Group Half-Yearly Financial Report 2018

BayernLB

Contents

1

BayernLB Group – the first half of 2018 at a glance **4**

2

Board of Management **6**

3

Group interim management report **8**
Overview of the BayernLB Group 10
Report on the economic position 11
Report on expected developments and on opportunities and risks 19

4

Consolidated half-yearly financial statements **44**
Statement of comprehensive income 46
Balance sheet 48
Statement of changes in equity 50
Cash flow statement 52
Notes 53
Responsibility statement by the Board of Management 118
Review Report 119
Supplementary information 120

BayernLB Group – the first half of 2018 at a glance

Income statement (IFRS)

EUR million	1 Jan– 30 Jun 2018	1 Jan– 30 Jun 2017	Change in %
Net interest income	879	845	4.0
Risk provisions	103	90	14.1
Net interest income after risk provisions	**982**	**935**	**5.0**
Net commission income	132	141	–6.0
Gains or losses on fair value measurement	35	143	–75.7
Gains or losses on hedge accounting	–44	–93	–53.2
Gains or losses on derecognised financial assets[1]	–6	n/a	–
Gains or losses on financial investments	33	16	>100
Administrative expenses	–644	–612	5.4
Expenses for the bank levy and deposit guarantee scheme	–90	–84	7.6
Other income and expenses	52	–25	–
Gains or losses on restructuring	2	4	–65.8
Profit/loss before taxes	**452**	**426**	**6.0**
Cost/income ratio (CIR)	59.5%	59.5%	0.0 pp[2]
Return on equity (RoE)	10.0%	9.6%	0.4 pp[2]

Quarterly comparison

The table below compares performance in the first and second quarters of 2018:

EUR million	Q2 2018	Q1 2018
Net interest income	430	450
Risk provisions	–15	117
Net interest income after risk provisions	**415**	**567**
Net commission income	72	60
Gains or losses on fair value measurement	–1	36
Gains or losses on hedge accounting	–20	–23
Gains or losses on derecognised financial assets[1]	–8	2
Gains or losses on financial investments	26	7
Administrative expenses	–313	–331
Expenses for the bank levy and deposit guarantee scheme	10	–100
Other income and expenses	34	19
Gains or losses on restructuring	2	–1
Profit/loss before taxes	**215**	**237**

Rounding differences may occur in the tables.

Balance sheet (IFRS)

EUR million	30 Jun 2018	31 Dec 2017	Change in %
Total assets	226,288	214,521	5.5
Business volume	267,609	255,679	4.7
Credit volume	185,738	183,222	1.4
Total deposits	155,456	146,387	6.2
Securitised liabilities	44,287	41,847	5.8
Subordinated capital	1,868	1,903	–1.8
Equity	10,892	10,816	0.7

Banking supervisory capital and ratios under CRR/CRD IV

EUR million	30 Jun 2018	31 Dec 2017	Change in %
Common Equity Tier 1 capital (CET1 capital)	9,247	9,393	–1.6
Own funds	10,629	10,756	–1.2
Total RWA	64,368	61,420	4.8
CET1 ratio	14.4%	15.3%	–0.9 Pp[2]
Total capital ratio	16.5%	17.5%	–1.0 Pp[2]

Employees

	30 Jun 2018	31 Dec 2017	Change in %
Number of employees	7,377	7,219	2.2

Current ratings

	Long-term	Short-term	Pfandbriefs[3]
Fitch Ratings	A-	F1	AAA
Moody’s Investors Service	A1	P-1	Aaa

1 *For financial assets measured at amortised cost.*
2 *Percentage points.*
3 *Applies to public Pfandbriefs (Fitch und Moody’s) and mortgage Pfandbriefs (Moody’s).*

The Board of Management

Allocation of tasks
as at 16 August 2018

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

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

10 Overview of the BayernLB Group

11 Report on the economic position

19 Report on expected developments
and on opportunities and risks

Overview of the BayernLB Group

Key changes in the scope of consolidation and the investment portfolio

There were no significant changes in the scope of consolidation and portfolio of equity interests from 31 December 2017 onwards.

Please refer to the Group management report and financial statements for 2017 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 comparatively weak start in 2018, with quarter-on-quarter growth of only 0.3 percent in the first quarter[1]. The upturn continued to be driven by private consumption as the buoyant labour market and real salary growth gave consumer demand a sustained boost. However, positive momentum also came from capital expenditure. As capacity was fully utilised and financing conditions were favourable, companies invested more in equipment, but construction spending also increased. Against the backdrop of the trade dispute with the USA, exports and imports declined and slowed down growth in gross domestic product (GDP) slightly. Softer economic conditions in the UK are also tending to act as a drag on the export side of the economy due to lower demand for German export goods. Although corporate sentiment declined noticeably in the first half of the year[2], the German economy is still in an upswing. Jobs therefore continue to be created in the labour market and the unemployment rate has fallen to a historic low[3]. Because of the low level of unemployment, in some sectors there is a shortage of labour and pressure on wages is rising. For this reason and due to higher energy prices, inflation punched through the 2 percent threshold at the end of the first half of the year[4]. The core rate may have lost some pace but the European Central Bank (ECB) should now take the view that the inflation target has been met, especially in Germany. The ECB has thus taken some small steps towards normalising monetary policy. At the start of 2018 it tapered the monthly volumes in the bond buying programme (QE) to EUR 30 billion. In June it agreed to cut purchase volumes to EUR 15 billion from September 2018. Net purchases in the QE programme are set to be phased out at the end of the year if data has not become gloomy[5]. However, QE volumes will initially continue to be reinvested in full. The ECB held to its view that interest rates would remain at their current levels until at least the end of summer 2019. Should the inflation outlook deteriorate, however, a hike at this point would then be off the table too. As expected, the Federal Reserve Bank (Fed) in the USA has continued on the path to normalising its actions and hiked key rates both in March and June[6].

As a consequence of the ECB commencing tapering and a high level of issuing activity by governments, 10-year Bund yields rose temporarily to around 0.80 percent at the start of the year[7]. However, several factors caused a countermovement which lasted until the middle of the year. Besides some at times disappointing eurozone inflation figures and a surge in volumes reinvested by the ECB at the start of the second quarter, sentiment was largely weakened by the increasingly heated trade dispute. The initially euro-critical stances of the government coalition in Italy

---

1 Bundesbank Monthly Report, May 2018

2 http://www.cesifo-group.de/ifoHome/facts/Survey-Results/Business-Climate/Geschaeftsklima-Archiv/2018/Geschaeftsklima-20180725.html
http://www.cesifo-group.de/de/dms/ifodoc/docs/facts/survey/gsk/2018/KT_07_18_dd.pdf (in German only)

3 Federal Employment Agency monthly report for June 2018.

4 German Federal Statistical Office 2018, press release 236/2018

5 ECB press release of 14 June 2018

6 See Federal Reserve: Statements of the March and June meeting 2018; https://www.federalreserve.gov/monetarypolicy/files/monetary20180321a1.pdf and https://www.federalreserve.gov/monetarypolicy/files/monetary20180613a1.pdf.

7 See Deutsche Bundesbank 2018: Daily yield of the current 10 year federal bond, time series BBK01.WT1010; https://www.bundesbank.de/Navigation/EN/Statistics/Time_series_databases/Macro_economic_time_series/its_details_value_node.html?nsc=true&https=1&tsId=BBK01.WT1010&dateSelect=2018

squeezed the 10-year Bund yield to a low of just under 0.2 percent on 29 May. However, market concerns were also triggered by the coalition dispute in Germany, so that German government bonds were yielding only around 0.30 percent at the end of the second quarter. Overall the euro depreciated against the US dollar in the first half of the year, as the US currency benefited from the Fed's interest rate hikes, but principally because the interest rate advantage of longer-term US bonds over German government bonds widened considerably. On balance, the euro depreciated by three percent to USD 1.166 per euro by the middle of 2018. Triggered by interest rate concerns in the United States and fears of an economic slowdown, there was a noticeable price correction on stock markets from the end of January. The DAX fell from its annual high of 13,560 on 23 January to 11,787 on 26 March[8]. Over the ensuing months, price volatility, which was mainly fanned by the trade dispute between the United States and China and Europe, kicked in, causing the DAX to fluctuate between around 12,100 and 13,200. Overall the DAX closed the first half of the year down 4.8 percent to 12,306[9].

Course of business

In a persistently tough market and competitive environment the BayernLB Group closed the first half of 2018 with profit before taxes of EUR 452 million, beating the good previous year's figure of EUR 426 million by 6.0 percent. Consolidated profit rose to EUR 342 million (30 June 2017: EUR 330 million). Positive earnings from all business areas and a significant net gain from risk provisions contributed to the results.

Total assets as at 30 June 2018 increased to EUR 226.3 billion, 5.5 percent higher than at the end of the previous year. The lending business continued to account for a major part of the Group's assets. The financial position was sound in the first six months of the year under review, and solvency was assured at all times. The economic situation of the BayernLB Group remained stable.

The BayernLB Group continues to enjoy a solid capital base with a fully loaded CET1 ratio of 14.4 percent (31 December 2017: 15.3 percent).

Since 1 January 2018, when preparing the consolidated financial statements the Bank has had to observe the IFRS 9 rules on measuring financial instruments. This has entailed some changes to the structure of the balance sheet and changes to the income statement compared with the consolidated financial statements as at 31 December 2017 and the Group interim management report as at 30 June 2017. To draw a comparison with the figures reported in the financial statements as at 31 December 2017 refer to the comments and reconciliations in the "First-time application of IFRS 9" section in note 2. The previous year's figures were not adjusted in the Group interim management report as at 30 June 2018. It is therefore not possible to compare figures in some cases.

8 See Deutsche Börse: DAX 30 performance closing price, taken from Thomson Reuters Datastream on 9 July 2018
9 See Deutsche Börse: DAX 30 performance closing price, taken from Thomson Reuters Datastream 9 July 2018

Results of operations

Net interest income in the Group rose by 4.0 percent to a total of EUR 879 million, largely as a result of the significantly improved net interest income figure at Deutsche Kreditbank AG, Berlin (DKB).

As a result of good portfolio quality, but also large releases of risk provisions and recoveries on written down receivables, particularly in the Corporates & Mittelstand segment, risk provisions in the credit business was once again a positive EUR 103 million (30 June 2017: EUR 90 million).

Net commission income fell slightly by EUR 9 million to EUR 132 million. Commission in the credit business in particular contracted as a result of the tough competitive situation.

The primary reason for the fall in gains or losses on fair value measurement to EUR 35 million (30 June 2017: EUR 143 million) was high measurement gains in the first half of 2017. Furthermore, in the previous year, especially at DKB, there were larger shifts between gains or losses on fair value measurement and gains or losses on hedge accounting.

Just as in the previous year, gains or losses on financial investments (EUR 33 million) was mainly impacted by sales proceeds from securities (30 June 2017: EUR 16 million).

Rising costs for major projects to meet regulatory changes and requirements lifted administrative expenses to EUR 644 million (30 June 2017: EUR 612 million).

Expenses for the bank levy and deposit guarantee scheme rose by EUR 6 million to a total of EUR 90 million. This included EUR 52 million for the bank levy (30 June 2017: EUR 52 million) and a EUR 38 million contribution to the Savings Banks Finance Group's deposit guarantee scheme (30 June 2017: EUR 31 million).

Other income and expenses in the amount of EUR 52 million (30 June 2017: expense of EUR 25 million) included income and expenses from the non-banking activities of the Group's subsidiaries. Income arising in connection with tax matters and subsequent proceeds from the disposals of equity interests in previous years also contributed to the performance here.

Return on equity (RoE)[10] calculated based on regulatory capital rose in the first half-year 2018 to 10.0 percent (30 June 2017: 9.6 percent). The cost/income ratio (CIR)[11] was unchanged at 59.5 percent.

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

---

10 RoE = profit before taxes/average CET1 capital

11 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 derecognised financial assets + gains or losses on financial investments + other income and expenses)

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 2018 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 Group 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 in turn comprises the equity interest in the subsidiary Banque LBLux S.A. in Liquidation, Luxembourg deconsolidated on 31 December 2017, and the consolidation entries not allocated to any other segment. The subsidiary BayernLB Capital LLC I, Wilmington, which was deconsolidated on 30 June 2017, was no longer included in the reporting period 2018.

At the beginning of financial year 2018, the Financial Institutions sub-division was transferred from the Corporates & Mittelstand segment to the Financial Markets segment. Following the restructuring all transactions with financial institutions are shown in the Financial Markets segment.

In addition, on 1 January 2018 the former non-core business, which had been integrated within Central Areas & Others, was returned mostly to the Corporates & Mittelstand, Real Estate & Savings Banks/Association and Financial Markets business segments.

All previous year's figures were restated accordingly.

The contributions of the individual segments to the profit before taxes of EUR 452 million (30 June 2017: EUR 426 million) are shown below:

EUR million	1 Jan – 30 Jun 2018	1 Jan – 30 Jun 2017
Corporates & Mittelstand	181	212
Real Estate & Savings Banks/Association	73	100
Financial Markets	21	106
DKB	204	116
Central Areas & Others (including Consolida-tion)	– 26	– 108

Corporates & Mittelstand segment

- Interest and commission income contract due to significant pressure on margins
- Positive net risk provisions due to releases and recoveries on written down receivables
- Income from capital market products largely stable

The Corporates & Mittelstand segment reported profit before taxes of EUR 181 million (30 June 2017: EUR 212 million). Operating earnings from net interest and commission income of EUR 184 million (30 June 2017: EUR 201 million) dropped due to high pressure on margins and the tough competitive environment. The income from Financial Markets capital market products was mostly stable. A continously good portfolio quality, further releases of risk provisions and high recoveries on written down receivables resulted in positive net risk provisions of EUR 125 million (30 June 2017: EUR 133 million). Due to strategic initiatives in sales and Bank-wide investment, administrative expenses rose slightly to EUR 147 million (30 June 2017: EUR 138 million). The outcome of these initiatives was higher year-on-year credit volumes in the segment of EUR 54 billion (30 June 2017: EUR 53 billion), especially in the Mittelstand and Global Corporates divisions.

Real Estate & Savings Banks/Association segment

- Real Estate division once again reports rising operating earnings and a satisfying flow of new business
- Slight improvement in operating earnings year-on-year in the Savings Banks & Association division
- Operating earnings at BayernLabo stable compared with the previous year

The Real Estate & Savings Banks/Association segment reported profit before taxes of EUR 73 million (30 June 2017: EUR 100 million), which represents a year-on-year drop.

The Real Estate division once again made a significant contribution to the segment's earnings with a profit before taxes of EUR 57 million (30 June 2017: EUR 79 million). The year-on-year fall in profit before taxes was attributable to positive net risk provisions of EUR 17 million in the year-before period (current reporting period in 2018: EUR –5 million) due to reversals of impairment losses. Customer demand remained high and the volume of acquired new business was once again higher compared with the year before. This boosted operating earnings by EUR 4 million to EUR 100 million. As a result of strategic initiatives to expand sales and invest across the Bank, administrative expenses rose from EUR 35 million to EUR 39 million.

The Savings Banks & Association division's loss before taxes of EUR 10 million was on par with the prior year (30 June 2017: loss before taxes of EUR 9 million). As in the previous year, the main factor for this negative performance was good levels of liquidity in the BayernLB Group, which meant funding needs were lower, and low interest rates, which dampened demand for capital market products. Despite this, income from net interest and commission income was higher at EUR 29 million (30 June 2017: EUR 25 million) due to stronger sales efforts. At the same time administrative expenses also climbed by EUR 4 million to EUR 51 million owing to Bank-wide investment in strategic initiatives, IT architecture and regulatory requirements.

BayernLabo posted a profit before taxes of EUR 19 million (30 June 2017: EUR 23 million). The drop was principally due to the measurement of derivatives transactions to hedge against interest rate risk. However, net interest and commission income was virtually unchanged on the year-before period at EUR 45 million (30 June 2017: EUR 46 million). Administrative expenses were slightly down on the year before at EUR 22 million (30 June 2017: EUR 23 million).

Real I.S. posted an unchanged profit before taxes of EUR 6 million (30 June 2017: EUR 6 million).

Financial Markets segment

- Stable earnings in the customer business in a tough market environment
- BayernInvest's operating business stable
- Prior-year earnings receive major boost from one-off income and measurement gains

The Financial Markets segment posted a profit before taxes of EUR 21 million (30 June 2017: EUR 106 million). The figure of EUR 106 million in the previous year period was strongly boosted by one-off earnings and measurement gains. As usual, earnings from Financial Markets products on behalf of the other customer-serving business segments were reported under those segments. Income from the customer business was stable compared with the previous year in spite of stiff competition and subdued demand. The release of fair value adjustments of derivatives transactions resulted once again in a small measurement gain totalling EUR 8 million in the reporting period (30 June 2017: EUR 58 million). Administrative expenses of EUR 110 million were higher than in the previous year (30 June 2017: EUR 97 million), due to the expansion of sales and Bank-wide strategic initiatives.

BayernInvest posted profit before taxes of EUR 3 million (30 June 2017: EUR 5 million). The slight fall in earnings was due to the costs of strategic investments. Operating earnings were, however, stable.

DKB segment

- DKB posts pleasing earnings
- Number of retail customers surpasses 3.8 million mark
- BCS' earnings up on the previous year due to one-off income

The DKB segment posted profit before taxes of EUR 204 million, a marked increase once again on the previous year (30 June 2017: EUR 116 million).

Most of this amount (EUR 190 million) related to the DKB sub-group (30 June 2017: EUR 113 million). Net interest income was significantly higher than the year-before period again at EUR 511 million (30 June 2017: EUR 429 million). The interest income came partly from an improved refinancing structure (e.g. a more cost-effective replacement of expiring transactions). Expenses for risk provisions at EUR 23 million (30 June 2017: EUR 59 million) included mainly year-on-year higher releases from written down receivables. Another uptick in customer numbers to over 3.8 million (30 June 2017: 3.6 million) has further cemented its position as Germany's second largest online bank. Administrative expenses increased marginally to EUR 235 million (30 June 2017: EUR 218 million), mainly 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 29 million (30 June 2017: EUR 24 million).

BCS posted profit before taxes of EUR 12 million (30 June 2017: EUR 2 million). This is mostly due to the sale of an equity interest.

Central Areas & Others segment

- Segment earnings strongly dented by the bank levy and deposit guarantee scheme
- Positive one-off earnings and measurement gains offset losses

The Central Areas & Others segment reported a loss before taxes of EUR 26 million (30 June 2017: loss before taxes of EUR 108 million). Weighing heavily on the segment's earnings in the first half once again was a EUR 61 million charge (30 June 2017: EUR 60 million) representing the full-year amount of the bank levy and deposit guarantee scheme, not including DKB's share. Positive contributions came partly from tax-related one-off earnings. In addition, there were mostly measurement gains and recoveries on written down receivables in the remaining non-core business. The fall in administrative expenses to EUR 10 million (30 June 2017: EUR 24 million) was the outcome of lower expenses for the winding down of the non-core portfolio, a contraction in expenses for supervisory contributions and an appreciation in the US dollar.

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

Financial position

Total assets at the BayernLB Group rose by 5.5 percent to EUR 226.3 billion.

Credit volume, defined as the sum of loans and advances to banks and customers and contingent liabilities from guarantees and indemnity agreements, rose to EUR 185.7 billion (31 December 2017: EUR 183.2 billion) owing to a EUR 3.2 billion increase in loans and advances to customers.

Loans and advances to banks stood at EUR 37.6 billion as at 30 June 2018, on par with the previous year (31 December 2017: EUR 37.8 billion). Loans and advances to customers increased by 2.4 percent to EUR 137.9 billion (31 December 2017: EUR 134.7 billion).

Liabilities to banks rose to EUR 61.5 billion (31 December 2017: EUR 54.4 billion). Likewise liabilities to customers, which remains the largest source of funding, rose to EUR 94.0 billion (31 December 2017: EUR 91.9 billion).

Securitised liabilities rose EUR 2.4 billion to EUR 44.3 billion in the first half of 2018.

Subordinated capital amounted to EUR 1.9 billion, unchanged from the year end (31 December 2017: EUR 1.9 billion).

Due to the first-time application of IFRS 9 accounting rules, equity fell slightly by EUR 0.1 billion. Including the consolidated profit of the first half of the year, equity rose overall by EUR 0.1 billion to EUR 10.9 billion.

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

Banking supervisory capital and ratios for the BayernLB Group

Common Equity Tier 1 capital (CET1) amounted to EUR 9.2 billion as at 30 June 2018 (31 December 2017: EUR 9.4 billion). Risk-weighted assets (RWAs) rose by EUR 3.0 billion to EUR 64.4 billion as a result of the expansion of the business. The CET1 ratio (fully loaded) was still a solid 14.4 percent (31 December 2017: 15.3 percent). Total own funds as at 30 June 2018 amounted to EUR 10.3 billion, on par with the previous year, and the total capital ratio was 15.9 percent (31 December 2017: 16.8 percent).

General overview of financial performance

The BayernLB Group's financial position and financial performance remained sound overall in the first half of 2018 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 at a modest pace. This is based on strongly supportive domestic demand which is relatively resilient to external economic risks. However, the uncertainty surrounding the Brexit process and global trade disputes could directly weigh on the domestic economy by suppressing companies' appetite to invest. This is because the outlook for the long-term relationship between the United Kingdom and the EU is still unclear. BayernLB anticipates a significantly lower volume of free trade compared with the status quo, particularly in the services sector. In the case of goods the friction could be less extensive, but the German economy will probably be hampered by the Brexit process as a whole. In addition, the risk that global trade will be stymied in the future by rising tariffs has increased significantly. High quarterly growth rates as in 2017 are therefore not to be expected. Overall, BayernLB is expecting GDP growth of 1.9 percent for 2018. At an average of 1.9 percent p.a. in Germany, the inflation rate should meet the ECB inflation target. Accordingly, the Bank forecasts that the ECB will call a halt to net purchases in the QE programme as planned at the end of the year. However, a first interest rate hike is likely to be a long time in coming and, in view of the somewhat more gloomy economic and inflation outlook for 2019, is not likely to take place until after 2020. Reinvestments from the QE programme's bond portfolio should be fully maintained during this period. The US Federal Reserve will probably continue to normalise its monetary policy and implement a total of four interest rate hikes in 2018. Only two more interest rate hikes are set to follow in 2019 due to the initial slowdown in the US economy.

Of prime importance is that eurozone government bonds will suffer from declining ECB support coupled with higher inflation. As the US Federal Reserve continues to raise key rates, US market conditions will also remain negative. However, as trading uncertainties persist for longer and consolidate in the bond market, the northwards heading 10-year Bund yield will top out at 0.7 percent by the end of the year. On the currency side, the Bank expects the US dollar to remain in demand this year, also thanks to additional Fed interest rate hikes, so the EUR-USD exchange rate should remain below the 1.20 mark. Subsequently the slowdown in US growth expected by BayernLB in the first half of 2019 is likely to trigger the first economic concerns and cause the US dollar to fall back above EUR-USD 1.20. With the escalation of the trade dispute between the US and China and the threat of US President Donald Trump to impose car tariffs, the risk/reward ratio on European stock markets has worsened with a view to the second half of 2018. A global trade war would have a major impact on the DAX due to its cyclical sector structure, the high dependence of companies on exports and high automobile exposure. The continuing economic risks in conjunction with the steady tightening of monetary policy and rising capital market interest rates are likely to exert further pressure on share valuations. However, valuations have already declined noticeably and thus priced in some negative aspects. In the baseline scenario, BayernLB is therefore expecting equity markets to recover in the second half of the year, but subject to sustained fluctuations.

The BayernLB Group's future performance

BayernLB's business model has proved its worth in recent years. As a result of the early end to the EU state aid proceedings in mid 2017, BayernLB has gained an additional degree of strategic freedom which allows in particular a moderate and selective expansion of its international business activities. Regardless of this, for key forecasts, opportunities and other statements on the expected economic performance for financial year 2018, please refer to the 2017 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 2018. The disclosures in the risk report are provided in accordance with IFRS 7.31-7.42 in conjunction with IAS 34. The disclosures in conjunction with IFRS 7.35 A-7.38 in connection with IAS 34 are excluded. These can be found in notes 2, 19, 22, 32 and 35.

The Group management report for financial year 2017 provides 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 2018

- 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 2018.

Gross credit volume rose by a total of EUR 9.9 billion to EUR 276.2 billion. The expansion in the volume was mainly concentrated in the largest sub-portfolios Corporates, Countries/Public-Sector/Non-Profit Organisations and Financial Institutions.

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 85.7 percent (31 December 2017: 84.7 percent) and a non-performing loan ratio of 1.3 percent (31 December 2017: 1.5 percent).

Risk-bearing capacity was maintained throughout the first half of 2018 as the provision of risk capital was solid. In addition, the BayernLB Group had a good supply of liquidity on hand.

Risk-bearing capacity

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

For risk management, BayernLB follows a liquidation-based approach in ICAAP that is designed to protect senior creditors. This is computed using the internal targets 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 2018	31 Dec 2017
Credit risk	1,600	1,385
Market risk	1,624	1,658
• of which actual market risk	655	705
• of which pension risk	969	953
Operational risk	548	484
Investment risk	135	138
Business and strategic risk (includes reputational risk)	624	799
Liquidity cost risk	250	249
Total	**4,780**	**4,713**

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

The increase in the risk capital requirement for credit risk was largely due to the increase in the gross credit volume. The increase in the risk capital requirement for operational risk primarily relates to the results of the Operational Self Assessment in the Group. The decline in business and strategic risk was due to the adjustment of the underlying data for effects that had already been accounted for in other risk types (e.g. in operational risk).

The BayernLB Group holds sufficient available economic capital at EUR 11.3 billion (31 December 2017: EUR 11.2 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 severe recession scenario, the risk capital requirements for the individual risk types total EUR 6.3 billion and are therefore unchanged compared with 31 December 2017. This would see 55.4 percent utilisation of the available economic capital (31 December 2017: 60.0 percent).

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 is based on the figures used for internal reporting to the Board of Management and the Risk Committee of the Supervisory Board (management approach). These figures are derived from the financial situation (e.g. taking account of undrawn uncommitted current account facilities). The quantitative data on forborne exposure are shown as “renegotiated credits” on the basis of the IFRS consolidated figures.

Under IFRS 9, the previous information on the balance sheet approach is no longer required (former IFRS 7.36a). Disclosures pertaining to IFRS 7.35 A- 7.38 in conjunction with IAS 34 can be found in notes 2, 19, 22, 32 and 35.

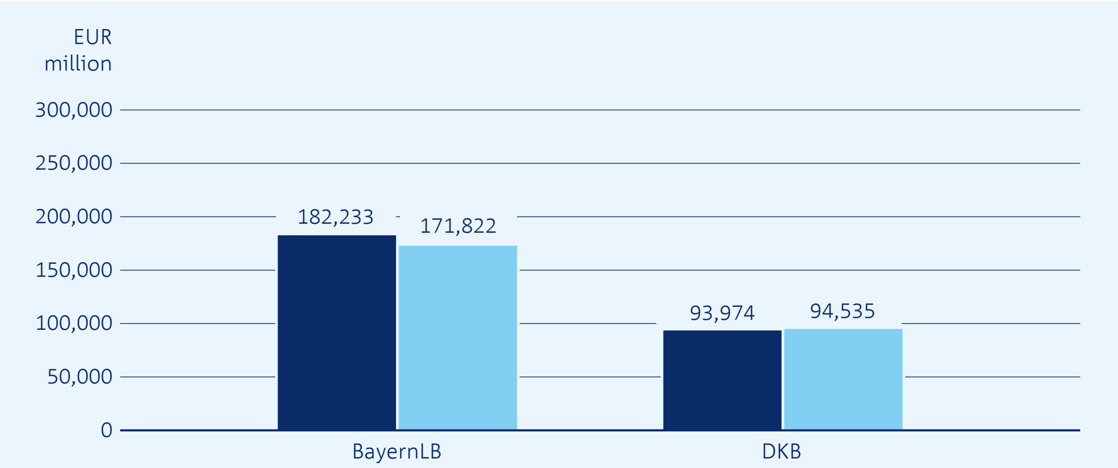
The Financial Stability Board, which was established by the supervisory authorities and governments of countries in which the world’s leading financial centres are located, issued recommendations in 2008 on the disclosure of information on portfolios with elevated risk profiles. The greater transparency is intended to strengthen trust among financial market participants. Further details are therefore presented for higher risk portfolios, especially transactions structured for customers and leveraged finance transactions.

Credit exposure not related to target customers is no longer material, as it is negligible in terms of numbers and volume and has gradually reduced in line with maturities. No further details are therefore provided.

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

The following figures for the management approach include BayernLB and DKB.

Gross credit volume by unit



■ 30 Jun 2018 Total: EUR 276,207 million
■ 31 Dec 2017 Total: EUR 266,356 million

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

Compared to 31 December 2017, the BayernLB Group's gross credit volume rose by EUR 9.9 billion or 3.7 percent to EUR 276.2 billion. The increase was across the board, with lending volumes rising in all five sub-portfolios. The Corporates sub-portfolio posted the largest increase (EUR 3.4 billion), followed by the Countries/Public-Sector/Non-Profit Organisations (EUR 2.5 billion), Financial Institutions (EUR 2.3 billion) and Commercial Real Estate (EUR 1.3 billion) sub-portfolios. The retail customer business also reported a slight increase, with gross credit volume rising EUR 0.4 billion in the Retail/Other sub-portfolio.

At BayernLB, gross credit volume was up by around EUR 10.4 billion or 3.9 percent. All four of BayernLB's key sub-portfolios played their part in the growth of the business, with the greatest gains coming from the Countries/Public-Sector/Non-Profit Organisations (EUR 4.0 billion) and Corporates (EUR 3.5 billion) sub-portfolios. The volumes in the Financial Institutions (EUR 2.1 billion) and Commercial Real Estate sub-portfolios (EUR 1.0 billion) also increased significantly.

At DKB, gross credit volume fell by around EUR 0.6 billion or 0.2 percent. Gross credit volume in the Countries/Public-Sector/Non-Profit Organisations sub-portfolio was down (EUR 1.6 billion), driven by the reduced exposure to the Deutsche Bundesbank. These positions are primarily held for liquidity management purposes. DKB successfully expanded its business in the Retail/Other (EUR 0.5 billion) and Commercial Real Estate (EUR 0.4 billion) sub-portfolios.

Gross credit volume at the BayernLB Group is broken down below by sub-portfolio, rating category, region, issuer risks, replacement risks and net credit volume by size.

Gross and net credit volume by sub-portfolio

	Gross			Net		
Sub-portfolios EUR million	**30 Jun 2018**	**31 Dec 2017**	**Change (in %)**	**30 Jun 2018**	**31 Dec 2017**	**Change (in %)**
Corporates	73,308	69,914	4.9%	55,575	52,465	5.9%
Countries/Public-Sector/ Non-Profit Organisations	68,529	66,046	3.8%	66,238	63,784	3.8%
Financial Institutions	52,918	50,626	4.5%	50,437	48,048	5.0%
Commercial Real Estate	48,784	47,465	2.8%	14,069	13,555	3.8%
Retail/Other	32,668	32,305	1.1%	21,115	20,210	4.5%
• of which Retail	32,455	32,078	1.2%	20,918	20,036	4.4%
Total	**276,207**	**266,356**	**3.7%**	**207,434**	**198,064**	**4.7%**

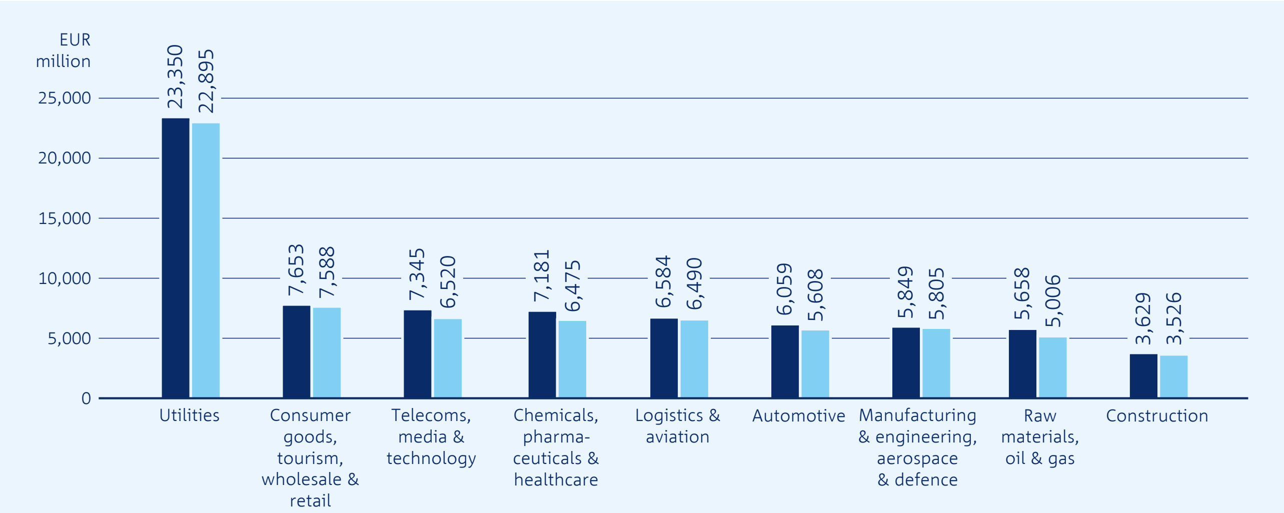
Net credit volume is calculated as gross exposure less the value of collateral.

Net credit volume at the BayernLB Group rose by EUR 9.4 billion. The BayernLB Group's collateralisation ratio fell slightly from 25.6 percent to 24.9 percent, as the increase was concentrated mainly in the Corporates, Countries/Public-Sector/Non-Profit Organisations and Financial Institutions sub-portfolios, whose transactions are traditionally characterised by low collateralisation.

Corporates sub-portfolio

The broadly based growth achieved by the strategically important Corporates sub-portfolio entrenched its position as the largest sub-portfolio in the BayernLB Group, despite a market environment that remains very challenging. Business volume was expanded in all sectors of the sub-portfolio. The expansion covered both existing and new customers. Overall, exposure in the sub-portfolio rose by a total of EUR 3.4 billion to EUR 73.3 billion, which is equivalent to an increase of 4.9 percent. The five sectors examined in more detail below accounted for the majority of the expansion.

Sector breakdown within the Corporates sub-portfolio



■ 30 Jun 2018 Total: EUR 73,308 million
■ 31 Dec 2017 Total: EUR 69,914 million

Exposure in the telecoms, media & technology sector was up by EUR 0.8 billion to EUR 7.3 billion. The expansion is in particular due to large customers in the technology sector and short-term peak financing for recruitment service providers.

The chemicals, pharmaceuticals & healthcare sector also performed well, with business volumes up by EUR 0.7 billion to EUR 7.2 billion. The expansion was largely down to providing financial support to our customers during the consolidation process in the chemicals industry.

Exposure was up by EUR 0.7 billion in the raw materials, oil & gas sector to EUR 5.7 billion. This was largely due to the acquisition of new customers and higher financing volumes for larger existing customers.

Credit volume in utilities, the largest sector by far, rose by EUR 0.5 billion or 2 percent to EUR 23.4 billion. In line with strategy, renewable energies, such as solar and wind parks, continue to form the main focus of the portfolio, accounting for a proportion of 60.3 percent. As loans for renewables are largely granted by DKB, it continues to have an above-average share of the sector at 61.5 percent. The majority of these transactions are structured as project financings that are to a large degree associated with long-term, legally guaranteed feed-in tariffs under German law. With their above-average collateralisation ratio, this mitigates the high proportion of this sector in the Corporates sub-portfolio. In addition to project financing, another focus is traditional corporate loans. The portfolio is granular and is spread over customers from all stages of the sector's value chain, from the generation, transmission and distribution of electricity to integrated energy utilities and municipal utilities. The portfolio is also granular in respect of the exposure size categories based on the gross credit volume; 76.3 percent relates to exposures of up to EUR 50 million, while 20.3 percent relates to exposures greater than EUR 50 million and less than EUR 250 million. At 87.2 percent, the majority of financing volume in the utilities sector is in Western Europe, of which Germany alone accounts for 77.6 percent.

Exposure to the automotive industry was up EUR 0.5 billion to EUR 6.1 billion. The main reasons behind the expansion are higher financing volumes for large groups and new business in the SME sector.

The domestic German market is all-important to the BayernLB Group and continues to form the bedrock of its business. Germany continued to dominate the Corporates sub-portfolio with a share of 71.4 percent (31 December 2017: 72.8 percent).

The already high investment grade share in the Corporates sub-portfolio further improved to 73.9 percent (31 December 2017: 71.7 percent).

The sub-portfolio's granularity also remained high. The proportion of customers with a gross credit volume of less than EUR 50 million amounted to 49.6 percent (31 December 2017: 53.1 percent).

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

Gross credit volume in the Countries/Public-Sector/Non-Profit Organisations sub-portfolio rose by EUR 2.5 billion or 3.8 percent to EUR 68.5 billion (31 December 2017: EUR 66.0 billion).

In BayernLB the volume rose by EUR 4.0 billion to around EUR 48.1 billion, while DKB saw a fall of EUR 1.6 billion to around EUR 20.5 billion. The increase at BayernLB was largely due to a rise in the balance held at the US Federal Reserve Bank, which mainly consisted of overnight deposits due to the further inflow of deposits. The fall at DKB was largely the result of a reduction in positions at the Deutsche Bundesbank. The central bank positions are primarily for the purposes of fine-tuning liquidity.

Excluding the balance held with central banks, the credit volume in the sub-portfolio increased by around EUR 0.5 billion. This is mainly due to an expansion of the business volume with German public banks and German municipalities.

The already very high investment grade share in the Countries/Public-Sector/Non-Profit Organisations sub-portfolio improved slightly to 98.1 percent (31 December 2017: 97.9 percent).

Financial Institutions sub-portfolio

Gross credit volume in the Financial Institutions sub-portfolio increased by EUR 2.3 billion to EUR 52.9 billion (31 December 2017: EUR 50.6 billion), a rise of 4.5 percent.

Within the BayernLB Group, the sub-portfolio's gross credit volume was split between around EUR 51.3 billion with BayernLB and around EUR 1.6 billion with DKB.

The majority of the growth in the sub-portfolio was accounted for by banks (EUR 2.1 billion) and savings banks (EUR 0.8 billion). Gross credit volume in the insurance sector declined by EUR 0.6 billion.

The increase in the banks sector was largely due to significant liquidity and hedging banks with strong credit ratings. There was also an expansion of business activity in the areas of clearing and leasing.

The quality of the sub-portfolio remained very high. The investment grade share remained almost unchanged at 96.3 percent (31 December 2017: 96.4 percent). The share accounted for by Germany rose to 64.1 percent (31 December 2017: 62.8 percent).

Commercial Real Estate sub-portfolio

In line with strategy, gross credit volume in the Commercial Real Estate sub-portfolio grew over the reporting period by EUR 1.3 billion or 2.8 percent. Business volume as at the reporting date was therefore EUR 48.8 billion (31 December 2017: EUR 47.5 billion). Of this amount, EUR 23.5 billion stemmed from BayernLB and EUR 25.3 billion from DKB. BayernLB accounted for around EUR 1.0 billion of the increase, while DKB saw a rise of around EUR 0.4 billion.

The expansion in the business volume at BayernLB was largely in residential construction by property developers (EUR 0.4 billion), investor-side real estate rental and leasing (EUR 0.2 billion) and operators of managed real estate in the logistics sector (EUR 0.2 billion).

The increase in the gross credit volume at DKB was largely down to the residential housing portfolio.

The German home market accounted for the majority of the Group's growth (around EUR 1.1 billion). In addition, there were noteworthy increases in France (around EUR 0.2 billion) and Italy (around EUR 0.1 billion).

The already high quality of the Commercial Real Estate sub-portfolio improved further the investment grade share in the Corporates sub-portfolio rose to 83.2 percent (31 December 2017: 82.5 percent). This means that the investment grade share has risen by around 10 percentage points in ten years. The consistently high German share amounted to 89.8 percent (31 December 2017: 90.0 percent). Granularity and collateralisation rates in the sub-portfolio were maintained at the same level: customers with a gross credit volume of less than EUR 50 million accounted for 57.2 percent (31 December 2017: 57.8 percent) of the portfolio. The collateralisation ratio was 71.2 percent (31 December 2017: 71.4 percent), still close to the three-year average of around 70 percent.

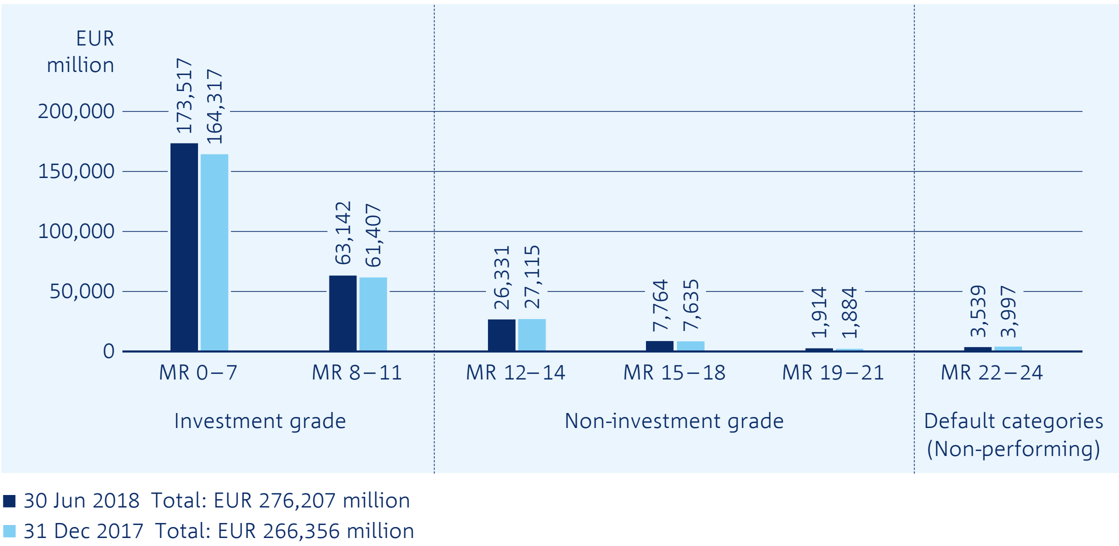
Retail/Other sub-portfolio

Gross credit volume in the Retail/Other sub-portfolio rose by EUR 0.4 billion or 1.1 percent to EUR 32.7 billion (31 December 2017: EUR 32.3 billion). In line with strategy, all growth took place at DKB. The bulk of the increase occurred in credit cards and current account receivables. Germany's share of the sub-portfolio remained unchanged at nearly 100 percent throughout the Group.

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 2018 **Rating category** EUR million	**MR 0–7**	**MR 8–11**	**MR 12–14**	**MR 15–18**	**MR 19–21**	**MR 22–24**	**Total**
Corporates	22,589	31,606	12,686	4,233	1,144	1,052	73,308
Financial Institutions	48,054	2,926	595	80	22	1,241	52,918
Countries/Public-Sector/ Non-Profit Organisations	66,416	777	1,126	196	12	2	68,529
Commercial Real Estate	25,850	14,753	5,501	1,529	167	984	48,784
Retail/Other*	10,609	13,080	6,424	1,727	569	259	32,668
Total	**173,517**	**63,142**	**26,331**	**7,764**	**1,914**	**3,539**	**276,207**

31 Dec 2017 **Rating category** EUR million	**MR 0–7**	**MR 8–11**	**MR 12–14**	**MR 15–18**	**MR 19–21**	**MR 22–24**	**Total**
Corporates	20,394	29,741	13,272	4,030	1,064	1,413	69,914
Financial Institutions	45,813	2,998	401	157	13	1,244	50,626
Countries/Public-Sector/ Non-Profit Organisations	63,842	814	1,143	228	16	3	66,046
Commercial Real Estate	24,457	14,707	5,560	1,517	176	1,049	47,465
Retail/Other*	9,811	13,148	6,739	1,704	616	288	32,305
Total	**164,317**	**61,407**	**27,115**	**7,635**	**1,884**	**3,997**	**266,356**

** Of which, gross credit volume in Retail of EUR 32.5 billion as at 30 June 2018 (31 December 2017: EUR 32.1 billion)*

In the master rating (MR) categories 0-11 (investment grade) gross credit volume in the BayernLB Group rose by EUR 10.9 billion in the reporting period. The investment grade share rose accordingly from 84.7 percent to 85.7 percent, with volume in the rating categories MR 0-7 climbing by EUR 9.2 billion. With the exception of the Retail/Other sub-portfolio, all the sub-portfolios saw increases. Gross business volume in rating categories MR 8-11 rose by EUR 1.7 billion and was largely concentrated in the Corporates sub-portfolio. The increase in volume in this rating category came largely from the utilities and chemicals, pharmaceuticals & healthcare sectors.

Gross credit volume in rating category MR 12 – 14 declined slightly by EUR 0.8 billion. The percentage in these rating categories therefore declined from 10.2 percent to 9.5 percent.

Gross credit volume in rating categories MR 15 – 18 and MR 19 – 21 rose by a total of EUR 0.2 billion over the reporting period. Due to the significant expansion of the business volume in the better rating categories during the reporting period, the percentage of gross credit volume in these rating categories declined from 3.6 to 3.5 percent.

The non-performing loan ratio (NPL ratio) in the first half decreased slightly to 1.3 percent (31 December 2017: 1.5 percent).

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

Renegotiated credits

Forbearance exposures

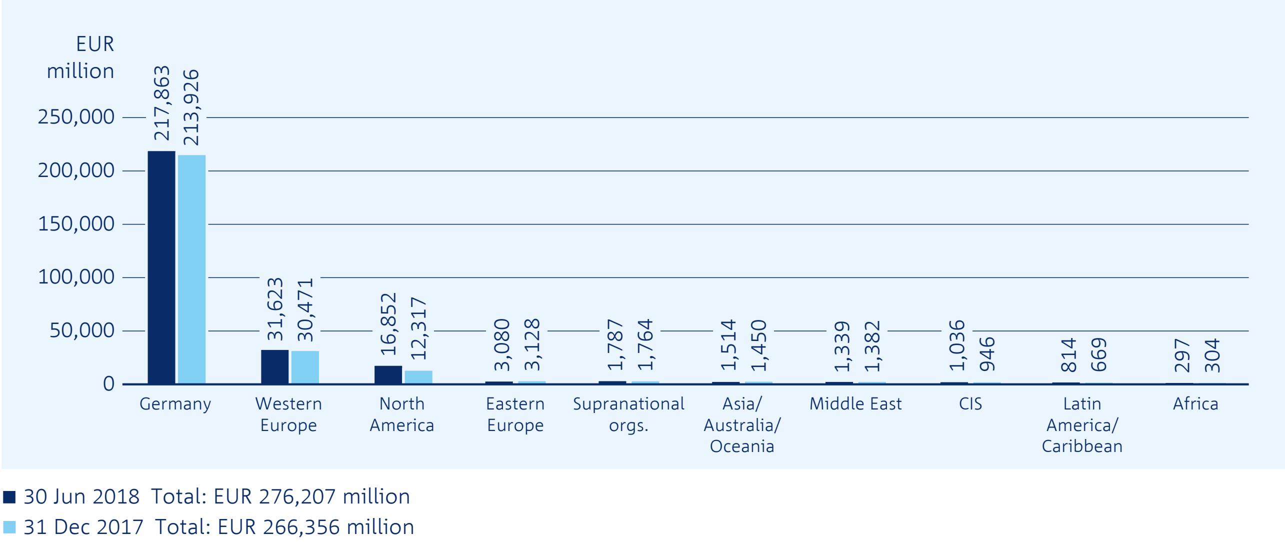
30 Jun 2018 EUR million	**Forbearance/deferrals**	**Impairments**	**Collateral/financial guarantees received**
Loans and advances to banks	0.0	0.0	0.0
Loans and advances to customers	3,282.6	–452.8	554.7
Financial investments	0.0	0.0	0.0
Credit commitments	152.8	8.3	2.9
Total	**3,435.4**	**–444.5**	**557.5**

31 Dec 2017 EUR million	**Forbearance/deferrals**	**Impairments**	**Collateral/financial guarantees received**
Loans and advances to banks	4.5	–0.1	2.5
Loans and advances to customers	3,783.3	–785.7	582.3
Financial investments	0.0	0.0	0.0
Credit commitments	217.7	2.9	7.6
Total	**4,005.4**	**–782.9**	**592.4**

Breakdown by region

The following table shows gross credit volume by region.

Gross credit volume by region



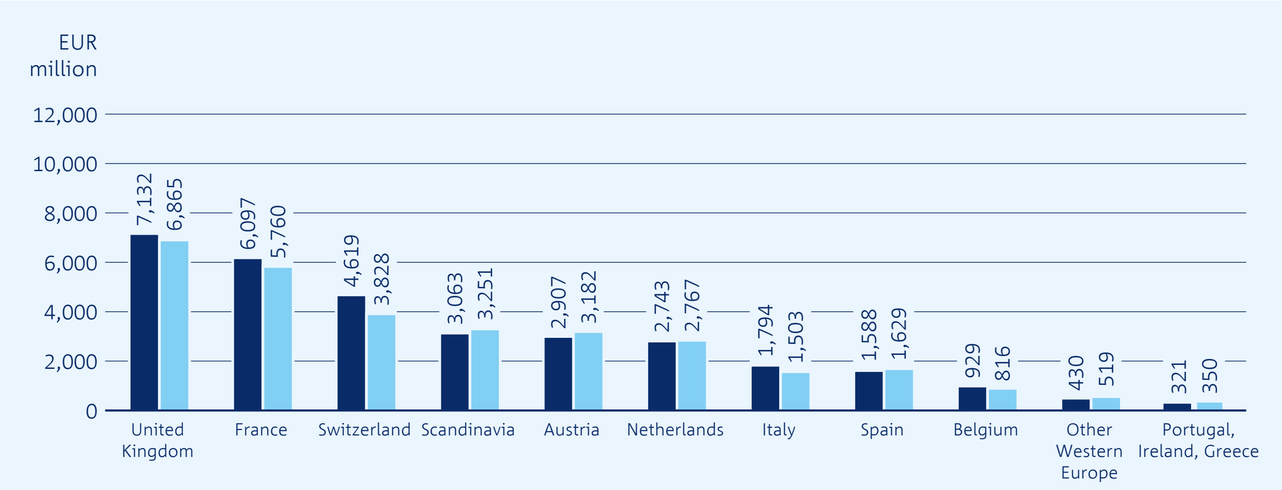
In line with the Business and the Risk Strategy, Germany accounted for a dominant share of the BayernLB Group's lending at 78.9 percent (31 December 2017: 80.3 percent). Gross credit volume in Germany increased to EUR 217.9 billion (31 December 2017: EUR 213.9 billion). The Financial Institutions (EUR 2.2 billion), Corporates (EUR 1.5 billion) and Commercial Real Estate (EUR 1.1 billion) sub-portfolios accounted for the bulk of the increase. Business volume declined in the Countries/Public-Sector/Non-Profit Organisations sub-portfolio (EUR 1.0 billion). The increase in business volume in the Financial Institutions sub-portfolio came mainly from the banking sector, while the increase in the Corporates sub-portfolio was distributed across almost all sectors.

Regionally, gross credit volume increased in particular in North America (EUR 4.5 billion) and Western Europe (EUR 1.2 billion).

Most of the rise in the North America region came from the USA and was largely attributable to the increase in the balance held at the US Federal Reserve Bank. Furthermore, the gross credit volume in the Corporates sub-portfolio also rose substantially (EUR 0.7 billion) in the USA.

Generally speaking, country risks and risk/return ratios in lending abroad continued to be very closely managed and monitored, given global developments, in particular persistent political tensions (e.g. Turkey, the Middle East).

Gross credit volume in western European countries



■ 30 Jun 2018 Total: EUR 31,623 million
■ 31 Dec 2017 Total: EUR 30,471 million

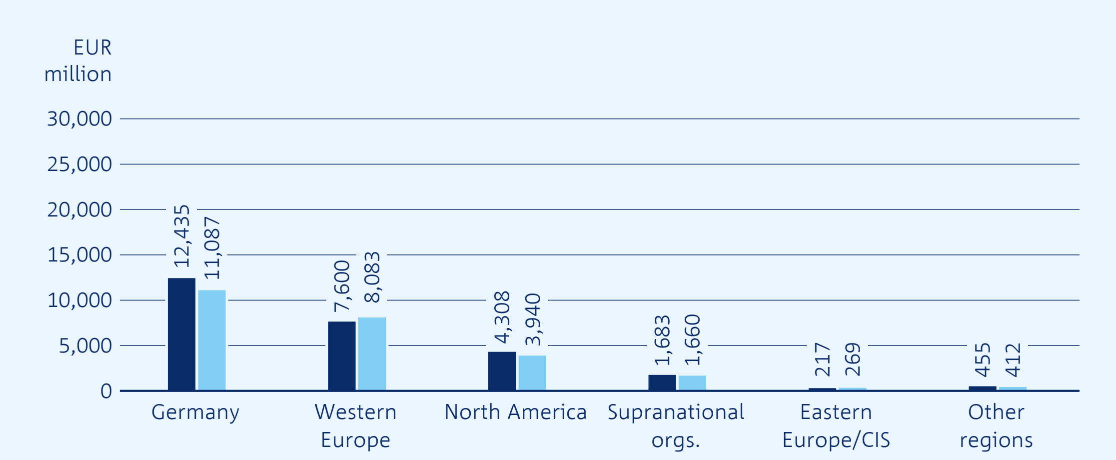
Gross credit volume in Western Europe (excluding Germany) increased by around EUR 1.2 billion to EUR 31.6 billion (31 December 2017: EUR 30.5 billion). The rise was largely attributable to Switzerland (EUR 0.8 billion) and France (EUR 0.3 billion). The expansion in Switzerland was primarily down to the Corporates sub-portfolio, while in France the expansion came mainly from the Financial Institutions and Commercial Real Estate sub-portfolios.

In addition, gross credit volume also increased markedly in Italy and the United Kingdom. Decreases in volume occurred mainly in Austria, Denmark and Norway.

Issuer risk

The following table shows issuer risk by region.

Gross issuer risk by region



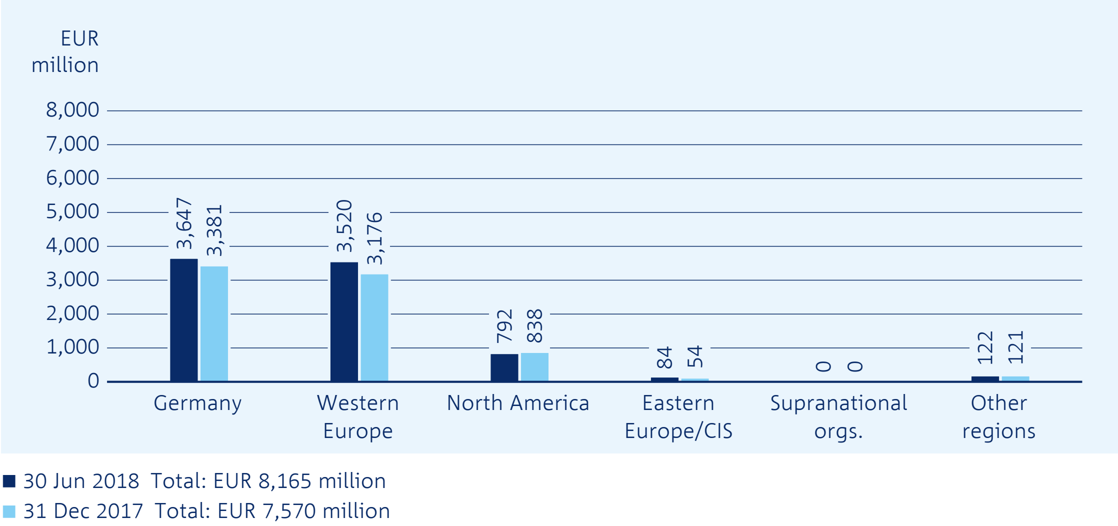
■ 30 Jun 2018 Total: EUR 26,697 million
■ 31 Dec 2017 Total: EUR 25,451 million

Gross issuer volume rose by EUR 1.2 billion to EUR 26.7 billion (31 December 2017: EUR 25.5 billion). The increase occurred mainly in Western Europe and North America, with Germany accounting for the largest proportion of the expansion. Gross issuer risk in Germany climbed by EUR 1.3 billion to EUR 12.4 billion (31 December 2017: EUR 11.1 billion), with the increase in business volume coming mainly from public banks and German state governments.

Replacement risk

The following table shows replacement risk by region.

Gross replacement risk by region

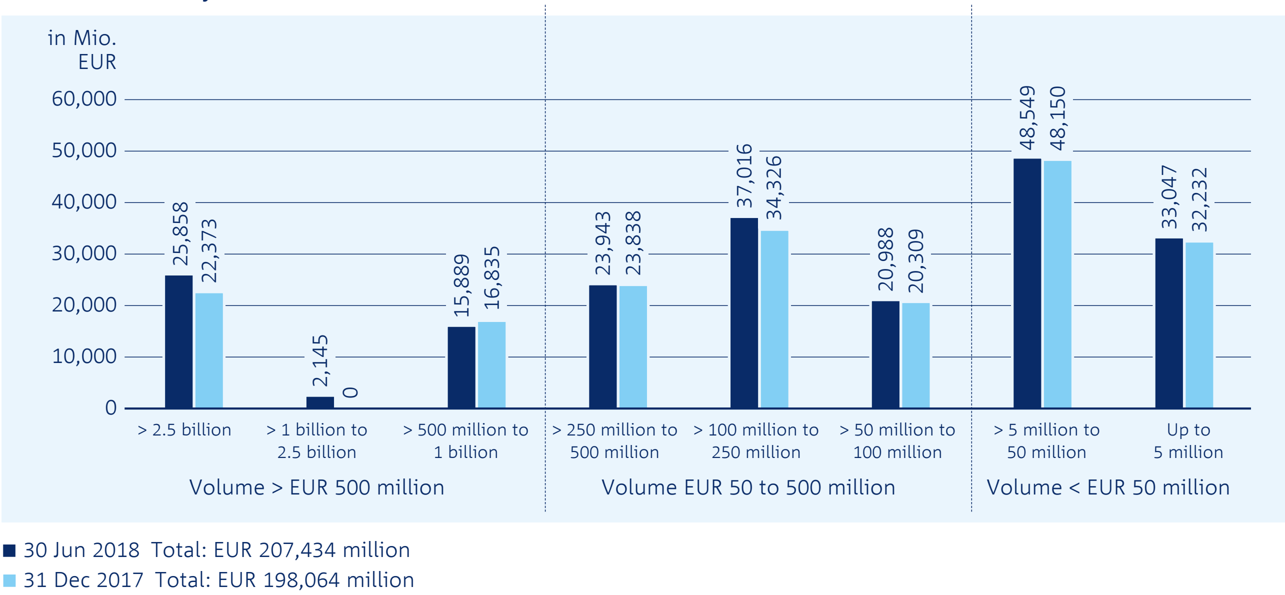


Gross replacement risk also rose by EUR 0.6 billion to EUR 8.2 billion (31 December 2017: EUR 7.6 billion) during the reporting period. The growth was concentrated in Western Europe and was mainly accounted for by Germany (EUR 0.3 billion), Switzerland (EUR 0.2 billion) and France (EUR 0.2 billion). The expansion came mainly from the Financial Institutions sub-portfolio and was in relation to major international banks.

Breakdown by size category

The following table shows net credit volume by size.

Net credit volume by size



Net credit volume with customers in the more than EUR 2.5 billion category was up by EUR 3.5 billion to EUR 25.9 billion (31 December 2017: EUR 22.4 billion). This rise was mainly due to the aforementioned increase in holdings at the US Federal Reserve Bank. This size category only contains loans and advances to top-rated German and US government entities with a first-class credit score.

Net credit volume in the more than EUR 500 million to EUR 2.5 billion category rose by around EUR 1.2 billion to EUR 18.0 billion (31 December 2017: EUR 16.8 billion). The increase in these categories was mainly the result of an expansion of business in the Financial Institutions and Corporates sub-portfolios, while the Countries/Public-Sector/Non-Profit Organisations sub-portfolio saw falls. These categories predominantly include savings banks, German and international banks, large DAX companies and government entities. The range of individual ratings is predominantly in the very good investment grade category (master ratings 0 to 7).

Portfolio granularity increased across the board in the up to EUR 250 million categories. These categories saw an increase of EUR 4.6 billion to EUR 139.6 billion (31 December 2017: EUR 135.0 billion). Especially noteworthy is the Corporates sub-portfolio, with an increase of EUR 2.2 billion.

Summary

The overall market environment in the first half of 2018 remained very challenging, with persistent pressure on margins and continuing high liquidity. Despite this difficult market environment, business volume was further expanded across the board, with higher volumes in every sub-portfolio. Especially noteworthy is the Corporates sub-portfolio, which achieved the greatest growth of all the sub-portfolios with a volume increase of EUR 3.4 billion.

The quality of the credit portfolio remains very good. This is reflected in the high investment grade share, which continued to grow, improving from 84.7 percent to 85.7 percent. The percentage of German customers was also maintained at a very high level. Portfolio granularity remained largely stable in the reporting period.

Portfolio overview pursuant to the Financial Stability Board

Customer transactions

The nominal volume of transactions structured for customers remained stable at EUR 2.3 billion in the reporting period (31 December 2017: EUR 2.3 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 dedicated Corelux S.A. ABCP programme.

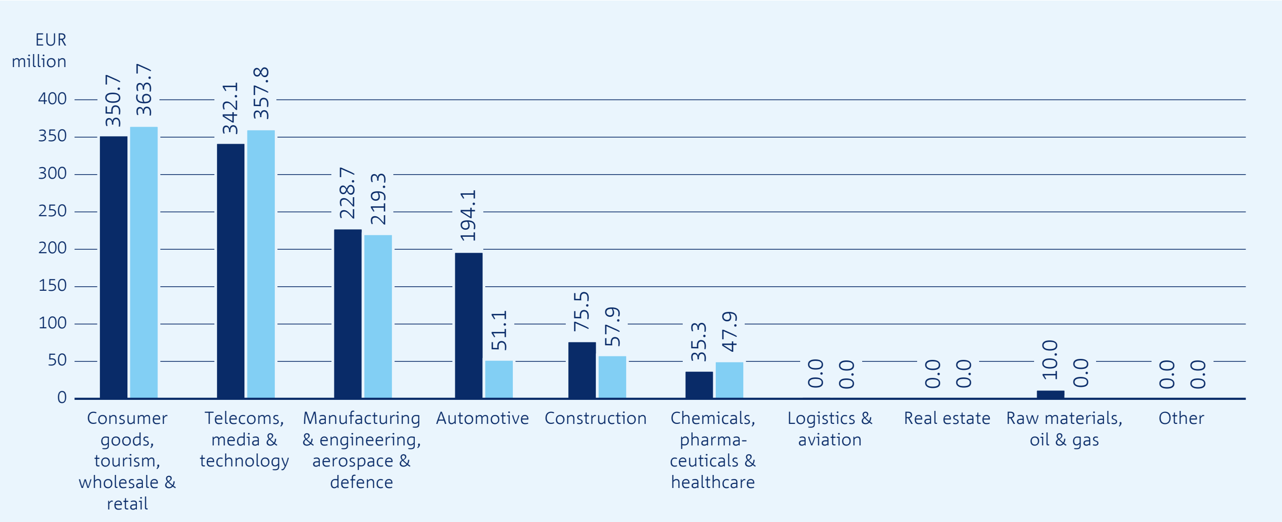
Leveraged finance

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, investments, distributions and additional debt).

Credit volumes within the BayernLB Group increased to EUR 1.2 billion (31 December 2017: EUR 1.1 billion). The share in Germany was high at 76.6 percent (31 December 2017: 83 percent). Western Europe accounted for the remaining 23.4 percent (31 December 2017: 17 percent) of the portfolio. Since the parent company and its principal subsidiaries are usually jointly liable in leveraged finance, the transaction 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 exist only at BayernLB and break down by sector and rating category as follows.

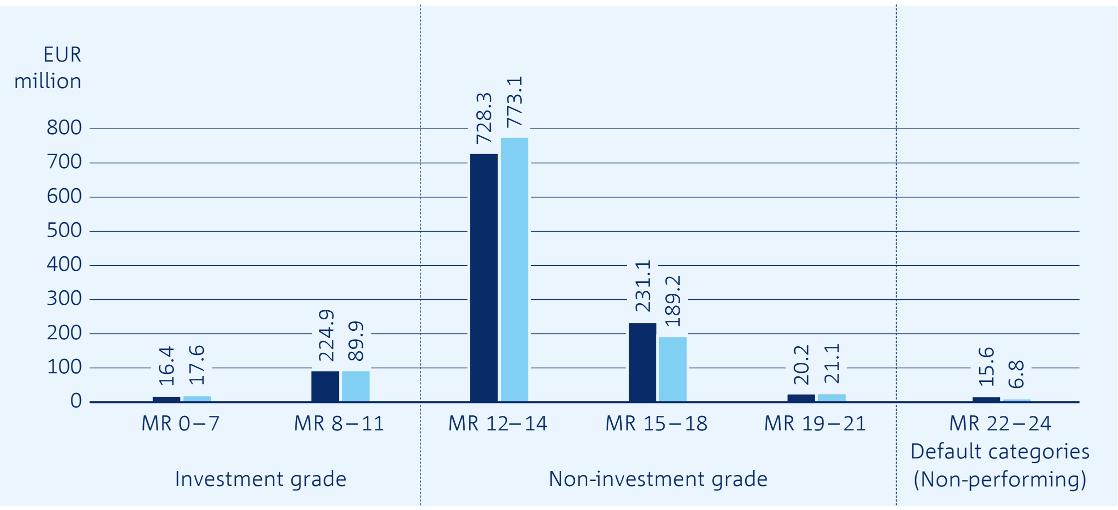
Gross credit volume by sector



■ 30 Jun 2018 Total: EUR 1,236 million
■ 31 Dec 2017 Total: EUR 1,098 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 manufacturing & engineering at EUR 229 million (31 December 2017: EUR 219 million), media at EUR 195 million (31 December 2017: EUR 206 million) and technology at EUR 147 million (31 December 2017: EUR 152 million).

Gross credit volume by rating category



■ 30 Jun 2018 Total: EUR 1,236 million
■ 31 Dec 2017 Total: EUR 1,098 million

Up and downgrades remained more or less evenly balanced. Repayments were more than compensated for by good quality new business, which was mostly non-investment grade due to the product (initial high debt). Risk provisions set aside for problem loans increased to 1.1 percent (31 December 2017: 0.6 percent).

Summary

The principal characteristics of these sub-portfolios are an unchanged volume of customer transactions and good quality leveraged finance transactions.

Investment risk

BayernLB does not pursue a growth strategy in terms of expanding business by acquiring stakes in companies. The Group's strategic subsidiaries are DKB, BayernInvest and Real I.S.

There were no material changes to the scope of consolidation and portfolio of equity interests in the first half of 2018.

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 constitute part of the mix in the assessment of risk-bearing capacity in various forms.

For operational management and monitoring, market risk is calculated using a correlated VaR method based on 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.

Pension risks (risks from BayernLB's 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 2018, 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 in terms of both net present value and by period. 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".

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

The current situation for pension risks is presented in the chapter on “Risk-bearing capacity“.

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

			1 Jan 2018 to 30 Jun 2018		
EUR million	**30 Jun 2018**	**31 Dec 2017**	**Average**	**Maximum**	**Minimum**
General interest rate VaR	20.8	25.0	23.7	29.4	18.7
Specific interest rate VaR (credit spreads)	8.6	5.5	5.9	9.6	4.9
Currency VaR	1.4	1.8	2.0	3.0	1.1
Equities VaR	2.9	2.3	2.8	3.1	2.3
Commodities VaR	2.9	1.7	2.3	3.3	1.6
Volatility VaR	0.8	1.0	0.6	0.9	0.4
Total VaR*	**25.5**	**28.5**	**28.6**	**34.2**	**23.5**

** When calculating risk capital requirements at BayernLB, risk-bearing capacity takes account of VaR, premiums for credit risks on money market transactions and OTC derivatives, and market risk on external credit margins.*

Summary

Total VaR fell by around EUR 3.0 billion compared with 31 December 2017. The decrease in general interest rate risk was due to DKB and resulted from the inflow of customer deposits and the conclusion of payer swaps, as well as lower market volatility (removal of a relevant scenario day from the historical simulation). The increase in the specific interest-rate risk was largely due to the limited expansion of BayernLB’s portfolio (Italian government bonds and covered bonds) combined with an increase in credit spread volatility in Q2 2018.

Other risk types continue to be of secondary importance and there were 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 the cumulative liquidity gaps from the realisable liquidity counterbalancing capacity in each maturity band. 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 2017.

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 2018 compared with 31 December 2017:

Liquidity situation

30 Jun 2018 Cumulative figures in EUR million	**Up to 1 month**	**Up to 3 months**	**Up to 1 year**	**Up to 5 years**
Liquidity surplus	**24,143**	**17,978**	**12,810**	**15,639**
arising from				
• liquidity counterbalancing capacity	38,281	38,594	29,888	11,278
less				
• liquidity gap	14,139	20,616	17,078	−4,361
31 Dec 2017 Cumulative figures in EUR million	**Up to 1 month**	**Up to 3 months**	**Up to 1 year**	**Up to 5 years**
Liquidity surplus	**28,502**	**24,412**	**17,534**	**17,478**
arising from				
• liquidity counterbalancing capacity	38,804	38,220	30,600	11,505
less				
• liquidity gap	10,302	13,808	13,066	−5,973

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

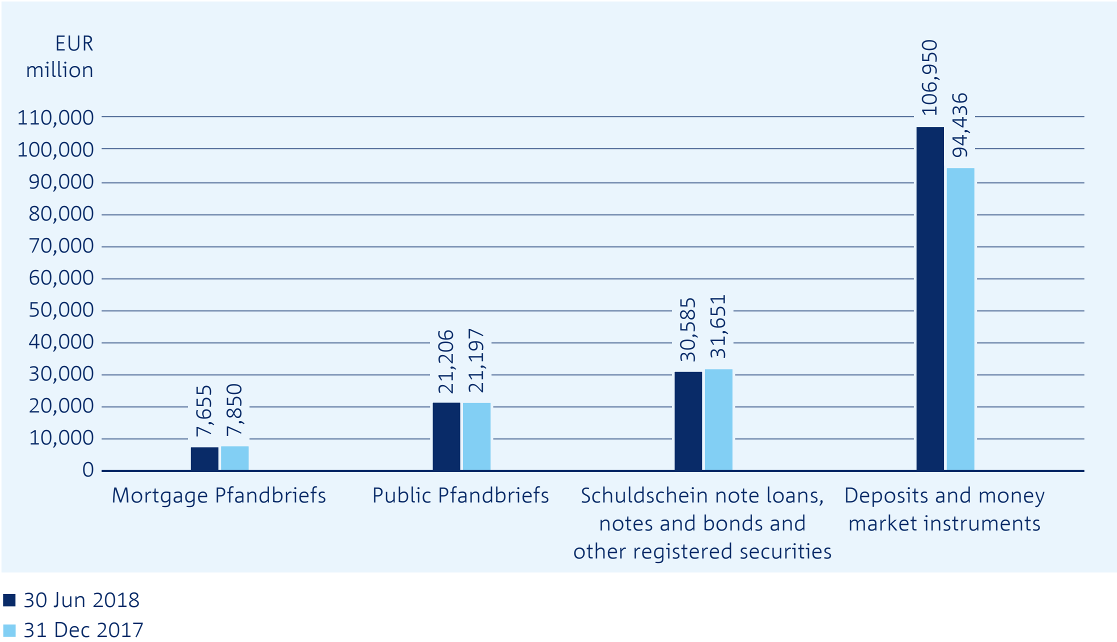
As a result of the Second Regulation on Amendments to the Liquidity Ordinance issued by BaFin, the Liquidity Ordinance ratio ceased to apply to institutions supervised by the ECB with effect from 2018. BayernLB therefore ceased to monitor this ratio at the start of 2018 and replaced it entirely with the Liquidity Coverage Ratio (LCR).

The LCR is calculated by comparing the available highly liquid assets with the net cash outflows for the following 30 days. From 2018, the minimum regulatory LCR is 100 percent. The Bank's integrated management of ad-hoc liquidity ensured that it was met at all times in the first half of 2018. LCR at Group level amounted to 131 percent as at 30 June 2018.

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

The BayernLB Group's funding structure as at 30 June 2018 compared with 31 December 2017 was as follows:

Funding structure



BayernLB's funding plans for 2018 assume a net total structural funding requirement in maturities of more than 12 months amounting to EUR 8.0 billion, whose amount and structure are derived from the following factors:

- Funding requirements to fund new business planning and repay maturing liabilities
- Funding requirements to fulfil regulatory requirements, in particular LCR and MREL
- Funding requirements to safeguard the rating in Moody's LGF analysis
- Reserve financing in 2017 amounting to EUR 0.5 billion in unsecured funding

The utilisation of various funding sources is fine-tuned in line with their availability, as well as the diversification of funding sources and the optimisation of the funding costs.

The focus of the 2018 annual plan is on lending covered by Pfandbriefs (EUR 5 billion) and unsecured funding (EUR 3.5 billion), of which EUR 0.5 billion had already been pre-financed in 2017 to take advantage of opportunities that arose. MREL and the corresponding rating requirements meant that it was necessary to issue EUR 2 billion of bail-in eligible funding in 2018 in the form of unsecured, non-preferential funds in order to retain the rating upgrade. The necessary funds were raised in the first half of 2018. Overall, the funding was on track on a pro rata basis at the mid-year stage; intrayear (ad-hoc) funding was effected via the money market and multiyear (structural) funding was raised by issuing securities and Schuldschein note loans – predominantly as part of the perpetual bond programme and the DIP (debt issuance programme).

The asset encumbrance (AE) ratio shows the proportion of a bank's pledged assets that could not be called upon to settle unsecured claims in the event of liquidation. Due to BayernLB's business model and the specifications for determining AE, a relatively high proportion of its asset portfolio is encumbered. Particularly worthy of note is the relatively high proportion – including free over-collateralisation – in the cover pool for Pfandbriefs and the collateralisation of subsidised loans from state development banks, such as the KfW's passthrough loans. Adjusted for these transaction types, BayernLB's AE is low in the medium single-digit range.

In its rating methodology's loss-given-failure analysis (LGF), Moody's Investor Ratings provides an estimate of the probability of default and default amount for various instruments on the liabilities side and deposits. The funding plan is based on the premise of maintaining the required liability structure (bail-in sum in relation to the adjusted total assets) to preserve the rating at all times.

Since 21 July 2018, banks with head offices in Germany have been able to issue two classes of unsecured bonds in terms of liability ranking, based on a revised version of section 46f of the German Banking Act (Kreditwesengesetz – KWG). The background to this is the political goal of creating a clearly defined amount of total liable funds by means of non-preferred senior unsecured bonds as part of an EU-wide harmonisation of bail-in rules.

Moody's has taken this differentiation in the ratings of unsecured bonds at German banks into account. Compared to BayernLB's previous A1 rating for unsecured bonds, the category of non-preferred unsecured bonds dropped a notch to A2, according to Moody's methodology, due to the withdrawal of government support. In contrast, the new category of preferred senior unsecured bonds will be raised a notch to Aa3. Government support, which continues to be taken into account, plays a role here, but these bonds are also uplifted by the beneficial structure of BayernLB's liabilities side from Moody's LGF analysis.

Access to funding sources was unlimited and the expansion and consolidation of communication with stakeholders on the capital markets was given the highest priority. Recent developments have focused on new products, such as the green and social bonds segments, and the digitalisation of issuance activity. BayernLB's funding costs remained at the lower end of its peer group during the reporting period, which is clearly illustrated by the development of BayernLB's credit spreads for five-year unsecured debt compared to the reference, the 5y iTraxx Senior Financial Unsecured Index. While BayernLB's CDS increased from 35 bp to 44 bp during the first half of the year as a result of developments in the markets (Brexit, Italy, trade disputes), the reference rate rose from 44 bp to 90 bp. In foreign currency, BayernLB's funding spreads were reduced in particular by the narrowing of the cross-currency basis spreads in the market.

DKB's funding requirements result from its new business planning and maturities of assets and liabilities. The deposits of DKB's various customer groups continue to form the basis of funding, amounting to EUR 53 billion; they represented by far the largest proportion of funds on the liabilities side. Public subsidies of around EUR 13 billion and various capital market products such as Pfandbriefs and unsecured bonds are further cornerstones of DKB's diversified funding mix. DKB's deposit balances stabilised at a high level at the mid-year stage. This was due to the agreed amendments to the terms and conditions for non-granular corporate customer deposits, which resulted in a limited outflow of cash. Granular deposits by private customers continued to grow over the course of the year. Thanks to its good liquidity, DKB's issuing requirement is currently low. As a result, only EUR 50 million in Pfandbriefs were issued via a private placement, which confirmed the bank's ability to access the capital markets at any time.

In addition to own funds for the purposes of funding new business, BayernLabo also has access to ample funds from state and municipal development programmes for particular purposes. As a result, the funding planning for 2018 envisages a funding requirement of no more than EUR 1 billion to be raised on capital markets, depending on the amount of new business gained. At the mid-year stage the planning projection indicated that this sum will not be fully utilised.

Summary

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

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

Reporting of products as defined in section 46f para. 6 and 7 KWG (not certified)

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 and 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 2018	31 Dec 2017
Liabilities to banks	3,832	4,658
• of which Schuldschein note loans	2,491	3,387
• of which other registered securities	1,341	1,271
Liabilities to customers	7,096	7,057
• of which Schuldschein note loans	1,330	1,397
• of which other registered securities	5,767	5,660
Securitised liabilities	17,092	17,805
Liabilities held for trading	136	55
Total	**28,157**	**29,575**

Structured financial products as defined in section 46f para. 7 KWG

EUR million	30 Jun 2018	31 Dec 2017
Liabilities to banks	70	89
• of which Schuldschein note loans	29	89
• of which Other registered securities	41	–
Liabilities to customers	888	1,112
• of which Schuldschein note loans	137	144
• of which Other registered securities	751	968
Securitised liabilities	1,698	1,830
Liabilities held for trading	507	501
Total	**3,162**	**3,532**

Operational risk

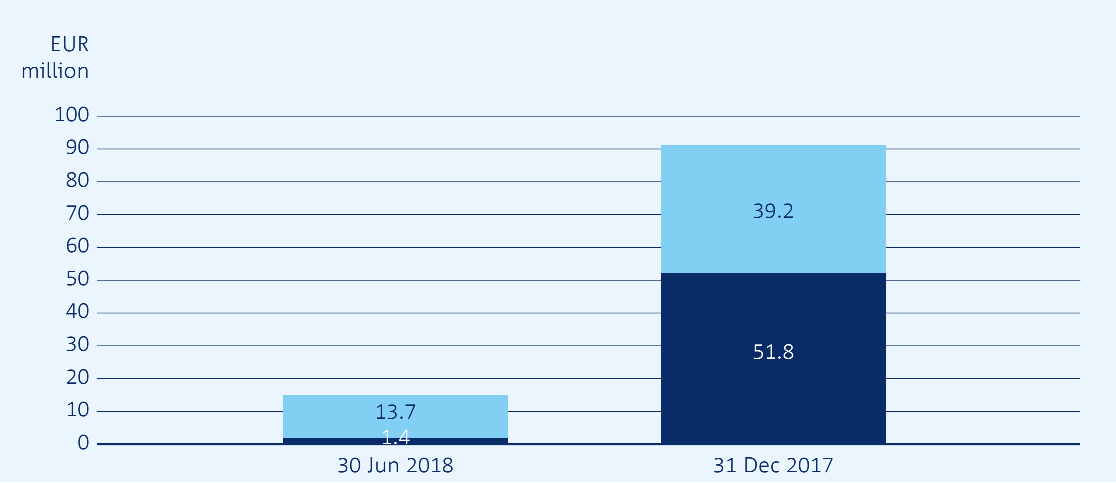
Operational risks for the calculation of risk-bearing capacity are quantified using the operational value at risk (OpVaR) calculation. The calculation is based on the losses incurred at BayernLB and DKB, the external losses collected via a data consortium, potential operational risks collected as part of the Operational Risk Self Assessment and the BayernLB and DKB scenario analyses (potential losses) drawn up for significant risks. The calculation is based on a loss distribution approach, using a confidence level of 99.95 percent. The key model assumptions and parameters used in the model are validated once a year. The risk capital requirement as at 30 June 2018 was EUR 548 million (31 December 2017: EUR 484 million).

The Group concluded its planned revision of operational risks in the first half of 2018.

The standard 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 2018 compared to financial year 2017.

Losses by Group unit



30 Jun 2018 Total: EUR 15.1 million
31 Dec 2017 Total: EUR 91.0 million

■ BayernLB ■ DKB

The operational risk losses at the BayernLB Group in the first half of 2018 stemmed mainly from the event categories “customers, products and business practices”, with a share of 72 percent (31 December 2017: 52 percent) and “implementation, delivery and process management” with a share of 15 percent (31 December 2017: 26 percent).

Summary

The amount of operational risk losses at the BayernLB Group in the first half of 2018 was in line with expectations.

Summary of risk report

The BayernLB Group’s risk profile remained stable in the first half of 2018.

The BayernLB Group had adequate risk-bearing capacity at all times in the reporting period. The stress scenarios conducted 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. Adequate risk provisions were set aside to cover loans added to the default categories (non-performing loans).

Regulatory solvency requirements were met. Own funds for the purpose of risk coverage amounted to EUR 10.3 billion.

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

46 Statement of comprehensive income

48 Balance sheet

50 Statement of changes in equity

52 Cash flow statement

53 Notes

118 Responsibility statement by the Board of Management

119 Review Report

120 Supplementary information

Statement of comprehensive income

Income statement

EUR million	Notes	1 Jan – 30 Jun 2018	1 Jan – 30 Jun 2017
• Interest income		3,289	3,233
– interest income from financial instruments – effective interest method		1,875	n/a
– interest income from financial instruments – other		1,414	n/a
• Interest expenses		–2,409	–2,388
– interest expenses from financial instruments – effective interest method		–940	n/a
– interest expenses from financial instruments – other		–1,470	n/a
Net interest income	(5)	879	845
Risk provisions	(6)	103	90
Net interest income after risk provisions		982	935
• Commission income		341	345
• Commission expenses		–209	–204
Net commission income	(7)	132	141
Gains or losses on fair value measurement	(8)	35	143
Gains or losses on hedge accounting	(9)	–44	–93
Gains or losses on derecognised financial assets[1]	(10)	–6	n/a
Gains or losses on financial investments	(11)	33	16
Administrative expenses	(12)	–644	–612
Expenses for the bank levy and deposit guarantee scheme	(13)	–90	–84
Other income and expenses	(14)	52	–25
Gains or losses on restructuring	(15)	2	4
Profit/loss before taxes		**452**	**426**
Income taxes		–105	–96
Profit/loss after taxes		**347**	**330**
Profit/loss attributable to non-controlling interests		–5	–
Consolidated profit/loss		**342**	**330**

Rounding differences may occur in the tables.
1 For financial assets measured at amortised cost.

Statement of comprehensive income (condensed)

EUR million	Notes	1 Jan– 30 Jun 2018	1 Jan– 30 Jun 2017
Profit/loss after taxes as per the income statement		**347**	**330**
Components of other comprehensive income temporarily not recognised in profit or loss			
• Change in the revaluation surplus containing gains or losses on fair value measurement of financial assets in the “financial assets mandatorily measured at fair value through other comprehensive income” category	(35)	–54	n/a
– change not including deferred taxes		–77	n/a
– change in deferred taxes		23	n/a
• Change in the revaluation surplus (available-for-sale holdings under IAS 39)		n/a	–23
– change not including deferred taxes		n/a	–32
– change in deferred taxes		n/a	9
• 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 in the revaluation surplus resulting from fair value changes attributable to changes in the credit quality of financial liabilities from the “fair value option” category recognised through other comprehensive income	(35)	–24	n/a
– change not including deferred taxes		–33	n/a
– change in deferred taxes		9	n/a
• Changes due to remeasurement of defined benefit plans	(35)	–25	166[1]
– change not including deferred taxes		–26	174[1]
– change in deferred taxes		1	–8
Other comprehensive income after taxes		**–103**	**145**
Total comprehensive income recognised and not recognised in profit or loss		**244**	**475**
• attributable:			
– to BayernLB shareholders		239	475
– to non-controlling interests		5	–
• Total comprehensive income attributable to BayernLB shareholders:			
– from continuing operations		239	475
– from discontinued operations		–	–

Rounding differences may occur in the tables.
1 Adjustment 31 December 2016 (see Annual Report 31 December 2017 note 2).

Balance sheet

Assets

EUR million	Notes	30 Jun 2018	1 Jan 2018[1]	31 Dec 2017
Cash reserves	(16)	8,771	3,556	3,556
Loans and advances to banks	(17)	37,601	37,783	37,783
Loans and advances to customers	(18)	137,880	134,408	134,686
Risk provisions	(19)	−952	−1,123	−1,185
Portfolio hedge adjustment assets		412	455	455
Assets held for trading	(20)	13,321	12,172	11,981
Positive fair values from derivative financial instruments (hedge accounting)	(21)	501	554	813
Financial investments	(22)	23,480	23,530	23,363
Investment property	(23)	30	31	31
Property, plant and equipment	(24)	337	340	340
Intangible assets	(25)	83	86	86
Current tax assets		2	10	10
Deferred tax assets		563	606	544
Other assets	(26)	4,261	2,049	2,060
Total assets		**226,288**	**214,455**	**214,521**

Rounding differences may occur in the tables.
1 Opening balance sheet under IFRS 9.

Liabilities

EUR million	Notes	30 Jun 2018	1 Jan 2018[1]	31 Dec 2017
Liabilities to banks	(27)	61,489	54,442	54,442
Liabilities to customers	(28)	93,967	91,944	91,945
Securitised liabilities	(29)	44,287	41,846	41,847
Liabilities held for trading	(30)	8,032	7,681	7,681
Negative fair values from derivative financial instruments (hedge accounting)	(31)	771	840	841
Provisions	(32)	4,270	4,279	4,233
Current tax liabilities		204	252	252
Other liabilities	(33)	508	570	562
Subordinated capital	(34)	1,868	1,903	1,903
Equity	(35)	10,892	10,700	10,816
• Equity excluding non-controlling interests		10,875	10,687	10,803
– subscribed capital		3,412	3,412	3,412
– compound instruments (equity component)		45	45	45
– capital surplus		2,182	2,182	2,182
– retained earnings		4,857	4,883	4,825
– revaluation surplus		35	114	288
– foreign currency translation reserve		2	2	2
– consolidated profit/loss		342	50	50
• Non-controlling interests		17	13	13
Total liabilities		**226,288**	**214,455**	**214,521**

Rounding differences may occur in the tables.

1 Opening balance sheet under IFRS 9.

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 31 Dec 2016	**4,412**	**69**	**2,182**	**4,043[1]**	**315**	**–1**	**–**	**11,019**	**15**	**11,035**
Adjusted as per IAS 8								–		–
As at 1 Jan 2017	**4,412**	**69**	**2,182**	**4,043**	**315**	**–1**	**–**	**11,019**	**15**	**11,035**
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**	**4,198**	**292**	**2**	**330**	**10,483**	**12**	**10,494**

Rounding differences may occur in the tables.

Details on equity can be found in note 35.

1 Adjustment 31 December 2016 (see Annual Report 31 December 2017 note 2).

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 31 Dec 2017	**3,412**	**45**	**2,182**	**4,825**	**288**	**2**	**50**	**10,803**	**13**	**10,816**
First-time application effect pursuant to IFRS 9[1]				58	−174			−116		−116
As at 1 Jan 2018	**3,412**	**45**	**2,182**	**4,883**	**114**	**2**	**50**	**10,687**	**13**	**10,700**
Changes in the revaluation surplus										
Changes in the revaluation surplus from debt instruments – FVOCIM[2]					−54			−54		−54
Fair value changes attributable to changes in the credit quality of financial liabilities – FVPLD (FVO)[3]				−1	−24			−25		−25
Currency-related changes						–		–		–
Changes due to remeasurement of defined benefit plans				−25				−25		−25
Other comprehensive income				*−26*	*−78*	–		*−104*	–	*−104*
Consolidated profit/loss							342	342	5	347
Total comprehensive income				*−26*	*−78*	–	*342*	*238*	*5*	*243*
Capital increase/ capital decrease		−1						−1		−1
Changes in the scope of consolidation and Other				1				1		1
Distribution of profits							−50	−50	−1	−51
As at 30 June 2018	**3,412**	**45**	**2,182**	**4,857**	**35**	**2**	**342**	**10,875**	**17**	**10,892**

Rounding differences may occur in the tables.
Details on equity can be found in note 35.
1 Adjusted as per IFRS 9 (see note 2).
2 Revaluation surplus – gains or losses on fair value measurement of financial assets in the "financial assets mandatorily measured at fair value through other comprehensive income" category.
3 Revaluation surplus – fair value changes attributable to changes in the credit quality of financial liabilities from the "fair value option" category recognised through other comprehensive income.

Cash flow statement (condensed)

EUR million	1 Jan – 30 Jun 2018	1 Jan – 30 Jun 2017
Cash and cash equivalents at end of previous period	**3,556**	**2,096**
+/– cash flow from operating activities	5,188	5,845
+/– cash flow from investment activities	–6	8
+/– cash flow from financing activities	–91	–1,051
+/– exchange-rate, scope of consolidation and measurement-related changes in cash and cash equivalents	124	–83
Cash and cash equivalents at end of period	**8,771**	**6,815**

Rounding differences may occur in the tables.

Notes

1 **Notes to the half-yearly financial statements** 54

2 **Accounting policies** 54

(1) Principles
(2) Changes on the previous year
(3) Scope of consolidation

3 **Segment reporting** 78

(4) Notes to the segment report

4 **Notes to the statement of comprehensive income** 84

(5) Net interest income
(6) Risk provisions
(7) Net commission income
(8) Gains or losses on fair value measurement
(9) Gains or losses on hedge accounting
(10) Gains or losses on derecognised financial assets
(11) Gains or losses on financial investments
(12) Administrative expenses
(13) Expenses for the bank levy and deposit guarantee scheme
(14) Other income and expenses
(15) Gains or losses on restructuring

5 **Notes to the balance sheet** 91

(16) Cash reserves
(17) Loans and advances to banks
(18) Loans and advances to customers
(19) Risk provisions
(20) Assets held for trading
(21) Positive fair values from derivative financial instruments (hedge accounting)
(22) Financial investments
(23) Investment property
(24) Property, plant and equipment
(25) Intangible assets
(26) Other assets
(27) Liabilities to banks
(28) Liabilities to customers
(29) Securitised liabilities
(30) Liabilities held for trading
(31) Negative fair values from derivative financial instruments (hedge accounting)
(32) Provisions
(33) Other liabilities
(34) Subordinated capital
(35) Equity

6 **Notes to financial instruments** 102

(36) Fair value of financial instruments
(37) Financial instrument measurement categories
(38) Reclassification of financial assets
(39) Fair value hierarchy of financial instruments
(40) Derivatives transactions

7 **Supplementary information** 111

(41) Revenue from contracts with customers
(42) Trust transactions
(43) Contingent assets, contingent liabilities and other commitments
(44) Administrative bodies of BayernLB
(45) Related party disclosures
(46) Events after the reporting period

Notes to the half-yearly financial statements

The half-yearly financial statements of the BayernLB Group as at 30 June 2018 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 315e para. 1 of the German Commercial Code (HGB). In addition to the IFRS standards, IFRSs 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 2018 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 2018 were the same as those used for the 2017 consolidated financial statements. Information provided in these half-yearly financial statements is to be read in conjunction with the information in the published and unqualified audited consolidated financial statements as at 31 December 2017. 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.

Impact of amended and new International Financial Reporting Standards

In financial year 2018 the following amended or newly issued Standards and Interpretations that the European Commission has incorporated into European law are to be applied for the first time:

- ***IFRS 2***
  The changes to IFRS 2 “Share-based Payment” contain clarifications on the classification and measurement of share-based payments. There was no impact on the half-yearly financial statements of the BayernLB Group as at 30 June 2018.

- ***IFRS 4***
  The changes to IFRS 4 “Insurance Contracts” offers entities concluding agreements within the scope of IFRS 4 two options which they are free to apply (provided certain conditions are met) to deal with the challenges from the lack of synchronicity between the first-time application of IFRS 9 “Financial Instruments” and the new Standard for accounting for insurance contracts. The changes had no impact on the half-yearly financial statements of the BayernLB Group as at 30 June 2018.

- ***IFRS 9***
  The new Standard IFRS 9 “Financial Instruments” contains new standards on the classification and measurement of financial instruments, new rules on the recognition of impairments of financial assets and the treatment of hedge accounting. The implementation of the new Standard, which must be applied retrospectively, reduced the BayernLB Group’s equity by EUR 116 million as at the date of first-time application (taking account of deferred taxes). For additional information on the effects on the half-yearly financial statements of the BayernLB Group as at 30 June 2018, refer to note 2 – “First-time application of IFRS 9” section. Where it was a requirement under IAS 34, the disclosure requirements of IFRS 7 expanded by IFRS 9 were incorporated into these half-yearly financial statements.
- ***IFRS 15***
  The new Standard IFRS 15 “Revenue from Contracts with Customers”, which replaces Standards IAS 11 “Construction Contracts” and IAS 18 “Revenue”, the Interpretations IFRIC 13 “Customer Loyalty Programmes”, IFRIC 15 “Agreements for the Construction of Real Estate”, IFRIC 18 “Transfers of Assets from Customers” and SIC-31 “Revenue-Barter Transactions Involving Advertising Services”, deals with the recognition of revenue from contracts with customers. IFRS 15 does not distinguish between different types of orders or performance, but sets uniform criteria as to when revenue must be realised for performance. Under IFRS 15, revenue is recognised if the customer has control over the goods or services. Revenue is recognised in the amount of the consideration expected for the performance obligations assumed. Collection of revenue from financial instruments does not fall within the scope of IFRS 15, but is governed in IFRS 9. A five-level model must be used to assess the amount of revenue that must be realised, as well as when and over what period. The amendments to IFRS 15 largely contain clarifications on the identification of performance obligations, classifications as principal or agent, recognition of revenues from licences, and reliefs with respect to the first-time application of IFRS 15. The new rules also resulted in changes to revenues recognised in subsequent periods, especially in cases where third parties render services for the BayernLB Group’s customers (principal-agent relationship). The modified retrospective application of IFRS 15 did not have any significant impact on the half-yearly financial statements of the BayernLB Group as at 30 June 2018. Where it was a requirement under IAS 34, the disclosure requirements of IFRS 15 were incorporated into these half-yearly financial statements.
- ***IAS 40***
  The changes to IAS 40 “Investment Property” clarify in particular that transfers to or from investment property may be made only if there is evidence of a change in use. The changes had no impact on the half-yearly financial statements of the BayernLB Group as at 30 June 2018.
- ***IFRIC 22***
  The new Interpretation IFRIC 22 “Foreign Currency Transactions and Advance Consideration” clarifies what exchange rate must be applied when initially recognising a foreign currency transaction in the functional currency if an entity pays or receives advance consideration on the assets, expenses or income underlying the transaction. There was no impact on the half-yearly financial statements of the BayernLB Group as at 30 June 2018.

- ***Improvements to IFRS – 2014-2016 cycle***
  In the annual improvements to IFRS, several changes were made including minor amendments to IFRS 1 “First-time Adoption of International Financial Reporting Standards” and IAS 28 “Investments in Associates and Joint Ventures”. The changes had no impact on the half-yearly financial statements of the BayernLB Group as at 30 June 2018.

Amended or new standards and interpretations not yet incorporated into European law were not applied to these half-yearly financial statements. The same applies to the Standard IFRS 16 “Leases” and the amendments to IFRS 9 “Financial Instruments” (prepayment features with negative compensation) which were already adopted in European law, but do not become mandatory until financial year 2019.

(2) Changes on the previous year

In the reporting period the BayernLB Group made changes to estimates of measurement parameters for calculating liabilities under IAS 19. Overall the changes in measurement produced a gain of EUR 6 million, increasing retained earnings by EUR 6 million. This is due to the updating of the discount rate for pension obligations (EUR 8 million) and estimated future pension costs (EUR –2 million). As a result of the adjustments, pension obligations fell by EUR 6 million. The changes in estimates will also have an impact on future periods which currently cannot be reliably estimated.

For details on changes in accordance with IAS 8.14 et seq. under IFRS 9, see the “First-time application of IFRS 9” section below.

First-time application of IFRS 9

The modified retrospective application of IFRS 9 had the following impact on the balance sheet line items of the BayernLB Group as at the date of first-time application:

EUR million	31 Dec 2017 IAS 39	Adjustments	1 Jan 2018 IFRS 9
Assets			
• Loans and advances to customers	134,686	–278	134,408
• Risk provisions	1,185	–62	1,123
• Assets held for trading	11,981	191	12,172
• Positive fair values from derivative financial instruments (hedge accounting)	813	–259	554
• Financial investments	23,363	167	23,530
• Deferred tax assets	544	61	606
• Other assets	2,060	–11	2,049
Liabilities			
• Liabilities to customers	91,945	–2	91,944
• Securitised liabilities	41,847	–2	41,846
• Provisions	4,233	46	4,279
• Other liabilities	562	8	570
• Equity	10,816	–116	10,700
– equity excluding non-controlling interests	10,803	–116	10,687
retained earnings	4,825	58	4,883
revaluation surplus	288	–174	114

The new IFRS 9 rules resulted in differences in disclosures and modified amounts recognised. Equity and the other balance sheet items were mainly impacted by the following:

- Due to the application of the business model criterion, financial assets which had been recognised under loans and advances to customers and measured at amortised cost were assigned to assets held for trading at their fair value in the amount of EUR 64 million (see the "Reclassification at the date of first-time application of IFRS 9" section – reconciliation of the carrying amounts of financial assets – "financial assets mandatorily measured at fair value through profit or loss" category).
- In addition, due to the application of the business model criterion, financial assets recognised under financial investments which had been measured at amortised cost were recognised at their fair value in the amount of EUR 80 million (including a measurement effect of EUR 8 million) (see the "Reclassification at the date of first-time application of IFRS 9" section – reconciliation of the carrying amounts of financial assets – "financial assets mandatorily measured at fair value through other comprehensive income" category).
- Since the cash flow criterion was not met, financial assets recognised under loans and advances to customers which had been measured at amortised cost are recognised at their fair value in the amount of EUR 170 million (including a measurement effect of EUR –100 million) (see the "Reclassification at the date of first-time application of IFRS 9" section – reconciliation of the carrying amounts of financial assets – "financial assets mandatorily measured at fair value through profit or loss" category).
- Financial assets which had been designated to the fair value option and recognised under financial investments were assigned to the "financial assets mandatorily measured at fair value through profit or loss" category in the amount of EUR 179 million, since at the date of first-time application there were no further measurement or recognition inconsistences due to the cash flow criterion not being met (see the "Reclassification at the date of first-time application of IFRS 9" section – reconciliation of carrying amounts of financial assets – "financial assets mandatorily measured at fair value through profit or loss" category).
- In addition, financial assets which had been designated to the fair value option and recognised under loans and advances to customers were assigned to the "financial assets measured at amortised cost" category in the amount of EUR 104 million (including a measurement effect of EUR –12 million), since at the date of first-time application there were no further measurement or recognition inconsistences (see the "Reclassification at the date of first-time application of IFRS 9" section – reconciliation of the carrying amounts of financial assets – "financial assets measured at amortised cost" category).
- Furthermore, financial liabilities which had been classified as "financial liabilities measured at amortised cost" and reported in the balance sheet line items "liabilities to customers" and "securitised liabilities" were designated to the fair value option in the amount of EUR 827 million (including a measurement effect of EUR 3 million) due to measurement inconsistencies existing as at the date of first-time application; the concomitant unwinding of hedges resulted in a reclassification of derivative financial instruments from the balance sheet line item "positive fair values from derivative financial instruments (hedge accounting)" to the line item

“assets held for trading” in the amount of EUR 259 million (see the “Reclassification at the date of first-time application of IFRS 9” section – reconciliation of the carrying amounts of financial assets – “financial assets mandatorily measured at fair value through profit or loss” category, derivative financial instruments in hedges (hedge accounting), and reconciliation of the carrying amounts of financial liabilities – “fair value option” category).

- Contract amendments that led to a change in contractual cash flows but were not so significant that they resulted in derecognition did not materially impact the first-time application effect (see the “Reclassification at the date of first-time application of IFRS 9” section – reconciliation of the carrying amounts of financial assets – “financial assets measured at amortised cost” category).
- The requirements for determining the loss allowances, which are measured in the amount of the expected 12-month credit losses, as amended in part compared with the portfolio loan loss provision pursuant to IAS 39 (Level 1 of the general approach for determining loss allowances), reduced loss allowances in the balance sheet line items “risk provisions” and “provisions” in the amount of EUR 8 million (see the “Reclassification at the date of first-time application of IFRS 9” section – reconciliation of the loss allowances for financial assets – “financial assets measured at amortised cost” category and reconciliation of the loss allowances for financial guarantees/credit commitments to which the impairment rules under IFRS 9 apply).
- The initial recognition of loss allowances – measured in the amount of the lifetime expected credit losses – for financial instruments for which the default risk has increased significantly since initial recognition but which are not financial instruments with impaired creditworthiness (Level 2 of the general approach for determining loss allowances) resulted in an increase in loss allowances in the balance sheet line items “risk provisions” and “provisions” of EUR 135 million (see the “Reclassification at the date of first-time application of IFRS 9” section – reconciliation of the loss allowances for financial assets – “financial assets measured at amortised cost” category and reconciliation of the loss allowances for financial guarantees/credit commitments to which the impairment rules under IFRS 9 apply).
- For financial instruments whose loss allowances are measured in the amount of the lifetime expected credit losses and whose creditworthiness was impaired at the date of first-time application, but not at the time of acquisition or issue (Level 3 of the general approach for determining loss allowances), an increased loss allowance was the overall outcome from the calculation of the expected cash flows using weighted scenarios and from the consideration of forward-looking information. If the expectation with regard to cash flows was based on surplus cover, in particular from valuable collateral, this led in part to a reduced loss allowance. This resulted in an overall decrease in the loss allowances in the balance sheet line items “risk provisions” and “provisions” of EUR 23 million (see the “Reclassification at the date of first-time application of IFRS 9” section – reconciliation of the loss allowances for financial assets – “financial assets measured at amortised cost” category and reconciliation of the loss allowances for financial guarantees/credit commitments to which the impairment rules under IFRS 9 apply).
- In the case of financial assets that already had an impaired credit rating at the time of acquisition or issue (purchased or originated credit-impaired financial assets (POCI)), the amounts were recognised in loans and advances to customers in the amount of the discounted future

expected cash flows; the risk provisions for POCI were reduced accordingly. This resulted in a decrease of EUR 102 million in the balance sheet line item "loans and advances to customers" and a decrease of EUR 117 million in the balance sheet line item "risk provisions" (including a measurement effect of EUR 15 million) (see the "Reclassification at the date of first-time application of IFRS 9" section – reconciliation of the carrying amounts of financial assets – "financial assets measured at amortised cost" category and reconciliation of the loss allowances for financial assets – "financial assets measured at amortised cost" category).

- Deferred tax assets of EUR 61 million were recognised due to temporary differences between the carrying amount of an asset or liability in the balance sheet and its respective tax base.

In addition, there were reclassifications within equity from retained earnings to the revaluation surplus in the amount of EUR 49 million (excluding deferred taxes) resulting from the recognition through other comprehensive income of changes in the value of financial liabilities in the fair value option resulting from own default risk. In addition, there were reclassifications from the revaluation surplus to retained earnings in the amount of EUR 159 million (excluding deferred taxes) from measurement effects of equity instruments which had been measured at fair value through other comprehensive income and are now measured at fair value through profit or loss.

The report describes in detail below the changes in accounting policies affecting the BayernLB Group due to the new rules on classification and measurement, accounting for impairments and recognising hedges.

Classification and measurement

The classification of financial instruments is dependent on the business model in which the financial asset is held (business model criterion) and on the contractually agreed cash flow characteristics of the respective financial asset (cash flow criterion).

The business model is determined on the basis of the objective set by management of how groups of financial assets are managed together:

- Financial assets held for the purpose of collecting contractually agreed cash flows are assigned to the Hold to collect business model.
- Financial assets held for the purpose of collecting contractually agreed cash flows and to be sold are assigned to the Hold to collect and sell business model.
- Financial assets held for trading or that do not meet the criteria of the Hold to collect or Hold to collect and sell business model are assigned to the Sell business model.

When analysing the cash flow criterion, the Bank must examine each financial asset to determine if the contractually agreed cash flows are exclusively repayments of interest and principal. Contractually agreed cash flows that are exclusively interest and principal repayments have the characteristics of a typical credit agreement. Normally compensation for the time value of money and default risk, interest can also comprise compensation for other underlying credit risks (e.g. liquidity risk) and costs (e.g. administrative costs) in connection with the holding of the financial asset over a certain period of time and a profit margin. Repayments are repayments of the outstanding capital amount.

The classification of financial liabilities under IFRS 9 remains the same as for IAS 39.

Financial instruments are measured in accordance with the measurement category to which they have been assigned. As of financial year 2018, these categories are defined as follows:

Financial assets measured at fair value through profit or loss

These include financial assets mandatorily measured at fair value through profit or loss (including derivatives in accordance with IFRS 9) and financial assets for which the fair value option is applied (financial assets designated at fair value through profit or loss). Derivative financial instruments which are used as hedges and meet hedge accounting criteria under IAS 39 do not come under this category.

- Financial assets mandatorily measured at fair value through profit or loss:

  These include debt instruments that are assigned to the Sell business model, derivative financial instruments with positive fair values that are recognised in accordance with IFRS 9 and are not designated as hedging instruments as part of hedge accounting in accordance with IAS 39, and equity instruments that are held for trading or are not classified as "investments in equity instruments designated at fair value through other comprehensive income". In addition, the "financial assets mandatorily measured at fair value through profit or loss" category also includes debt instruments that are assigned to the Hold to collect or Hold to collect and sell business models but do not meet the cash flow criterion.

  These instruments are measured at fair value. The measurement gains or losses are booked to gains or losses on fair value measurement unless they are measurement gains or losses from equity instruments not held for trading and which are measured at fair value through profit or loss; in this case they are shown in gains or losses on financial investments. Gains or losses on fair value measurement also includes realised and current income. Current income from financial instruments not held for trading and derivatives in economic hedges is recognised in net interest income. Derivatives in economic hedges include derivatives for hedging fair value option transactions and derivatives in other economic hedges. These derivatives do not meet hedge accounting criteria under IAS 39. They are used for risk management and have not been concluded for trading purposes.

  If debt instruments are allocated to the Sell business model, they are reported in the balance sheet line item "assets held for trading" in the same way as derivatives and equity instruments held for trading. Debt instruments that must be measured at fair value through profit or loss based on the analysis of the cash flow criterion must be shown under the balance sheet line items "cash reserves", "loans and advances to banks", "loans and advances to customers" and "financial investments". Equity instruments not held for trading and which are measured at fair value through profit or loss are reported under financial investments. As at the reporting date, the BayernLB Group only had loans and advances to customers, assets held for trading and other financial investments.

- Financial assets designated at fair value through profit or loss (fair value option):

  The fair value option is applied to reduce or eliminate inconsistencies between valuations and amounts recognised. These are measured at fair value. Measurement gains or losses are recognised under gains or losses on fair value measurement. Current income is reported under net interest income.

The financial assets designated to the fair value option must be shown in the balance sheet line items “cash reserves”, “loans and advances to banks”, “loans and advances to customers” and “financial investments”. As at the reporting date, the BayernLB Group only had financial investments (securities).

Financial assets measured at amortised cost

These include debt instruments that are assigned to the Hold to collect business model, that meet the cash flow criterion and for which the fair value option is not applied. They comprise mainly loans.

These instruments are measured at amortised cost. Current income is reported under net interest income. This item also includes modification gains and losses from non-significant modifications of contractually agreed cash flows of financial assets, the loss allowances for which are measured in the amount of the expected 12-month credit losses, and in subsequent accounting the income and expenses from the amortisation of amortised costs of significantly and non-significantly modified financial assets. Modification gains and losses from non-significant modifications of contractually agreed cash flows of financial assets, the loss allowances for which are measured in the amount of the lifetime expected credit losses, are reported in the income statement under “risk provisions”. Realised gains or losses, including income and expenses from significant modifications, are recognised in gains or losses on derecognised financial assets. If financial assets are reclassified to the “financial assets mandatorily measured at fair value through profit or loss” category, gains and losses resulting from a difference between the previous amortised cost and the fair value at the time of reclassification are reported in the reclassification gains or losses. No reclassifications took place in the reporting period within the BayernLB Group.

The financial assets falling within this category must be shown in the balance sheet line items “cash reserves”, “loans and advances to banks”, “loans and advances to customers” and “financial investments”. As at the reporting date, the BayernLB Group had holdings only in the cash reserves, loans and advances to banks and loans and advances to customers.

Loss allowances for the financial assets reported in the balance sheet items “cash reserves”, “loans and advances to banks”, “loans and advances to customers” and “financial investments” are shown separately in the asset item “risk provisions”. In the case of securities included in the balance sheet item “financial investments”, any necessary loss allowances are deducted from the carrying amount of the financial asset. As at the reporting date, the BayernLB Group only had loss allowances for loans and advances to banks and loans and advances to customers. Income and expenses from the release or addition to risk provisions are taken to the income statement in the line item “risk provisions”. Income from the writeup of the carrying amount of financial assets whose creditworthiness was impaired when they were acquired or issued to above the original cost of acquisition is also shown here. The method for determining loss allowances is described in the “Impairment” section below.

Financial assets measured at fair value through other comprehensive income

This includes the financial assets mandatorily measured at fair value through other comprehensive income and equity instruments designated at fair value through other comprehensive income.

- Financial assets mandatorily measured at fair value through other comprehensive income:

  These include debt instruments that are assigned to the Hold to collect and sell business model and meet the cash flow criterion and for which the fair value option is not applied. They comprise mainly securities.

  These instruments are measured at fair value. Measurement gains and losses are reported through other comprehensive income in the revaluation surplus. Current income is reported under net interest income. This item also includes modification gains and losses from non-significant modifications of contractually agreed cash flows of financial assets, the loss allowances for which are measured in the amount of the expected 12-month credit losses, and in subsequent measurement the income and expenses from the amortisation of amortised costs of significantly and non-significantly modified financial assets. Modification gains and losses from non-significant modifications of contractually agreed cash flows of financial assets, the loss allowances for which are measured in the amount of the lifetime expected credit losses, are reported in the income statement under “risk provisions”. If financial assets are derecognised from the “financial assets mandatorily measured at fair value through other comprehensive income” category, the amounts booked in the revaluation surplus are reclassified to the income statement. These realised gains or losses including income and expenses from significant modifications are shown in gains or losses on financial investments or other income and expenses. If financial assets are reclassified to the “financial assets measured at fair value through profit or loss” category, the gains and losses recognised in the revaluation surplus and reclassified to the income statement are reported in the reclassification gains or losses. No reclassifications took place in the reporting period within the BayernLB Group.

  The financial assets falling within this category must be shown in the balance sheet line items “cash reserves”, “loans and advances to banks”, “loans and advances to customers” and “financial investments”. As at the reporting date, the BayernLB Group only had loans and advances to customers and financial investments.

  Any necessary loss allowances are shown in the revaluation surplus with no effect on income. Income and expenses from the release or addition to risk provisions are taken to the income statement in the line item “risk provisions”. Income from the writeup of the carrying amount of financial assets whose creditworthiness was impaired when they were acquired or issued to above the original cost of acquisition is also shown here. The method for determining loss allowances is described in the “Impairment” section below.

- Investments in equity instruments designated at fair value through other comprehensive income:

  This includes equity instruments not held for trading and for which the option has been exercised to assign them to the “investments in equity instruments designated at fair value through other comprehensive income” category.

This category had not previously been used in the BayernLB Group.

Financial liabilities measured at fair value through profit or loss

These include financial liabilities held for trading (including derivatives in accordance with IFRS 9) and financial liabilities for which the fair value option is applied (financial liabilities designated at fair value through profit or loss). Derivative financial instruments which are used as hedges and meet hedge accounting criteria under IAS 39 do not come under this category.

- Held-for-trading financial liabilities:

  In addition to financial liabilities held for trading purposes, these include derivative financial instruments with negative fair values that are accounted for in accordance with IFRS 9 and are not designated as hedging instruments as part of hedge accounting in accordance with IAS 39.

  These instruments are measured at fair value. Measurement gains or losses are reported under gains or losses on fair value measurement. Realised and current income is also reported under this item. Current income from derivatives in economic hedges is recognised in net interest income. Derivatives in economic hedges include derivatives for hedging fair value option transactions and derivatives in other economic hedges. These derivatives do not meet hedge accounting criteria under IAS 39. They are used for risk management and have not been concluded for trading purposes.

  Financial liabilities in the “held-for-trading” category (including derivatives) are shown in the balance sheet line item “liabilities held for trading”.

- Financial liabilities designated at fair value through profit or loss (fair value option):

  The fair value option is applied to reduce or eliminate accounting mismatches and to avoid bifurcating embedded derivatives which must be separated. These instruments are measured at fair value. Measurement gains or losses must be recognised under gains or losses on fair value measurement. Current income is reported under net interest income. In contrast to IAS 39, changes in value resulting from the Bank’s own default risk (fair value changes attributable to changes in the credit quality) are generally no longer recognised in profit or loss but are recognised through other comprehensive income in the revaluation surplus, unless this would lead to or exacerbate a mismatch in the disclosure or measurement. There are no such recognition or measurement inconsistencies in the BayernLB Group at present. When financial liabilities in the “fair value option” category are derecognised, the amounts derecognised in the revaluation surplus are reclassified to retained earnings within equity.

  From financial year 2018, the fair value changes attributable to changes in the credit quality are calculated as the sum of the monthly fair value changes attributable to changes in the credit quality in the reporting period or from designation, taking into account the residual maturities of the liabilities. The monthly changes are calculated as the difference between the fair values, which – while retaining all other market parameters – are calculated on one hand with the credit spread at the end of each month and on the other with the credit spread at the end of the previous month.

Financial liabilities (structured issues and liabilities with embedded derivatives) designated to the fair value option must be reported in the balance sheet line items “loans and advances to banks”, “loans and advances to customers”, “securitised liabilities” and “subordinated capital”. As at the reporting date, the BayernLB Group only had holdings of liabilities to banks, liabilities to customers and securitised liabilities.

Financial liabilities measured at amortised cost

These include financial liabilities not used for trading purposes and for which the fair value option is not applied.

These instruments are measured at amortised cost. Current income is reported under net interest income. This item also includes modification gains and losses from non-significant modifications of contractually agreed cash flows of financial liabilities, and in subsequent measurement the income and expenses from the amortisation of amortised costs of significantly and non-significantly modified financial liabilities. Realised gains or losses, including income and expenses from significant modifications, are recognised in net interest income and other income and expenses.

Financial liabilities falling into this category are shown under the balance sheet line items “liabilities to banks”, “liabilities to customers”, “securitised liabilities” and “subordinated capital”.

In the case of contractual amendments to financial assets and financial liabilities that lead to a change in contractual cash flows but are not so significant that they result in derecognition, the gross carrying amount of the financial instrument is remeasured by discounting the modified contractual payments at the original or credit risk-adjusted effective interest rate (non-significant modification). Any resulting modification gain or loss is recognised in the income statement. In subsequent accounting, the amortised cost of financial instruments that have not been significantly modified is amortised over their remaining term.

If the contractual rights to cash flows are modified so that they are deemed de facto to have been extinguished or expired, the financial instrument is derecognised and the modified financial instrument booked (significant modification). Any resulting income or expense is recognised in the income statement. In subsequent accounting, the amortised cost of the significantly modified financial instruments is amortised over their remaining term.

To determine the fair values of loans and advances whose loss allowances are measured in the amount of the expected 12-month credit losses (Level 1 of the general approach for determining loss allowances), in the amount of the lifetime expected credit losses (Level 2 of the general approach for determining loss allowances) or in the amount of the lifetime expected credit losses whose creditworthiness is impaired on the reporting date but was not yet impaired at the date of acquisition or issue (Level 3 of the general approach for determining loss allowances) for which, however, the creation of a risk provision was not necessary despite impaired creditworthiness, the contractually agreed cash flows are discounted using the cost curve plus transaction-specific measurement spreads. The cost curve corresponds to the risk-free yield curve and a liquidity spread curve, which differs depending on the currency and cover status of the transaction. In addition to a constant margin over the term of the transaction, which is determined at the time the transaction is concluded, the transaction-specific valuation spread includes an updated risk component that reflects the creditworthiness of the business partner over time. Optional components included in credit agreements (e.g. termination options) are valued using common assessment methods. When determining the fair values of credit transactions whose loss allowances are measured in the amount of the lifetime expected credit losses and whose creditworthiness is impaired as at the reporting date but was not yet impaired at the date of acquisition or issue (Level 3 of the general approach for determining loss allowances), and for which a risk provision was necessary due to the impaired creditworthiness, the expected losses are taken into account by adjusting the cash flows for the risk costs and consequently not including them in the discounting in the form of a credit spread. The fair values of credit transactions measured at fair value through profit or loss for the first time as a result of the application of IFRS 9 are determined using the same approach on the basis of credit spreads observable on the market.

Impairment

The impairment provisions of IFRS 9 follow an approach in which, in contrast to IAS 39, not just incurred losses but also expected losses must be accounted for using the expected credit loss model.

The impairment rules apply to all debt instruments in the "financial assets measured at amortised cost" and "financial assets mandatorily measured at fair value through other comprehensive income" categories and to financial guarantees and irrevocable and revocable credit commitments for which the committor cannot unilaterally and unconditionally withdraw from its commitment at any time and whose measurement is not at fair value through profit or loss. Provisions for other contingent liabilities and other obligations for which there is a default risk must be made in accordance with IAS 37.

The following approaches are used to determine the loss allowance:
- The general approach
- The approach for financial instruments with creditworthiness already impaired at the time of acquisition or issue and
- The simplified approach

General approach

Loss allowances are determined according to the general approach on the basis of the principle of a deterioration in creditworthiness. In principle, this is a relative credit risk model, according to which a significant increase in the default risk as at the reporting date compared with initial recognition requires higher risk provisions to be made. The loss allowances are broken down accordingly as follows:
- Loss allowances measured in the amount of the expected 12-month credit losses (Level 1)
- Loss allowances measured in the amount of the lifetime expected credit losses, for financial instruments for which the default risk has increased significantly since initial recognition but which are not financial instruments with impaired creditworthiness (Level 2)
- Loss allowances measured in the amount of the lifetime expected credit losses, for financial instruments whose creditworthiness is impaired as at the reporting date, but which was not yet impaired at the time of acquisition or issue (Level 3)

Determining a significant increase in the default risk

On initial recognition, the respective financial instrument is assigned to Level 1. A significant increase in default risk in the BayernLB Group is determined on the basis of the change in the 12-month probability of default (PD), the calculation of which is enshrined in the Bank's credit risk processes. The rating of the financial instrument at the time of initial recognition is compared with the rating of the financial instrument at the respective reporting date. If the deviation exceeds the statistical expected value of credit deterioration, the increase in the default risk is classified as significant (expected downgrade). The statistical expected value of credit deterioration (rating significance thresholds) is determined on the condition that a deterioration occurs, depending on the previous term of the financial instrument.

The main inputs for determining a significant increase in default risk are the customer-specific expected change in PD (PD profile per rating module) and the associated rating migration matrix. The rating migration matrix indicates the probability of a change in the rating occurring within the next 12 months. The conditional PD profile describes the probability that a business partner can no longer meet its financial obligations at a certain point in time in the future, assuming that it was able to meet its obligations up to that point in time. In determining the conditional PD profile, forward-looking information, in particular macroeconomic developments, are taken into account.

In addition to the relative criterion for determining a significant increase in the default risk, the BayernLB Group also applies an absolute criterion in the form of 30-day payment arrears. The BayernLB Group does not apply the rebuttal of the assumption that there is a significant increase in the default risk in the event of 30-day payment arrears.

The option of always assigning a financial instrument with a low default risk to Level 1 applies in the BayernLB Group for a selected securities portfolio. The default risk of a financial instrument is considered low if it has an investment grade rating.

A financial instrument is reclassified from Level 2 to Level 1 if the default risk as at the reporting date is no longer significantly higher than on initial recognition. The procedure for a level transfer is the same for a non-significantly modified financial instrument.

If the creditworthiness of a financial instrument is impaired as at the reporting date, it is reclassified to Level 3. To determine whether a financial instrument's creditworthiness is impaired, the BayernLB Group uses in its early risk detection process the following qualitative and quantitative criteria in particular which could have a negative impact on expected future cash flows:
- 90-day payment arrears by the debtor in respect of a substantial amount of the contractually agreed payments
- Significant doubt as to the creditworthiness of the debtor
- Restructuring/reorganisation of debt with a substantial waiver or postponement of interest and fee payments
- Loss allowance or a partial or full writedown due to a significant deterioration in credit quality
- Sale of receivables at a considerable economic loss
- Application for the insolvency of the borrower or comparable protective measures
- Default due to a transfer event

These criteria apply to all transactions in the BayernLB Group and are also applied to internal credit risk management. They correspond to the supervisory definition of a loan default according to Article 178 para. 1 of the Capital Requirements Regulation (CRR).

As soon as the default criterion is no longer met, the financial instrument is no longer recognised at Level 3, taking into account a recovery phase. For the 90-day arrears criterion, a business partner is considered healthy and is no longer considered to be in default if no further 90-day arrears occurs during a period of six consecutive months and no other default criterion is met.

Determining the loss allowance

When determining the expected credit losses on a financial instrument in Level 1 and Level 2, the following parameters are used:
- Probability of default (PD): this represents the probability that a business partner can no longer meet its financial obligations, with respect to the next 12 months (12-month PD) or over the contractual term of the obligation (lifetime PD). Multi-year PD is determined on the basis of historical observations and forward-looking information and also takes account in particular of macroeconomic developments.
- Exposure at default (EAD): this estimates the outstanding exposure at the time of default and is modelled on the basis of product-specific ancillary agreements (e.g. rights of termination and their probability of exercise). In addition to the current drawings, expected future drawings are also taken into account for commitments. The drawings in the year prior to default are recognised via the credit conversion factor (CCF) and the remaining unutilised facility.
- Loss given default (LGD): this shows the expected loss in default, distinguishing between an LGD for the secured and unsecured parts of the EAD. The maturity component is modelled based on the change in the market value of the collateral (collateral value over time).

The expected credit losses are discounted using the effective interest rate at the time of initial recognition or an approximation thereof.

To calculate the expected credit losses, forward-looking information over a two-stage process is taken into account. In a first step, provided that it has a relevant influence on the respective financial instrument or the associated business partner, forward-looking information for each individual financial instrument is used to determine the various credit risk parameters (in particular probability of default, collateral values and recovery rates). This also applies to relevant macroeconomic variables. In a second step, the credit risk parameters calculated at the level of the financial instruments and aggregated at (sub-)portfolio level with corresponding credit risk parameters, which are simulated largely on the basis of various, macroeconomic scenarios for the following years, are compared in a quantitative and qualitative analysis prior to the reporting date. In the event of a significant deviation within one or more (sub-)portfolios, the resulting effects on the expected credit losses are approximated and taken into account. In this way, forward-looking information on the individual characteristics of an individual financial instrument and enhanced forecasting quality at a higher aggregation level can be incorporated and combined in the best possible way.

In the case of Level 3 financial instruments, the loss allowance is recognised as the difference between amortised cost and the present value of expected cash flows. When determining expected cash flows, various scenarios normally need to be defined and weighted with the expected probability of occurrence. The expected cash flows must be discounted at the original effective interest rate.

Utilisations/writedowns

A financial instrument is derecognised if, based on current information, the Bank is confident that all economically reasonable measures to limit losses have been exhausted. This must be assumed if all measured collateral has been realised and there is no prospect of other payments (e.g. concluded insolvency proceedings, insolvency rejected for lack of assets). When an instrument is derecognised, a loss allowance that has already been created is utilised or a direct write-down is booked as a utilisation with a concomitant addition to the loss allowance, provided that no or insufficient loss allowances were created.

The Bank will also continue its efforts to recover derecognised financial instruments for which an external claim still exists.

Procedure for financial instruments with creditworthiness already impaired upon acquisition or issue

This method is used for financial instruments whose creditworthiness was already impaired at the time of acquisition or issue (purchased or originated credit-impaired financial assets (POCI)). In these cases, the cumulative changes in the lifetime expected credit losses since initial recognition must be recorded. To determine the expected credit losses, the risk-adjusted effective interest rate is used as the discount rate for calculating present value.

Simplified approach

The simplified approach is used in the BayernLB Group for trade receivables and contract assets in accordance with IFRS 15, regardless of whether they contain a significant financing componen^t. The loss allowances are always measured in the amount of the lifetime expected credit losses.

Recognition of hedging relationships (hedge accounting)

The BayernLB Group uses the option to continue reporting all hedges under IAS 39 rules.

Reclassification at the time of first-time application of IFRS 9

Reconciliation of carrying amounts

The following tables show the reconciliation of the carrying amounts of financial instruments by category in accordance with IAS 39 to the carrying amounts of financial instruments by category in accordance with IFRS 9 at the time of first-time application of IFRS 9 as at 1 January 2018. The following tables are broken down into categories in accordance with IFRS 9, so that the carrying amounts in accordance with IAS 39 and – if available – the reclassifications from IAS 39 categories must be considered together when reconciling to the carrying amount as at 31 December 2017 in accordance with IAS 39. The respective balance sheet amounts were reconciled, taking into account any deducted loss allowances, if necessary.

Reconciliation of the carrying amounts of financial assets – "financial assets mandatorily measured at fair value through profit or loss" category

	Carrying amount as per IAS 39	Reclassifications from the "loans and receivables" category	Reclassifications from non-categorised portfolios	Changes in measurement	Carrying amount as per IFRS 9
EUR million	**31 Dec 2017**	**1 Jan 2018**	**1 Jan 2018**	**1 Jan 2018**	**1 Jan 2018**
Financial assets mandatorily measured at fair value through profit or loss	**12,978**	**64**	**409**	**–92**	**13,360**
• Loans and advances to customers	270	–	–	–100	170
Category as per IAS 39:					
– loans and receivables	270	–	–	–100	170
• Assets held for trading	11,849	64	390	–	12,303
Category as per IAS 39:					
– held for trading	11,849	–	–	–	11,981
– other	–	64[1]	259[2]	–	323
• Financial investments	859	–	19	8	887
Category as per IAS 39:					
– fair value option	179	–	–	–	179
mandatorily de-designated	179	–	–	–	179
– available for sale	680	–	–	8	689
– other	–	–	19[3]	–	19

1 *Reclassification from the balance sheet line item "loans and advances to customers" to the line item "assets held for trading".*

2 *Reclassification from the balance sheet line item "positive fair values from derivative financial instruments (hedge accounting)" to the line item "assets held for trading".*

3 *Reclassification from the balance sheet line item "other assets" to the line item "financial investments".*

Reconciliation of the carrying amounts of financial assets – "fair value option" category

	Carrying amount as per IAS 39	Changes in measurement	Carrying amount as per IFRS 9
EUR million	**31 Dec 2017**	**1 Jan 2018**	**1 Jan 2018**
Fair value option	**88**	**–**	**88**
• Financial investments	88	–	88
Category as per IAS 39:			
– fair value option	88	–	88

Reconciliation of the carrying amounts of financial assets – "financial assets measured at amortised cost" category

	Carrying amount as per IAS 39	Changes in measurement	Carrying amount as per IFRS 9
EUR million	**31 Dec 2017**	**1 Jan 2018**	**1 Jan 2018**
Financial assets measured at amortised cost	**175,690**	**–114**	**175,577**
• Cash reserves	3,556	–	3,556
Category as per IAS 39:			
– loans and receivables	3,556	–	3,556
• Loans and advances to banks	37,787	–	37,787
Category as per IAS 39:			
– loans and receivables	37,787	–	37,787
• Loans and advances to customers	134,348	–114	134,234
Category as per IAS 39:			
– fair value option	117	–12	104
mandatorily de-designated	7	–1	7
voluntarily de-designated	109	–12	98
– loans and receivables	134,231	–102	134,129

Reconciliation of the carrying amounts of financial assets – "financial assets mandatorily measured at fair value through other comprehensive income" category

EUR million	Carrying amount as per IAS 39 31 Dec 2017	Reclassifications from the "held-for-trading" category 1 Jan 2018	Changes in measurement 1 Jan 2018	Carrying amount as per IFRS 9 1 Jan 2018
Financial assets mandatorily measured at fair value through other comprehensive income	**22,551**	**–**	**8**	**22,559**
• Loans and advances to customers	4	–	–	4
Category as per IAS 39:				
– available for sale	4	–	–	4
• Financial investments	22,416	131	8	22,555
Category as per IAS 39:				
– loans and receivables	72	–	8	80
– available for sale	22,344	–	–	22,344
– other	–	131	–	131

1 Reclassification from the balance sheet line item "assets held for trading" to the line item "financial investments".

Reconciliation of the carrying amounts of financial assets – derivative financial instruments in hedging relationships (hedge accounting)

EUR million	Carrying amount as per IAS 39 31 Dec 2017	Reclassifications to the "financial assets mandatorily measured at fair value through other comprehensive income" category 1 Jan 2018	Changes in measurement 1 Jan 2018	Carrying amount as per IFRS 9 1 Jan 2018
Derivative financial instruments in hedges (hedge accounting)	**813**	**–259**	**–**	**554**
• Positive fair values from derivative financial instruments (hedge accounting)	813	–259	–	554

Reconciliation of the carrying amounts of financial liabilities – “held-for-trading” category

	Carrying amount as per IAS 39	Changes in measurement	Carrying amount as per IFRS 9
EUR million	**31 Dec 2017**	**1 Jan 2018**	**1 Jan 2018**
Held for trading	**7,681**	**–**	**7,681**
• Liabilities held for trading	7,681	–	7,681
Category as per IAS 39:			
– held for trading	7,681	–	7,681

Reconciliation of the carrying amounts of financial liabilities – “fair value option” category

	Carrying amount as per IAS 39	Changes in measurement	Carrying amount as per IFRS 9
EUR million	**31 Dec 2017**	**1 Jan 2018**	**1 Jan 2018**
Fair value option	**8,624**	**–3**	**8,621**
• Liabilities to banks	237	–	237
Category as per IAS 39:			
– fair value option	237	–	237
• Liabilities to customers	3,845	–2	3,843
Category as per IAS 39:			
– fair value option	3,301	–	3,301
– financial liabilities measured at amortised cost	544	–2	542
• Securitised liabilities	4,539	–2	4,537
Category as per IAS 39:			
– fair value option	4,252	–	4,252
– financial liabilities measured at amortised cost	287	–2	285
• Subordinated capital	4	–	4
Category as per IAS 39:			
– fair value option	4	–	4

Reconciliation of the carrying amounts of financial liabilities – "financial liabilities measured at amortised cost" category

EUR million	Carrying amount as per IAS 39 31 Dec 2017	Changes in measurement 1 Jan 2018	Carrying amount as per IFRS 9 1 Jan 2018
Financial liabilities measured at amortised cost	**181,513**	**–**	**181,513**
• Liabilities to banks	54,205	–	54,205
Category as per IAS 39:			
– financial liabilities measured at amortised cost	54,205	–	54,205
• Liabilities to customers	88,101	–	88,101
Category as per IAS 39:			
– financial liabilities measured at amortised cost	88,101	–	88,101
• Securitised liabilities	37,309	–	37,309
Category as per IAS 39:			
– financial liabilities measured at amortised cost	37,309	–	37,309
• Subordinated capital	1,898	–	1,898
Category as per IAS 39:			
– financial liabilities measured at amortised cost	1,898	–	1,898

Reconciliation of the carrying amounts of financial liabilities – derivative financial instruments in hedging relationships (hedge accounting)

EUR million	Carrying amount as per IAS 39 31 Dec 2017	Changes in measurement 1 Jan 2018	Carrying amount as per IFRS 9 1 Jan 2018
Derivative financial instruments in hedges (hedge accounting)	**841**	**–**	**840**
• Negative fair values from derivative financial instruments (hedge accounting)	841	–	840

Reclassification of financial instruments

The following tables show the fair value of financial instruments as at the reporting date that were reclassified as at 1 January 2018 and are now measured at amortised cost, and the fair value of financial assets as at the reporting date that were reclassified from measured at fair value through profit or loss to measured at fair value through other comprehensive income as at 1 January 2018. In addition, the fair value changes that would have been recognised in profit or loss or in other comprehensive income in the reporting period without reclassification of these financial instruments are shown.

Reclassification of financial assets from the "fair value option" and "available for sale" categories to the "financial assets measured at amortised cost" category

	Fair value	Fair value changes without reclassification[1]
EUR million	30 Jun 2018	1 Jan – 30 Jun 2018
Reclassification from the "fair value option" category	**62**	**– 2**
• Loans and advances to customers	62	– 2
Total	**62**	**– 2**

1 *Taking into account the previous categorisation.*

Reclassification of financial assets from the "held for trading" and "fair value option" categories to the "financial assets mandatorily measured at fair value through other comprehensive income" category

	Fair value	Fair value changes without reclassification[1]
EUR million	30 Jun 2018	1 Jan – 30 Jun 2018
Reclassifications from the "held-for-trading" category[2]	**132**	**–**
• Financial investments	132	–
Total	**132**	**–**

1 *Taking into account the previous categorisation.*
2 *Previously reported under the line item "assets held for trading".*

The net interest income recognised in the reporting period from the financial instruments that as at 1 January 2018 were reclassified from at fair value through profit or loss is shown below.

EUR million	1 Jan – 30 Jun 2018
Reclassification from the "fair value option" category to the "financial assets measured at amortised cost" category	**1**
• Loans and advances to customers	1
Total	**1**

Effective interest rates determined at the time of first-time application of IFRS 9

in %	1 Jan 2018
Reclassification from the"fair value option" category to the "financial assets measured at amortised cost" category	**1.29 – 4.56**
• Loans and advances to customers	1.29 – 4.56
Reclassification from the "held-for-trading" category[1] to the "financial assets mandatorily measured at fair value through other comprehensive income" category	**0.00 – 1.38**
• Financial investments	0.00 – 1.38

1 Previously reported under the line item "assets held for trading".

Reconciliation of loss allowances and provisions

The following tables show the reconciliation of the loss allowances pursuant to IAS 39 and the provisions pursuant to IAS 37 to the loss allowances pursuant to IFRS 9 at the time of the first-time application of IFRS 9.

Reconciliation of the loss allowances for financial assets – "financial assets mandatorily measured at fair value through profit or loss" category

	Loss allowance as per IAS 39	Effects from a change in the measurement category	Effects from a change in calculation of the loss allowances	Loss allowance as per IFRS 9
EUR million	31 Dec 2017	1 Jan 2018	1 Jan 2018	1 Jan 2018
Financial assets mandatorily measured at fair value through profit or loss	**103**	**– 103**	**–**	**–**
• Specific loan loss provisions per IAS 39	103	– 103	–	–
Category as per IAS 39:				
– Loans and receivables	103	– 103	–	–

Reconciliation of the loss allowances for financial assets – “financial assets measured at amortised cost” category

EUR million	Loss allowance as per IAS 39 31 Dec 2017	Effects from a change in the measurement category 1 Jan 2018	Effects from a change in calculation of the loss allowances 1 Jan 2018	Loss allowance as per IFRS 9 1 Jan 2018
Financial assets measured at amortised cost	**1,083**	**–**	**40**	**1,123**
• Level 1	94	–	–18	76
– portfolio loan loss provisions as per IAS 39	94	–	–18	76
category as per IAS 39: loans and receivables	94	–	–18	76
• Level 2	61	–	118	179
– portfolio loan loss provisions as per IAS 39	61	–	118	179
category as per IAS 39: loans and receivables	61	–	118	179
• Level 3	784	–	57	842
– specific loan loss provisions per IAS 39	767	–	61	828
category as per IAS 39: loans and receivables	767	–	61	828
– portfolio loan loss provisions as per IAS 39	17	–	–4	13
category as per IAS 39: loans and receivables	17	–	–4	13
• POCI				
– specific loan loss provisions per IAS 39	144	–	–117	26
category as per IAS 39: loans and receivables	144	–	–117	26

Reconciliation of the loss allowances for financial assets – "financial assets mandatorily measured at fair value through other comprehensive income" category

	Loss allowance as per IAS 39	Effects from a change in the measurement category	Effects from a change in calculation of the loss allowances	Loss allowance as per IFRS 9
EUR million	**31 Dec 2017**	**1 Jan 2018**	**1 Jan 2018**	**1 Jan 2018**
Financial assets mandatorily measured at fair value through other comprehensive income	**–**	**2**	**–**	**2**
• Level 1	–	2	–	2
– portfolio loan loss provisions as per IAS 39	–	2	–	2
category as per IAS 39: available for sale	–	2	–	2

Reconciliation of the loss allowances for financial guarantees/credit commitments to which the impairment rules in accordance with IFRS 9 are applied

	Provisions as per IAS 37	Effects from a change in the measurement category	Effects from a change in calculation of the loss allowances	Loss allowance as per IFRS 9
EUR million	**31 Dec 2017**	**1 Jan 2018**	**1 Jan 2018**	**1 Jan 2018**
Financial guarantees/credit commitments	**31**	**–**	**49**	**80**
• Level 1	11	–	9	20
– provisions in the credit business at portfolio level as per IAS 37	11	–	9	20
• Level 2	2	–	17	19
– provisions in the credit business at portfolio level as per IAS 37	2	–	17	19
• Level 3	18	–	23	41
– provisions in the credit business at individual transaction level as per IAS 37	18	–	23	41

(3) Scope of consolidation

Besides the parent company, the group of companies consolidated within BayernLB comprises 11 (31 December 2017: 11) subsidiaries that are consolidated in accordance with IFRS 10.

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

Determining the scope of consolidation

BayernLB's scope of consolidation is determined by materiality criteria. 114 (31 December 2017: 114) companies were neither consolidated nor 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. As before, the business segments are: Corporates & Mittelstand, Real Estate & Savings Banks/Association, Deutsche Kreditbank (DKB) and Financial Markets. The earnings of the consolidated subsidiaries and units are also allocated to the segment to which they have been assigned.

Segment reporting is based on IFRS 8 and therefore on the monthly management reports submitted to the Board of Management, which serves as the chief operating decision maker as defined in IFRS 8.7. The management reports – and therefore the segmentation – are based on the accounting policies used in the consolidated financial statements under IFRS. Segment reporting does not therefore need to be reconciled with the IFRS accounting policies used in the consolidated financial statements. The earnings contributions reported under the segments are generated largely from 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 segment structure of the BayernLB Group have been revised since financial year 2017. With the exception of the DKB segment, all other segments are affected by the changes noted below.

At the beginning of financial year 2018, the Financial Institutions sub-division was transferred from the Corporates & Mittelstand segment to the Financial Markets segment. Following the restructuring all transactions with financial Institutions are shown in the Financial Markets segment.

In addition, on 1 January 2018 almost all of the former non-core business, which had been integrated into Central Areas & Others, was returned to the Corporates & Mittelstand, Real Estate & Savings Banks/Association and Financial Markets business segments.

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

The risk-weighted assets (RWAs) shown include the figures as at the reporting date for credit risk, market risk positions and operational risk. For the Group, the average regulatory capital 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 12.5 percent of the average risk weighted assets (RWAs). Economic capital is reconciled to regulatory capital in the column headed “Consolidation”.

The return on equity (RoE) shown is calculated on the basis of internal management information from the ratio of profit before taxes to the average regulatory capital (Group)/the 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 derecognised financial assets, gains or losses on financial investments and other income and expenses.

Segment reporting as at 30 June 2018

EUR million	Corporates & Mittelstand	Real Estate & Savings Banks/ Association	Financial Markets	DKB	Central Areas & Others (including Consolidation)	Group
Net interest income	131	125	83	511	29	**879**
Risk provisions	125	−5	–	−23	5	**103**
Net commission income	53	62	17	4	−3	**132**
Gains or losses on fair value measurement	19	18	4	7	−13	**35**
Gains or losses on hedge accounting	–	–	−3	−34	−6	**−44**
Gains or losses on derecognised financial assets	–	–	–	−6	–	**−6**
Gains or losses on financial investments	–	2	25	6	1	**33**
Administrative expenses	−147	−130	−110	−248	−10	**−644**
Expenses for the bank levy and deposit guarantee scheme	–	–	–	−29	−61	**−90**
Other income and expenses	–	−1	7	16	31	**52**
Gains or losses on restructuring	–	–	–	–	1	**2**
Profit/loss before taxes	181	73	21	204	−26	**452**
Risk-weighted assets (RWAs)	20,499	8,176	8,318	24,543	2,833	**64,368**
Average economic/regulatory capital	2,492	995	1,021	3,057	1,435	**9,000**
Return on equity (RoE) (%)	14.6	14.6	4.0	13.3	−3.6	**10.0**
Cost/income ratio (CIR) (%)	72.4	62.7	83.9	49.2	26.1	**59.5**
Average number of employees (FTE)	339	578	453	3,347	1,932	**6,649**

Segment reporting as at 30 June 2017[1]

EUR million	Corporates & Mittelstand	Real Estate & Savings Banks/ Association	Financial Markets	DKB	Central Areas & Others (including Consolidation)	Group
Net interest income	145	118	99	429	55	**845**
Risk provisions in the credit business	133	18	–7	–59	6	**90**
Net commission income	56	68	17	2	–3	**141**
Gains or losses on fair value measurement	15	19	88	72	–50	**143**
Gains or losses on hedge accounting	–	–2	–4	–79	–8	**–93**
Gains or losses on financial investments	1	–	3	13	–	**16**
Administrative expenses	–138	–121	–97	–232	–24	**–612**
Expenses for the bank levy and deposit guarantee scheme	–	–	–	–24	–60	**–84**
Other income and expenses	–	–1	8	–5	–27	**–25**
Gains or losses on restructuring	–	1	–	–1	4	**4**
Profit/loss before taxes	212	100	106	116	–108	**426**
Risk-weighted assets (RWAs)	19,698	7,858	8,941	24,579	2,556	**63,632**
Average economic/regulatory capital	2,503	932	1,053	2,963	1,457	**8,907**
Return on equity (RoE) (%)	17.0	21.4	20.1	7.8	–14.8	**9.6**
Cost/income ratio (CIR) (%)	63.4	60.0	46.0	53.7	–71.8	**59.5**
Average number of employees (FTE)	348	588	460	3,211	1,868	**6,475**

1 Adjusted as per IFRS 8.29.

Breakdown of the aggregated Central Areas & Others segment results and consolidation entries not allocated to the segments as at 30 June 2018

EUR million	Central Areas & Others	Consolidation	Central Areas & Others (including Consolidation)
Net interest income	18	11	29
Risk provisions	5	–	5
Net commission income	–4	–	–3
Gains or losses on fair value measurement	–2	–11	–13
Gains or losses on hedge accounting	–6	–	–6
Gains or losses on financial investments	1	–	1
Administrative expenses	–12	2	–10
Expenses for the bank levy and deposit guarantee scheme	–61	–	–61
Other income and expenses	33	–2	31
Gains or losses on restructuring	1	–	1
Profit/loss before taxes	–26	–	–26
Risk-weighted assets (RWAs)	2,833	–	2,833
Average economic/regulatory capital	352	1,083	1,435

Breakdown of the aggregated Central Areas & Others segment results and consolidation entries not allocated to the segments as at 30 June 2017[1]

EUR million	Central Areas & Others	Consolidation	Central Areas & Others (including Consolidation)
Net interest income	23	31	55
Risk provisions in the credit business	6	–	6
Net commission income	–3	–	–3
Gains or losses on fair value measurement	–18	–32	–50
Gains or losses on hedge accounting	–8	–	–8
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/loss before taxes	–108	–	–108
Risk-weighted assets (RWAs)	2,556	–	2,556
Average economic/regulatory capital	332	1,125	1,457

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, as well as international companies in selected markets. In addition, the Corporates & Mittelstand segment conducts the syndicated loan business together with the Bavarian savings banks for their corporate customers. The following core competencies are located in this segment: traditional loan financing, including working capital, capex and trade financing, leasing and aircraft financing, support to companies abroad, 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 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. AG Gesellschaft für Immobilien Assetmanagement, Munich (Real I.S.) are allocated to this segment. The Real Estate division focuses on national and international long-term commercial financing 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 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 agencies in Germany which BayernLB, as a partner, provides with a wide range of products and tailor-made solutions. In addition, the Savings Banks & Association Division is a market leader in the foreign notes and coins and precious metals business and offers a broad range of products and services in this market. 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 Financial Markets segment comprises the business area of the same name and the consolidated subsidiaries BayernInvest Kapitalverwaltungsgesellschaft mbH, Munich (BayernInvest). The Financial Markets business area is assigned all trading and issuing activities, asset liability management and most of BayernLB's business relationships with banks, insurance companies and other institutional customers. The Financial Markets segment also provides a range of capital market and Treasury products that are cross-sold to BayernLB's Corporates, Mittelstand, Savings Banks and Real Estate customers. Market and default risks are hedged and solvency assured at all times through risk and liquidity management.

The main component of the DKB segment is the business of the DKB sub-group. This segment also includes 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 Central Areas & Others segment incorporates the earnings contributions of the Corporate Center, Financial Office, Operating Office, and Risk Office (including Credit Consulting) central areas and Others. 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. This segment also included the subsidiary BayernLB Capital LLC I, Wilmington until its deconsolidation 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.

Earnings from typical banking operations after risk provisions (net interest income, net commission income, gains or losses on fair value measurement, gains or losses on hedge accounting, gains or losses on derecognised financial assets, and gains or losses on financial investments) were EUR 1,133 million (30 June 2017: EUR 1,142 million), including EUR 16 million (30 June 2017: EUR –43 million) in Europe excluding Germany, and EUR 24 million (30 June 2017: EUR 40 million) in America. Of the risk-weighted assets (RWAs) in the amount of EUR 64,368 million (30 June 2017: EUR 63,632 million) recognised instead of non-current assets, EUR 312 million (30 June 2017: EUR 258 million) relate to Europe excluding Germany and EUR 1,698 million (30 June 2017: EUR 1,484 million) relate to America.

Notes to the statement of comprehensive income

In the case of tabular presentations, the disclosures for the reporting period and the prior period are combined in a table if the structure of the table is unchanged on the prior period despite changes in classification and measurement rules due to IFRS 9.

(5) Net interest income

Based on the decision by the IFRS Interpretations Committee in March 2018, from financial year 2018 interest income and interest expenses from financial instruments calculated using the effective interest method, are shown separately.

EUR million	1 Jan – 30 Jun 2018
Interest income	**3,289**
• Interest income from financial instruments determined using the effective interest method	1,875
– From lending and money market transactions	1,714
– From financial investments	99
– From the amortisation of significant and non-significant modifications	1
– From negative interest	61
• Interest income – other	1,414
– From lending and money market transactions	33
– From financial investments	17
– From hedge accounting derivatives	316
– From derivatives in economic hedges	880
– From negative interest	168
Interest expenses	**2,409**
• Interest expenses for financial instruments determined using the effective interest method	940
– For liabilities to banks and customers	629
– For securitised liabilities	192
– For subordinated capital	45
– From the amortisation of significant and non-significant modifications	1
– Other interest expenses	34
– From negative interest	38
• Interest expenses – other	1,470
– For liabilities to banks and customers	67
– For securitised liabilities	28
– For hedge accounting derivatives	320
– For derivatives in economic hedges	840
– Other interest expenses	32
– From negative interest	183
Total	**879**

Total interest income and expense calculated using the effective interest method amounted to EUR 1,675 million for financial assets measured at amortised cost, EUR 99 million for financial assets mandatorily measured at fair value through other comprehensive income and EUR 840 million for financial liabilities not measured at fair value through profit or loss.

The following table shows the composition of net interest income for the first half of 2017.

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

(6) Risk provisions

EUR million	1 Jan – 30 Jun 2018
Income from risk provisions	**523**
• From the release of risk provisions for on and off-balance sheet transactions	483
• From recoveries on written down receivables	40
Expenses for risk provisions	**420**
• From additions to risk provisions for on and off-balance sheet transactions	419
• Modification expenses from non-significant modifications[1]	1
Total	**– 103**

1 *Excluding modification gains or losses from modifications of contractually agreed cash flows of financial assets, the loss allowances for which are measured in the amount of the expected 12-month credit losses.*

The following table shows the composition of the risk provisions for the first half of 2017.

EUR million	1 Jan – 30 Jun 2017
Additions	134
Releases	146
Recoveries on written down receivables	73
Other gains or losses on risk provisions	5
Total	**–90**

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

(7) Net commission income

EUR million	1 Jan – 30 Jun 2018
Securities business	9
Broker fees	–5
Credit business	61
Payments	–16
Foreign commercial business	2
Credit card business	27
Fund business	41
Trust transactions	8
Miscellaneous	5
Total	**132**

The following table shows the composition of net commission income for the first half of 2017.

EUR million	1 Jan – 30 Jun 2017
Securities business	11
Broker fees	–6
Credit business	74
Payments	–19
Foreign commercial business	2
Trust transactions	8
Fund business	41
Miscellaneous	29
Total	**141**

(8) Gains or losses on fair value measurement

EUR million	1 Jan – 30 Jun 2018
Net trading income	**13**
• Interest-related transactions	16
• Currency-related transactions	7
• Equity-related and index-related transactions and transactions with other risks	–10
• Credit derivatives	2
• Refinancing of trading portfolios	4
• Trading-related commission	–6
Fair value gains or losses on debt instruments in the “financial assets mandatorily measured at fair value through profit or loss” category that are not held for trading	**3**
Fair value gains or losses from financial instruments in the “fair value option” category	**18**
Total	**35**

The following table shows the composition of gains or losses on fair value measurement for the first half of 2017.

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

(9) Gains or losses on hedge accounting

EUR million	1 Jan – 30 Jun 2018	1 Jan – 30 Jun 2017
Gains or losses on micro fair value hedges	**–9**	**–14**
• Measurement of underlying transactions	–59	98
• Measurement of hedging instruments	50	–112
Gains or losses on portfolio fair value hedges	**–34**	**–79**
• Measurement of underlying transactions	45	–84
• Amortisation of the portfolio hedge adjustment	–89	–189
• Measurement of hedging instruments	10	194
Total	**–44**	**–93**

(10) Gains or losses on derecognised financial assets

EUR million	1 Jan – 30 Jun 2018
Gains or losses on derecognised financial assets	**5**
• Gains on disposals	1
• Gains on significant modifications	5
Expenses for derecognised financial assets	**11**
• Expenses for significant modifications	11
Total	**–6**

The amounts relate to financial assets in the “financial assets measured at amortised cost” category.

(11) Gains or losses on financial investments

EUR million	1 Jan – 30 Jun 2018
Gains or losses on financial investments in the “financial assets mandatorily measured at fair value through other comprehensive income” category	**25**
• Income from financial investments	27
– gains on disposals	27
• Expenses from financial investments	1
– losses on disposals	1
Fair value gains or losses on equity instruments in the “financial assets mandatorily measured at fair value through profit or loss” category that are not held for trading	**8**
Total	**33**

The following table shows the composition of the gains or losses on financial investments for the first half of 2017.

EUR million	1 Jan – 30 Jun 2017
Gains or losses on financial investments in the “available-for-sale” category”	**16**
• Gains or losses on sales	16
Total	**16**

(12) Administrative expenses

EUR million	1 Jan – 30 Jun 2018	1 Jan – 30 Jun 2017
Staff costs	**345**	**336**
• Salaries and wages	274	266
• Social security contributions	36	34
• Expenses for pensions and other employee benefits	35	36
Other administrative expenses	**283**	**258**
Expenses from the amortisation and depreciation of property, plant and equipment and intangible assets[1]	**17**	**17**
Total	**644**	**612**

1 Not including goodwill.

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

EUR million	1 Jan – 30 Jun 2018	1 Jan – 30 Jun 2017
Expenses for the bank levy	52	52
Expenses for the deposit guarantee scheme	38	31
Total	**90**	**84**

(14) Other income and expenses

EUR million	1 Jan – 30 Jun 2018	1 Jan – 30 Jun 2017
Other income	105	58
Other expenses	53	83
Total	**52**	**–25**

(15) Gains or losses on restructuring

EUR million	1 Jan – 30 Jun 2018	1 Jan – 30 Jun 2017
Income from restructuring measures	5	7
Expenses for restructuring measures	3	2
Total	**2**	**4**

Notes to the balance sheet

In the case of tabular presentations, the disclosures for the reporting period and the prior period are combined in a table if the structure of the table is unchanged on the prior period despite changes in classification and measurement rules due to IFRS 9.

(16) Cash reserves

EUR million	30 Jun 2018	31 Dec 2017
Cash	181	126
Deposits with central banks	8,590	3,429
Total	**8,771**	**3,556**

(17) Loans and advances to banks

EUR million	30 Jun 2018	31 Dec 2017
Loans and advances to domestic banks	29,939	32,393
Loans and advances to foreign banks	7,662	5,391
Total	**37,601**	**37,783**

(18) Loans and advances to customers

EUR million	30 Jun 2018	31 Dec 2017
Loans and advances to domestic customers	112,955	112,036
Loans and advances to foreign customers	24,925	22,650
Total	**137,880**	**134,686**

(19) Risk provisions

EUR million	30 Jun 2018
Loss allowances – Level 1	75
Loss allowances – Level 2	190
Loss allowances – Level 3	661
Loss allowances – POCI	27
Total	**952**

Risk provisions comprise loss allowances for financial assets in the "financial assets measured at amortised cost" category which are recognised in the balance sheet line items "loans and advances to banks", "loans and advances to customers" and loss allowances for contract assets. The loss allowances are classified as follows:

- Loss allowances measured in the amount of the expected 12-month credit losses (Level 1)
- Loss allowances measured in the amount of the lifetime expected credit losses, for financial assets for which the default risk has increased significantly since initial recognition but which are not financial assets with impaired creditworthiness (Level 2)
- Loss allowances measured in the amount of the lifetime expected credit losses for financial assets whose creditworthiness is impaired as at the reporting date but which was not yet impaired at the time of acquisition or redemption (Level 3)
- Loss allowances for financial assets whose creditworthiness was impaired when they were acquired or issued (purchased or originated credit-impaired financial assets (POCI))

Changes in loss allowances – Level 1

	Loans and advances to banks	Loans and advances to customers	Total
EUR million	2018	2018	2018
As at 1 Jan	**3**	**72**	**76**
Changes in the expected credit loss due to changes in the risk parameters	–	−8	−8
Additions due to lending/purchases	3	30	34
Releases due to disposals/redemptions/sales	3	17	19
Reclassifications to Level 1 from Level 2	–	6	6
Reclassifications from Level 1 to Level 2	1	11	12
Reclassifications from Level 1 to Level 3	–	1	1
As at 30 Jun	**3**	**71**	**75**

Changes in loss allowances – Level 2

	Loans and advances to banks	Loans and advances to customers	Total
EUR million	2018	2018	2018
As at 1 Jan	**–**	**179**	**179**
Changes in the expected credit loss due to changes in the risk parameters	1	46	47
Additions due to lending/purchases	–	11	11
Releases due to disposals/redemptions/sales	–	44	45
Reclassifications to Level 2 from Level 1	1	11	12
Reclassifications from Level 2 to Level 1	–	6	6
Reclassifications from Level 2 to Level 3	–	8	8
As at 30 Jun	**2**	**188**	**190**

Changes in loss allowances – Level 3

EUR million	Loans and advances to banks 2018	Loans and advances to customers 2018	Total 2018
As at 1 Jan	**–**	**842**	**842**
Currency-related changes	–	1	1
Changes in the expected credit loss due to changes in the risk parameters	–	−31	−31
Additions due to lending/purchases	–	32	32
Releases due to disposals/redemptions/sales	–	79	79
Utilisation/depreciation	–	114	114
Unwinding	–	8	8
Reclassifications to Level 3 from Level 1	–	1	1
Reclassifications to Level 3 from Level 2	–	8	8
Transfers/other changes	–	8	8
As at 30 Jun	**–**	**661**	**661**

Changes in loss allowances – POCI

EUR million	Loans and advances to banks 2018	Loans and advances to customers 2018	Total 2018
As at 1 Jan	**–**	**27**	**27**
Changes in the expected credit loss due to changes in the risk parameters	–	3	3
Additions due to lending/purchases	–	1	1
Releases due to disposals/redemptions/sales	–	2	2
Unwinding	–	1	1
As at 30 Jun	**–**	**27**	**27**

The total volume of non-discounted expected credit losses as at first-time recognition of financial assets whose creditworthiness was already impaired at the time of acquisition or issue was EUR 24 million in the reporting period. These relate in all cases to loans and advances to customers.

The following tables show the composition of the risk provisions as at 31 December 2017 and their variation in the first half of 2017.

EUR million	31 Dec 2017
Specific loan loss provisions	1,013
Portfolio loan loss provisions	172
Total	**1,185**

Changes in specific loan loss provisions

EUR million	Loans and advances to banks 2017	Loans and advances to customers 2017	Total 2017
As at 1 Jan	**1**	**1,145**	**1,146**
Changes recognised in income statement	**8**	**–1**	**7**
• Additions	9	115	**124**
• Releases	1	109	**110**
• Unwinding	–	7	**7**
Changes not recognised in income statement	**–**	**–191**	**–191**
• Currency-related changes	–	–11	**–11**
• Utilisation	–	171	**171**
• Transfers/other changes	–	–8	**–8**
As at 30 Jun	**9**	**953**	**961**

Changes in portfolio loan loss provisions

EUR million	Loans and advances to banks 2017	Loans and advances to customers 2017	Total 2017
As at 1 Jan	**10**	**150**	**160**
Changes recognised in income statement	**–2**	**–3**	**–5**
• Additions	–	2	**2**
• Releases	2	5	**7**
Changes not recognised in income statement	**–**	**8**	**8**
• Transfers/other changes	–	8	8
As at 30 Jun	**7**	**155**	**162**

Risk provisions for contingent liabilities and other commitments were shown as provisions for risks in the credit business.

(20) Assets held for trading

EUR million	30 Jun 2018	31 Dec 2017
Bonds, notes and other fixed-income securities	2,700	1,607
Equities and other non-fixed income securities	416	356
Receivables held for trading	1,722	1,306
Positive fair values from derivative financial instruments (not hedge accounting)	8,483	8,712
Total	**13,321**	**11,981**

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

EUR million	30 Jun 2018	31 Dec 2017
Positive fair values from micro fair value hedges	501	813
Total	**501**	**813**

(22) Financial investments

EUR million	30 Jun 2018
Bonds, notes and other fixed-income securities	22,566
Equities and other non-fixed income securities	220
Investments	556
Other financial investments	138
Total	**23,480**

For the presentation of the loss allowances for financial investments in the "financial assets mandatorily measured at fair value through other comprehensive income" category refer to note 35.

The following table shows the composition of financial assets as at 31 December 2017.

EUR million	31 Dec 2017
Financial investments in the "fair value option" category	**267**
• Bonds, notes and other fixed-income securities	88
• Interests in non-consolidated subsidiaries, joint ventures, associates and other interests	179
Financial investments in the "loans and receivables" category	**72**
• Bonds, notes and other fixed-income securities	72
Financial investments in the "available-for-sale" category	**23,024**
• Bonds, notes and other fixed-income securities	22,362
• Equities and other non-fixed income securities	218
• Interests in non-consolidated subsidiaries, joint ventures, associates and other interests	312
• Other financial investments	132
Total	**23,363**

(23) Investment property

EUR million	30 Jun 2018	31 Dec 2017
Land and buildings for rental	30	31
Total	**30**	**31**

(24) Property, plant and equipment

EUR million	30 Jun 2018	31 Dec 2017
Owner-occupied property	305	309
Furniture and office equipment	31	31
Total	**337**	**340**

(25) Intangible assets

EUR million	30 Jun 2018	31 Dec 2017
Internally generated intangible assets	53	52
Other intangible assets	30	34
Total	**83**	**86**

(26) Other assets

EUR million	30 Jun 2018	31 Dec 2017
Emissions certificates	3,165	1,256
Precious metals	474	356
Claims from reinsurance	224	222
Pre-paid expenses	16	21
Property held in inventory	5	–
Other assets	377	204
Total	**4,261**	**2,060**

(27) Liabilities to banks

EUR million	30 Jun 2018	31 Dec 2017
Liabilities to domestic banks	50,879	48,512
Liabilities to foreign banks	10,609	5,929
Total	**61,489**	**54,442**

Liabilities to banks by product

EUR million	30 Jun 2018	31 Dec 2017
Schuldschein note loans/issues	**5,416**	**5,490**
• Schuldschein note loans	2,312	2,457
• Registered public Pfandbriefs issued	993	996
• Mortgage Pfandbriefs issued	671	709
• Other registered securities	1,441	1,326
Book-entry liabilities	**56,073**	**48,952**
• Pass-through business/subsidised loans	33,347	33,100
• Overnight and time deposits	13,691	7,386
• Current account liabilities	5,516	6,559
• Securities repurchase transactions	2,713	1,051
• Other liabilities	805	856
Total	**61,489**	**54,442**

(28) Liabilities to customers

EUR million	30 Jun 2018	31 Dec 2017
Liabilities to domestic customers	85,539	82,809
Liabilities to foreign customers	8,428	9,136
Total	**93,967**	**91,945**

Liabilities to customers by product

EUR million	30 Jun 2018	31 Dec 2017
Schuldschein note loans/issues	**19,739**	**20,150**
• Schuldschein note loans	1,467	1,541
• Registered public Pfandbriefs issued	8,574	8,677
• Mortgage Pfandbriefs issued	3,179	3,303
• Other registered securities	6,519	6,628
Book-entry liabilities	**74,228**	**71,796**
• Overnight and time deposits	40,323	37,258
• Current account liabilities	30,829	32,015
• Securities repurchase transactions	723	536
• Other liabilities	2,354	1,987
Total	**93,967**	**91,945**

(29) Securitised liabilities

EUR million	30 Jun 2018	31 Dec 2017
Bonds and notes issued	**34,291**	**35,058**
• Mortgage Pfandbriefs	3,805	3,837
• Public Pfandbriefs	11,639	11,524
• Other bonds	18,847	19,698
Other securitised liabilities	**9,996**	**6,789**
Total	**44,287**	**41,847**

The reporting period saw the issue of debt instruments (including money market securities) to the value of EUR 135,029 million. Repurchases amounted to EUR 1,658 million and redemptions to EUR 131,434 million.

(30) Liabilities held for trading

EUR million	30 Jun 2018	31 Dec 2017
Liabilities	866	746
Negative fair values from derivative financial instruments (not hedge accounting)	7,166	6,935
Total	**8,032**	**7,681**

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

EUR million	30 Jun 2018	31 Dec 2017
Negative fair values from micro fair value hedges	712	774
Negative fair values from portfolio fair value hedges	59	67
Total	**771**	**841**

(32) Provisions

EUR million	30 Jun 2018
Provisions for pensions and similar obligations	**3,743**
Other provisions	**527**
• Provisions for off-balance-sheet transactions	103
– loss allowances for financial guarantees/credit commitments as per IFRS 9	69
– provisions for other contingent liabilities/other commitments	34
• Restructuring provisions	174
• Miscellaneous provisions	250
Total	**4,270**

The loss allowances for financial guarantees and for revocable and irrevocable credit commitments to which the impairment rules under IFRS 9 apply, comprise (for the breakdown of the loss allowances see note 19):

EUR million	30 Jun 2018
Loss allowances – Level 1	20
Loss allowances – Level 2	17
Loss allowances – Level 3	25
Loss allowances – POCI	7
Total	**69**

Changes in loss allowances

	Level 1	Level 2	Level 3	POCI	Total
EUR million	2018	2018	2018	2018	2018
As at 1 Jan	**20**	**19**	**41**	**–**	**80**
Changes in the expected credit loss due to changes in the risk parameters	–5	–11	–15	1	**–29**
Additions due to lending/purchases	15	12	11	1	**39**
Releases due to disposals/ redemptions/sales	10	4	6	–	**21**
Unwinding	–	–	1	–	**1**
Reclassifications to Level 1 from Level 2	1	–1	–	–	**–**
Reclassifications to Level 2 from Level 1	–1	1	–	–	**–**
Transfers/other changes	–	–	–6	6	**–**
As at 30 Jun	**20**	**17**	**25**	**7**	**69**

The following table shows the composition of provisions as at 31 December 2017.

EUR million	31 Dec 2017
Provisions for pensions and similar obligations	**3,718**
Other provisions	**515**
• Provisions in the credit business	80
• Restructuring provisions	192
• Miscellaneous provisions	242
Total	**4,233**

(33) Other liabilities

EUR million	30 Jun 2018	31 Dec 2017
Accruals	334	364
Deferred income	37	40
Other liabilities	137	158
Total	**508**	**562**

(34) Subordinated capital

EUR million	30 Jun 2018	31 Dec 2017
Subordinated liabilities	1,404	1,446
Profit participation certificates (debt component)	420	414
Dated silent partner contributions (debt component)	44	43
Total	**1,868**	**1,903**

(35) Equity

EUR million	30 Jun 2018	31 Dec 2017
Equity excluding non-controlling interests	**10,875**	**10,803**
• Subscribed capital	3,412	3,412
– statutory nominal capital	2,800	2,800
– capital contribution	612	612
• Compound instruments	45	45
– profit participation certificates (equity component)	40	40
– dated silent partner contributions (equity component)	5	5
• Capital surplus	2,182	2,182
• Retained earnings	4,857	4,825
– statutory reserve	1,268	1,268
– other retained earnings	3,590	3,557
• Revaluation surplus	35	288
• Foreign currency translation reserve	2	2
• Consolidated profit/loss	342	50
Non-controlling interests	**17**	**13**
Total	**10,892**	**10,816**

As they are compound financial instruments, dated silent partner contributions, including those that are callable by the lender, and profit participation certificates, must be divided into their equity and debt components (split accounting). As a residual interest within the meaning of IAS 32.11, the equity component corresponds to the present value of expected future distributions. As no half-yearly distributions are made, the size of the equity component – with the exception of repurchases and resales in the first half of 2018 – corresponds to the value as at 31 December 2017. For a detailed description of the accounting methodology, see note 23 of the 2017 annual report.

Revaluation surplus

EUR million	30 Jun 2018
Gains or losses on fair value measurement of financial assets in the “financial assets mandatorily measured at fair value through other comprehensive income” category	142
Loss allowances for financial assets in the “financial assets mandatorily measured at fair value through other comprehensive income” category	2
Fair value changes attributable to changes in the credit quality of financial liabilities from the “fair value option” category recognised through other comprehensive income	–82
Deferred taxes recognised through other comprehensive income	–26
Total	**35**

The loss allowances for financial assets in the “financial assets mandatorily measured at fair value through other comprehensive income” category comprise (for the breakdown of the loss allowances see note 19):

EUR million	30 Jun 2018
Loss allowances – Level 1	2
Loss allowances – Level 2	–
Loss allowances – Level 3	–
Loss allowances – POCI	–
Total	**2**

There were no changes in loss allowances in the first half of 2018. Accordingly their volume as at 30 June 2018 equated to the volume at the start of the year.

Notes to financial instruments

In the case of tabular presentations, the disclosures for the reporting period and the prior period are combined in a table if the structure of the table is unchanged on the prior period despite changes in classification and measurement rules due to IFRS 9.

(36) Fair value of financial instruments

EUR million	Fair value 30 Jun 2018	Carrying amount[1] 30 Jun 2018	Fair value 31 Dec 2017	Carrying amount[2] 31 Dec 2017
Assets				
• Cash reserves	8,771	8,771	3,556	3,556
• Loans and advances to banks[1]	37,603	37,601	37,786	37,783
• Loans and advances to customers[1]	141,423	137,880	137,978	134,686
• Assets held for trading	13,321	13,321	11,981	11,981
• Positive fair values from derivative financial instruments (hedge accounting)	501	501	813	813
• Financial investments	23,530	23,480	23,370	23,363
Liabilities				
• Liabilities to banks	62,592	61,489	55,488	54,442
• Liabilities to customers	95,806	93,967	93,776	91,945
• Securitised liabilities	44,745	44,287	42,292	41,847
• Liabilities held for trading	8,032	8,032	7,681	7,681
• Negative fair values from derivative financial instruments (hedge accounting)	771	771	841	841
• Subordinated capital	2,069	1,868	2,106	1,903

1 *Not including deductions of loss allowances for cash reserves (EUR 0 million), loans and advances to banks (EUR 5 million) and/or loans and advances to customers (EUR 947 million) in the "financial assets measured at amortised cost" category.*

2 *Not including deduction of risk provisions for loans and advances to banks (EUR 7 million) and/or loans and advances to customers (EUR 1,178 million).*

(37) Financial instrument measurement categories

EUR million	30 Jun 2018
Assets	
• Financial assets measured at fair value through profit or loss	14,515
– financial assets mandatorily measured at fair value through profit or loss	14,428
loans and advances to customers	177
assets held for trading	13,321
financial investments	931
– fair value option	87
financial investments	87
• Financial assets measured at amortised cost	184,071
– cash reserves[1]	8,771
– loans and advances to banks[1]	37,601
– loans and advances to customers[1]	137,700
• Financial assets measured at fair value through other comprehensive income	22,466
– financial assets mandatorily measured at fair value through other comprehensive income	22,466
loans and advances to customers	3
financial investments	22,463
• Derivative financial instruments in hedges (hedge accounting)	501
– positive fair values from derivative financial instruments (hedge accounting)	501
Liabilities	
• Financial liabilities measured at fair value through profit or loss	16,795
– held-for-trading financial liabilities	8,032
liabilities held for trading	8,032
– fair value option	8,763
liabilities to banks	382
liabilities to customers	3,864
securitised liabilities	4,517
• Financial liabilities measured at amortised cost	192,848
– liabilities to banks	61,107
– liabilities to customers	90,103
– securitised liabilities	39,770
– subordinated capital	1,868
• Derivative financial instruments in hedges (hedge accounting)	771
– negative fair values from derivative financial instruments (hedge accounting)	771

1 Not including deduction of loss allowances.

In addition, as at the reporting date there was a portfolio hedge adjustment asset of EUR 412 million for underlyings for which fair value hedge accounting in the form of portfolio hedges in the broader sense was used. This can be assigned to the “financial assets measured at amortised cost” category.

The following tables show the carrying amounts of financial instruments by category in accordance with IAS 39 as at 31 December 2017.

EUR million	**31 Dec 2017**
Assets	
• Financial assets at fair value through profit or loss	12,364
– held-for-trading financial assets	11,981
assets held for trading	11,981
– fair value option	383
loans and advances to customers	117
financial investments	267
• Loans and receivables	175,976
– cash reserves	3,556
– loans and advances to banks[1]	37,783
– loans and advances to customers[1]	134,565
– financial investments	72
• Available-for-sale financial assets	23,028
– loans and advances to customers	4
– financial investments	23,024
• Positive fair values from derivative financial instruments (hedge accounting)	813
Liabilities	
• Financial liabilities at fair value through profit or loss	15,474
– held-for-trading financial liabilities	7,681
liabilities held for trading	7,681
– fair value option	7,794
liabilities to banks	237
liabilities to customers	3,301
securitised liabilities	4,252
subordinated capital	4
• Financial liabilities measured at amortised cost	182,343
– liabilities to banks	54,205
– liabilities to customers	88,645
– securitised liabilities	37,596
– subordinated capital	1,898
• Negative fair values from derivative financial instruments (hedge accounting)	841

1 Not including deduction of risk provisions.

(38) Reclassification of financial assets

No reclassification of financial assets took place during the reporting period due to changes in business model.

The disclosures on the reclassification of financial assets in accordance with IAS 39 for the first half of 2017 are as follows:

Pursuant to the amendments by the International Accounting Standards Board to IAS 39 and IFRS 7 “Reclassification of Financial Assets” and EU Regulation 1004/2008, BayernLB reclassified certain available-for-sale securities as loans and receivables as at 1 July 2008. No other reclassifications were made during the first half of 2017.

The fair value and the carrying amount of the reclassified securities as at 31 December 2017 in accordance with IAS 39 in conjunction with IFRS 7.12A (b) were:

EUR million	Fair value 31 Dec 2017	Carrying amount 31 Dec 2017
Available-for-sale securities reclassified as loans and receivables	80	72
Total	**80**	**72**

As at 31 December 2017 the nominal volume of the reclassified securities was EUR 57 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
Reclassification from the “available-for-sale” category		
• Net interest income	4	4
• Gains or losses on hedge accounting	– 1	– 1
• Change in the revaluation surplus	1	– 1
Total	**5**	**3**

1 Taking into account the previous categorisation.
2 Taking into account the category 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 not 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 2018	31 Dec 2017	30 Jun 2018	31 Dec 2017	30 Jun 2018	31 Dec 2017	30 Jun 2018	31 Dec 2017
Assets								
• Loans and advances to customers	–	–	–	117	180	4	**180**	**120**
• Assets held for trading	530	629	12,568	11,286	224	66	**13,321**	**11,981**
• Positive fair values from derivative financial instruments (hedge accounting)	–	–	501	813	–	–	**501**	**813**
• Financial investments	6,723	6,587	16,263	16,245	493	458	**23,479**	**23,291**
Total	**7,253**	**7,217**	**29,333**	**28,460**	**897**	**528**	**37,483**	**36,204**
Liabilities								
• Liabilities to banks	–	–	382	237	–	–	**382**	**237**
• Liabilities to customers	–	–	3,864	3,301	–	–	**3,864**	**3,301**
• Securitised liabilities	289	363	3,995	3,889	233	–	**4,517**	**4,252**
• Liabilities held for trading	250	276	7,768	7,394	13	10	**8,032**	**7,681**
• Negative fair values from derivative financial instruments (hedge accounting)	–	–	771	841	–	–	**771**	**841**
• Subordinated capital	–	–	–	4	–	–	**–**	**4**
Total	**539**	**640**	**16,780**	**15,665**	**246**	**10**	**17,566**	**16,315**

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 2018	31 Dec 2017	30 Jun 2018	31 Dec 2017	30 Jun 2018	31 Dec 2017	30 Jun 2018	31 Dec 2017
Assets								
• Loans and advances to customers	180	4	–	–	–	–	**180**	**4**
• Assets held for trading	205	57	19	9	–	–	**224**	**66**
• Financial investments	26	–	–	–	467	458	**493**	**458**
Total	**410**	**61**	**19**	**9**	**468**	**458**	**897**	**528**
Liabilities								
• Securitised liabilities	233	–	–	–	–	–	**233**	**–**
• Liabilities held for trading	1	1	11	9	1	–	**13**	**10**
Total	**234**	**1**	**11**	**9**	**1**	**–**	**246**	**10**

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 2018	1 Jan– 30,6,2017	1 Jan– 30 Jun 2018	1 Jan– 30,6,2017
Assets				
• Assets held for trading	20	21	71	103
• Financial investments	1,855	2,263	1,745	2,071
Total	**1,875**	**2,284**	**1,816**	**2,174**
Liabilities				
• Securitised liabilities	233	395	301	91
• Liabilities held for trading	9	11	66	23
Total	**242**	**406**	**367**	**114**

In the reporting period, financial instruments were reclassified between Level 1 and Level 2, as they will again be measured/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 values 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	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
As at 1 Jan	**174**	**7**	**130**	**557**	**–**	**–**	**486**	**456**	**–**	**24**	**789**	**1,045**
Currency-related changes	1	–	10	19	–	–	–	–	–	–	**11**	**18**
Income and expenses recognised in the income statement	6	–1	87	–54	–	–2	9	–	–	–	**102**	**–57**
Changes in the revaluation surplus	–	–	–	–	–	–	–	–3	–	–	**–**	**–3**
Purchases	–	–	–	–	–	–	3	1	–	–	**3**	**1**
Sales	–	–	–1	500	–	–	4	23	–	–	**4**	**523**
Reclassifications to Level 3 from Levels 1 and 2	–	–	15	2	–	–	–	–	–	–	**15**	**2**
Reclassifications from Level 3 to Levels 1 and 2	–	–	58	81	–	–	–	–	–	–	**58**	**81**
Transfers/other changes	–	–	39	81	–	2	–	–3	–	–	**39**	**81**
As at 30 Jun	**180**	**6**	**224**	**23**	**–**	**–**	**493**	**428**	**–**	**24**	**897**	**482**
Income and expenses recognised in the income statement during the reporting period for financial instruments held at 30 June	13	–1	154	–58	–	–2	9	–	–	–	176	–61

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

EUR million	Securitised liabilities		Liabilities held for trading		Total	
	2018	2017	2018	2017	2018	2017
As at 1 Jan	**241**	–	**10**	**19**	**251**	**19**
Currency-related changes	11	–	1	–23	**12**	**–23**
Income and expenses recognised in the income statement	–19	–	–4	–16	**–23**	**–15**
Reclassifications to Level 3 from Levels 1 and 2	–	–	2	2	**2**	**2**
Reclassifications from Level 3 to Levels 1 and 2	–	–	35	50	**35**	**52**
Transfers/other changes	–	–	39	81	**39**	**83**
As at 30 Jun	**233**	–	**13**	**14**	**246**	**14**
Income and expenses recognised in the income statement during the period for financial instruments held at 30 June	–5	–	–3	–18	**–8**	**–18**

The income and expenses recognised in the income statement are shown under net interest income, risk provisions, gains or losses on fair value measurement, gains or losses on hedge accounting and gains or losses on financial investments. Changes in the revaluation surplus are a component of other comprehensive income.

At the end of the reporting period, the materiality of the unobservable inputs was assessed based on 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 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.

The fair values of credit transactions assigned to Level 3 of the fair value hierarchy are calculated on the basis of inputs that are not observable on the market. As at 30 June 2018, the sensitivity of these credit transactions measured at fair value for the first time based on the application of IFRS 9 was

- for a ten-basis point increase (decrease) in the measurement spread:
  EUR +1.7 million (EUR –1.7 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 2018, the sensitivity of these financial instruments to changes in key factors was

- for a 10-percentage point increase (decrease) in expected loss given default:
  EUR –1.6 million (EUR +1.7 million) (31 December 2017: EUR –1.2 million (EUR +1.2 million))
- for a one notch improvement (deterioration) in the rating:
  EUR +1.1 million (EUR –1.2 million) (31 December 2017: EUR +0.8 million (EUR –1.0 million)).

In addition, 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 2018, the sensitivity of these real estate secured receivables to changes in key factors was

- for a 5-percentage point increase (decrease) in the realisable value:
  EUR +0.2 million (EUR –0.2 million) (31 December 2017: EUR +0.2 million (EUR –0.2 million)).
- for a 6-month extension (reduction) in the realisation period:
  EUR ±0 million (EUR ±0 million) (31 December 2017: 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 2018, the key sensitivity of this financial instrument to changes in key factors was

- for a 10-percentage point upward (downward) movement in the conversion ratio: EUR +3.3 million (EUR –3.3 million) (31 December 2017: EUR +2.8 million (EUR –2.8 million)).

As at 30 June 2018, the key sensitivity of equity interests whose fair value is calculated using the German income method (Ertragswertverfahren) to changes in key factors was

- for a 25-basis point upward (downward) movement in the base interest rate: EUR –5.2 million (EUR +5.5 million) (31 December 2017: EUR –4.8 million (EUR +5.1 million)).
- for a 25-basis point upward (downward) movement in the market risk premium: EUR –4.4 million (EUR +4.6 million) (31 December 2017: EUR –4.3 million (EUR +4.5 million)).

The underlying base interest rate moved within a range of 1.0–1.5 percent (average: 1.25 percent) (31 December 2017: 1.0–1.5 percent (average: 1.25 percent)), while the underlying market risk premium moved within a range of 6.25–6.75 percent (average: 6.5 percent) (31 December 2017: 6.25–6.75 percent (average: 6.5 percent)).

(40) Derivatives transactions

The tables below show interest rate and foreign currency-related derivatives still open at the end of the reporting period and other forward transactions and credit derivatives. 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 2018	31 Dec 2017	30 Jun 2018	31 Dec 2017	30 Jun 2018	31 Dec 2017
Interest rate risks	881,877	898,670	18,402	19,893	17,645	18,916
Currency risks	121,627	113,659	2,174	2,142	1,916	1,874
Equity and other price risks	6,202	5,531	534	292	1,086	480
Credit derivative risks	104	175	–	–	1	4
Total	**1,009,810**	**1,018,035**	**21,110**	**22,327**	**20,648**	**21,274**
of which: Derivatives for trading purposes	784,889	800,238	15,662	16,891	15,408	16,360

Supplementary information

In the case of tabular presentations, the disclosures for the reporting period and the prior period are combined in a table if the structure of the table is unchanged on the prior period despite changes in classification and measurement rules due to IFRS 9.

(41) Revenue from contracts with customers

EUR million	1 Jan – 30 Jun 2018
Commission income	**327**
• Securities business	28
• Credit business	78
• Payments	16
• Foreign commercial business	4
• Credit card business	112
• Fund business	75
• Trust transactions	8
• Other	6
Commission expenses	**178**
• Securities business	19
• Credit business	4
• Payments	32
• Foreign commercial business	2
• Credit card business	85
• Fund business	34
• Other	1
Total	**150**

The segment report (see note 4) shows net commission income for each business segment of the BayernLB Group. This is presented as a net figure consisting of commission income and commission expenses and includes the revenue recognised from contracts with customers in accordance with IFRS 15.

(42) Trust transactions

EUR million	30 Jun 2018	31 Dec 2017
Assets held in trust	**4,893**	**4,889**
• Loans and advances to banks	20	23
• Loans and advances to customers	4,873	4,866
Liabilities held in trust	**4,893**	**4,889**
• Liabilities to banks	11	11
• Liabilities to customers	4,882	4,878

(43) Contingent assets, contingent liabilities and other commitments

EUR million	30 Jun 2018	31 Dec 2017
Contingent liabilities	**10,261**	**10,759**
• Liabilities from guarantees and indemnity agreements	10,257	10,753
• Other contingent liabilities	4	6
Other commitments	**26,166**	**25,510**
• Irrevocable credit commitments	26,166	25,510
Total	**36,428**	**36,269**

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

Dr Wolf Schumacher
since 12 April 2018
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

Jan-Christian Dreesen
since 12 April 2018
Member of the BayernLB Supervisory Board
Deputy Chairman of the Executive Board
FC Bayern München AG
Munich

Dr Roland Fleck
Managing Director
NürnbergMesse GmbH
Nuremberg

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

Dr Kurt Gribl
Lord Mayor
Augsburg

Harald Hübner
since 12 April 2018
Member of the BayernLB Supervisory Board
Deputy Secretary
Bavarian State Ministry of Finance,
Regional Development and Regional Identity
Munich

Dr Thomas Langer
Under Secretary
Bavarian State Ministry of Economic Affairs,
Energy and Technology
Munich

Henning Sohn
Chairman of the General Staff Council
BayernLB
Munich

Judith Steiner
since 12 April 2018
Member of the BayernLB Supervisory Board
Under Secretary
Bavarian State Ministry of Finance,
Regional Development and Regional Identity
Munich

Stephan Winkelmeier
Spokesman of the Board of Directors
FMS Wertmanagement AöR
Munich

Gerd Haeusler
until 12 April 2018
Chairman of the BayernLB Supervisory Board
Munich

Dr Ulrich Klein
until 12 April 2018
Member of the BayernLB Supervisory Board
Bavarian State Ministry of Finance,
Regional Development and Regional Identity
Munich

Wolfgang Lazik
until 12 April 2018
Member of the BayernLB Supervisory Board
Bavarian State Ministry of Finance,
Regional Development and Regional Identity
Munich

Professor Dr Bernd Rudolph
until 12 April 2018
Member of the BayernLB Supervisory Board
Professor at LMU Munich and
Steinbeis University
Berlin

Board of Management (including allocation of tasks from 1 January 2018)

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

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 2018	31 Dec 2017
Loans and advances	3,990	4,087
Assets held for trading	31	32
Financial investments	15	15
Liabilities	1,305	1,319
Securitised liabilities	12	12
Liabilities held for trading	13	13
Liabilities held in trust	4,607	4,596
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 2018	31 Dec 2017
Loans and advances to customers	219	229
Assets held for trading	133	32
Financial investments	30	30
Liabilities to banks	3,343	3,092
Liabilities to customers	56	44
Securitised liabilities	159	163
Other liabilities	–	1
Assets held in trust	390	392
Other commitments	60	32

Relationships with the Association of Bavarian Savings Banks

EUR million	30 Jun 2018	31 Dec 2017
Liabilities	45	92

Relationships with investees

EUR million	30 Jun 2018	31 Dec 2017
Loans and advances to customers	158	177
Risk provisions	16	32
Financial investments	45	41
Other assets	2	7
Liabilities to customers	117	165
Securitised liabilities	–	2
Provisions	12	11
Other liabilities	1	2
Contingent liabilities	16	24
Other commitments	7	5

An expense of EUR 1 million (30 June 2017: EUR 0 million) was recognised for non-recoverable or doubtful receivables in the reporting period.

In the reporting period, no capital contributions (31 December 2017: EUR 1 million) were made to unconsolidated entities, joint ventures and associates. These investees repaid capital in the amount of EUR 0 million (31 December 2017: EUR 7 million).

Relationships with other related parties

EUR million	30 Jun 2018	31 Dec 2017
Liabilities to customers	33	22

(46) Events after the reporting period

The following events of significance to the BayernLB Group occurred after 30 June 2018:

New developments relating to a restructuring exposure after the reporting period could generate income for BayernLB in the second half of 2018 that could reach a mid to high double-digit million euro amount. In July 2018, BayernLB also received income from a recovery on written down receivables in the low double-digit million euro range.

On 20 July 2018 Heubeck AG published a new set of mortality tables which have been used to calculate the pension provisions. Heubeck expects the new tables to increase pension obligations by a range of 1.5 – 2.5 percent. The actual impact for BayernLB must be calculated by an expert for its specific case and may fall outside this general range. An increase calculated at the end of the year would be booked directly in equity as an actuarial loss.

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, 13 August 2018

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 2018 to 30 June 2018 which are part of the half-yearly financial report pursuant to section 115 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, 13 August 2018

Deloitte GmbH
Wirtschaftsprüfungsgesellschaft

(Löffler)
Wirtschaftsprüfer
German public auditor

(Apweiler)
Wirtschaftsprüfer
German public auditor

Supplementary information

Financial measures not calculated in accordance with IFRS

In its entire financial reporting and other published documents, the BayernLB Group uses financial measures not calculated in accordance with IFRS. These measures indicate historical or future financial performance, financial position and cash flows derived from the financial statements prepared in accordance with the relevant accounting framework or internal management information.

They should be seen as a supplement to and not a replacement of the figures calculated in accordance with IFRS. Readers of the financial reports and other documents containing these measures should be aware that similarly named financial measures published by other companies could have been calculated differently.

The BayernLB Group uses the following financial measures not calculated in accordance with IFRS:
- Return on equity (RoE)
- Cost/income ratio (CIR)

The RoE and CIR are important financial performance indicators. They provide information about profitability and are used by BayernLB to manage it.

Return on equity (RoE)

RoE is calculated on the basis of internal management information from the ratio of profit before taxes to average regulatory capital (Group)/average allocated economic capital (at segment level). At Group level, the average Common Equity Tier 1/CET1 capital available over the financial year has been used for this purpose. For all management levels below this, the average economic capital employed in the financial year is derived from the average risk-weighted assets (RWAs) of the underlying individual transactions as specified by the regulatory authorities. The allocated amount corresponds to 12.5 percent (H1 2017: 12.0 percent) of the average risk-weighted assets specified by the regulatory authorities arising from the individual transactions entered into by the respective segment in the reporting period concerned. Economic capital is reconciled to regulatory capital in the column headed Central Areas & Others (including Consolidation).

RoE reconciliation calculation (as at 30 June 2018)

EUR million	Corporates & Mittelstand	Real Estate & Savings Banks/ Association	Financial Markets	DKB	Central Areas/Other (including Consolida-tion)	Group
Profit/loss before taxes	**181**	**73**	**21**	**204**	**–26**	**452**
Average risk-weighted assets (RWAs)	19,938	7,963	8,167	24,455	2,816	63,339
Target CET1 ratio (%)	12.5	12.5	12.5	12.5		
Average economic/ regulatory capital	**2,492**	**995**	**1,021**	**3,057**	**1,435**	**9,000**
Return on equity (RoE) (%)	**14.6**	**14.6**	**4.0**	**13.3**	**–3.6**	**10.0**

RoE reconciliation calculation (as at 30 June 2017)

EUR million	Corporates & Mittelstand	Real Estate & Savings Banks/ Association	Financial Markets	DKB	Central Areas/Other (including Consolida-tion)	Group
Profit/loss before taxes	**212**	**100**	**106**	**116**	**–108**	**426**
Average risk-weighted assets (RWAs)	20,857	7,765	8,772	24,689	2,768	64,851
Target CET1 ratio (%)	12.0	12.0	12.0	12.0		
Average economic/ regulatory capital	**2,503**	**932**	**1,053**	**2,963**	**1,457**	**8,907**
Return on equity (RoE) (%)	**17.0**	**21.4**	**20.1**	**7.8**	**–14.8**	**9.6**

Cost/income ratio (CIR)

The 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 derecognised financial assets, gains or losses on financial investments and other income and expenses. The CIR is calculated using the figures reported in the respective consolidated financial statements.

CIR reconciliation calculation (as at 30 June 2018)

EUR million	Corporates & Mittelstand	Real Estate & Savings Banks/ Association	Financial Markets	DKB	Central Areas/Other (including Consolida-tion)	Group
Administrative expenses	**–147**	**–130**	**–110**	**–248**	**–10**	**–644**
Net interest income	131	125	83	511	29	879
Net commission income	53	62	17	4	–3	132
Gains or losses on fair value measurement	19	18	4	7	–13	35
Gains or losses on hedge accounting	–	–	–3	–34	–6	–44
Gains or losses on derecognised financial assets[1]	–	–	–	–6	–	–6
Gains or losses on financial investments	–	2	25	6	1	33
Other income and expenses	–	–1	7	16	31	52
Gross earnings	**203**	**207**	**131**	**503**	**39**	**1,082**
Cost/income ratio (CIR) (%)	**72.4**	**62.7**	**83.9**	**49.2**	**26.1**	**59.5**

1 For financial liabilities measured at amortised cost

CIR reconciliation calculation (as at 30 June 2017)

EUR million	Corporates & Mittelstand	Real Estate & Savings Banks/ Association	Financial Markets	DKB	Central Areas/Other (including Consolida-tion)	Group
Administrative expenses	**–138**	**–121**	**–97**	**–232**	**–24**	**–612**
Net interest income	145	118	99	429	55	845
Net commission income	56	68	17	2	–3	141
Gains or losses on fair value measurement	15	19	88	72	–50	143
Gains or losses on hedge accounting	–	–2	–4	–79	–8	–93
Gains or losses on financial investments	1	–	3	13	–	16
Other income and expenses	–	–1	8	–5	–27	–25
Gross earnings	**217**	**202**	**210**	**431**	**–33**	**1,027**
Cost/income ratio (CIR) (%)	**63.4**	**60.0**	**46.0**	**53.7**	**–71.8**	**59.5**

Bayerische Landesbank
Brienner Strasse 18
80333 Munich
Germany

www.bayernlb.com