BayernLB
2016
Annual Report and Accounts

Separate Financial Statements

BayernLB

BayernLB's financial statements at a glance

Income statement (HGB)

EUR million	1 Jan – 31 Dec 2016	1 Jan – 31 Dec 2015	Change in %
Net interest income	1,014	1,180	–14.1
Net commission income	195	198	–1.8
Net income of the trading portfolio	98	–215	–
Administrative expenses	–873	–1,038	–16.0
Operating profit/loss	**417**	**415**	**0.6**

Balance sheet (HGB)

EUR million	31 Dec 2016	31 Dec 2015	Change in %
Total assets	137,585	147,139	–6.5
Business volume	168,870	175,700	–3.9
Credit volume	104,880	109,152	–3.9
Total deposits	75,321	85,462	–11.9
Securitised liabilities	34,737	31,790	9.3
Reported own funds	12,855	14,234	–9.7

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

EUR million	31 Dec 2016	31 Dec 2015	Change in %
Common Equity Tier 1 capital (CET1 capital)	9,009	9,937	–9.3
Own funds	10,639	11,890	–10.5
Total RWA	42,157	74,935	–43.7
CET1 ratio	21.4%	13.3%	+8.1 Pp[1]
CET1 ratio (fully loaded)	18.9%	10.1%	+8.8 Pp[1]
Total capital ratio	25.2%	15.9%	+9.3 Pp[1]

1 Percentage points.

Employees

	31 Dec 2016	31 Dec 2015	Change in %
Number of employees	3,196	3,186	0.3

Contents

Report by the Supervisory Board

Ladies and gentlemen,

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

BayernLB's Board of Management kept the Supervisory Board and its committees informed of key developments at the Bank and within the Group in 2016 at regular intervals, both promptly and comprehensively, in writing and orally. This included its supervisory duty to disclose deficiencies detected by the internal Audit division.

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

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

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

As in the previous year, meetings were once again held in financial year 2016 between the Joint Supervisory Team from the ECB and national supervisory authorities on the one hand and the Chairman of the Supervisory Board and the chairpersons of the Audit Committee and Risk Committee on the other to discuss the main issues pertaining to the respective body. These focused on strategic and regulatory matters and on BayernLB's risk situation.

For the banking sector as a whole, the past financial year was once again dominated by persistently low interest rates, ever tighter regulatory requirements and stiff competition. Within this environment, the Supervisory Board and Board of Management consistently worked together under the guiding principle of securing BayernLB's future success and growth.

Supervisory Board meetings

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

Besides the detailed reports by the Committee chairpersons on the activities of the various boards and committees, the scheduled Supervisory Board meetings dealt with the regular reports by the Board of Management on the status of BayernLB's financial position and performance and on regulatory and supervisory issues, especially the results of the on-site audits by the supervisory authorities. A key focus of our activities here in the past financial year was on how to approach various IT-related issues, in particular the progress of the project set up to update and improve IT infrastructure. We subjected the Board of Management's reports to the Supervisory Board to critical scrutiny and requested additional information in some cases, which was always immediately provided in full.

In addition, the Supervisory Board spent the past financial year dealing in detail with various "Offshore" issues related to the disposal a few years ago of the private banking business of its former Luxembourg subsidiary bank.

Over several meetings, after prior consultation in the relevant committees, we discussed Board of Management and Supervisory Board affairs, including the assessment of the Board of Management and Supervisory Board, which must be conducted in accordance with statutory requirements, and matters relating to remuneration policy. The latter took account of the new draft Remuneration Ordinance for Institutions (InstitutsVergV). We also set the targets for the Board of Management for 2016 and agreed the feedback to the members of the Board of Management for the past financial year.

Additionally in 2016, we regularly discussed BayernLB's capital situation, especially with regards to the conditions under the EU state aid proceedings. Another regular item on the agenda was our DKB subsidiary, specifically its current financial position, performance and risk situation.

In January 2016, as part of the strategy dialogue, the Supervisory Board took a close look at the business strategy and related sub-strategies. We also held detailed talks with the Board of Management on the Group's medium-term planning for 2016–2020, which we subsequently approved. Furthermore, the Board of Management gave us its preliminary indications for the 2015 annual financial statements. We also were updated on the current status of the partnership with private bank Berenberg.

In our March meeting, we discussed in detail the business performance in 2015. The Board of Management updated us on the current status of the talks with the European Commission and the progress made in the transformation project in the Financial Markets division. We also discussed the sale of our stake in Deutsche Factoring Bank, which we approved.

In April 2016, the focus was on the Board of Management's Report for financial year 2015, the adoption of the annual financial statements and the approval of the consolidated financial statements. The resolution was based on the recommendations of the Audit Committee and a subsequent detailed discussion with the auditors Deloitte & Touche GmbH Wirtschaftsprüfungsgesellschaft. In accordance with a proposal by the Audit Committee, the Supervisory Board recommended to the General Meeting that the auditing firm Deloitte & Touche GmbH be reappointed to audit the 2016 annual financial statements of BayernLB and the Group, which the General Meeting agreed to. We also discussed the potential signing of another banking partnership with Standard Chartered Bank and noted both the HR report and status report on variable remuneration for employees in financial year 2015. Other key aspects of the meeting were the 2015 annual report by the internal Audit division and extending the term of the remuneration officer and her deputy.

In our closed meeting in May 2016, we dealt with corporate governance issues, initially in an internal consultation. Another area we looked at was the updating of key planning parameters and their impact on the medium-term planning for 2016 – 2020. The Board of Management also reported on the current status of its management agenda and changes to the committee structure below Board of Management level. Other important aspects of the meeting were a status report on Project BCBS 239 and the presentation of the participations report for financial year 2015.

Our meeting in July 2016 focused on the results of the IT audit by the ECB. The Board of Management briefed us on the impact of the pro-Brexit referendum and the current status in connection with the EBA stress test. We also discussed the new Market Abuse Regulation (including "directors' dealings") and noted the remuneration officer's remuneration review report.

The discussions in our September meeting centred on an additional update of the key planning parameters and, in consultation with the Board of Management, their impact on medium-term planning. We also consulted with the Board of Management on the ECB's decision to create new supervisory requirements (SREP decision). Another topic on the table was strategic issues in connection with our asset management subsidiaries. Moreover, we agreed to expand the existing Nominating Committee into an Executive and Nominating Committee, including the additional tasks related to this. Furthermore, we noted a number of reports on IT.

Key points of the December meeting were the status report on the current performance of our sales offices, (large) regulatory projects and updates to the recovery plan in accordance with the Recovery and Resolution Directive (SAG). Bank employees also presented the new digital customer portal.

In addition to this regular meeting, another closed meeting of the Supervisory Board took place. This focused on issues relating to business strategy, including the new corporate concept of our DKB subsidiary. The main item on the agenda was the Group's medium-term planning for 2017 – 2021, which we discussed in detail with the Board of Management and then approved. The Board of Management also briefed us on the current status of the Bank's efficiency programme.

Supervisory Board committees – an overview

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

Other areas the Committee was involved in over the course of 2016 included the impact of low interest rates on BayernLB's sales units and DKB, the management and monitoring of market risks and improvements to reputational risk management. The Risk Committee and the Board of Management also regularly discussed the potential impact of geopolitical and macroeconomic risks.

The **Compensation Committee** carried out its legally mandated duties in a total of six meetings. It discussed in particular the Board of Management's reports on the structure of the remuneration systems for employees (focusing partly on their relationship to the business and risk strategy), monitored their suitability and received regular updates on specific issues. It evaluated the impact of the remuneration systems on the Bank's and Group's risk, capital and liquidity situation and discussed the size and distribution of a total bonus pool. The Compensation Committee also discussed with the Remuneration Officer her report on the suitability of the remuneration systems for BayernLB staff. It additionally devoted much of its attention to enhancing the remuneration systems for employees and for members of the Board of Management taking into account imminent new regulatory requirements. Under its original area of responsibility, the Compensation Committee also advised on matters related to Board of Management remuneration and prepared decisions by the Supervisory Board.

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

The **Nominating Committee** (renamed the **Executive and Nominating Committee** with effect from 1 October 2016 in conjunction with an expansion of its tasks) met three times in the reporting period. The discussions centred on corporate governance issues and business policy. The Committee also prepared decisions on Board of Management matters for the plenary session. Furthermore, the Nominating Committee carried out an assessment of the Board of Management and the Supervisory Board in accordance with the German Banking Act.

In its five sessions the **Audit Committee** mainly dealt with the monitoring of the accounting process and the effectiveness of the internal control system, the internal auditing system and the system used for risk management. It also discussed in detail the monitoring of the audit of the annual financial statements and of the consolidated financial statements and the review and monitoring of the independence of the auditors, particularly the additional services performed by the auditors for the Bank. In 2016, the internal Audit division and Group Compliance reported to the Audit Committee on their work and audit findings. The Committee deliberated on the money laundering and financial crime threat analysis and conferred with the auditors Deloitte on what the audit of the 2016 annual financial statements should focus on. Other key points on the agenda of the Audit Committee in 2016 included in particular the impact of the auditor reforms and the progress of the project set up for improving IT.

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

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

Additional specialist training

The Supervisory Board attended two information events given by specialists from the Bank, external experts on regulatory requirements and supervisory law and representatives of the external auditors on current developments, with the focus on BayernLB. Besides macroeconomic aspects, they delved into selected areas of supervisory law and regulatory requirements, especially developments in banking regulation and various IT-related issues.

Corporate governance

The BayernLB Corporate Governance Principles set out the regulations on corporate management and corporate supervision that apply to BayernLB on the basis of binding and in-house regulations. The Supervisory Board discussed compliance with these Corporate Governance Principles in 2016 in its meeting on 15 March 2017. The Board of Management, Supervisory Board and General Meeting agreed that they were aware of no evidence that these principles had not been observed in financial year 2016.

Changes to the Supervisory Board

Ralf Haase stepped down from the Supervisory Board on 31 July 2016 and was succeeded in the post by Henning Sohn on 30 August 2016. Dr Hubert Faltermeier stood down from the Supervisory Board on 31 December 2016 and Dr Kurt Gribl was appointed his successor with effect from 1 January 2017.

Audit and approval of the 2016 annual financial statements

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

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

In its meeting of 26 April 2017, the BayernLabo Committee adopted BayernLabo's submitted annual financial statements and approved the management report to BayernLabo's accounts.

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

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

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

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

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

Munich, 27 April 2017

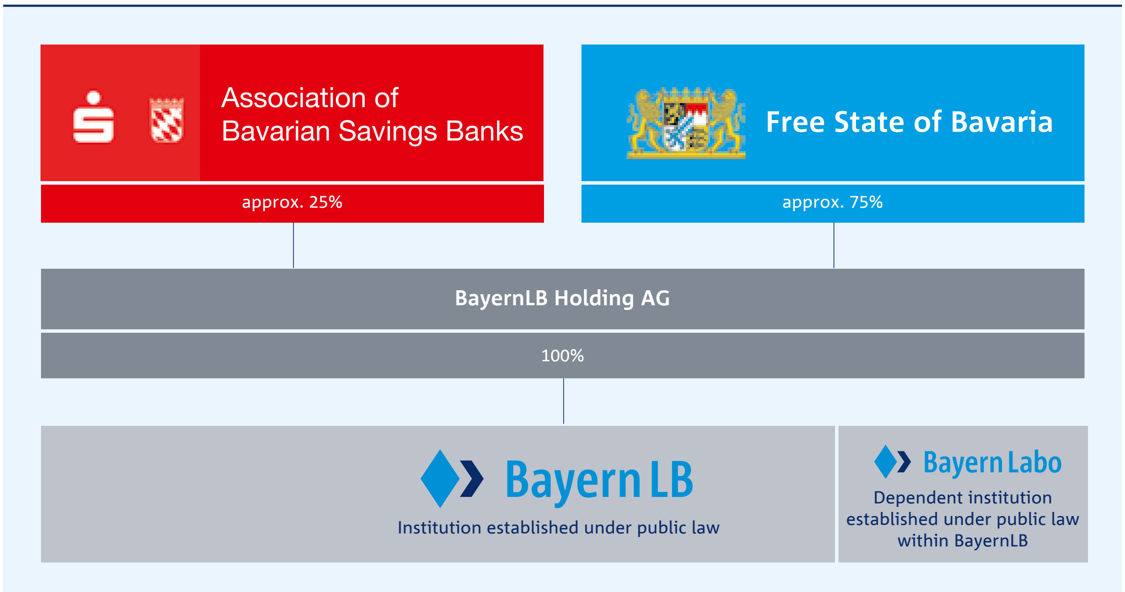
On behalf of the Supervisory Board

Gerd Haeusler
Chairman

Management report

Overview of BayernLB

Business model and strategy



Bayerische Landesbank, Munich (BayernLB or Bank) is an institution with legal capacity established under public law with its registered office in Munich and a nominal capital of EUR 2,800,000,000. The nominal capital is due to BayernLB Holding AG, Munich as the entity that has direct ownership. The Free State of Bavaria and the Association of Bavarian Savings Banks are indirect owners through their respective stakes in BayernLB Holding AG. Bayerische Landesbodenkreditanstalt, Munich (BayernLabo) fulfills the public mandate by carrying out the state-subsidised loan business.

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

	Moody´s	Fitch
Long-term (unsecured)	A2	A-
Short-term (unsecured)	P-1	F1
Public Pfandbriefs	Aaa	AAA
Mortgage Pfandbriefs	Aaa	–
Financial strength/viability rating	ba1	bbb

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

BayernLB's strategic business model is based on the following operating business segments.

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

In addition, BayernLB's business model and range of services is supplemented by subsidiaries and affiliated companies.

Corporates & Mittelstand

The Corporates & Mittelstand area handles business with large German and selected international companies and the Mittelstand corporate customer business. These large German and international customers include DAX, MDAX and family-owned companies with annual sales of at least EUR 1 billion, which operate from their home market in Germany. International companies with a significant connection to Germany are likewise served. BayernLB's core competencies include traditional credit financing, such as working capital loans, investment and trade financing, interest and currency management in trade finance, project and export financing and lease financing. In addition, BayernLB helps its customers tap capital markets for their financing needs, for example by traditional bonds or German Schuldschein note loans. BayernLB also has a strong market position in the state-subsidised loan business.

Real Estate & Savings Banks/Association

BayernLB's real estate business focuses on long-term commercial real estate financing and services. The regional focus here is on Germany, although it also serves selected German customers abroad and international customers with a connection to Germany. In the commercial real estate area, products include portfolio financing for real estate assets and portfolios, project development and housing developers. In the managed real estate area, the focus is mainly on financing concepts for hotels, logistics centres, hospitals, clinics and care homes and syndicated financing with savings banks. To serve customers more comprehensively under one roof, the Bank makes extensive use of its working relationship with subsidiaries and affiliates, such as Real I.S., Bayerische Landesbank Immobilien-Beteiligungs- Gesellschaft mbH & Co. KG, Munich (Bayern Immo), LB Immobilienbewertungsgesellschaft mbH, Munich (LB ImmoWert) and Bayern Facility Management GmbH, Munich (BayernFM).

The Bavarian savings banks and BayernLB are linked together in a preferred partnership. For the Bank, the savings banks are both important customers and sales partners and thus they form one of the key pillars of its business model. BayernLB acts as a central service provider for the savings banks and supplies them with tailored products and services in its Association business.

The focus of the relationship is on supplying the savings banks with a range of products and services for both their own business and their customers, to include payment services, assistance in securities, investment and cross-border transactions, syndicated and subsidised loans, as well as foreign notes and coins/precious metal activities. For savings banks outside Bavaria, the range covers selected product segments. Liquidity management is particularly important for these customers. Funding from the savings banks is an important source of refinancing for BayernLB and for strengthening the common liquidity pool. BayernLB also acts as a lender and service provider to the public sector and institutional investors. The focus here is on expanding its market share in its core market of Bavaria and intensifying sales in close partnership with the Bavarian savings banks. It provides a wide range of customised financing and investment solutions to state governments, local authorities and public institutions. BayernLB stands out in this segment thanks to its expertise in public-private partnership projects and the renewable energy sector.

Financial Markets

Financial Markets offers a range of money market, forex and capital market services, funding and treasury strategies, and a broad portfolio of structured investment products. Main customers include the savings banks, banks, large German and international Mittelstand companies, real estate customers and institutional customers which are served in the respective business areas. Asset management for BayernLB is handled by the Real I.S. and BayernInvest subidiaries. These investment companies focus mainly on advisory services and managing securities investment funds for institutional and private investors.

DKB

DKB, an integral part of BayernLB's business model, operates in the retail segment as an online direct bank with a steadily growing customer base, and in the infrastructure and corporate customers segment as a specialist. Its expertise extends especially to financing and investment products in the environmental technology, health services and education & research segments.

BayernLB's strategic development

BayernLB continued to implement its business model in 2016 by pursuing a clear strategy of being a customer-focused bank. BayernLB's strategic framework is still formed by the restructuring plan hammered out with the European Commission between 2009 and 2012 and the target structure it is based on. In this regard, BayernLB's focus is on strengthening its sustainable operating business areas (core activities), while winding down portfolios with elevated risk (non-core activities).

Business with medium and large corporates and BayernLB's related capital market transactions performed well overall over the year.

New business in the commercial and residential real estate businesses amounted to approximately EUR 4.9 billion, far exceeding the target of roughly EUR 4.0 billion. In the retail customer business area, DKB's customer base grew to about 3.4 million in 2016.

Working together with the Bavarian savings banks, BayernLB retained its position as market leader in the state-subsidised loan business. Another rise in unit sales of precious metals further cemented BayernLB's position as market leader in foreign notes, coins and precious metals in the Savings Banks Finance Group.

The repositioning of BayernLB's capital markets business begun the year before continued in 2016. It is now showing the first signs of success as investments made in improving customer support processes are paying off in higher customer penetration rates and increased customer revenues. At the same time, it has accelerated the updating and digitalisation of the system landscape needed for the capital markets business.

After the European Central Bank (ECB) approved its application to repay part of the silent partner contributions, BayernLB repaid another tranche of the Free State of Bavaria's silent partner contribution in the amount of EUR 1.3 billion in April 2016. BayernLB has therefore already repaid around EUR 4 billion in state aid as required under the state-aid ruling, most of it ahead of schedule. Another EUR 1 billion in silent partner contributions remains to be repaid to the Free State of Bavaria (originally EUR 3 billion) in order to finally fulfill all major EU conditions and commitments.

BayernLB's cost structure, which is favourable relative to peers, was maintained thanks to the successful completion of cost-cutting measures over the past few years. The Bank also implemented wide-ranging strategies and measures to improve and selectively digitalise the customer-focused sales structures. The opening of new offices in Hamburg, Stuttgart and Frankfurt played a key role in winning over new customer relationships. Outside Germany, BayernLB continues to operate branches in London, Milan, Paris and New York as well as a representative office in Moscow.

Another sign of how BayernLB's business model has been improved and become more focused on customer needs are the multi-faceted improvements to internal processes and interfaces. This provides a good basis for gaining market share in the core business areas in the medium to long term and leveraging new sources of earnings.

The still challenging market environment had an impact on the Bank's operating business in 2016. Accordingly, the main challenges to securing its earnings base were persistently low interest rates, stiff competition from established market players, and the growing importance of non-banks. Meanwhile, rising regulatory requirements affecting, for example, capital requirements (in terms of quantity and quality), liquidity requirements, risk management, and IT infrastructure increasingly put pressure on the cost base.

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

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

Internal management system

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

The profitability of the BayernLB Group is managed using the two key financial ratios that act as crucial indicators of performance: return on equity and cost efficiency. Return on equity (RoE) is calculated by dividing profit before taxes by shareholders' equity as calculated according to regulatory requirements. At Group level, since the start of financial year 2016, the average Common Equity Tier 1/CET1 available over the financial year has been used. For all management levels below this, the average economic capital employed in the financial year is derived from the risk-weightings of the underlying individual transactions (RWA) specified by regulatory authorities. Cost efficiency is monitored by means of the cost/income ratio (CIR), the ratio of administrative expenses to gross earnings[1]. In addition to measuring return on equity and cost efficiency, BayernLB also uses other ratios. These include measures of the profitability and expense of risk-weighted assets employed, and also economic value added (EVA). This expresses the profit of a company before deduction of the income tax components, taking account of the cost of the capital employed denominated in euro. In order to ensure integrated and consistent management, the key figures RoE and CIR are used at all levels of management. The management cycle is a continuous process of carrying out annual medium-term planning, producing intrayear detailed target vs actual comparisons and making regular projections to the year-end.

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

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

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

Capital is managed using the CET1 ratio and the total capital ratio in accordance with the Capital Requirements Regulation and Directive (CRR/CRD IV) and the guidelines from the ECB's Supervisory Review and Evaluation Process (SREP). Besides the capital ratios, which currently take account of the transitional provisions currently applicable, capital is also managed using the fully-loaded capital ratios, i.e. where the transitional provisions are not applied. The capital required and the corresponding capital ratios are derived from the Business and Risk Strategies and the latest medium-term planning. RWA are allocated to monitor and ensure compliance at all times with the capital ratios planned and required by the regulator as a basic condition for all business activities. As part of overall bank management, target capital amounts, risk-bearing capacity and funding are combined.

Human resources

2016 was a year in which BayernLB implemented its targeted future strategy. Human Resources was focused on helping the business areas and the central areas achieve their strategic and economic goals.

It played its part in realising the Bank's strategic direction in 2016 in particular by adopting HR measures to drive forward BayernLB's realignment, while optimising the expertise and line-up of staff for an increasingly complex regulatory working environment.

As at 31 December 2016, 3,196 people were employed at BayernLB, of which 3,010 were based in Germany (FY 2015: 2,996 people) and 186 were based abroad (FY 2015: 190 people). The increase in headcount in 2016 was mainly due to the fact that, in parallel with reductions in the workforce at BayernLB, new employees with specific qualifications were recruited to work in the sales units and manage additional regulatory requirements. The Bank-wide cost-cutting programme (KSP), whose goal it is to significantly reduce administrative expenses by the end of 2017, was, however, continued.

Corporate responsibility

One of BayernLB's stated corporate goals is to achieve commercial success while meeting its social responsibilities. BayernLB therefore attaches great importance to its work in the community, the fields of education and science and the world of art and culture.

Naturally, sustainability management and reporting play no less important roles in BayernLB's business activities. Specialised, independent sustainability rating agencies regularly rate the targets and measures of the Bank's sustainability management on behalf of investors and give it very high scores compared with its peers for its commitment to dealing with the social and environmental challenges facing the public banking sector. In 2016, BayernLabo was awarded coveted Prime Status from rating agency oekom research, a year after BayernLB also received the Prime rating. BayernLB has held coveted oekom Prime Status since 2001, thereby demonstrating its continual commitment to sustainable development.

Key changes in the participations portfolio

In the reporting year, the Bank sold its shares in Visa Europe Ltd., London (Visa) and DEUTSCHE FACTORING BANK Deutsche Factoring GmbH & Co. KG, Bremen (Deutsche Factoring Bank).

Report on the economic position

Macroeconomic and sector-specific environment

Germany's economy continued to grow in 2016, fulfilling the Bank's forecasts of the previous year. Economic output was up 1.9 percent on the year before.[2] Private consumption proved yet again to be the main driver of this development, rising by 2.0 percent. Above-inflation wage increases bolstered buying power in real terms. Public expenditure also rose significantly, mainly as a result of the large number of refugees admitted to the country. Capital spending also went up markedly during the past year. This was especially true for construction, but, contrary to BayernLB's expectations, also for equipment, one area where the impact of low interest rates is being felt. Indeed, companies would have ploughed even more money into their business had it not been for the political uncertainty, most notably triggered by the Brexit vote, US elections and Italian referendum. Foreign trade, in contrast, weighed on the calculation of GDP figures in 2016, although not too much should be read into this as year-on-year exports were higher despite high levels of uncertainly about exports and economic weaknesses in China at the start of the year. The negative impact on GDP came from the even faster rise in imports fuelled by strong domestic demand. As the economy continued to sparkle, unemployment fell further over the course of the year, closing 2016 on 6.0 percent.[3] The impact on the labour market of the influx of refugees admitted to the country was offset by the addition of yet more jobs to the economy. Consumer price inflation stood at 0.5 percent, only marginally higher than in the previous year.[4] The inflation rate did not noticeably increase until the end of the year when the dampening effect of low oil prices earlier increasingly had less impact on the calculation of the annual rate.

The ECB continued along its highly expansionary path in 2016, initially loosening monetary policy even further, when, for example, it again cut its benchmark rate in March. Since then, the interest rate spread (between the deposit facility rate and marginal lending facility rate) has been between –0.4 percent and 0.25 percent. Moreover, monthly purchases of securities under quantitative easing were kicked up from EUR 20 billion to EUR 80 billion. The list of eligible securities was also expanded to include corporate bonds. Additional long-term refinancing tenders (TLTRO II – targeted longer-term refinancing operations), each with a term of four years, were also agreed from June 2016 to stimulate lending from banks to companies in the eurozone.[5] In response to the falling risk of deflation, the ECB decided in December to cut the monthly volume of QE purchases back to EUR 60 billion again as from April 2017. The minimum term of the programme was extended to December 2017.[6] Against this background, bank lending to companies and households in Germany picked up slightly over the year and in October was 1.5 percent higher than a year earlier. Overall demand for lending can, however, still be characterised as subdued.[7]

---

2 See Statistisches Bundesamt 2017, press release no. 010.

3 Agentur für Arbeit, monthly report December 2016; https://statistik.arbeitsagentur.de/Statistikdaten/Detail/201612/arbeitsmarktberichte/monatsbericht-monatsbericht/monatsbericht-d-0-201612-pdf

4 See Statistisches Bundesamt 2017, press release no. 003.

5 ECB press release of 10 March 2016; https://www.ecb.europa.eu/press/pr/date/2016/html/pr160310.en.html

6 ECB press release of 8 December 2016; https://www.ecb.europa.eu/press/pr/date/2016/html/pr161208.en.html

7 See Deutsche Bundesbank 2016: "Banking Statistics – December 2016, Statistical Supplement to the Monthly Report", Table I 6a; https://www.bundesbank.de/Redaktion/EN/Downloads/Publications/Statistical_Supplement_1/2016/2016_12_banking_statistics.pdf?__blob=publicationFile

Overall the US dollar appreciated by 3 percent to USD 1.05 per EUR over the course of 2016. In the aftermath of the US elections, expectations rose that the new administration would provide a deficit-financed economic stimulus and the US Federal Reserve would hike interest rates more quickly. Owing to the surprise outcome of the Brexit vote and extensive monetary loosening by the Bank of England in its wake, pound sterling finished 2016 much weaker than forecast. The Swiss franc's gradual climb against the euro was, however, largely in line with BayernLB's expectations. The Swiss National Bank (SNB) was unable to fully counteract the upward pressure on the franc through interventions on the foreign exchange market.

At the start of 2016, yields on 10-year German government bonds were still at 0.57 percent[8]. In the months that followed, they hit the skids on concerns about the economy and receding inflation expectations. At the end of June 2016 they were propelled further on their downwards trajectory by the Brexit decision, before reaching their nadir at 0.21 percent in July 2016. After the summer, more robust macro data painted a slightly more rosy picture of the economy and yields around the globe began their ascent once again. Their spurt gathered pace in the last two months of the year as a result of expectations about the new US president, tapering of the ECB's QE and the next rate hike in the USA. After hitting an interim high of 0.46 percent at the start of December 2016, yields had fallen back to a low of 0.21 percent again at the end of the year. Although 10-year US Treasuries more or less mimicked German Bunds up until November 2016, they finished the year slightly higher with a small 15 basis point increase to 2.44 percent.

Risk premiums on Pfandbrief and covered bond markets fell across all country segments over the past year. The main boost came from the ECB's widespread covered bond purchases and expansion of its quantitative easing in March 2016, while the Brexit vote fanned uncertainty for only a short period. As expected, further support come from the high volume of maturing instruments and regulatory preference. On European credit markets, risk premiums on investment-grade bonds, as tracked by iBoxx Euro Corporates, tightened by around 40 basis points in 2016 as a result of the ECB's Corporate Sector Purchase Programme (CSPP). This fillip, however, was not only observed on the secondary market. The primary market notched up a new record in 2016 with new issue volumes of EUR 321 billion, slightly outdoing the previous record year of 2009 (EUR 320 billion).

Although the German stock market experienced high volatility again in 2016, the DAX performance index finished the year to the upside with an overall gain of 6.9 percent to 11,481. It was the fifth year in a row the index had gained ground. The DAX price index (excluding dividends) also closed in positive territory, with a rise of 3.7 percent. In 2016 the EURO STOXX 50 (price index) trailed the DAX's performance, with a 0.7 percent rise to 3,291.

8 Bloomberg.

Course of business

As in the previous year, moderate economic growth of 1.9 percent in Germany and persistently low interest rates had a big impact on BayernLB's results of operations in financial year 2016. The Bank's operating profit improved in this economic environment, reaching EUR 417 million (FY 2015: EUR 415 million). Thanks to this, it was able to fully service the profit participation certificates in the amount of EUR 23 million and silent partner contributions in the amount of EUR 179 million. The entire net profit for the year of EUR 332 million (FY 2015: EUR 402 million) was paid into retained earnings, resulting in net retained profits for financial year 2016 of zero.

As at 31 December 2016, total assets amounted to EUR 137.6 billion, about EUR 9.6 billion lower than the year before. BayernLB's financial position was once more largely driven by the credit business, where the focus of lending was on the core business areas and savings banks as association partners, in line with the customer-focus of BayernLB's business model. Amounts due from customers stood at EUR 68.8 billion (FY 2015: EUR 71.1 billion). Amounts due from banks came in at EUR 26.2 billion (FY 2015: EUR 28.7 billion), of which EUR 14.1 billion (FY 2015: EUR 14.2 billion) related to Association savings banks.

The market environment for the refinancing business in the eurozone was positive overall in financial year 2016. Ongoing support from central banks, which increasingly took on the role of investors, led to even lower interest rates and high demand from investors for issues, a trend from which BayernLB was also able to benefit. BayernLB had unrestricted access to money and capital markets during the reporting period. The Bank obtained funding from institutional and private investors without any difficulty and at a cost-effective rate throughout the year. It also improved its capital structure even further in 2016 by, among other things, issuing subordinated liabilities with a nominal value totalling EUR 640 million. The Bank had a comfortable supply of liquidity in 2016 once again. Sufficient liquidity was available at all times.

By the end of 2016 BayernLB had met its repayment obligations from the EU ruling and paid back most (around EUR 4 billion) of the roughly EUR 5 billion in state aid it must repay the Free State of Bavaria by the end of 2019. After the European Central Bank (ECB) approved its application to repay part of the silent partner contributions, BayernLB repaid another tranche of the Free State of Bavaria's silent partner contribution in the amount of EUR 1.3 billion in April 2016. so the future servicing requirements cease to apply. Still remaining is the repayment of EUR 1.0 billion in silent partner contributions to the Free State of Bavaria (originally EUR 3.0 billion) in order to comply with all major EU conditions and commitments.

The cost-income ratio (CIR)[9] was 54.2 percent as at reporting date 31 December 2016 (FY 2015: 83.7 percent). Common Equity Tier 1 capital (CET1) amounted to EUR 8.6 billion as at 31 December 2016 (FY 2015: EUR 9.8 billion). The decline was largely the result of repaying the silent partner contribution of EUR 1.3 billion to the Free State of Bavaria.

---

9 CIR = (administrative expenses – expenses for the bank levy and deposit protection scheme)/(gross profit + net income/losses from the trading portfolio + net of other operating expenses, income and other taxes).

Results of operations

EUR million	1 Jan–31 Dec 2016	1 Jan–31 Dec 2015	Change in %
Net interest income	1,014	1,180	–14.1
Net commission income	195	198	–1.8
Gross profit	**1,209**	**1,378**	**–12.3**
Personnel expenses	–491	–642	–23.6
Operating expenses	–382	–396	–3.6
Administrative expenses	**–873**	**–1,038**	**–16.0**
Net income of the trading portfolio	98	–215	–
Net of other operating expenses, income and other taxes	180	–13	–
Risk provisions	–364	30	–
Gains or losses on measurement	167	272	–38.8
Operating profit/loss (operating earnings)	**417**	**415**	**0.6**
Gains or losses from extraordinary items	6	–19	–
Income taxes	–90	6	–
Net profit/loss for the year	**332**	**402**	**–**
Withdrawals from capital reserve	0	174	–100.0
Allocations to retained earnings	–332	0	–
Replenishment of profit participation certificates	0	–82	–100.0
Replenishment of silent partner contributions	0	–494	–100.0
Net retained profits	0	0	–

Rounding differences may occur in the tables.

Net interest income, the difference between interest income and interest expenses – including current income from equities, participations and shares in affiliated companies and subsidiaries with profit and loss transfer agreements – fell year on year by around 14 percent or EUR 166 million to EUR 1,014 million (FY 2015: EUR 1,180 million). This was largely due to the restart of payments to service silent partner contributions in the amount of EUR 179 million. Current income from equities and other non-fixed income securities rose by EUR 14 million to EUR 23 million (FY 2015: EUR 9 million) due to higher income from shares in affiliated companies. Income from profit-pooling agreements, profit transfer agreements and partial profit transfer agreements increased by EUR 95 million to EUR 274 million (EUR 179 million) and includes mainly DKB's transferred profits.

Net commission income fell marginally by 2 percent year on year to EUR 195 million (FY 2015: EUR 198 million). Commission income fell by EUR 3 million to EUR 249 million (FY 2015: EUR 252 million), while commission expenses were unchanged on the previous year at EUR 54 million. The decrease in commission income occured mainly in the credit business and the documentary business.

Administrative expenses fell significantly by 16 percent or EUR 166 million to EUR 873 million (FY 2015: EUR 1,038 million). Personnel expenses stood at EUR 491 million and were EUR 151 million (24 percent) lower than the previous year. The high figure for the previous year was mainly attributable to the negative impact of lower interest rates on pension provisions. Operating expenses of EUR 382 million were EUR 14 million (3.6 percent) lower than the year before. Although IT-related costs rose by EUR 8 million, the Bank saved EUR 28 million in legal consulting costs. The rise in IT costs shows that BayernLB is continuously investing in updating and improving its IT structure to provide the most effective and cost efficient support to its business processes and also to meet regulatory requirements concerning IT. Amortisation, depreciation and write-downs on intangible assets and tangible assets increased by 43.9 percent to EUR 47 million in the reporting year, mainly as a result of higher scheduled and unscheduled amortisation of intangible assets.

All realised and unrealised contributions to earnings from trading are shown in the net income of the trading portfolio item. Net income of the trading portfolio turned around significantly to a gain of EUR 98 million in financial year 2016, up from EUR –215 million in the year before. This item was boosted by gains on interest rate-related and currency-related transactions of EUR 62 million (FY 2015: EUR –54 million) and EUR 20 million (FY 2015: EUR –168 million) respectively. Weighing on this item in the previous year were foreign currency translation effects related to the Swiss franc (FY 2015: EUR –102 million), from the partial buyback of Bayern Capital LLC's USD hybrid bond (FY 2015: EUR –49 million) and the creation of contingency reserves for losses from interest-rate derivatives (FY 2015: EUR –49 million). Earnings in FY 2016 once more received a significant boost from the effects of counterparty-specific default risks in the derivatives business and interest-rate risk management. As the trading portfolio produced a net gain, an allocation was made for financial year 2016 to the fund for general bank risks in accordance with section 340e para. 4 HGB.

After netting other operating expenses, income and other taxes, the Bank posted other operating income of EUR 180 million (FY 2015: other operating income of EUR –13 million). This net item was boosted significantly mainly by the first-time application of the new rules for discounting provisions for pensions and similar obligations in accordance with section 253 para. 2 HGB, which gave a significant boost. BayernLB realised a gain of EUR 133 million on this.

The cost-income ratio (CIR)[10] was 54.2 percent (FY 2015: 83.7 percent). The fall in the ratio was due to lower administrative expenses, and higher net income of the trading portfolio and other operating income.

10 *CIR = (administrative expenses – expenses for the bank levy and deposit protection scheme)/(gross profit + net income/losses from the trading portfolio + net of other operating expenses, income and other taxes).*

Due to the creation of a contingency reserve under section 340f HGB, risk provisions, comprising risk provisions in the credit business and gains or losses on securities in the liquidity reserve, rose sharply in 2016 by a total of EUR 394 million. In contrast to FY 2015, when income of EUR 30 million was reported from reversals of writedowns on receivables and certain securities as well as from the release of provisions in the credit business, EUR 364 million was recognised in the reporting year under amortisation, depreciation and writedowns on receivables and securities and additions to provisions in the credit business. This was due in particular to a EUR 313 million increase in net allocations to risk provisions in the credit business and a EUR 81 million decrease in gains or losses on the liquidity reserve.

Gains or losses on measurement of fixed assets was a positive EUR 167 million (FY 2015: EUR 272 million). This includes mainly realised gains on the sale of securities in the amount of EUR 84 million (FY 2015: EUR 180 million) and on participations in the amount of EUR 36 million (FY 2015: EUR 31 million).

In financial year 2016, an allocation of EUR 42 million was made to the fund for general bank risks under section 340g HGB (FY 2015: release of EUR 93 million).

Due in part to the factors described above, the Bank reported an operating profit of EUR 417 million (FY 2015: EUR 415 million). Thanks to this, it was able to fully service the profit participation certificates in the amount of EUR 23 million and silent partner contributions in the amount of EUR 179 million.

BayernLB's net profit for the year resulted in a return on equity (RoE)[11] of 5.8 percent for financial year 2016 (FY 2015: 4.2 percent).

Gains or losses from extraordinary items came in at EUR 6 million and was EUR 25 million higher than the previous year's figure (FY 2015: EUR –19 million). Both extraordinary income of EUR 15 million (FY 2015: EUR 3 million) and extraordinary expenses of EUR 10 million (FY 2015: EUR 22 million) were related to the restructuring measures under the KSP cost-cutting programme. The changes arose in the year under review from the updating of valuation parameters.

Income taxes amounted to a negative EUR 90 million (FY 2015: tax income of EUR 6 million). The tax expense for the reporting year arose on gains or losses on ordinary activities and amounted to EUR 88 million (FY 2015: EUR 41 million). The previous year's figure was significantly impacted by the findings of the concluded company audit. Financial year 2016 was unaffected.

The Bank posted a net profit of EUR 332 million (FY 2015: EUR 402 million). This was paid in full into retained earnings, resulting in net retained profits of zero.

11 The return on equity (RoE) shown has been calculated in the reporting year on the basis of internal management information from the ratio of profit before taxes to the average of regulatory equity available over the financial year. The comparison figure for the previous year was adjusted.

Financial position

Both total assets and business volume were lower in financial year 2016:

EUR billion	31 Dec 2016	31 Dec 2015	Change in %
Total assets	137.6	147.1	−6.5
Business volume*	168.9	175.7	−3.9

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

The business volume, which includes both total assets and off-balance-sheet transactions, contracted overall by EUR 6.8 billion to EUR 168.9 billion. BayernLB's total assets fell by EUR 9.5 billion to EUR 137.6 billion, largely due to the reduction in the securities portfolios (excluding the trading portfolio).

The smaller contraction in business volume was due to the increase in contingent liabilities and credit commitments of 9.5 percent to EUR 31.3 billion in the reporting year (FY 2015: EUR 28.6 billion). The main reason for the increase in contingent liabilities to EUR 9.9 billion (FY 2015: EUR 9.3 billion) was higher liabilities from guarantees and indemnity agreements. The increase in other liabilities was due solely to the increase in irrevocable loan commitments.

Assets

EUR billion	31 Dec 2016	31 Dec 2015	Change in %
Credit volume*	104.9	109.2	−3.9
Due from banks	26.2	28.7	−8.8
Due from customers	68.8	71.1	−3.2
Securities	20.7	24.8	−16.4
Trading portfolio	11.1	11.7	−4.9
Participations/shares in affiliated companies	2.5	2.4	5.8

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

The Bank's lending business continued to shrink. Amounts due from banks decreased by EUR 2.5 billion to EUR 26.2 billion (FY 2015: EUR 28.7 billion), both in Germany and abroad.

Amounts due from customers dropped by EUR 2.3 billion to EUR 68.8 billion (FY 2015: EUR 71.1 billion). Loans to the public sector and private households both fell by nearly the same amount (around EUR 1.4 billion). Amounts due from domestic customers decreased by 5.7 percent to EUR 45.9 billion (FY 2015: EUR 48.7 billion). Amounts due from foreign borrowers rose by just under 2 percent to EUR 22.9 billion (FY 2015: EUR 22.4 billion).

The securities portfolio shrank to EUR 20.7 billion (FY 2015: EUR 24.8 billion). Bonds and other fixed-income securities dropped by EUR 4.0 billion to EUR 20.7 billion. This was due to a EUR 2.7 billion fall in the volume of holdings of bonds and fixed-income securities in the investment portfolio. Holdings of equities and other non-fixed income securities went down by EUR 78 million to EUR 40 million. This affected only the liquidity reserve.

The trading portfolio contracted from EUR 11.7 billion to EUR 11.1 billion. The item largely comprises derivatives with positive market values, which in the reporting year stood at EUR 6.1 billion (FY 2015: EUR 7.2 billion). The fall in the market value of derivative financial instruments was mainly due to interest rate-related derivative transactions. Equities and other non-fixed income securities in the trading portfolio amounted to only EUR 2.9 billion (FY 2015: EUR 2.7 billion). Amounts due from trading were at EUR 1.5 billion (FY 2015: EUR 1.1 billion).

In financial year 2016, participations and shares in affiliated companies rose slightly from EUR 2.4 billion to EUR 2.5 billion. Except for the sale of the shares in Deutsche Factoring Bank, there was no significant year-on-year change in the participations portfolio and shares in affiliated companies. The increase in the holding of shares in affiliated companies was primarily the result of value-based changes.

Liabilities

The main items on the liabilities side are as follows:

EUR billion	31 Dec 2016	31 Dec 2015	Change in %
Due to banks	43.3	49.5	−12.6
Due to customers	32.0	35.9	−10.9
Securitised liabilities	34.7	31.8	9.3
Trading portfolio	4.9	5.2	−5.6
Equity	8.2	9.5	−13.2

Amounts due to banks fell significantly by EUR 6.2 billion to EUR 43.3 billion (FY 2015: EUR 49.5 billion), mainly in short and medium-dated maturities. Amounts due to customers dropped less steeply, declining by EUR 3.9 billion to EUR 32.0 billion (FY 2015: EUR 35.9 billion).

Securitised liabilities rose overall, by EUR 2.9 billion to EUR 34.7 billion (FY 2015: EUR 31.8 billion). This increase was due to an overall higher volume of issued bonds and money market instruments. Short-term money market instruments doubled from EUR 1.8 billion to EUR 3.6 billion, mainly through the issuance programme. However, there was only a slight rise in public-sector Pfandbriefs, from EUR 9.6 billion to EUR 10.1 billion, while mortgage Pfandbriefs fell from EUR 3.7 billion to EUR 2.5 billion due to maturing issues.

The trading portfolio fell by 0.3 percent to EUR 4.9 billion (FY 2015: EUR 5.2 billion). A significant component was derivatives with negative market values, which fell year on year from EUR 4.6 billion to EUR 4.3 billion. This trend was in line with trading assets.

BayernLB’s reported equity (after payment into retained earnings) totalled EUR 8.2 billion as at 31 December 2016, a decrease on the previous year’s EUR 9.5 billion. The fall is primarily due to the repayment of the silent partner contributions to the Free State of Bavaria in the amount of EUR 1.3 billion, which took place in April 2016.

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

Capital for banking supervisory purposes is calculated in accordance with CRR/CRD IV.

Common Equity Tier 1 capital (CET1) amounted to EUR 8.6 billion as at 31 December 2016 (FY 2015: EUR 9.8 billion). The decline was largely the result of repaying a silent partner contribution of EUR 1.3 billion to the Free State of Bavaria in April 2016. Approved adjustments to methodology cut risk-weighted assets (RWA) by 44 percent to EUR 42.2 billion. The CET1 ratio was a solid 20.4 percent (31 December 2015: 13.0 percent). Total own funds as at 31 December 2016 amounted to EUR 10.2 billion (31 December 2015: EUR 11.5 billion) and the total capital ratio was 24.3 percent (31 December 2015: 15.3 percent).

The following figures are based on the report to supervisory authorities as at 31 December 2016 were:

EUR billion	31 Dec 2016	31 Dec 2015
Total RWA	42.2	74.9
Own funds	10.2	11.5
• Tier 1 capital	8.6	10.0
• Common Equity Tier 1 capital (CET1 capital)	8.6	9.8
Total capital ratio	24.3%	15.3%
Tier 1 capital ratio	20.4%	13.3%
CET1 ratio	20.4%	13.0%

Based on the adopted annual financial statements as at 31 December 2016, the Bank had CET1 capital of EUR 9.0 billion and a CET1 ratio of 21.4 percent (fully loaded: 18.9 percent). Based on own funds of EUR 10.6 billion, the total capital ratio was 25.2 percent. As at 31 December 2016, the return on capital employed as defined in section 26a para. 1 sentence 4 of the German Banking Act (KWG) was 0.2 percent (FY 2015: 0.3 percent).

General overview of financial performance

BayernLB's results of operations in financial year 2016 were solid taking into account the still challenging economic environment.

On the whole, a look at the earnings performance in FY 2016 shows that the Bank is well on track in its core business areas and its business model has proven effective even in the difficult market environment. Overall BayernLB expanded and strengthened its market position.

Moreover, risks were reduced further and appropriate measures taken for the future in the reporting year. Proper account has been taken of the risks.

BayernLB's net assets and financial position were stable in financial year 2016. The Bank's liquidity was good throughout the reporting period. Further information on refinancing and the liquidity situation is provided in the risk report.

For information on events of major significance after the close of the financial year, please refer to the notes to the annual financial statements.

Report on expected developments and on opportunities and risks

Report on expected developments including opportunities and risks

Economic environment

The stronger growth momentum at the end of 2016 is likely to continue into the start of 2017. In contrast to 2016, BayernLB is, however, expecting the pace of economic growth in Germany to slacken somewhat over the course of 2017. Averaged out over the year, economic output is set to grow by 1.2 percent year on year. Companies may lose some of their appetite for capital spending, mostly as a result of political uncertainty in many quarters (triggering of Brexit, elections in the Netherlands, France and Germany, and measures by the US administration). There will also be a statistical snip to the growth rate as 2017 has fewer business days. The upswing will, however, remain intact overall and still be driven by domestic demand. Low interest rates will continue to spur consumption and investment, particularly in the construction sector. Real estate prices should climb even further in this environment, especially in urban areas with high migration rates. Likewise public spending will probably increase again in 2017. High tax receipts and the currently low interest burden on public sector budgets suggest that this can be achieved while also meeting the goal of balancing the budget. In contrast to the year before, foreign trade should have little impact on GDP growth in 2017. Although high levels of uncertainty in foreign trade are likely to rein in exports, economies in major markets such as the USA and Japan are expected to revive during the year, thereby supporting demand. Germany's export trade should also gain some zip from the weak euro. On the pricing front, inflation's upwards march is set to come to a halt in the first quarter as the base effect from low energy prices gradually fades, unless the oil price heads further north from its current level. Germany's inflation rate will not become settled above the 2 percent threshold. BayernLB expects it to average 1.6 percent over the course of the year. Against this backdrop, the ECB will probably continue its QE purchases within the agreed scope until the end of 2017 at least.

The biggest economic risks for Germany are anticipated to be concerns about the stability of the currency union and the European Union, which have flared up again. How the USA shapes and forms foreign and economic policy under the new administration will also be critical.

Regarding exchange rates, in the first half of 2017 BayernLB is expecting the value of the dollar to rise slightly to USD 1.03/EUR. Propulsion here will come from the short-term improvement in the economic outlook in the wake of the fiscal expansion planned by the new US administration and the expected hike by the Federal Reserve in June 2017. In the second half of the year, the dollar is expected to plot a firm course for parity against the euro and reach this by the end of the year. The greenback is likely to gain traction from a second interest rate hike by the Fed in December 2017 and the prospects of a more rapid round of rate increases in 2018. Pound sterling will probably shed value as very bumpy Brexit negotiations get underway and the economy cools. As for the Swiss franc, BayernLB anticipates the currency will slowly edge higher in 2017, partly on account of the robust shape of the economy, which makes further rate cuts by the SNB appear improbable.

The new US president's economic plans and accompanying expectations of inflation and monetary policy actions are not yet fully priced into bond markets. BayernLB is forecasting yet more additional adjustments will need to be made in 2017, particularly with US interest rates. In response to the line set by the USA, 10-year Bund yields should stay in positive territory for a while. As the monetary policy of the ECB and Fed continues to diverge in 2017, Bunds at the long end of the curve will, however, track Treasuries only to a certain extent. This is also suggested by the shortage of Bunds, which remains a key determining factor for Bund yields despite the scaling back of QE volumes in April. By year-end the Bank is expecting 10-year Bunds to be yielding around 0.6 percent. In respect of the covered bond market, the Bank is anticipating spreads will widen moderately in the market as a whole. Covered bonds from the euro periphery will probably underperform their EU core counterparts, particularly Pfandbriefs. European credit markets will continue to be governed by the tensions between event risks and ECB purchases in 2017. Although BayernLB considers the direct impact of US fiscal policy and the tapering debate on the credit universe to be limited, rising volatility in benchmark interest rates could blunt risk appetite for the IG segment. In 2017, it is expected that risk premiums in the investment grade (iBoxx Euro Non-Financials) and high yield (BofA Merrill Lynch Euro High Yield) brackets will rise on average by 10 and 30 basis points respectively.

Stock markets should also see strong volatility in 2017. With most leading economic indicators pointing upwards, expectations of accommodative fiscal measures by the newly elected US administration and the expansion of the ECB's QE programme, stock markets headed into the new year on a tailwind. Thereafter, the likelihood is, however, of a temporary period of consolidation or correction. Possible triggers include the dampening effect on the European economy from the Brexit process, disillusionment with the economic impact of the Trump agenda and germination of (geo) political risks. Due, however, to a modest overall pick-up in the global economy and the continuation of expansive monetary policy, the Bank does not expect stock markets to go into retreat.

BayernLB's future performance

BayernLB's strategy over the coming years will continue to be based on the agreements that emerged from the EU state-aid proceedings in 2013. The key condition is therefore the repayment of the still outstanding state aid payments in the amount of EUR 1.0 billion to the Free State of Bavaria. For it to do so it must have a solid capital base and stable core business even after the repayment.

In 2016, as one of the key cornerstones of BayernLB's future strategic direction, the Bank defined an overarching strategic course and drew up the specific measures for achieving it. The focus of the Bank's strategic goals will be on sustainably expanding the earnings base by growing business with customers in core business areas, strengthening the low-risk commission business, developing robust sales structures capable of achieving sales targets and selectively digitalising sales channels. They also include ensuring that the Bank has a capital base suitable for its long-term needs, optimising the operating model to stabilise the good cost base and developing a permanent culture of efficiency. BayernLB's market presence will continue to be shaped by its universal bank-like business model with a geographical focus on Bavaria and Germany. BayernLB offers a comprehensive product mix to its corporate, retail, real estate and asset management customers, the savings banks and public sector.

In 2017, the business with Mittelstand and large corporations will be conducted along the lines laid down over the last two years. Key success factors in this have been the expansion of the customer base with mainly Mittelstand companies in the different regions of Germany and the intensification of customer relationships. Forming a solid foundation for future growth is the partnership with Standard Chartered Bank in international business in Asia, the range of capital measures offered jointly with private bank Joh. Berenberg, Gossler & Co. KG., Hamburg and BayernLB's strong position in the credit and DCM business. New products and services, for example, in the areas of digitalisation and sustainability (green bonds/green Schuldschein notes) and project bonds/project finance debt funds, represent additional opportunities on both the asset and liability sides. An intensively competitive interest rate environment, irritations posed by Brexit, the newly elected administration in the USA and international flash points also mask, however, a tough decision-making and investment environment for internationally operating companies, project developers, sponsors and investors.

With regard to commercial and residential real estate customers, the focus of the strategic goals will be on boosting sales activities and increasing market penetration by offering comprehensive customer relationship management across the whole product range. BayernLB expects to achieve steady portfolio growth between now and 2021 by implementing the planned increases in business with existing customers and expanding the customer base, for example by opening new sales offices.

The successful and trusting collaboration with savings banks and municipalities is based on the sales and customer-orientated support model with a holistic approach and range of products and services based on needs.

DKB's strategic focus is on ensuring stable and profitable customer relationship management by achieving a good balance in its lending and deposit business. In the retail banking business, online bank DKB will aim for even more customer penetration and a higher wallet share through a comprehensive range of products and services. In the corporate and infrastructure customer segments it operates with a broad-based network and sector-specific expertise for the defined core customer groups.

The Bank assumes interest rates will remain low. Institutional investors will therefore continue to turn to longer-dated instruments and credit risk (senior unsecured and subordinated capital) to generate returns. For BayernLB's part, this interest rate environment calls for more focus to be placed on managing funding costs. Thanks to the expected presence of central banks as both bond buyers and suppliers of liquidity (e.g. ECB – TLTRO II), the Bank is anticipating a plentiful supply of market liquidity in 2017 as well. BayernLB will, however, continue to work on its funding portfolio so it can call on a comfortable funding base even when central bank activity starts to ebb.

Increasing importance will be attached to managing loss absorption capacity, which is determined by the supervisory Minimum Requirement for Eligible Liabilities (MREL) and, as an additional aspect, has a significant impact on BayernLB's capital market rating.

BayernLB sees opportunities if the economic data turn out better than expected. A more rapid increase in interest rates would help the contribution from investing capital, and thus net interest income. On the other hand, further falls in interest rates would weigh on the Bank as, for example, it would need to inject more funds into pension provisions.

BayernLB forecasts that it will once again post a profit before taxes in the mid-triple-digit million range for 2017. RoE will stay in the mid-single-digit range, with CIR staying at the 2016 level despite rising regulatory costs. It cannot be ruled out that any change in the assumptions underlying our forecasts may affect BayernLB and its net assets, financial position and results of operations.

Risk report

Principles

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

Key developments in 2016

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

BayernLB continued to have a healthy risk profile in financial year 2016.

Gross credit volume fell by EUR 3.4 billion to EUR 168.6 billion.

The Bank's good portfolio quality improved again and benefited from the expansion of the core business with good quality assets and by the positive financial and economic environment in Germany, BayernLB's core market.

Thanks to strict risk discipline, the key metrics of portfolio quality remained stable, with a high investment grade share of 85.8 percent (FY 2015: 83.8 percent) and a much lower non-performing loan ratio of 1.9 percent (FY 2015: 2.9 percent). In the core business, the non-performing loan ratio was 0.3 percent (FY 2015: 0.5 percent).

Risk-bearing capacity was maintained throughout financial year 2016 as the provision of risk capital was solid. In addition, BayernLB had a good supply of liquidity on hand.

Internal control and risk management system

Tasks and objectives

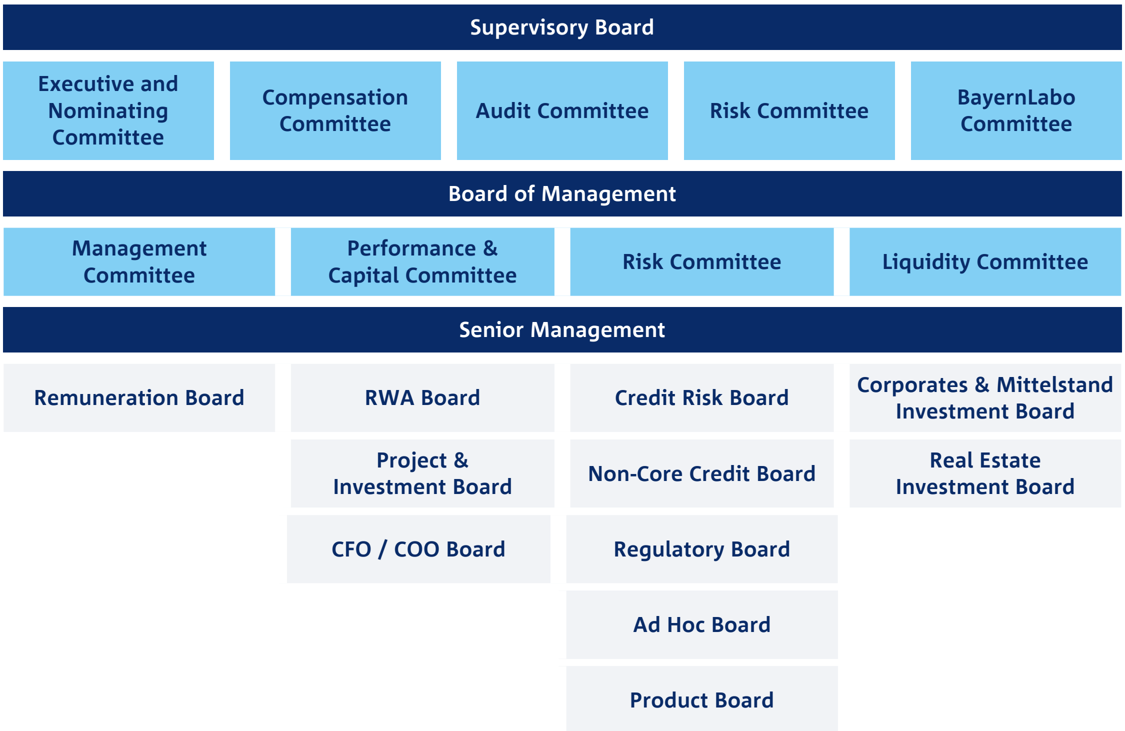
BayernLB has established an internal control system (ICS) to ensure that its accounts are properly prepared and reliable. This includes principles, procedures and measures for ensuring the accounts are produced in an efficient and cost-effective manner. Consequently, the internal control system helps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

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

Management structure

In 2016 the Board of Management reorganised the structure of committees and boards below the Board of Management level and aligned them with the new regulatory and legal requirements. The changes predominantly reflect the now completed strategic realignment of BayernLB and its Group companies, and the new European regulatory structure led by the ECB involving new procedures and processes (the Single Supervisory Mechanism (SSM) and Supervisory Review and Evaluation Process (SREP)) and have the goal of making corporate management more consistent and transparent within the BayernLB Group.

Management structure



Supervisory Board and committees

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

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

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

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

Board of Management and committees (committees and boards)

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

In the first half of the year, the Board of Management therefore set up/reorganised four committees with a Group focus. Each committee is headed by a member of the Board of Management. The Board of Management has transferred responsibilities and, to an extent, decision-making powers to the committees. The committees have a largely advisory function. The individual Board of Management member's responsibility for his/her segment and the overall responsibility of the Board of Management pursuant to the Rules of Procedure and the allocation of tasks of the Board of Management continue to apply.

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

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

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

In addition, the Board of Management is supported in its activities by the Management Committee.

Senior Management

The Board of Management has reorganised the board structure at senior management level to make it more consistent. Boards generally act across segments without the Board of Management being directly involved.

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

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

The Non-Core Credit Board, chaired by the head of the Credit Consulting division, has a decision making and voting function for all operational issues relating to the winding down of assets; in particular it decides on credit applications under authority granted by the Board of Management.

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

The Corporates & Mittelstand Investment Board and the Real Estate Investment Board are the highest decision-making bodies below the Board of Management with authority to allocate capital and resources for their business area and are responsible for the business area-specific management carried out on the basis of central rules and ratios and the strategic targets of the area. The Investment Boards also decide on the German connectivity of customers and/or transactions, thereby satisfying the conditions imposed by the EU for transactions with borrowers whose registered office is outside Germany.

Other boards set up by the Board of Management include the Remuneration Board, the Project and Investment Board, the CFO/COO Board, the Regulatory Board and the Ad Hoc Board.

Organisation

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

The Board of Management is chiefly supported in this task by the Risk Office, Credit Consulting, Financial Office, and Operating Office and Corporate Center central areas.

Risk Office

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

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

In addition to periodic and ad-hoc reporting on BayernLB's risk situation to internal decision-makers, communication also includes external risk reports filed in accordance with legal and supervisory requirements.

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

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

The Research division is responsible for risk assessment of countries and sectors, and issues economic analyses and forecasts, and also capital market studies and recommendations (including on bonds and Schuldschein note loans from individual issuers). The division contributes to risk management at BayernLB and provides analyses and forecasts for BayernLB customers and for the securities and currency business of the Financial Markets business area and the Bavarian savings banks.

Credit Consulting

Following the winding down of the non-core businesses since 2009, which is already well under way, the focus of the division's tasks has returned to being a service provider for the core business and the restructuring or liquidation of exposures; since September 2016 this division has once again operated under the name Credit Consulting. The division performs the roles of both the Sales units and the Risk Office for the exposures assigned to it.

Financial Office

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

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

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

The separate financial statements and management report are compiled in accordance with the directives for preparing the accounts, produced by directive of the Board of Management, checked by the auditors and approved by the Supervisory Board. The Supervisory Board has set up an Audit Committee whose duties include discussing the audit reports and preparing the resolutions for the Supervisory Board's approval of the separate financial statements and the management report. Upon request, the auditor takes part in the discussions of the Audit Committee and Supervisory Board on the separate and consolidated financial statements and reports on the key findings of its audit.

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

Operating Office

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

Corporate Center

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

The Audit division audits BayernLB's business operations and reports directly to the CEO. Taking a risk-oriented auditing approach, its auditing activities extend to all activities and processes within BayernLB. In particular, its activities also include important processes and activities outsourced to third parties. Pursuant to MaRisk BT 2.1 sub-section 3, the company can forego its own auditing activities in cases of material outsourcings, insofar as the other internal audit activities performed – i.e. the external service provider's internal auditing – satisfies the MaRisk AT 4.4 and BT 2 provisions. Where companies performing material outsourced activities have no internal audit service of their own, BayernLB's internal Audit division undertakes its own auditing activities. The internal audit units of companies performing material outsourced activities are regularly reviewed to ensure they are capable of satisfactorily performing their duties. As Group internal auditor, it also supplements the internal auditing units of subordinate companies.

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

Scope of monitoring and monitoring procedures

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

The rules governing the accounting-related internal control system are set out in the directives for preparing the accounts. The main component of these directives is the Accounting Manual (FACT manual), which contains key requirements for ensuring the uniform application of accounting policies and measurement methods. This is supplemented by instructions on preparing the separate financial statements. These instructions on preparing the annual accounts include information on reconciling and eliminating intra-Group transactions, the debt consolidation process, expenses and earnings consolidation, as well as on tasks, contacts and deadlines relating to the preparation of the separate financial statements. In addition, changes in accounting standards, IT systems and control procedures for ensuring high quality reporting and data are also explained.

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

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

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

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

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

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

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

The Central Outsourcing Management office in the Organisation central area sets the rules for the outsourcing process in BayernLB and provides centralised status reports on outsourcing to the Board of Management. The ongoing monitoring and managing of external service providers as required by section 25b KWG and MaRisk AT 9 is performed decentrally by outsourcing managers in the business units responsible for accepting the services. The Group Risk Control division records and evaluates outsourcing risks and submits regular cross-divisional risk reports to the Board of Management.

Risk-oriented management

Risk Strategy

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

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

The Risk Strategy sets the following main objectives and guidelines:

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

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

The economic capital available for allocation is based on the long-term capital available, and was allocated within BayernLB by risk type in line with the Risk Strategy in force for 2016.

The basis for setting the Risk Strategy is the annual risk inventory carried out in accordance with MaRisk and the risk-bearing capacity calculation. The risk inventory examines not only BayernLB but also the participations and special purpose entities in the BayernLB Group, regardless of whether they are consolidated under German commercial law or supervisory requirements. The BayernLB Group's risk profile is then shown in the risk map within the risk inventory and presented to the Board of Management for information purposes. BayernLB's major risks are counterparty risks (resulting from credit and country risks), market risks, including risks from pension liabilities, operational risks, participation risks, the risk of a rise in the cost of liquidity, business and strategic risks, including reputational risks and real estate risks from the real estate in the BayernLB Group's portfolio. The individual risk types are described in greater detail further on in this report.

Capital management

Capital management is based on a planning process that incorporates strategic, risk-based and regulatory factors into a long-term operational plan. The business strategy is an essential element for preparing the capital planning and the risk strategy.

Integrated risk and earnings reporting

In line with the reorganisation of the committees and boards in 2016, the reporting system to the Board of Management was also realigned. Trends in the four key areas of performance, capital, liquidity and risk are integrated into a new monthly Group management report presented to the Board of Management. The Management Cockpit in the integrated report provides a brief impression of the current situation with key figures and ratios. Additional detailed information focused on the four key areas is then presented and commented on.

The instruments used to manage and monitor the achievement of business and risk strategy goals are constantly refined at Group level.

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

Regulatory capital adequacy (solvency)

To ensure BayernLB has the proper amount of regulatory capital, the objectives, methods and processes below have been defined: The starting point for the allocation of regulatory capital is BayernLB's own funds planning. Own funds are defined as Common Equity Tier 1 capital (CET1), additional Tier 1 capital and Tier 2 capital. Common Equity Tier 1 capital comprises subscribed capital plus reserves and the state support mechanism of the Free State of Bavaria, less various supervisory corrections and deductions. Tier 2 capital comprises profit participation certificates and long-term subordinated liabilities.

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

Regulatory capital is distributed in the planning process to each planning unit through RWA. The planning units (Group units) are the defined business areas/central areas within BayernLB, BayernLabo and DKB.

Risk-weighted assets (RWA) are allocated to the Group units through a top-down distribution approved by the Board of Management for credit, market and operational risks, combined with an internally assumed capital ratio of 11.5 percent. Compliance with the RWA limits available to each Group unit is constantly monitored by the Performance & Capital Committee. The Board of Management receives monthly reports on current RWA utilisations.

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

Economic capital adequacy (risk-bearing capacity)

As part of the Internal Capital Adequacy Assessment Process (ICAAP), the economic capital adequacy (risk-bearing capacity) is ensured and monitored so that sufficient economic capital is available at all times to cover the risks assumed or planned.

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

The economic capital is of suitable quality to absorb any losses and is calculated in accordance with the liquidation approach by deducting from the sum of equity and subordinated capital those items that are not available in the event of the liquidation of BayernLB (e.g. intangible assets).

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

Previously, the risk capital requirement for business and strategic risk, the risk of a rise in the cost of liquidity and BayernLB's own real estate risk has been deducted directly from economic capital. However, limits were also set for these risks during the 2016 Risk Strategy review.

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

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

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

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

Current situation

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

Risk capital requirements

EUR million	31 Dec 2016	31 Dec 2015
Counterparty risk (credit and country risk)	773	795
Market risk	1,644	1,950
• of which actual price risk	669	459
• of which pension risk	975	1,491*
Operational risk	445	439
Participation risk	119	99
Business and strategic risk (includes reputational risk)	412	495
Liquidity cost risk	180	179
Real estate risk	–	–
from capital provided to institutions of the BayernLB Group	355	481
• credit and participation risks	355	481
Total	**3,928**	**4,439**

* *The risk capital requirement for risks from pension liabilities as at 31 December 2015 has been adjusted for comparison purposes owing to the change in methodology.*

BayernLB had adequate risk-bearing capacity, as the provision of risk capital was solid.

Most of the decline in the risk capital requirement related to pension risks and business and strategic risks. Pension risk reflects adjustments in methodology, which are discussed in more detail in the section on market risk. The risk capital requirement for pension risk as at 31 December 2015 has been adjusted accordingly. No risk capital is required for real estate risk because of the high level of hidden reserves and higher market values for BayernLB's own real estate.

As part of BayernLB's stress testing programme, the possibility of a severe economic downturn (ICAAP stress scenario) is routinely calculated. Under the severe recession scenario, the risk capital requirement for the individual risks rises to a total of EUR 7.8 billion (FY 2015: EUR 7.7 billion).

A severe economic downturn (ICAAP stress scenario) would see 66.6 percent utilisation of available economic capital (FY 2015: 61.3 percent). The regulatory minimum capital ratios were met in the going concern scenario.

Inverse stress testing

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

Recovery plan

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

The recovery plan is updated annually and was amended in 2016, in particular through the incorporation of planning data. The thresholds for the one and two-stage indicators in the recovery plan, which are set mainly at Group level and are based on SAG and MaSan, were complied with by comfortable margins. Against this background, no recommendations for action needed to be sent to the Board of Management.

Resolution plan

As part of the reaction to the 2008 financial crisis, lawmakers established the EU regulation on a uniform Single Resolution Mechanism (SRM Directive) and SAG. These direct resolution authorities at the European and national level to keep resolution plans for banks on file that can be activated in an emergency to avert threats to the financial system, where possible without the need for taxpayers' money.

BayernLB complied with its legal responsibilities by assisting the responsible resolution authorities (the Single Resolution Board (SRB)) and the German Financial Markets Stabilisation Institution (Finanzmarktstabilisierungsanstalt (FMSA)) to develop a resolution plan for the BayernLB Group.

Credit risk

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

Definition

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

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

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

Credit Risk Strategy and approval process

The Credit Risk Strategy – which is part of the comprehensive Risk Strategy – is set for BayernLB by BayernLB's Board of Management, taking account of risk-bearing capacity considerations.

Before transactions are concluded, the Investment Boards check compliance with the conditions imposed by the EU that customers and/or transactions have a connection with Germany.

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

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

Risk measurement

Risk classification procedure

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

These procedures are regularly modified where necessary. For instance, market-induced factors have been incorporated into various rating procedures in recent years in order to further improve their accuracy.

Exposure at default

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

Collateral valuations and loss ratios

The starting point for valuing collateral is the market value. This is reviewed on both a scheduled and ad-hoc basis and adjusted whenever there is a change in valuation-relevant parameters. Based on these individual collateral valuations, the Bank estimates the size of the loss upon default, which is principally calculated using differentiated models for realisation ratios (average expected proceeds from the realisation of collateral) and for recovery rates (share of proceeds from the unsecured portion of a claim). The unsecured loss given default (LGD) is determined using the recovery rate. It shows the expected loss from the unsecured exposure of a loan. In contrast to the recovery rate, this also takes account of the various resolution strategies (liquidation, restructuring or recovery). In addition, since March 2016 an LGD has been applied to the secured part of the loan. These models are likewise maintained and improved in partnership with RSU Rating Service Unit GmbH & Co. KG using pooled data and internal loss data. All models are regularly validated and checked for their representativeness.

Expected loss

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

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

Unexpected loss

BayernLB calculates unexpected loss at portfolio level using a simulated credit portfolio model, which estimates default risks on a one-year horizon with a confidence level of 99.95 percent. Dependencies among borrowers in the portfolio are estimated using a country and sector-specific model. In addition, the effects of rating migrations and uncertainties in calculating loss ratios are also taken into account. The impact of an unexpected loss by an individual business partner on the whole portfolio is also calculated for risk analysis purposes.

Risk monitoring

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

Early warning

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

Risk capital requirements

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

Counterparty default risk limits for borrowers/borrower units

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

Sector and country limits

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

Collateral

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

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

As part of its IRBA approval, the supervisory authority has granted BayernLB approval to lower its regulatory capital requirements through the use of real estate liens, ship mortgages, registered liens on aircraft, guarantees, financial collateral in the form of securities, cash deposits and credit derivatives.

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

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

Problem loan handling and forbearance

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

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

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

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

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

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

Risk provisions

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

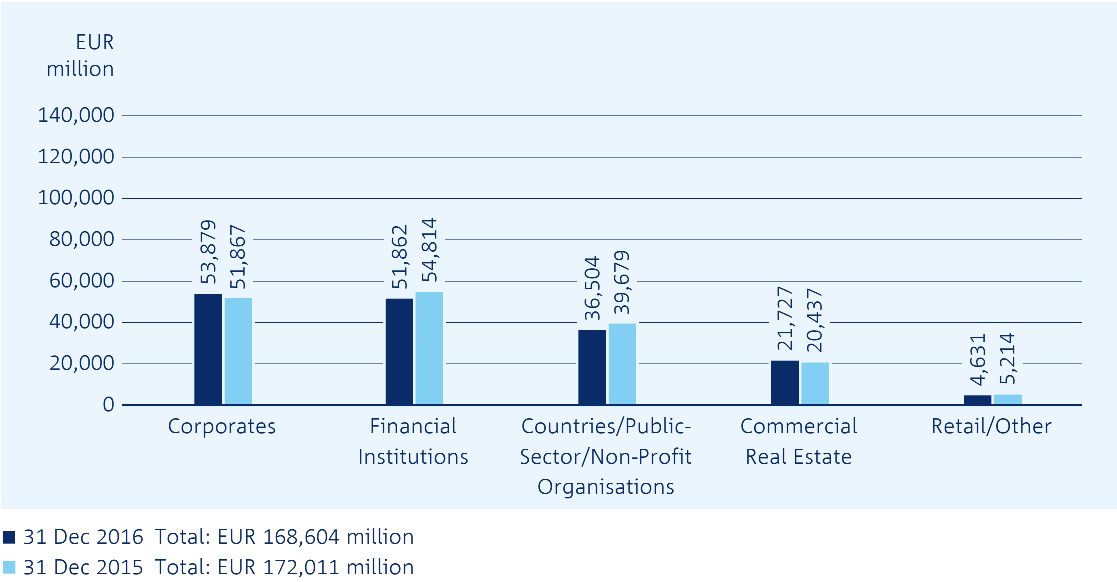
Current situation

The following presentation of credit risk is based on the figures used for internal reporting to the Board of Management and the Risk Committee of the Supervisory Board.

The gross credit volume for credit transactions comprises the gross lending volume – drawdowns plus unutilised commitments – and undrawn internal current account limits. For trading transactions it is calculated from market value, for derivatives transaction from credit equivalent amounts.

The following contains a breakdown of BayernLB's gross credit volume by sub-portfolio, rating category, region, issuer risks and replacement risks.

Gross credit volume by sub-portfolio



In financial year 2016, the gross credit volume of BayernLB including Bayerische Landesbodenkreditanstalt (BayernLabo) fell from EUR 172.0 billion to EUR 168.6 billion, a fall of 2.0 percent (EUR 3.4 billion).

Business volumes in the strategically important Corporates and Commercial Real Estate sub-portfolios rose by EUR 2.0 billion and EUR 1.3 billion or 3.9 and 6.3 percent respectively. This was offset by decreases of EUR 3.2 billion in the Countries/Public-Sector/Non-Profit Organisations sub-portfolio and EUR 3.0 billion in the Financial Institutions sub-portfolio. This corresponds to decreases of 8.0 and 5.4 percent respectively.

Corporates sub-portfolio

As in the year before, this sub-portfolio grew again. By taking advantage of the market potential, gross credit volume rose by a total of EUR 2.0 billion or 3.9 percent to EUR 53.9 billion. As a result, the Corporates sub-portfolio is now the largest sub-portfolio in BayernLB.

Gross credit volume within the sub-portfolio rose on a broad front with higher volumes in nearly every sector. The following four sectors accounted for most of the growth:

Exposure in telecoms, media & technology increased by EUR 0.5 billion in line with strategy. Growth was driven mainly by transactions with technology conglomerates, telecommunications companies and recruitment service providers.

In the chemicals, pharmaceuticals & healthcare sector, exposure rose by EUR 0.5 billion, largely due to co-financings of corporate takeovers fuelled by the continuing consolidation trend in the sector.

Exposure was also up by EUR 0.5 billion in the consumer goods, tourism, wholesale & retail sector, particularly in tourism. The increase was largely down to two new exposures with strong credit ratings in the cruise industry that are for the most part secured by export credit insurance.

The manufacturing & engineering, aerospace & defence sector contributed roughly EUR 0.2 billion to the sub-portfolio's growth. Customers with investment grade ratings in stable sub-segments – in particular, rolling stock manufacturers, logistics machine manufacturers and aircraft makers – accounted for most of the growth.

Gross credit volume in the utilities sector, the largest sector by volume, edged down slightly by EUR 0.1 billion to EUR 9.1 billion. Driven by financing for renewable energy, new business shifted further in the direction of project financings. At just under 56 percent, these now account for more than half of the Utility portfolio's volume. In contrast, conventional financing, particularly for public utilities and integrated multi-utilities, was down.

Regionally, Germany continued to dominate the Corporates sub-portfolio with a share of 60.0 percent (FY 2015: 61.5 percent).

The already high investment grade share in the Corporates sub-portfolio improved significantly to 74.9 percent (FY 2015: 71.6 percent). The expansion of the gross credit volume was largely within the investment grade area.

Granularity in the sub-portfolio also improved, with 38.6 percent (FY 2015: 38.0 percent) relating to customers with a gross credit volume of less than EUR 50 million.

Transactions that are no longer part of the core business decreased further. Non-core business belonging to this sub-portfolio shrank by another EUR 0.6 billion to EUR 1.2 billion.

Financial Institutions sub-portfolio

Gross credit volume in the Financial Institutions sub-portfolio fell by around EUR 2.9 billion to EUR 51.9 billion (FY 2015: EUR 54.8 billion), a decrease of 5.4 percent.

Most of the decrease in volume occurred in the bank sector, where gross credit volume fell by around EUR 4 billion. The decrease took place mainly in the following areas: Global commercial banks (EUR –2.7 billion), Landesbanks (EUR –0.5 billion) and building societies (EUR –0.4 billion). The decrease in global commercial banks is due in part to the reduction in the gross credit volume in the non-core business in Austria (EUR –1.3 billion) and also to the liquidity reallocations of various institutions.

Volume in the insurance sector rose slightly by EUR 0.1 billion to EUR 4.7 billion.

In the strategically important savings banks area, gross credit volume rose by EUR 1 billion. As a result, the quality of the sub-portfolio improved once again despite being already very high. The investment grade share climbed to 96.5 percent (FY 2015: 93.0 percent). The share in Germany rose to 62.5 percent (FY 2015: 58.8 percent).

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

Gross credit volume in the Countries/Public-Sector/Non-Profit Organisations sub-portfolio was down by EUR 3.2 billion or 8.0 percent to EUR 36.5 billion (FY 2015: EUR 39.7 billion). Foreign business volume decreased by around EUR 1.8 billion, while domestic volume fell by around EUR 1.4 billion. The reduction in foreign business volume occurred mainly with central banks (EUR –1.0 billion) and countries (EUR –0.6 billion). The US Federal Reserve Bank accounted for the largest share of the decrease in business with central banks, while the Bank of England accounted for a smaller amount. The decrease in countries primarily occurred in the USA. Domestically, a large proportion of the reduction in gross credit volume was due to the German states (EUR –0.5 billion), municipalities (EUR –0.2 billion), the German Bundesbank (EUR –0.3 billion) and the German federal government and its special funds (EUR –0.2 billion).

Customer relationships in this sub-portfolio were utilised in part for liquidity management.

The investment grade share in this sub-portfolio was nearly unchanged at a very high 97.4 percent (FY 2015: 97.6 percent).

Commercial Real Estate sub-portfolio

As at the reporting date, gross credit volume in the Commercial Real Estate sub-portfolio amounted to EUR 21.7 billion (FY 2015: EUR 20.4 billion).

In line with strategy, gross credit volume in the reporting period grew significantly by EUR 1.3 billion or 6.3 percent.

The growth in volume largely occurred in investor-side real estate rental and leasing (EUR 0.9 billion) and residential construction by property developers (EUR 0.8 billion). By way of contrast, business fell with real estate investment fund companies (EUR –0.2 billion) and with operators of or investors in managed real estate (EUR –0.2 billion).

The quality of the Commercial Real Estate sub-portfolio remained very high, with the investment grade share rising to 81.8 percent (FY 2015: 79.2 percent). The share in Germany increased slightly to 75.3 percent (FY 2015: 72.9 percent). Granularity and collateralisation rates in the sub-portfolio continued to be high. As at the reporting date, customers with a gross credit volume of less than EUR 50 million accounted for 46.6 percent (FY 2015: 50.3 percent) of the portfolio. The collateralisation ratio was 68.8 percent (FY 2015: 71.9 percent), still close to the three-year average of around 70 percent.

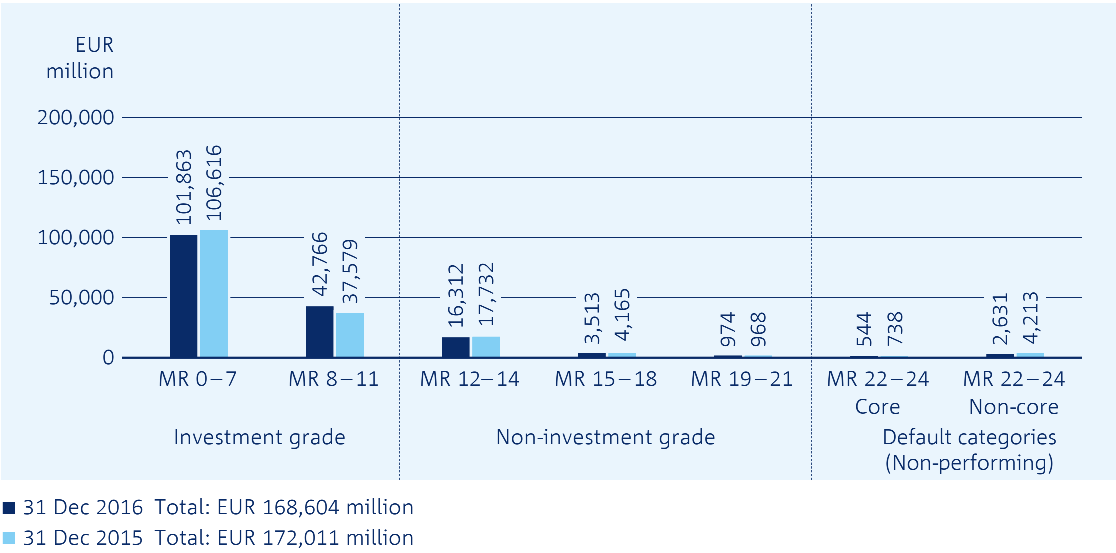
Non-core business in the sub-portfolio continued to be wound down as planned as non-core gross credit volume shrank by a further EUR 0.7 billion to EUR 1.8 billion.

Retail/Other sub-portfolio

In Retail/Other, the smallest sub-portfolio, gross credit volume fell in line with strategy by EUR 0.6 billion to EUR 4.6 billion (FY 2015: EUR 5.2 billion).

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

Gross credit volume by rating category



Gross credit volume at BayernLB in the investment grade master rating (MR) categories 0–11 rose slightly by EUR 0.4 billion in the reporting period. The increase in investment grade gross credit volume in the Corporates sub-portfolio was nearly offset by a corresponding decrease in the Countries/Public-Sector/Non-Profit Organisations sub-portfolio. Overall, however, portfolio quality improved again from a very high level: The investment grade share rose from 83.8 percent to 85.8 percent.

In contrast to the increase in the investment grade area, gross credit volume in ratings categories MR 12–14 shrank by EUR 1.4 billion. Accordingly, these credit rating categories fell from 10.3 percent of gross credit volume to 9.7 percent. Gross credit volume in rating categories MR 15–18 and MR 19–21 also fell by a total of EUR 0.6 billion over the reporting period. The proportion of the gross credit volume in these rating classes fell accordingly from 3.0 percent to 2.7 percent.

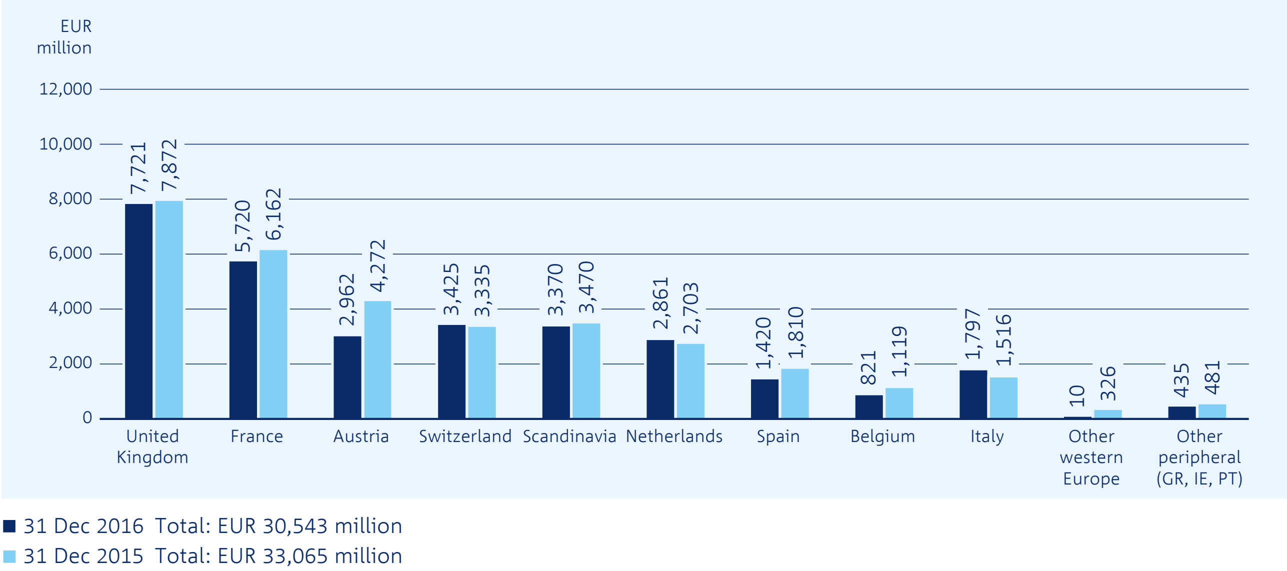
The non-performing loan ratio (NPL ratio) improved significantly during the reporting period to 1.9 percent (FY 2015: 2.9 percent). The cause of the reduction is largely down to the decline in the non-performing loan volume in Austria in the non-core business of the Financial Institutions sub-portfolio.

In core business, the NPL ratio improved to 0.3 percent (FY 2015: 0.5 percent) and to 33.9 percent in non-core business (FY 2015: 36.2 percent).

Adequate risk provisions were set aside to cover loans added to the default categories.

The following table shows gross credit volume by region.

Gross credit volume in western European countries

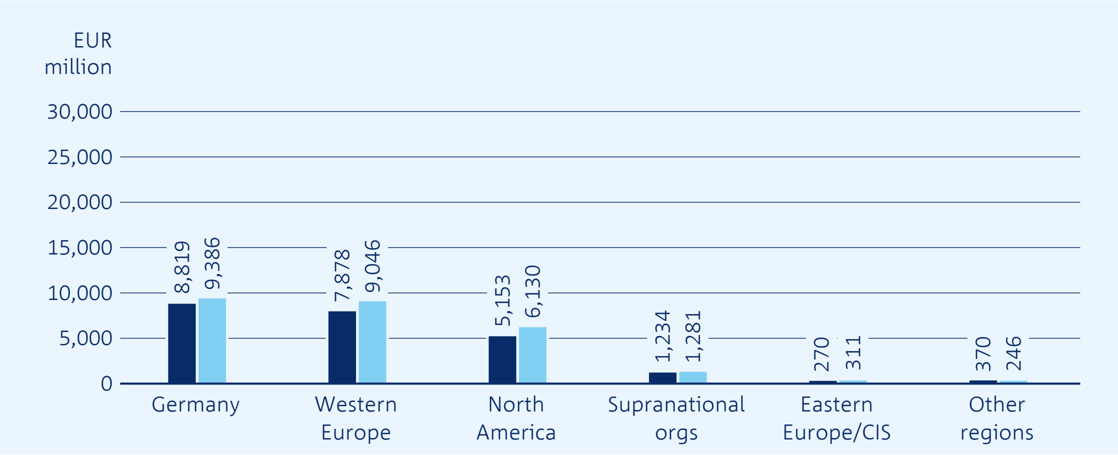


In western Europe (not including Germany), gross credit volume fell by approximately EUR 2.5 billion to EUR 30.5 billion (FY 2015: EUR 33.1 billion), driven mainly by the EUR 1.3 billion drop in volume with Austria. A large proportion of the non-core business in the Financial Institutions sub-portfolio was wound down in the region. In addition, volume also decreased significantly in France, Spain, Belgium and Iceland. The decrease in gross credit volume in these countries occurred mainly in the Financial Institutions sub-portfolio, particularly with banks.

Increases in volume occurred mainly in Italy, the Netherlands and Finland, where core business, particularly lending, grew.

The following table shows gross issuer risk by region.

Gross issuer risk by region

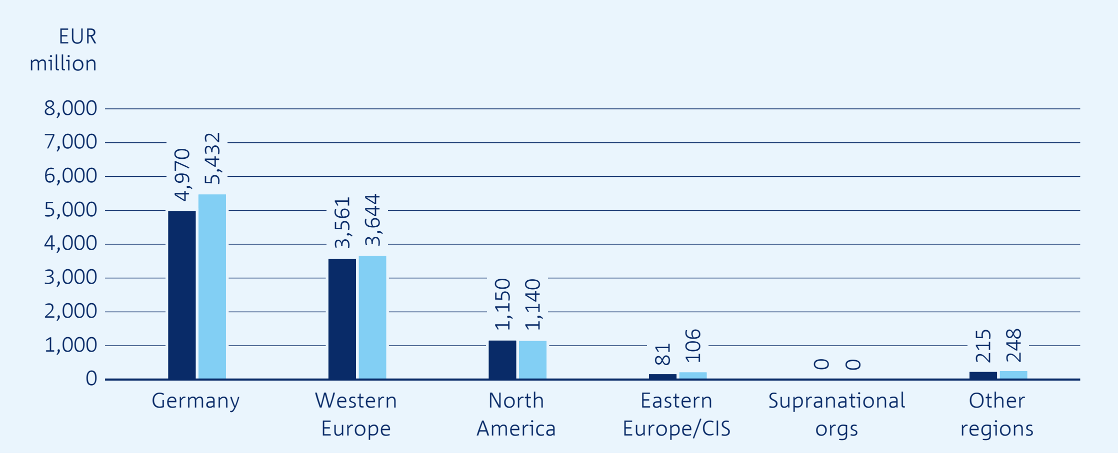


■ 31 Dec 2016 Total: EUR 23,723 million
■ 31 Dec 2015 Total: EUR 26,400 million

Gross issuer risk fell again in the reporting period. It declined in total by EUR 2.7 billion to EUR 23.7 billion (FY 2015: EUR 26.4 billion). Most of the reduction took place in western Europe and North America. In Germany, gross issuer risk fell to EUR 8.8 billion (FY 2015: EUR 9.4 billion).

The following table shows gross replacement risk by region.

Gross replacement risk by region



■ 31 Dec 2016 Total: EUR 9,978 million
■ 31 Dec 2015 Total: EUR 10,569 million

Gross replacement risk also fell in the reporting period, declining by EUR 0.6 billion to EUR 10.0 billion (FY 2015: EUR 10.6 billion). The reduction occurred mainly in Germany, where gross replacement risk fell by EUR 0.5 million to EUR 4.9 billion (FY 2015: EUR 5.4 billion). Most of this decrease occurred in the Corporates sub-portfolio.

Summary

Overall, the quality of the credit portfolio remains very good. This is reflected in the continued high investment grade share, which improved significantly from 83.8 percent to 85.8 percent. Core business with target customers also grew in important sub-portfolios. Particular highlights are the successful business expansions in the Corporates (EUR 2.0 billion) and Commercial Real Estate (EUR 1.3 billion) sub-portfolios. Moreover, the non-core portfolio shrank significantly again (EUR –3.9 billion) in line with strategy.

Participation risk

Definition

Participation risk (shareholding risk) comprises BayernLB's counterparty (default) risk arising from its shareholdings.

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

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

Risk Strategy

The target portfolio comprises stakes in companies that complement the business model, help to expand customer and market potential or support operating processes, and also miscellaneous participations. DKB, BayernInvest Kapitalverwaltungsgesellschaft mbH and Real I.S AG are Group strategic participations.

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

Participation risks are handled in accordance with the participation risk strategy, which is derived from the overarching risk strategy and also the participation risk policy. These are the investment process, the capital base and controlling and reporting. All participations are approved by BayernLB's Board of Management. Other issues to be decided and mandatory consent for participations are governed in detail by the Bayerische Landesbank Act, the Statutes and the Rules of Procedure of the Board of Management of BayernLB.

Measuring and monitoring risk

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

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

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

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

Risks from participations are reported to the Board of Management in the regular risk reporting process as well as in an annual investments report using the relevant procedures (classification, early warning). Major shareholdings with difficulties are monitored in the intensive support or problem loan processes and reported to the Board of Management on a quarterly basis. The participations report sets out in particular recommendations for action and the implementation status of measures already executed for participations in intensive support or problem loan process with a potential loss in excess of EUR 10 million.

Summary

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

Market risk

Definition

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

Risk Strategy

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

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

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

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

Risk measurement

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

Pension risks (risks from BayernLB's pension liabilities) are calculated using a scenario-based approach. In 2016 the parameters used to calculate interest rate risk, the size of pension liabilities and biometric risk were adjusted and refined. This relates, for example, to an additional premium for biometric risk covering both life expectancy and the cost of medical care. In addition, the scenario analysis was adjusted to reflect yield performance in the statutory pension scheme. The results of backtesting have also been taken into account.

Market risk measurement methods are constantly checked for the quality of their forecasting. In the backtesting process, the risk forecasts are compared with actual outcomes (gains or losses). As at 31 December 2016, based on the Basel traffic light approach, the forecasting quality of the procedure for measuring market risk was good.

The outcomes of value-at-risk or scenario-based risk measurement must always be looked at in the context of the assumptions used in the model (mainly the confidence level selected, a one-day holding period, and the use of historical data over a period of around one year to forecast future events). For this reason, risk positions are subjected to regular stress tests based on historical crises and hypothetical changes in market prices and then the potential risks are analysed. Stress tests take into account all relevant types of market risk and are regularly reviewed to assess the suitability of the parameters used, with parameter changes being made where required.

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

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

Risk monitoring

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

Pension risks are monitored monthly. The actual market risks are monitored daily by the market risk controlling units independently of trading units and forwarded as part of the daily reporting to the responsible members of the Board of Management. In addition to complying with regulatory requirements, this ensures risks are reconciled daily and reported to those responsible for positions. If limits are breached, appropriate measures are taken as part of an escalation procedure.

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

Alongside the regulatory interest rate shock scenario of +/–200 basis points calculated for the interest rate risk in the banking book, additional interest rate shock scenarios are also calculated and limited. As at 31 December 2016, the change in the present value relative to BayernLB’s eligible capital in the interest rate shock scenario of +/–200 basis points was well below the 20 percent limit set in BaFin’s criterion for “institutions with elevated interest rate risk”.

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

Current situation

At BayernLB the main factor affecting the VaR for the actual market risks is general and specific interest rate risk. All other types of risk play a much less significant role by comparison. The current situation for pension risks is presented in the chapter on “Economic capital adequacy”.

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

			1 Jan 2016 to 31 Dec 2016		
EUR million	**31 Dec 2016**	**31 Dec 2015**	**Average**	**Maximum**	**Minimum**
General interest rate VaR	27.9	12.7	17.7	30.0	11.0
Specific interest rate VaR (credit spreads)*	10.3	10.5	10.7	12.6	9.1
Currency VaR	1.9	3.9	3.8	6.2	1.5
Equities VaR	0.7	0.7	0.7	0.9	0.5
Commodities VaR	1.7	1.0	1.2	2.6	0.8
Volatility VaR	5.2	3.2	4.0	6.0	1.6
Total VaR*	**26.2**	**17.0**	**21.7**	**29.7**	**15.7**

* *In addition to calculating VaR, premiums for credit rating risk from money market transactions and OTC derivatives (CVA risk) are also taken into account in the risk-bearing capacity when calculating the risk capital requirement.*

Summary

General interest rate risk rose compared to 31 December 2015 and therefore also total risk mainly as a result of changes in the interest rate positioning. In particular, the long position increased as a result of new fixed-rate credit business.

Volatility risk rose due to increased use of swaptions as part of interest-rate risk management in the banking book.

Liquidity risk

Definition

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

Risk Strategy

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

These strategic goals are detailed in the Group Guidelines for daily management. There is an emergency plan to safeguard liquidity in the event of emergencies. This defines the processes, management tools and hedging instruments needed to avert potential or address real acute crises. They also contain an escalation mechanism which comes into operation when early warning signals are triggered.

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

During FY 2016, responsibility for strategic and operational liquidity management at BayernLB belonged to the Group Treasury and the Structuring & Trading divisions of the Financial Markets business area. This ensures adequate liquidity reserves at all times and the management of operational liquidity on the market. Group-wide risk controlling of liquidity risks is conducted by the Group Risk Control division in the Risk Office central area. This area also prepares liquidity overviews, such as capital flow accounts and limit utilisation ratios as the basis for controlling and monitoring liquidity risks. The Liquidity Committee consults with the Group Treasury, Group Risk Control and the Controlling divisions on issues such as liquidity and refinancing strategies and acts as a driving force by preparing courses of action for the Board of Management.

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

In addition, the new regulatory requirements resulting from the Additional Liquidity Monitoring Metrics (ALMM) were implemented on schedule in 2016, thereby ensuring the ability to meet reporting requirements on time. Changes to regulatory requirements that have an impact on liquidity risk, such as the new version of MaRisk, the new version of CRR or new implementing technical standards are constantly monitored in order to identify additional requirements and ensure they are implemented as scheduled in close cooperation with all units affected. This ensures reporting requirements can be met and liquidity can be efficiently managed in the future.

Risk measurement

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

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

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

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

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

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

A net cash flow figure for the next 180 days is calculated daily for the public Pfandbrief register and the mortgage register. In accordance with section 27 of the Pfandbrief Act (Pfandbriefgesetz), the results and other indicators with respect to the register of cover are reported quarterly to the Board of Management. The balance of cumulative cash flows and available liquidity indicated there was surplus liquidity throughout 2016.

Risk management

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

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

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

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

Operational liquidity management (observation period of up to one year) also ensures compliance with the supervisory requirements of the Liquidity Ordinance (Liquiditätsverordnung (LiqV)). In the year under review, BayernLB had a liquidity ratio of between 1.41 and 2.1 (FY 2015: between 1.85 and 2.29). The supervisory requirement that there always be sufficient available cash to cover callable payment obligations over the same period (ratio always in excess of 1.0) was therefore observed at all times.

The Bank also met the Liquidity Coverage Ratio (LCR) at all times in the reporting year through its integrated management of operational liquidity. BayernLB's LCR amounted to 123 percent as at 31 December 2016. BayernLB benefited from the fact that it had already carried out measures to achieve an adequate LCR before the legal requirements came into force. The LCR is calculated by comparing highly liquid assets with the net cash outflows for the following 30 days. In the reporting year there was a regulatory requirement that highly liquid assets cover at least 70 percent of the net cash outflow. Over the next few years, the ratio will be gradually increased to 100 percent.

Risk monitoring

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

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

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

In 2016 the limitation of liquidity risks once again ensured BayernLB was solvent and able to fund itself at all times and made a valuable contribution to optimising the management of short-term and structural liquidity.

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

The liquidity overviews, minimum available unutilised limit and other relevant ratios are included in the risk reports submitted regularly to the Board of Management, the Liquidity Committee and the responsible managing units.

Current situation

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

The BayernLB management scenario yielded the following results as at 31 December 2016 compared to 31 December 2015:

31 Dec 2016 Cumulative figures in EUR million	**up to 1 month**	**up to 3 months**	**up to 1 year**	**up to 5 years**
Liquidity surplus	**9,725**	**8,523**	**4,304**	**8,410**
arising from				
• liquidity counterbalancing capacity	29,794	27,926	24,500	8,384
less				
• liquidity gap	20,070	19,403	20,195	−26
31 Dec 2015* Cumulative figures in EUR million	**up to 1 month**	**up to 3 months**	**up to 1 year**	**up to 5 years**
Liquidity surplus	**11,316**	**10,881**	**4,180**	**6,276**
arising from				
• liquidity counterbalancing capacity	27,842	29,585	26,023	9,028
less				
• liquidity gap	16,526	18,704	21,843	2,752

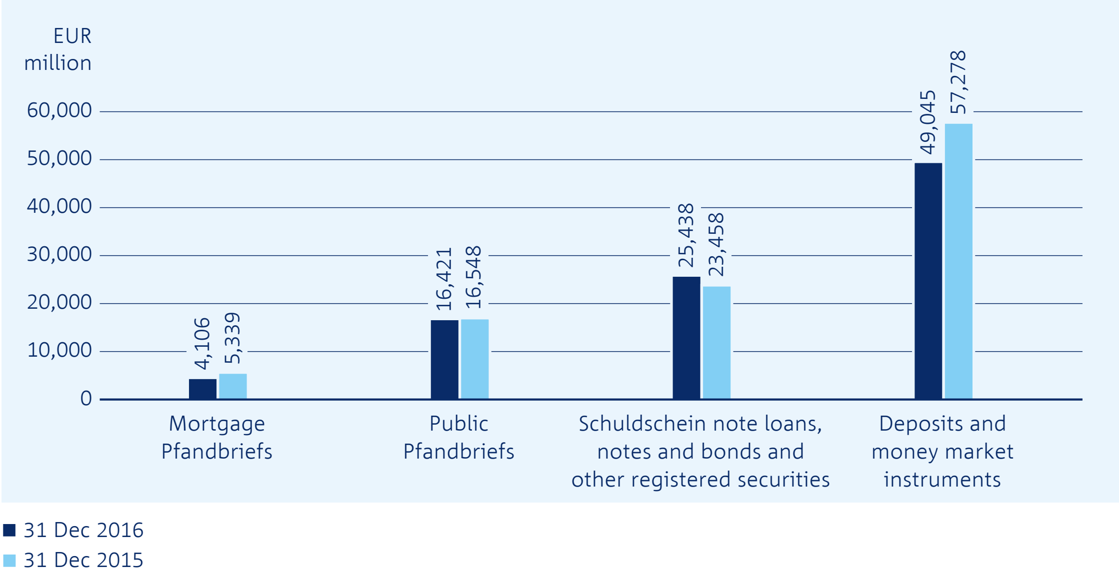
** To improve the management of liquidity risk, the method was refined in 2016 in regard to the presentation of Corelux S.A., which was set up exclusively for customer transactions, the intraday cash reserve and the modelling of the current account and cash accounts. This increased the liquidity surpluses across all maturity bands (by up to EUR 1.5 billion in the maturity band "up to 1 month"). The comparative figures as at 31 December 2015 have been adjusted accordingly.*

The changes in liquidity overviews between 31 December 2015 and 31 December 2016 continued to be marked by the focus on core business areas. BayernLB further increased its structural liquidity surpluses with maturities in excess of one year.

The liquidity surplus as at 31 December 2016 indicates that BayernLB's liquidity is good.

The change in the refinancing structure of BayernLB for 2016 compared to the previous year was as follows:

Funding structure



Reported values rather than economic values have been used for the first time to show the funding structure in BayernLB. The comparative figures as at 31 December 2015 have been adjusted accordingly.

The liquidity situation was very comfortable throughout the reporting year. The investment pressure resulting from the large amount of liquidity on the market ensured that demand for both domestic and international deposit products was high at all times. Moody's upgrading of the long-term issuer rating from A3 to A2 and the short-term rating from P-2 to P-1 contributed positively to the liquidity situation. The broad and steadily growing customer base also ensures a diversified funding structure.

BayernLB is able to access a broad depositor base of retail and business customers, the strong network of associated savings banks with custody accounts A and B and secured and unsecured capital market funding. In addition, the Group also offers funds from various development banks.

On the capital markets, BayernLB successfully launched a variety of instruments, including a ten-year government-backed benchmark bond and secured and unsecured foreign currency issues. BayernLabo accessed the market in the second half of the year by issuing an unsecured EUR 500 million bearer bond.

Along with broadening the funding base, cost efficiency plays an important role in the current low interest rate environment. Paying close attention to the terms is just as important as the selection of the funding instruments. That is why BayernLB's Aaa-rated Pfandbriefs are a particularly attractive source of funding.

The waterfall structure plays a growing role in the funding mix. The volume of bail-in eligible instruments has a significant impact on the liability side of a bank's risk profile and therefore a direct effect on its funding costs. Regulatory requirements like MREL and CCR along with ratings agency' standards set the parameters. Managing the liabilities structure is an ongoing, long-term job. BayernLB's aim is to maintain its rating while expanding its bail-in portfolio.

BayernLabo's funding needs of EUR 1.5 billion are largely driven by the performance of its loan portfolio and the demand for funds from the public sector. BayernLabo did not need all the refinancing it had planned because major municipal and public-sector borrowers did not have to finance their revenue gaps due to a healthy economy and an accompanying rise in tax receipts. No mutual refinancing was carried out in the BayernLB Group in 2016.

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

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

Summary

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

Operational risk

Definition

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

The framework for operational risks was substantially revised in 2016. In particular, the delineation and definition of non-financial risks was tightened. A risk inventory pursuant to MaRisk identified the following risks as particularly material: legal risks, information security risks, IT risks in the broader sense and outsourcing risks.

Risk Strategy

The treatment of operational risks is set out in the Risk Strategy and related sub-risk strategies and guidelines for non-financial risks. The strategic objective is to minimise or avoid risk in such a way that the costs do not exceed the risk of loss. This requires operational risks to be identified and assessed as completely as possible.

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

Risk measurement

Operational risks for the calculation of risk-bearing capacity are quantified using the operational value at risk (OpVaR) calculation. The calculation is based on losses arising at BayernLB and DKB, external losses collected by a data consortium and scenario analyses (potential losses) of BayernLB and DKB. A distributed loss approach is used for the calculation. 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. The risk capital requirement as at 31 December 2016 was EUR 445 million (FY 2015: EUR 439 million).

Many parts of the OpRisk Self Assessment (OSA) were redesigned in 2016. The OSA is a tool that aids in systematically and comprehensively identifying, describing and evaluating material operational risks within the BayernLB Group. The OSA will be completed in 2017. The outcome will enable a more clearly defined view of the OpRisk risk profile to be produced and highlight risk drivers and risk concentrations. Furthermore, it can also serve as a data base for future OpRisk management activities (e.g. managing measures, developing early warning indicators) and for quantifying operational risks.

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

Risk management and monitoring

Operational risks are managed and monitored both centrally in the Group Risk Control division and decentrally in the responsible divisions (e.g. the Legal Services division for legal risks).

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

Management of operational risk is rounded out by an efficient system to monitor the execution of measures which is continuously enhanced.

Operational risks at BayernLB are reported to the Board of Management every quarter as part of the regular reporting on risk and on an ad hoc basis if material losses occur. The operational risk loss situation and trends and the resulting capital charges form a major part of the regular reporting.

Operational risks are included in stress analyses and the monitoring of risk-bearing capacity across all types of risk and integrated into the overall management of risk and the Risk Strategy.

Business continuity management

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

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

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

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

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

The Chief Operating Officer is responsible for BCM.

Current situation

Losses from operational risks amounted to EUR 65.5 million as at 31 December 2016 (FY 2015: EUR 45.4 million). BayernLB accounted for the largest share, BayernLabo accounting for EUR 0.02 million (FY 2015: EUR 0.02 million).

BayernLB's loss profile in 2016 was marked by provisions for risks from the period of low interest rates as these may result in negative interest rates in certain transactions with customers that have not been contractually agreed. The 2016 loss profile was very positive in the context of BayernLB's continuing business activities.

Summary

The amount of operational risk losses in 2016 was in line with expectations.

Summary and outlook

All in all BayernLB’s risk profile in financial year 2016 was stable.

BayernLB had adequate risk-bearing capacity in the financial year and as at 31 December 2016. The stress scenarios conducted also confirm that adequate capital is held. In addition, BayernLB had a comfortable supply of liquidity on hand. Risk provisions take appropriate account of known risks. Regulatory solvency requirements were met. Own funds available to cover risks amounted to EUR 10.2 billion (further details are reported in the management report under the banking supervisory ratios under CRR/CRD IV).

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

Financial statements

Balance sheet and income statement

Balance sheet – Bayerische Landesbank
as at 31 December 2016

Assets	EUR '000	EUR '000	EUR '000	2016 EUR '000	2015 EUR '000
Cash reserves					
a) Cash			167,970		41,578
b) Deposits with central banks			499,261		1,484,905
of which:					
at Deutsche Bundesbank	*216,841*				*225,141*
				667,231	**1,526,483**
Due from banks					
a) Payable on demand			2,300,081		1,239,076
b) Other receivables			23,877,793		27,449,587
of which:					
• *mortgage loans*	*14,582*				*15,572*
• *municipal loans*	*179,149*				*239,282*
				26,177,874	**28,688,663**
Due from customers				**68,810,758**	**71,117,365**
of which:					
• *mortgage loans*	*14,349,468*				*14,174,937*
• *municipal loans*	*28,523,525*				*29,209,985*
Bonds and other fixed-income securities					
a) Money market instruments					
aa) issued by public-sector borrowers		—			—
of which:					
eligible as collateral at Deutsche Bundesbank	—				—
ab) issued by other borrowers		216,622			158,265
of which:					
eligible as collateral at Deutsche Bundesbank	—				—
			216,622		158,265
b) Bonds and notes					
ba) issued by public-sector borrowers		10,739,739			11,326,795
of which:					
eligible as collateral at Deutsche Bundesbank	*6,902,269*				*6,680,059*
bb) issued by other borrowers		9,456,270			11,531,257
of which:					
eligible as collateral at Deutsche Bundesbank	*8,386,722*				*10,394,804*
			20,196,009		22,858,052
c) Own debt securities			248,558		1,616,268
Nominal value	*240,641*				*1,607,192*
				20,661,189	**24,632,585**
Equities and other non-fixed income securities				**40,412**	**118,439**
Trading portfolio				**11,096,611**	**11,671,936**
Carried forward				127,454,075	137,755,471

Liabilities	EUR '000	EUR '000	EUR '000	2016 EUR '000	2015 EUR '000
Due to banks					
a) Payable on demand			6,280,035		5,756,387
b) With agreed maturity or period of notice			37,011,974		43,757,554
of which:					
• *registered mortgage Pfandbriefs*	*465,473*				*337,225*
• *registered public Pfandbriefs*	*679,009*				*991,685*
• *issued to the lender to secure loans raised:*					
• *registered mortgage Pfandbriefs*	—				—
• *registered public Pfandbriefs*	—				—
				43,292,009	**49,513,941**
Due to customers					
a) Savings deposits					
aa) with agreed period of notice of three months		—			—
ab) with agreed period of notice of more than three months		—			—
			—		—
b) Other liabilities					
ba) payable on demand		6,782,760			7,346,397
bb) with agreed maturity or period of notice		25,245,795			28,601,220
of which:					
• *registered mortgage Pfandbriefs*	*1,181,725*				*1,326,465*
• *registered public Pfandbriefs*	*5,608,122*				*5,999,949*
• *issued to the lender to secure loans raised:*					
• *registered mortgage Pfandbriefs*	—				—
• *registered public Pfandbriefs*	—				—
			32,028,555		35,947,617
				32,028,555	**35,947,617**
Securitised liabilities					
a) Bonds issued					
aa) mortgage Pfandbriefs		2,458,497			3,675,656
ab) public Pfandbriefs		10,134,181			9,555,873
ac) other bonds		18,576,359			16,757,742
			31,169,037		29,989,271
b) Other securitised liabilities			3,568,090		1,801,031
of which:					
• *money market instruments*	*3,568,090*				*1,801,031*
• *own acceptances and promissory notes outstanding*	—				—
				34,737,127	**31,790,302**
Trading portfolio				**4,923,473**	**5,217,385**
Liabilities held in trust				**4,946,157**	**5,032,498**
of which:					
loans on a trust basis	*4,945,766*				*5,031,905*
Other liabilities				**608,891**	**1,020,117**
Carried forward				120,536,212	128,521,860

Balance sheet – Bayerische Landesbank
as at 31 December 2016 (continued)

				2016	2015
Assets	*EUR '000*	EUR '000	EUR '000	EUR '000	EUR '000
Carried forward				127,454,075	137,755,471
Participations				**233,094**	**204,291**
of which:					
• *in banks*	*18,213*				*18,877*
• *in financial service providers*	*—*				*—*
Shares in affiliated companies				**2,295,497**	**2,186,142**
of which:					
• *in banks*	*2,140,553*				*2,013,559*
• *in financial service providers*	*—*				*—*
Assets held in trust				**4,946,157**	**5,032,498**
of which:					
loans on a trust basis	*4,945,766*				*5,031,905*
Intangible assets					
a) Internally generated industrial property rights and similar rights and assets			55,718		76,561
b) Purchased licences, industrial property rights and similar rights and assets as well as licences to such rights and assets			21,847		19,882
c) Goodwill			—		—
d) Down payments effected			—		—
				77,565	**96,443**
Tangible assets				**334,033**	**339,361**
Other assets				**1,561,861**	**1,114,579**
Pre-paid expenses					
a) From the new issues and loans business			237,418		125,153
b) Others			445,238		285,428
				682,656	**410,581**
Total assets				**137,584,938**	**147,139,366**

Liabilities	EUR '000	EUR '000	EUR '000	2016 EUR '000	2015 EUR '000
Carried forward				120,536,212	128,521,860
Deferred income					
a) From the new issues and loans business			90,773		95,221
b) Others			718,160		788,931
				808,933	**884,152**
Provisions					
a) For pensions and similar obligations			2,364,042		2,429,265
b) For taxes			227,234		236,550
c) Other provisions			793,314		833,277
				3,384,590	**3,499,092**
Subordinated liabilities				**3,263,994**	**3,447,006**
Profit participation certificates				**434,550**	**434,550**
of which:					
due in less than two years	*50,000*				—
Fund for general bank risks				**915,441**	**862,639**
of which:					
special items pursuant to section 340e para. 4 HGB	*42,746*				*31,770*
Equity					
a) Subscribed capital					
aa) statutory nominal capital	2,800,000				2,800,000
uncalled nominal capital	—				—
called nominal capital		2,800,000			2,800,000
ab) capital contribution		612,016			612,016
ac) silent partner contributions		1,047,580			2,628,900
			4,459,596		6,040,916
b) Capital reserve			2,181,643		2,181,643
c) Retained earnings					
ca) statutory reserves		1,267,508			1,267,508
cb) other retained earnings		332,471			—
			1,599,979		1,267,508
d) Net retained profits			—		—
				8,241,218	**9,490,067**
Total liabilities				**137,584,938**	**147,139,366**
Contingent liabilities					
a) Contingent liabilities from the endorsement of bills rediscounted			—		—
b) Liabilities from guarantees and indemnity agreements (see also the notes)			9,891,286		9,346,182
c) Liabilities from collateral furnished for third-party obligations			—		—
				9,891,286	**9,346,182**
Other liabilities					
a) Repurchase obligations from non-genuine sale and repurchase agreements			—		—
b) Placement and underwriting commitments			—		—
c) Irrevocable loan commitments			21,393,284		19,214,286
				21,393,284	**19,214,286**

Income statement – Bayerische Landesbank
for the period from 1 January to 31 December 2016

				2016	2015
	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
Interest income from					
a) Credit and money market transactions	1,930,563				2,276,742
less negative interest	−26,853				n.a.
		1,903,710			2,276,742
b) Fixed-income securities and debt-register claims		291,406			325,191
			2,195,116		**2,601,933**
Interest expenses					
Interest expenses from bank business		−1,523,687			−1,610,231
less positive interest		46,046			n.a.
			−1,477,641		**−1,610,231**
				717,475	**991,702**
Current income from					
a) Equities and other non-fixed income securities			226		1,049
b) Participations			4,798		4,513
c) Shares in affiliated companies			17,553		3,544
				22,577	**9,106**
Income from profit-pooling agreements, profit transfer agreements and partial profit transfer agreements				**273,969**	**179,410**
Commission income			**248,850**		**252,253**
Commission expenses			**−54,298**		**−54,174**
				194,552	**198,079**
Net income or net expenses of the trading portfolio				**98,350**	**−214,895**
of which: allocation to/releases from the fund for general bank risks pursuant to section 340e para. 4 HGB	*−10,976*				*—*
Other operating income				**419,859**	**263,046**
General administrative expenses					
a) Personnel expenses					
aa) salaries and wages		−336,579			−295,422
ab) social security contributions, pensions and other employee benefits		−154,214			−346,764
			−490,793		−642,186
of which: for pensions	*−18,066*				*−224,373*
b) Other administrative expenses			−334,548		−363,227
				−825,341	**−1,005,413**
Amortisation, depreciation and writedowns on intangible assets and tangible assets				**−47,223**	**−32,820**
Other operating expenses				**−241,858**	**−272,485**
Carried forward				612,360	115,730

				2016	2015
	EUR ’000	EUR ’000	EUR ’000	EUR ’000	EUR ’000
Carried forward				612,360	115,730
Amortisation, depreciation and writedowns on receivables and certain securities and additions to provisions in the credit business			**−364,086**		**—**
of which:					
• *withdrawal from the fund for general bank risks*	*—*				*—*
• *allocation to the fund for general bank risks*	*−41,826*				*—*
Income from reversals of writedowns on receivables and certain securities as well as from the release of provisions in the credit business			**—**		**30,193**
of which:					
• *withdrawal from the fund for general bank risks*	*—*				*93,060*
• *allocation to the fund for general bank risks*	*—*				*—*
				−364,086	**30,193**
Amortisation, depreciation and writedowns on participations, shares in affiliated companies and securities classified as fixed assets			**—**		**—**
Income from reversals of writedowns on participations, shares in affiliated companies and securities classified as fixed assets			**169,543**		**277,890**
				169,543	**277,890**
Expenses from loss transfers				**−2,916**	**−5,725**
Gains or losses on ordinary activities				**414,901**	**418,088**
Extraordinary income			**15,297**		**2,618**
Extraordinary expenses			**−9,736**		**−21,861**
Net extraordinary income/loss				**5,561**	**−19,243**
Taxes on income and earnings			**−90,190**		**6,256**
of which: deferred taxes	*—*				*—*
Other taxes, unless disclosed under “Other operating expenses”			**2,199**		**−3,357**
				−87,991	**2,899**
Net income/loss for the financial year				**332,471**	**401,744**
Withdrawals from capital reserve				**—**	**174,454**
Allocations to retained earnings					
a) To the statutory reserves			—		—
b) To other retained earnings			−332,471		—
				−332,471	**—**
Replenishment of profit participation certificates				**—**	**−81,734**
Replenishment of silent partner contributions				**—**	**−494,464**
Net retained profits				**—**	**—**

Notes

The annual financial statements of Bayerische Landesbank, an institution established under public law, Munich, Germany (BayernLB), entered in the Commercial Register at Munich District Court (HRA 76030), have been prepared in accordance with the provisions of the German Commercial Code (HGB), the Ordinance Regulating Accounting for Financial Institutions and Financial Service Providers (RechKredV), the provisions of the Pfandbrief Act (PfandBG), the supplementing regulations of the Bayerische Landesbank Act, and the Bank's Statutes.

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

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

Accounting policies

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

The accounting policies used for the annual financial statements as at 31 December 2016 were the same as those used for the annual financial statements as at 31 December 2015. Any changes on the previous year are noted below.

From financial year 2016, negative interest from interest-bearing transactions in the non-trading portfolio has been shown separately in interest income or interest expenses. The breakdown of the income statement was expanded accordingly. In the reporting year, an interest expense of EUR 27 million (FY 2015: EUR 10 million) arose in interest income and interest income of EUR 46 million (FY 2015: EUR 16 million) arose in interest expenses from negative interest rates.

Receivables and liabilities (non-trading portfolio)

Receivables in the non-trading portfolio are reported at nominal amount or at cost and decreased by any required impairments. If the reasons for booking an impairment in the past no longer apply, a reversal is made. Low-interest or non-interest bearing receivables are discounted if necessary.

Risk provisions in the credit business comprises impairments and provisions for all identifiable credit and country risks, for latent default risks and the provisions for general banking risks.

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

To show latent credit risks, the method for calculating portfolio loan loss provisions under IFRS, which takes into account historical probabilities of default, loss ratios and the latest ratings, is also used to calculate HGB general loan loss provisions. General loan loss provisions are applied to receivables due from customers, from banks and off-balance sheet transactions for which no specific loan loss provisions have been made.

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

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

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

Differences between the purchase price and the nominal value with interest characteristics are reported under the pre-paid expenses and deferred income items and amortised on a pro-rata temporis basis.

Securities (non-trading portfolio)

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

Trading portfolio

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

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

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

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

Fair value

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

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

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

Other valuation models

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

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

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

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

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

Summary of key valuation models by derivative product group:

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

Securities lending transactions

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

Derivative financial instruments

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

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

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

If interest rate and currency risks from the non-trading book are transferred to the trading book, internal deals are recognised in the same way as external deals in accordance with the arm’s length principle.

Structured products

Structured products in the trading portfolio and the liquidity reserve are treated as financial instruments which are not composed of separate parts as they are measured at fair value less a risk discount (trading portfolio) or at the strict principle of lower of cost or market value (liquidity reserve). Structured liabilities are recognised at the settlement value.

Valuation units

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

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

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

Loss-free measurement in the banking book

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

Participations and shares in affiliated companies

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

Intangible assets and tangible assets

Acquired intangible assets are measured at cost, less scheduled amortisation and, if required, impairments.

Intangible assets produced in house are capitalised in accordance with the option under section 248 para. 2 HGB and valued at cost, less scheduled amortisation and, if required, impairments.

Acquired tangible assets are measured at cost, less scheduled amortisation and, if required, impairments. After large-scale renovation work, buildings are measured using the component method. Separate wear and tear of individual components is recognised as a partial disposal and their replacement as a partial addition. They are depreciated separately over their useful life. Low-value items are fully written off in the year acquired. Interest costs are not capitalised.

The period of depreciation is equivalent to their economic life.

Deferred taxes

In accordance with section 274 HGB, deferred taxes are calculated on the temporary differences between the accounting value and the tax value of assets, liabilities and pre-paid and deferred items that give rise to a future tax liability or benefit, and on tax loss carryforwards. BayernLB, the parent company of the tax group, also recognises the temporary differences of its subsidiaries. Deferred taxes are computed in Germany (for the tax group) at the combined corporation tax and municipal trade tax rate (including the solidarity surcharge) of 31.95 percent, except for deferred taxes on participations in partnerships, which are computed at the corporation tax rate (including the solidarity surcharge) of 15.83 percent. Deferred taxes on municipal trade tax loss carryforwards are computed at an average municipal trade tax rate of 16.12 percent. For BayernLB's foreign branches, deferred taxes are measured on the basis of the local tax rates applicable in the country concerned; the range is between 19.00 percent and 36.47 percent.

A deferred tax liability is recognised if a tax liability remains after netting. As permitted under section 274 para. 1 sentence 2 HGB, BayernLB has elected not to recognise any deferred taxes if a tax benefit is left after netting.

Provisions

Provisions for pensions and similar obligations for direct retirement benefits are valued using the actuarial-based projected unit credit method. The method uses actuarial input based on biometric assumptions (Richttafeln 2005 G (actuarial tables) by Klaus Heubeck) and expected future salary and pension increases.

in %	2016	2015
Actuarial interest rate prior to amendment of section 253 HGB		3.89
Actuarial interest rate following amendment of section 253 HGB	4.01	
Changes in salary	2.50	2.75
Adjustments to pensions[1]	2.00	2.25
Changes in medical costs	5.00	4.50

1 In addition, eligible social insurance pensions were calculated to have increased by 2.25 percent.

In accordance with section 253 para. 2 HGB, pension provisions were discounted for the first time in financial year 2015/2016 at a flat rate using the published average market interest rate for the past ten years resulting from an assumed residual term of 15 years. The fiscal net present value as calculated in accordance with section 6a EStG is exceeded.

Besides the pension system, for which provisions for pensions and similar obligations are made, BayernLB has two legally independent support funds for indirect retirement benefits payable to employees within Germany. Where pension benefits are provided through an indirect financing structure, BayernLB still has subordinate liability under the German Act to Improve Occupational Pensions (Gesetz zur Verbesserung der betrieblichen Altersversorgung (BetrAVG)). The Bank regularly contributes to the fund assets of these support funds where permitted under tax law. In accordance with Art. 28 para. 1 sentence 2 EGHGB, pension provisions are not made for indirect retirement benefits. As at 31 December 2016, there was a shortfall of EUR 247 million (FY 2015: EUR 260 million). Reinsurance concluded by BayernLB to fund these retirement benefit obligations offset this amount by EUR 219 million (FY 2015: EUR 215 million).

The other provisions contains to a sufficient and appropriate extent individual provisions for all identifiable risks arising from unknown liabilities and expected losses from executory contracts, taking into account future increases in prices and costs. Provisions with a residual term of more than one year are discounted at the average market interest rate for the past seven financial years that corresponds to their residual term.

Currency translation

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

Notes to the balance sheet

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

Assets

Due from banks

EUR million	2016	2015
Due from banks	**26,178**	**28,689**
This item includes:		
Other receivables with a residual maturity of		
• up to three months (including accrued interest)	4,772	7,813
• over three months up to one year (including swap interest)	5,019	4,741
• over one year up to five years	6,601	7,515
• over five years	7,736	7,380
Due from affiliated companies	**1,083**	**1,106**
Due from companies in which participations are held	**31**	**23**
Due from related savings banks	**14,058**	**14,169**
Subordinated receivables	**265**	**270**

Due from customers

EUR million	2016	2015
Due from customers	**68,811**	**71,117**
This item includes:		
Receivables with a residual maturity of		
• up to three months (including accrued interest)	7,685	10,316
• over three months up to one year (including swap interest)	8,100	6,521
• over one year up to five years	24,459	25,635
• over five years	27,185	26,959
Receivables without a fixed date of maturity	**1,382**	**1,686**
Due from affiliated companies	**29**	**26**
Due from companies in which participations are held	**73**	**155**
Subordinated receivables	**90**	**571**

Bonds and other fixed-income securities

EUR million	2016	2015
Bonds and other fixed-income securities	**20,661**	**24,633**
This item includes: **Amounts falling due in the following year (including accrued interest)**	**3,338**	**2,761**
Securitised receivables from affiliated companies	**455**	**384**
Securitised receivables from companies in which participations are held	**–**	**–**
Subordinated securities	**468**	**427**
Marketable securities, of which		
• listed	19,742	23,886
• unlisted	919	747

In the investment portfolio as a whole, bonds and other fixed-income securities were recognised on the basis of the less strict principle of lower of cost or market value at a carrying amount of EUR 14,558 million (FY 2015: EUR 17,964 million) and had a fair value of EUR 14,542 million (FY 2015: EUR 17,926 million). No writedown is made if the Bank does not consider the current fluctuations in value to be long term and assumes that the securities will be repaid in full when they mature.

Equities and other non-fixed income securities

EUR million	2016	2015
Equities and other non-fixed income securities	**40**	**118**
This item includes: **Marketable securities, of which**		
• listed	–	–
• unlisted	8	8

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

Trading portfolio

EUR million	2016	2015
Trading portfolio	**11,097**	**11,672**
This item includes: **Positive fair values of derivative financial instruments**	**6,544**	**7,724**
Receivables	**1,545**	**1,133**
Bonds and other fixed-income securities	**2,510**	**2,391**
Equities and other non-fixed income securities	**342**	**349**
Other assets	**172**	**94**
Risk discount for the whole trading portfolio	**–17**	**–19**
Subordinated securities	**2**	**1**

Participations

As at the reporting date, the carrying amount of the participations portfolio was EUR 233 million (FY 2015: EUR 204 million). As in the previous year, the portfolio was not encumbered by any unrecognised impairments.

Shares in affiliated companies

EUR million	2016	2015
Shares in affiliated companies	**2,295**	**2,186**
This item includes:		
Marketable securities, of which		
• listed	–	–
• unlisted	2,167	2,040

Assets held in trust

EUR million	2016	2015
Assets held in trust	**4,946**	**5,032**
This item mainly includes housing loans granted by Bayerische Landesbodenkreditanstalt and breaks down as follows:		
Due from banks	32	43
Due from customers	4,914	4,989

Intangible assets and tangible assets

Research and development costs of EUR 8 million (FY 2015: EUR 17 million) were reported under intangible assets. This included EUR 3 million in development costs (FY 2015: EUR 8 million) resulting from internally developed intangible assets categorised as fixed assets, namely internally developed software.

Land and buildings used for own operations in the amount of EUR 272 million (FY 2015: EUR 289 million) were reported in tangible assets.

Changes in fixed assets

Purchase/manufacturing costs

EUR million	1 Jan 2016	Additions	Disposals	Transfers	31 Dec 2016
Intangible assets[1]	277	14	–4	–	**288**
Internally generated industrial property rights	141	3	–	–	**144**
Purchased licences, industrial property rights	136	11	–4	–	**144**
Tangible assets	494	11	–28	–	**478**
Land and buildings	400	1	–	–	**401**
Furniture and office equipment	94	10	–28	–	**77**

Writedowns

						Carrying amount	
EUR million	1 Jan 2016	Additions[2]	Disposals	Transfers	31 Dec 2016	31 Dec 2016	31 Dec 2015
Intangible assets[1]	–181	–32	3	–	–210	**78**	**96**
Internally generated industrial property rights	–65	–24	–	–	–88	56	77
Purchased licences, industrial property rights	–116	–9	3	–	–122	22	20
Tangible assets	–155	–15	27	–	–144	**334**	**339**
Land and buildings	–76	–8	–	–	–84	317	324
Furniture and office equipment	–79	–7	27	–	–59	17	16

EUR million	1 Jan 2016	Change[3]	31 Dec 2016
Bonds, notes, other fixed-income securities	17,964	–2,710	**15,254**
Equities, other non-fixed income securities	–	–	**–**
Participations	204	29	**233**
Shares in affiliated companies	2,186	109	**2,295**

1 Additions include capitalised development costs plus licence costs.
2 Scheduled depreciation/amortisation and writedowns.
3 BayernLB elected to use the aggregation option under section 34 para. 3 RechKredV.

Other assets

EUR million	2016	2015
Other assets	**1,562**	**1,115**
This item includes:		
Emissions certificates	697	428
Receivables from participations	287	180
Claims from reinsurance	219	215
Claims on tax authorities	48	179

Pre-paid expenses

EUR million	2016	2015
Pre-paid expenses	**683**	**411**
This item includes:		
Upfront payments from swaps	422	260
Discount on liabilities	89	93
Premium on receivables	148	32
Cash settlement payments	15	17

Genuine sale and repurchase agreements

EUR million	2016	2015
Carrying amounts of assets transferred under sale and repurchase agreements	249	1,450

Assets denominated in foreign currencies

EUR million	2016	2015
Total amount of assets denominated in foreign currencies	20,521	24,296

Assets held as cover

EUR million	2016	2015
Mortgage Pfandbriefs and Landesbodenbriefs	**4,065**	**5,790**
Cover assets contained in:		
• Due from banks	8	8
• Due from customers	6,863	7,304
• Bonds and other fixed-income securities	486	486
• Additional cover	–	–
Excess cover	**3,293**	**2,008**
Public Pfandbriefs	**16,231**	**16,329**
Cover assets contained in:		
• Due from banks	257	323
• Due from customers	22,621	22,442
• Bonds and other fixed-income securities	598	598
• Additional cover	393	147
Excess cover	**7,638**	**7,181**

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

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

Liabilities

Due to banks

EUR million	2016	2015
Due to banks	**43,292**	**49,514**
This item includes:		
Term liabilities with a residual maturity of		
• up to three months (including accrued interest)	5,199	9,206
• over three months up to one year (including swap interest)	5,900	6,413
• over one year up to five years	11,247	13,542
• over five years	14,687	14,596
Due to affiliated companies	**3,191**	**4,705**
Due to companies in which participations are held	**333**	**222**
Due to related savings banks	**4,321**	**4,950**

Due to customers

EUR million	2016	2015
Due to customers	**32,029**	**35,948**
This item includes:		
Other term liabilities with a residual maturity of		
• up to three months (including accrued interest)	4,652	7,119
• over three months up to one year (including swap interest)	3,701	5,439
• over one year up to five years	6,010	5,547
• over five years	10,883	10,497
Due to affiliated companies	**107**	**161**
Due to companies in which participations are held	**115**	**32**

Securitised liabilities

EUR million	2016	2015
Securitised liabilities	**34,737**	**31,790**
This item includes:		
Bonds and notes issued		
• amounts falling due in the following year	5,296	3,612
Other securitised liabilities with a residual maturity of		
• up to three months (including accrued interest)	3,407	859
• over three months up to one year	161	942
• over one year up to five years	–	–
• over five years	–	–
Due to affiliated companies	**–**	**–**
Due to companies in which participations are held	**8**	**8**

Trading portfolio

EUR million	2016	2015
Trading portfolio	**4,923**	**5,217**
This item includes:		
Negative fair values of derivative financial instruments	**4,340**	**4,615**
Liabilities	**583**	**602**

Liabilities held in trust

EUR million	2016	2015
Liabilities held in trust	**4,946**	**5,032**
This item breaks down as follows:		
Due to banks	1	1
Due to customers	4,945	5,031

Other liabilities

EUR million	2016	2015
Other liabilities	**609**	**1,020**
This item includes:		
Interest payable on profit participation certificates and silent partner contributions	202	68
Forward transactions on emissions certificates	191	37
Buy-in obligation resulting from the sale of securities borrowed	113	85
Offsetting item for foreign currency translation	16	705

Deferred income

EUR million	2016	2015
Deferred income	**809**	**884**
This item includes:		
Upfront payments from swaps	699	768
Premium on liabilities	83	83
Discount on receivables	8	12

Subordinated liabilities

EUR million	2016	2015
Subordinated liabilities	**3,264**	**3,447**
This item includes:		
Subordinated liabilities to affiliated companies	**836**	**809**

In the reporting year, interest expenses on subordinated liabilities were EUR 179 million (FY 2015: EUR 209 million).

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

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

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

	Volume in EUR million	Interest rate	Maturity
EUR bond	1,000	5.75%	23/10/2017
USD Schuldschein note loan	379	6.10%	28/04/2031
USD Schuldschein note loan	806	6.21%	31/05/2037

Liabilities denominated in foreign currencies

EUR million	2016	2015
Total amount of liabilities denominated in foreign currencies	18,199	18,442

Contingent liabilities and other liabilities

EUR million	2016	2015
Contingent liabilities	**9,891**	**9,346**
This item includes:		
Liabilities from guarantees and indemnity agreements		
• Letters of credit	602	468
• Guarantees	933	1,204
• Other guarantees and indemnities	8,335	7,638

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

EUR million	2016	2015
Other liabilities	**21,393**	**19,214**
This item includes:		
Irrevocable loan commitments to		
• Banks	1,947	1,348
• Customers	19,446	17,866

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

Irrevocable loan commitments to affiliated companies made as part of the Group-wide management system were not significant. The unutilised portion of lines of credit granted to two special purpose vehicles in connection with ABS customer transactions amounted to EUR 1,163 million (FY 2015: EUR 740 million). The commitments ensure that each of the special purpose vehicles can gain access to funding if they are unable to place securitised instruments on the market as planned.

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

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

Assignment of collateral for the Bank's own liabilities

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

EUR million	2016	2015
Due to banks	15,058	14,661
Due to customers	1,642	1,281
Contingent liabilities	–	3

Collateral for own liabilities primarily relates to transferred receivables for pass-through loans to banks (EUR 15,048 million), collateral for issued municipal guaranteed investment contracts (EUR 1,609 million) and cash pledged as collateral for repurchase agreements (EUR 43 million).

BayernLB also pledged cash collateral of EUR 17 million for the utilisation of the irrevocable payment obligation in connection with the bank levy and transferred securities of EUR 12 million in connection with the deposit guarantee scheme.

Valuation units

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

	Hedged amount	
EUR million	**2016**	**2015**
Carrying amount of underlying transactions in micro valuation units	**7,654**	**9,208**
• Assets	1,917	2,178
• Liabilities	5,768	6,946
• Derivative financial instruments	−31	84
Carrying amount of underlying transactions in portfolio valuation units	**781**	**440**
• Assets	697	440
• Forward contracts	84	–

Notes to the income statement

Interest income and interest expenses

Interest income includes EUR 9 million (FY 2015: EUR 84 million) of interest on tax receivables and interest expenses includes EUR 13 million (FY 2015: EUR 34 million) of interest on tax liabilities.

Other operating income and other operating expenses

In the reporting year, the Bank produced other operating income of EUR 420 million (FY 2015: EUR 263 million) and other operating expenses of EUR 242 million (FY 2015: EUR 272 million) resulting in net other operating income for the year of EUR 178 million (FY 2015: expense of EUR 9 million).

The Bank disclosed EUR 104 million (FY 2015: EUR 30 million) of gains on emissions certificates under other operating income and EUR 89 million (FY 2015: EUR 10 million) of losses under other operating expenses.

In the reporting year, the Bank reported EUR 13 million (FY 2015: EUR 7 million) of gains arising on standalone derivatives in the non-trading portfolio in other operating income and EUR 9 million (FY 2015: EUR 6 million) of losses in other operating expenses.

Releases of other provisions gave rise to other operating income of EUR 245 million (FY 2015: EUR 36 million). The first-time application of the revaluation due to section 253 para. 2 HGB produced an effect of EUR 133 million.

Compound interest on provisions resulted in other operating expenses of EUR 98 million (FY 2015: EUR 96 million).

The Bank reported EUR 6 million (FY 2015: EUR 144 million) of gains arising on the purchase and sale of receivables in other operating income and EUR 4 million (FY 2015: EUR 109 million) of losses in other operating expenses.

Amortisation, depreciation and writedowns on intangible assets and tangible assets

Writedowns of intangible assets produced in house in the amount of EUR 12 million are recognised in this item.

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

This item includes a gain from recoveries on written-off receivables of EUR 61 million (FY 2015: EUR 110 million).

Extraordinary income and extraordinary expenses

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

Taxes on income and earnings

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

Distributions on silent partner contributions and profit participation certificates

All liabilities on profit participation certificates and silent partner contributions were paid from the net income for financial year 2016 in accordance with the terms of the contract. A full distribution of EUR 23 million and EUR 179 million were paid on the profit participation certificates and silent partner contributions respectively.

Amount not available for distribution

Capitalisation of intangible assets produced in house categorised as fixed assets produced an amount that may not be distributed of EUR 56 million (FY 2015: EUR 52 million). The difference that may not be distributed arising between provisions for pension obligations recognised according to the corresponding average market rate for the past ten years and for the past seven years was EUR 250 million. This difference that may not be distributed is matched by sufficient available reserves.

Geographical markets

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

is broken down by geographical market as follows:

EUR million	2016	2015
Germany	3,045	2,819
Europe (ex Germany)	138	150
America	202	162

Derivatives transactions

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

Derivatives transactions – volumes

	Nominal value		Positive market value[1]	Negative market value[1]
EUR million	**2016**	**2015**	**2016**	**2016**
Interest rate risks				
• Interest rate swaps	645,836	557,311	26,595	25,261
• FRAs	223,702	277,192	17	16
• Interest rate options	20,629	18,251	873	1,301
– *call options*	*6,871*	*7,002*	*815*	*34*
– *put options*	*13,758*	*11,250*	*58*	*1,267*
• Caps, floors	10,335	12,463	166	69
• Exchange-traded contracts	11,285	43,658	–	–
• Other interest-based forward transactions	1,321	927	3	56
Total interest rate risks	**913,108**	**909,802**	**27,655**	**26,704**
Currency risks				
• Forward exchange transactions	90,849	83,343	2,138	1,936
• Currency/cross-currency swaps	28,465	31,044	1,601	1,728
• Foreign exchange options	2,858	5,560	42	37
– *call options*	*1,533*	*3,169*	*40*	*1*
– *put options*	*1,325*	*2,392*	*2*	*36*
• Other currency-based forward transactions	336	142	15	1
Total currency risks	**122,508**	**120,090**	**3,796**	**3,702**
Equity and other price risks				
• Equity forward transactions	221	236	–	26
• Equity/index options	425	407	5	1
– *call options*	*387*	*366*	*5*	*–*
– *put options*	*38*	*40*	*–*	*1*
• Exchange-traded contracts	634	641	–	15
• Other forward transactions[2]	3,839	3,589	312	403
Total equity and other price risks	**5,120**	**4,871**	**317**	**444**
Credit derivative risks				
• Protection buyer	804	228	–	2
• Protection seller	160	692	–	–
Total credit derivative risks	**964**	**920**	**–**	**2**
Total	**1,041,700**	**1,035,684**	**31,769**	**30,852**

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

Derivatives transactions – maturities

	Nominal value							
	Interest rate risks		Currency risks		Equity and other price risks		Credit derivative risks	
EUR million	2016	2015	2016	2015	2016	2015	2016	2015
Residual maturities								
• up to three months	35,087	47,205	54,851	45,977	1,468	1,004	50	–
• up to one year	254,858	321,994	31,336	36,530	1,268	1,384	221	35
• up to five years	333,208	309,695	25,009	27,558	2,066	2,124	650	840
• more than five years	289,955	230,908	11,312	10,024	318	358	43	45
Total	**913,108**	**909,802**	**122,508**	**120,090**	**5,120**	**4,871**	**964**	**920**

Derivatives transactions – counterparties

	Nominal value		Positive market value[1]	Negative market value[1]
EUR million	2016	2015	2016	2016
OECD banks	303,792	278,899	13,604	13,013
Non-OECD banks	661	758	10	15
Public-sector entities within the OECD	13,313	17,057	845	513
Other counterparties[2]	723,934	738,969	17,311	17,312
Total	**1,041,700**	**1,035,684**	**31,769**	**30,852**

Derivatives transactions – trading portfolios

	Nominal value		Positive market value[1]	Negative market value[1]
EUR million	2016	2015	2016	2016
Interest rate derivatives	709,247	777,703	20,438	19,797
Currency derivatives	111,088	108,578	2,996	3,411
Equity derivatives	3,433	3,988	225	306
Credit derivatives	872	792	–	2
Total	**824,640**	**891,061**	**23,659**	**23,517**

Derivatives transactions – non-trading portfolios

	Nominal value		Positive market value[1]	Negative market value[1]
EUR million	2016	2015	2016	2016
Interest rate derivatives	203,861	132,099	7,217	6,907
Currency derivatives	11,420	11,513	800	291
Equity derivatives	1,687	883	93	138
Credit derivatives	92	128	–	–
Total	**217,060**	**144,623**	**8,109**	**7,335**

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

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

Outstanding Pfandbriefs and cover pools

EUR million	Nominal value		Present value		Risk-related present value	
	2016	2015	2016	2015	2016	2015
Mortgage Pfandbriefs	**4,065**	**5,790**	**4,295**	**6,110**	**4,195**	**6,060**
Cover pools [1]	7,357	7,798	7,920	8,438	7,680	8,193
Excess cover	**3,293**	**2,008**	**3,626**	**2,328**	**3,485**	**2,133**
Public Pfandbriefs	**16,231**	**16,329**	**18,175**	**18,282**	**17,090**	**16,976**
Cover pools [1,2]	23,567	23,091	26,430	25,653	24,668	23,637
Excess cover	**7,335**	**6,762**	**8,255**	**7,371**	**7,578**	**6,661**

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

Maturity profile of outstanding Pfandbriefs and interest rate lock-in periods of cover pools

EUR million	Mortgage Pfandbriefs		Cover pools [1]		Public Pfandbriefs		Cover pools [1,2]	
	2016	2015	2016	2015	2016	2015	2016	2015
Residual maturities and interest rate lock-in periods								
• up to six months	286	695	617	476	566	788	1,980	2,793
• over six months up to one year	862	635	1,039	386	1,310	1,621	1,194	1,033
• over one year up to eighteen months	278	786	347	808	1,526	489	1,378	1,470
• over eighteen months up to two years	635	892	384	606	676	1,307	1,126	856
• over two years up to three years	782	921	727	1,573	1,070	1,573	1,940	2,141
• over three years up to four years	179	498	1,148	789	681	1,000	2,133	1,713
• over four years up to five years	64	519	685	843	1,355	671	1,752	1,466
• over five years up to ten years	973	840	2,202	2,172	6,716	6,674	6,645	6,658
• over ten years	5	5	209	144	2,331	2,207	5,418	4,961
Total	**4,065**	**5,790**	**7,357**	**7,798**	**16,231**	**16,329**	**23,567**	**23,091**

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

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

	Mortgage Pfandbriefs		Public Pfandbriefs	
EUR million	2016	2015	2016	2015
CAD	–	–	74	138
CHF	105	127	–1	29
GBP	–33	–201	438	783
SEK	46	9	–	–
USD	13	306	–47	49

Composition of mortgage Pfandbriefs and public Pfandbriefs by percentage

	Mortgage Pfandbriefs		Public Pfandbriefs	
in %	2016	2015	2016	2015
Share of fixed-income cover pool	67	64	93	92
Share of fixed-income Pfandbriefs	84	61	94	94

Composition of other cover assets used to cover Pfandbriefs

EUR million	2016	2015
Cover assets in accordance with		
• section 19 para. 1 no. 3 of the Pfandbrief Act (PfandBG)	486	486
• section 20 para. 2 no. 2 of the Pfandbrief Act (PfandBG)	393	147
Total	**879**	**633**

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

Receivables used to cover mortgage Pfandbriefs by size

	Mortgages serving as cover	
EUR million	2016	2015
up to EUR 300,000	4	379
over EUR 300,000 up to EUR 1 million	38	81
over EUR 1 million up to EUR 10 million	1,362	1,398
more than EUR 10 million	5,467	5,454
additional cover	486	486
Total	**7,357**	**7,798**

Receivables used to cover public Pfandbriefs by size

EUR million	Cover assets 2016	Cover assets 2015
up to EUR 10 million	3,418	3,444
over EUR 10 million up to EUR 100 million	6,227	6,384
more than EUR 100 million	13,529	13,114
Total	**23,174**	**22,942**

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

		2016	2015
Section 28 para. 1 no. 11 of the Pfandbrief Act (PfandBG) – volume-weighted average age of receivables (seasoning)	in years	5	6
Section 28 para. 2 no. 3 of the Pfandbrief Act (PfandBG) - average weighted loan to value	in %	53	53

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

	Mortgages serving as cover			
	Commercial		Residential	
EUR million	2016	2015	2016	2015
Germany	**4,440**	**4,400**	**1,065**	**1,549**
• flats	–	–	8	206
• single-family homes	–	–	7	151
• multi-family homes	–	–	1,019	1,166
• office buildings	1,848	1,634	–	–
• retail buildings	1,244	1,353	–	–
• industrial buildings	12	15	–	–
• other commercial buildings	718	851	–	–
• unfinished new buildings not yet generating income	104	47	4	5
• building plots	28	15	28	21
• additional cover	486	486	–	–
Austria	**95**	**95**	**–**	**–**
• office buildings	15	15	–	–
• retail buildings	61	61	–	–
• other commercial buildings	19	19	–	–
Belgium	**26**	**26**	**–**	**–**
• office buildings	26	26	–	–
Czech Republic	**188**	**155**	**–**	**–**
• office buildings	63	40	–	–
• retail buildings	125	115	–	–

	Mortgages serving as cover			
	Commercial		Residential	
EUR million	2016	2015	2016	2015
France	**320**	**269**	**–**	**–**
• office buildings	276	237	–	–
• retail buildings	44	32	–	–
Italy	**278**	**208**	**–**	**–**
• office buildings	172	155	–	–
• retail buildings	106	53	–	–
Netherlands	**300**	**311**	**–**	**–**
• office buildings	232	230	–	–
• retail buildings	49	38	–	–
• other commercial buildings	19	44	–	–
Poland	**67**	**48**	**–**	**–**
• office buildings	46	28	–	–
• retail buildings	21	20	–	–
Slovakia	**3**	**–**	**–**	**–**
• retail buildings	3	–	–	–
Spain	**54**	**54**	**–**	**–**
• retail buildings	54	54	–	–
Sweden	**46**	**9**	**–**	**–**
• office buildings	46	–	–	–
• other commercial buildings	–	9	–	–
Switzerland	**20**	**20**	**–**	**–**
• retail buildings	20	–	–	–
• other commercial buildings	–	20	–	–
United Kingdom	**161**	**369**	**–**	**–**
• office buildings	118	189	–	–
• retail buildings	43	179	–	–
USA	**293**	**284**	**–**	**–**
• office buildings	293	284	–	–
Total	**6,292**	**6,249**	**1,065**	**1,549**

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

EUR million	2016	2015
Germany	–	–
Total	**–**	–

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

As at the reporting date, no (FY 2015: 0) commercial and no (FY 2015: 0) residential properties were the subject of foreclosure sale proceedings or pending administrative receivership proceedings.

No (FY 2015: 0) commercial property and no (FY 2015: 0) residential properties were foreclosed on in the reporting year.

No properties were repossessed in 2016 or 2015 to avoid losses on mortgages.

No interest was overdue on mortgage loans on residential property (FY 2015: 0) as at the reporting date.

No interest was overdue on mortgage loans on commercial property in financial years 2015 or 2016.

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

	Cover assets	
EUR million	2016	2015
Germany	**21,750**	**21,315**
• national government	1,096	1,250
• regional authorities	9,308	9,108
• local authorities	9,359	9,322
• other debtors	1,594	1,488
• additional cover	393	147
of which: export credit insurers	1,040	1,045
Austria	**11**	**15**
• national government	11	15
of which: export credit insurers	11	15
Belgium	**93**	**–**
• other debtors	93	–
Canada	**70**	**132**
• local authorities	70	132
France incl. Monaco	342	**91**
• national government	342	91
of which: export credit insurers	342	90
Luxembourg	**19**	**26**
• national government	19	26
of which: export credit insurers	19	22
Spain	**16**	**61**
• local authorities	16	61
Switzerland	**185**	**222**
• regional authorities	120	135
• other debtors	65	87
United Kingdom	**1,043**	**1,187**
• national government	398	434
• local authorities	646	753
of which: export credit insurers	398	394
USA	**37**	**41**
• national government	37	41
of which: export credit insurers	37	41
Total	**23,566**	**23,091**

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

EUR million	2016	2015
Luxembourg	**1**	**1**
• national government	1	1
Total	**1**	**1**

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

Total receivable amount of payments overdue for at least 90 days on public-sector receivables by region

EUR million	2016	2015
Germany	**–**	**1**
• regional authorities	–	1
Luxembourg	**8**	**9**
• national government	8	9
Total	**8**	**10**

Supplementary information

Shareholdings

Name and location of the investee	Type of share-holding	Percentage held	Equity in EUR ’000	Earnings in EUR ’000
Affiliated companies				
Bauland GmbH, Baulandbeschaffungs-, Erschließungs- und Wohnbaugesellschaft, Munich	Indirect	94.5	– 10,106	–
Bavaria Immobilien-Beteiligungs-Gesellschaft mbH, Munich	Indirect	100.0	6	– 5
Bavaria Immobilien-Beteiligungs-Gesellschaft mbH & Co. Objekt Fürth KG, Munich	Indirect	100.0	–	–
Bayerische Landesbank Europa-Immobilien-Beteiligungs-GmbH, Munich	Indirect	100.0	109	–
Bayerische Landesbank Immobilien-Beteiligungs-Gesellschaft mbH & Co. KG, Munich	Direct	100.0	33,769	2,272
Bayerische Landesbank Immobilien-Beteiligungs-Verwaltungsgesellschaft mbH, Munich	Direct	100.0	48	–
Bayern Bankett Gastronomie GmbH, Munich[1]	Direct	100.0	514	–
Bayern Card-Services GmbH - S-Finanzgruppe, Munich	Direct	50.1	27,972	9,660
Bayern Corporate Services GmbH, Munich	Indirect	100.0	205	–
Bayern Facility Management GmbH, Munich[1]	Direct	100.0	2,560	–
BayernFinanz Gesellschaft für Finanzmanagement und Beteiligungen mbH, Munich[1]	Direct	100.0	725	–
Bayernfonds Australien 4 GmbH i.L., Munich	Indirect	100.0	25	–
Bayernfonds Immobilien Concept GmbH, Munich	Indirect	100.0	61	– 4
Bayernfonds Immobiliengesellschaft mbH, Munich	Direct and indirect	100.0	5,069	163
Bayernfonds Kambera GmbH, Munich	Indirect	100.0	25	–
Bayernfonds Opalus GmbH, Munich	Indirect	100.0	25	–
BayernImmo 2. Joint Venture Verwaltungs GmbH, Munich[2]	Indirect	100.0		
BayernImmo Zollhafen Mainz GmbH&Co. KG, Munich[2]	Indirect	100.0		
BayernInvest Kapitalverwaltungsgesellschaft mbH, Munich[1]	Direct	100.0	18,754	–
BayernInvest Luxembourg S.A., L - Munsbach	Indirect	100.0	1,335	12
BayernLB Capital LLC I, USA - Wilmington	Direct	100.0	109	– 2
BayernLB Capital Partner GmbH, Munich	Direct	100.0	1,285	21
BayernLB Capital Partner Verwaltungs-GmbH, Munich	Direct	100.0	42	2
BayernLB Capital Trust I, USA - Wilmington	Direct	100.0	1	–
BayernLB Mittelstandsfonds GmbH & Co. Unternehmens-beteiligungs KG, Munich	Direct and indirect	100.0	30,507	2,117
BayernLB Private Equity GmbH, Munich	Direct	100.0	31,310	21,537
BayTech Venture Capital II GmbH & Co. KG, Munich	Direct and indirect	47.6	6,029	– 114
BayTech Venture Capital Initiatoren GmbH & Co. KG, Munich	Indirect	46.8	47	– 8
Berchtesgaden International Resort Betriebs GmbH, Munich[1]	Direct	100.0	9,368	–
Berthier Participations SARL, F - Paris	Direct	100.0	386	– 85
BestLife 3 International GmbH & Co. KG, Munich	Indirect	50.4	15,192	– 82
BGFM Bayerische Gebäude- und Facilitymanagement AG & Co. KG, Munich	Indirect	100.0	32	– 54

Name and location of the investee	Type of share-holding	Percentage held	Equity in EUR ’000	Earnings in EUR ’000
BGV IV Verwaltungs GmbH, Munich	Indirect	100.0	38	2
BGV VII Verwaltungs GmbH, Munich[2]	Indirect	100.0		
BGV VI Verwaltungs GmbH, Munich	Indirect	100.0	23	−2
BGV V Verwaltungs GmbH, Munich	Indirect	100.0	32	3
BLB-Beteiligungsgesellschaft Sigma mbH, Munich[1]	Direct	100.0	971	–
BLB-VG22-Beteiligungsgesellschaft mbH, Munich	Direct	100.0	2,472	744
Deutsche Kreditbank Aktiengesellschaft, Berlin[1]	Direct	100.0	2,435,913	–
DKB Finance GmbH, Berlin	Indirect	100.0	11,645	–
DKB Grund GmbH, Berlin	Indirect	100.0	117	16
DKB Immobilien Beteiligungs GmbH, Potsdam	Indirect	100.0	2,147	138
DKB Service GmbH, Potsdam	Indirect	100.0	7,100	−83
DKB Wohnen GmbH, Berlin	Indirect	94.5	25	–
DKB Wohnungsbau- und Stadtentwicklung GmbH, Berlin	Indirect	100.0	2,500	–
FMP Forderungsmanagement Potsdam GmbH, Potsdam	Indirect	100.0	4,655	1,225
GbR Olympisches Dorf, Potsdam	Indirect	100.0	296	296
German Centre for Industry and Trade Shanghai Co. Ltd., PRC - Shanghai	Indirect	100.0	35,412	1,623
German Centre for Industry and Trade Taicang Co. Ltd., PRC - Taicang	Indirect	100.0	2,991	–
German Centre Limited, BVI - Tortola	Direct	100.0	29,142	890
gewerbegrund AIRPORT GmbH Beteiligungsgesellschaft, Munich	Indirect	100.0	62	−1
gewerbegrund Bauträger GmbH & Co. Objekt IGG KG, Munich	Indirect	100.0	57	3
gewerbegrund Projektentwicklungsgesellschaft (gpe) mbH, Munich[1]	Direct	100.0	50	–
Global Format GmbH & Co. KG, Munich	Direct	52.4	1,821	300
Global Format Verwaltungsgesellschaft mbH, Munich	Indirect	100.0	29	1
LB Immobilienbewertungsgesellschaft mbH, Munich[1]	Direct	100.0	827	–
LB-RE S.A., L - Luxembourg	Indirect	100.0	5,082	–
Melhoria Immobiliengesellschaft mbH, Potsdam	Indirect	100.0	3,102	–
mfi Grundstück GmbH & Co. Harburg Arcaden KG, Düsseldorf	Indirect	67.3	–	−775
MVC Unternehmensbeteiligungsgesellschaft mbH, Berlin	Indirect	100.0	2,221	−249
Oberhachinger Bauland GmbH, Wohnbau- und Erschließungsgesellschaft, Munich	Indirect	91.0	−2,416	–
Potsdamer Immobiliengesellschaft mbH, Potsdam	Indirect	100.0	36	−9
PROGES DREI GmbH, Berlin	Indirect	100.0	666	198
PROGES EINS GmbH, Berlin	Indirect	100.0	480	–
PROGES ENERGY GmbH, Berlin	Indirect	100.0	455	168
PROGES Sparingberg GmbH, Berlin	Indirect	100.0	584	−33
PROGES VIER GmbH, Berlin	Indirect	100.0	210	51
PROGES ZWEI GmbH, Berlin	Indirect	100.0	1,223	252
Real I.S. AG Gesellschaft für Immobilien Assetmanagement, Munich[1]	Direct	100.0	45,455	–
Real I.S. Australia Pty. Ltd., AUS - Sydney	Indirect	100.0	184	125
Real I.S. Beteiligungs GmbH, Munich	Indirect	100.0	80	7
Real I.S. BGV VII Europa Verwaltungs GmbH, Munich[2]	Indirect	100.0		

Name and location of the investee	Type of share-holding	Percentage held	Equity in EUR '000	Earnings in EUR '000
Real I.S. Finanz GmbH, Munich[1]	Direct	100.0	25	–
Real I.S. Fonds Service GmbH, Munich[1]	Direct	100.0	196	–
Real I.S. France SAS, F - Paris	Indirect	100.0	690	78
Real I.S. Fund Management GmbH, Munich	Indirect	100.0	49	6
Real I.S. Gesellschaft für Immobilienentwicklung mbH, Munich	Indirect	100.0	1,144	10
Real I.S. Gesellschaft für Immobilien Entwicklung und Projektrealisierung mbH & Co. KG, Munich	Indirect	100.0	4,421	–40
Real I.S. GREF Verwaltungs GmbH, Munich[2]	Indirect	100.0		
Real I.S. Investment GmbH, Munich	Indirect	100.0	3,000	1,500
Real I.S. Management Hamburg GmbH, Munich	Indirect	100.0	26	–1
Real I.S. Management SA, L - Munsbach	Indirect	100.0	267	12
Real I.S. Objekt Bruchsal Verwaltungsgesellschaft mbH i.L., Oberhaching	Indirect	100.0	26	3
Real I.S. SMART Verwaltungs GmbH, Munich[2]	Indirect	100.0		
Schütz Group GmbH & Co. KG, Rosbach	Indirect	54.4	2,783	1
Schütz Group Verwaltungsgesellschaft mbH, Rosbach	Indirect	100.0	49	2
SEPA Objekt Bruchsal GmbH & Co. KG i.L., Oberhaching	Indirect	100.0	101	–10
SEPA/Real I.S. Objekt Bruchsal Rathausgalerie GmbH & Co. KG, Oberhaching	Indirect	100.0	1,392	–125
SEPA/Real I.S. Objekt Bruchsal Rathausgalerie Verwaltungs-GmbH, Oberhaching	Indirect	94.0	30	3
TFD und BGV VI Verwaltungs GmbH, Munich	Indirect	100.0	22	–3
TFD und RFS Verwaltungs GmbH, Munich	Indirect	100.0	24	–1
TFD Verwaltungs GmbH, Munich[2]	Indirect	100.0		
Versorgungskasse I BayernLB Gesellschaft mit beschränkter Haftung, Munich	Direct	100.0	15,247	–3,858
Versorgungskasse II BayernLB Gesellschaft mit beschränkter Haftung, Munich	Direct	100.0	17,259	2,246
Participations				
Abacus Eight Limited, GBC - George Town/Grand Cayman	Direct	48.5	8,679	5,722
Abacus Nine Limited, GBC - George Town/Grand Cayman	Direct	48.5	8,785	5,829
Abacus Seven Limited, GBC - George Town/Grand Cayman	Direct	48.5	7,102	4,145
Abacus Ten Limited, GBC - George Town/Grand Cayman	Direct	43.9	3,491	508
ABG Allgemeine Bauträger- und Gewerbeimmobilien-gesellschaft & Co. Holding KG, Munich	Indirect	50.0	158	250
ABG Allgemeine Bauträger- und Gewerbeimmobilien-gesellschaft mbH, Munich	Indirect	50.0	59	1
AKA Ausfuhrkredit GmbH, Frankfurt/Main	Direct	7.2	212,967	16,035
AQUILA Technische Entwicklungen GmbH, i.I., Schönhagen[2]	Indirect	16.1		
Bau-Partner GmbH i.I., Halle (Saale)	Indirect	49.6	–239	–553
BayBG Bayerische Beteiligungsgesellschaft mbH, Munich	Direct	12.9	214,026	13,695
Bayerische Garantiegesellschaft mbH für mittelständische Beteiligungen, Munich	Direct	8.2	46,377	2,325
Bayernfonds Asia-Pacific Growth GmbH & Co. KG, Munich	Indirect	0.0	19,188	–3,362
Bayernfonds Immobilien Bürocenter Leipzig Käthe Kollwitz Straße KG, Munich	Indirect	0.2	1,730	98

Name and location of the investee	Type of share-holding	Percentage held	Equity in EUR ’000	Earnings in EUR ’000
Bayernfonds Immobilien Bürocenter Magdeburg KG, Munich	Indirect	0.1	7,398	−149
Bayernfonds Immobilien City-Investitionen Objekte Erfurt und Jena KG, Munich	Indirect	5.1	16,877	493
Bayernfonds Immobilien Dresden Bürozentrum Falken-brunnen KG, Munich	Indirect	0.0	18,718	775
Bayernfonds Immobilien Fachmarktzentrum Erfurt, Leipziger Straße KG, Munich	Indirect	0.2	3,543	763
Bayernfonds Immobiliengesellschaft mbH & Co. Objekt Bad Kissingen Burkardus Wohnpark KG, Munich	Indirect	0.2	5,366	1,064
Bayernfonds Immobiliengesellschaft mbH & Co. Objekt Hannover Forum im Pelikanviertel KG, Munich	Indirect	0.1	2,911	−22
Bayernfonds Immobilien Jena Gewerbepark KG, Munich	Indirect	0.1	9,360	488
Bayernfonds Immobilien Objekt Berlin Hofgarten Friedrichstraße KG, Munich	Indirect	0.0	27,608	866
Bayernfonds Immobilien Objekt Essen Holle-Karree KG, Munich	Indirect	0.1	7,540	728
Bayernfonds Immobilien Objekt Leipzig, Friedrich List Haus KG, Munich	Indirect	0.0	25,327	518
Bayernfonds Immobilienverwaltung Austria Objekt Bischofshofen KG, Munich	Indirect	0.1	5	464
Bayernfonds Immobilienverwaltung Austria Objekte Salzburg und Wien KG, Munich	Indirect	0.1	13	840
Bayernfonds Immobilienverwaltung GmbH & Co. Australien 4 KG, Munich	Indirect	0.0	55,544	4,998
Bayernfonds Immobilienverwaltung GmbH & Co. Australien 7 KG, Munich	Indirect	0.0	73,899	2,672
Bayernfonds Immobilienverwaltung GmbH & Co. Australien 8 KG, Munich	Indirect	0.0	83,232	3,988
Bayernfonds Immobilienverwaltung GmbH & Co. Australien 9 KG, Munich	Indirect	0.0	85,570	3,392
Bayernfonds Immobilienverwaltung GmbH & Co. Australien Opalus KG, München	Indirect	0.0	102,077	8,433
Bayernfonds Immobilienverwaltung GmbH & Co. Hamburg Steindamm KG, Munich	Indirect	0.3	17,283	1,024
Bayernfonds Immobilienverwaltung GmbH & Co. Kambera KG, Munich	Indirect	0.0	131,552	9,469
Bayernfonds Immobilienverwaltung GmbH & Co. Objekt England I KG, Munich	Indirect	0.2	20,954	575
Bayernfonds Immobilienverwaltung GmbH & Co. Objekt Hamburg 3 KG, Munich	Indirect	5.3	27,267	134
Bayernfonds Immobilienverwaltung GmbH & Co. Objekt Hamburg I KG, Munich	Indirect	0.3	6,216	265
Bayernfonds Immobilienverwaltung GmbH & Co. Objekt München KG, Munich	Indirect	0.3	11,502	503
Bayernfonds Immobilienverwaltung GmbH & Co. Objekt München Landsberger Straße KG, Munich	Indirect	0.3	24,025	919
Bayernfonds Immobilienverwaltung GmbH & Co. Objekt München Ungerer Straße KG, Munich	Indirect	0.3	13,803	165
Bayernfonds Immobilienverwaltung GmbH & Co. Regensburg KG, Munich	Indirect	0.3	34,766	1,379

Name and location of the investee	Type of share-holding	Percentage held	Equity in EUR '000	Earnings in EUR '000
Bayernfonds Immobilienverwaltung Objekt Bad Homburg KG, Munich	Indirect	5.1	3	–580
Bayernfonds Immobilienverwaltung Objekt Berlin Schönhauser Allee Arcaden KG, Munich	Indirect	5.7	7,746	2,486
Bayernfonds Immobilienverwaltung Objekt Berlin Taubenstraße KG, Munich	Indirect	0.4	–10,919	–19,436
Bayernfonds Immobilienverwaltung Objekt Düsseldorf Bonneshof GmbH & Co. KG, Munich	Indirect	0.3	29,067	1,069
Bayernfonds Immobilienverwaltung Objekt Wiesbaden, Hagenauer Straße 42, 44 und 46 KG, Munich	Indirect	5.1	14,604	678
Bayernfonds Pacific Growth GmbH & Co. KG, Munich	Indirect	0.0	19,749	1,156
Bayerngrund Grundstücksbeschaffungs- und -erschließungs-Gesellschaft mit beschränkter Haftung, Munich	Direct	50.0	8,947	–
BayernImmo 1. Joint Venture GmbH & Co. KG, Munich	Indirect	50.0	7,588	–3
BayernImmo 1. Joint Venture Verwaltungs GmbH, Munich	Indirect	50.0	20	–5
Bayern Mezzaninekapital GmbH & Co. KG - Unternehmens-beteiligungsgesellschaft, Munich	Direct	25.5	32,866	2,692
Bayern Mezzaninekapital Verwaltungs GmbH, Munich	Direct	49.0	45	1
BF Gewerbepark I GmbH i.L., Oberhaching	Indirect	6.0	22	–
BF Immobilienverwaltung Objekte München, Rüsselsheim, Düsseldorf-Ratingen KG, Munich	Indirect	0.3	–	–11,954
BF REAL I.S. - DB Real Estate Immobilienverwaltung Objekte Berlin, Düsseldorf, Essen KG, Munich	Indirect	5.5	23,819	–12,780
BGV Holding GmbH & Co. KG, Oberhaching	Indirect	0.0	42,862	1,005
BGV III Feeder 1 S.C.S. SICAV-FIS, L - Luxembourg	Indirect	0.1	–	5,842
BioM Aktiengesellschaft Munich Bio Tech Development, Martinsried	Direct	8.5	2,252	–690
Brainloop AG, Munich	Indirect	16.6	3,101	–5,094
Cap Decisif S.A.S., F - Paris	Indirect	6.0	2,279	7,969
CLS Group Holdings AG Zürich, CH - Zurich	Direct	0.7	454,908	40,469
CommuniGate Kommunikationsservice GmbH, Passau	Indirect	50.0	3,528	356
Deutsche Life Science GmbH, Berlin	Indirect	10.2	–15,052	655
Deutsche WertpapierService Bank AG, Frankfurt am Main	Direct	3.7	182,463	11,128
DKB Wohnimmobilien Beteiligungs GmbH & Co. KG, Potsdam	Indirect	5.1	36,746	1,470
Einkaufs-Center Györ Verwaltungs G.m.b.H., Hamburg	Indirect	50.0	27	2
Erste Tinten Holding GmbH, Hohenbrunn	Indirect	21.0	4,514	1,027
Fay & Real I.S. IE Regensburg GmbH & Co. KG i.L., Oberhaching	Indirect	50.0	225	–315
Fay & Real I.S. IE Regensburg Verwaltungs GmbH i.L., Oberhaching	Indirect	50.0	34	2
FBEM Gesellschaft mit beschränkter Haftung, Bonn	Direct	4.3	7,838	–75
FidesSecur Versicherungs- und Wirtschaftsdienst Versicherungsmakler GmbH, Munich	Indirect	14.0	5,231	871
Film und Video Untertitelung Gerhard Lehmann AG i.I., Potsdam	Indirect	33.3	–1,997	–495
Fondations Capital I S.C.A., L - Senningerberg	Direct	23.2	255,766	35,049
Fondsbörse Deutschland Beteiligungsmakler AG, Hamburg	Indirect	2.5	3,384	–1,791

Name and location of the investee	Type of share-holding	Percentage held	Equity in EUR ’000	Earnings in EUR ’000
Galintis GmbH & Co. KG, Frankfurt am Main	Direct	15.9	532,745	11,752
GbR Datenkonsortium OpRisk, Bonn[2]	Direct	0.0		
German Biofuels GmbH, Pritzwalk	Indirect	19.9	−8,881	−4,899
German Centre for Industry and Trade India Holding-GmbH, Munich	Direct	50.0	987	−290
GESO Gesellschaft für Sensorik, Geotechnischen Umweltschutz und mathematische Modellierung mbH i.I., Jena	Indirect	43.1	−353	–
GHM Holding GmbH, Regenstauf	Indirect	40.0	17,236	−25
G.I.E. Max Hymans, F - Paris	Indirect	33.3	−24,848	4,093
GLB GmbH & Co. OHG, Frankfurt/Main	Direct	6.3	5,424	729
GLB-Verwaltungs-GmbH, Frankfurt/Main	Direct	6.2	50	2
Harburg Arcaden Projektbeteiligung mbH, Düsseldorf	Indirect	50.0	46	−7
Immo 3 Rue Jean Monnet S.à.r.l., L - Luxembourg	Indirect	10.0	54,256	1,876
JFA Verwaltung GmbH, Leipzig	Indirect	10.7	−13,033	78
KGAL GmbH & Co. KG, Grünwald	Direct	3.4	54,764	15,988
Kreditgarantiegemeinschaft des bayerischen Gartenbaus GmbH, Munich	Direct	7.2	649	–
Kreditgarantiegemeinschaft des bayerischen Handwerks GmbH, Munich	Direct	9.9	4,846	–
Kreditgarantiegemeinschaft des Hotel- und Gaststättengewerbes in Bayern GmbH, Munich	Direct	8.6	4,359	–
Kreditgarantiegemeinschaft für den Handel in Bayern GmbH, Munich	Direct	6.8	6,317	–
LEG Kiefernsiedlung Grundstücksgesellschaft b.R., Berlin	Indirect	6.4	−3,700	305
LEG Wohnpark am Olympischen Dorf Grundstücksgesellschaft b.R., Berlin	Indirect	7.5	−6,424	584
LEG Wohnpark Heroldplatz Grundstücksgesellschaft b.R., Berlin	Indirect	7.7	−1,624	27
Mediport Venture Fonds Zwei GmbH i.I., Berlin	Indirect	53.8	267	−1,687
MTI Main-Taunus Immobilien GmbH, Bad Homburg v.d.H.	Indirect	50.0	181	−5
MVP Fund II GmbH & Co. KG, Grünwald	Direct	10.0	48,499	−4,139
Neue Novel Ferm Verwaltungs GmbH, Berlin	Indirect	49.0	24	–
Neumarkt-Galerie Immobilienverwaltungsgesellschaft mbH, Cologne	Indirect	49.0	84	−2
nfon AG, Munich	Indirect	6.4	6,158	−6,127
Novel Ferm Brennerei Dettmannsdorf GmbH & Co. KG, Berlin	Indirect	49.0	3,959	k.A.
PARIS EDEN MONCEAU SCI, F - Paris	Indirect	0.0	60,399	−351
Real I.S. Grundvermögen GmbH & Co. geschlossene Investment-KG, Munich	Indirect	5.3	17,601	3,827
Real I.S. Institutional Real Estate 1 GmbH & Co. geschlossene Investment-KG, Munich	Indirect	0.0	59,732	669
RealMatch Ltd., IL - Kfar Sava	Indirect	9.2	13,207	−3,106
Revotar Biopharmaceuticals AG i.I., Henningsdorf	Indirect	10.2	1,726	−2,347
RSU Rating Service Unit GmbH & Co. KG, Munich	Direct	20.0	14,280	1,159
S CountryDesk GmbH, Cologne	Direct	2.5	370	47
SIAG Industrie GmbH, Dresden	Indirect	19.9	−4,622	–

Name and location of the investee	Type of share-holding	Percentage held	Equity in EUR '000	Earnings in EUR '000
SIGNA 03 Milano S.a.s. di SIGNA Milano S.r.l. & C., I - Bolzano	Indirect	2.0	26,161	−2,366
SIZ GmbH, Bonn	Direct	5.0	4,586	188
S-Karten-Service-Management GmbH - Saarbrücken - München, Munich	Indirect	50.0	101	–
Sophia Euro Lab S.A.S. i.L., F - Sophia Antipolis Cedex	Indirect	32.3	1,550	148
TAG Wohnungsgesellschaft Berlin-Brandenburg mbH, Potsdam	Indirect	5.2	8,605	−1,243
TEGES Grundstücks-Vermietungsgesellschaft mbH, Berlin	Indirect	50.0	18	–
TEGES Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt Berlin KG, Berlin	Indirect	47.0	−6,959	226
Ten Towers GbR i.L., Munich	Indirect	0.0	–	–
True Sale International GmbH, Frankfurt/Main	Direct	7.7	4,763	71
Visa Inc., USA - San Francisco	Direct and indirect	0.0	29,488,397	5,367,799

The information is based on the most recent available annual financial statements of the investees. Foreign currency amounts were converted to euros at the respective spot exchange rate at the end of the year.

1 A profit and loss transfer agreement has been concluded with the company.

2 Approved annual financial statements are not available yet.

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

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

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

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

Letters of comfort

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

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

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

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

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

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

Other financial obligations

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

As at the reporting date, there were call commitments for capital not fully paid up of EUR 8 million and liabilities from limited partnership interests of EUR 29 million. Amounts due to affiliated companies totalled EUR 30 million.

As at the reporting date, BayernLB had EUR 29 million (FY 2015: EUR 12 million) of irrevocable payment obligations in connection with the bank levy and deposit guarantee scheme. Cash collateral of EUR 17 million (FY 2015: EUR 12 million) was pledged for the bank levy and EUR 12 million (FY 2015: EUR 0 million) of securities collateral provided for the deposit guarantee scheme.

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

Under the terms of the statutes of the deposit insurance fund run by the Association of German Public Banks, VÖB, e. V. (VÖB), BayernLB has undertaken to compensate the fund for all proven defaults which it has incurred on the basis of payments it has made to Deutsche Kreditbank Aktiengesellschaft, Berlin (DKB) pursuant to the statutes if it is unable to enforce its rights of recourse against DKB pursuant to the statutes.

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

Transactions with related parties under section 285 no. 21 HGB

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

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

Administrative bodies of BayernLB

Supervisory Board

Gerd Haeusler
Chairman of the BayernLB Supervisory Board
Munich

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

Dr Hubert Faltermeier
until 31 December 2016
Member of the BayernLB Supervisory Board
Chief District Administrator
until 31 October 2016
Kelheim

Dr Roland Fleck
Managing Director
NürnbergMesse GmbH
Nuremberg

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

Dr Kurt Gribl
since 1 January 2017
Member of the BayernLB Supervisory Board
Lord Mayor
Augsburg

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

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

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

Professor Dr Christian Rödl
Managing Partner
Rödl & Partner GbR
Nuremberg

Professor Dr Bernd Rudolph
LMU Munich and Steinbeis-Hochschule Berlin

Henning Sohn
since 30 August 2016
Member of the BayernLB Supervisory Board
Chairman of the General Staff Council
since 1 August 2016
BayernLB
Munich

Ralf Haase
until 31 July 2016
Member of the BayernLB Supervisory Board
Chairman of the General Staff Council
until 31 July 2016
BayernLB
Munich

Board of Management (including allocation of responsibilities)

Dr Johannes-Jörg Riegler
CEO
Corporate Center
Deutsche Kreditbank Aktiengesellschaft

Dr Edgar Zoller
Deputy CEO
Real Estate & Savings Banks/Association
Bayerische Landesbodenkreditanstalt[1]
Real I.S. AG Gesellschaft für Immobilien Assetmanagement

Marcus Kramer
CRO
Risk Office
Credit Consulting
Group Compliance

Michael Bücker
Corporates & Mittelstand

Dr Markus Wiegelmann
CFO/COO
Financial Office
Operating Office

Ralf Woitschig
Financial Markets
BayernInvest Kapitalverwaltungsgesellschaft mbH

1 Dependent institution of the Bank.

Remuneration of the administrative bodies

EUR ’000	2016	2016	2015	2015
Total remuneration for the financial year:				
Members of the Board of Management		**4,074**		**3,944**
• CEO	724		710	
– Base salary	700		700	
– Variable compensation	24		10	
• Deputy CEO	698		670	
– Base salary	650		650	
– Variable compensation	48		20	
• Ordinary members of the Board of Management	2,590		2,480	
– Base salary	2,400		2,400	
– Variable compensation	190		80	
• Ancillary remuneration (non-cash compensation)	62		84	
Members of the Supervisory Board		**851**		**697**
Former members of the Board of Management and their surviving dependants		**4,127**		**4,292**
Pension provisions established for former members of the Board of Management and their surviving dependants		**82,293**		**84,977**

The information on variable compensation is based on the assumption targets are achieved 100 percent. The Supervisory Board is expected to decide on the payout and the exact size of the Board of Management’s variable compensation for financial year 2016 in its meeting in April 2017.

Loans to the administrative bodies

There were no loans to administrative bodies in financial year 2016.

Mandates held by legal representatives or by other employees

Name	Mandates held in supervisory bodies constituted under German law for large corporations (including all credit institutions)[1]
Board of Management	
Dr Johannes-Jörg Riegler	Deutsche Kreditbank Aktiengesellschaft, Berlin
Dr Edgar Zoller	Deutsche Kreditbank Aktiengesellschaft, Berlin Real I.S. AG Gesellschaft für Immobilien Assetmanagement, Munich
Marcus Kramer	Deutsche Kreditbank Aktiengesellschaft, Berlin
Dr Markus Wiegelmann	Deutsche Kreditbank Aktiengesellschaft, Berlin
Ralf Woitschig	BayernInvest Kapitalverwaltungsgesellschaft mbH, Munich
Employees	
Dr Michael Braun	Landesbank Saar, Saarbrücken
Johannes Heinloth	BayernInvest Kapitalverwaltungsgesellschaft mbH, Munich
Bernd Mayer	Real I.S. AG Gesellschaft für Immobilien Assetmanagement, Munich

1 *This information is valid as at 31 December 2016.*

External auditor's total fees

EUR million	2016	2015
Total fees recorded as expenses in the financial year for		
• the financial statements audits	4	4
• other certification services	1	1
• tax consultancy services	–	–
• other services	1	1
Total	**5**	**5**

Number of employees (annual average)

	2016	2015
Female	1,442	1,443
Male	1,645	1,654
Total	**3,087**	**3,097**

The total figure includes 913 (FY 2015: 856) part-time employees, which corresponds to 624 (FY 2015: 580) full-time employees. The 87 (FY 2015: 96) trainees and students on a vocationally integrated course at a vocational academy are not included.

Events after the reporting period

The following event of major significance occurred after the close of financial year 2016:

In February 2017, BayernLB received recoveries on impaired receivables totalling EUR 54 million from a previous credit exposure.

No other events of major significance have occurred since 31 December 2016.

Proposal for the appropriation of income

BayernLB's Board of Management has proposed paying the net income for the financial year 2016 of EUR 332 million into the retained earnings.

Responsibility statement by the Board of Management

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

Munich, 13 March 2017

Bayerische Landesbank
The Board of Management

Dr Johannes-Jörg Riegler   Dr Edgar Zoller   Marcus Kramer

Michael Bücker   Dr Markus Wiegelmann   Ralf Woitschig

Auditor's Report

We have audited the annual financial statements, comprising the balance sheet, the income statement and the notes to the financial statements, together with the bookkeeping system and the management report of Bayerische Landesbank, Munich, for the financial year from 1 January to 31 December 2016. The maintenance of the books and records and the preparation of the annual financial statements and the management report in accordance with German commercial law and supplementary provisions of the Bayerische Landesbank Act (Gesetz über die Bayerische Landesbank) and the Statutes of Bayerische Landesbank (Satzung der Bayerische Landesbank) are the responsibility of the Company's management. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, and the management report based on our audit.

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

Our audit has not led to any reservations.

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

Munich, 13 March 2017

Deloitte GmbH
Wirtschaftsprüfungsgesellschaft

(Löffler)
German public auditor
(Wirtschaftsprüfer)

(Apweiler)
German public auditor
(Wirtschaftsprüfer)

BayernLB 2016 Annual Report and Accounts

Publisher
Bayerische Landesbank
Brienner Strasse 18
80333 Munich
Phone +49 89 2171-01
Fax +49 89 2171-23578
Reuters Dealing BLAM, BLAS
BIC/SWIFT code: BYLA DE MMXXX
info@bayernlb.de
www.bayernlb.de

Text/editorial staff/production
BayernLB
Financial Office, Rating & Investor Relations Section
Group Strategy & Group Communications,
Communication and Press Department

Layout and printing
DruckArt c/o Gebr. Geiselberger GmbH
86916 Kaufering, Germany

Editorial deadline: 27 April 2017

The Annual Report can be downloaded as a pdf file
from www.bayernlb.com/ir.
It is also available in German.

Bayerische Landesbank
Brienner Strasse 18
80333 Munich
Germany

www.bayernlb.com

BayernLB