Disclosure Report as at 30 June 2016

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

BayernLB

Contents

Preliminary remarks

This disclosure report, which refers to the period from 1 January 2016 to 30 June 2016, has been drafted in accordance with the supervisory provisions under Part Eight of the CRR (Capital Requirements Regulation/Regulation (EU) No 575/2013) and CRD IV (Capital Requirements Directive IV/Directive 2013/36/EU).

By publishing this information, BayernLB meets the intrayear disclosure requirements for institutions with a total exposure measure (Article 429 CRR) exceeding EUR 200 billion. As at 30 June 2016, this figure is approximately EUR 236 billion for BayernLB.

The report contains quantitative information on the
- own funds
- own funds requirements
- capital ratios
- leverage ratio

of the BayernLB Group. All the data published herein take into account the 2016 half-year financial statements.

The data in this report have not been audited.

Note:
The last unit in the tables may be rounded to the nearest digit.

Own funds (Article 437 CRR)

Regulatory capital adequacy

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

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

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

In the planning process, regulatory capital is distributed to each planning unit based on the RWA component. The planning units (Group units) are the defined business areas and central areas of BayernLB, as well as BayernLabo and Deutsche Kreditbank AG, Berlin (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%. The RWA allocation to each Group unit is constantly monitored for compliance by the Board of Management, which receives monthly reports on current RWA utilisations.

Own funds

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

Common Equity Tier 1 capital (CET1 capital)

CET1 capital consists mainly of subscribed capital, reserves and the capital contribution of BayernLabo. During the transition period, the perpetual silent partner contribution of the Free State of Bavaria (state aid) is also an element of CET1 capital. Furthermore, regulatory adjustments and deductions as set out under Article 32 et seq. of the CRR are taken into account. These are mostly intangible assets, deferred tax assets which are dependent on future profitability, the shortfall resulting from discrepancies between writedowns and expected loss, and also certain adjustments (prudent valuation). For the transition period, however, these items are not to be completely deducted from CET1 capital but instead are being phased in in 20% portions (60% deducted from CET1 capital as at 30 June 2016). Amounts not to be deducted from CET1 capital are instead to be deducted from additional Tier 1 capital and Tier 2 capital.

Additional Tier 1 capital (AT1 capital)

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

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

Undated silent partner contributions have broadly similar terms and conditions but are perpetual and not cumulative (unpaid dividends are not carried forward). The capital-market based distribution is agreed for a ten-year time period.

Article 484 et seq. of the CRR allow for all silent partner contributions at BayernLB to be recognised as AT1 capital at present.

Tier 2 capital (T2 capital)

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

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

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

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

Own funds structure

As at 30 June 2016, the own funds of the BayernLB Group, adjusted for the 2016 half-year financial accounts, were as follows:

		30 Jun 2016		31 Dec 2015	
	EUR million	30 Jun 2016	Pre-CRR-treatment residual amount	31 Dec 2015	Pre-CRR-treatment residual amount
Common Equity Tier 1 capital (CET1): instruments and reserves					
1	Capital instruments and the related share premium accounts	3,888	–	3,888	–
	of which: share capital including premium	3,276	–	3,276	–
	of which: capital contribution	612	–	612	–
2	Retained earnings	3,807	–	3,799	–
3	Accumulated other comprehensive income (and other reserves)	545	–	1,036	–
3a	Funds for general banking risk	–	–	–	–
4	Grandfathered instruments	1,000	–	2,300	–
	of which: public-sector capital injections grandfathered until 1 January 2018	1,000	–	2,300	–
5	Minority interests (amount eligible as consolidated CET1)	–	–	–	–
5a	Independently reviewed interim profits net of any foreseeable charge or dividend	–	–	–	–
6	**Common Equity Tier 1 (CET1) capital before regulatory adjustments**	**9,240**	–	**11,023**	–
Common Equity Tier 1 (CET1) capital: regulatory adjustments					
7	Prudent valuation pursuant to Article 105 CRR	−86	–	−81	–
8	Intangible assets (net of related tax liability)	−64	−42	−42	−64
9	[In the EU: blank field]	–	–	–	–
10	Deferred tax assets that rely on future profitability	−13	−9	−9	−13
11	Fair value reserves related to gains or losses on cash flow hedges	–	–	–	–
12	Negative amounts resulting from the calculation of expected loss amounts	−149	−99	−50	−76
13	Equity increase resulting from securitised assets	–	–	–	–
14	Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	−47	–	−45	–
15	Defined-benefit pension fund assets	–	–	–	–
16	Direct and indirect holdings by an institution of own CET1 instruments	–	–	–	–
17	Direct, indirect and synthetic holdings by the institution of CET1 instruments of financial-sector entities with reciprocal cross-holdings	–	–	–	–
18	Direct, indirect and synthetic holdings by the institution of CET1 instruments of financial-sector entities in which the institution has no significant investment	–	–	–	–
19	Direct, indirect and synthetic holdings by the institution of CET1 instruments of financial-sector entities in which the institution has a significant investment	–	–	–	–
20	[In the EU: blank field]	–	–	–	–
20a	Exposure amount of the following items which qualify for a RW of 1250%, where the institution opts for the deduction alternative	–	–	–	–

	EUR million	30 Jun 2016	30 Jun 2016 Pre-CRR-treat-ment residual amount	31 Dec 2015	31 Dec 2015 Pre-CRR-treat-ment residual amount
20b	of which: qualifying holdings outside the financial sector	–	–	–	–
20c	of which: securitisation exposures (negative amount)	–	–	–	–
20d	of which: free deliveries	–	–	–	–
21	Deferred tax assets arising from temporary differences	–	–	–	–
22	Amount exceeding the 15.0% threshold	–	–	–	–
23	of which: direct and indirect holdings by the institution of CET1 instruments of financial-sector entities in which the institution has a significant investment	–	–	–	–
24	[In the EU: blank field]	–	–	–	–
25	of which: deferred tax assets arising from temporary differences	–	–	–	–
25a	Losses for the current financial year	–	–	–	–
25b	Foreseeable tax charges relating to CET1 items	–	–	–	–
26	Regulatory adjustments applied to Common Equity Tier 1 capital in respect of amounts subject to pre-CRR treatment	–	–	–	–
26a	Regulatory adjustments relating to unrealised gains and losses	−172	–	−259	–
	of which: deductions and filters for unrealised losses (revaluation surplus)	–	–	–	–
	of which: deductions and filters for unrealised gains (revaluation surplus)	−172	–	−259	–
26b	Amount to be deducted from or added to Common Equity Tier 1 capital with regard to additional filters and deductions required pre-CRR	–	–	–	–
27	Qualifying AT1 deductions that exceed the AT1 capital of the institution	–	–	–	–
28	**Total regulatory adjustments to Common Equity (CET1) Tier 1 capital**	**−531**	–	**−486**	–
29	**Common Equity Tier 1 (CET1) capital**	**8,709**	–	**10,537**	–
Additional Tier 1 (AT1) capital: instruments					
30	Capital instruments and the related share premium accounts	–	–	–	–
31	of which: classified as equity under applicable accounting standards	–	–	–	–
32	of which: classified as liabilities under applicable accounting standards	–	–	–	–
33	Grandfathered instruments	342	–	350	–
	of which: public-sector capital injections grandfathered until 1 January 2018	–	–	–	–
34	Instruments qualifying as Tier 1 capital issued by subsidiaries	–	–	–	–
35	of which: instruments issued by subsidiaries subject to phase-out	–	–	–	–
36	**Additional Tier 1 (AT1) capital before regulatory adjustments**	**342**	–	**350**	–
Additional Tier 1 (AT1) capital: regulatory adjustments					
37	Direct and indirect holdings by an institution of own AT1 instruments	–	–	–	–
38	Holdings of AT1 instruments of financial-sector entities with reciprocal cross-holdings	–	–	–	–
39	Direct and indirect holdings by the institution of AT1 instruments of financial-sector entities in which the institution has no significant investment	–	–	–	–
40	Direct and indirect holdings by the institution of AT1 instruments of financial-sector entities in which the institution has a significant investment	–	–	–	–

	EUR million	30 Jun 2016		31 Dec 2015	
		30 Jun 2016	Pre-CRR-treatment residual amount	31 Dec 2015	Pre-CRR-treatment residual amount
41	Regulatory adjustments applied to additional Tier 1 capital in respect of amounts subject to pre-CRR treatment and transitional treatments (CRR residual amounts)	–	–	–	–
41a	Residual amounts deducted from additional Tier 1 capital with regard to deduction from Common Equity Tier 1 capital during the transitional period	−92	–	−102	–
	of which: losses for the current financial year	–	–	–	–
	of which: intangible assets	−42	–	−64	–
	of which: negative amounts resulting from the calculation of expected loss amounts	−50	–	−38	–
41b	Residual amounts deducted from additional Tier 1 capital with regard to deduction from Tier 2 capital during the transitional period	–	–	–	–
41c	Amount to be deducted from or added to additional Tier 1 capital with regard to additional filters and deductions required pre-CRR	–	–	–	–
	of which: any deductions and filters for unrealised losses	–	–	–	–
	of which: any deductions and filters for unrealised gains	–	–	–	–
42	Qualifying Tier 2 deductions that exceed the Tier 2 capital of the institution	–	–	–	–
43	**Total regulatory adjustments to additional Tier 1 (AT1) capital**	**−92**	–	**−102**	–
44	**Additional Tier 1 (AT1) capital**	**250**	–	**248**	–
45	**Tier 1 capital (T1 = CET1 + AT1)**	**8,959**	–	**10,785**	–
Tier 2 (T2) capital: instruments and reserves					
46	Capital instruments and the related share premium accounts	562	–	93	–
47	Grandfathered instruments	1,036	–	1,244	–
	of which: public-sector capital injections grandfathered until 1 January 2018	–	–	–	–
48	Instruments qualifying as Tier 2 capital issued by subsidiaries	111	–	117	–
49	of which: instruments issued by subsidiaries subject to phase-out	–	–	–	–
50	Credit risk adjustments	–	–	12	–
51	**Tier 2 (T2) capital before regulatory adjustments**	**1,709**	–	**1,467**	–
Tier 2 (T2) capital: regulatory adjustments					
52	Direct and indirect holdings by an institution of own T2 instruments and subordinated loans	−30	–	–	–
53	Holdings of T2 instruments and subordinated loans of financial-sector entities with reciprocal cross-holdings	–	–	–	–
54	Direct and indirect holdings by the institution of T2 instruments and subordinated loans of financial-sector entities in which the institution has no significant investment	–	–	–	–
54a	of which: new holdings not subject to transitional arrangements	–	–	–	–
54b	of which: holdings existing before 1 January 2013 and subject to transitional arrangements	–	–	–	–

EUR million		30 Jun 2016		31 Dec 2015	
		30 Jun 2016	Pre-CRR-treat-ment residual amount	31 Dec 2015	Pre-CRR-treat-ment residual amount
55	Direct and indirect holdings by the institution of T2 instruments and subordinated loans of financial-sector entities in which the institution has a significant investment	–	–	–	–
56	Regulatory adjustments applied to Tier 2 capital in respect of amounts subject to pre-CRR treatment and transitional treatments (CRR residual amounts)	–	–	–	–
56a	Residual amounts deducted from Tier 2 capital with regard to deduction from Common Equity Tier 1 capital during the transitional period	−50	–	−38	–
	of which: negative amounts resulting from the calculation of expected loss amounts	−50	–	−38	–
56b	Residual amounts deducted from Tier 2 capital with regard to deduction from additional Tier 1 capital during the transitional period	–	–	–	–
56c	Amount to be deducted from or added to Tier 2 capital with regard to additional filters and deductions required pre-CRR	–	–	–	–
	of which: any deductions and filters for unrealised losses	–	–	–	–
	of which: any deductions and filters for unrealised gains	–	–	–	–
	of which: deductions required pre-CRR	–	–	–	–
57	**Total regulatory adjustments to Tier 2 (T2) capital**	**−80**	–	**−38**	–
58	**Tier 2 (T2) capital**	**1,630**	–	**1,429**	–
59	**Total capital (T1 + T2)**	**10,589**	–	**12,214**	–
Risk assets before adjustments					
59a	Risk-weighted assets in respect of amounts subject to pre-CRR treatment and transitional treatments (CRR residual amounts)	–	–	–	–
	of which: items not deducted from CET1 items	–	–	–	–
	of which: items not deducted from AT1 items	–	–	–	–
	of which: items not deducted from T2 items	–	–	–	–
60	**Total risk-weighted assets**	**68,400**	–	**69,606**	–
Capital ratios and buffers					
61	Common Equity Tier 1 capital ratio	12.7%	–	15.1%	–
62	Tier 1 capital ratio	13.1%	–	15.5%	–
63	Total capital ratio	15.5%	–	17.6%	–
64	Institution-specific buffer requirement	0.6%	–	–	–
65	of which: capital conservation buffer requirements	0.6%	–	–	–
66	of which: countercyclical buffer requirements	0.0%	–	–	–
67	of which: systemic risk buffer requirements	–	–	–	–
67a	of which: buffer requirements for global systemically important institutions (G-SIIs) or other systemically important institutions (O-SIIs)	–	–	–	–
68	Common Equity Tier 1 capital available to meet buffers	8.2%	–	10.6%	–
69	[Not relevant to EU directive]	–	–	–	–
70	[Not relevant to EU directive]	–	–	–	–
71	[Not relevant to EU directive]	–	–	–	–

		30 Jun 2016		31 Dec 2015	
	EUR million	30 Jun 2016	Pre-CRR-treat-ment residual amount	31 Dec 2015	Pre-CRR-treat-ment residual amount
Capital and buffers					
72	Direct and indirect holdings by the institution of capital instruments of financial-sector entities in which the institution has no significant investment	106	–	116	–
73	Direct and indirect holdings by the institution of CET1 instruments of financial-sector entities in which the institution has a significant investment	170	–	168	–
74	[In the EU: blank field]	–	–	–	–
75	Deferred tax assets arising from temporary differences	334	–	334	–
Applicable caps on the inclusion of provisions in Tier 2 capital					
76	Credit risk adjustments included in T2 capital in respect of exposures subject to the standardised approach	–	–	–	–
77	Cap on inclusion of credit risk adjustments in T2 capital under the standardised approach	49	–	53	–
78	Credit risk adjustments included in T2 capital in respect of exposures subject to the Internal Ratings-Based approach	–	–	12	–
79	Cap on inclusion of credit risk adjustments in T2 capital under the Internal Ratings-Based approach	332	–	333	–
Capital instruments subject to phase-out arrangements (only applicable between 1 January 2013 and 1 January 2022)					
80	Current cap on CET1 instruments subject to phase-out arrangements	–	–	–	–
81	Amount excluded from CET1 due to cap	–	–	–	–
82	Current cap on AT1 instruments subject to phase-out arrangements	886	–	1,033	–
83	Amount excluded from AT1 due to cap	–	–	–	–
84	Current cap on T2 instruments subject to phase-out arrangements	2,607	–	3,041	–
85	Amount excluded from T2 due to cap	–	–	–	–

The reduction of the CET1 capital by EUR 1.8 billion compared to 31 December 2015 is primarily due to a further partial repayment of the silent partner contribution of the Free State of Bavaria of EUR 1.3 billion in April 2016 and a reduction of the cumulated other comprehensive income by EUR 0.5 billion due to a change in revaluation of defined benefit plans.

The Tier 2 capital has increased by EUR 0.2 billion compared to 31 December 2015. This increase is due to a total borrowing of EUR 0.5 billion of subordinated Schuldschein loans with fixed coupons and maturities between 10 and 20 years and due to a change in the day-to-day amortization of instruments of the Tier 2 capital.

Capital instruments

The disclosure of the capital instruments main features has been published in a separate table due to the considerable extent. The file is published on the BayernLB website:

www.bayernlb.de>Investor_Relations>Veröffentlichungen>Anhang Offenlegungsbericht Hauptmerkmale.

The table contains the description of the main features of the BayernLB group’s issued CET1 capital, AT1 capital and Tier 2 capital as well as with these capital instruments associated conditions.

Balance sheet reconciliation of all elements of regulatory capital

Reconciliation from the consolidated balance sheet to the “prudential” balance sheet

Assets EUR million	Consolidated balance sheet as at 30 Jun 2016	Impact of consolidation/ deconsolidation	“Prudential” balance sheet as at 30 Jun 2016	Reference
Cash reserves	3,796	–	3,796	
Loans and advances to banks	33,912	1	33,913	
Loans and advances to customers	136,895	–	136,895	
Risk provisions	−2,613	–	−2,613	
Portfolio hedge adjustment assets	1,166	–	1,166	
Assets held for trading	19,613	–	19,613	
Positive fair values from derivative financial instruments (hedge accounting)	1,447	–	1,447	
Financial investments	27,912	1	27,913	
Investment property	32	–	32	
Property, plant and equipment	353	–	353	
Intangible assets	102	–	102	1
Current tax assets	58	–	58	
Deferred tax assets	375	–	375	
Non-current assets or disposal groups classified as held for sale	53	−25	28	
Other assets	1,195	3	1,198	
Total assets	**224,296**	**−20**	**224,276**	

Liabilities EUR million	**Consolidated balance sheet as at 30 Jun 2016**	**Impact of consolidation/ deconsolidation**	**“Prudential” balance sheet as at 30 Jun 2016**	**Reference**
Liabilities to banks	60,088	–	60,088	
Liabilities to customers	89,577	47	89,624	
Securitised liabilities	40,164	–	40,164	
Portfolio hege adjustment liabilities	–	–	–	
Liabilities held for trading	12,584	–	12,584	
Negative fair values from derivative financial instruments (hedge accounting)	1,570	–	1,570	
Provisions	4,854	−7	4,847	
Current tax liabilities	211	−2	209	
Deferred tax liabilities	104	–	104	
Other liabilities	389	13	402	
Subordinated capital	3,862	–	3,862	
• Subordinated liabilities	3,381	–	3,381	2
• Profit participation certificates (debt component)	388	–	388	3
• Dated contributions of silent partners (debt component)	22	–	22	4
• Hybrid capital	71	–	71	5
Equity	10,893	−71	10,822	
• Subscribed capital	4,714	–	4,714	
– Statutory nominal capital	2,800	–	2,800	6
– Capital contribution	612	–	612	7
– Perpetual contributions of silent partner	1,302	–	1,302	8
of which: silent partner contribution of the Free State of Bavaria	1,000	–	1,000	9
• Hybrid capital instruments	92	–	92	
– Profit participation certificates (equity component)	80	–	80	10
– Dated contribution of silent partner (equity component)	11	–	11	11
• Capital surplus	2,182	–	2,182	12
– of which: premium on subscribed capital	476	–	476	13
• Retained earnings	3,167	−63	3,104	14
– of which: revaluation surplus of defined benefit plans	−1,591	–	−1,591	15
• Revaluation surplus	410	−13	397	16
• Foreign currency translation reserve	–	–	–	17
• Profit/Loss attributable to non-controlling interests	15	–	15	
• Consolidated profit/loss	314	5	319	
Total liabilities	**224,296**	**−20**	**224,276**	

The impact of consolidation/deconsolidation as shown above reflects the discrepancy between the accounting scope of consolidation and the prudential scope of consolidation. An important factor in this context is the deconsolidation of Banque LBLux S.A. from the prudential scope of consolidation as at 30 June 2015. As the banking license was returned in April 2015, the criteria for inclusion in the prudential scope of consolidation are no longer met.

Reconciliation from the “prudential” balance sheet to regulatory capital

EUR million	30 Jun 2016		Reference
Common Equity Tier 1 capital (CET1): instruments and reserves			
Capital instruments and related premium		**3,888**	
• Share capital	2,800		6
• Share premium	476		13
• Capital contribution	612		7
Retained earnings		**3,807**	
• Retained earnings including benefit plans	3,104		14
• Removal of negative remeasurement of defined benefit plans	1,591		15
• Regulatory adjustment[1]	−875		
• Regulatory adjustment pursuant to Article 26 para. 2 CRR	−13		
Other retained earnings		**1,706**	
• Capital surplus	2,182		12
• Less premium on subscribed capital	−476		13
Cumulative other income		**−1,161**	
• Revaluation surplus	397		16
• Foreign currency translation reserve	0		17
• Revaluation surplus from benefit plans	−1,591		15
• Regulatory adjustment pursuant to Article 26 para. 2 CRR	33		
State allocations to equity grandfathered until 1 January 2018		**1,000**	
• Silent partner contributions of the Free State of Bavaria	1,000		9
Common Equity Tier 1 (CET1) capital before regulatory adjustments		**9,240**	
(CET1) capital: regulatory adjustments			
Prudent valuation pursuant to Article 105 CRR		**−86**	
Intangible assets		**−102**	1
Regulatory adjustment pursuant to Article 26 para. 2 CRR		**−4**	
Deferred tax assets dependent on future profitability		**−22**	
Negative amounts resulting from the calculation of expected loss amounts		**−248**	
Gains or losses on liabilities valued at fair value resulting from changes in own credit standing		**−47**	
Fair value gains and losses on derivative liabilities of the institution that result from changes in the own credit standing of the institution		**0**	
Transitional adjustments to CET1 pursuant to Article 469 - 472 CRR		**−22**	
Qualifying AT1 deductions that exceed the AT1 capital of the institution		**–**	

EUR million	30 Jun 2016	Reference
Common Equity Tier 1 capital (CET1)	**8,709**	
Additional Tier 1 capital: instruments		
Grandfathered instruments	**342**	
• Perpetual silent partner contributions (less silent contributions of the Free State of Bavaria)	302	8–9
• Dated silent partner contributions (equity component)	11	11
• Dated silent partner contributions (debt component)	22	4
• Hybrid capital	71	5
• Regulatory maturity adjustment	−58	
• Other regulatory adjustments	−6	
Additional Tier 1 capital before regulatory adjustments	**342**	
Additional Tier 1 capital: regulatory adjustments		
Transitional adjustments to additional Tier 1 capital pursuant to Article 474 and 475 CRR	**−92**	
Items exceeding the additional Tier 1 capital and to be deducted from the additional Tier 1 capital items (deduction from CET1)	**–**	
Additional Tier 1 capital (AT1) capital	**250**	
Tier 1 capital (T1 capital)	**8,959**	
Tier 2 capital: instruments and reserves		
Grandfathered instruments	**1,598**	
• Subordinated liabilities[2]	3,263	2
• Profit participation certificates (debt component)[2]	361	3
• Profit participation certificates (equity component)	80	10
• Non-CRR-conform instruments	−422	
• Regulatory maturity adjustment	−1,440	
• Other regulatory adjustments[3]	−244	
Instruments issued by subsidiaries	**111**	
• Subordinated liabilities and profit participation certificates	145	
• Regulatory maturity adjustment	−34	
IRB Excess of provisions over expected losses eligible	**–**	
Tier 2 capital before regulatory adjustments	**1,709**	
Tier 2 capital: regulatory adjustments		
Holdings in own instruments of the Tier 2 capital	**−30**	
Transitional adjustments to Tier 2 capital pursuant to Article 476 and 477 CRR	**−50**	
Tier 2 capital (T2) capital	**1,630**	
Equity	**10,589**	

1 Restatement of the values of so-called special-purpose assets, carried at nominal value in the IFRS annual financial statements, to their lower present value in accordance with German GAAP

2 Excluding instruments issued by subsidiaries

3 Includes hedge accounting and pro-rated interest

Capital requirements (Article 438 CRR)

Own funds requirements for CRR reporting

	30 Jun 2016		31 Dec 2015	
EUR million	Own funds requirements	RWA	Own funds requirements	RWA
Credit risk	**4,771**	**59,636**	**4,829**	**60,363**
• Standardised approach	**311**	**3,889**	**342**	**4,275**
– Central governments and central banks	67	837	61	757
– Regional or local authorities	–	1	–	1
– Public authorities	2	23	3	35
– Multilateral development banks	–	–	–	–
– International organisations	–	–	–	–
– Institutions	4	56	3	39
– Corporates	64	796	66	821
– Retail business	47	588	48	605
– Exposures secured by real estate	17	207	19	236
– Impaired exposures	8	101	9	109
– Exceptionally high-risk exposures	47	590	80	1,001
– Covered bonds	–	–	–	–
– Securitisation exposures	2	19	2	23
– Exposures to institutions and corporates with short-term credit rating	–	–	–	–
– Undertakings for collective investment (UCIs)	–	5	–	4
– Investment risks	46	576	45	561
– Other items	7	88	7	84
• IRB approach	**4,450**	**55,627**	**4,474**	**55,923**
– Central governments and central banks	116	1,446	103	1,288
– Institutions	509	6,360	490	6,129
– Corporates	3,356	41,950	3,362	42,024
– Retail business	334	4,173	374	4,677
Exposures secured by real estate, SMEs	11	132	13	168
Exposures secured by real estate, non-SMEs	185	2,312	219	2,743
Qualified revolving	16	205	20	248
Other, SMEs	21	268	23	288
Other, retail	101	1,257	98	1,229
– Investment risks	75	939	85	1,066
Simple investment approach	75	939	85	1,066
Risks from private venture capital in sufficiently diversified portfolios	22	271	34	419
Exchange-traded investment risks	2	26	3	32
Other investment risks	51	642	49	616
PD/LGD approach	–	–	–	–
Internal model approach	–	–	–	–
– Securitisation exposures	30	374	28	354
– Other non-credit-obligation assets	31	385	31	384
• Exposure to contributions to a CCP default fund	**10**	**120**	**13**	**165**

EUR million	30 Jun 2016 Own funds requirements	30 Jun 2016 RWA	31 Dec 2015 Own funds requirements	31 Dec 2015 RWA
Settlement and delivery risk	**–**	**–**	**–**	**–**
Market risk	**278**	**3,477**	**264**	**3,296**
• Standardised approach	**278**	**3,477**	**264**	**3,296**
– Exchange-traded bonds	235	2,933	215	2,683
of which securitisation exposures	–	–	–	–
– Equity	4	54	3	37
– Currency risk	34	421	39	486
– Commodities risk	6	69	7	91
• Internal model approach	**–**	**–**	**–**	**–**
Operational risk	**339**	**4,233**	**390**	**4,870**
• Basic indicator approach	**–**	**–**	**–**	**–**
• Standardised approach	**339**	**4,233**	**390**	**4,870**
• Advanced measurement approaches (AMA)	**–**	**–**	**–**	**–**
Additional exposure amount due to fixed overheads	**–**	**–**	**–**	**–**
Credit valuation adjustment (CVA) risk	**84**	**1,055**	**86**	**1,077**
• Advanced method	**–**	**–**	**–**	**–**
• Standardised method	**84**	**1,055**	**86**	**1,077**
• Based on the original exposure method	**–**	**–**	**–**	**–**
Risk relating to large exposures in the trading book	**–**	**–**	**–**	**–**
Other exposures	**–**	**–**	**–**	**–**
Total	**5,472**	**68,400**	**5,568**	**69,606**

Capital ratios

in %	30 Jun 2016	31 Dec 2015
Common Equity Tier 1 capital (CET1) ratio	12.7	15.1
Tier 1 ratio (T1 ratio)	13.1	15.5
Total capital ratio (TC ratio)	15.5	17.6

Based on the adopted half-year financial statements as at 30 June 2016, the BayernLB Group had a fully loaded CET1 ratio of 11.3 percent.

Leverage (Article 451 CRR)

Description of the process to manage the risk from excessive leverage

In addition to risk-weighted capital requirements, a non-risk based metric (leverage ratio) was also added under CRR/CRD IV rules. Although the leverage ratio does not become mandatory until 2018, disclosure is required beginning in 2015.

The leverage ratio is currently in a test phase and there is no mandatory minimum ratio that banks have to meet. It is to be gradually integrated into corporate management and planning processes.

Tier 1 capital as a key component is distributed in the planning process to each planning unit through RWA. The planning units (Group units) are the defined business areas and central areas of BayernLB, as well as BayernLabo and DKB.

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

Additionally, the Board of Management is informed about tied up capital by means of the leverage ratio. The ratio results from dividing Tier 1 capital by total leverage ratio exposure defined as the sum of the exposure values of all non-risk-weighted assets and off balance sheet items in accordance with Article 1 of Delegated Regulation (EU) 2015/62 10 October 2014. For management purposes, total leverage ratio exposures are divided among the Group units and integrated into the planning process. The Board of Management does not only report on the current status of the leverage ratio but also provides an outlook for the trend.

Description of the factors that had an impact on the disclosed leverage ratio during the period to which the disclosed leverage ratio refers.

Since the CRR took effect, BayernLB has reported a leverage ratio calculated in accordance with Article 430 of the CRR in conjunction with Implementing Regulation (EU) No 680/2014 16 April 2014 as part of COREP reporting.

The manner in which the leverage ratio is calculated was revised in Delegated Regulation (EU) No 2015/62 10 October 2014 which was published in the EU Official Journal on 17 January 2015.

In its Single Rule Book Q&A Process, the European Banking Authority (EBA) has made it clear that Implementing Regulation (EU) No 680/2014 applies for reporting the leverage ratio. For disclosure purposes, however, the amendments in Delegated Regulation (EU) No 2015/62 must also be taken into account. Accordingly, the amendments have been included in the following tables.

Summary reconciliation of accounting assets and leverage ratio exposures

EUR million		
1	Total assets as per published financial statements	224,296
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	−20
3	Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting framework but excluded from the leverage ratio exposure measure in accordance with Article 429 (13) of Regulation (EU) No 575/2013 ("CRR")	–
4	Adjustments for derivative financial instruments	−5,851
5	Adjustments for securities financing transactions ("SFTs")	−812
6	Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	18,740
EU-6a	Adjustment for intragroup exposures excluded from the leverage ratio exposure measure in accordance with Article 429 (7) of Regulation (EU) No 575/2013)	–
EU-6b	Adjustment for exposures excluded from the leverage ratio exposure measure in accordance with Article 429 (14) of Regulation (EU) No 575/2013	–
7	Other adjustments	−370
8	**Total leverage ratio exposure**	**235,983**

Leverage ratio common disclosure

EUR million		**CRR leverage ratio exposures**
On-balance sheet exposures (excluding derivatives and SFTs)		
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	200,181
2	Asset amounts deducted in determining Tier 1 capital	−390
3	**Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets) (sum of lines 1 and 2)**	**199,791**
Derivative exposures		
4	Replacement cost associated with all derivatives transactions (ie net of eligible cash variation margin)	8,774
5	Add-on amounts for PFE associated with all derivatives transactions (mark-to-market method)	4,776
EU-5a	Exposure determined under Original Exposure Method	–
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the applicable accounting framework	–
7	Deductions of receivables assets for cash variation margin provided in derivatives transactions	−1,439
8	Exempted CCP leg of client-cleared trade exposures	−569
9	Adjusted effective notional amount of written credit derivatives	–
10	Adjusted effective notional offsets and add-on deductions for written credit derivatives	–
11	**Total derivative exposures (sum of lines 4 to 10)**	**11,542**

EUR million		CRR leverage ratio exposures
Securities financing transaction exposures		
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	6,722
13	Netted amounts of cash payables and cash receivables of gross SFT assets	–1,095
14	Counterparty credit risk exposure for SFT assets	283
EU-14a	Derogation for SFTs: Counterparty credit risk exposure in accordance with Article 429b (4) and 222 of Regulation (EU) No 575/2013	–
15	Agent transaction exposures	–
EU-15a	Exempted CCP leg of client-cleared SFT exposure	–
16	**Total securities financing transaction exposures (sum of lines 12 to 15a)**	**5,910**
Other off-balance sheet exposures		
17	Off-balance sheet exposures at gross notional amount	50,290
18	Adjustments for conversion to credit equivalent amounts	–31,550
19	**Other off-balance sheet exposures (sum of lines 17 to 18)**	**18,740**
Exempted exposures in accordance with CRR Article 429 (7) and (14) (on and off balance sheet)		
EU-19a	Exemption of intragroup exposures (solo basis) in accordance with Article 429(7) of Regulation (EU) No 575/2013 (on and off balance sheet)	–
EU-19b	Exposures exempted in accordance with Article 429 (14) of Regulation (EU) No 575/2013 (on and off balance sheet)	–
Capital and total exposures		
20	**Tier 1 capital**	**8,959**
21	**Total leverage ratio exposures (sum of lines 3, 11, 16, 19, EU-19a and EU-19b)**	**235,983**
Leverage Ratio		
22	**Leverage Ratio**	**3.8%**
Choice on transitional arrangements and amount of derecognised fiduciary items		
EU-23	Choice on transitional arrangements for the definition of the capital measure	yes – transitional
EU-24	Amount of derecognised fiduciary items in accordance with Article 429(13) of Regulation (EU) No 575/2013	5,002

The leverage ratio of 3.8% as at 30 June 2016 was at the same level as in the previous quarter (31 March 2016: 3.9%).

Split-up of on balance sheet exposures (excluding derivatives, SFTs and exempted exposures)

EUR million		CRR leverage ratio exposures
EU-1	Total on-balance sheet exposures (excluding derivatives, SFTs and exempted exposures), of which:	200,181
EU-2	Trading book exposures	4,501
EU-3	Banking book exposures, of which:	195,680
EU-4	– Covered bonds	6,541
EU-5	– Exposures treated as sovereigns	60,500
EU-6	– Exposures to regional governments, multilateral development banks, international organisations and public-sector etities NOT treated as sovereigns	10,872
EU-7	– Institutions	25,580
EU-8	– Secured by mortgages of immovable properties	20,971
EU-9	– Retail exposures	4,153
EU-10	– Corporate	57,205
EU-11	– Exposures in default	2,598
EU-12	– Other exposures (e.g. equity, securitisations, and other non-credit obligation assets)	7,260

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

The reported exposure values are IRBA exposures pursuant to Article 166 of the CRR, after applying credit risk mitigation techniques and provided they can be allocated to PD categories. For exposure values of the central governments and central banks, institutions and corporate exposure classes bearing a PD of 100%, no risk weighting is calculated. Instead, Article 158 of the CRR applies. The data for retail apply solely to DKB as it is the only member of the BayernLB Group to use this procedure. The average LGDs are only stated for the retail segment since no own LGD estimations for the other portfolios are made.

		Central governments and central banks	Institutions	Corporates	of which specialised financing	Retail	of which secured by real estate, SMEs	of which secured by real estate, non-SMEs	of which qualified revolving	of which other, SMEs	of which other, non-SMEs	Total
PD category 0% to < 0.5%	**Total loan portfolio** (EUR million)	53,264	27,383	76,318	17,764	13,576	331	5,914	5,476	368	1,488	**170,542**
	Exposure value (EUR million)	60,849	24,630	63,955	16,110	10,909	327	5,894	2,979	331	1,377	**160,342**
	Avg. LGD (in %)	–	–	–	–	35.7	20.2	21.6	53.0	57.4	56.8	**35.7**
	Avg. risk weighting (in %)	2.3	20.9	33.7	34.3	10.4	9.2	10.8	2.2	25.5	23.0	**18.2**
PD category 0.5% to < 5%	**Total loan portfolio** (EUR million)	855	1,546	26,836	4,543	4,256	338	1,963	473	379	1,103	**33,494**
	Exposure value (EUR million)	30	1,035	19,340	3,106	4,053	337	1,962	320	360	1,074	**24,459**
	Avg. LGD (in %)	–	–	–	–	37.0	22.8	24.7	52.9	57.8	52.4	**37.0**
	Avg. risk weighting (in %)	100.7	115.4	88.8	89.5	40.9	30.4	31.7	31.2	63.7	56.2	**82.0**
PD category 5% to < 100%	**Total loan portfolio** (EUR million)	76	50	4,134	176	880	33	550	51	34	211	**5,139**
	Exposure value (EUR million)	4	4	1,446	174	840	33	550	43	33	181	**2,294**
	Avg. LGD (in %)	–	–	–	–	37.4	23.4	29.9	53.3	56.6	55.7	**37.4**
	Avg. risk weighting (in %)	213.6	183.9	184.9	188.3	150.0	123.0	164.6	105.2	113.3	127.8	**172.2**
Default PD = 100%	**Total loan portfolio** (EUR million)	–	44	5,075	1,096	353	–	226	6	0	122	**5,472**
	Exposure value (EUR million)	–	39	4,902	1,065	353	–	226	6	0	122	**5,295**
	Avg. LGD (in %)	–	–	–	–	59.6	–	48.6	80.1	53.3	79.0	**59.6**
	Avg. risk weighting (in %)	–	–	–	–	71.6	–	65.3	25.1	17.5	85.3	**71.6**
Total (excluding defaults)	**Total loan portfolio** (EUR million)	54,195	28,980	107,289	22,483	18,711	702	8,428	5,999	781	2,801	**209,175**
	Exposure value (EUR million)	60,883	25,668	84,740	19,390	15,803	697	8,407	3,342	725	2,633	**187,095**
	Avg. LGD (in %)	–	–	–	–	36.1	21.6	22.8	53.0	57.5	54.9	**36.1**
	Avg. risk weighting (in %)	2.4	24.8	48.9	44.5	25.6	24.8	25.8	6.3	48.5	43.8	**28.5**

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