amount of EUR 71,876 million (30 June 2014: EUR 81,732 million) recognised instead of non-current assets, EUR 2,244 million (30 June 2014: EUR 7,301 million) relate to Europe excluding Germany and EUR 2,655 million (30 June 2014: EUR 2,253 million) relate to America.

Notes to the statement of comprehensive income

(5) Net interest income

EUR million	1 Jan – 30 Jun 2015	1 Jan – 30 Jun 2014
Interest income	**3,297**	**3,707**
• From lending and money market transactions	2,164	2,415
• From bonds, notes and other fixed-income securities	162	253
• Current income from equities and other non-fixed income securities	2	2
• Current income from interests in non-consolidated subsidiaries, joint ventures, associates and other interests	6	11
• Current income from profit-pooling and profit transfer agreements	2	2
• Current income from other financial investments	6	8
• From hedge accounting derivatives	452	505
• From derivatives in economic hedges	503	514
Interest expenses	**2,472**	**2,877**
• For liabilities to banks and customers	1,043	1,217
• For securitised liabilities	249	357
• For subordinated capital	99	103
• For hedge accounting derivatives	609	696
• For derivatives in economic hedges	420	441
• Other interest expenses	52	62
Total	**824**	**831**

Net interest income includes a negligible amount of negative interest.

6) Risk provisions in the credit business

EUR million	1 Jan – 30 Jun 2015	1 Jan – 30 Jun 2014
Additions	179	269
Direct writedowns	7	13
Releases	137	253
Recoveries on written down receivables	59	45
Other gains or losses on risk provisions	3	28
Total	**–13**	**–45**

The amounts include on-balance sheet and off-balance sheet credit transactions.

(7) Net commission income

EUR million	1 Jan – 30 Jun 2015	1 Jan – 30 Jun 2014
Securities business	33	27
Broker fees	–6	–9
Lending business	74	93
Payments	–23	–15
Foreign commercial operations	1	2
Trust transactions	9	9
Miscellaneous	22	9
Total	**110**	**116**

(8) Gains or losses on fair value measurement

EUR million	1 Jan – 30 Jun 2015	1 Jan – 30 Jun 2014
Net trading income	**–60**	**93**
• Interest-related transactions	34	30
• Equity-related and index-related transactions and transactions with other risks	4	2
• Currency-related transactions	–109	10
• Credit derivatives	–1	59
• Other financial transactions	22	16
• Refinancing of trading portfolios	–4	–13
• Trading-related commission	–6	–11
Fair value gains or losses from the fair value option	**8**	**47**
Total	**–52**	**140**

(9) Gains or losses on hedge accounting

EUR million	1 Jan – 30 Jun 2015	1 Jan – 30 Jun 2014
Gains or losses on micro fair value hedges	**16**	**–14**
• Measurement of underlying transactions	188	–361
• Measurement of hedging instruments	–171	347
Gains or losses on portfolio fair value hedges	**–21**	**–**
• Measurement of underlying transactions	–47	266
• Amortisation of the portfolio hedge adjustment	–254	–239
• Measurement of hedging instruments	280	–27
Total	**–5**	**–13**

(10) Gains or losses on financial investments

EUR million	1 Jan – 30 Jun 2015	1 Jan – 30 Jun 2014
Gains or losses on financial investments in the loans and receivables category	**1**	**57**
• Gains or losses on sales	–	18
• Income from impairment reversals	1	49
• Expenses from impairments	–	10
Gains or losses on financial investments in the available-for-sale category	**206**	**–132**
• Gains or losses on sales	228	–16
• Income from impairment reversals	–	146
• Expenses from impairments	22	262
Gains or losses on deconsolidation	**–**	**–17**
Total	**207**	**–92**

(11) Administrative expenses

EUR million	1 Jan – 30 Jun 2015	1 Jan – 30 Jun 2014
Staff costs	**300**	**255**
• Salaries and wages	234	199
• Social security contributions	29	26
• Expenses for pensions and other employee benefits	36	30
Other administrative expenses	**241**	**262**
Amortisation and depreciation of property, plant and equipment and intangible assets (not including goodwill)	**19**	**20**
Total	**560**	**537**

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

EUR million	1 Jan – 30 Jun 2015	1 Jan – 30 Jun 2014
Expenses for the bank levy	99	2
Expenses for the deposit guarantee scheme	47	–
Total	**147**	**2**

Expenses for the bank levy and deposit guarantee scheme includes the German bank levy and the contributions to the European deposit guarantee scheme that were made for the first time in financial year 2015.

(13) Other income and expenses

EUR million	1 Jan– 30 Jun 2015	1 Jan– 30 Jun 2014
Other income	207	166
Other expenses	163	113
Total	**44**	**53**

(14) Gains or losses on restructuring

EUR million	1 Jan– 30 Jun 2015	1 Jan– 30 Jun 2014
Expenses for restructuring measures	2	12
Total	**–2**	**–12**

(15) Gains or losses on discontinued operations

EUR million	1 Jan– 30 Jun 2015	1 Jan– 30 Jun 2014
Net interest income	–	89
Risk provisions in the credit business	–	42
Net commission income	–	36
Gains or losses on fair value measurement	–	12
Gains or losses on financial investments	–	12
Income from interests in companies measured at equity	–	–1
Administrative expenses	–	78
Expenses for the bank levy and deposit guarantee scheme	–	44
Other income and expenses	–	–43
Profit/loss before taxes	**–**	**–60**
Gains or losses on measurement (at fair value less costs of disposal) or from disposal	–	–251
Total	**–**	**–311**

Notes to the balance sheet

(16) Cash reserves

EUR million	30 Jun 2015	31 Dec 2014
Cash	37	27
Deposits with central banks	1,394	1,014
Total	**1,432**	**1,041**

(17) Loans and advances to banks

EUR million	30 Jun 2015	31 Dec 2014
Loans and advances to domestic banks	22,956	24,257
Loans and advances to foreign banks	10,579	12,834
Total	**33,536**	**37,091**

(18) Loans and advances to customers

EUR million	30 Jun 2015	31 Dec 2014
Loans and advances to domestic customers	109,861	110,359
Loans and advances to foreign customers	24,406	23,658
Total	**134,267**	**134,017**

(19) Risk provisions

EUR million	30 Jun 2015	31 Dec 2014
Specific loan loss provisions	2,865	2,864
Portfolio provisions	149	175
Total	**3,014**	**3,039**

Changes in specific loan loss provisions

EUR million	Loans and advances to banks		Loans and advances to customers		Total	
	2015	2014	2015	2014	2015	2014
As at 1 Jan	**520**	**522**	**2,344**	**1,929**	**2,864**	**2,451**
Changes recognised in income statement	**1**	**−1**	**53**	**44**	**53**	**44**
• Additions	1	–	166	270	**167**	**270**
• Releases	–	1	92	201	**92**	**202**
• Unwinding	–	–	22	24	**22**	**24**
Changes not recognised in income statement	**2**	**−2**	**−55**	**−980**	**−52**	**−983**
• Currency-related changes	2	–	84	−10	**86**	**−10**
• Changes in the scope of consolidation	–	–	–	−7	**–**	**−7**
• Utilisation	–	2	142	130	**142**	**133**
• Transfers/other changes	–	–	4	−833	**4**	**−833**
As at 30 Jun	**522**	**519**	**2,342**	**993**	**2,865**	**1,512**

Changes in portfolio provisions

EUR million	Loans and advances to banks		Loans and advances to customers		Total	
	2015	2014	2015	2014	2015	2014
As at 1 Jan	**9**	**22**	**166**	**196**	**175**	**218**
Changes recognised in income statement	**2**	**−2**	**−21**	**2**	**−19**	**–**
• Additions	2	3	7	85	**9**	**87**
• Releases	–	4	29	83	**29**	**87**
Changes not recognised in income statement	**–**	**–**	**−6**	**37**	**−6**	**37**
• Utilisation	–	–	6	18	**6**	**18**
• Transfers/other changes	–	–	–	56	**–**	**56**
As at 30 Jun	**11**	**20**	**139**	**235**	**149**	**255**

Risk provisions for contingent liabilities and other commitments are shown as provisions in the credit business (see note 33).

(20) Assets held for trading

EUR million	30 Jun 2015	31 Dec 2014
Bonds, notes and other fixed-income securities	2,501	3,017
Equities and other non-fixed income securities	222	395
Receivables held for trading	935	1,151
Positive fair values from derivative financial instruments (not hedge accounting)	16,823	19,486
Total	**20,481**	**24,048**

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

EUR million	30 Jun 2015	31 Dec 2014
Positive fair values from micro fair value hedges	2,071	2,968
Total	**2,071**	**2,968**

(22) Financial investments

EUR million	30 Jun 2015	31 Dec 2014
Financial investments in the fair value option category	**209**	**169**
• Bonds, notes and other fixed-income securities	11	11
• Equities and other non-fixed income securities	73	71
• Interests in non-consolidated subsidiaries, joint ventures, associates and other interests	125	88
Financial investments in the loans and receivables category	**6,924**	**9,390**
• Bonds, notes and other fixed-income securities	6,924	9,390
Financial investments in the available-for-sale category	**25,429**	**23,091**
• Bonds, notes and other fixed-income securities	24,722	22,374
• Equities and other non-fixed income securities	214	218
• Interests in non-consolidated subsidiaries, joint ventures, associates and other interests	344	353
• Other financial investments	150	146
Total	**32,561**	**32,650**

(23) Investment property

EUR million	30 Jun 2015	31 Dec 2014
Land and buildings for rental	36	37
Total	**36**	**37**

(24) Property, plant and equipment

EUR million	30 Jun 2015	31 Dec 2014
Owner-occupied property	327	330
Furniture and office equipment	28	30
Total	**354**	**360**

(25) Intangible assets

EUR million	30 Jun 2015	31 Dec 2014
Intangible assets produced in house	79	78
Other intangible assets	33	36
Total	**112**	**114**

(26) Non-current assets or disposal groups classified as held for sale

EUR million	30 Jun 2015	31 Dec 2014
Financial investments	24	40
Investment property	14	14
Property, plant and equipment	26	26
Total	**64**	**80**

(27) Other assets

EUR million	30 Jun 2015	31 Dec 2014
Emissions certificates	305	208
Claims from reinsurance	215	213
Precious metals	209	165
Pre-paid expenses	24	12
Other assets	165	168
Total	**919**	**767**

(28) Liabilities to banks

EUR million	30 Jun 2015	31 Dec 2014
Liabilities to domestic banks	52,934	54,511
Liabilities to foreign banks	10,224	9,628
Total	**63,158**	**64,138**

(29) Liabilities to customers

EUR million	30 Jun 2015	31 Dec 2014
Liabilities to domestic customers	76,527	76,612
Liabilities to foreign customers	4,857	5,023
Total	**81,384**	**81,635**

(30) Securitised liabilities

EUR million	30 Jun 2015	31 Dec 2014
Bonds and notes issued	**39,480**	**44,118**
• Mortgage-backed Pfandbriefs	4,798	4,629
• Public Pfandbriefs	11,026	11,811
• Other bonds	23,656	27,678
Other securitised liabilities	**584**	**167**
Total	**40,064**	**44,285**

The reporting period saw the issue of debt instruments (including money market securities) to the value of EUR 6,543 million. Repurchases and redemptions amounted to EUR 1,920 million and EUR 8,949 million respectively.

(31) Liabilities held for trading

EUR million	30 Jun 2015	31 Dec 2014
Trading portfolio liabilities	559	518
Negative fair values from derivative financial instruments (not hedge accounting)	15,204	17,048
Total	**15,764**	**17,567**

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

EUR million	30 Jun 2015	31 Dec 2014
Negative fair values from micro fair value hedges	1,174	1,313
Negative fair values from portfolio fair value hedges	1,135	1,466
Total	**2,309**	**2,780**

(33) Provisions

EUR million	30 Jun 2015	31 Dec 2014
Provisions for pensions and similar obligations	**3,536**	**3,649**
Other provisions	**820**	**711**
• Provisions in the credit business	67	76
• Restructuring provisions	305	342
• Miscellaneous provisions	448	292
Total	**4,356**	**4,360**

The size of each provision corresponds to the best, i.e. uncertain, estimate of the amount of the obligation which is likely to be utilised.

(34) Other liabilities

EUR million	30 Jun 2015	31 Dec 2014
Accruals	264	256
Deferred income	25	26
Other liabilities	112	365
Total	**401**	**646**

(35) Subordinated capital

EUR million	30 Jun 2015	31 Dec 2014
Subordinated liabilities	4,266	4,275
Profit participation certificates (debt component)	363	353
Dated silent partner contributions (debt component)	21	23
Hybrid capital	73	70
Total	**4,724**	**4,722**

There were no material changes in the reporting period.

(36) Equity

EUR million	30 Jun 2015	31 Dec 2014
Subscribed capital	5,525	5,525
• statutory nominal capital	2,800	2,800
• capital contribution	612	612
• perpetual silent partner contributions	2,113	2,113
Compound instruments	143	143
• profit participation certificates (equity component)	132	132
• dated silent partner contributions (equity component)	11	11
Capital surplus	2,356	2,356
Retained earnings	3,430	3,305
• statutory reserve	1,268	1,268
• other retained earnings	2,163	2,038
Revaluation surplus	319	452
Foreign currency translation reserve	–1	8
Consolidated profit/loss	310	–
Total	**12,082**	**11,789**

As they are compound financial instruments, dated silent partner contributions, silent partner contributions that are callable by the lender and profit participation certificates, must be divided into their equity and debt components (split accounting). The equity component, being a residual claim for the purposes of IAS 32.11, is equivalent to the net present value of expected future distributions. As no half-yearly distributions are made, the amount of the equity component – with the exception of repurchases and resales in the first half of 2015 – corresponds to the value as at 31 December 2014. For a detailed description of the accounting methodology, see note 25 of the 2014 annual report.

Notes to financial instruments

(37) Fair value of financial instruments

EUR million	Fair value 30 Jun 2015	Carrying amount 30 Jun 2015	Fair value 31 Dec 2014	Carrying amount 31 Dec 2014
Assets				
• Cash reserves	1,432	1,432	1,041	1,041
• Loans and advances to banks[1]	33,318	33,536	36,733	37,091
• Loans and advances to customers[1]	136,862	134,267	140,185	134,017
• Assets held for trading	20,481	20,481	24,048	24,048
• Positive fair values from derivative financial instruments (hedge accounting)	2,071	2,071	2,968	2,968
• Financial investments	32,592	32,561	32,679	32,650
• Non-current assets or disposal groups classified as held for sale	24	24	40	40
Liabilities				
• Liabilities to banks	64,519	63,158	65,952	64,138
• Liabilities to customers	83,359	81,384	84,300	81,635
• Securitised liabilities	40,661	40,064	45,134	44,285
• Liabilities held for trading	15,764	15,764	17,567	17,567
• Negative fair values from derivative financial instruments (hedge accounting)	2,309	2,309	2,780	2,780
• Subordinated capital	4,811	4,724	4,858	4,722

1 *Carrying value before deducting risk provisions for loans and advances to banks in the amount of EUR 533 million (31 December 2014: EUR 528 million) and loans and advances to customers in the amount of EUR 2,481 million (31 December 2014: EUR 2,510 million).*

(38) Financial instrument measurement categories

EUR million	30 Jun 2015	31 Dec 2014
Assets		
• Financial assets at fair value through profit or loss	21,406	24,956
– held-for-trading financial assets	20,481	24,048
assets held for trading	20,481	24,048
– fair value option	925	908
loans and advances to banks	6	10
loans and advances to customers	710	729
financial investments	209	169
• Loans and receivables	175,427	180,782
– cash reserves	1,432	1,041
– loans and advances to banks[1]	33,529	37,082
– loans and advances to customers[1]	133,543	133,269
– financial investments	6,924	9,390
• Available-for-sale financial assets	25,468	23,149
– loans and advances to customers	15	18
– financial investments	25,429	23,091
– non-current assets or disposal groups classified as held for sale	24	40
• Positive fair values from derivative financial instruments (hedge accounting)	2,071	2,968
Liabilities		
• Financial liabilities at fair value through profit or loss	24,201	26,577
– held-for-trading financial liabilities	15,764	17,567
liabilities held for trading	15,764	17,567
– fair value option	8,437	9,011
liabilities to banks	220	271
liabilities to customers	3,920	4,029
securitised liabilities	4,253	4,662
subordinated capital	44	49
• Financial liabilities measured at amortised cost	180,893	185,770
– liabilities to banks	62,938	63,867
– liabilities to customers	77,464	77,606
– securitised liabilities	35,811	39,623
– subordinated capital	4,680	4,673
• Negative fair values from derivative financial instruments (hedge accounting)	2,309	2,780

1 Not including deduction of risk provisions.

(39) Reclassification of financial assets

Pursuant to the amendments by the International Accounting Standards Board to IAS 39 and IFRS 7 – Reclassification of Financial Assets – and to Commission Regulation (EC) No 1004/2008, certain available-for-sale and held-for-trading securities were reclassified by BayernLB as loans and receivables as at 1 July 2008. There were no other reclassifications during the reporting period.

The fair values and the carrying amounts of the reclassified securities at the end of the reporting period in accordance with IAS 39 in conjunction with IFRS 7.12A (b) were:

EUR million	Fair value 30 Jun 2015	Carrying amount 30 Jun 2015	Fair value 31 Dec 2014	Carrying amount 31 Dec 2014
Available-for-sale securities reclassified as loans and receivables	6,954	6,924	9,419	9,390
Total	**6,954**	**6,924**	**9,419**	**9,390**

As at the reporting date the nominal volume of the reclassified securities was EUR 6,863 million (31 December 2014: EUR 9,320 million).

In the following table, in accordance with IAS 39 in conjunction with IFRS 7.12A, the changes in value, whether recognised or not in profit or loss, as well as current income, are shown "without reclassification" as compared with the corresponding "with reclassification" values. All earnings effects including current earnings components have been recognised.

EUR million	Without reclassification[1] 1 Jan–30 Jun 2015	With reclassification[2] 1 Jan–30 Jun 2015	Without reclassification[1] 1 Jan–30 Jun 2014	With reclassification[2] 1 Jan–30 Jun 2014
Reclassification from the available-for-sale category				
• Net interest income	30	31	79	80
• Gains or losses on hedge accounting	–15	–15	–17	–17
• Gains or losses on financial investments	–	1	86	57
• Change in the revaluation surplus	–15	1	189	30
Total	**1**	**18**	**338**	**150**
Reclassification from the held-for-trading category				
• Gains or losses on fair value measurement	–	–	4	–
Total	**–**	**–**	**4**	**–**

1 Taking account of categories before reclassification.
2 Taking account of categories after reclassification.

(40) Fair value hierarchy of financial instruments

The fair value hierarchy divides the inputs used to measure the fair value of financial instruments into three levels:

- Unadjusted quoted prices for identical financial instruments in active markets that the BayernLB Group can access at the measurement date (Level 1)
- Inputs other than quoted prices included within Level 1 that are observable either directly or indirectly, i.e. quoted prices for similar financial instruments in active markets, quoted prices in markets that are not active, other observable inputs that are not quoted prices, and market-corroborated inputs (Level 2) and
- Unobservable inputs (Level 3)

Financial instruments measured at fair value

In the overviews below, financial instruments recognised at fair value in the balance sheet are classified according to whether they are measured with prices quoted on active markets (Level 1), their fair value is calculated using measurement methods whose key inputs can be directly or indirectly observed (Level 2) or are not based on observable market data (Level 3).

	Level 1		Level 2		Level 3		Total	
EUR million	30 Jun 2015	31 Dec 2014	30 Jun 2015	31 Dec 2014	30 Jun 2015	31 Dec 2014	30 Jun 2015	31 Dec 2014
Assets								
• Loans and advances to banks	–	–	6	10	–	–	**6**	**10**
• Loans and advances to customers	–	–	710	729	15	18	**724**	**747**
• Assets held for trading	597	872	19,260	22,410	624	766	**20,481**	**24,048**
• Positive fair values from derivative financial instruments (hedge accounting)	–	–	2,071	2,967	–	1	**2,071**	**2,968**
• Financial investments	8,279	5,746	16,851	17,001	508	514	**25,637**	**23,260**
• Non-current assets or disposal groups classified as held for sale	–	–	–	–	24	40	**24**	**40**
Total	**8,876**	**6,618**	**38,897**	**43,117**	**1,171**	**1,339**	**48,944**	**51,074**
Liabilities								
• Liabilities to banks	–	–	220	271	–	–	**220**	**271**
• Liabilities to customers	–	–	3,920	4,029	–	–	**3,920**	**4,029**
• Securitised liabilities	83	18	4,170	4,644	–	–	**4,253**	**4,662**
• Liabilities held for trading	202	147	15,549	17,386	13	34	**15,764**	**17,567**
• Negative fair values from derivative financial instruments (hedge accounting)	–	–	2,309	2,780	–	–	**2,309**	**2,780**
• Subordinated capital	–	–	44	49	–	–	**44**	**49**
Total	**285**	**165**	**26,211**	**29,158**	**13**	**34**	**26,509**	**29,357**

Fair values calculated on the basis of unobservable market data (Level 3) by risk type

	Interest rate risks		Currency risks		Equity and other price risks		Credit risks		Total	
EUR million	30 Jun 2015	31 Dec 2014	30 Jun 2015	31 Dec 2014	30 Jun 2015	31 Dec 2014	30 Jun 2015	31 Dec 2014	30 Jun 2015	31 Dec 2014
Assets										
• Loans and advances to customers	15	18	–	–	–	–	–	–	**15**	**18**
• Assets held for trading	597	720	26	46	1	–	–	–	**624**	**766**
• Positive fair values from derivative financial instruments (hedge accounting)	–	1	–	–	–	–	–	–	**–**	**1**
• Financial investments	–	–	–	–	508	514	–	–	**508**	**514**
• Non-current assets or disposal groups classified as held for sale	–	–	–	–	24	40	–	–	**24**	**40**
Total	**611**	**739**	**26**	**46**	**533**	**554**	**–**	**–**	**1,171**	**1,339**
Liabilities										
• Liabilities held for trading	1	–	11	34	–	–	1	–	**13**	**34**
Total	**1**	**–**	**11**	**34**	**–**	**–**	**1**	**–**	**13**	**34**

Reclassifications between Levels 1 and 2

	Reclassifications			
	to Level 1 from Level 2		to Level 2 from Level 1	
EUR million	1 Jan – 30 Jun 2015	1 Jan – 30 Jun 2014	1 Jan – 30 Jun 2015	1 Jan – 30 Jun 2014
Assets				
• Assets held for trading	32	73	60	131
• Financial investments	608	627	871	375
Total	**640**	**700**	**931**	**506**
Liabilities				
• Securitised liabilities	83	–	18	–
• Liabilities held for trading	25	–	7	12
Total	**108**	**–**	**24**	**12**

In the reporting period, financial instruments were reclassified between Level 1 and Level 2, as they will be measured again/will no longer be measured using prices quoted on active markets. The amounts reclassified were calculated on the basis of the fair value at the end of the reporting period.

Changes in fair value calculated on the basis of unobservable market data (Level 3) – assets

EUR million	Loans and advances to customers		Assets held for trading		Positive fair values from derivative financial instruments (hedge accounting)		Financial investments		Non-current assets or disposal groups classified as held for sale		Total	
	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014
As at 1 Jan	**18**	**–**	**766**	**1,150**	**1**	**–**	**514**	**3,193**	**40**	**135**	**1,339**	**4,478**
Currency-related changes	–	–	9	–	–	–	2	25	–	–	**11**	**25**
Changes in the scope of consolidation	–	–	–	–	–	–	–	–13	–	–	**–**	**–13**
Income and expenses recognised in the income statement	–	–	–27	–215	–1	–	–4	83	–	37	**–32**	**–95**
Changes in the revaluation surplus	–1	–	–	–	–	–	5	22	–	–37	**4**	**–15**
Purchases	–	–	–	–	–	–	1	1	–	–	**1**	**1**
Sales	2	–	29	–	–	–	10	1	16	122	**56**	**124**
Settlements	–	–	–	11	–	–	–	1,433	–	–	**–**	**1,444**
Reclassifications to Level 3 from Levels 1 and 2	–	–	23	–	–	–	–	–	–	–	**23**	**–**
Reclassifications from Level 3 to Levels 1 and 2	–	–	150	–	–	–	–	–	–	–	**150**	**–**
Transfers/other changes	–	–	32	–	–	–	–	–30	–	26	**32**	**–5**
As at 30 Jun	**15**	**–**	**624**	**924**	**–**	**–**	**508**	**1,846**	**24**	**37**	**1,171**	**2,808**
Income and expenses recognised in the income statement during the period for financial instruments held at 30 June	–1	–	30	–215	–	–	–4	105	–	–	**25**	**–110**

Changes in fair value calculated on the basis of unobservable market data (Level 3) – liabilities

	Liabilities held for trading		Total	
EUR million	2015	2014	2015	2014
As at 1 Jan	**34**	**236**	**34**	**236**
Currency-related changes	15	2	**15**	**2**
Income and expenses recognised in the income statement	41	−127	**41**	**−127**
Reclassifications to Level 3 from Levels 1 and 2	1	–	**1**	**–**
Reclassifications from Level 3 to Levels 1 and 2	110	–	**110**	**–**
Transfers/other changes	32	–	**32**	**–**
As at 30 Jun	**13**	**112**	**13**	**112**
Income and expenses recognised in the income statement during the period for financial instruments held at 30 June	54	−40	**54**	**−40**

The income and expenses recognised in the income statement are shown under the gains or losses on fair value measurement item if they are not measurement gains or losses from hedge accounting (recognised in gains or losses on hedge accounting), impairments of financial investments in the available-for-sale category (recognised in gains or losses on financial investments) or writedowns of receivables in the available-for-sale category (recognised in other income and expenses). Changes in the revaluation surplus are a component of other comprehensive income.

Non-observable inputs were assessed for materiality at the end of the reporting period based on their fair value. As a result financial instruments were reclassified to Level 3 from Level 2 and from Level 3 to Level 2.

The models used to calculate fair value must conform with recognised financial valuation methods and take account of all factors market participants would consider reasonable when setting a price. Within the BayernLB Group, the models used, including any major changes, are reported to the Board of Management for approval mainly by Group Risk Control and Group Strategy in the form of a separate resolution or as part of their regular reporting. All calculated fair values are subject to internal controls and are independently checked or validated by risk-control units and the units with responsibility for equity interests in accordance with the dual control principle. The procedures used for this are contained in the guidelines approved by the Board of Management for the BayernLB Group. Fair values are reported on a regular basis to the management of the divisions concerned and to the Board of Management.

One financial instrument with an embedded derivative structure is allocated to Level 3 of the fair value hierarchy. This financial instrument is in an economic hedge with the associated hedging derivative. As at 30 June 2015, the sensitivity of this package to changes in key factors was

- for a ten-basis point upward (downward) shift in the euro yield curve: EUR –0.1 million (EUR +0.1 million) (31 December 2014: EUR –0.1 million (EUR +0.1 million)),
- for a ten-basis-point upward (downward) movement in the measurement spread: EUR –2.0 million (EUR +2.0 million) (31 December 2014: EUR –2.2 million (EUR +2.2 million)),

Other derivative financial instruments whose significant inputs for measuring fair value are not observable on the market are also allocated to Level 3 of the fair value hierarchy. As at 30 June 2015, the sensitivity of these financial instruments to changes in key factors was:

- for a 10-percentage-point upward (downward) movement in expected loss given default: EUR –2.1 million (EUR +2.2 million) (31 December 2014: EUR –4.9 million (EUR +5.1 million)),
- for a one notch improvement (deterioration) in the ratings: EUR +2.0 million (EUR –2.2 million) (31 December 2014: EUR +3.5 million (EUR –4.3 million)),

Also receivables secured by real estate that were purchased on the non-performing loan market were allocated to Level 3 of the fair value hierarchy as there was no current market activity in these or similar loans and advances. As at 30 June 2015, the sensitivity of these real estate secured receivables to changes in key factors was:

- for a 5-basis-point upward (downward) movement in the realisable value: EUR 0.8 million (EUR –0.9 million) (31 December 2014: EUR +0.9 million (EUR –0.8 million))[1],
- for a 6-month extension (reduction) in the realisation period: EUR –0.1 million (EUR +0.1 million) (31 December 2014: EUR 0 million (EUR 0 million))[1].

As at 30 June 2015, the sensitivity of equity interests whose fair value is calculated using the German income method (Ertragswertverfahren) to changes in key factors was:

- for a 25-basis-point upward (downward) movement in the base interest rate: EUR –5.6 million (EUR +5.8 million) (31 December 2014: EUR –8.3 million (EUR +8.7 million)),
- for a 25-basis-point upward (downward) movement in the market risk premium: EUR –5.4 million (EUR +5.7 million) (31 December 2014: EUR –6.2 million (EUR +6.3 million)).

The underlying base interest rate moved within a range of 1.0–1.5 percent (average: 1.25 percent) (31 December 2014: 1.5–2.0 percent (average: 1.75 percent)), while the underlying market risk premium moved within a range of 6.25–6.75 percent (average: 6.5 percent) (31 December 2014: 5.75–6.25 percent (average: 6.0 percent)).

1 *Adjusted as per IAS 8.41 (see note 2)*

(41) Financial instruments designated at fair value through profit or loss

The maximum default risk for loans and receivables in the fair value option category was EUR 716 million on the reporting date (31 December 2014: EUR 739 million). Rating-related changes in the fair value of these financial assets in the reporting period amounted to EUR 0 million (30 June 2014: EUR –1 million), and since designation EUR 9 million (30 June 2014: EUR 7 million).

For financial liabilities under the fair value option, credit-rating driven fair value changes in the reporting period amounted to EUR 7 million (30 June 2014: EUR 10 million), and since designation –109 million (30 June 2014: EUR –24 million). The difference between the carrying amount of the financial liabilities and the redemption amount at maturity was EUR 367 million on the reporting date (31 December 2014: EUR 963 million).

The change in fair value caused by changes in ratings was calculated by taking the difference between the fair value based on the credit spreads at the end of the reporting period and the fair value based on the credit spreads at the beginning of the reporting period.

(42) Derivative transactions

The table below shows interest rate and foreign currency-related derivatives and other forward transactions and credit derivatives still open at the end of the reporting period. Most were concluded to hedge fluctuations in interest rates, exchange rates or market prices or were trades for the account of customers.

	Nominal value		Positive fair value		Negative fair value	
EUR million	30 Jun 2015	31 Dec 2014	30 Jun 2015	31 Dec 2014	30 Jun 2015	31 Dec 2014
Interest rate risks	918,139	856,248	24,251	27,775	24,051	26,786
Currency risks	116,339	105,865	3,335	2,669	4,750	3,145
Equity and other price risks	5,214	5,989	298	503	234	499
Credit derivative risks	1,141	1,427	2	2	2	2
Total	**1,040,833**	**969,530**	**27,886**	**30,950**	**29,037**	**30,432**
of which: Derivatives for trading purposes	916,492	852,434	16,247	26,164	14,776	25,933

Supplementary information

(43) Trust transactions

EUR million	30 Jun 2015	31 Dec 2014
Assets held in trust	**5,067**	**5,151**
• Loans and advances to banks	49	56
• Loans and advances to customers	5,017	5,095
• Other assets	1	1
Liabilities held in trust	**5,067**	**5,151**
• Liabilities to banks	13	13
• Liabilities to customers	5,053	5,138
• Other liabilities	1	1

(44) Contingent assets, contingent liabilities and other commitments

EUR million	30 Jun 2015	31 Dec 2014
Contingent liabilities	**11,769**	**11,737**
• Liabilities from guarantees and indemnity agreements	11,507	11,477
• Other contingent liabilities	261	261
Other commitments	**21,719**	**24,082**
• Placement and underwriting commitments	26	29
• Irrevocable credit commitments	21,693	24,053
Total	**33,488**	**35,819**

As at the reporting date there were also contingent assets from legal disputes where the Bank considers an inflow of economic benefits that cannot be reliably estimated at present to be probable.

(45) 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

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
LMU Munich and Steinbeis University Berlin

Dr Bernhard Schwab
Deputy Secretary
Bavarian State Ministry for Economic Affairs
and the Media, Energy and Technology
Munich

Board of Management (including allocation of responsibilities as from 23 June 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.

(46) Related party disclosures

The BayernLB Group maintains business relationships with related parties. These include the Free State of Bavaria and the Association of Bavarian Savings Banks, Munich (SVB), whose indirect stakes in BayernLB are 75 percent and 25 percent respectively, non-consolidated subsidiaries, joint ventures and associates. 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.

Relationships with the Free State of Bavaria

EUR million	30 Jun 2015	31 Dec 2014
Loans and advances	5,335	5,513
Assets held for trading	165	196
Financial investments	62	150
Liabilities	72	86
Liabilities held for trading	10	12
Liabilities held in trust	4,669	4,738
Contingent liabilities	4	3
Other liabilities	965	965

The following were material relationships with companies controlled by the Free State of Bavaria, or which it jointly controls or has significant influence:

EUR million	30 Jun 2015	31 Dec 2014
Loans and advances to banks	35	36
Loans and advances to customers	272	279
Assets held for trading	32	93
Liabilities to banks	2,887	3,003
Liabilities to customers	43	48
Securitised liabilities	128	128
Liabilities held for trading	8	8
Assets held in trust	398	400

Relationships with the Association of Bavarian Savings Banks

EUR million	30 Jun 2015	31 Dec 2014
Loans and advances	6	–
Liabilities	63	67

In the previous year the following were material relationships with companies controlled by the Association of Bavarian Savings Banks (SVB), or over which it exercised joint control:

EUR million	30 Jun 2015	31 Dec 2014
Loans and advances to banks	–	160
Liabilities to banks	–	2,159
Securitised liabilities	–	166

Relationships with investees

EUR million	30 Jun 2015	31 Dec 2014
Loans and advances to customers	599	512
Risk provisions	44	72
Assets held for trading	1	1
Financial investments	10	–
Other assets	5	7
Liabilities to customers	152	166
Securitised liabilities	–	2
Provisions	2	1
Other liabilities	4	–
Contingent liabilities	43	15
Other liabilities	59	85

In the reporting period, an expense of EUR 5 million (30 June 2014: EUR 7 million) was recognised for non-recoverable or doubtful receivables.

Responsibility statement by the Board of Management

To the best of our knowledge and in accordance with the applicable reporting principles for interim financial reporting and generally accepted accounting standards, the consolidated interim financial statements give a true and fair view of the financial performance and financial position of the Group, and the Group interim management report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group in the remainder of the financial year.

Munich, 18 August 2015

Bayerische Landesbank
The Board of Management

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

Review Report

To Bayerische Landesbank, Munich

We have reviewed the condensed consolidated interim financial statements – comprising the condensed statement of comprehensive income (including income statement), the balance sheet, the statement of changes in equity, the condensed statement of cash flows and selected explanatory notes – and the Group interim management report of Bayerische Landesbank for the period from 1 January 2015 to 30 June 2015 which are part of the half-year financial report pursuant to section 37w para. 2 WpHG ("Wertpapierhandelsgesetz": German Securities Trading Act). The preparation of the condensed consolidated interim financial statements in accordance with the International Financial Reporting Standards (IFRS) applicable to interim financial reporting as adopted by the EU and of the Group interim management report in accordance with the requirements of the German Securities Trading Act applicable to group interim management reports is the responsibility of the legal representatives of the company. Our responsibility is to issue a review report on the condensed consolidated interim financial statements and on the Group interim management report based on our review.

We conducted our review of the condensed consolidated interim financial statements and of the Group interim management report in accordance with the German generally accepted standards for the review of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW). Those standards require that we plan and perform the review so that we can preclude through critical evaluation, with a certain level of assurance, that the condensed consolidated interim financial statements have not been prepared, in all material respects, in accordance with the IFRS applicable to interim financial reporting as adopted by the EU or that the Group interim management report has not been prepared, in all material respects, in accordance with the requirements of the German Securities Trading Act applicable to Group interim management reports. A review is limited primarily to inquiries of company personnel and analytical assessments and therefore does not provide the assurance attainable in a financial statement audit. Since, in accordance with our engagement, we have not performed a financial statement audit, we cannot issue an auditor's report.

Based on our review, no matters have come to our attention that cause us to presume that the condensed consolidated interim financial statements have not been prepared, in all material respects, in accordance with the IFRS applicable to interim financial reporting as adopted by the EU or that the Group interim management report has not been prepared, in all material respects, in accordance with the requirements of the German Securities Trading Act applicable to Group interim management reports.

Munich, 18 August 2015

Deloitte & Touche GmbH
Wirtschaftsprüfungsgesellschaft

(Löffler)
German public auditor
Wirtschaftsprüfer

(Apweiler)
German public auditor
Wirtschaftsprüfer

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