Group Half-Yearly Financial Report 2017

BayernLB

Contents

BayernLB Group – the first half of 2017 at a glance

Income statement (IFRS)

EUR million	1 Jan – 30 Jun 2017	1 Jan – 30 Jun 2016	Change in %
Net interest income	845	728	16.1
Risk provisions in the credit business	90	–4	–
Net interest income after risk provisions	**935**	**724**	**29.1**
Net commission income	141	133	6.1
Gains or losses on fair value measurement	143	13	>100
Gains or losses on hedge accounting	–93	–28	>100
Gains or losses on financial investments	16	216	–92.5
Administrative expenses	–612	–578	5.8
Expenses for the bank levy and deposit guarantee scheme	–84	–93	–10.2
Other income and expenses	–25	30	–
Gains or losses on restructuring	4	–9	–
Profit/loss before taxes	**426**	**409**	**4.3**
Cost/income ratio (CIR)	59.5%	52.9%	6.6 pp[1]
Return on equity (RoE)	9.6%	9.3%	0.3 pp[1]

Quarterly comparison

The table below compares performance in the first and second quarters of 2017:

EUR million	Q2 2017	Q1 2017
Net interest income	415	430
Risk provisions in the credit business	–5	95
Net interest income after risk provisions	**410**	**525**
Net commission income	69	71
Gains or losses on fair value measurement	72	71
Gains or losses on hedge accounting	–46	–47
Gains or losses on financial investments	10	7
Administrative expenses	–289	–323
Expenses for the bank levy and deposit guarantee scheme	–5	–79
Other income and expenses	–31	6
Gains or losses on restructuring	5	–1
Profit/loss before taxes	**196**	**230**

Rounding differences may occur in the tables.

Balance sheet (IFRS)

EUR million	30 Jun 2017	31 Dec 2016	Change in %
Total assets	220,950	212,150	4.1
Business volume	261,537	251,897	3.8
Credit volume	182,663	174,225	4.8
Total deposits	150,717	141,005	6.9
Securitised liabilities	42,417	39,618	7.1
Subordinated capital	3,036	3,081	−1.5
Equity	10,516	11,056	−4.9

Banking supervisory capital and ratios under CRR/CRD IV

EUR million	30 Jun 2017	31 Dec 2016	Change in %
Common Equity Tier 1 capital (CET1 capital)	8,479	9,564	−11.4
Own funds	9,924	11,059	−10.3
Total RWA	63,632	65,206	−2.4
CET1 ratio	13.3%	14.7%	−1.4 Pp[1]
CET1 ratio (fully loaded)	13.3%	13.2%	0.1 Pp[1]
Total capital ratio	15.6%	17.0%	−1.4 Pp[1]

Employees

	30 Jun 2017	31 Dec 2016	Change in %
Number of employees	7,130	7,133	–

Current ratings

	Long-term	Short-term	Pfandbriefs[2]
Fitch Ratings	A-	F1	AAA
Moody's Investors Service	A1	P-1	Aaa

1 Percentage points.
2 Applies to public Pfandbriefs (Fitch und Moody's) and mortgage Pfandbriefs (Moody's).

Board of Management

8 The Board of Management

The Board of Management

Allocation of tasks
as at 16 August 2017

Dr Edgar Zoller
Deputy CEO

Real Estate & Savings Banks/
Association Bayerische
Landesbodenkreditanstalt
Real I.S. AG Gesellschaft für
Immobilien Assetmanagement

Marcus Kramer
Member of the
Board of Management
CRO

Risk Office
Credit Consulting

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

Financial Office
Operating Office

Dr Johannes-Jörg Riegler
CEO

Corporate Center
Deutsche Kreditbank AG

Michael Bücker
Member of the
Board of Management

Corporates & Mittelstand

Ralf Woitschig
Member of the
Board of Management

Financial Markets
BayernInvest Kapitalverwaltungs-gesellschaft mbH

Group interim management report

Overview of the BayernLB Group

Key changes in the scope of consolidation and the investment portfolio

Due to the repayment of all securities held or issued by BayernLB Capital Trust I and BayernLB Capital LLC I, both in Wilmington, Delaware in the USA, the companies, which had been consolidated up to that point, were dissolved.

Please refer to the Group management report and financial statements for 2016 for information on the business model, strategy and internal Group management system.

Report on the economic position

Macroeconomic environment

The German economy got off to a good start in 2017, growing by 0.6 percent in the first quarter over the quarter before.[1] The upturn continued to be driven by consumption as the buoyant labour market and real salary growth boosted consumer demand. But capital spending also grew, as low financing costs, driven largely by the European Central Bank's (ECB) expansionary monetary policy, coupled with rising capacity utilisation at firms, acted as an incentive to invest in new equipment and facilities. Exports also contributed to first quarter growth, mainly due to imports which increased only moderately. The labour market moved from strength to strength. The unemployment rate fell to a historic low.[2] Low unemployment led to a shortage of labour in some sectors, putting pressure on wages to rise. But despite an increase, consumer price inflation still failed to gain any traction overall, falling again in June to 1.6 percent,[3] and remained well below the ECB's target of less than, but close to 2 percent. The dampening economic effects of the Brexit process have been limited so far. But the United Kingdom's lacklustre economic picture, which suppressed demand for goods produced in Germany, weighed on the economy through the impact on exports. As for monetary policy, the US Federal Reserve (Fed) hiked interest rates once again in June 2017. The ECB scaled back the volume of monthly purchase under its asset purchase programme to EUR 60 billion in March 2017, but extended the programme to the end of 2017.

In the first half of 2017, yields on 10-year German government bonds ranged between 0.2 and 0.5 percent. The yield peaked at 0.509 percent in March as unexpectedly higher inflation figures fanned expectations the ECB could close the chapter on its expansionary monetary policy ahead of plan. But the picture changed at the start of the second quarter when inflationary indicators started falling again at the same time as political risk in France rose. The nadir in the first half was reached when the yield fell to 0.156 percent ahead of the first round of the French presidential elections in April. After a short-lived period of weakness up to mid June, Bund yields were driven higher once again at the end of the first half by the victory of euro-friendly Emmanuel Macron and a noticeable improvement in eurozone leading indicators, which was later also partly reflected in better "hard" data.

The euro gained significant ground against the US dollar in the first half of the year despite the Fed's rate hikes, largely due to political developments on both sides of the Atlantic. In the US, virtually no headway was made in stimulating the economy, while the prospects of tax reform in particular were being pushed back more and more to 2018. In the eurozone, the victory of Macron and his "En Marche!" movement was a surprise to the upside. Overall, the euro gained just under 9 percent against the dollar to 1.14 at the midway point in 2017. Prices on stock markets were also rising up to early summer thanks to the easing of political risks that followed the presidential elections in France, combined with positive economic signals and the continuation of expansive monetary policy around the world. But as the year reached its mid-point, European equity indices consolidated their gains, due in part to the appreciation of the euro and speculation that the ECB would tighten monetary policy sooner rather than later. The DAX ended the first half of 2017 7.4 percent higher overall, after trading in a range of 11,415 to 12,952 (intraday).

1 Bundesbank Monthly Report, May 2017

2 Federal Employment Agency Monthly Report, June 2017

3 German Federal Statistical Office 2017, press release 224/2017

Course of business

The BayernLB Group posted a solid profit before taxes of EUR 426 million in the first half of 2017 (H1 2016: EUR 409 million) in a market environment that remains difficult. Consolidated profit rose to EUR 330 million (H1 2016: EUR 314 million). Pleasing earnings from all operating segments and a significant net gain from risk provisions contributed to the results. The previous year's figure includes income of EUR 148 million from the sale of the stake in Visa Europe Ltd., in London, to the US's Visa Inc., in San Francisco.

Total assets as at 30 June 2017 were EUR 220.9 billion, up 4.1 percent from the end of FY 2016. The lending business once again had a major impact on the Group's assets. The financial position was sound in the first six months of the year under review, and sufficient liquidity was on hand at all times. The BayernLB Group continued to enjoy a stable economic situation.

On 30 June 2017, BayernLB repaid the remaining EUR 1 billion tranche of the Free State of Bavaria's silent partner contribution, bringing the EU state aid proceedings to an early close. Nevertheless, the BayernLB Group's capital base is solid. Common Equity Tier 1 (CET1 phase in) fell to 13.3 percent (31 December 2016: 14.7 percent) due to the repayment of the silent partner contribution, but the incoming standard and, for ratings agencies and investors, more important fully loaded CET1 ratio rose to 13.3 percent (31 December 2016: 13.2 percent) and is now on par with the phase-in amount.

Results of operations

Net interest income at BayernLB and DKB rose to a total of EUR 845 million (H1 2016: EUR 728 million) on the back of slightly higher business volumes and an improved funding structure.

As a result of good portfolio quality, releases of risk provisions and high recoveries on written down receivables, risk provisions in the credit business was a positive EUR 90 million (H1 2016: EUR –4 million).

Net commission income rose to EUR 141 million (H1 2016: EUR 133 million). This was due mainly to the funds business of the two subsidiaries Real I.S. AG Gesellschaft für Immobilien Asset-management, Munich (Real I.S.) and BayernInvest Kapitalverwaltungsgesellschaft mbH, Munich (BayernInvest).

The main reason for the increase in gains or losses on fair value measurement from EUR 13 million (H1 2016) to EUR 143 million was a market-driven change in the earnings contribution from the valuation of fair value adjustments. In the first half of 2016, this effect reduced earnings by EUR 64 million, but added EUR 65 million in the first six months of 2017. This was caused by a narrowing of CDS spreads and increase in interest rates in the first half of 2017.

Gains or losses on financial investments (EUR 16 million) was mainly impacted by sales proceeds from securities. Of the EUR 216 million reported in the year-before period, EUR 142 million came from the sale of the Visa shareholdings.

The primary reason for the rise in administrative expenses to EUR 612 million (H1 2016: EUR 578 million) was the rising costs for major projects to meet regulatory changes and requirements.

Expenses for the bank levy and deposit guarantee scheme were EUR 84 million, slightly less than in the year-before period (H1 2016: EUR 93 million). This included EUR 52 million for the bank levy (H1 2016: EUR 51 million) and a EUR 32 million contribution to the Savings Banks Finance Group's deposit guarantee scheme (H1 2016: EUR 42 million).

Other income and expenses in the amount of EUR –25 million (H1 2016: EUR 30 million) included income and expenses from the non-banking activities of the Group's subsidiaries. While the previous year-period was impacted by reimbursements on non-profit-related taxes and interest income on tax reimbursements claims from previous years, the first-half of 2017 also included provisions for potential reimbursement claims resulting from the Federal Court of Justice's ruling of 4 July 2017 on the permissibility of certain processing fees for corporate loans.

Return on equity (RoE)[4] calculated based on regulatory capital requirements rose in the first half-year 2017 to 9.6 percent (H1 2016: 9.3 percent). The cost/income ratio (CIR)[5] was 59.5 percent (H1 2016: 52.9 percent).

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

Segments

The segment report is based on the monthly internal management report to the Board of Management and reflects the BayernLB Group's segments. As at 30 June 2017 the four operating segments were:

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

The Group also includes the Central Areas & Others segment, which includes the consolidated subsidiary Banque LBLux S.A. in Liquidation, Luxembourg and the consolidation entries not allocated to any other segment. This segment also included the subsidiary BayernLB Capital LLC I, Wilmington until its deconsolidation on 30 June 2017.

The former Non-Core Unit is no longer managed as a separate segment. All non-core activities of the BayernLB Group were pooled here up to the end of financial year 2016. The remaining non-core activities of the Credit Consulting central area (formerly the Restructuring Unit) and the former Other NCU sub-segment are reported as part of the Central Areas & Others segment. The remaining non-core business of the DKB sub-group was integrated into the DKB segment.

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4 RoE = profit before taxes/average CET1.

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

The contributions of the individual segments to the profit before taxes of EUR 426 million (H1 2016: EUR 409 million) are shown below:

EUR million	1 Jan – 30 Jun 2017	1 Jan – 30 Jun 2016
Corporates & Mittelstand	148	118
Real Estate & Savings Banks/Association	87	121
DKB	116	241
Financial Markets	109	–51
Central Areas & Others (including Consolidation)	–33	–21

Corporates & Mittelstand segment

- Earnings up around 25 percent on year-before period
- Operating earnings from net interest and net commission income stable and trending upwards
- Results boosted by recoveries on written down receivables

Profit before taxes in the Corporates & Mittelstand segment were up approximately 25 percent over the same period in financial year 2016 at EUR 148 million (H1 2016: EUR 118 million). The increase in earnings was driven mainly by a gain of EUR 68 million (H1 2016: EUR 22 million) from risk provisions, which were boosted by sharply higher recoveries on written down receivables than in the year-before period. Operating earnings from net interest and net commission income rose slightly, despite the persistently tough interest rate environment, to a total of EUR 204 million (H1 2016: EUR 201 million). However, gains or losses on fair value measurement were lower at EUR 16 million (H1 2016: EUR 24 million) due to sluggish demand for capital market products. Administrative expenses of EUR –140 million were higher than in the previous year (H1 2016: EUR –131 million). As in the previous year, this primarily reflected the increase in the segment's share of costs, for example, from major projects to implement and comply with the rise in regulatory requirements. In light of the still competitive market environment, performance in terms of both earnings and business volumes was satisfactory overall.

Real Estate & Savings Banks/Association segment

- Net interest income and net commission income rise in the Real Estate division while growth in newly acquired business remains pleasing
- Low interest rates, a good supply of liquidity within the BayernLB Group and increasing regulatory requirements weigh on the Savings Banks & Association division's earnings
- BayernLabo's earnings return to their usual stable level after the year-before period was boosted by mark-to-market gains

The Real Estate & Savings Banks/Association segment reported profit before taxes of EUR 87 million (H1 2016: EUR 121 million), less than the year-before period figure.

The Real Estate division once again made a significant contribution to the segment's earnings with a profit before taxes of EUR 67 million (H1 2016: EUR 72 million). Customer demand remained high and the volume of acquired new business was once again higher than the year-before period. Operating earnings from net interest and net commission income rose to EUR 91 million (H1 2016: EUR 84 million). The contribution to earnings from risk provisions was positive again at EUR 8 million EUR (H1 2016: EUR 11 million) thanks to the very good quality of the portfolio. The slight decrease in earnings primarily reflects on the one hand the boost to the earnings in the year-before period from the sale of a shareholding and on the other hand an increase in administrative expenses to EUR –35 million (H1 2016: EUR –32 million) mainly as a result of higher regulatory requirements.

The Savings Banks & Association division posted a profit before taxes of EUR –9 million, which was lower than in the previous year (H1 2016: EUR –2 million). As in the year-before period, the negative results were largely due to lower earnings as a result of the good liquidity supply within the BayernLB Group and the resulting modest funding needs, and low interest rates which continued to dampen demand for capital market products. In addition, tighter regulatory requirements made themselves felt in the form of higher administrative expenses.

BayernLabo posted profit before taxes of EUR 23 million (H1 2016: EUR 49 million). In an interest rate environment that remains difficult for development banks, earnings from the operating business remained stable. The drop in earnings largely reflects mark-to-market gains on derivatives to hedge interest rate risks in the year-before period.

The subsidiary Real I.S., which is consolidated in the segment, lifted its profit before taxes to EUR 6 million (H1 2016: EUR 2 million).

DKB segment

- Good business performance continues, reflected in a strong gain in net interest income
- Number of retail customers surpasses 3.5 million mark for the first time
- Earnings in the year-before period were sharply boosted by proceeds of EUR 130 million on the sale of the shareholding in Visa Europe Ltd., London

The DKB segment's profit before taxes amounted to EUR 116 million (H1 2016: EUR 241 million), of which the DKB sub-group with EUR 114 million accounted for nearly the entire amount (H1 2016: EUR 230 million). Earnings were therefore sharply lower than the year-before period, which had been boosted by the proceeds from the sale of the stake in Visa Europe Ltd. for EUR 130 million. Despite the drop in earnings, DKB's business continued to grow in the first half of financial year 2017. Net interest income was significantly higher than the year-before period at EUR 429 million (H1 2016: EUR 389 million) despite the difficult interest rate environment, while charges for risk provisions fell to EUR –59 million (H1 2016: EUR –67 million). The number of retail customers surpassed the 3.5 million mark in the first half for the first time. DKB now has nearly 3.6 million customers, further cementing its position as Germany's second largest online bank. DKB's remaining non-core business also turned in a pleasing performance. After depressing profit before taxes by EUR –22 million in the year-before period, the non-core business broke even in the first half of 2017. The charge from risk provisions here in particular was significantly lower than in the previous year period. In contrast, a part of the drop in earnings was due to administrative expenses which increased somewhat to EUR –232 million (H1 2016: EUR –216 million) as a result of implementing and complying with new regulatory requirements. Expenses for the bank levy and the deposit guarantee scheme also rose slightly to a total of EUR –24 million (H1 2016: EUR –22 million).

Consolidated subsidiary BCS posted profit before taxes of EUR 2 million (H1 2016: EUR 11 million). Last year's much higher figure was also closely linked to the sale of a shareholding.

Financial Markets segment

- Earnings jumped by a total of around EUR 160 million over the year-before period due to higher net interest income and mark-to-market valuations of derivatives transactions
- Earnings from customer business slightly lower than the year-before period owing to weak demand for capital market products

Profit before taxes in the Financial Markets segment in the first half of 2017 amounted to EUR 109 million (H1 2016: loss of EUR 51 million), a turnaround of approximately EUR 160 million from the previous-year period. As usual, earnings from financial market products on behalf of the customer-serving business segments were reported under those segments. The earnings from the customer business were down on the previous year due to subdued demand for capital market products. The sharp increase in net interest income to EUR 95 million (H1 2016: EUR –11 million) significantly boosted the segment's earnings. Besides gains from one-off items, the increase resulted mainly from the success of measures to counteract the negative impact of low interest rates in the year-before period. Mark-to-market valuations likewise had a positive impact on earnings. The release of fair value adjustments for mark-to-market derivatives transactions produced a gain totalling EUR 58 million (H1 2016: EUR –52 million), in contrast to high losses incurred in the year-before period for setting them up. One of the reasons for the releases was lower market values of derivatives as a result of a slight increase in interest rates. In contrast, administrative expenses were higher than in the year-before period at EUR –94 million (H1 2016: EUR –84 million). This largely reflected the segment's share of the costs for major Bank-wide regulatory projects.

Consolidated subsidiary BayernInvest contributed EUR 5 million (H1 2016: EUR 4 million) to profit before taxes, slightly higher than the year-before period.

Central Areas & Others segment

- Expenses for the bank levy and deposit guarantee scheme weigh heavily on segment earnings
- BayernLB's remaining non-core business makes positive contribution to earnings thanks to releases of risk provisions and recoveries on written down receivables

The Central Areas & Others segment, including the consolidation entries not allocated to the segments, produced a loss before taxes of EUR 33 million (H1 2016: loss before taxes of EUR 21 million). The segment's earnings in the first half were significantly impacted by a EUR –60 million expense (H1 2016: EUR –71 million) representing the full-year amount of the bank levy and deposit guarantee scheme, not including DKB's share. Also weighing on earnings were risk provisions set aside for potential reimbursement claims as a result of the German Federal Court of Justice's ruling of 4 July 2017 on the permissibility of certain processing fees for corporate loans. In contrast, BayernLB's remaining non-core business posted another positive performance. It contributed EUR 56 million (H1 2016: EUR 39 million) to profit before taxes. As in the previous year, there was a high contribution to earnings amounting to EUR 72 million (H1 2016: EUR 30 million) resulting from releases from risk provisions and recoveries on written down receivables. Risk-weighted assets in BayernLB's remaining non-core business contracted by around one third from the end of 2016 to EUR 1.5 billion.

As in the year before period, the consolidation entries shown in the Consolidation column had no net impact on profit before taxes. These amounts mainly arise from differences in the way internal Group transactions are measured and the application of hedge accounting to cross-divisional derivative transactions.

Financial position

Total assets at BayernLB Group rose by 4.1 percent to EUR 220.9 billion.

Credit volume, defined as the sum of loans and advances to banks and customers and contingent liabilities from guarantees and indemnity agreements, rose slightly to EUR 182.7 billion (H1 2016: EUR 174.2 billion), despite subdued demand for loans.

Loans and advances to banks totalled EUR 36.6 billion (H1 2016: EUR 28.8 billion) as at 30 June 2017. Loans and advances to customers increased to EUR 135.7 billion (H1 2016: EUR 134.8 billion).

Liabilities to banks rose to EUR 60.6 billion (H1 2016: EUR 54.2 billion). Likewise liabilities to customers, which remains the largest source of funding, rose to EUR 90.2 billion (H1 2016: EUR 86.8 billion).

Securitised liabilities rose EUR 2.8 billion to EUR 42.4 billion in the first half of 2017.

Subordinated capital amounted to EUR 3.0 billion, virtually unchanged from the year-before period (H1 2016: 3.1 billion).

The EUR 0.6 billion fall in equity to EUR 10.5 billion is due primarily to the mutually agreed termination of the silent partner contribution with the Free State of Bavaria and the related repayment of the remaining contribution of EUR 1 billion in June 2017. This was partially offset by an interest-related decrease in pension provisions resulting from the revaluation and also the consolidated profit of the first half of 2017.

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

Banking supervisory capital and ratios for the BayernLB Group

Common Equity Tier 1 capital (CET1 phase in) amounted to EUR 8.5 billion as at 30 June 2017 (31 December 2016: EUR 9.6 billion). The decline was the result of repaying the silent partner contribution of EUR 1 billion to the Free State of Bavaria, referred to above. Strict management cut risk-weighted assets (RWA) by 2.4 percent to EUR 63.6 billion. The CET1 phase in ratio was a solid 13.3 percent (31 December 2016: 14.7 percent), while the fully loaded CET1 ratio rose slightly to 13.3 percent (31 December 2016: 13.2 percent). Total own funds as at 30 June 2017 amounted to EUR 9.9 billion (31 December 2016: EUR 11.1 billion) and the total capital ratio reached 15.6 percent (31 December 2016: 17.0 percent).

General overview of financial performance

The BayernLB Group’s financial position and financial performance remained sound overall in the first half of 2017 despite the still challenging environment. The Risk Report contains additional information on the financial position.

Report on expected developments and on opportunities and risks

Report on expected developments including opportunities and risks

Economic environment

The upturn in Germany is likely to continue in the second half of 2017 and beyond. As the economic growth is mainly driven by domestic demand, particularly consumer spending, it is resistant to negative developments abroad. The uncertainty thrown up by the Brexit process will probably, however, put the brakes on a further acceleration in growth due to weaker exports and a reluctance by companies to dial up their capital spending. Overall BayernLB forecasts the economy will more or less maintain its pace in the second half of 2017. Averaged out over 2017, GDP is set to grow by 1.7 percent. The inflation rate in Germany is unlikely to break though and hold above the 2 percent mark. BayernLB expects it to average 1.7 percent over the course of the year. With this in mind, the ECB is expected to continue purchasing assets at the pace it has been until the end of 2017, before scaling back over the course of 2018. BayernLB is therefore only expecting a limited increase in Bund yields in the second half. BayernLB is forecasting yields on 10-year Bunds will rise to 0.7 percent by the end of the year. The euro will probably weaken somewhat against a revived US dollar in the second half of the year. Then, by the end of 2017, BayernLB believes the Fed will have agreed on another rate hike and its ambitious plan to wind down its securities portfolio. Continued consolidation should be reckoned with on stock markets in the second half of 2017, supported by equity valuations that are already ambitious in some cases. But with the global economy remaining stable, monetary policy proving supportive and corporate earnings on the climb, BayernLB is expecting the upturn to continue. European bourses should also benefit from a renewed weakening of the euro.

The BayernLB Group’s future performance

BayernLB’s business model has proved its worth. As a result of the early end to the EU state aid proceedings, BayernLB has gained an additional degree of strategic freedom which would allow in particular a moderate expansion of its international business activities that would not be permitted under the tight restrictions of the EU Commission. Whether and how this strategic freedom should be used to enhance our business model is currently being extensively analysed and evaluated. Regardless of this, for key forecasts, opportunities and other statements on the expected economic performance for financial year 2017, please refer to the 2016 Group management report whose earnings forecast remains intact.

Risk report

The information provided in the risk report of the Group half-yearly financial report relates to material changes in the first half of 2017.

In addition, the Group management report for financial year 2016 gives a detailed description of the principles, methods, procedures and organisational structures of the risk management used within the BayernLB Group and of the internal control and risk management system for ensuring the accounts have been properly prepared and are reliable.

Rounding differences may occur in the tables.

Key developments in the first half of 2017

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

The BayernLB Group continued to have a healthy risk profile in the first half of 2017.

Gross credit volume rose by a total of EUR 11.6 billion to EUR 269.3 billion. The volume increase was mainly concentrated in the Countries/Public-Sector/ Non-Profit Organisations sub-portfolio.

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

Thanks to strict risk discipline, the key metrics of portfolio quality remained stable with an investment grade share of 84.7 percent (31 December 2016: 83.5 percent) and a non-performing loan ratio of 1.4 percent (31 December 2016: 1.6 percent).

Risk-bearing capacity was maintained throughout the first half of 2017 as the provision of risk capital was solid. In addition, the BayernLB Group had a good supply of liquidity on hand.

Risk-bearing capacity

Risk-bearing capacity is monitored using the Internal Capital Adequacy Assessment Process (ICAAP) at the BayernLB, DKB and the BayernLB Group levels including the scope of consolidation for risk purposes of the above-mentioned entities. The aim of ICAAP is to ensure that there is sufficient economic capital 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 the internally targeted standard for the accuracy of risk measurement, which corresponds 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.

Economic capital adequacy (risk capital requirement)

EUR million	30 Jun 2017	31 Dec 2016
Counterparty risk (credit and country risk)	1,268	1,173
Market risk	1,608	1,863
• of which actual market risk	684	888
• of which pension risk	924	975
Operational risk	543	514
Investment risk	137	127
Business and strategic risk (includes reputational risk)	799	799
Liquidity cost risk	273	283
Total	**4,629**	**4,759**

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

The BayernLB Group holds sufficient available economic capital at EUR 10.8 billion (31 December 2016: EUR 11.6 billion) to cover risk capital requirements.

As part of the BayernLB Group's stress testing programme, the possibility of a severe economic downturn arising (ICAAP stress scenario) is routinely calculated. Under the assumption of a severe recession, the total risk capital requirement for the individual types of risk, including real estate risks, falls overall to EUR 8.9 billion (31 December 2016: EUR 10.0 billion) and available economic capital is 82.6 percent (31 December 2016: 86.2 percent) utilised. The marked reduction in the risk capital requirement in the ICAAP stress scenario is largely due to the standardisation of the stress period in market risk.

The regulatory minimum capital ratios were met in the going concern scenario.

Management of the individual risks in the BayernLB Group

Credit risk

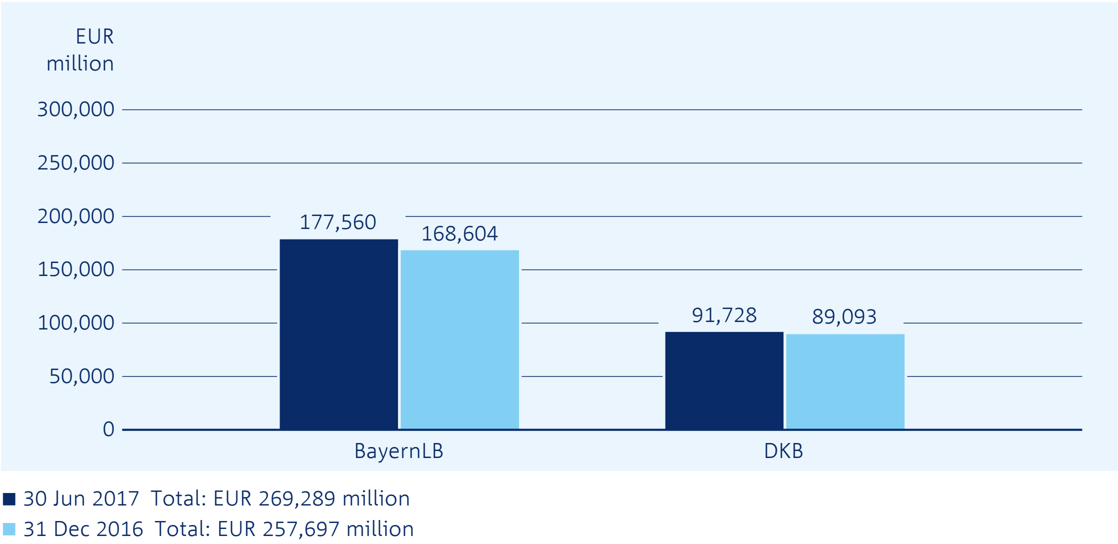
The following presentation of credit risk uses the management approach, which is based on the figures used for internal risk reporting to the Board of Management and the Risk Committee of the Supervisory Board. The figures are based on an economic perspective and therefore differ in some aspects from the rules applicable for accounting purposes (e.g. undrawn internal current account limits are taken into account). There may also be deviations from the accounting-based scope of consolidation, as internal risk management includes BayernLB and DKB.

Credit risk is also presented using the balance sheet approach, which is based on balance sheet figures and focuses on the value of the financial assets shown in the balance sheet (in accordance with IFRS 7.36/37).

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

The figures for the management approach include BayernLB and DKB.

Gross credit volume by unit



The gross credit volume for credit transactions includes gross business volume – drawdowns plus open commitments – and undrawn internal current account limits. For trading transactions it is calculated from market values, for derivatives transactions from credit equivalent amounts.

Compared to 31 December 2016, the BayernLB Group's gross credit volume rose by EUR 11.6 billion to EUR 269.3 billion. The main reason for this increase was a higher amount of liquid funds at central banks, primarily in euros (Deutsche Bundesbank) and US dollars (Federal Reserve Bank of New York). There was growth in commercial real estate customers and retail customers, but lending to corporate customers and financial institutions fell slightly.

BayernLB accounted for most of the growth, DKB's share of total Group exposure was 34.1 percent (31 December 2016: 34.6 percent).

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

Gross and net credit volume by sub-portfolio

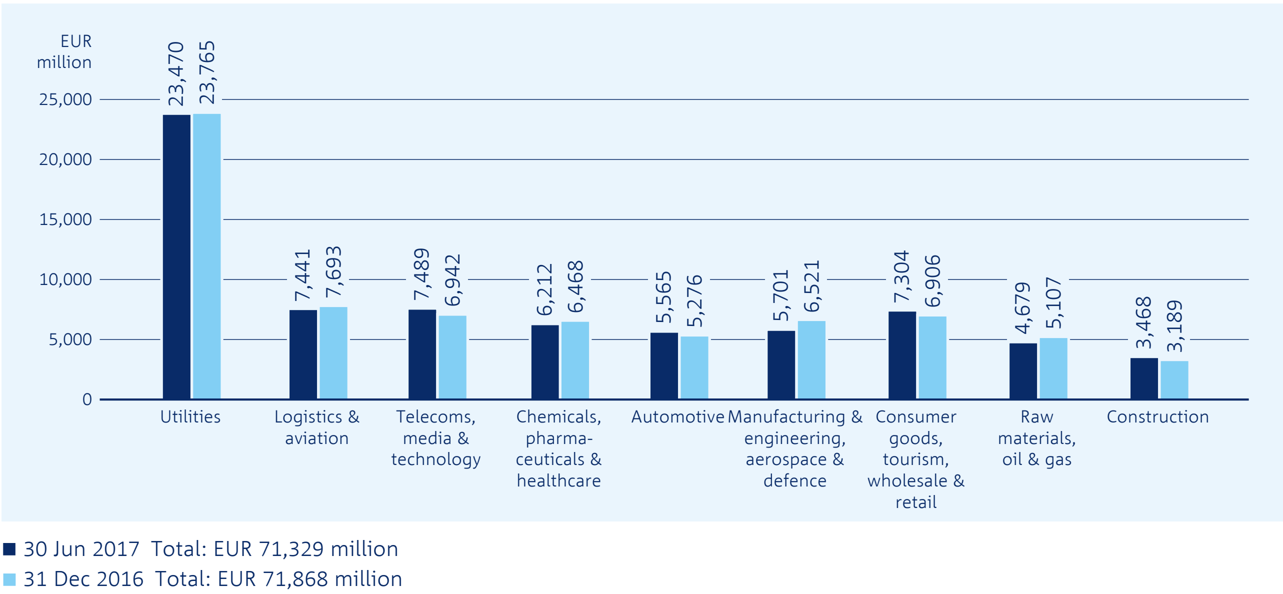
Sub-portfolios EUR million	Gross			Net		
	30 Jun 2017	31 Dec 2016	Change (in %)	30 Jun 2017	31 Dec 2016	Change (in %)
Corporates	71,329	71,868	−0.7%	54,123	54,492	−0.7%
Financial Institutions	52,298	53,200	−1.7%	49,656	49,475	0.4%
Countries/Public-Sector/ Non-Profit Organisations	66,489	54,481	22.0%	64,330	52,298	23.0%
Commercial Real Estate	46,942	46,543	0.9%	14,113	14,182	−0.5%
Retail/Other	32,230	31,605	2.0%	19,737	18,930	4.3%
• of which Retail	31,833	31,289	1.7%	19,364	18,642	3.9%
Total	**269,289**	**257,697**	**4.5%**	**201,958**	**189,378**	**6.6%**

Net credit volume is calculated as gross exposure less the value of collateral. Net credit volume in the BayernLB Group expanded by EUR 12.6 billion, in line with gross exposure due to the increase in funds with central banks. As it is unsecured, the collateralisation ratio in the Group fell accordingly from 26.5 percent to 25.0 percent.

Corporates sub-portfolio

Years of steady growth in the Corporates sub-portfolio came to an end in the first half year of 2017. Although gross credit volume fell moderately by EUR –0.5 billion to EUR 71.3 billion, this sub-portfolio still remains the largest within the BayernLB Group.

Sector breakdown within the Corporates sub-portfolio



There were differences between individual sub-sectors in terms of volume growth.

In line with strategy, exposure to the telecoms, media & technology sector grew by EUR 0.5 billion to around EUR 7.5 billion. This largely resulted from co-financings of corporate takeovers for customers with good credit ratings. Credit volumes also grew with customers in the consumer goods sector (especially retail stores and food and beverages), the financing subsidiaries of automotive groups, and borrowers in the construction industry who are benefiting considerably from the favourable economic conditions.

In contrast, the largest decrease took place in the manufacturing & engineering sector, which shrank EUR –0.8 billion to EUR 5.7 billion whereby aircraft and rolling stock manufacturing accounted for much of the decrease, particularly in off-balance-sheet transactions. Credit volumes with customers in the oil & gas sector contracted by EUR –0.4 billion to EUR 4.7 billion as a result of lower commodities prices and large-scale repayments.

The long-term growth in utilities, the largest sector by far, ended as credit volume shed EUR –0.3 billion to EUR 23.5 billion. Although project financings in the renewable energy sector (solar and wind farms) grew, especially at DKB, this was more than offset by a decrease in exposure to municipal utilities and conventional utilities. In line with strategy, renewable energy now accounts for 62.0 percent of the portfolio (31 December 2016: 57.9 percent). As DKB provides the bulk of financing for renewable energy (DKB's share of renewable energy is 72.9 percent), DKB's share of the entire utilities portfolio is also disproportionately high at 63.6 percent or EUR 14.9 billion. Most of the transactions structured as project financings are secured by long-term feed-in tariffs guaranteed by law. The majority of these feed-in tariffs are subject to German law. In addition to project financing, another focus within the sub-portfolio is traditional corporate loans. The portfolio is granular and includes customers from all along the sector's value-added chain, from the generation, transmission and distribution of electricity to integrated energy utilities and municipal utilities.

Germany's share of the overall Corporates sub-portfolio rose significantly from 70.0 percent to 71.9 percent. The investment-grade share of the Corporates sub-portfolio, which was already high, increased once again to 72.5 percent (31 December 2016: 71.5 percent).

Granularity in the sub-portfolio fell slightly, with 50.9 percent (31 December 2016: 51.1 percent) relating to customers with a gross credit volume of less than EUR 50 million. Exposure in the EUR 500 million to EUR 1 billion size category grew by EUR 0.7 billion to EUR 3.7 billion.

Financial Institutions sub-portfolio

Gross credit volume in the Financial Institutions sub-portfolio fell further by EUR 0.9 billion to EUR 52.3 billion (31 December 2016: EUR 53.2 billion), a decrease of 1.7 percent. The portfolio thus continued to shrink as it has been doing for several years but at a slower pace. Within the BayernLB Group, the sub-portfolio's gross credit volume was divided between EUR 50.8 billion with BayernLB and EUR 1.5 billion with DKB.

The investment grade share of the sub-portfolio remained high, at 96.4 percent. The share in Germany rose again to 62.4 percent (31 December 2016: 62.1 percent).

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

Gross credit volume in the Countries/Public-Sector/Non-Profit Organisations sub-portfolio jumped by EUR 12.0 billion to EUR 66.5 billion. EUR 46.8 billion of this related to BayernLB and EUR 19.7 billion to DKB. This was due in particular to an increase in funds held with the Deutsche Bundesbank and the Federal Reserve Bank of New York. The reason for the increase at both central banks was deposits from customers and financial institutions that were initially not passed on in the credit business. Adjusting for the funds held with these central banks, the credit volume with countries, the public-sector and non-profit organisations fell slightly (EUR –0.4 billion to EUR 51.4 billion).

Commercial Real Estate sub-portfolio

Gross credit volume in the Commercial Real Estate sub-portfolio rose in H1 2017 to EUR 46.9 billion (31 December 2016: EUR 46.5 billion). Of this amount, EUR 22.2 billion stemmed from BayernLB and EUR 24.7 billion from DKB.

In line with strategy, gross credit volume went up slightly in the reporting period, especially at BayernLB (EUR +1.1 billion). At DKB, credit volumes in commercial real estate fell marginally (EUR –0.1 billion to EUR 24.7 billion).

Most of the expansion in the exposure took place in commercial real estate portfolios and with property developers. As planned, the non-core portfolio shrank by EUR 0.7 billion to EUR 1.5 billion.

In the face of high demand for real estate, the overall quality of the sub-portfolio remained high. The investment-grade share rose again to 81.1 percent (31 December 2016: 80.0 percent). At Group level, the share in the core market of Germany increased to 89.9 percent (31 December 2016: 88.4 percent). Accordingly, commercial real estate financing abroad accounted for a relatively moderate share.

The collateralisation ratio was 69.9 percent, in line with the end of FY 2016 (31 December 2016: 69.5 percent) and the 3-year average.

At just under 60 percent, the share of customers with a gross credit volume of less than EUR 50 million was in line with the level on 31 December 2016, underscoring the fact that the sub-portfolio is still highly granular.

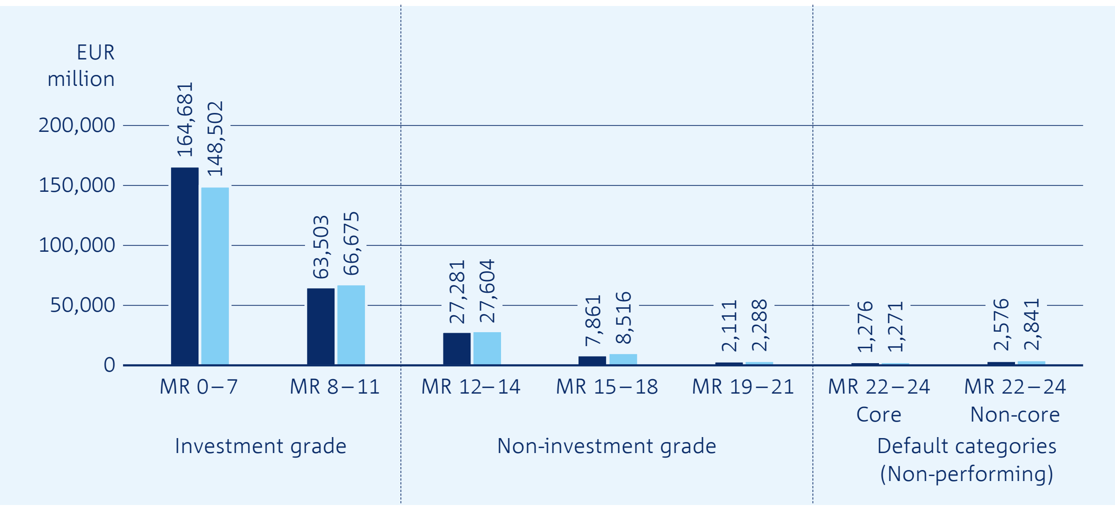
Retail/Other sub-portfolio

Gross credit volume rose by EUR 0.5 billion to EUR 31.8 billion in Retail, the smallest sub-portfolio. In line with strategy, all growth took place at DKB. The bulk of this increase occurred in credit card and current account receivables. Germany’s share of the sub-portfolio remained unchanged at nearly 100 percent.

Breakdown by rating

The following tables show gross credit volume by rating category and sub-portfolio.

Gross credit volume by rating category and sub-portfolio



■ 30 Jun 2017 Total: EUR 269,289 million
■ 31 Dec 2016 Total: EUR 257,697 million

30 Jun 2017 **Rating category** EUR million	**MR 0–7**	**MR 8–11**	**MR 12–14**	**MR 15–18**	**MR 19–21**	**MR 22–24**	**(of which non-core)**	**Total**
Corporates	20,770	30,956	13,279	4,117	1,084	1,122	454	71,329
Financial Institutions	47,126	3,296	362	197	18	1,300	1,253	52,298
Countries/Public-Sector/ Non-Profit Organisations	64,335	822	1,113	191	24	4	–	66,489
Commercial Real Estate	22,974	15,102	5,870	1,623	301	1,073	848	46,942
Retail/Other*	9,476	13,327	6,657	1,733	685	352	21	32,230
Total	**164,681**	**63,503**	**27,281**	**7,861**	**2,111**	**3,852**	**2,576**	**269,289**

31 Dec 2016 **Rating category** EUR million	**MR 0–7**	**MR 8–11**	**MR 12–14**	**MR 15–18**	**MR 19–21**	**MR 22–24**	**(of which non-core)**	**Total**
Corporates	19,125	32,260	13,309	4,745	1,208	1,222	622	71,868
Financial Institutions	46,321	4,955	487	119	20	1,298	1,262	53,200
Countries/Public-Sector/ Non-Profit Organisations	52,025	1,103	1,122	192	37	3	–	54,481
Commercial Real Estate	22,333	14,898	6,035	1,756	343	1,178	931	46,543
Retail/Other*	8,699	13,459	6,652	1,705	681	411	26	31,605
Total	**148,502**	**66,675**	**27,604**	**8,516**	**2,288**	**4,111**	**2,841**	**257,697**

** Of which gross credit volume in Retail of EUR 31.8 billion as at 30 June 2017 (31 December 2016: EUR 31.3 billion)*

In the master rating (MR) categories 0–11 (investment grade) gross credit volume in the BayernLB Group rose by EUR 13.0 billion in H1 2017. Most of the increase occurred in the Countries/Public-Sector/Non-Profit Organisations sub-portfolio as a result of higher balances held in central bank facilities mentioned above. The investment grade share rose from 83.5 percent to 84.7 percent.

Gross credit volume in rating categories MR 12–14 fell by EUR 0.3 billion. Accordingly, these rating categories fell from 10.7 percent of gross credit volume to 10.1 percent.

Gross credit volume in rating categories MR 15–18 and MR 19–21 fell by a total of EUR 0.8 billion over the reporting period, thereby reducing their proportion of gross credit volume from 4.2 percent to 3.7 percent.

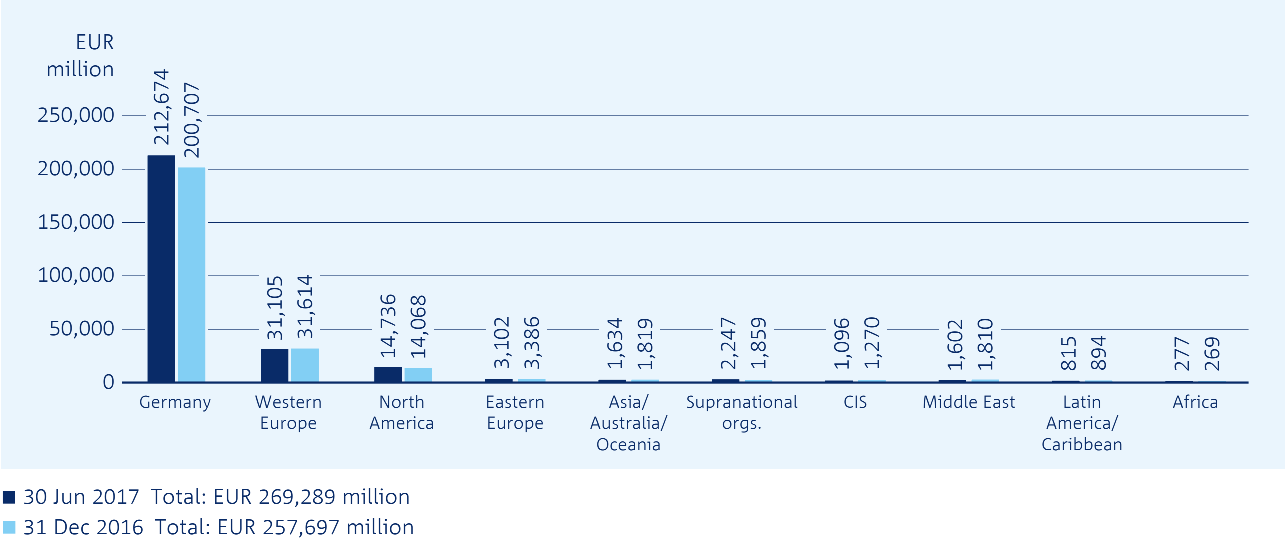
The non-performing loan ratio (NPL ratio) in the first half of 2017 decreased slightly to 1.4 percent (31 December 2016: 1.6 percent). The decrease was largely due to accelerated disposals of legacy transactions in default through sales and write-offs.

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

Breakdown by region

The following table shows gross credit volume by region.

Gross credit volume by region

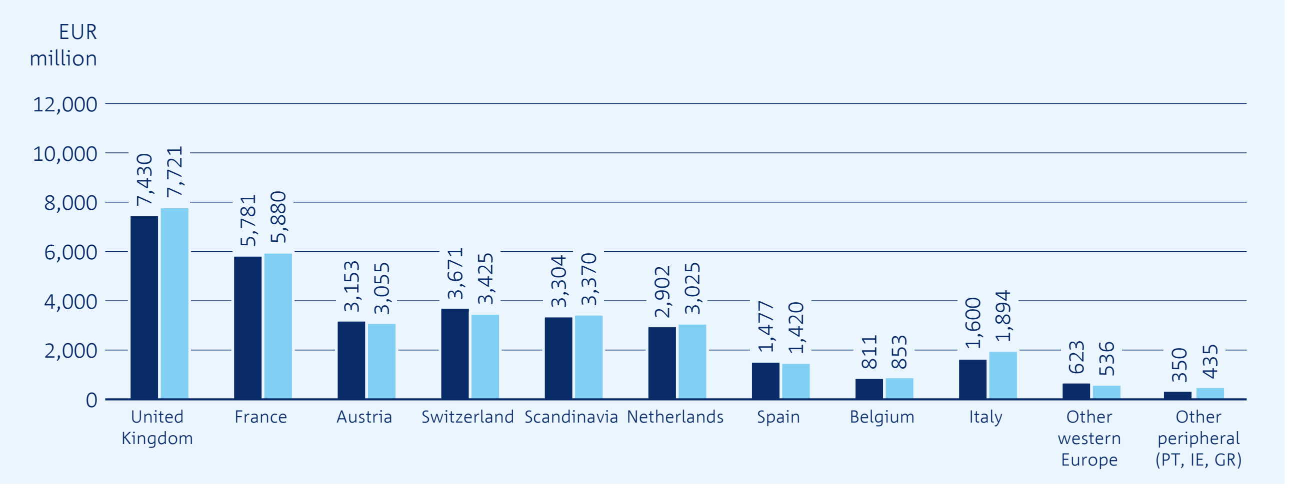


In line with the Business and Risk Strategy, Germany accounted for a dominant share of the BayernLB Group’s lending at 79.0 percent (31 December 2016: 77.9 percent). Gross credit volume there amounted to EUR 212.7 billion (31 December 2016: EUR 200.7 billion). As it had done in previous years, the Group continued to focus more on German customers.

The rise in the North America region primarily reflects a EUR 0.6 billion increase in exposure in the US to EUR 13.1 billion. The reason for this is the increase in liquidity reserves at the US central bank, which went up by EUR 2.5 billion to EUR 2.7 billion. Lending contracted in most of the other sectors.

Exposure contracted in most of the other regions.

Gross credit volume in western European countries



■ 30 Jun 2017 Total: EUR 31,105 million
■ 31 Dec 2016 Total: EUR 31,614 million

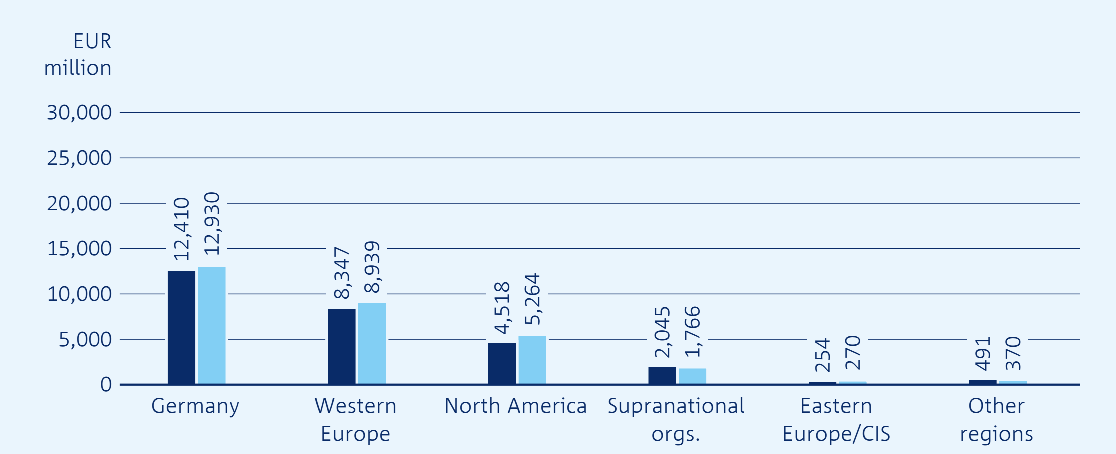
In western Europe gross credit volume went down slightly by EUR 0.5 billion to EUR 31.1 billion (31 December 2016: EUR 31.6 billion). There were significant falls in credit volumes in Italy, the UK, the Netherlands and France. However, there was a small amount of growth in Switzerland, Luxembourg and Austria.

In terms of sectors, the reduction in western European countries outside Germany mainly occurred among corporate customer and real estate financing from the non-core portfolio.

Issuer risk

The following table shows issuer risk by region.

Gross issuer risk by region



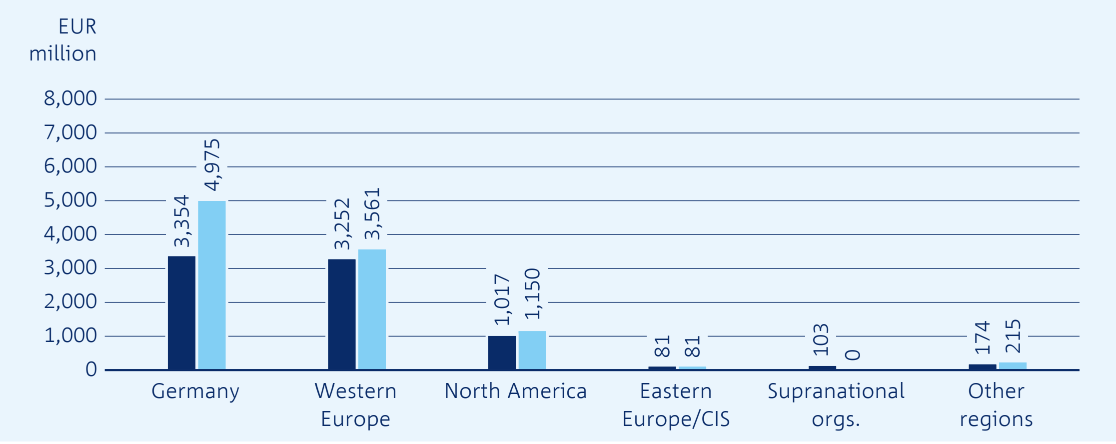
■ 30 Jun 2017 Total: EUR 28,065 million
■ 31 Dec 2016 Total: EUR 29,539 million

Gross issuer risk fell again in the reporting period. It declined in total by EUR 1.5 billion to EUR 28.1 billion (31 December 2016: EUR 29.5 billion). The reduction occurred in almost all countries and regions, but there were small increases, especially with international organisations and some Asian countries.

Replacement risk

The following table shows replacement risk by region.

Gross replacement risk by region



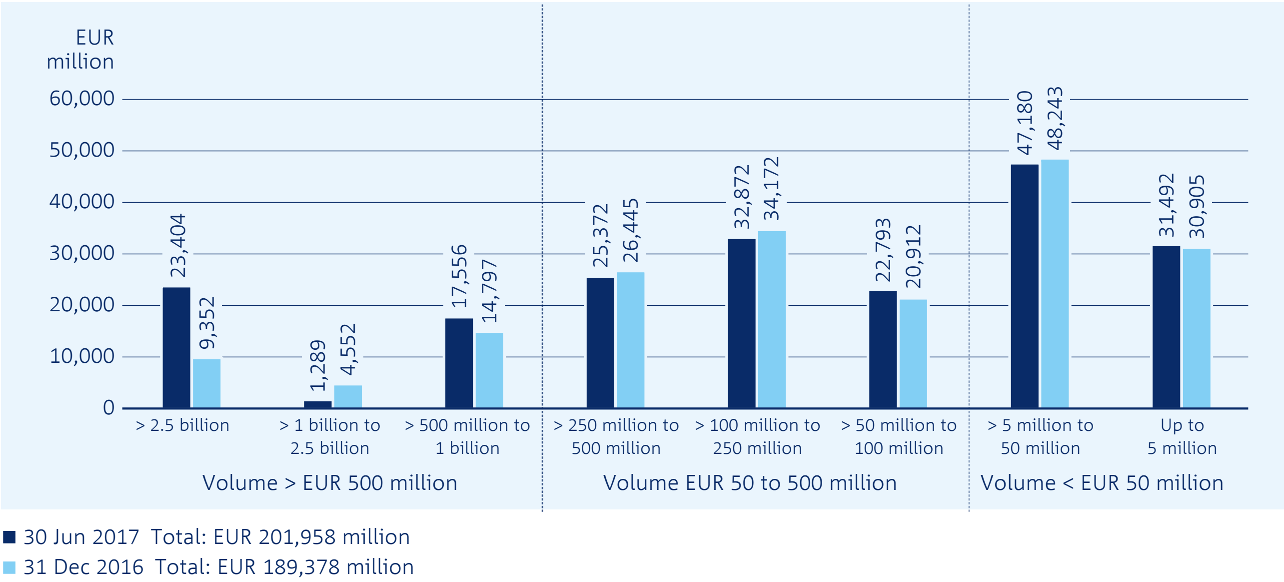
■ 30 Jun 2017 Total: EUR 7,979 million
■ 31 Dec 2016 Total: EUR 9,982 million

Gross replacement risk also fell in the reporting period, declining by EUR 2.0 billion to EUR 8.0 billion (31 December 2016: EUR 10.0 billion).

Breakdown by size

The following table shows net credit volume by size.

Net credit volume by size



Net credit volume was up sharply in the size category above EUR 2.5 billion. A major reason for this, again, was the increase in liquid funds at central banks. This size category only contains loans and advances to top-rated government entities with the highest ratings.

The net credit volume with customers in the EUR 500 million to EUR 1.0 billion size category jumped by around EUR 2.8 billion to EUR 17.6 billion, primarily due to migration from smaller size categories. These categories predominantly include savings banks, German and international banks, and large DAX companies. The entire range of individual ratings was therefore in the very good investment grade category (master ratings 0 to 7).

Summary

Overall, the quality of the credit portfolio remains very good. This was reflected in the high investment grade share, which also continued to grow, improving from 83.5 percent to 84.7 percent. The share of German customers also steadily grew. Portfolio granularity went down slightly in the reporting period. The volume with target customers was mostly stable overall. Further progress was made in winding down the non-core portfolio (EUR –1.4 billion to EUR 6.4 billion), in line with strategy.

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

Based on data from the IFRS consolidated financial statements, the tables below show the BayernLB Group's maximum credit risk under IFRS 7.36a taking account of IFRS 7.B9. Gross carrying amounts are reduced by the offsetting amounts calculated in accordance with IAS 32 and impairment losses calculated in accordance with IAS 39. Credit risks included under "non-current assets or disposal groups classified as held for sale" are allocated to the relevant positions in the following tables (for individual amounts see the details in note 25). Information on forbearance exposures is also included.

The figures used in the balance sheet approach for the maximum credit risk pursuant to IFRS 7.36a are based on the IFRS scope of consolidation. Besides BayernLB and DKB, these include mainly Real I.S. and Bayern Card-Services GmbH.

Maximum credit risk

EUR million	30 Jun 2017	31 Dec 2016
Cash reserves	**6,815**	**2,096**
• Loans and receivables	6,815	2,096
Loans and advances to banks	**36,573**	**28,793**
• Loans and receivables	36,573	28,793
• Fair value option	–	–
Loans and advances to customers	**134,699**	**133,624**
• Loans and receivables	134,418	133,335
• Available for sale	6	7
• Fair value option	276	281
Assets held for trading*	**13,677**	**16,671**
• Held for trading	13,677	16,671
Positive fair values from derivative financial instruments	**886**	**1,073**
• Held for trading	886	1,073
Financial investments*	**24,348**	**25,921**
• Available for sale	24,145	25,750
• Fair value option	91	–
• Loans and receivables	112	171
Contingent liabilities	**10,436**	**10,678**
Irrevocable credit commitments	**25,240**	**24,095**
Total	**252,674**	**242,951**

** Not including equity instruments.*

Financial assets that are neither past due nor impaired

30 Jun 2017 in %	Maximum credit risk						
	Rating categories						
	0–7	8–11	12–17	18–21	Default categories	Unrated	Total
Cash reserves	**2.6**	**0.1**	**–**	**–**	**–**	**0.0**	**2.7**
• Loans and receivables	2.6	0.1	–	–	–	0.0	2.7
Loans and advances to banks	**13.1**	**1.1**	**0.3**	**0.0**	**0.0**	**0.0**	**14.5**
• Loans and receivables	13.1	1.1	0.3	0.0	0.0	0.0	14.5
• Fair value option	–	–	–	–	–	–	–
Loans and advances to customers	**26.0**	**14.9**	**9.8**	**1.0**	**0.1**	**0.4**	**52.2**
• Loans and receivables	25.9	14.9	9.8	1.0	0.1	0.4	52.1
• Available for sale	–	–	–	–	–	–	–
• Fair value option	0.1	0.0	0.0	–	0.0	0.0	0.1
Assets held for trading	**4.3**	**0.8**	**0.1**	**0.0**	**0.1**	**–**	**5.4**
• Held for trading	4.3	0.8	0.1	0.0	0.1	–	5.4
Positive fair values from derivative financial instruments	**0.3**	**0.0**	**–**	**–**	**–**	**–**	**0.4**
• Held for trading	0.3	0.0	–	–	–	–	0.4
Financial investments	**9.4**	**0.2**	**0.0**	**–**	**0.0**	**–**	**9.6**
• Available for sale	9.4	0.2	0.0	–	0.0	–	9.6
• Fair value option	0.0	–	–	–	–	–	0.0
• Loans and receivables	0.0	0.0	0.0	–	–	–	0.0
Contingent liabilities	**2.0**	**1.1**	**1.0**	**0.0**	**0.0**	**0.0**	**4.1**
Irrevocable credit commitments	**5.0**	**3.6**	**1.3**	**0.0**	**0.0**	**0.0**	**10.0**
Total	**62.7**	**21.8**	**12.6**	**1.1**	**0.3**	**0.4**	**98.9**

31 Dec 2016 in %	Maximum credit risk Rating categories 0–7	8–11	12–17	18–21	Default categories	Unrated	Total
Cash reserves	**0.8**	**0.1**	**–**	**–**	**–**	**0.0**	**0.9**
• Loans and receivables	0.8	0.1	–	–	–	0.0	0.9
Loans and advances to banks	**10.2**	**1.3**	**0.4**	**0.0**	**0.0**	**0.0**	**11.8**
• Loans and receivables	10.2	1.3	0.4	0.0	0.0	0.0	11.8
• Fair value option	–	–	–	–	–	–	–
Loans and advances to customers	**26.7**	**15.4**	**10.5**	**0.9**	**0.1**	**0.1**	**53.8**
• Loans and receivables	26.6	15.4	10.5	0.9	0.1	0.1	53.6
• Available for sale	–	–	–	–	–	–	–
• Fair value option	0.1	0.0	0.0	–	0.0	0.0	0.1
Assets held for trading	**4.9**	**1.7**	**0.2**	**0.0**	**0.1**	**–**	**6.9**
• Held for trading	4.9	1.7	0.2	0.0	0.1	–	6.9
Positive fair values from derivative financial instruments	**0.4**	**0.1**	**–**	**–**	**–**	**–**	**0.4**
• Held for trading	0.4	0.1	–	–	–	–	0.4
Financial investments	**9.9**	**0.4**	**0.0**	**–**	**0.0**	**–**	**10.4**
• Available for sale	9.9	0.4	0.0	–	0.0	–	10.3
• Fair value option	–	–	–	–	–	–	–
• Loans and receivables	0.0	0.0	0.0	–	–	–	0.1
Contingent liabilities	**2.2**	**1.2**	**0.9**	**0.1**	**0.0**	**0.0**	**4.4**
Irrevocable credit commitments	**4.5**	**3.8**	**1.5**	**0.2**	**0.0**	**0.0**	**9.9**
Total	**59.5**	**23.8**	**13.5**	**1.2**	**0.3**	**0.1**	**98.4**

Financial assets that are past due but not impaired*

30 Jun 2017 EUR million	Maximum credit risk Time past due ≤ 30 days	> 30 days to 3 months	> 3 months to 1 year	> 1 year	Total	Fair value collateral
Cash reserves	**–**	**–**	**–**	**–**	**–**	**–**
Loans and advances to banks	**–**	**–**	**–**	**0.0**	**0.0**	**–**
• Loans and receivables	–	–	–	0.0	0.0	–
Loans and advances to customers	**490.3**	**166.4**	**134.3**	**1,312.8**	**2,103.8**	**17.4**
• Loans and receivables	490.3	166.4	134.3	1,312.8	2,103.8	17.4
Assets held for trading	**–**	**–**	**–**	**–**	**–**	**–**
Positive fair values from derivative financial instruments	**–**	**–**	**–**	**–**	**–**	**–**
Financial investments	**–**	**–**	**–**	**–**	**–**	**–**
• Available for sale	–	–	–	–	–	–
Contingent liabilities	**–**	**–**	**–**	**–**	**–**	**–**
Irrevocable credit commitments	**4.4**	**–**	**–**	**–**	**4.4**	**–**
Total	**494.7**	**166.4**	**134.3**	**1,312.8**	**2,108.2**	**17.4**
Fair value collateral	**3.3**	**1.3**	**5.3**	**7.5**	**17.4**	

31 Dec 2016 EUR million	Maximum credit risk Time past due ≤ 30 days	> 30 days to 3 months	> 3 months to 1 year	> 1 year	Total	Fair value collateral
Cash reserves	**–**	**–**	**–**	**–**	**–**	**–**
Loans and advances to banks	**–**	**–**	**–**	**0.8**	**0.8**	**–**
• Loans and receivables	–	–	–	0.8	0.8	–
Loans and advances to customers	**476.8**	**253.4**	**126.9**	**64.1**	**921.1**	**43.7**
• Loans and receivables	476.8	253.4	126.9	64.1	921.1	43.7
Assets held for trading	**–**	**–**	**–**	**–**	**–**	**–**
Positive fair values from derivative financial instruments	**–**	**–**	**–**	**–**	**–**	**–**
Financial investments	**750.3**	**–**	**–**	**–**	**750.3**	**–**
• Available for sale	750.3	–	–	–	750.3	–
Contingent liabilities	**–**	**–**	**–**	**–**	**–**	**–**
Irrevocable credit commitments	**16.1**	**0.2**	**–**	**0.0**	**16.3**	**–**
Total	**1,243.1**	**253.5**	**126.9**	**65.0**	**1,688.5**	**43.7**
Fair value collateral	**12.4**	**20.4**	**7.6**	**3.4**	**43.7**	

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

Financial assets that are impaired

	Maximum credit risk		Fair value collateral	
EUR million	30 Jun 2017	31 Dec 2016	30 Jun 2017	31 Dec 2016
Cash reserves	**–**	**–**	**–**	**–**
Loans and advances to banks	**19.8**	**13.1**	**–**	**–**
• Loans and receivables	19.8	13.1	–	–
Loans and advances to customers	**730.1**	**2,107.6**	**248.7**	**260.2**
• Loans and receivables	724.5	2,100.5	248.7	260.2
• Available for sale	5.6	7.0	–	–
Assets held for trading	**–**	**–**	**–**	**–**
Positive fair values from derivative financial instruments	**–**	**–**	**–**	**–**
Financial investments	**0.0**	**0.0**	**–**	**–**
• Available for sale	0.0	0.0	–	–
Contingent liabilities	**29.2**	**27.4**	**–**	**–**
Irrevocable credit commitments	**15.6**	**12.1**	**–**	**–**
Total	**794.7**	**2,160.1**	**248.7**	**260.2**

Renegotiated credits

Forbearance exposures

30 Jun 2017 EUR million	Forbearance/deferrals	Impairments	Collateral/financial guarantees received
Loans and advances to banks	41.5	−9.4	0.0
Loans and advances to customers	3,489.6	−713.1	543.3
Financial investments	0.0	0.0	0.0
Credit commitments	177.4	4.1	1.9
Total	**3,708.4**	**−718.4**	**545.2**

31 Dec 2016 EUR million	Forbearance/deferrals	Impairments	Collateral/financial guarantees received
Loans and advances to banks	26.8	−1.7	0.0
Loans and advances to customers	3,324.4	−852.1	399.0
Financial investments	0.0	0.0	0.0
Credit commitments	148.5	3.9	0.9
Total	**3,499.7**	**−849.9**	**399.9**

Portfolios with elevated risk profiles (Financial Stability Board recommendations)

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

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

Customer transactions

The nominal volume of transactions structured for customers rose to a total of EUR 2.3 billion in the reporting period (31 December 2016: EUR 2.1 billion).

The portfolio consists almost solely of transactions structured for target customers of BayernLB. Trade, leasing receivables and consumer receivables from target customers are financed. This is carried out exclusively via the existing Corelux S.A. ABCP programme.

Only one transaction that is not related to target customers remains. The transaction, in the amount of EUR 34 million (31 December 2016: EUR 36 million), is being wound down under close observation.

Monolines

Due to the exchange rate, the indirect exposure to US monolines (insurers that specialise in hedging structured securities) fell to a nominal volume of EUR 72 million (31 December 2016: EUR 77 million). The rest of BayernLB's indirect credit exposure is scheduled for run-off and will shrink gradually as transactions mature.

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

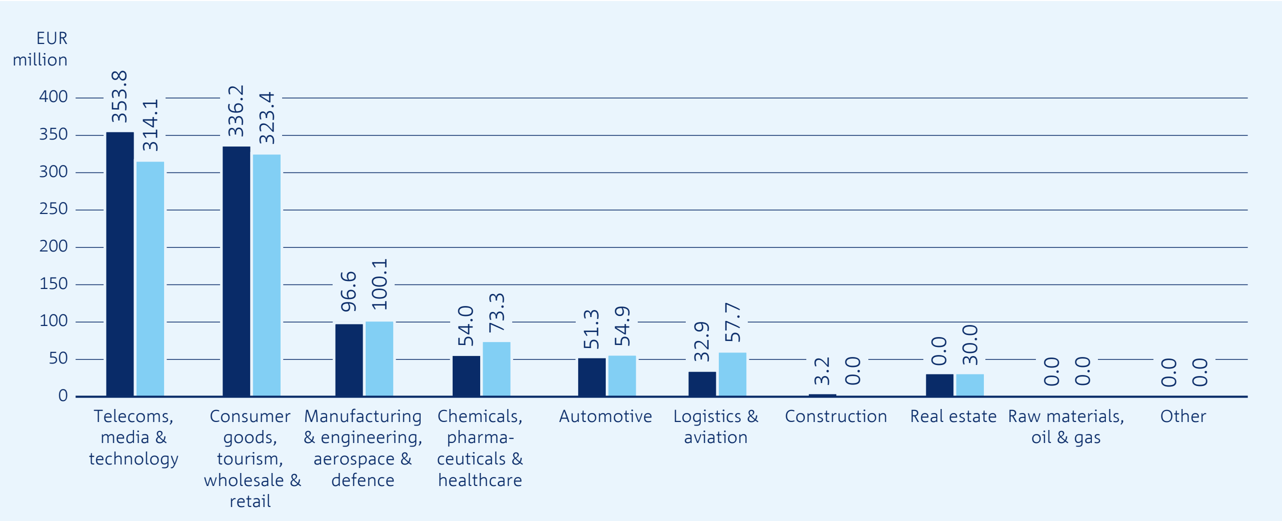
Leveraged finance

This includes leveraged buyouts (corporate acquisitions by financial investors) and corporate to corporate transactions (corporate acquisitions by strategic investors). As financing is normally on a non-recourse basis, repayments are mostly funded by the future cash flows of the acquired entity. Acquisition financing is typically highly leveraged, long dated (usually over five years), involves extensive covenants and collateral and a large number of contractual restrictions (e.g. on acquisitions, capital expenditures, distributions and additional debt).

Credit volumes within the BayernLB Group fell to EUR 928 million (31 December 2016: EUR 954 million). The share in Germany was still high at 82 percent (31 December 2016: 88 percent). The rest of the portfolio (18 percent) related to western Europe (31 December 2016: 12 percent). Since the parent company and its principal subsidiaries are usually jointly liable in leveraged finance, the credit decision is based on the parent company's registered office, even if, in some cases, one of the group's borrowers is domiciled outside Germany or western Europe.

Leveraged finance transactions are solely at BayernLB and break down by sector and rating category as follows.

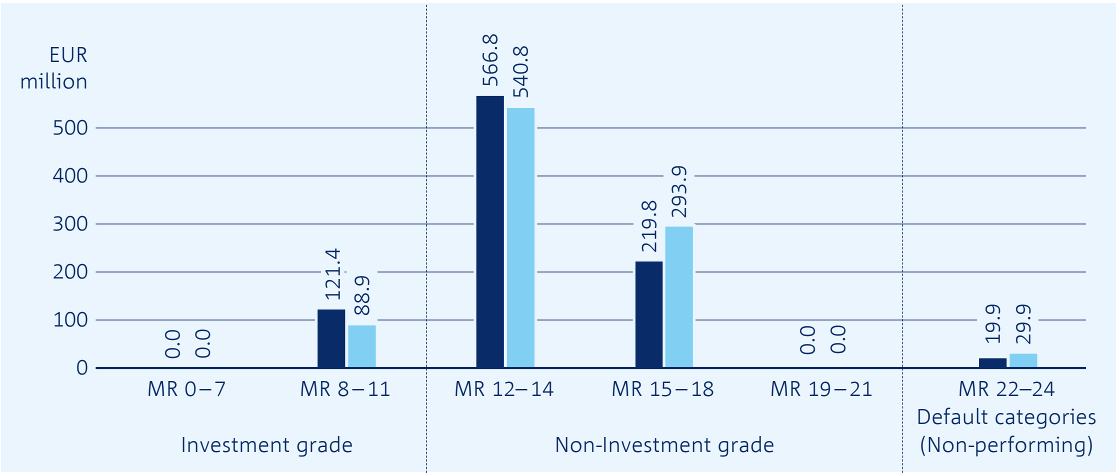
Gross credit volume by sector



■ 30 Jun 2017 Total: EUR 928 million
■ 31 Dec 2016 Total: EUR 954 million

Within the sectors, the rankings of the sub-sectors remained largely unchanged on the previous year. The largest sub-sectors in terms of volume were media at EUR 228 million (31 December 2016: EUR 185 million), wholesale & retail at EUR 140 million (31 December 2016: EUR 133 million) and technology at EUR 113 million (31 December 2016: EUR 117 million).

Gross credit volume by rating category



■ 30 Jun 2017 Total: EUR 928 million
■ 31 Dec 2016 Total: EUR 954 million

Portfolio quality improved over the reporting period. Upgrades exceeded downgrades due to the gradual paying down of debt for acquisition financings. In addition, repayments could also be largely replaced by good quality new business, which nonetheless was mostly non-investment grade due to the product (initial high debt). The share in master rating categories MR 8–11 rose to 13 percent (31 December 2016: 9 percent), while the share in master rating categories MR 12–14 increased to 61 percent (31 December 2016: EUR 57 percent). Risk provisions set aside for problem loans was unchanged at 2 percent (31 December 2016: 2 percent).

Summary

These sub-portfolios were marked by a slightly higher volume in the customer transactions portfolio, solid quality leveraged finance transactions and a manageable indirect exposure to monolines.

Investment risk

BayernLB does not aim to expand business activities by acquiring stakes in companies. The Group's strategic subsidiaries are DKB, BayernInvest and Real I.S.

The key changes in the scope of consolidation and the investment portfolio in the first half of 2017 are discussed in more detail in the same-named section in the Overview of the BayernLB Group.

Market risk

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

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

Customer deposits at DKB are modelled here using the dynamic replication method. As at 30 June 2017, a risk add-on was incorporated with the market risk disclosure to take account of external credit margins.

Pension risks (risks from pension liabilities) are calculated using a scenario-based approach.

Market risk measurement methods are constantly checked for the quality of their forecasting. In the backtesting process, the risk forecasts are compared with actual outcomes (gains or losses). As at 30 June 2017, the forecasting quality of the market risk measurement methods used at BayernLB, in accordance with the Basel traffic light approach, was classified as good.

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

In the BayernLB Group, the main factor affecting the VaR for the actual market risks is general interest rate risk. All other types of risk play a much less significant role by comparison. The current situation for pension risks is presented under "Economic capital adequacy".

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

			1 January to 30 June 2017		
EUR million	**30 Jun 2017**	**31 Dec 2016**	**Average**	**Maximum**	**Minimum**
General interest rate VaR	23.9	35.9	28.5	36.7	21.3
Specific interest rate VaR (credit spreads)	8.0	11.0	10.1	12.6	8.0
Currency VaR	2.2	2.2	2.5	4.0	1.8
Equities VaR	2.7	4.6	3.7	4.7	2.7
Commodities VaR	2.1	1.7	1.5	2.1	1.0
Volatility VaR	3.3	5.2	3.9	5.0	2.8
Total VaR*	26.5	36.0	29.3	36.6	22.8

** In the risk-bearing capacity, in addition to the VaR disclosure, premiums for credit rating risk from money market transactions and OTC derivatives, and for market risks from external credit margins, are also taken into account when calculating the risk capital requirement at BayernLB.*

Summary

Total VaR fell by around EUR 9.4 million compared with 31 December 2016. The decrease in general interest rate risk, due to a smaller interest rate long position, was strengthened further by lower market volatility (relevant scenario days not included in the historical simulation).

Other risk types continue to be of secondary importance with no significant changes.

Liquidity risk

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

In addition, time-to-wall figures for stress scenarios are calculated, limited and monitored. These show the length of time before the liquidity surplus turns negative under stressed conditions. For further details on the measurement, management and monitoring of liquidity risk, please refer to the relevant sections of the risk report as at 31 December 2016.

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

The following tables show the outcomes of the management scenario for the BayernLB Group and give an overview of the liquidity situation as at 30 June 2017 compared with 31 December 2016:

Liquidity situation

30 Jun 2017 Cumulative figures in EUR million	**Up to 1 month**	**Up to 3 months**	**Up to 1 year**	**Up to 5 years**
Liquidity surplus	**23,634**	**22,703**	**12,070**	**15,960**
arising from				
• liquidity counterbalancing capacity	35,953	41,553	32,245	12,409
less				
• liquidity gap	12,319	18,849	20,174	−3,552
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	**23,804**	**20,801**	**15,796**	**18,686**
arising from				
• liquidity counterbalancing capacity	43,084	41,063	33,530	13,126
less				
• liquidity gap	19,280	20,261	17,733	−5,560

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

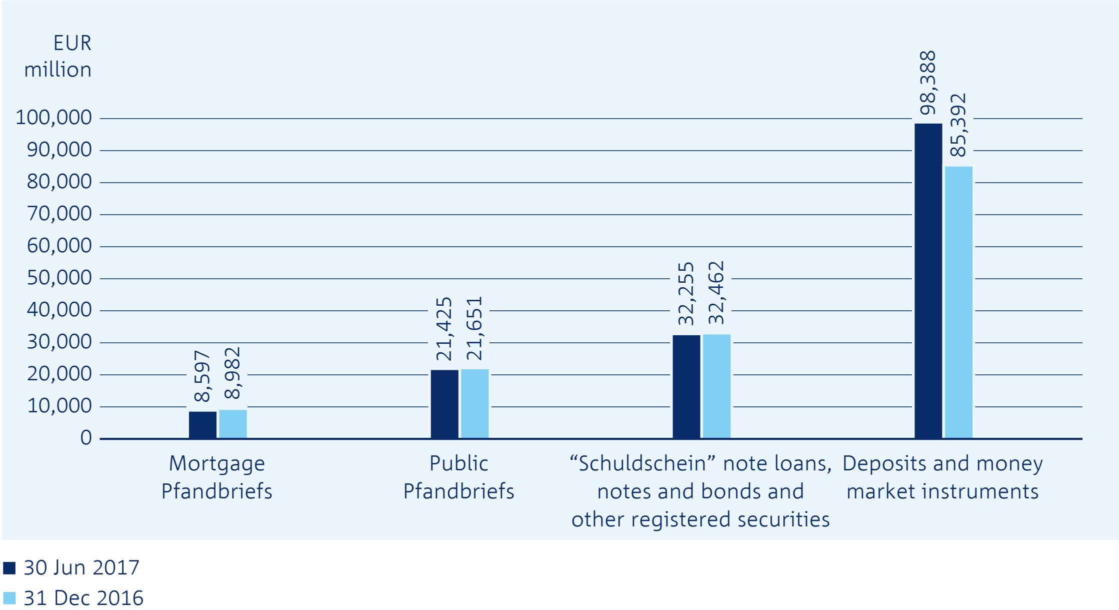
The Liquidity Ordinance ratio (which must always exceed 1.0) was 1.47 at BayernLB as at 30 June 2017, having varied between 1.47 and 1.61 over the first half of 2017. The range for full-year 2016 was 1.41 to 2.1.

The Bank also met the minimum regulatory ratio for the liquidity coverage ratio (LCR) at all times in the first half of 2017 through its integrated management of operational liquidity. The LCR at Group level amounted to 179 percent as at 30 June 2017. The LCR is calculated by comparing highly liquid assets with the net cash outflows for the following 30 days. In the reporting period there was a regulatory requirement that highly liquid assets cover at least 80 percent of the net cash outflow. In 2018, the minimum regulatory ratio will increase to 100 percent.

The strategic subsidiary DKB has measures in place to ensure it complies with its specific liquidity coverage ratio. The key requirements were complied with during the period under review.

The BayernLB Group's funding structure as at 30 June 2017 compared with 31 December 2016 was as follows:

Funding structure



As in previous reporting periods, the first half of 2017 was marked by the excess liquidity created by the ECB's monetary policy and related investment pressure. The rise in uncertainty was reflected in the volatility triggered by the prevailing political, geopolitical and monetary risks. The record low ECB deposit interest rate of –0.4 percent led to a reversal in plus and minus signs on the income statement, with earnings accruing on the liabilities side, due to a funding rate below 0 percent, and costs accruing on the assets side, due to a money market deposit rate below 0 percent.

In line with the sector trend, BayernLB also decided to link the interest rate on short-term deposits of institutional customers with the interest rate on the ECB's deposit facility.

After years of strategically expanding and extending the funding mix, the focus in 2017 was on sustainably stabilising the efficiency of the liabilities side, while always ensuring regulatory ratios and requirements are met. This also includes receiving and expanding the bail-in eligible liabilities in accordance with the new minimum TLAC and MREL requirements. BayernLB has also benefited from Moody's upgrading of long-term liabilities to Aa3 (outlook stable) and short-term deposit rates to P-1 through the inflow of new short-term liquidity. The marked increase in some cases of money market liabilities also reflects, among other things, the low year-end amounts typical for the sector, e.g. securities repurchase transactions or term deposits.

BayernLB's modest capital market funding in the first half of 2017 served as a buffer for the winding down of surplus liquidity. Whereas unsecured funding was on track on a pro-rata basis, the planned funding of EUR 4 billion in secured funding has not been given priority in 2017. One reason for the lower funding needs was a rather sluggish lending business, with early repayments having a significant impact. The existing mutual interlinking financing in the BayernLB Group was further run down as planned, for example, by repaying intragroup financing through maturing assets and collateralising existing derivatives.

BayernLB's funding spreads in the first half of 2017 were at the lower end of its peer group and reflect not just its good rating but also low demand. The savings bank sector was a key purchaser of unsecured bearer bonds. Huge demand for securities, even from corporates, due to the ECB's purchasing programme prevented funding spreads from widening in all markets. No unit of the BayernLB Group drew any funds under the ECB's Targeted Long-Term Refinancing Operations (TLTRO II).

At Group level, particularly at DKB and BayernLabo, the picture was similar to that at BayernLB: high surplus liquidity meant that only a minimal presence on the capital market was needed and permitted measures to improve the situation on the liabilities side, for example by changing terms and conditions.

Higher tax receipts meant that the public sector's (one of BayernLabo's target groups) need for credit was limited.

Summary

In the coming years liquidity management and monitoring at the BayernLB Group 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.

BayernLB’s sustainable business model and stable earnings, coupled with a strong awareness of risks (factors which led to three ratings upgrades since 2014), ensured the Bank could bring the EU state-aid proceedings to an early close and repay EUR 1 billion to the Free State of Bavaria by the end of the first half of 2017.

Reporting of products as defined in section 46f para. 6 and 7 KWG

Section 46f of the German Banking Act (KWG) was amended with effect from 1 January 2017. The amended regulation governs the seniority of payment under bankruptcy law for certain liabilities that are part of a bail-in which are issued by institutions subject to the CRR.

The following tables show the debt instruments and structured financial products as defined in section 46f KWG:

Debt instruments as defined in section 46f para. 6 KWG that do not fall under section 46f para. 7 KWG

EUR million	30 Jun 2017	31 Dec 2016
Liabilities to banks	3,632	3,892
• of which Schuldschein note loans	2,497	2,699
• of which other registered securities	1,135	1,193
Liabilities to customers	7,542	7,778
• of which Schuldschein note loans	2,115	2,183
• of which other registered securities	5,427	5,595
Securitised liabilities	23,583	20,165
Total	**34,757**	**31,836**

Structured financial products as defined in section 46f para. 7 KWG that are not reported in the solvency estate pursuant to section 38 Insolvency Statute (Insolvenzordnung)

EUR million	30 Jun 2017	31 Dec 2016
Liabilities to banks	189	91
• of which Schuldschein note loans	189	91
Liabilities to customers	1,170	1,070
• of which Schuldschein note loans	202	207
• of which other registered securities	968	863
Securitised liabilities	2,015	2,073
Liabilities held for trading	474	458
Total	**3,847**	**3,692**

Operational risk

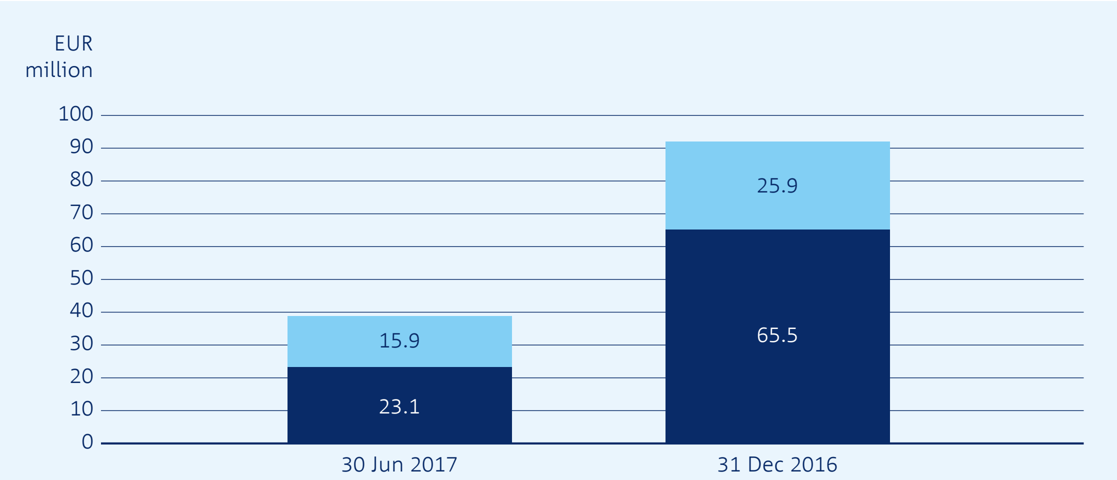
Operational risk for the calculation of risk-bearing capacity has been estimated using a loss distribution approach (OpVaR) with a confidence level of 99.95 percent. The calculation is based ex post on losses arising at BayernLB and DKB and external losses collected by a data consortium, and ex ante on the potential risks of BayernLB and DKB and scenario analyses. This includes losses from IT and legal risks. The key model assumptions and parameters used in the model are validated once a year. The risk capital requirement as at 30 June 2017 was EUR 543 million (31 December 2016: EUR 514 million).

In the first half of 2017, the process of reviewing and re-cataloguing all operational risks in the Group was concluded as scheduled, resulting in a significant improvement in the quality of ex ante data.

The standardised approach is used at BayernLB and DKB to calculate the regulatory capital backing for operational risk.

The graph below shows the changes in operational risk losses recorded at BayernLB and DKB in the first half of 2017 compared to financial year 2016.

Losses by Group unit



30 Jun 2017 Total: EUR 38.9 million
31 Dec 2016 Total: EUR 91.4 million

■ BayernLB ■ DKB

BayernLB's losses as at the first half of 2017 mostly arose in connection with provisions for liabilities from employment contracts with pension obligations and relate mainly to the execution, delivery and process management category.

The losses from operational risks at DKB in the first half of 2017 were slightly higher than in the prior-year period. The main reason for the rise in losses was consumer protection rulings on the handling of cancellation policies that were incorrectly conveyed and relates mainly to the customers, products and business practices category.

Summary

The amount of operational risk losses at the BayernLB Group in the first half of 2017 was in line with expectations.

The risk report in summary

The BayernLB Group's risk profile remained stable in the first half of 2017.

The BayernLB Group had adequate risk-bearing capacity in the reporting period at all times. The stress scenarios show that the BayernLB Group has adequate capital and met minimum regulatory capital ratios in the going concern scenario when retained earnings are included.

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

Regulatory solvency requirements were met. Own funds available to cover risks amounted to EUR 9.9 billion. For more details please see the section in the report on the economic position, under "Banking supervisory ratios under CRR/CRD IV for the BayernLB Group" in the management report.

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

Consolidated half-yearly financial statements

Statement of comprehensive income

Income statement

EUR million	Notes		1 Jan – 30 Jun 2017	1 Jan – 30 Jun 2016
• Interest income		3,233		3,070[2]
• Interest expenses		–2,388		–2,341[2]
Net interest income	(5)		845	728
Risk provisions in the credit business	(6)		90	–4
Net interest income after risk provisions			935	724
• Commission income		345		323[1]
• Commission expenses		–204		–190
Net commission income	(7)		141	133[1]
Gains or losses on fair value measurement	(8)		143	13
Gains or losses on hedge accounting	(9)		–93	–28
Gains or losses on financial investments	(10)		16	216
Administrative expenses	(11)		–612	–578
Expenses for the bank levy and deposit guarantee scheme	(12)		–84	–93
Other income and expenses	(13)		–25	30[1]
Gains or losses on restructuring	(14)		4	–9
Profit/loss before taxes			**426**	**409**
Income taxes			–96	–89
Profit/loss after taxes			**330**	**319**
Profit/loss attributable to non-controlling interests			0	–5
Consolidated profit/loss			**330**	**314**

Rounding differences may occur in the tables.
1 Adjusted as per IAS 8.42 (see note 2).
2 Adjusted as per IAS 8.22 (see note 2).

Statement of comprehensive income (condensed)

EUR million	Notes	1 Jan – 30 Jun 2017	1 Jan – 30 Jun 2016
Profit/loss after taxes as per the income statement		**330**	**319**
Components of other comprehensive income temporarily not recognised in profit or loss			
• Changes in the revaluation surplus	(35)	–23	1
– Change not including deferred taxes		–32	40
– Change in deferred taxes		9	–40
• Currency-related changes	(35)	3	–
– Change not including deferred taxes		3	–
– Change in deferred taxes		–	–
Components of other comprehensive income permanently not recognised in profit or loss			
• Changes due to remeasurement of defined benefit plans	(35)	160	–491
– Change not including deferred taxes		169	–505
– Change in deferred taxes		–8	14
Other comprehensive income after taxes		**140**	**–490**
Total comprehensive income recognised and not recognised in profit or loss		**470**	**–171**
• attributable:			
– to BayernLB shareholders		469	–175
– to non-controlling interests		–	5
• Total comprehensive income attributable to BayernLB shareholders:			
– from continuing operations		469	–175
– from discontinued operations		–	–

Rounding differences may occur in the tables.

Balance sheet

Assets

EUR million	Notes	30 Jun 2017	31 Dec 2016
Cash reserves	(15)	6,815	2,096
Loans and advances to banks	(16)	36,581	28,794
Loans and advances to customers	(17)	135,652	134,760
Risk provisions	(18)	−1,124	−1,305
Portfolio hedge adjustment assets		559	831
Assets held for trading	(19)	14,005	16,936
Positive fair values from derivative financial instruments (hedge accounting)	(20)	886	1,073
Financial investments	(21)	25,118	26,708
Investment property	(22)	31	32
Property, plant and equipment	(23)	344	347
Intangible assets	(24)	84	86
Current tax assets		39	44
Deferred tax assets		370	358
Non-current assets or disposal groups classified as held for sale	(25)	24	25
Other assets	(26)	1,565	1,365
Total assets		**220,950**	**212,150**

Rounding differences may occur in the tables.

Liabilities

EUR million	Notes	30 Jun 2017	31 Dec 2016
Liabilities to banks	(27)	60,555	54,211
Liabilities to customers	(28)	90,162	86,795
Securitised liabilities	(29)	42,417	39,618
Liabilities held for trading	(30)	8,396	10,974
Negative fair values from derivative financial instruments (hedge accounting)	(31)	897	1,124
Provisions	(32)	4,263	4,421
Current tax liabilities		260	198
Deferred tax liabilities		–	–
Other liabilities	(33)	447	671
Subordinated capital	(34)	3,036	3,081
Equity	(35)	10,516	11,056
• Equity excluding non-controlling interests		10,504	11,041
– subscribed capital		3,412	4,412
– compound instruments (equity component)		68	69
– capital surplus		2,182	2,182
– retained earnings		4,219	4,064
– revaluation surplus		292	315
– foreign currency translation reserve		2	–1
– consolidated profit/loss		330	–
• Non-controlling interests		12	15
Total liabilities		**220,950**	**212,150**

Rounding differences may occur in the tables.

Statement of changes in equity

EUR million	Parent								Non-controlling interests	
	Subscribed capital	Compound instruments (equity component)	Capital surplus	Retained earnings	Revaluation surplus	Currency translation reserve	Consolidated profit/loss	**Equity before non-controlling interests**		**Consolidated equity**
As at 1 Jan 2016	**4,714**	**92**	**2,182**	**3,660**	**409**	**–**	**–**	**11,055**	**14**	**11,070**
Changes in the revaluation surplus					1			1		1
Currency-related changes								–		–
Changes due to remeasurement of defined benefit plans				−491				−491		−491
Other comprehensive income				*−491*	*1*			*−490*		*−490*
Consolidated profit/loss							314	314	5	319
Total comprehensive income				*−491*	*1*		*314*	*−175*	*5*	*−171*
Capital increase/ capital decrease								–		–
Changes in the scope of consolidation and Other				−2				−2		−2
Distribution of profits								–	−4	−4
As at 30 Jun 2016	**4,714**	**92**	**2,182**	**3,167**	**410**	**–**	**314**	**10,878**	**15**	**10,893**

Rounding differences may occur in the tables.
Details on equity can be found in note 35.

EUR million	Parent								Non-controlling interests	
	Subscribed capital	Compound instruments (equity component)	Capital surplus	Retained earnings	Revaluation surplus	Currency translation reserve	Consolidated profit/loss	**Equity before non-controlling interests**		**Consolidated equity**
As at 1 Jan 2017	**4,412**	**69**	**2,182**	**4,064**	**315**	**–1**	**–**	**11,041**	**15**	**11,056**
Changes in the revaluation surplus					–23			–23		–23
Currency-related changes						3		3		3
Changes due to remeasurement of defined benefit plans				160				160		160
Other comprehensive income				*160*	*–23*	*3*		*140*		*140*
Consolidated profit/loss							330	330		330
Total comprehensive income				*160*	*–23*	*3*	*330*	*469*		*470*
Capital increase/ capital decrease	–1,000	–1						–1,001		–1,001
Changes in the scope of consolidation and Other				–5				–5		–5
Distribution of profits								–	–4	–4
As at 30 Jun 2017	**3,412**	**68**	**2,182**	**4,219**	**292**	**2**	**330**	**10,504**	**12**	**10,516**

Rounding differences may occur in the tables.
Details on equity can be found in note 35.

Cash flow statement (condensed)

EUR million	1 Jan– 30 Jun 2017	1 Jan– 30 Jun 2016
Cash and cash equivalents at end of previous period	**2,096**	**2,246**
+/– cash flow from operating activities	5,845	2,297
+/– cash flow from investment activities	8	131
+/– cash flow from financing activities	–1,051	–869
+/– exchange-rate, scope of consolidation and measurement-related changes in cash and cash equivalents	–83	–10
Cash and cash equivalents at end of period	**6,815**	**3,796**

Rounding differences may occur in the tables.

Notes

Notes to the half-yearly financial statements

The half-yearly financial statements of the BayernLB Group as at 30 June 2017 have been prepared in accordance with International Financial Reporting Standards (IFRS) pursuant to Regulation (EC) No 1606/2002 of the European Parliament and of the Council of 19 July 2002 (including all amendments) as well as the supplementary provisions applicable under section 315a para. 1 of the German Commercial Code (HGB). In addition to the IFRS standards, IFRS also comprise the International Accounting Standards (IAS) and the interpretations of the IFRS Interpretations Committee (IFRIC) and the Standing Interpretations Committee (SIC). All standards and interpretations that are mandatory within the EU up to 30 June 2017 have been applied. The half-yearly financial statements comply in particular with the requirements of IAS 34.

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

Accounting policies

(1) Principles

With the exception of the changes referred to below, the accounting policies used for the half-yearly financial statements as at 30 June 2017 were essentially the same as those used for the 2016 consolidated financial statements. Information provided in these half-yearly financial statements is to be read in conjunction with the information in the published and audited consolidated financial statements as at 31 December 2016. Items are recognised and measured on a going concern basis.

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

On 9 June 2016 the German Federal Court of Justice (BGH) handed down a ruling on the validity of the German Master Agreement for Financial Derivatives Transactions stating that a netting clause applicable in case of insolvency is contrary to section 104 of the German Insolvency Statute, and is therefore invalid. The subsequent general decree on netting agreements under German insolvency law issued by the Federal Financial Supervisory Authority, which runs to 31 December 2016, specifies that netting under the existing master agreements covered by this general decree must follow the wording of the contractual agreements until further notice. As far as the BayernLB Group is concerned, the ruling by the Federal Court of Justice has no impact on the accounting treatment of existing agreements in the half-yearly financial statements as at 30 June 2017.

Impact of amended and new IFRS

No amended or new standards and interpretations had to be applied when preparing these interim statements. Voluntary, early (partial) application of the newly issued IFRS 9 "Financial Instruments" and IFRS 15 "Revenue from Contracts with Customers" standards incorporated into European law by the European Commission, whose application becomes mandatory for the first time for the BayernLB Group in financial year 2018, was waived in the reporting period as permitted.

- ***IFRS 9***

  In July 2014, the International Accounting Standards Board concluded its project to replace the current Standard IAS 39 "Financial Instruments: Recognition and Measurement" by publishing the final version of IFRS 9 "Financial Instruments". The new standard was incorporated into European law in November 2016 and takes effect in financial years beginning on or after 1 January 2018. Exemption rules on the timing of entry into force exist for entities concluding contracts within the scope of IFRS 4. These exemption rules are not applicable in the BayernLB Group.

  For a description of the new IFRS 9 standard, please refer to the notes in the 2016 consolidated financial statements (note 1). The main changes are shown below.

  The new IFRS 9 requirements are being analysed and implemented in a Group-wide project. The project was set up under the leadership of the Finance and Group Risk Control divisions to take account of the extensive requirements and changes to processes and systems. Overall responsibility for the project lies with BayernLB's CFO/COO and CRO. A steering committee was set up to act as the highest decision-making body and escalation authority for important issues arising in the project. This takes decisions of far-reaching strategic importance. It is chaired by the Board of Management members with responsibilities in this area. The steering committee comprises the heads of Finance, Group Risk Control, Group IT and Controlling and one representative from Deutsche Kreditbank Aktiengesellschaft, Berlin, all of whom have voting rights, along with additional representatives from the business areas and central areas.

  The functional planning phase was completed so that BayernLB Group is now in the test phase for implementing the requirements and the changed processes. As part of this, comprehensive function, system and integration tests are being carried out. Three iterations were planned in the system and integration tests, the first of which has been concluded. Following successful testing, individual functions and systems are already active. New regulatory requirements and national and international interpretations of specific regulations are being analysed further and taken into account in the implementation. Likewise the impact from the general economic environment and changes in the portfolio composition are being evaluated and incorporated into the project.

  Calculations to assess the effect of first-time application confirm that the impact on the BayernLB Group's equity will be moderate.

- ***IFRS 15***
  For the description of the new IFRS 15 standard including its expected impact on BayernLB's consolidated financial statements, please refer to the notes in the 2016 consolidated financial statements (note 1).

(2) Changes on the previous year

Changes under IAS 8.14 et seq.

From financial year 2016, negative interest from financial assets and financial liabilities is booked separately in the accounts and recognised in net interest income. As at 30 June 2017, the amount of EUR 177 million (H1 2016: EUR 65 million) arose in interest income and EUR –178 million (H1 2016: EUR –62 million) arose in interest expenses as a result of negative interest rates.

Changes under IAS 8.32 et seq.

In the period under review, the BayernLB Group made changes to estimates of measurement parameters for calculating liabilities under IAS 19. The changes in measurement produced a total charge of EUR 146 million, increasing retained earnings by EUR 145 million. Of this amount, the revision of the discount rate for pension obligations accounted for EUR 158 million, the increase in estimated future medical costs for pension obligations for EUR –33 million, estimated future pension costs for EUR –3 million and the career progression trend for pension payments for EUR 24 million. The change in the discount rate and the increase in estimated future medical costs had an impact of EUR 1 million on gains or losses on restructuring. Staff costs were not significantly cut by the reduction in the discount rate and career progression trend. As a result of the adjustments, pension obligations fell by EUR –145 million and restructuring liabilities fell by EUR –1 million. The changes in estimates will also have an impact on future periods which currently cannot be reliably estimated.

In the reporting period, new findings led to BayernLB also modifying some assumptions which had been taken to indicate the useful life of intangible assets in the past. These modified assumptions relate to the distribution of amortisation periods for intangible assets. The changes in these assumptions are likely to produce the following effects on amortisation, depreciation and impairments of property, plant and equipment and intangible assets:

EUR million	2017	2018	2019	2020	2021	2022	2023ff.
Administrative expenses - depreciation and writedowns on property, plant and equipment, and intangible assets	–4.0	–3.1	2.0	2.4	1.8	0.9	1.9

In a change on the previous year, as part of the process for calculating income tax expenses and the best estimate of the weighted average annual income tax rate expected for the whole of financial year 2017, a tax planning horizon of 5 years (H1 2016: 3 years) is now used when estimating the future usability of income tax loss carryforwards.

Changes under IAS 8.41 et seq.

From the 2013 consolidated financial statements, income from fund transactions was in some cases incorrectly booked to other income and expenses instead of net commission income. On 30 June 2016, EUR 13 million was therefore reclassified from other income and expenses to commission income. As the amount from fund transactions was large, a separate item was created for it within net commission income. For the previous year, besides the reclassified EUR 13 million, EUR 18 million in commission from the securities business and EUR 1 million from other commission was transferred to this item. The previous year's figures were restated accordingly; the impact of these changes on the income statement items of the previous year is shown in the following overview:

Impact on the affected items of the income statement between 1 January and 30 June 2016

EUR million	1 Jan – 30 Jun 2016 before adjustment	Adjustments	1 Jan – 30 Jun 2016 after adjustment
Commission income	309	13	323
Net commission income	119	13	133
Other income and expenses	44	–13	30
Profit/loss before taxes	409	–	409
Income taxes	–89	–	–89
Profit/loss attributable to non-controlling interests	–5	–	–5
Consolidated profit/loss	314	–	314

(3) Scope of consolidation

Besides the parent company, the group of companies consolidated within BayernLB comprises 12 (31 December 2016: 14) subsidiaries that are consolidated in accordance with IFRS 10.

As before, it does not include any companies measured at equity.

Due to the repayment of all securities held or issued by BayernLB Capital Trust I and BayernLB Capital LLC I, both in Wilmington, Delaware in the USA, the companies were dissolved and deconsolidated. No significant deconsolidation gain or loss arose.

Determining the scope of consolidation

BayernLB's scope of consolidation is determined by materiality criteria. 117 (31 December 2016: 118) companies were not consolidated or measured at equity due to their negligible importance individually or collectively to the financial position and financial performance of the Group. The impact on the balance sheet from the contractual relationships between Group companies and these non-consolidated companies is reported in the half-yearly financial statements.

Segment reporting

(4) Notes to the segment report

The segment report reflects the business structure of the BayernLB Group. A total of five segments are shown comprising the four operating business segments and the Central Areas & Others segment. The earnings of the consolidated subsidiaries and units are also allocated to the segment to which they have been assigned.

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

Parts of the BayernLB Group's segment structure were revised in the period after 30 June 2016, specifically the segments which the remaining non-core business and the consolidated subsidiary Real I.S. AG Gesellschaft für Immobilien Assetmanagement, Munich (Real I.S.) are assigned to. The business segments are now: Corporates & Mittelstand, Real Estate & Savings Banks/Association, Deutsche Kreditbank (DKB) and Financial Markets. In addition, there is the Central Areas & Others segment. With the exception of the Corporates & Mittelstand segment, all other segments are affected by the revisions to the segment structure.

The former Non-Core Unit is no longer managed as an independent segment since its mandate to wind down portfolios not managed as core business was largely fulfilled. All non-core activities of the BayernLB Group were pooled here up to the end of financial year 2016. The remaining non-core activities of the Credit Consulting central area (formerly the Restructuring Unit) and the former Other NCU sub-segment have been reported as part of the Central Areas & Others segment in the revised segment structure since 1 January 2017. The still existing non-core business of the sub-group Deutsche Kreditbank Aktiengesellschaft, Berlin (DKB) was integrated into the DKB segment.

Likewise at the start of financial year 2017, the subsidiary Real I.S., which was in the Financial Markets segment in the previous year, was assigned to the Real Estate & Savings Banks/Association segment.

The segment figures for the comparison period have been adjusted in accordance with the new structure.

The risk-weighted assets (RWA) shown include the figures on the reporting date for credit risk, market risk positions and operational risk. For the Group, the average regulatory equity available over the reporting period is reported as equity. For this, common equity tier 1 (CET1) is calculated using the respective valid supervisory regulations. For the purposes of internal management, economic capital is allocated to the segments in the amount of 12 percent of the average risk weighted assets (RWA). Economic capital is reconciled to regulatory equity in the column headed “Consolidation”.

As in the internal management information, the return on equity (RoE) shown is calculated from the ratio of profit before taxes to average regulatory capital at Group level and to average allocated economic capital at segment level. The cost/income ratio (CIR) is the ratio of administrative expenses and gross profit comprising net interest income, net commission income, gains or losses on fair value measurement, gains or losses on hedge accounting, gains or losses on financial investments and other income and expenses.

Segment reporting as at 30 June 2017

EUR million	Corporates & Mittelstand	Real Estate & Savings Banks/ Association	DKB	Financial Markets	Central Areas & Others (including Consolidation)	Group
Net interest income	147	115	429	95	58	**845**
Risk provisions in the credit business	68	8	−59	–	73	**90**
Net commission income	57	67	2	15	−1	**141**
Gains or losses on fair value measurement	16	19	72	86	−49	**143**
Gains or losses on hedge accounting	–	−2	−79	−4	−8	**−93**
Gains or losses on financial investments	–	–	13	3	1	**16**
Administrative expenses	−140	−121	−232	−94	−24	**−612**
Expenses for the bank levy and deposit guarantee scheme	–	–	−24	–	−60	**−84**
Other income and expenses	–	−1	−5	8	−27	**−25**
Gains or losses on restructuring	–	1	−1	–	4	**4**
Profit before taxes	148	87	116	109	−33	**426**
Risk-weighted assets (RWA)	20,406	7,649	24,579	7,882	3,116	**63,632**
Average economic/regulatory equity	2,551	899	2,963	955	1,540	**8,907**
Return on equity (RoE) (%)	11.6	19.3	7.8	22.8	–	**9.6**
Cost/income ratio (CIR) (%)	63.7	61.2	53.7	46.4	–	**59.5**
Average number of employees (FTE)	348	588	3,211	460	1,868	**6,475**

Segment reporting as at 30 June 2016[1]

EUR million	Corporates & Mittelstand	Real Estate & Savings Banks/ Association	DKB	Financial Markets	Central Areas & Others (including Consolidation)	Group
Net interest income	150	119	389	–11	81	**728**
Risk provisions in the credit business	22	11	–67	–	30	**–4**
Net commission income	51	61[2]	5	16	–1	**133**
Gains or losses on fair value measurement	24	35	27	–39	–35	**13**
Gains or losses on hedge accounting	–	5	–35	2	–	**–28**
Gains or losses on financial investments	–	–	141	56	19	**216**
Administrative expenses	–131	–113	–216	–84	–34	**–578**
Expenses for the bank levy and deposit guarantee scheme	–	–	–22	–	–71	**–93**
Other income and expenses	–	3[2]	20	9	–3	**30**
Gains or losses on restructuring	–	–	–2	–	–7	**–9**
Profit before taxes	118	121	241	–51	–21	**409**
Risk-weighted assets (RWA)	22,368	7,213	24,972	9,326	4,521	**68,400**
Average economic/regulatory equity	2,540	828	2,889	1,037	1,494	**8,787**
Return on equity (RoE) (%)	9.3	29.2	16.7	–9.8	–	**9.3**
Cost/income ratio (CIR) (%)	57.7	50.5	39.5	246.3	–	**52.9**
Average number of employees (FTE)	344	584	3,165	444	1,881	**6,418**

1 Adjusted as per IFRS 8.29.

2 Adjusted as per IAS 8.42 (see note 2).

Breakdown of the aggregated Central Areas & Others segment results and consolidation entries not allocated to the segments as at 30 June 2017

EUR million	Central Areas & Others	Consolidation	Central Areas & Others (including Consolidation)
Net interest income	27	31	58
Risk provisions in the credit business	73	–	73
Net commission income	–1	–	–1
Gains or losses on fair value measurement	–17	–32	–49
Gains or losses on hedge accounting	–8	–	–8
Gains or losses on financial investments	1	–	1
Administrative expenses	–26	2	–24
Expenses for the bank levy and deposit guarantee scheme	–60	–	–60
Other income and expenses	–25	–2	–27
Gains or losses on restructuring	4	–	4
Profit before taxes	–33	–	–33
Risk-weighted assets (RWA)	3,116	–	3,116
Average economic/regulatory equity	415	1,125	1,540

Breakdown of the aggregated Central Areas & Others segment results and consolidation entries not allocated to the segments as at 30 June 2016[1]

EUR million	Central Areas & Others	Consolidation	Central Areas & Others (including Consolidation)
Net interest income	56	25	81
Risk provisions in the credit business	30	–	30
Net commission income	–1	–	–1
Gains or losses on fair value measurement	–10	–25	–35
Gains or losses on hedge accounting	–	–	–
Gains or losses on financial investments	19	–	19
Administrative expenses	–36	2	–34
Expenses for the bank levy and deposit guarantee scheme	–71	–	–71
Other income and expenses	–1	–2	–3
Gains or losses on restructuring	–7	–	–7
Profit before taxes	–21	–	–21
Risk-weighted assets (RWA)	4,521	–	4,521
Average economic/regulatory equity	570	924	1,494

1 Adjusted as per IFRS 8.29.

Notes on delimitation of segments

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

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

The main component of the DKB segment is the business of the DKB sub-group, including the remaining non-core activities in this area. This segment also incorporates the consolidated subsidiary Bayern Card-Services GmbH – S-Finanzgruppe, Munich (BCS). In addition to providing online banking for its retail customers, DKB's business activities also include the infrastructure and corporate banking markets. In these markets DKB specialises largely in business with customers in promising sectors with long-term growth potential such as residential property, healthcare, education and research, agriculture and renewable energy. BCS's business activities are focused on credit card services.

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

The Central Areas & Others segment comprises the earnings contributions of the Corporate Center, Financial Office, Operating Office, Risk Office and Credit Consulting central areas, along with the remaining non-core business of the former Restructuring Unit. The segment also includes transactions that cannot be allocated to either a business area or a central area. The consolidated subsidiary Banque LBLux S.A. in Liquidation, Luxembourg is also assigned to the segment. In addition, the subsidiary BayernLB Capital LLC I, Wilmington was included in this segment until it was deconsolidated on 30 June 2017. The Consolidation column, disclosed with the segment on an aggregate basis, includes consolidation entries not allocated to any segment. These mainly arise from differences in the way internal Group transactions are measured and the application of hedge accounting to cross-divisional derivatives transactions.

Income from typical banking operations after risk provisioning (net interest income, net commission income, gains or losses on fair value measurement, gains or losses on hedge accounting, gains or losses on financial investments) totalled EUR 1,142 million (30 June 2016: EUR 1,058[1] million), of which EUR –43 million (30 June 2016: EUR –5 million) relates to Europe excluding Germany, and EUR 40 million (30 June 2016: EUR 39 million) to America. Of the risk-weighted assets (RWA) in the amount of EUR 63,632 million (30 June 2016: EUR 68,400 million) recognised instead of non-current assets, EUR 258 million (30 June 2016: EUR 1,130 million) relate to Europe excluding Germany and EUR 1,484 million (30 June 2016: EUR 2,413 million) relate to America.

1 Adjusted as per IAS 8.42 (see note 2).

Notes to the statement of comprehensive income

(5) Net interest income

EUR million	1 Jan – 30 Jun 2017	1 Jan – 30 Jun 2016[1]
Interest income	**3,233**	**3,070**
• From lending and money market transactions	1,829	1,966
• From bonds, notes and other fixed-income securities	99	116
• Current income from equities and other non-fixed income securities	1	2
• Current income from interests in non-consolidated subsidiaries, joint ventures, associates and other interests	10	6
• Current income from profit-pooling and profit transfer agreements	2	2
• Current income from other financial investments	5	5
• From hedge accounting derivatives	458	391
• From derivatives in economic hedges	652	518
• From negative interest	177	65
Interest expenses	**2,388**	**2,341**
• For liabilities to banks and customers	732	931
• For securitised liabilities	225	213
• For subordinated capital	77	76
• For hedge accounting derivatives	395	527
• For derivatives in economic hedges	726	467
• Other interest expenses	54	65
• From negative interest	178	62
Total	**845**	**728**

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

(6) Risk provisions in the credit business

EUR million	1 Jan – 30 Jun 2017	1 Jan – 30 Jun 2016
Additions	134	221
Direct writedowns	–	9
Releases	146	167
Recoveries on written down receivables	73	54
Other gains or losses on risk provisions	5	5
Total	**–90**	**4**

The amounts include on-balance sheet and off-balance sheet lending business.

(7) Net commission income

EUR million	1 Jan – 30 Jun 2017	1 Jan – 30 Jun 2016
Securities business	11	14[1]
Broker fees	–6	–5
Lending business	74	73
Payments	–19	–22
Foreign commercial operations	2	1
Trust transactions	8	9
Fund business	41	32[1]
Miscellaneous	29	32[1]
Total	**141**	**133**

1 Adjusted as per IAS 8.42 (see note 2).

(8) Gains or losses on fair value measurement

EUR million	1 Jan – 30 Jun 2017	1 Jan – 30 Jun 2016
Net trading income	**136**	**20**
• Interest-related transactions	114	18
• Equity-related and index-related transactions and transactions with other risks	6	–14
• Currency-related transactions	20	10
• Credit derivatives	–3	1
• Other financial transactions	7	13
• Refinancing of trading portfolios	3	–
• Trading-related commission	–11	–8
Fair value gains or losses from the fair value option	**–7**	**–7**
Total	**143**	**13**

(9) Gains or losses on hedge accounting

EUR million	1 Jan – 30 Jun 2017	1 Jan – 30 Jun 2016
Gains or losses on micro fair value hedges	**–14**	**8**
• Measurement of underlying transactions	98	67
• Measurement of hedging instruments	–112	–59
Gains or losses on portfolio fair value hedges	**–79**	**–35**
• Measurement of underlying transactions	–84	271
• Amortisation of the portfolio hedge adjustment	–189	–251
• Measurement of hedging instruments	194	–56
Total	**–93**	**–28**

(10) Gains or losses on financial investments

EUR million	1 Jan – 30 Jun 2017	1 Jan – 30 Jun 2016
Gains or losses on financial investments in the loans and receivables category	**–**	**1**
• Gains or losses on sales	–	1
Gains or losses on financial investments in the available-for-sale category	**16**	**215**
• Gains or losses on sales	16	216
• Expenses from impairments	–	1
Total	**16**	**216**

(11) Administrative expenses

EUR million	1 Jan – 30 Jun 2017	1 Jan – 30 Jun 2016
Staff costs	**336**	**326**
• Salaries and wages	266	259
• Social security contributions	34	33
• Expenses for pensions and other employee benefits	36	34
Other administrative expenses	**258**	**231**
Amortisation and depreciation of property, plant and equipment and intangible assets (not including goodwill)	**17**	**20**
Total	**612**	**578**

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

EUR million	1 Jan – 30 Jun 2017	1 Jan – 30 Jun 2016
Expenses for the bank levy	52	51
Expenses for the deposit guarantee scheme	31	42
Total	**84**	**93**

(13) Other income and expenses

EUR million	1 Jan – 30 Jun 2017	1 Jan – 30 Jun 2016
Other income	58	90[1]
Other expenses	83	60
Total	**–25**	**30**

1 Adjusted as per IAS 8.42 (see note 2).

(14) Gains or losses on restructuring

EUR million	1 Jan – 30 Jun 2017	1 Jan – 30 Jun 2016
Income from restructuring measures	7	8
Expenses for restructuring measures	2	17
Total	**4**	**–9**

Notes to the balance sheet

(15) Cash reserves

EUR million	30 Jun 2017	31 Dec 2016
Cash	148	177
Deposits with central banks	6,667	1,919
Total	**6,815**	**2,096**

(16) Loans and advances to banks

EUR million	30 Jun 2017	31 Dec 2016
Loans and advances to domestic banks	29,203	21,465
Loans and advances to foreign banks	7,379	7,329
Total	**36,581**	**28,794**

(17) Loans and advances to customers

EUR million	30 Jun 2017	31 Dec 2016
Loans and advances to domestic customers	111,861	110,593
Loans and advances to foreign customers	23,790	24,167
Total	**135,652**	**134,760**

(18) Risk provisions

EUR million	30 Jun 2017	31 Dec 2016
Specific loan loss provisions	961	1,146
Portfolio provisions	162	160
Total	**1,124**	**1,305**

Changes in specific loan loss provisions

EUR million	Loans and advances to banks 2017	Loans and advances to banks 2016	Loans and advances to customers 2017	Loans and advances to customers 2016	Total 2017	Total 2016
As at 1 Jan	**1**	**113**	**1,145**	**2,405**	**1,146**	**2,518**
Changes recognised in income statement	**8**	**–2**	**–1**	**126**	**7**	**125**
• Additions	9	–	115	211	**124**	**211**
• Releases	1	2	109	64	**110**	**66**
• Unwinding	–	–	7	20	**7**	**20**
Changes not recognised in income statement	**–**	**–98**	**–191**	**–77**	**–191**	**–175**
• Currency-related changes	–	–	–11	–17	**–11**	**–18**
• Utilisation	–	–	171	164	**171**	**164**
• Transfers/other changes	–	–98	–8	105	**–8**	**7**
As at 30 Jun	**9**	**14**	**953**	**2,455**	**961**	**2,468**

Changes in portfolio provisions

EUR million	Loans and advances to banks 2017	Loans and advances to banks 2016	Loans and advances to customers 2017	Loans and advances to customers 2016	Total 2017	Total 2016
As at 1 Jan	**10**	**94**	**150**	**134**	**160**	**228**
Changes recognised in income statement	**–2**	**–34**	**–3**	**–40**	**–5**	**–74**
• Additions	–	1	2	10	**2**	**10**
• Releases	2	35	5	50	**7**	**85**
Changes not recognised in income statement	**–**	**–49**	**8**	**40**	**8**	**–9**
• Utilisation	–	–	–	9	**–**	**9**
• Transfers/other changes	–	–49	8	49	**8**	**–**
As at 30 Jun	**7**	**10**	**155**	**134**	**162**	**144**

Risk provisions for contingent liabilities and other liabilities are shown as provisions for risks in the credit business (see note 32).

(19) Assets held for trading

EUR million	30 Jun 2017	31 Dec 2016
Bonds, notes and other fixed-income securities	2,534	2,573
Equities and other non-fixed income securities	328	265
Receivables held for trading	1,386	1,511
Positive fair values from derivative financial instruments (not hedge accounting)	9,757	12,587
Total	**14,005**	**16,936**

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

EUR million	30 Jun 2017	31 Dec 2016
Positive fair values from micro fair value hedges	883	1,073
Positive fair values from portfolio fair value hedges	3	–
Total	**886**	**1,073**

(21) Financial investments

EUR million	30 Jun 2017	31 Dec 2016
Financial investments in the fair value option category	**245**	**134**
• Bonds, notes and other fixed-income securities	91	–
• Interests in non-consolidated subsidiaries, joint ventures, associates and other interests	154	134
Financial investments in the loans and receivables category	**112**	**171**
• Bonds, notes and other fixed-income securities	112	171
Financial investments in the available-for-sale category	**24,762**	**26,403**
• Bonds, notes and other fixed-income securities	24,145	25,750
• Equities and other non-fixed income securities	201	210
• Interests in non-consolidated subsidiaries, joint ventures, associates and other interests	264	293
• Other financial investments	151	151
Total	**25,118**	**26,708**

(22) Investment property

EUR million	30 Jun 2017	31 Dec 2016
Land and buildings for rental	31	32
Total	**31**	**32**

(23) Property, plant and equipment

EUR million	30 Jun 2017	31 Dec 2016
Owner-occupied property	314	317
Furniture and office equipment	30	31
Total	**344**	**347**

(24) Intangible assets

EUR million	30 Jun 2017	31 Dec 2016
Intangible assets produced in house	53	56
Other intangible assets	31	31
Total	**84**	**86**

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

EUR million	30 Jun 2017	31 Dec 2016
Loans and advances to customers	–	27
Risk provisions	–	27
Financial investments	24	24
Total	**24**	**25**

The two loan exposures held for sale and the project financing were sold in the first half of 2017. The associated provisions were then released/utilised.

(26) Other assets

EUR million	30 Jun 2017	31 Dec 2016
Emissions certificates	794	697
Precious metals	308	175
Claims from reinsurance	220	219
Pre-paid expenses	20	20
Property as inventory	3	2
Other assets	220	251
Total	**1,565**	**1,365**

(27) Liabilities to banks

EUR million	30 Jun 2017	31 Dec 2016
Liabilities to domestic banks	50,446	48,620
Liabilities to foreign banks	10,109	5,591
Total	**60,555**	**54,211**

Liabilities to banks by product

EUR million	30 Jun 2017	31 Dec 2016
Schuldschein note loans/issues	**5,621**	**5,695**
• Schuldschein note loans	2,685	2,789
• Registered public Pfandbriefs issued	950	1,006
• Mortgage Pfandbriefs issued	795	706
• Other registered securities	1,191	1,193
Book-entry liabilities	**54,934**	**48,515**
• Pass-through business/subsidised loans	32,470	32,138
• Overnight and time deposits	12,285	8,728
• Current account liabilities	5,701	6,683
• Securities repurchase transactions	3,769	556
• Other liabilities	709	410
Total	**60,555**	**54,211**

(28) Liabilities to customers

EUR million	30 Jun 2017	31 Dec 2016
Liabilities to domestic customers	81,841	80,302
Liabilities to foreign customers	8,321	6,493
Total	**90,162**	**86,795**

Liabilities to customers by product

EUR million	30 Jun 2017	31 Dec 2016
Schuldschein note loans/issues	**20,354**	**21,348**
• Schuldschein note loans	2,317	2,652
• Registered public Pfandbriefs issued	8,194	8,680
• Mortgage Pfandbriefs issued	3,448	3,558
• Other registered securities	6,395	6,458
Book-entry liabilities	**69,808**	**65,447**
• Overnight and time deposits	40,515	36,974
• Current account liabilities	26,704	26,425
• Securities repurchase transactions	427	70
• Other liabilities	2,162	1,978
Total	**90,162**	**86,795**

(29) Securitised liabilities

EUR million	30 Jun 2017	31 Dec 2016
Bonds and notes issued	**36,302**	**36,051**
• Mortgage Pfandbriefs	4,355	4,718
• Public Pfandbriefs	12,281	11,964
• Other bonds	19,666	19,369
Other securitised liabilities	**6,116**	**3,568**
Total	**42,417**	**39,618**

(30) Liabilities held for trading

EUR million	30 Jun 2017	31 Dec 2016
Trading portfolio liabilities	651	632
Negative fair values from derivative financial instruments (not hedge accounting)	7,746	10,342
Total	**8,396**	**10,974**

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

EUR million	30 Jun 2017	31 Dec 2016
Negative fair values from micro fair value hedges	801	930
Negative fair values from portfolio fair value hedges	96	194
Total	**897**	**1,124**

(32) Provisions

EUR million	30 Jun 2017	31 Dec 2016
Provisions for pensions and similar obligations	**3,597**	**3,753**
Other provisions	**667**	**668**
• Provisions in the credit business	63	87
• Restructuring provisions	217	241
• Miscellaneous provisions	387	340
Total	**4,263**	**4,421**

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

(33) Other liabilities

EUR million	30 Jun 2017	31 Dec 2016
Accruals	334	350
Deferred income	24	28
Other liabilities	89	294
Total	**447**	**671**

(34) Subordinated capital

EUR million	30 Jun 2017	31 Dec 2016
Subordinated liabilities	2,590	2,600
Profit participation certificates (debt component)	404	398
Dated silent partner contributions (debt component)	41	40
Hybrid capital	–	44
Total	**3,036**	**3,081**

(35) Equity

EUR million	30 Jun 2017	31 Dec 2016
Equity excluding non-controlling interests	**10,504**	**11,041**
Subscribed capital	**3,412**	**4,412**
• statutory nominal capital	2,800	2,800
• capital contribution	612	612
• perpetual silent partner contributions	–	1,000
Compound instruments	**68**	**69**
• profit participation certificates (equity component)	60	61
• dated silent partner contributions (equity component)	8	8
Capital surplus	**2,182**	**2,182**
Retained earnings	**4,219**	**4,064**
• statutory reserve	1,268	1,268
• other retained earnings	2,952	2,797
Revaluation surplus	**292**	**315**
Foreign currency translation reserve	**2**	**–1**
Consolidated profit/loss	**330**	**–**
Non-controlling interests	**12**	**15**
Total	**10,516**	**11,056**

The fall in undated silent partner contributions is due to the mutually agreed termination of the silent partner contribution with the Free State of Bavaria and the related repayment of the remaining contribution of EUR 1 billion.

As they are compound financial instruments, dated silent partner contributions, silent partner contributions that are callable by the lender and profit participation certificates, must be divided into their equity and debt components (split accounting). The equity component, being a residual claim for the purposes of IAS 32.11, is equivalent to the net present value of expected future distributions. As no half-yearly distributions are made, the amount of the equity component – with the exception of repurchases and resales in the first half of 2017 – corresponds to the value as at 31 December 2016. For a detailed description of the accounting methodology, see note 23 of the 2016 annual report.

Notes to financial instruments

(36) Fair value of financial instruments

EUR million	Fair value 30 Jun 2017	Carrying amount 30 Jun 2017	Fair value 31 Dec 2016	Carrying amount 31 Dec 2016
Assets				
• Cash reserves	6,815	6,815	2,096	2,096
• Loans and advances to banks[1]	36,588	36,581	28,815	28,794
• Loans and advances to customers[1]	140,151	135,652	140,484	134,760
• Assets held for trading	14,005	14,005	16,936	16,936
• Positive fair values from derivative financial instruments (hedge accounting)	886	886	1,073	1,073
• Financial investments	25,128	25,118	26,717	26,708
• Non-current assets or disposal groups classified as held for sale	24	24	33	25
Liabilities				
• Liabilities to banks	62,161	60,555	55,795	54,211
• Liabilities to customers	92,176	90,162	89,178	86,795
• Securitised liabilities	42,859	42,417	40,215	39,618
• Liabilities held for trading	8,396	8,396	10,974	10,974
• Negative fair values from derivative financial instruments (hedge accounting)	897	897	1,124	1,124
• Subordinated capital	3,203	3,036	3,167	3,081

1 Carrying amount before deducting risk provisions for loans and advances to banks in the amount of EUR 16 million (31 December 2016: EUR 10 million) and loans and advances to customers in the amount of EUR 1,108 million (31 December 2016: EUR 1,295 million).

(37) Financial instrument measurement categories

EUR million	30 Jun 2017	31 Dec 2016
Assets		
• Financial assets at fair value through profit or loss	14,525	17,352
– held-for-trading financial assets	14,005	16,936
assets held for trading	14,005	16,936
– fair value option	521	416
loans and advances to customers	276	281
financial investments	245	134
• Loans and receivables	178,879	165,532
– cash reserves	6,815	2,096
– loans and advances to banks[1]	36,581	28,794
– loans and advances to customers[1]	135,370	134,472
– financial investments	112	171
• Available-for-sale financial assets	24,792	26,435
– loans and advances to customers	6	7
– financial investments	24,762	26,403
– non-current assets or disposal groups classified as held for sale	24	24
• Positive fair values from derivative financial instruments (hedge accounting)	886	1,073
Liabilities		
• Financial liabilities at fair value through profit or loss	16,322	18,726
– held-for-trading financial liabilities	8,396	10,974
liabilities held for trading	8,396	10,974
– fair value option	7,926	7,752
liabilities to banks	233	217
liabilities to customers	3,384	3,444
securitised liabilities	4,304	4,043
subordinated capital	4	48
• Financial liabilities measured at amortised cost	188,244	175,953
– liabilities to banks	60,322	53,994
– liabilities to customers	86,778	83,351
– securitised liabilities	38,113	35,576
– subordinated capital	3,032	3,032
• Negative fair values from derivative financial instruments (hedge accounting)	897	1,124

1 Not including deduction of risk provisions.

(38) Reclassification of financial assets

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

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

EUR million	Fair value 30 Jun 2017	Carrying amount 30 Jun 2017	Fair value 31 Dec 2016	Carrying amount 31 Dec 2016
Available-for-sale securities reclassified as loans and receivables	121	112	179	171
Total	**121**	**112**	**179**	**171**

As at the reporting date the nominal volume of the reclassified securities was EUR 95 million (31 December 2016: EUR 151 million).

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

EUR million	Without reclassification[1] 1 Jan – 30 Jun 2017	With reclassification[2] 1 Jan – 30 Jun 2017	Without reclassification[1] 1 Jan – 30 Jun 2016	With reclassification[2] 1 Jan – 30 Jun 2016
Reclassification from the available-for-sale category				
• Net interest income	4	4	7	7
• Gains or losses on hedge accounting	–1	–1	–1	–1
• Gains or losses on financial investments	–	–	1	1
• Change in the revaluation surplus	1	–1	5	1
Total	**5**	**3**	**12**	**8**

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

(39) Fair value hierarchy of financial instruments

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

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

Financial instruments measured at fair value

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

	Level 1		Level 2		Level 3		Total	
EUR million	30 Jun 2017	31 Dec 2016	30 Jun 2017	31 Dec 2016	30 Jun 2017	31 Dec 2016	30 Jun 2017	31 Dec 2016
Assets								
• Loans and advances to customers	–	–	276	281	6	7	**282**	**288**
• Assets held for trading	689	666	13,292	15,713	23	557	**14,005**	**16,936**
• Positive fair values from derivative financial instruments (hedge accounting)	–	–	886	1,073	–	–	**886**	**1,073**
• Financial investments	9,247	9,645	15,331	16,436	428	456	**25,006**	**26,537**
• Non-current assets or disposal groups classified as held for sale	–	–	–	–	24	24	**24**	**24**
Total	**9,936**	**10,311**	**29,786**	**33,504**	**482**	**1,045**	**40,203**	**44,859**
Liabilities								
• Liabilities to banks	–	–	233	217	–	–	**233**	**217**
• Liabilities to customers	–	–	3,384	3,444	–	–	**3,384**	**3,444**
• Securitised liabilities	495	213	3,810	3,830	–	–	**4,304**	**4,043**
• Liabilities held for trading	227	210	8,154	10,745	14	19	**8,396**	**10,974**
• Negative fair values from derivative financial instruments (hedge accounting)	–	–	897	1,124	–	–	**897**	**1,124**
• Subordinated capital	–	–	4	48	–	–	**4**	**48**
Total	**722**	**423**	**16,483**	**19,407**	**14**	**19**	**17,219**	**19,849**

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

EUR million	Interest rate risks		Currency risks		Equity and other price risks		Total	
	30 Jun 2017	31 Dec 2016	30 Jun 2017	31 Dec 2016	30 Jun 2017	31 Dec 2016	30 Jun 2017	31 Dec 2016
Assets								
• Loans and advances to customers	6	7	–	–	–	–	**6**	**7**
• Assets held for trading	16	532	6	25	1	–	**23**	**557**
• Financial investments	–	–	–	–	428	456	**428**	**456**
• Non-current assets or disposal groups classified as held for sale	–	–	–	–	24	24	**24**	**24**
Total	**22**	**539**	**6**	**25**	**453**	**481**	**482**	**1,045**
Liabilities								
• Liabilities held for trading	3	2	11	17	–	–	**14**	**19**
Total	**3**	**2**	**11**	**17**	**–**	**–**	**14**	**19**

Reclassifications between Levels 1 and 2

EUR million	Reclassifications			
	to Level 1 from Level 2		to Level 2 from Level 1	
	1 Jan– 30 Jun 2017	1 Jan– 30 Jun 2016	1 Jan– 30 Jun 2017	1 Jan– 30 Jun 2016
Assets				
• Assets held for trading	21	37	103	8
• Financial investments	2,263	2,170	2,071	2,134
Total	**2,284**	**2,207**	**2,174**	**2,141**
Liabilities				
• Securitised liabilities	395	177	91	174
• Liabilities held for trading	11	61	23	25
Total	**406**	**238**	**114**	**199**

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

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

EUR million	Loans and advances to customers		Assets held for trading		Positive fair values from derivative financial instruments (hedge accounting)		Financial investments		Non-current assets or disposal groups classified as held for sale		Total	
	2017	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
As at 1 Jan	**7**	**12**	**557**	**584**	**–**	**–**	**456**	**477**	**24**	**151**	**1,045**	**1,225**
Currency-related changes	–	–	19	16	–	–	–	–	–	–	**18**	**16**
Changes in the scope of consolidation	–	–	–	–	–	–	–	−3	–	–	**–**	**−3**
Income and expenses recognised in the income statement	−1	–	−54	58	−2	–	–	−1	–	–	**−57**	**57**
Changes in the revaluation surplus	–	–	–	–	–	–	−3	5	–	15	**−3**	**20**
Purchases	–	–	–	6	–	–	1	21	–	–	**1**	**27**
Sales	–	1	500	3	–	–	23	15	–	142	**523**	**162**
Reclassifications to Level 3 from Levels 1 and 2	–	–	2	56	–	–	–	–	–	–	**2**	**56**
Reclassifications from Level 3 to Levels 1 and 2	–	–	81	149	–	–	–	–	–	–	**81**	**149**
Transfers/other changes	–	–	81	64	2	–	−3	−6	–	29	**81**	**87**
As at 30 Jun	**6**	**11**	**23**	**630**	**–**	**–**	**428**	**479**	**24**	**53**	**482**	**1,173**
Income and expenses recognised in the income statement during the period for financial instruments held at 30 June	−1	−1	−58	56	−2	–	–	−1	–	–	−61	55

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

	Liabilities held for trading		Total	
EUR million	2017	2016	2017	2016
As at 1 Jan	**19**	**20**	**19**	**20**
Currency-related changes	–23	11	**–23**	**11**
Income and expenses recognised in the income statement	–16	–28	**–15**	**–28**
Reclassifications to Level 3 from Levels 1 and 2	2	1	**2**	**1**
Reclassifications from Level 3 to Levels 1 and 2	50	55	**52**	**55**
Transfers/other changes	81	63	**83**	**63**
As at 30 Jun	**14**	**12**	**14**	**12**
Income and expenses recognised in the income statement during the period for financial instruments held at 30 June	–18	–27	**–18**	**–27**

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

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

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

Until the structure was dissolved in April 2017, a financial instrument with an embedded derivative structure was allocated to Level 3 of the fair value hierarchy. This financial instrument was in an economic hedge with the associated hedging derivative. As at 31 December 2016, the sensitivity of this hedge package to changes in key factors was:

- for a ten-basis point upward (downward) shift in the euro yield curve: EUR –0.1 million (EUR +0.1 million),
- for a ten-basis-point upward (downward) movement in the measurement spread: EUR –1.3 million (EUR +1.3 million).

Other derivative financial instruments whose significant inputs for measuring fair value are not observable on the market are also allocated to Level 3 of the fair value hierarchy. As at 30 June 2017, the sensitivity of these financial instruments to changes in key factors was:

- for a 10-percentage-point upward (downward) movement in expected loss given default: EUR –0.5 million (EUR +0.5 million) (31 December 2016: EUR –0.8 million (EUR +0.9 million)),
- for a one notch improvement (deterioration) in the ratings: EUR +0.2 million (EUR –0.2 million) (31 December 2016: EUR +0.3 million (EUR –0.6 million)).

Furthermore, receivables secured by real estate that were purchased on the non-performing loan market were allocated to Level 3 of the fair value hierarchy as there was no current market activity in these or similar loans and advances. As at 30 June 2017, the sensitivity of these real estate secured receivables to changes in key factors was:

- for a 5-basis-point upward (downward) movement in the realisable value: EUR 0.3 million (EUR –0.2 million) (31 December 2016: EUR +0.3 million (EUR –0.3 million)),
- for a 6-month extension (reduction) in the realisation period: EUR 0 million (EUR 0 million) (31 December 2016: EUR 0 million (EUR 0 million)).

For the acquisition of its shares in Visa Europe Limited, London by Visa Inc., San Francisco on 21 June 2016, the BayernLB Group received a payment in cash, the right to further payments in future and preference shares in Visa Inc., San Francisco. The fair value of the preference shares is determined by the market price of Visa Inc. common stock and potential risks from litigation. A risk discount of about 50 percent was therefore used to calculate the fair value. As at 30 June 2017, the sensitivity of this financial instrument to changes in key factors was:

- for a 10-percentage point upward (downward) movement in the conversion ratio:

EUR +2.4 million (EUR –2.4 million) (31 December 2016: EUR +2.2 million (EUR –2.2 million)).

As at 30 June 2017, the sensitivity of equity interests whose fair value is calculated using the German income method (Ertragswertverfahren) to changes in key factors was:

- for a 25-basis-point upward (downward) movement in the base interest rate: EUR –4.4 million (EUR +4.6 million) (31 December 2016: EUR –5.0 million (EUR +5.3 million)),
- for a 25-basis-point upward (downward) movement in the market risk premium: EUR –3.9 million (EUR +4.1 million) (31 December 2016: EUR –4.4 million (EUR +4.7 million)).

The underlying base interest rate moved within a range of 1.0 – 1.50 percent (average: 1.25 percent) (31 December 2016: 0.65 – 1.15 percent (average: 0.9 percent)), while the underlying market risk premium moved within a range of 6.25 – 6.75 percent (average: 6.5 percent) (31 December 2016: 6.25 – 6.75 percent (average: 6.5 percent)).

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

The maximum default risk for loans and receivables in the fair value option category was EUR 276 million as at the reporting date (31 December 2016: EUR 281 million). The rating-related change in the fair value of these financial assets since designation was EUR 4 million (30 June 2016: EUR 4 million). There were only minor changes in fair value in the period under review or in the year-before period.

For financial liabilities under the fair value option, credit-rating driven fair value changes in the reporting period amounted to EUR 0 million (30 June 2016: EUR –15 million), and since designation EUR –77 million (30 June 2016: EUR –47 million). The difference between the carrying amount of the financial liabilities and the redemption amount at maturity was EUR 511 million on the reporting date (31 December 2016: EUR 703 million).

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

(41) Derivative transactions

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

	Nominal value		Positive fair value		Negative fair value	
EUR million	30 Jun 2017	31 Dec 2016	30 Jun 2017	31 Dec 2016	30 Jun 2017	31 Dec 2016
Interest rate risks	932,668	883,478	22,102	26,072	21,158	25,287
Currency risks	105,944	117,585	2,540	3,561	2,360	3,467
Equity and other price risks	4,982	4,893	229	296	199	423
Credit derivative risks	396	964	–	–	4	2
Total	**1,043,990**	**1,006,920**	**24,872**	**29,930**	**23,721**	**29,179**
of which: Derivatives for trading purposes	839,208	811,667	18,803	22,819	18,492	22,723

Supplementary information

(42) Trust transactions

EUR million	30 Jun 2017	31 Dec 2016
Assets held in trust	**4,903**	**4,957**
• Loans and advances to banks	27	32
• Loans and advances to customers	4,876	4,925
Liabilities held in trust	**4,903**	**4,957**
• Liabilities to banks	12	12
• Liabilities to customers	4,892	4,945

(43) Contingent assets, contingent liabilities and other commitments

EUR million	30 Jun 2017	31 Dec 2016
Contingent liabilities	**10,441**	**10,691**
• Liabilities from guarantees and indemnity agreements	10,429	10,671
• Other contingent liabilities	11	20
Other commitments	**25,244**	**24,099**
• Placement and underwriting commitments	15	15
• Irrevocable credit commitments	25,229	24,085
Total	**35,684**	**34,790**

As at the reporting date there were also contingent assets from income taxes in the triple-digit million range and contingent assets from litigation where the Bank considers an inflow of economic benefits that cannot be reliably estimated at present to be probable.

(44) 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 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 Bernd Rudolph
LMU Munich and Steinbeis-Hochschule Berlin

Henning Sohn
Chairman of the General Staff Council
BayernLB
Munich

Stephan Winkelmeier
since 1 May 2017
Member of the BayernLB Supervisory Board
Spokesman of the Board of Directors
FMS Wertmanagement AöR
Munich

Professor Dr Christian Rödl
until 30 April 2017
Member of the BayernLB Supervisory Board
Managing Partner
Rödl & Partner GbR
Nuremberg

Board of Management (including allocation of tasks)

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

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.

(45) Related party disclosures

The BayernLB Group maintains business relationships with related parties. These include the Free State of Bavaria and the Association of Bavarian Savings Banks, Munich (SVB), whose indirect stakes in BayernLB are 75 percent and 25 percent respectively, non-consolidated subsidiaries, joint ventures, associates, Versorgungskasse I BayernLB Gesellschaft mit beschränkter Haftung, Munich and Versorgungskasse II BayernLB Gesellschaft mit beschränkter Haftung, Munich. The members of BayernLB's Board of Management and Supervisory Board and their close family members, and companies controlled by these parties or jointly controlled if these parties are members of their management bodies are also deemed related parties.

Relationships with the Free State of Bavaria

EUR million	30 Jun 2017	31 Dec 2016
Loans and advances	4,257	4,754
Assets held for trading	23	101
Financial investments	15	43
Liabilities	1,285	1,287
Liabilities held for trading	12	13
Liabilities held in trust	4,595	4,613
Contingent liabilities	4	4
Other commitments	1,065	1,065

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

EUR million	30 Jun 2017	31 Dec 2016
Loans and advances to banks	–	21
Loans and advances to customers	236	244
Assets held for trading	95	40
Financial investments	30	30
Liabilities to banks	3,177	3,071
Liabilities to customers	43	38
Securitised liabilities	126	127
Assets held in trust	394	394
Contingent liabilities	–	1
Other liabilities	20	20

Relationships with the Association of Bavarian Savings Banks

EUR million	30 Jun 2017	31 Dec 2016
Liabilities	86	76

Relationships with investees

EUR million	30 Jun 2017	31 Dec 2016
Loans and advances to customers	325	359
Risk provisions	81	90
Financial investments	11	10
Other assets	4	3
Liabilities to customers	91	100
Securitised liabilities	2	2
Provisions	3	4
Other liabilities	–	3
Contingent liabilities	27	28
Other liabilities	14	9

In the reporting period, an expense of EUR 0 million (30 June 2016: EUR 22 million) was recognised for non-recoverable or doubtful receivables.

In the reporting period and in the previous year, no capital contributions were made to non-consolidated subsidiaries, joint ventures and associates. These investees repaid capital in the amount of EUR 0 million (H1 2016: EUR 36 million).

Relationships with other related parties

EUR million	30 Jun 2017	31 Dec 2016
Liabilities	10	10

(46) Events after the reporting period

No events of major significance to the BayernLB Group occurred after 30 June 2017.

Responsibility statement by the Board of Management

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

Munich, 14 August 2017

Bayerische Landesbank
The Board of Management

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

Review Report

To Bayerische Landesbank, Munich

We have reviewed the condensed consolidated half-yearly financial statements – comprising the condensed statement of comprehensive income (including income statement), the balance sheet, the statement of changes in equity, the condensed statement of cash flows and selected explanatory notes – and the Group interim management report of Bayerische Landesbank for the period from 1 January 2017 to 30 June 2017 which are part of the half-yearly financial report pursuant to section 37w para. 2 WpHG ("Wertpapierhandelsgesetz": German Securities Trading Act). The preparation of the condensed consolidated half-yearly financial statements in accordance with the International Financial Reporting Standards (IFRS) applicable to half-yearly financial reporting as adopted by the EU and of the Group interim management report in accordance with the requirements of the German Securities Trading Act applicable to group interim management reports is the responsibility of the legal representatives of the company. Our responsibility is to issue a review report on the condensed consolidated half-yearly financial statements and on the Group interim management report based on our review.

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

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

Munich, 14 August 2017

Deloitte GmbH
Wirtschaftsprüfungsgesellschaft

(Löffler)
German public auditor
(Wirtschaftsprüfer)

(Mietzner)
German public auditor
(Wirtschaftsprüferin)

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